

Cross Cutting Interventions  
Directorate

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FAO: Andrew MacFaul  
Consultation Co-ordinator,  
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Dear Mr MacFaul,

## **CONSULTATION ON STRATEGY FOR THE NEXT TRANSMISSION AND GAS DISTRIBUTION PRICE CONTROL – RIIO-T1 AND RIIO-GD1**

HSE supports the long term aims of the RIIO strategy to ensure continued security of supply and encourage the development of new energy technologies and is pleased to have had the opportunity to contribute to the relevant working groups as part of the Transmission and Gas Distribution Price Control Reviews. As the regulator for health and safety HSE also welcomes the opportunity to maintain a continuing dialogue with Ofgem in relation to these issues.

### **Transmission Price Control Review**

#### **Electricity:**

In general HSE agrees with the proposed overall safety output measure, namely compliance with legislative safety requirements, for the electricity transmission price control. We also accept the proposal that safety per se should not be incentivised on the basis that a robust regulatory framework is in place. Whilst we would agree that the primary output should not stipulate an exhaustive list of legislative requirements, we would wish to highlight that the safety legislative framework is not defined simply by those elements cited in the consultation document, but more broadly by the wider range of applicable legislation.

The legislative framework for electrical safety does not require Transmission Operators (TOs) to report on a set of metrics as a measurement of compliance against legal obligations for safety. In broad terms, the legislative framework for electricity safety requires the TOs to assess the safety risks within their operations and take proportionate risk-based measures to address them. Whilst we welcome the requirement relating to asset reliability as this provides some aspects against which to measure compliance with legal obligations for electricity safety, we do not believe that this provides the overall picture. We would recommend consideration of a broader set of measures to provide a fuller picture of compliance in relation to safety. HSE recognises Ofgem's wish to support, not duplicate, HSEs functions and therefore we will give further thought as what advice may be provided to TOs in developing the safety elements of their business plans.

**Gas:**

HSE accepts the proposal that safety per se should not be incentivised on the basis that a robust regulatory framework is in place. As part of compliance with this framework HSE would expect to see a number of key features in the way the transmission network is managed and maintained, including;

- Operation within design parameters
- Active measures to stop deterioration including cathodic protection systems and maintenance of pipe coatings
- Active monitoring of asset integrity and tuning maintenance regimes in the light of revealed data
- Prevention of third party damage.

Whilst it is not essential to incentivise these elements to achieve safety, they contribute not only to safety, but to protection of long-term asset life. Consideration may be appropriate to incentivising these elements on that basis.

As regards measures of reliability and availability of the network, the safety regime makes a significant contribution to achievement of this objective. A reliable transmission network also contributes to safety for operators of distribution networks. Failure of supply leading to disconnection of consumers has safety impacts, particularly associated with handling purge and relight processes when a large number of domestic consumers are affected.

**Gas Distribution Price Control Review**

HSE's response to the RIIO-GD1 Outputs and incentives consultation is made in the light of current experience. However it may be influenced by the results of the review of the mains replacement programme, which is jointly sponsored by HSE and Ofgem and is expected to report by the end of March 2011. HSE intends to remain closely-engaged in the review process through the existing Safety and Reliability Working Group which informs dialogue with the GDNs and to ensure emerging findings from the research are shared with this group.

HSE supports Ofgem in promoting the development of new energy technologies and how these can play an important role within the energy mix for Great Britain. HSE will seek to continue to work with the GDNs and Ofgem to ensure that these technologies are bought on line in a timely way and with appropriate controls to ensure safety.

***Outputs and associated incentive mechanisms – Safety***

HSE agrees that the appropriate areas are focussed upon in the primary outputs and secondary deliverables. Table 7.1 [RIIO-GD1: Outputs and associate incentive mechanisms. Supplementary annex] sets out an appropriate range of measures to assist in driving good performance and HSE agrees that the risk removed should be the driver for the primary output for mains replacement. The secondary outputs are also appropriate, although it is important that the incentive mechanisms encourage a robust reporting system that maintains a high level of public awareness of the risks, together with an accessible means of reporting concerns.

HSE welcomes a focus on the speed with which reported leaks are attended in relation to emergency response and repair. HSE supports a system which will reward prioritisation of attendance to leaks and encourages repair of those leaks which are most likely to give rise to significant risk. Any incentive mechanism should also recognise that all leaks carry some risk and leaving leaks unattended for extended periods must be guarded against. Any incentive mechanism must also encourage year-round good performance. For example maintaining performance standards during periods of high demand, e.g. as during the recent cold weather period, should be rewarded.

In principle HSE sees no difficulty in the concept of incentivising the mains replacement programme through a measure of risk removed rather the length of pipe replaced. However any decision on this

issue will be informed by the ongoing review of the mains replacement programme. To date HSE has accepted that the length of pipe removed has been taken as a surrogate for reduction of risk when combined with an approach that allows project efficiency gains to be made by the removal of lower risk pipes alongside those with the highest risk. Any incentive around risk removed should ensure at least as much risk is removed from the network as would have been achieved through the existing mains replacement arrangements. Any mechanism should be sufficiently flexible to allow GDNs to take a strategic approach and (if they wish) develop 3 to 5 year programmes of improvement, rather than be strictly tied to achieving annual targets.

The general principle that by accepting the final funding arrangements the GDNs are accepting that this includes sufficient funding to comply with legal requirements is correct. HSE will continue to seek compliance with all relevant legal standards whether these are specifically incentivised or not. Compliance with Major Accident Hazard requirements is essential and HSE sees compliance in these areas as a basic requirement. Existing criminal penalties for failure to comply are considered to be adequate, however the inclusion of incentives to improve and standardise asset integrity data collection and reporting across GDNs is welcomed.

The definition of reliability under consideration in the consultation goes beyond safety and into service to the consumer. However there are no obvious contradictions between incentivising general reliability and reliability of the network as a contribution to achieving a gas network that is safe. The development of metrics that are consistent between operators and allow a reasonable basis for comparison of performance rather than just demonstrate improvement are to be preferred.

#### ***Outputs and associated incentive mechanisms – Broader approach to asset risk management***

HSE considers the approach to asset health is appropriate. Incentivising work to improve assets whose failure is likely to impact on network reliability, reduce safety or give rise to environmental damage is accepted, however, this is a complex area. Risk trade-offs between asset groups can only be achieved against a background of general compliance with safety standards across the network and any risk trade-off must be directed to maximising added value from investment, and must not be against a background of reduced compliance in another area.

In achieving compliance with safety standards the categorisation at Table 9.2 [RIIO-GD1: Outputs and associated incentive mechanisms. Supplementary annex] is relevant, but operators may also respond to assets in categories HI 3 and 4 by de-rating the plant and/or increasing maintenance, repair and monitor/review regimes and maintain acceptable safety standards. The precise application of the outcomes from the approach at Table 9.5 requires careful development. The detailed definitions of asset condition and criticality definitions need to ensure appropriate weight is given to low likelihood : high consequence events as well as lower consequence, but more likely events. The Control of Major Accident Hazards (COMAH) and Gas Safety (Management) Regulations (GSMR) safety regimes particularly focus on the avoidance of low likelihood high consequence events and any asset funding mechanisms should be consistent with compliance in these areas.

HSE welcomes a holistic approach to asset integrity and considers that such an approach should be designed to ensure that operators are incentivised to gather sufficient information about all aspects of asset integrity and operation. This information should then allow them to ensure that all aspects of the business are treated appropriately in proportion to the risk they generate both in the short and long term. The transfer of achieved risk removal is available as a financial driver. Provided appropriate risk removal is achieved against the mains replacement programme targets (subject to any changes identified by the current review) such transfer can drive effective investment capable of delivering maximum risk reduction.

#### ***Outputs and associated incentive mechanisms – Social obligations***

HSE is supportive of the GDNs playing a role in the raising of consumer awareness of gas safety risks and carbon monoxide poisoning and the planned trials to provide consumers with CO alarms will help inform the cost and benefits of the different roles the GDNs can play. CO alarms are important

protective measures, however they should not be used as a substitute for regular maintenance and servicing of gas appliance. HSE would encourage the GDNs to consider how they can contribute to consumer awareness in the widest sense and promote the key messages of ensuring gas appliance are installed and maintained by competent people. Consideration may be given to how any obligations on the GDNs under the Price Control may support or promote the obligations on suppliers to carry out free gas safety checks for vulnerable people. The current licence obligation on the GDNs to effect work within 30 minutes and at a cost of not more than £4.65 currently limits the GDNs ability to undertake remedial work and so often a consumers supply will be isolated and a Notice for Safety issued. Consideration could be given to extending both the time allowed and finance available in order that the GDNs could carry out some remedial work to address any immediate safety issues. This may result in GDNs avoiding the need to isolate the supply and enable them to leave consumers with at least some appliances still in operation.

The selection and use of protective equipment, including gas detection equipment, is a matter for the dutyholder, based on their assessment of the risk posed by the activities they undertake. This is a reflection of the goal setting nature of health and safety legislation and HSE would expect GDNs to include in their business plans sufficient provision to fund the effective management of health and safety issues. HSE encourages SGN to share the learning from their trial to provide First Call operatives (FCOs) with personal atmosphere monitors with other GDNs with a view to establishing industry best practice in this area.

HSE looks forward to continuing its engagement with Ofgem on these important issues and is happy to discuss any of the points raised in this response.

Yours sincerely

A handwritten signature in black ink, appearing to read 'P. R. Brown', with a long horizontal flourish underneath.

**Peter Brown**  
Head of Work Environment and Radiation Division