CLASS case study: Investing for the longer-term

RIIO-2 Framework Consultation response – Appendix 4

ENWL's CLASS project, funded under LCNF, trialled the application of innovative voltage management technologies to provide demand response to reduce peak network demand, and a new mechanism for frequency and voltage control to National Grid in its role as NGSO. The trial indicated the potential for the technology to provide significant benefits to GB customers in reducing costs and providing additional options for delivering overall system security to the NGSO.

Whilst the concept was trialled during DPCR5, the longer investment window provided by the eight years of ED1 was necessary to create sufficient investment certainty to support the CLASS business case.

Background

The CLASS LCNF Project ran for two years and concluded in September 2015.

Following the completion of the initial trial, a further six month extension was agreed with Ofgem to demonstrate how the technology could be deployed commercially and to agree with Ofgem the regulatory treatment of all costs and revenues associated with CLASS. This enabled an initial business case to be developed which demonstrated the potential benefits for a commercial deployment of CLASS. This was presented to the ENWL Board who agreed to commence the procurement phase in April 2016.

The procurement phase had to follow robust OJEU compliant procurement process due to the estimated value of the project. This was completed in January 2017, however, further delays were incurred as one of the unsuccessful bidders challenged the contract award. The procurement process enabled firm costs to be identified and the business case to be finalised. The business case assumed revenue streams to be earned up to the end of the RIIO-ED1 period. The regulatory assurances that were received in respect of CLASS only lasted up to the end of RIIO-ED1 and it was not possible to assume that benefits would continue to flow into the RIIO-ED1. The ENWL Board Decision to commence the installation work was taken in March 2017. The deployment phase commenced during the summer of 2017 and CLASS won its first contract in March 2018 for delivery in April 2018.

The overall timeline for the delivery of CLASS is illustrated in the diagram below:-
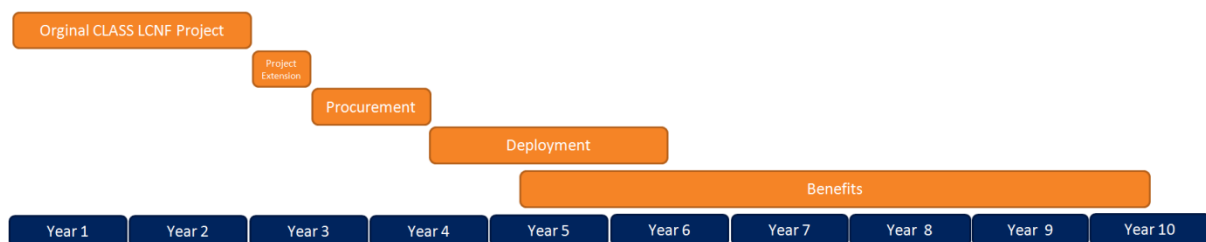
Proving the business case

The above timeline shows the challenges in taking a complex project from conception to deployment even within an eight price control period. In the project direction for CLASS, Ofgem stated that

"You will appreciate that the Authority is not in a position to fetter its discretion with respect to any RIIO-ED2 price control arrangements that might be proposed. However, I acknowledge your concern that it could be inappropriate to base assumptions about cost and revenue levels in the RIIO-ED2 period on RIIO-ED1 outturn levels."

ENWL recognises Ofgem's desire to not pre-detemine subsequent price controls. However, where benefits are to be earned over an extended period that spans price controls it can be difficult to justify investment due to the lack of revenue certainty.

ENWL decided to implement CLASS, taking significant financial and commercial risks due to the potential benefits this project brings to customers. In developing mechanisms for RIIO-2 it is essential that they support the deployment on major innovation projects such as CLASS and other longer duration projects which potentially deliver significant value to customers. This will be particularly important if shareholders are to fund the initial trials. Consideration should therefore be given to providing mechanisms to allow for longer-term allowances, incentives or revenue streams where necessary to facilitate the development and deployment of such innovative and longer payback project approaches.