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Dear Sir/Madam

Gas Post-Emergency Metering Services (PEMS) – Results of Information Request and Revised Guidelines

Over the past year, Ofgem has been consulting on industry arrangements for gas post-emergency metering services (PEMS). PEMS are provided following an emergency call-out on a gas distribution network (GDN), and involve maintaining or restoring the flow of gas to the outlet of a meter. The network engineer undertakes any necessary meter work and if a new meter is required this is generally sold on to the relevant supplier who transfers it to the supplier's Meter Asset Manager (MAM). National Grid Gas (NGG) and other GDN owners have put in place commercial PEMS contracts with suppliers and independent gas transporters (IGTs).

An initial open letter published on 12 October 2007 set out the results of our legal analysis of the treatment of PEMS under the transportation licence, which concluded that PEMS meet the definition of "metering business" in the transportation licence, and therefore fall within the "permitted purpose" of GDN operators. For this reason, GDN licensees do not need to seek consent from Ofgem for carrying out PEMS activities.

In the 12 October letter we also put forward a draft set of industry guidelines on PEMS, which set out at a high-level our expectations regarding service availability and prices. We sought industry feedback on this approach and on the content of the guidelines.

The majority of respondents to the 12 October letter were in favour of our proposed approach to ensuring ongoing provision of PEMS and were also broadly supportive of the content of the draft industry guidelines, subject to some minor amendments. However, the Association of Meter Operators (AMO) raised a number of concerns with the way in which the PEMS arrangements are currently operating in the market and the interaction between PEMS and competitive metering. In response to these concerns, we issued a second open letter on 21 December 2007 seeking further information from GDN operators on the level and type of PEMS activity that is currently being undertaken. Specifically, we requested data on the total number of PEMS jobs carried out for each of the past three years, broken down into the following four categories:

- small jobs - eg, tighten nuts or replace washers
- replacement of regulator and/or flexible tubing
- replacement of credit meter, and
- replacement of prepayment meter

We also asked for an indication of the percentage of emergency call-outs that resulted in PEMS activity, in each of the past three years.

Results of Information Request

The non-confidential responses of all GDN operators to our information request on PEMS have been published on our website in conjunction with this letter¹. In summary, the main points to note are:

- The percentage of emergency call-outs that resulted in PEMS activity in calendar year 2007 ranged from a low of 4.7% for Scotia's Southern Gas Network to a high of 14.5% for Wales & West Utilities (WWU). NGG's figure was 11.9%².
- The majority of PEMS work (between two-thirds and three-quarters) consists of replacement of regulators and/or flexible tubing. Replacement of credit meters is the next most common, followed by replacement of PPMs. "Small jobs" such as tightening nuts and replacing washers are in most cases covered by the GDN licensees' emergency service obligations, and thus are not charged for under the PEMS contracts.
- Both the number of PEMS jobs carried out, and the percentage of call-outs that result in PEMS, appear to be gradually declining over time across all of the GDNs. Some caution is needed in interpreting this trend however, since we have data for only three years, and the data for 2005 does not cover a full year.
- In line with the decline in the number of PEMS jobs, the overall cost of PEMS to the industry also appears to be reducing. Based on figures provided to us by NGG on the overall cost of PEMS in its regions, we estimate that the total cost of PEMS to the industry was around £5.4m in 2007, down from £6.1m in 2006³.

In addition to providing the requested information, some GDN operators made additional comments in response to our letter of 12 December 2007. For example, Scotia stated that GDNs already pass information on to suppliers following completion of a PEMS job, and therefore the AMO's concerns may relate to the flow of information from the supplier to the MAM rather than from the GDN to the supplier. Scotia also indicated that faulty equipment is made available for collection from GDN depots under the PEMS contracts, but uplift by the metering party has generally not been forthcoming. Finally, NGG stated that it believes that most of the PEMS work on its networks is carried out on NGG assets, both because of the size of the portfolio and the fact that NGG metering stock has been installed for much longer than that of the commercial MAMs.

Overall Conclusions

While we continue to share some of the concerns raised by the AMO regarding the interaction between PEMS and competitive metering, we do not believe the information provided by GDN operators in response to our 12 December letter is sufficient to warrant a major rethink of current PEMS arrangements by either the industry or Ofgem.

The number of PEMS jobs does seem relatively high as a proportion of emergency call-outs, and there is a significant degree of variation across regions, which suggests that GDNs may

¹ It should be noted that in its original response to Ofgem, Scotia requested that the information provided be kept confidential. However both Scotia and WWU subsequently gave permission for their responses to be published provided all GDN operators did likewise.

² Note that NGG provided its summary figures on a financial year basis (1 April to 31 March), however we have derived a calendar year figure for 2007 based on NGG's monthly breakdown.

³ These figures are rough estimates only and were derived by taking NGG's annual cost figures and scaling them up by the total number of PEMS jobs across all regions. The estimated cost for 2005 was £2.4m but this reflects only 7 months of PEMS activity for NG and 6 months or less for most of the other GDNs.

not be taking a consistent approach to deciding when a PEMS job is required⁴. However, the large majority of PEMS jobs involve replacement of flexes and regulators rather than actual meters, and the overall cost of this work – while not insignificant – is small relative to the size of the metering industry as a whole. We have also been advised that at least in some cases, suppliers are absorbing the costs of replacement of flexes and regulators rather than passing these costs on to MAMs, which is likely to limit any financial impact from PEMS on competitive meter providers.

Finally, it is encouraging that both the number of PEMS jobs and the overall cost of the service appear to be falling over time. It is too early to tell whether this trend will continue, but we intend to monitor this and will request further information from GDNs on PEMS activity in another 1-2 years.

Revised Guidelines

We have made some revisions to our draft industry guidelines to reflect comments made by the AMO and others in the course of the consultation, and a final version of the guidelines is attached at Annex 2 of this letter. Broadly speaking, the guidelines encourage GDN owners to continue offering a “one-stop shop” PEMS service where that is requested by suppliers, particularly if no viable alternative service is available. However, we also wish to ensure that the PEMS arrangements are compatible with metering competition and do not stand in the way of competitive MAMs offering equivalent services.

We note that it is for the parties themselves to ensure that PEMS arrangements are fully compatible with competition law. However we strongly encourage suppliers, MAMs and GDN operators to work together to ensure that the PEMS arrangements function smoothly, for example by arranging for appropriate information flows on PEMS to pass from GDNs to suppliers and thence to MAMs. This will ultimately benefit both consumers and the industry as a whole through reduced costs and increased standards of safety.

While our guidelines do not impose any formal obligations on the industry, we will be monitoring PEMS arrangements on an ongoing basis and we encourage industry and consumer stakeholders to approach us if they have any concerns regarding PEMS. If it appears that suppliers are having difficulty procuring an adequate PEMS service (from either GDN operators or commercial MAMs), or that the PEMS arrangements are having a negative impact on metering competition, we would not rule out taking further action in future through either our licensing or Competition Act powers.

Yours sincerely



Duncan Mills
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⁴ Of course, this variation could also reflect differences in the structure and age of meter portfolios across DN regions.



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Gas Post-Emergency Metering Services (PEMS) - Industry Guidelines

Purpose

1.1. These guidelines summarise Ofgem's views regarding best practice in industry arrangements for gas PEMS. The guidelines aim to provide confidence to consumers, suppliers, and Meter Asset Managers (MAMs) that PEMS are provided on a fair and non-discriminatory basis and do not present any unnecessary barriers to the development of metering competition.

1.2. While these guidelines do not impose any formal obligations on the industry, we will be monitoring PEMS arrangements on an ongoing basis and would not rule out imposing licence obligations on either gas distribution network (GDN) operators or suppliers in future if that proves necessary in order to protect the interests of consumers. We also note that we have concurrent powers with the Office of Fair Trading (OFT) to enforce competition law.

1.3. These guidelines may be updated from time to time. Ofgem will consult with interested parties on any future significant changes.

Background

1.4. PEMS are provided following an emergency call-out on a GDN and involve maintaining or restoring the flow of gas to the outlet of a meter. Under the PEMS contracts which GDN operators currently have in place with suppliers, the network engineer undertakes any necessary meter work, and if a new meter or installation kit is required this is sold on to the relevant supplier who then transfers it to their MAM.

1.5. Information from GDNs suggests that around 10% of emergency call-outs result in PEMS activity, although the proportion varies across regions. The majority of PEMS jobs consist of replacing regulators and/or flexible tubing, with only around a third involving replacement of the meter itself.

1.6. Ofgem considers that maintaining a comprehensive and efficient PEMS service is important for both suppliers and customers. GDN operators are currently in a good position to offer "one-stop shop" PEMS to the industry because they already have licence obligations⁵ to respond to network emergencies (eg, suspected gas escapes) on their networks, as well as obligations to provide a metering service of last resort. Carrying out meter work in conjunction with the emergency service is likely to minimise any

⁵ Condition A8 of the Standard Special Conditions applicable to both NTS and DN licensees

inconvenience to customers from requiring an additional site visit to repair the meter, and also ensures that customers are not left off-supply unnecessarily.

1.7. For these reasons, suppliers have indicated that they are likely to continue to prefer a “one-stop shop” PEMS service, and we consider it should be possible for suppliers and GDN operators to arrive at a mutually beneficial commercial agreement for PEMS which also meets the needs of consumers. It should be noted however that Ofgem remains strongly committed to metering competition and we have no intention of deterring any third-party MAM who believes they can offer a stand-alone PEMS service to the market. These guidelines attempt to strike a balance between maintaining ongoing availability of PEMS while ensuring that the PEMS arrangements do not present any barriers to the continued development of metering competition.

Expectations Regarding PEMS Service

Service Availability and Geographic Coverage

1.8. We would expect to see GDN operators continuing to offer PEMS for premises with domestic-sized meters, to all suppliers and independent gas transporters (IGTs) who request it within the GDN’s distribution area. GDNs may also consider offering terms for PEMS to cover non-domestic sized meters, if requested to do so and if operationally and commercially practicable. The geographic coverage of a GDN’s PEMS service should be in line with the geographic coverage of its emergency service provision.

1.9. If viable alternative PEMS providers are (or become) available in the market that meet similar or improved standards to the service currently provided by GDN operators, it is possible that some GDNs may seek to withdraw from provision of PEMS in future. We would expect any GDN operator contemplating such a move to discuss this with the industry and Ofgem before proceeding.

Meter Replacement

1.10. GDN operators should use reasonable endeavours to provide meter replacement on a like-for-like basis for basic domestic-sized gas meters⁶. The replacement of other meter types such as smart meters that may become widespread in the future should be a matter for agreement between GDNs, suppliers and/or MAMs when negotiating PEMS contracts. We would encourage the industry to work together to develop appropriate PEMS arrangements for smart meters as technology advances.

Pricing and Non-discrimination

1.11. We would expect GDN operators to offer PEMS to suppliers and IGTs at cost-reflective rates (including a reasonable rate of return on investment). We would also expect GDN operators not to differentiate between suppliers/IGTs in the terms and conditions that are offered for PEMS, except where this can be justified as a result of differences which affect the cost of providing PEMS. In undertaking PEMS, GDN operators must ensure that decisions on the repair and replacement of metering equipment are made on an objective basis and do not in any way discriminate between suppliers or MAMs that are responsible for different meter points.

⁶ I.e., credit meters for credit meters and prepayment meters for prepayment meters.

Transfer and Return of Metering Assets

1.12. In line with our understanding of current practices, we consider that the ownership of any new meter and installation kit that is installed under PEMS arrangements should continue to be transferred to the relevant supplier, who may then transfer it to the MAM they have appointed for that meter point. This ensures that PEMS arrangements can co-exist with metering competition and the “supplier hub” principle.

1.13. Where requested by a supplier, we believe it is reasonable to expect the GDN operator to arrange for the return of any faulty metering equipment (including meters, flexes and governors) that has been replaced as part of a PEMS job. This is so that MAMs are able to verify the reasons for the equipment failure and ensure ongoing monitoring of the safety and suitability of both their metering equipment and metering workforce. The specific arrangements for return of equipment are a matter for negotiation between suppliers and GDNs, but we would expect suppliers to consult MAMs regarding their requirements in this regard and to make reasonable efforts to accommodate them. Any additional costs arising from return of faulty equipment may legitimately be reflected in the terms offered to the supplier for PEMS.

1.14. Any meter removed by a GDN operator (or its agent) whilst undertaking PEMS should be handled and retained in accordance with the relevant provision of the MAM Code of Practice (MAMCop).

Information Flows

1.15. It is also important that GDN operators record accurate information regarding PEMS activity, including information on the work undertaken and the type of metering equipment installed. (This applies to both the meters themselves and any associated kit such as regulators.) Information collected by GDNs should be passed on to suppliers in a timely and accurate manner, and suppliers in turn should ensure that this information flows through to MAMs. We encourage GDN operators, suppliers, and MAMs to work together to develop appropriate systems for facilitating the effective transfer of PEMS information between all relevant parties.

Adherence to Relevant Licence Provisions

1.16. For the avoidance of doubt (and in accordance with our interpretation of the standard special conditions applicable to both NTS and DN licensees that PEMS do form part of the “permitted purpose” within the licence, since they are part of the “metering business”), GDN operators must comply with all relevant provisions of the licence that apply to the licensee’s metering business.