

AMO response to Ofgem's Open Letter - PEMS

1. Introduction

1.1. Purpose

Ofgem issued an open letter on 12 Oct 2007 seeking views on the "Gas Post-Emergency Metering Services" document 244/07¹.

In considering this Ofgem consultation the Members of the AMO are keen to ensure:

- minimise the disruption to domestic customers from the resolution of meter faults;
- the costs of meter services are kept as low as reasonably practical;
- metering competition is not undermined.

1.2. Background

PEMS was introduced to the industry by Ofgem at the time of wider gas metering competition. It was perceived as an interim requirement prior to metering competition developing a market led solution. Contracts were created by National Grid (and successor gas Distribution Networks) and the service has been operational since July 2004. The document quotes that 10% of emergency calls result in a PEMS activity. It is understood that not all suppliers signed up to the PEMS service.

UMETs was also introduced at the time of wider electricity metering competition. A number of DNOs declined to provide the emergency service. The number of incidents relevant to UMETs is believed to be very low, or non-existent.

As the consultation is primarily focused on the gas metering activity the term MAM (Meter Asset Manager) will be used, although the principles equally apply to electricity and the term MOp (Meter Operator).

2. Commentary

2.1. Level of PEMS activity

The open letter quotes "Information from National Grid Gas suggests that around 10% of emergency call-outs on its networks result in PEMS activity"(note 3 on page 5). If meter equipment is really causing 10% of all emergency calls then it raises' serious concerns about the design, installation or installer competency associated with the metering activity.

The figure of 10% seems very high. The scale of the PEMS activity is fundamental to any review and therefore it seems entirely appropriate that these numbers are further expanded across all DN areas and by type of job. PEMS activities fit into broad four categories:

- Small: e.g. tighten nuts, replace washer
- Medium: replace regulator and flexible tubing
- Large: replace credit meter
- Large: replace prepayment meter

Therefore the number of PEMS activities needs to be reviewed by: distribution area; number of gas connection points (to give a relative scale); number of emergency jobs by category over the last three years.

¹ <http://www.ofgem.gov.uk/Markets/RetMkts/Metrng/Comp/Gas/Documents1/open%20letter%20and%20guidelines.pdf>

Some PEMS work should be performed within the limits set out in Transporter Standard Licence Condition 6, i.e. within the 30mins allocated and small material cost (less than £5). In which case none of these costs would be referred back to the Supplier/MAM.

2.2. Operational Flaws in Current PEMS Process

A significant flaw in the current PEMS arrangements is that the incumbent MAM may not receive sufficient information to identify problems with installations. Where there is an issue associated with the metering installation the emergency service operative will fix the problem so even where the incumbent MAM subsequently attends site they would not be able to see the original situation.

If the problem was caused by poor practice by the installer the incumbent MAM does not have the ability to inspect the original installation. This will limit the opportunity for the incumbent MAM to identify specific further training requirements for operatives, or in serious cases, to initiate disciplinary action.

It is important that faulty equipment is quickly returned to the MAM, suitably identified with customer & reason for removal. If it is within manufacturer guaranteed period the MAM may be able to return it to the manufacturer for investigation and compensation. A manufacturer has indicated that very few meters are returned under guarantee. If the equipment is changed because of customer damage (as opposed to faulty equipment) the damage could be identified and charged to the supplier/customer, with the MAM keeping the damaged equipment as evidence. The DN staff do not have an incentive to differentiate between fault and customer damage, and would normally err on the side of caution to retain good customer relations.

If the meter is changed by the incumbent MAM, then they can use normal business processes to communicate meter readings and new meter details to the energy supplier and MAP(s), without relying on a third party (the DN staff).

The incumbent MAM has no influence over the metering asset used by the DN. The DN may use different meter types which have short useful lives. In some circumstances the DN may replace a prepayment meter with a credit meter resulting the Supplier & MAM having to arrange further visits to reinstate a prepayment meter, with which the customer may not be co-operative.

In the future, with smart metering the incumbent MAM will also be able to 'pair' the communications of the new gas meter and any household, or external, communications equipment.

If the PEMS continues then it is important that robust information can flow in a timely manner to ensure that MAMs are able to properly identify and manage the performance of their assets.

2.3. Cost Incentives

Under current PEMS the costs of a PEMS activity is charged as follows:

- The DN to the Supplier (through Supplier/DN PEMS contract)

The DN indicates they have performed a PEMS activity, this is charged to the relevant supplier at the month end.

- The Supplier to the MAM (through Supplier/MAM MAM services contract)

The Supplier identifies the relevant MAM for each PEMS activity, then prepares an invoice for that MAM to recover the PEMS costs.

Therefore the Supplier acts as a 'middle man' apart from administrative effort, is simply passing on the costs it has received from the DN to the MAM. The Supplier has contracted with the MAM to maintain a working meter and *believes* that the DN will only have performed necessary work. Clearly, the reliability of assets is a key driver of cost of meter provision and MAMs take significant risk on this basis so it is essential that they are assured that no unnecessary costs are incurred.

If the MAM can find sufficient evidence (e.g. a hole in a meter) then they can seek recompense from an equipment manufacturer. Although as indicated above, if the equipment can not be recovered this fails, leaving the MAM incurring the whole cost.

When they are not directly exposed to the costs, there is no particular incentive for the Supplier to keep the DN costs low or to be involved with resolving the flaws in the current PEMS process.

An appropriate incentive would be to only pay the DN for PEMS work upon delivery to the MAM of:

- All replaced equipment (meters, regulators, flexible tubes, etc.)
- All associated meter technical details (meter readings, serial numbers, etc)

2.4. Customer Disruption/Alternative Model

PEMS was introduced to minimise the disruption to domestic customers where gas leaks associated with metering equipment could delay the restoration of gas supply. This objective is perfectly reasonable. MAMs already attend meter problems and prepayment meters faults under Guaranteed Standards as non-emergency contractual obligations.

The Gas (Standards of Performance) Regulations 2005 (SI No. 1135), put obligations on Suppliers to ensure that a domestic customer that has a problem with their *prepayment* meters (see regulation 5) should be resolved within 4 hours from reporting to the supplier during the hours of 8.00 am to 8.00 pm on each working day and 9.00am to 5.00pm on any other day. For reports outside these hours the clock starts at beginning of the following day. Another SI applies to electricity pre-payment meters with slightly different timescales.

These “Guaranteed Standards” have had a long evolution based on a balance between the costs of provision of this service compared with the alternative higher costs of staff on call 24 hours/day, 7 days a week. This balance has evolved fully recognising that customers with prepayment meters are often the more vulnerable in society. The result is a framework where meter problems are not resolved instantly, but within a specified number of hours, dependent upon the day and time of the week of when the issue is reported.

It is proposed that a similar approach should be acceptable for all metering faults. If the emergency DN person arriving on site, determining that the fault is associated with metering equipment and *can not be resolved within 30mins* (and materials less than £5), makes safe by isolating the ECV and notifying the Supplier/MAM. The MAM would attend within the same timescales for all domestic and small business customers as the Guaranteed Standard regulation 5. All MAMs have staff available to respond to the Guaranteed Standards for prepayment customer calls and could therefore achieve the same timescales for all meter faults which require the gas to be isolated due to a metering fault.

The MAM would *not* increase their current stand-by costs by having to have staff on call 24 hours, but would respond to more calls to correct prepayment meter issues *and* repair leaking meters. Overall the costs to the industry may reduce dependent upon the numbers of *true* meter faults identified, and the benefits that the MAM would achieve from correcting the flaws identified in section 2.2.

Contractual arrangements between Suppliers and MAMs can deliver the above framework through normal commercial negotiation. This approach would deliver a ‘competitive’ solution to minimising customer disruption, whilst limiting costs to the industry, and therefore customers.

If a MAM is called to a ‘metering’ problem to find that the fault was elsewhere, then the cost of the unnecessary visit would be reflected back through the supplier to the DN. This would provide the correct financial incentive on the DN to ensure only valid metering problems were reported for MAM resolution.

The above approach may require two visits, although the overall number of visits may reduce where corrective action or unnecessary visits are avoided. This will reduce the overall cost to the industry, and therefore customers. Provision of statistics as described in section 2.1 will enable a more informed discussion.

Other alternative approaches may emerge through a wider debate of the objectives and weaknesses of the current PEMS activities. The key requirements of any party delivering the service will still be that they do so in an unbiased way, produce the fault report data & technical details for the MAM that installed the now removed equipment and return the equipment.

It is hoped that Ofgem can generate a meaningful debate that results in a suitable solution for all stakeholders – Customers, Suppliers, DN, MAM & MAPs.

2.5. True Costs of Metering Services

To make a meaningful comparison between the DN providing a PEMS service and competitive MAM providing a service then all the costs of the metering service need to be truly allocated to the PEMS charges. The DN needs to allocate all the costs associated with providing a metering service such as: metering equipment stock control, MAM registration, staff training, management training, vehicle size, financial control, etc. All the risk of service provision need to be recovered through a PEMS charge, probably a fixed charge and a transactional charge.

If the allocation of costs are incorrect between the emergency service and the metering activities of a DN then the all customers (whether their supplier benefits from it or not) will be paying for the PEMS activity through their use of system charges.

There is a fear that PEMS charges from a DN may 'cap' the charges a competitive MAM could charge for visiting premises in these emergency situations. To enable a competitive arrangement to evolve the PEMS charges need to be sufficiently high to enable a competitive solution to be a cheaper and more attractive solution.

3. Recommendations

- 1 Ofgem should obtain from DNs and publish the statistics requested in section 2.1.
- 2 Ofgem should consider including within PEMS the requirement for 'payment on delivery' as discussed in section 2.3.
- 3 Ofgem should consider an alternative to PEMS based on a competitively negotiated model as discussed in section 2.4.
- 4 Ofgem should ensure that the costs of providing a metering activity within the DN emergency service is correctly attributed, as discussed in section 2.5.