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Office of Gas and Electricity Markets  
Ofgem  
9 Millbank  
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Your reference:

Our reference: GDPCR March 2007

Date: 13 April 2007

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

Dear Joanna

**GAS DISTRIBUTION PRICE CONTROL REVIEW [GDPCR] FOURTH CONSULTATION  
DOCUMENT MARCH 2007**

Thank you for sending me a copy of the Fourth Consultation Document. Below are comments on the document and a response on some of the issues we at our meeting on 15 March 2007.

**Iron mains replacement**

We have had a number of discussions on the Gas Distribution Networks' (GDNs') mains replacement policies, focussing particularly on the risk models and the 'uncertainty' in the risks figures. However, we have consistently re-iterated that HSE's mains replacement policy is primarily based on how quickly these mains can be decommissioned. The 2002, 30-year programme, was based on what was considered practicable. This led to the 5-year ramp up, followed by a plateau for some 20 years and a ramp down over the final 5 years. The risk models are secondary to that policy, used to prioritise replacement and deal with the higher risk mains first but recognising the need to develop projects which were achievable.

However, we expect improvements in the replacement rates and a shortening of the programme where practicable to do so. For example, we recognised changes from the initial top-down risk approach to the 20:70:10 model delivered efficiency improvements which meant that replacement rates could be accelerated. That policy intention remains. We therefore expect that changes in the way GDNs prioritise replacement that deliver efficiency improvements which enable faster replacement rates should lead to a shortening of the programme. We believe that efficiency improvements should deliver both savings in unit cost (i.e. £/m of mains replaced) and improvements in safety by higher replacement rates. It will also lead to a modern gas network meeting consumer needs, reduced disruption to the public and deliver major environmental benefits. We are not sure these other benefits have been properly recognised at present.

In National Grid's safety case demonstration concerning the zonal approach to prioritisation, they showed that they would need to replace an additional 110 km over the next 5 years. Our discussions with you concentrated on an analysis of the risk removed by this additional 110km and whether this was statistically significant. However, it is also appropriate to look at what efficiency gains (in terms of quicker replacement) this would deliver. The additional 110 km (and possibly even more) may now be practicable under zonal methodology. Has Ofgem carried out any analysis of efficiency improvements by changes to the replacement methodology?

We also discussed 'at risk' mains decommissioned under condition and diversion policies. Currently these cannot be counted towards the 'approved' annual programme and indeed the GDNs plan for these separately. This policy has been shown to be practicable and we see no reason to change our approach. If this category of replacement was to be accounted for in the main policy, HSE would require total decommissioning rates to be maintained which would mean that the annual approved programme rates would have to be increased.

### **Response to gas leaks**

GSMR regulation 7 sets out conveyors' legal requirements for responding to gas leaks. Regulation 7(4) requires conveyors to prevent gas escaping within 12 hours (subject to a 'reasonably practicable' defence under Regulation 7(10)). You are aware that we are currently examining how GDNs are complying with this statutory responsibility. The PB Power analysis in section 3 in respect of work management, emergency and repairs may therefore be based on previous practices which may change.

### **Service risers**

The statutory duty to maintain risers is absolute and is not based on reasonable practicability. The PB Power recommendation for an allowance based on a 'replace on failure approach' does not reflect this duty. HSE are currently reviewing GDN's arrangements for maintaining service risers and are happy to contribute to further discussions on this issue.

We can discuss again when we meet on 10 May and would welcome this letter being published on your web site.

Yours sincerely

**Steve Chatfield**  
**HM Principal Inspector**  
**Gas & Pipelines Unit**