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Ofgem
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For the attention of: Joanna Whittington, Director, Gas Distribution

Dear Joanna

GAS DISTRIBUTION PRICE CONTROL REVIEW [GDPCR] SECOND CONSULTATION DOCUMENT JULY 2006

Following my letter of 1 February 2006 in response to the Initial Consultation Document and our meeting with you on 7 June 2006, I am pleased to comment on this latest document. We are also happy to meet again if necessary.

The Gas Distribution Networks [GDNs] are clearly in the best position to judge what they need from the price control review to meet their safety case and other health & safety statutory responsibilities. I have therefore limited my comments to specific areas.

Iron mains replacement

Funding to allow the GDNs to comply with HSE's Iron Mains Replacement Policy and to meet their Approved Mains Replacement Programmes [MRPs] is a major part of the review. There are two particular issues we have discussed previously but are worth covering again here.

Firstly, since 2002 and the start of the accelerated mains replacement programme, the GDNs have reduced significantly the risk to the public from iron mains failures. Replacement to-date has been concentrated on the smaller diameter mains that contributed most to the risk in the networks. But large diameter mains now account for a significant proportion of the higher risk mains and GDNs will have to start replacing these in greater numbers and, inevitably, at greater unit cost per length of main replaced. The GDNs can give you the detail of what is required over the price control period, but sufficient funding to meet the Approved Programmes will be required.

Secondly, HSE see opportunities for the GDNs to improve the effectiveness of their MRPs. Indeed, they may have no choice if they are to meet replacement targets (in terms of absolute lengths of mains decommissioned) while addressing the larger diameter mains issue. We have had a number of discussions with some GDNs about how they prioritise replacement which may result in larger projects, improved efficiency and reduced disruption to the public whilst still delivering the required risk reduction. Those discussions are ongoing and we are happy to keep you informed on progress. The changes may provide an opportunity for shortening the overall time frame for the programme and for sharing the benefits of increased efficiency between the consumer and GDN.

Service pipes/risers

Service pipes are currently replaced under various policies but predominantly in association with mains replacement work. A shift in the methodology for prioritising mains replacement could therefore have a material impact on service replacement performance. We are unclear as yet what difference this will make but GDNs will need to ensure they meet their absolute duty to maintain service pipes.

There is similar issue concerning maintenance and replacement of service risers in multi-storey buildings. There are potentially major costs in replacing these that will have to be considered.

Steel mains

Some of the GDNs have discussed with us arrangements for maintaining steel mains. We have not agreed a specific policy but replacement programmes and provision of effective cathodic protection systems are being considered.

Network capacity (1 in 20 standard)

Security of supply is not a matter for HSE, but under GSMR, the risk of a gas supply emergency is. The GDNs' safety cases include arrangements for minimising the risk of a gas supply emergency on a 1 in 20 peak day, achieved by ensuring there is sufficient network transmission capacity to meet 1 in 20 peak day demand along with other measures. Investment in the local transmission system may therefore be necessary to maintain current safety levels. Fundamental changes to the 1 in 20 criteria that materially affect the safety case would need to be accepted by HSE before they could go ahead, and HSE could not accept a reduction in safety standards.

Response to gas leaks

GSMR sets out legal requirements for responding to gas leaks. HSE is presently examining closely how GDNs are complying with their legal responsibilities. As well as addressing safety, it may also contribute to minimising shrinkage costs and environmental impacts.

Pipeline records

HSE has been concerned for some time now about the accuracy of pipeline records and it is part of our current inspection programme of the GDNs. Notwithstanding the work HSE is doing, we would support incentives on GDNs to provide accurate pipeline records.

SOMSAs

You refer to the SOMSAs and the intentions of the GDNs to set up their own system control centres. As stated in my previous letter, this will be a material change to the GDNs safety cases which HSE will have to accept before they go ahead. Typically assessment will take 3 months although this is heavily dependent on the quality of the case. The assessment and acceptance of the safety cases should be recognised when Ofgem consider the lead times for setting up these arrangements.

GTMS

The reliability of the gas distribution network control system is critical to the safe operation of the network. Investment in upgrading the system may be required to maintain safety standards.

Interruptions incentives

We note you are looking at interruption performance and strengthening incentives. HSE understands the inconvenience for consumers when their supplies are cut off but incentives which compromise safety should be avoided.

Please get back to us if you would like to discuss the issues raised in this letter or other matters in the review.

HSE welcome you putting this letter in the public domain as part of the consultation process.

Yours sincerely

Steve Chatfield
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Gas & Pipelines Unit