



Making a positive difference
for energy consumers

Tony McEntee
CLASS Project Implementation
Manager
Electricity North West Limited
Harlington Road
Preston
PR1 8LE

Direct Dial: 020 7901 7159
Email: andrew.burgess@ofgem.gov.uk
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Dear Tony,

Low Carbon Networks (LCN) Fund – amendments to Electricity North West Limited’s Customer Load Active System Services project

This letter contains our¹ decision to approve requested amendments to certain sections of the Project Direction dated 21 December 2012 for Electricity North West Limited (“ENWL”)’s Customer Load Active System Services (CLASS) project (“the project”). The amendments are set out in the amended Project Direction in the schedule to this letter.

Background

On 21 December 2012, we issued a Project Direction to you.² This contained the terms to be followed in relation to the project as a condition of its funding under the LCN Second Tier and Discretionary Funding Mechanism.³

On 4 November 2015 you asked us to make changes to the Project Direction (the change request).⁴ The amendments relate to a proposed extension of the CLASS project, both in terms of scope and timescales, to improve the benefits to GB customers.⁵ More specifically you have requested that we:

- extend the project completion date
- modify the project reporting requirements
- modify two of the current Successful Delivery Reward Criteria (SDRCs)
- add an additional SDRC
- update the project budget to reflect the new spending that will occur as part of the project extension.

The rest of this letter contains a description of the project, the proposed changes, and our approval decision.

¹ The terms “the Authority”, “Ofgem” and “we” are used interchangeably in this letter. Ofgem is the Office of the Gas and Electricity Markets Authority.

² This was pursuant to the LCN (Low Carbon Networks) Fund Governance Document issued pursuant to Part E of Charge Restriction Condition 13 (CRC13) of the Electricity Distribution Licence setting out the terms to be followed in relation to the project as a condition of it being funded under the Second Tier and Discretionary Funding Mechanism. The Project Direction can be found at: <https://www.ofgem.gov.uk/ofgem-publications/46071/class-schedule-project-direction.pdf>

³ Second Tier and Discretionary Funding Mechanism has the meaning given in CRC 13.3(b).

⁴ ENWL’s change request and associated documents are published alongside this letter and can be found at: <https://www.ofgem.gov.uk/electricity/distribution-networks/network-innovation/low-carbon-networks-fund/second-tier-projects/electricity-north-west-limited>

⁵ The term “customer” has the meaning given to the term “Customer” in the Electricity Distribution Licence.

The project

The CLASS project sought to trial the application of innovative voltage management technologies. These would provide demand response to reduce peak network demand, and a new mechanism for frequency and voltage control to the National Electricity Transmission System Operator (NETSO). The original Project Direction stated that ENWL must complete the project on or before the project completion date of 31 September 2015. We note that in accordance with this you submitted a Project Closedown report⁶ on 30 September 2015.

You propose that extending the project in terms of scope and timescales will improve and accelerate the benefits to GB customers available from the learning identified in the closedown report. You have estimated that the cost of extending the project is £622,000 which can be accommodated within the total amount set out in the original Project Direction.

In the Project Closedown report you provided evidence that the technology could allow Distribution Network Operators (DNOs) to provide balancing services to the NETSO. You have provided evidence that these services could include:

- DSBR (Demand Side Balancing Reserve)
- FR (Frequency Response)
- FFR (Firm Frequency Response)
- FCDM (Frequency Control by Demand Management)
- STOR (Short Term Operating Reserve), and
- Reactive Power Services.

The provision of some of these services by DNOs could provide a significant reduction in the costs incurred by the NETSO when procuring these services. The remuneration a DNO would receive for providing these services could be shared with Distribution Use of System (DUoS) customers to provide a direct benefit.

The proposed changes

You have estimated that the potential benefits to DUoS customers could be in the region of £50 million per annum. In order to determine the direct benefit to GB customers of a network led provision of CLASS services to the NETSO, you are proposing to carry out further work with the aim of:

- providing further information on how the remuneration received by a DNO could be shared with customers
- undertaking a range of market modelling exercises to;
 - assess the market for each CLASS services, including market structure, size and competitors
 - assess the impact of a network led provision for each CLASS service, including examining the market structure and price(s)
 - determine the benefits for GB customers for each CLASS service.

You have also stated that there are no technical hurdles preventing a full rollout of the CLASS technology in any GB DNO. Accelerating the implementation of this approach across all DNOs would ensure the benefits to GB customers are realised as quickly as possible. In order to do this, you will also carry out further work to:

- demonstrate how the proven technology can be deployed commercially by DNOs.

⁶ Published on our website at: <https://www.ofgem.gov.uk/publications-and-updates/electricity-northwest-limited-customer-load-active-system-services-close-down-report>

Conclusion

While we note that this extension will increase the project costs by £622,000, the project will still be forecast to be completed within the total amount set out within the original Funding Direction. We also note that the potential benefits to customers as a result of the project extension far outweigh the additional cost. The additional learning generated will make a valuable contribution to the overall learning from the project.

We consider it is in the best interests of customers and appropriate in the circumstances to approve these changes. The changes offer additional customer benefits while remaining within the original budget.

Our assessment in this letter does not in any way fetter our discretion with respect to any future decision on the Second Tier Successful Delivery Reward, should you make a submission after the completion of the project. The Second Tier Successful Delivery Reward is intended to incentivise DNOs to manage their projects well. When change requests are assessed, consideration is given to whether there has been a material change in circumstances and whether any proposed changes are in the interests of customers. By approving this change request, we are not making an evaluation of your management of change.

Schedule One below sets out the changes to the Project Direction to accommodate the additional work outlined above.

Decision

In accordance with Section 13 of the Project Direction, we hereby amend the Schedule to the Project Direction in the manner set out in Schedule One to this letter.

This letter constitutes notice of reasons for our decision pursuant to section 49A of the Electricity Act 1989.

If you would like to discuss any of the issues raised in this letter, please contact Matthew Berry at Matthew.Berry@ofgem.gov.uk or 0203 263 9626.

Yours sincerely,



Andy Burgess

Associate Partner – Electricity Distribution, Smarter Grids and Governance

Schedule

1. Amend existing section 6 (Project Budget)

Amend the existing Section 6 of the Schedule to the Project Direction to include the following;

'For the Project extension to cover the assessment of the commercialisation and market implications associated with full GB-wide roll-out of the technology the Funding DNO is only required to report against the categories detailed in Annex 2. The Funding DNO will report against the Project Categories detailed in Annex 1 if there is a variation to expenditure detailed in the original Closedown Report.'

2. Amend existing section 7 (Project implementation)

Amend existing Section 7 of the Schedule to the Project Direction in the following manner:

- (iii) Complete the Project on or before the Project completion date of ~~31 September 2015~~ **31 May 2016**.

3. Amend existing section 8 (Reporting)

Amend the existing Section 8 of the Schedule to the Project Direction to include the following;

'With regard to the Project extension to cover the assessment of the commercialisation and market implications associated with full GB-wide roll-out of the CLASS technology, this requirement will be met by submitting a standalone addendum to its original Closedown Report issued to the Authority on 31 May 2016'

4. Amend existing section 11 (Successful Delivery Reward Criteria)

Amend existing Section 11 of the Schedule to the Project Direction in the following manner:

Successful Delivery Reward criterion	Evidence
<p>Learning & Dissemination Workstream</p> <p>1. Produce first Video Podcast of the series by September 2013, the second by August 2014 and the final one by December 2014;</p> <p>2. Develop and launch the CLASS Project Website and Social Media Forums by September 2013;</p> <p>3. First Annual LCN Fund Conference attended in 2013, LCN Fund annual conference in 2014 and 2015 attended. Hold three webinars in June 2013, June 2014 and March 2015. Host Learning Event 1 by April 2014 and Learning Event 2 by July 2015;</p> <p>4. Raw monitoring data is initially made available on demand by September 2014, and subsequently updated by December 2014 and April 2015.</p>	<p>Learning & Dissemination Workstream</p> <p>1. Publish on CLASS website first Video Podcast by September 2013, the second by August 2014 and the final one by December 2014;</p> <p>2. CLASS website and Social Media Forums is live by September 2013;</p> <p>3. Active participation at Annual LCN Fund Conferences. Three webinars held, one by June 2013, one by June 2014 and one by March 2015. Two learning events held, one by April 2014 and the second by July 2015;</p> <p>4. Raw monitoring data is downloadable from CLASS website by September 2014 and subsequently updated by December 2014 and April 2015.</p> <p><u>5. Webinar and Learning Event held by 30 April 2016.</u></p>

5. Hold Webinar by February 2016 and host a Learning Event by April 2016 on the market implications of the CLASS services.	
Close Down & Long Term Monitoring Study 1. Produce a close down report and initiate a long term monitoring study with National Grid; 2. Produce an addendum to the Closedown report to publish the outputs of the Customer Benefits Workstream by 31 May 2016.	Close Down & Long Term Monitoring Study 1. Provide confirmation from National Grid that the long term monitoring study has been initiated; 2. Publish addendum to Closedown report on CLASS website by 31 May 2016.
Customer Benefits Workstream 1. Deliver market impact assessment, customer benefit assessment and cost benefit analysis tool(s) by 31 May 2016	Customer Benefits Workstream 1. Publish report detailing the methodology and results of the benefits modelling and associated model(s) created for the analysis by 31 May 2016.

5. [Amend existing Annex 1 \(Annex 1: Project Budget\)](#)

Amend existing Annex 1 of the Schedule to the Project Direction to include the following:

[‘Annex 2: Project Budget \(project extension\)’](#)

Cost Category	Cost (£k)
Labour	243
Project Management for extension	61
Technical and regulatory support to Consultants	182
Contractors	260
Market modelling research	210
Policy documentation	50
Other	76
Publicity & dissemination	69
Accommodation	7
Contingency	43
General contingency	43
Total	622