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Date: 21 December 2007

Dear Sir/Madam

### **Gas Post-Emergency Metering Services (PEMS)**

On 12<sup>th</sup> October 2007 we issued an open letter and draft industry guidelines regarding gas 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 sold on to the relevant supplier who transfers it to their 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).

Our letter sought feedback on two key areas. The first was the treatment of PEMS under the transportation licence, and in particular whether PEMS fall within the "permitted purpose" of GDN licensees, or whether consent is required from the Authority for GDN operators to carry out these activities. In our letter, we set out our view that PEMS meet the definition of "metering business" in the transportation licence, and therefore do fall within the "permitted purpose".

The second subject discussed in the letter was how best to ensure ongoing provision of a comprehensive PEMS service to the benefit of suppliers and their consumers. In the letter, we stated that there was a strong case for GDN operators to continue providing PEMS in conjunction with their emergency call-out service, since this avoids the need for multiple visits and hence minimises cost and inconvenience to customers. We said that we would not wish to deter any third-party MAM from offering a PEMS service to the market, but acknowledged that it may be difficult for MAMs to provide this service on equivalent terms.

In light of these considerations, we stated in our letter that there may be a policy case for introducing licence obligations on GDNs to offer PEMS, but that at present this option does not seem to be justified since most suppliers are broadly satisfied with the commercial PEMS service. As an alternative to introducing licence obligations, we 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.

### **Overview of Responses to Open Letter**

Ofgem received nine responses to the open letter from a range of respondents including distribution networks, suppliers, meter operators and one consumer group. A summary of these responses is set out in Annexes 1 and 2, and the full responses are available on our website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)).

### *Treatment of PEMS under the Transportation Licence*

None of the respondents questioned our interpretation of the licence with respect to PEMS. Our position on this issue therefore remains unchanged. PEMS fall within the definition of “permitted purpose” and there is no need for GDN licensees to apply to the Authority for consent to carry out PEMS activities.

Two GDNs raised the question of the treatment of revenue from PEMS in their regulatory reporting to Ofgem. The GDNs in question were of the view that the wording of the licence indicates that PEMS should be treated as an excluded service for revenue purposes. However, in light of our interpretation that PEMS fall within the definition of metering business in the licence, we consider that the revenue from PEMS should be classed as metering business revenue for the purposes of GDNs’ regulatory accounts and any other regulatory submissions. As the metering business is distinct from the transportation business, it does not need to be specified as an excluded service, which applies only to transportation income that is not recovered as price control revenue.

We note that the drafting of Special Condition E3 of the GDN licence may have led to some confusion, since for the purposes of that condition only, metering activity is defined as being part of the transportation business. We are reviewing this condition as part of the licence amendment process for the Gas Distribution Price Control Review.

### *Draft Guidelines on Industry Arrangements for PEMS*

The majority of respondents to the open 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 summary, these concerns are:

- there appears to be a high level of PEMS activity being carried out under the current industry arrangements. The AMO believe that if 10% of emergency call-outs result in PEMS activity (as suggested by initial information received from NGG), this raises serious concerns about meter equipment design and/or the quality of installation work
- there are poor information flows from GDNs to MAMs following completion of a PEMS job, and faulty equipment (meters and/or flexes and governors) is usually not returned. This makes it difficult for MAMs to determine the cause of the fault and therefore difficult to make appropriate remedies. This in turn raises potential safety issues for customers and may be adding to overall industry costs, and
- MAMs end up bearing most of the costs of PEMS work, since suppliers generally pass costs back to the MAM on the basis that the meter was faulty. This means there are limited incentives for suppliers and GDNs to keep the costs of PEMS low, and to resolve issues such as information flows as discussed above.

The AMO have suggested that Ofgem consider an alternative solution for PEMS based on MAMs undertaking the meter work through a follow-up visit, once a fault is identified by the GDN. The AMO believe that the requirements set out in the Gas (Standards of Performance) Regulations 2005<sup>1</sup> for responding to problems with prepayment meters could be used to ensure an acceptable level of service for all customers under this approach.

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<sup>1</sup> SI 2005/1135

## *Relationship between Gas PEMS and Electricity UMETS (Urgent Metering Services)*

A final issue commented on by one respondent was the link between gas PEMS and the equivalent service in electricity (UMETS). In our open letter, we indicated that we would consider issuing similar guidelines for UMETS if the current proposal to include UMETS within the Distribution Connection and Use of System Agreement (DCUSA) does not progress. However, the respondent expressed the view that implementing UMETS within DCUSA would be against the objectives of DCUSA, given that electricity DNOs are no longer under licence obligations to provide metering services.

### **Ofgem's Current Position and Request for Information from GDNs**

We have considered the responses to our open letter and believe that some legitimate concerns have been raised, particularly by the AMO. We expect that suppliers are likely to continue to prefer a "one-stop shop" PEMS service provided by GDNs, in order to minimise inconvenience to customers (although as noted in our last letter, we have no desire to deter any third-party MAM from offering a PEMS service to the market). We are however keen to ensure that information flows are sufficient to allow MAMs to correctly identify the causes of a meter fault following a PEMS job being undertaken, and that appropriate incentives exist on GDNs, suppliers, and MAMs to minimise the costs of PEMS work while also ensuring customer safety. We therefore intend to modify our draft industry guidelines in order to address some of the issues raised by the AMO, as well as comments from other respondents.

We also agree with the AMO that it would be desirable, as part of our market monitoring activities, to see more detailed information on the level and type of PEMS activity that is currently being undertaken by all four GDNs before making any final decisions. This information will allow us to benchmark the level of PEMS activity across different GDN regions, and will assist us to protect the interests of consumers by ensuring that PEMS activities are being carried out in an efficient and economical manner. Accordingly, pursuant to Section 34 of the Gas Act 1986 we now request GDN owners to provide us with the following information regarding PEMS in their regions:

- total number of PEMS jobs carried out for each of the past three years, broken down into the following four categories<sup>2</sup>:
  - small jobs - eg, tighten nuts or replace washers
  - replacement of regulator and/or flexible tubing
  - replacement of credit meter
  - replacement of prepayment meter
- an indication of the percentage of emergency call-outs that resulted in PEMS activity, in each of the past three years.

We require this information by **1 February 2008**. Information should be sent to: Duncan Mills, Senior Economist, GB Markets, Ofgem ([duncan.mills@ofgem.gov.uk](mailto:duncan.mills@ofgem.gov.uk)). We also request GDN owners to indicate whether they are willing for this information to be published on Ofgem's website. Once we have received and analysed this information, we will proceed with publishing a revised version of our industry guidelines on PEMS.

Finally, with respect to electricity UMETS, we accept the point that there are differences between the structure and regulatory obligations in the gas and electricity metering markets and therefore that what is appropriate in gas PEMS may not have a direct read-

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<sup>2</sup> It should be noted that in accordance with the transportation licence provisions regarding emergency services and enquiry service obligations (Standard Special Condition A8/Standard Condition 6), metering work that is performed within the 30 minute timeframe allocated for emergency work (and where the material cost is less than £5) should not be charged to suppliers under the PEMS contract and we would not expect such work to be included in the above statistics.

across to UMETS. We will consider this issue further following the outcome of the DCUSA change proposal relating to UMETS.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Rachel Fletcher', with a large, stylized initial 'R'.

Rachel Fletcher  
**Head of GB Markets**

## Annex 1 – Summary of Responses to PEMS Open Letter – Comments on our Conclusions

	There is a strong case for PEMS being provided by DN owners.	PEMS activities fall within the definition of “permitted purpose”. Accordingly, it is not necessary for the GDNs to apply for Ofgem’s consent to carry out these activities.	It is not necessary to introduce a licence obligation on the GDNs to provide a PEMS service.	Support the introduction of guidelines.
British Gas	Agree.	Agree.	Agree.	Yes, with comments.
EoN	Agree.	No comments.	Agree.	Yes
energywatch	Agree.	Agree.	Agree. Welcome Ofgem’s commitment to review arrangements in future and, if necessary, to introduce licence obligations to support the provision of PEMS by DNs	Yes
Gas Transporter Company (GTC)	Disagree with proposal to introduce guidelines on electricity UMETS. Implementing UMets in the DCUSA would be against the objectives of DCUSA. Also we question the right of the Authority to impose such obligations under the current distribution licence.	No comments.	No comments.	No comments.
National Grid	Agree.	Agree. However, this does not imply the provision of a MAM service (last para of page 3, Annex 1). Contractual relationship is with suppliers and IGTs rather than MAMs and this should be reflected more clearly when Ofgem publishes its decision document. Will consider seeking the approval of the Authority to treat these services as an excluded service under Special Condition E4.	Agree.	Yes, with comments.
Northern Gas Networks	No comments.	No comments.	No comments.	Yes, with comments.
RWEpower	No comments.	Agree.	Agree. Glad that Ofgem have not ruled out the possibility of introducing licence conditions in future should industry guidelines not achieve their desired effect.	Yes

Scotia Gas Networks	Agree.	Agree. It is also not necessary for the revenue to be excluded from the de minimis cap since, by default, the work is an excluded service.	Agree. This is consistent with Ofgem's March 2006 decision letter in this respect.	Yes, with comments.
Association of Meter Operators	<p>Range of comments made, including:</p> <p><b>Level of PEMS Activity</b> The figure quoted in Ofgem's open letter that "around 10% of emergency callouts on [NGG's] networks result in PEMS activity" seems very high. This potentially raises concerns about meter design, installation or installer competency. PEMS activity needs to be reviewed by distribution area, number of connection points, and number of jobs by category.</p> <p><b>Operational Flaws in PEMS Process</b> Under current arrangements the incumbent MAM may not receive sufficient information to identify problems with installations. This limits the ability of the MAM to take remedial action, eg through returning equipment to the manufacturer, improving training for operatives or in serious cases initiating disciplinary action. The MAM also no influence over the metering asset used by the GDN.</p> <p><b>Cost Incentives</b> Under the current arrangements the supplier acts as a 'middle man' and simply passes on costs received from the DN to the MAM. There is therefore no particular incentive for the supplier to keep DN costs low or to be involved with resolving flaws in the PEMS process. An appropriate incentive would be to only pay the DN for PEMS work upon delivery to the MAM of (1) all replaced equipment, and (2) all associated meter technical details.</p> <p><b>Alternative Model for PEMS</b> As an alternative to the current arrangements, PEMS work could be carried out by independent MAMs in line with the timescales in the "Guaranteed Standards" Regulations for prepayment meters. This approach would deliver a 'competitive' solution to minimising customer disruption, whilst limiting costs to the industry, and therefore customers.</p> <p><b>True Costs of Metering Services</b> To make a meaningful comparison between a DN and a MAM providing the PEMS service, all the costs of the metering service need to be truly allocated to the PEMS charges. If the allocation of costs is incorrect between the emergency service and the metering activities of a DN then all customers will be paying for the PEMS activity through Use of System charges.</p> <p><b>General Recommendations for PEMS:</b> 1 Ofgem should obtain from DNs and publish the statistics [on PEMS jobs broken down by area and category] 2 Ofgem should consider including within PEMS the requirement for 'payment on delivery' 3 Ofgem should consider an alternative to PEMS based on a competitively negotiated model 4 Ofgem should ensure that the costs of providing a metering activity within the DN emergency service is correctly attributed</p>			

## Annex 2 - Summary of Responses to Open Letter – Comments on Draft Guidelines

	Purpose/Background	Service Availability and Geographic Coverage	Meter Replacements	Pricing and Non-discrimination	Transfer and Return of Metering Assets
British Gas	No comments.	1.7 Should refer to 'non-domestic sized meters' in the 2 <sup>nd</sup> sentence to be consistent with the 1st.	1.8 With regards to the subject of 'like for like exchange', in cases of extreme vulnerability the engineer should have the flexibility.	No comments.	It is important that the incumbent Meter Operator receives these faulty equipment items, in order to enable monitoring of the safety & suitability of their equipment.
EoN	No comments.	No comments.	No comments.	No comments.	No comments.
energywatch	No comments.	No comments.	No comments.	No comments.	No comments.
GTC	No comments.	No comments.	No comments.	No comments.	No comments.
National Grid	No comments.	With regard to offering PEMS service to non-domestic customers the principle difficulty relates to the logistics of carrying a wider range of larger meters within engineers' vehicles.	The Industry Guidance should reflect a "reasonable endeavours" approach to meter exchange. The ability to do 'like for like exchange' in every case is limited by the capacity of the engineers' vehicle.	No comments.	We do not have a direct contractual relationship with commercial meter operators and if they need this service, it should be arranged with their supplier.

	Purpose/Background	Service Availability and Geographic Coverage	Meter Replacements	Pricing and Non-discrimination	Transfer and Return of Metering Assets
Northern Gas Networks	No comments.	NGN is willing to consider offering a PEMS type service to non-domestic sized meters if appropriate and efficient arrangements can be identified that do not affect the provision of the priority emergency service.	Agree.	Agree. There are currently only very small differences between suppliers and IGTs terms and conditions. NGN is continuing to work on bringing these onto a consistent basis	Meters that are replaced under PEMS arrangements have been returned solely to National Grid Metering as the MAM for these meters.
RWEpower	No comments.	No comments.	No comments.	No comments.	No comments.
Scotia Gas Networks	It may be helpful to reference Ofgem's open letter dated 12 October 2007.	Acknowledge that offering DNS PEMS service to non-domestic should be where it is operationally and commercially practical to do so.	Should reflect that existing arrangements requires for meter replacement to be provided under PEMS where possible and limited to basic domestic meters only.	Include reference to the DNSs being allowed to include a reasonable profit in their charge for providing this service.	Wording too prescriptive. Should include wording along lines "should not restrict the transfer of meters to the relevant supplier". We believe that this should only extend to it being returned to the GDN's nearest local depot for uplift in a reasonable time. In our view the current drafting suggests a rather more onerous requirement on the GDN to arrange for the physical delivery of the meter back to the relevant MAM.