Consultation

Consultation on Asset Health Inspectorate regulatory arrangements

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Response deadline:	11 January 2027
Team:	Asset Health Inspectorate
Email:	AHI@ofgem.gov.uk

Ofgem is consulting on the proposed policy, draft Asset Health Licence Conditions and draft Asset Health Inspectorate (AHI) Audit Methodology, an associated document, underpinning the AHI's Audit activities. The purpose of the AHI is to provide increased assurance of network companies' management of energy sector assets, ensuring that consumers get value from the assets they pay for through their energy bills.

The AHI is intended to cover Electricity Transmission, Electricity Distribution, Gas Transmission, and Gas Distribution Licensees at this stage, and we have engaged those parties over Summer 2026 on our early proposals. Since then, we have continued to develop our proposals and now seek views from those key stakeholders in addition to wider industry participants. We intend to move forward to a statutory consultation on licence conditions and finalise our Audit Methodology in Q1 2027, subject to the outcome of this consultation.

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Executive summary

Energy networks are essential infrastructure, and consumers depend on licensees managing and maintaining their assets effectively. Existing reporting, price-control processes and certification provide important assurance, but do not systematically examine how Asset Management Systems, Asset Information and maintenance practices operate together in practice. The AHI would address this gap through independent, targeted Audits, strengthening assurance as networks face ageing infrastructure, increasing climate risks and the transition to net zero.

This policy consultation seeks views on proposed draft Asset Health Licence Conditions and draft Asset Health Inspectorate Audit Methodology ("the Audit Methodology"), an associated document. Audits would combine examination of policies and standards, data and systems, and onsite asset condition, with Action Plans and follow-up to address Audit Findings. This would provide earlier visibility of weaknesses, strengthen accountability and promote improvement and sector learning, supporting reliable, resilient networks and value for consumers. AHI would complement existing regulatory processes, while licensees remain responsible for their assets and investment decisions. We will use feedback from this consultation and learning from pilot Audits to inform our final approach, ahead of a statutory consultation on the proposed licence modifications planned for Q1 2027.

1. Introduction

This section sets out the purpose of this consultation and provides an overview of the document's structure. It also outlines consultation stages and how you can respond.

Purpose of this consultation

1.1 Ofgem[1] has an important role in ensuring that energy network companies manage their assets effectively and continue to provide safe, reliable and resilient energy supply for consumers.

1.2 Existing reporting, price-control processes and independent certification provide important assurance. However, individually they do not provide direct regulatory scrutiny of licensees' asset management arrangements. We propose to strengthen our assurance of how network licensees manage the health of their assets through AHI's Audit activities. Through AHI, we will undertake Audits to obtain direct, evidence-based assurance of licensees' asset management arrangements and how these operate in practice.

1.3 AHI is intended to complement existing regulatory arrangements by bringing together evidence about licensees' asset management arrangements and practices, asset condition and performance data, and targeted site observations, to provide greater assurance over licensees' asset management and asset health. In developing our proposals, we have sought to ensure that AHI provides meaningful regulatory assurance while remaining proportionate and deliverable. Feedback from network licensees and wider stakeholder engagement has informed our proposed approach.

Context and related publications

1.4 Through this consultation, we are seeking views on our proposed approach to AHI. This consultation explains the policy rationale for AHI and seeks views on proposed documents including:

- The draft Asset Health Licence Conditions set out the obligations that would apply to licensees, including requirements relating to asset management, participation in Audits and responses to Audit Findings

[1] In this document the terms "Ofgem", "the Authority", 'we', 'us' and 'our' are used interchangeably. Ofgem is the Office of the Gas and Electricity Markets. The Authority is the Gas and Electricity Markets Authority and is the governing body of Ofgem, consisting of non-executive and executive members.

- The draft Asset Health Inspectorate Audit Methodology ("the Audit Methodology"), an associated document which explains how AHI proposes to plan, conduct and follow up Audits under those conditions.

1.5 Defined Terms are set out in Part G of the draft Asset Health Licence Conditions and Appendix 1 of the draft Audit Methodology. These documents should be read as a package.

1.6 We expect to refine these documents considering responses to this consultation and learning from pilot Audits[2]. We intend to publish the final Audit Methodology alongside our statutory consultation on the proposed Asset Health Licence Conditions, currently planned for Q1 2027.

Future direction of regulation

1.7 In addition to the immediate drivers of this work we recognise there are interactions with the wider direction of regulation.

1.8 The government review of Ofgem, published earlier this year[3] set a direction towards a more strategic, principles-based and outcomes-focused approach to regulation. Our AHI proposals are consistent with this direction by being grounded in strengthening assurance of how network companies manage their assets in practice, while retaining licensees' responsibility for their asset management and investment decisions.

1.9 Alongside this, Ofgem is developing plans for a more proactive, intelligence-led supervisory approach to network regulation. This work aims to bring together information and expertise across Ofgem to build a more rounded understanding of individual network companies, identify emerging risks earlier and support proportionate, targeted regulatory action.

1.10 As Ofgem works with government and industry to implement the findings of the government review and further develops its supervisory approach to regulation, we propose to keep AHI's policy framework and Audit Methodology under review to reflect relevant changes and ensure alignment.

Overview

1.11 This document is structured as follows:

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[2] Pilot audits are a series of audits taking place from Winter 2026 to Spring 2027. Contracted Auditors will be conducting pilot audits with network companies who volunteered to test aspects of the draft Audit Methodology. Ofgem invited all ET, ED, GT, GD network companies to volunteer for a pilot audit.
[3] Department for Energy Security and Net Zero, Ofgem Review: final report, April 2026.

- Section 2 sets out the background and rationale for establishing AHI, including its proposed role, principles, objectives and expected benefits
- Section 3 explains AHI's proposed scope and its relationship with existing regulatory arrangements and other relevant bodies
- Section 4 explains our proposed approach to asset management assurance, including ISO 55001 certification and the three pillar model
- Section 5 describes our approach to Audit planning, including licensee selection, Routine and Non-Routine Audits
- Section 6 explains how Audits would be conducted, including proposed notification periods and evidence gathering processes
- Section 7 covers the post-Audit process, including Audit Findings, licensee responses and the relationship with licence compliance
- Section 8 details the process against which licensees will be expected to demonstrate delivery of their Action Plan
- Section 9 outlines our proposed annual reporting of Audit activities
- Finally, Section 10 sets out our next steps.

Consultation stages

1.12 We conducted initial consultation with in-scope licensees and other stakeholders with strong interest in the AHI over summer 2026. We did this through sharing our initial policy intent, a dedicated webinar, 1:1 sessions, a high-level licence working group, and inviting written feedback against a set of questions on our initial policy intent. We have incorporated this feedback into our policy design and have explained where this has influenced our policy development throughout this document, where relevant.

- **Stage 1** Consultation open: 26 November 2026
- **Stage 2** Consultation closes (awaiting decision). Deadline for responses: 11 January 2027
- **Stage 3** Responses reviewed and published: Q1 2027
- **Stage 4** Consultation outcome: Q1 2027

How to respond

1.13 We want to hear from anyone interested in this consultation. Please send your response to the person or team named on the front page of this document.

1.14 We have asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.

1.15 We will publish non-confidential responses on our website.

Your response, data, and confidentiality

1.16 You can ask us to keep your response, or parts of your response, confidential. We will respect this, subject to obligations to disclose information. For example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations, or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

1.17 If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you do wish to be kept confidential and those that you do not wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we will contact you to discuss which parts of the information in your response should be kept confidential and which can be published. We might ask for reasons why.

1.18 If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the United Kingdom's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with Section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 2.

1.19 If you wish to respond confidentially, we will keep your response confidential, but we will publish the number, but not the names, of confidential responses we receive. We will not link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

How to track the progress of a consultation

1. Find the web page for the call for input you would like to receive updates on.
2. Click ‘Get emails about this page’, enter your email address and click ‘Submit’.
3. You will receive an email to notify you when it has changed status.

A consultation has three stages: ‘Open’, ‘Closed (awaiting decision)’, and ‘Closed (with decision)’.

2. Background - Why an Asset Health Inspectorate?

This section outlines the policy context and rationale for establishing an AHI. It sets out AHI's role, the principles informing AHI's policy design and objectives and expected benefits and outcomes.

Policy context

2.1 Ofgem's principal objective is to protect the interests of both existing and future energy consumers. The responsible stewardship of long-life network assets by network companies is a key factor which impacts on the interests of existing and future consumers and consequently, is an area of regulatory focus for Ofgem.

2.2 Ofgem's 2026/27 forward work programme[4] identified that we would increase our focus on asset health and system wide energy resilience including by establishing an AHI.

2.3 AHI's Audit activities will support our Strategic Priority of 'enabling infrastructure for net zero at pace' (as set out in Ofgem's Multiyear Strategy)[5] by providing regulatory assurance of licensees' Asset Management Systems and the associated condition of their assets.

Feedback we received prior to this consultation

2.4 Respondents to our forward work programme consultation[6] were generally supportive of the Authority introducing an AHI but made clear that it should be a proportionate programme which minimises regulatory burden and duplication.

2.5 Over Summer 2026, licensees were engaged on early policy proposals for the AHI. Engagement activities included a webinar, discussions between the AHI team and individual licensees and selected stakeholders, and the provision of extensive written feedback from licensees.

2.6 A summary of the key themes outlined in licensees written feedback is detailed below. Feedback received indicated licensees:

- broadly agreed with the establishment of AHI provided it is a proportionate, consistent and transparent regulatory function with a clearly defined scope and minimal regulatory burden

[4] Ofgem, Forward Work Programme 2026/27, March 2026.
[5] Ofgem, Protect, Build, Change, Deliver: Ofgem's Multiyear Strategy, March 2024.
[6] Ofgem, Proposed Forward Work Programme for 2026 to 2027, consultation responses, published 30 March 2026.

- sought clarity on the relationship between proposed Audits, existing price control processes and reporting, ISO 55001 accreditation audits and Health and Safety Executive (HSE) investigations
- requested visibility of AHI's proposed approach to assessing licensees as part of an Audit, noting the need for a clear articulation of what compliance means (i.e. what "good" looks like). Licensees also sought to remain actively engaged in developing the Audit Methodology
- highlighted the importance of ensuring fairness and consistency of Audit processes, assessments and moderation of Audit Findings
- sought detail on compliance expectations and proposed routes for appeal in relation to Audit outcomes
- noted concerns about the potential administrative burden of proposed Audits and compressed timelines for the development of policy and licence conditions.

2.7 Where we set out our positions later in this document, we have aimed to identify where we have considered this feedback in developing our policy so far.

Policy rationale

2.8 Energy network companies own and operate essential national infrastructure, consisting of millions of assets worth billions of pounds. This infrastructure is critical to the functioning of Great Britain (GB)'s society and economy. Ofgem, therefore, expects strong asset stewardship by network companies to safeguard the reliability of the energy network, ensuring that consumer needs are met.[7]

2.9 Ofgem has previously pursued regulatory assurance of network licensees' asset management arrangements, most notably through the 2001–02 Asset Risk Management Survey[8] and the subsequent 2005–08 work programme encouraging independent BSI PAS 55 certification.[9] This early work resulted in all major network companies voluntarily obtaining certification by February 2008 and the Institute for Asset Management (IAM) working with several network companies to develop an assessment methodology for asset management.[10]

2.10 Over successive periods Ofgem has developed licence and reporting requirements to improve the consistency of network companies' asset condition and risk assessments. Earlier Network Output Measures (NOMs) arrangements have evolved into the Network Asset Risk Metric (NARM) framework, supported by sector-specific methodologies. In electricity distribution, the Common Network Asset Indices Methodology (CNAIM) provides a common basis for assessing asset health, criticality and monetised risk, supporting NARM reporting and assessment of delivery.

2.11 Existing price-control, reporting and certification arrangements provide Ofgem with assurance over aspects of network companies' asset management, including reported asset condition and risk, delivery of funded outputs, the quality of regulatory submissions and the existence of certified asset management systems. However, these arrangements do not provide a systematic mechanism for Ofgem to independently examine how licensees' asset management systems, information and maintenance practices operate together in practice. AHI is intended to address that assurance gap through targeted, evidence-based audits.

2.12 In addition, we believe that the current policy context is driving the need to bolster Ofgem's role in the regulatory assurance of network companies' asset health management practices.

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[7] Ofgem, RIIO-3 Final Determinations Overview Document, December 2025.
[8] Ofgem, Asset Risk Management in electricity and gas networks: A proposed survey and its interaction with the Information and Incentives Project, first consultation document, November 2001.
[9] Ofgem, BSI-PAS 55 Certification and the Stakeholder Working Group, open letter, 5 April 2006. BSI PAS 55 was a precursor asset management standard to ISO 55000.
[10] Ofgem, BSI-PAS 55 Certification, open letter, 25 March 2008.

2.13 GB's physical energy network assets are exposed to increasing climate risks. Extreme weather events are becoming more frequent and resulting in energy infrastructure damage of increasing magnitude. The summer of 2026 was the hottest ever recorded in GB.[11] Climate projections indicate that GB's summers will continue to become hotter,[12] and the severity of storms, floods, and wildfires are also anticipated to increase.[13] Greater exposure to climate risks may therefore drive more rapid deterioration of existing network assets, with incidents of thermal ageing, corrosion of equipment, flooding, and structural damage becoming more common.

2.14 Ageing network assets continue to support critical functions of GB's energy network during the transition to net zero. Network companies' asset management strategies reported to Ofgem as part of the price control business planning process, indicate how they are managing the risks posed by ageing infrastructure. We are also cognisant that developments in other sectors can provide lessons for our approach to asset management assurance. Most notably, findings from the Independent Water Commission's Review of the Water Sector (also known as the Cunliffe Review)[14] concluded that the regulator should be enabled to conduct 'on-the-ground assurance of asset health'.

2.15 The interconnectedness of systems supporting essential services demonstrates the potential for cascading, compounding effects from single energy network incidents. The National Energy System Operator (NESO)'s final report from the review into the North Hyde Substation outage found this event led to over 70,000 customers and businesses losing power and the closure of Heathrow airport. [15] In November 2025, the Department of Energy Security and Net Zero (DESNZ) published the North Hyde Implementation Plan, and tasked Ofgem to: *"…consider the need for independent audits and inspections to provide assurance that the reliability of critical network assets are being appropriately managed."*[16]

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[11] Met Office, Summer 2026 provisionally hottest on record for the UK, news article, 1 September 2026, updated 17 September 2026.
[12] Met Office, Deep Dive: What could UK summers feel like in the future?, blog article, 9 September 2026.
[13] Environment Agency, National assessment of flood and coastal erosion risk in England 2024, research and analysis, published 17 December 2024, updated 5 August 2026.
[14] Independent Water Commission, Independent Water Commission: final report, independent review of the water sector regulatory system in England and Wales, 21 July 2025.
[15] National Energy System Operator (NESO), North Hyde Review, final report on the North Hyde Substation outage, published 2 July 2025.
[16] Department for Energy Security and Net Zero, Government Response to NESO's North Hyde Report, November 2025, Action M2.

AHI role

2.16 AHI's proposed role is to undertake independent Audits of licensees' Relevant Assets and Asset Management Systems in accordance with the Audit Methodology.

2.17 AHI's role is to undertake an ongoing Audit programme to provide assurance to the Authority that:

- licensees have asset management systems, policies and procedures in place, follow them in practice, and can demonstrate the justification for their arrangements
- recorded and reported asset condition is accurate, supported by evidence, and asset management decisions are informed by licensees' assessment of risks, assumptions and uncertainties
- licensees address Audit Findings requiring action, with AHI monitoring their response and evidence of completion.

2.18 We acknowledge that licensees are responsible for managing and maintaining their network assets and remain accountable for their asset management and investment decisions. We expect that network companies are already undertaking strong asset stewardship in the way they manage, operate, maintain and replace their assets, in accordance with established price control business planning and reporting processes.

2.19 AHI's policy intent is to provide regulatory assurance over licensees' management and maintenance of their Relevant Assets, including whether asset management systems, policies, procedures and governance are in place and followed in practice, and whether asset condition and asset management decisions are supported by appropriate evidence. AHI will not prescribe how licensees should undertake asset management.

2.20 For its first years of operation, AHI proposes to use contracted Auditors, with the aim of moving to a hybrid resourcing model (which would include Ofgem inspectors) in the medium-term. Auditors have been engaged by Ofgem through a competitive invitation to tender process run earlier this year.[17]

2.21 From Winter 2026 to Spring 2027, contracted Auditors will be undertaking a series of pilot audits with several network companies who have volunteered to test

[17] Contracted Auditors' competencies have been verified by the Authority through the competitive tendering process and consistency of Audits will be managed through the Audit Methodology. While contracted Auditors will be undertake Audits, Ofgem is the decision maker on Audit outcomes.

aspects of the draft Audit Methodology.[18] Learning from pilot audits completed before the statutory consultation is published will be considered in our development of the final Audit Methodology.

Principles

2.22 AHI's policy framework is guided by the following principles:

- **Transparency and proportionality**. We are committed to providing transparency of the AHI's activities to both licensees and consumers. Audits are intended to assure network companies' existing asset management processes and support a proportionate, supervisory model of regulation. As such, Audits will not prescribe specific solutions to licensees, nor create unnecessary regulatory burden on licensees
- **Audits combine planned coverage with risk-based, intelligence-led assurance.** We propose a programme of Routine Audits to provide baseline coverage across in-scope licensees, alongside Non-Routine Audits where additional assurance is appropriate. Regulatory information and intelligence will inform Audit focus and scope. Non-Routine Audits may respond to incidents or emerging risks, but do not require a specific trigger. Section 5 explains the proposed selection and planning arrangements
- **AHI complements existing price control frameworks and methodologies.** AHI will perform a distinct, yet complementary function in relation to existing price control frameworks and methodologies – it does not supplant or replace existing NARM or price control methodologies but strengthens and complements regulatory assurance of licensees' asset stewardship.

Objectives of AHI

2.23 The objectives of AHI's Audits are to:

- assure that licensees have robust and effective asset management arrangements in place
- verify whether licensees are acting in accordance with their asset management arrangements
- improve visibility of asset condition, risk and performance across regulated networks

[18] All network licensees engaged over Summer 2026 were invited to volunteer for pilot audits.

- promote timely and effective remediation of asset-related risks
- promote continuous improvement in asset health management across the sector
- identify areas of sector learning and highlight areas requiring improvement, and
- contribute to the overarching goal of improving network resilience.

Expected benefits of AHI

2.24 Several licensees recognised AHI's potential to deliver benefits to consumers and the market by enhancing confidence in licensees' asset governance and assurance processes, and the quality of licensees' asset health information. Many licensees also saw a distinct role for AHI in promoting cross-sector learning. Other licensees indicated that the benefits outlined in AHI's early proposals appeared to be deliverable under existing regulatory processes and highlighted the importance of targeting Audits to ensure AHI's proposed assurance provided demonstrable consumer value.

2.25 We acknowledge licensees' feedback and consider that AHI will provide greater regulatory assurance over how network assets are managed and maintained. Through independent review of licensees' asset management practices, AHI will complement existing regulatory processes, strengthen Ofgem's understanding of how asset health risks are managed in practice and help identify opportunities for improvement. In doing so, AHI will support the continued safety, reliability and resilience of energy networks, ultimately benefiting consumers. We expect that AHI's independent assurance would increase confidence among Ofgem, licensees and energy consumers that network companies' asset management decisions are supported by suitable governance and processes, and that documented arrangements are reflected in practice.

2.26 We expect that AHI's assurance could play a role in reducing the likelihood and the potential impact of weaknesses in licensees' asset management by identifying areas in which systems, policies or practices may require attention. The purpose of AHI's assurance is to support licensees' proportionate risk reduction and improvement, rather than to suggest that AHI can identify or prevent every asset-related incident. AHI's primary benefit will therefore lie in providing better assurance and earlier regulatory visibility of material weaknesses in licensees' asset management practice, promoting improvement where these are identified.

2.27 We propose that AHI assurance would also strengthen transparency and accountability across the network sectors by providing Ofgem with a clearer and

more visible line of sight over licensees' asset management arrangements, how they work in practice and how network companies are continuously improving their asset management approaches. AHI's assurance can provide greater visibility of developments within individual licensees and across the sector, including evidence of improvement or deterioration. Using AHI assurance to complement existing regulatory oversight, we expect to strengthen the consistency of Ofgem's oversight and provide a broader evidence base to enhance Ofgem's wider regulatory understanding of network companies' asset stewardship.

2.28 We agree with licensee feedback that AHI can add value by sharing learning across licensees. We believe AHI can benefit licensees, Ofgem and ultimately consumers, by promoting collaborative and continuous development of asset management practices across network companies. We propose AHI will support organisational learning across the sector by identifying notable practices, recurring weaknesses and wider themes from its Audit activities. By sharing these insights across the sector, AHI would support relevant learning that contributes to the continued development of asset management practice across the sector.

Expected outcomes of AHI

2.29 Licensees noted that AHI's intended outcomes should be clearly defined, including how success will be measured and how benefits will be demonstrated. We expect that AHI would achieve the following outcomes resulting from its implementation:

- improved licensee practice in asset management – weaknesses in licensees' asset management systems, policies and implementation are identified and addressed
- continuous improvement – licensees' asset management practices improve over time, where improvements are proportionate, economically justified and deliver value
- stronger internal accountability – licensees strengthen their internal culture of asset management, where issues receive appropriate attention and escalation within network companies
- clearer line of sight to licence obligations – licensees will be able to clearly demonstrate how their asset management strategy, policy, decision-making and operational practices support statutory and licence obligations

- enhanced and consistent regulatory oversight – Ofgem will be able to maintain an independent, coherent view of individual licensees' asset management practices and changes over time
- effective knowledge sharing – relevant notable practices, recurring trends, weaknesses and thematic lessons are identified and communicated with licensees and consumers
- better-informed regulatory activity – AHI's independent evidence-base will contribute to Ofgem's wider regulatory understanding of network companies' asset stewardship and sector-wide risks.

Licence conditions

2.30 While existing regulatory arrangements provide assurance over aspects of licensees' asset management, they do not provide a comprehensive framework for the proposed AHI audit activities.

2.31 We therefore propose to introduce Asset Health Licence Conditions which we consider would provide clear obligations on licensees with regard to their asset management and to support the introduction of AHI Audits and required actions the licensee to comply with Audit Findings.

2.32 Our proposed conditions would require licensees to operate an Asset Management System, for that Asset Management System to have certain (minimum) features, provide relevant information to Ofgem, cooperate with audit activities, facilitate site access for inspections, address Audit Findings and comply with an Action Plan. These requirements are intended to enable Ofgem to obtain additional assurance over licensees' asset management arrangements while maintaining licensees' responsibility for managing their assets.

2.33 Draft licence conditions are available on the consultation webpage.

Structure of the proposed licence conditions

2.34 The proposed Asset Health Licence Conditions bring together requirements for licensees' asset management arrangements, the information supporting them and their application in practice. They also set out requirements for supporting Audits and responding to Audit Findings and establish the supporting Audit Methodology.

2.35 The proposed structure of draft Asset Health Licence Conditions is summarised below:

- Part A: Asset Management System would require licensees to have an Asset Management System covering their Relevant Assets. This would include asset

records, policies and procedures for asset management decisions, maintenance, condition monitoring and timely responses to faults and defects. Maintenance policies and procedures would need to reflect Good Industry Practice and applicable manufacturer's guidance or recommendations

- Part B: Asset Management Data would require licensees to hold accurate Asset Information that supports their Asset Management System and is consistent with relevant regulatory submissions. Licensees would need appropriate information management and assurance processes and be able to demonstrate how Asset Information informs their asset management decisions and actions
- Part C: Asset Management Activities and Asset Condition, would require licensees to put their asset management arrangements into practice, maintain their Relevant Assets in accordance with the required policies and retain accurate maintenance records. Asset management activities would need to be undertaken in accordance with Good Industry Practice and manufacturer's guidance
- Part D: Asset Health Audit Requirements, would set out the requirements for licensees to support Audits, including providing information, making knowledgeable staff available and facilitating site access. It would also establish notification and access arrangements, subject to safeguards for safe network operation, site safety, security and the protection of information
- Part E: Post Audit Activities would establish the process by which licensees respond to Audit Findings, including opportunities to identify factual inaccuracies before findings are finalised. It would require licensees to submit Action Plans for the Authority's approval, deliver approved actions and report progress, with provision for further evidence and follow-up Audits. Licensees would remain responsible for their assets and compliance with their obligations throughout this process
- Part F: Asset Health Inspectorate Audit Methodology would establish the Audit Methodology and require licensees to comply with it. This Part would also set out how the Authority would issue and amend the Audit Methodology, including requiring consultation on proposed changes
- Part G: Definitions would define the key terms used in the conditions, providing a common basis for interpreting the obligations and associated Audit arrangements.

2.36 We are proposing that the Asset Health Licence Conditions should form part of the Special Licence conditions for all in-scope licensees,[19] under Chapter 9 (General Obligations).[20]

2.37 We are seeking views on both draft documents through this policy consultation before proceeding to any statutory consultation on the proposed licence modifications.

Q1.	Do you agree that the proposed role and objectives of AHI address a need for additional regulatory assurance?
Q2.	Do the proposed principles strike the right balance between strengthening regulatory assurance and preserving licensees' enduring responsibility for asset management?
Q3.	Do you have suggestions for how Ofgem could best assess the additional value AHI delivers for consumers?
Q4.	Do you agree that the proposed licence conditions, including their structure and location, set clear requirements which would enable Ofgem to obtain additional assurance over licensees' asset management arrangements while maintaining licensees' responsibility for managing their assets?

3. Scope of AHI

This section outlines AHI's proposed scope and to whom Asset Health Licence Conditions will apply. It explains AHI's proposed role in the context of Ofgem's existing regulatory frameworks and sets out how AHI is proposed to interact with relevant external agencies.

Defining the AHI's scope

3.1 We propose that AHI should initially apply to incumbent electricity transmission (ET), electricity distribution (ED), gas transmission (GT) and gas distribution (GD) licensees through the proposed Asset Health Licence Conditions. Audits will focus on Relevant Assets and the Asset Management Systems used to manage them.

[19] Described in Section 3 below.

[20] Numbered as the next available number sequentially for each licensee. We note that this means there will likely be a different numerical reference across licensee groups. We would confirm the expected numbering in the planned statutory consultation.

3.2 In determining the initial scope of AHI, we have considered where additional asset management assurance is likely to provide greatest value, while ensuring that the AHI remains proportionate and deliverable. We propose to focus initially on the main electricity and gas networks.

3.3 Independent network operators will not initially be in scope. Independent networks are generally smaller, their assets newer than the incumbent networks, or focus on the last mile. We also considered the fact that independent network operators are not currently subject to the same Ofgem price-control arrangements as incumbent network operators.

3.4 We do not consider it sufficient to extend the initial scope of AHI given the need to establish a proportionate and deliverable programme focused on the main network infrastructure. However, we will keep this scope under review as the AHI develops, particularly if the regulatory treatment of independent network operators changes in future. We are not proposing a date or fixed trigger for extending AHI. Any future extension would require the relevant Asset Health Licence Conditions to be introduced in consultation with affected licensees.

Aligning AHI with existing regulatory activity

AHI and NARM

3.5 Licensees sought clarification of AHI's regulatory boundary, especially how AHI interacts with NARM. AHI and NARM perform distinct but complementary roles within Ofgem's evolving approach to asset stewardship and network resilience. AHI would provide assurance of licensees' Asset Management Systems and processes, the reliability and application of Asset Information, and the consistency between those arrangements and observed practice. NARM provides the applicable framework for measuring, reporting and assessing the delivery of asset-related risk reduction through the price control.

3.6 Establishing AHI as a complementary, independent audit function would provide the Authority with a broader perspective on licensees' asset stewardship than NARM alone. NARM provides the framework for assessing delivery against defined asset-risk outputs, supported by the applicable sector methodologies and reporting arrangements. AHI, through Audits, would examine the governance, competence, maintenance practices, information management and operational implementation that support licensees' management of asset health and risk.

3.7 Alongside NARM, we propose AHI would also establish a two-way information flow to strengthen regulatory oversight. NARM data will assist AHI to identify areas for assurance, while Audit Findings may highlight data quality, application or

methodology issues requiring consideration through existing NARM processes. To alleviate regulatory burden on licensees, Audit processes may draw on evidence already produced through NARM, price control and ISO 55001 accreditation processes, as relevant to the scope of the Audit, rather than requiring it to be reproduced in bespoke formats.

3.8 We propose that Audits would not establish a parallel asset risk methodology or independently amend NARM outputs, reported risk values, funding allowances or closeout assessments. Audits would assess whether licensees have appropriately identified, evaluated and responded to asset risks. In doing so, AHI recognises companies' ability to prioritise interventions on a risk-based basis.

3.9 Should an Audit identify potential issues affecting NARM data, assumptions, application or reported outputs, the Audit Findings would be referred through the applicable NARM reporting, assurance, methodology governance or price-control process. Any Audit Findings potentially affecting NARM values or outputs would be handled through existing NARM reporting, assurance and methodology change control rather than being determined through an Audit alone. An Audit Finding does not itself determine licence non-compliance; any potential non-compliance is addressed through the applicable regulatory process.

3.10 The proposed Asset Health Licence Conditions are intended to complement, rather than duplicate or amend, existing NARM licence and reporting requirements. Where an obligation or assessment is governed by the applicable NARM conditions or methodology, AHI will use the relevant regulatory route and will not create a duplicate requirement through an Audit or Action Plan.

3.11 Ofgem will keep the interaction between AHI and NARM under review as NARM policy, methodologies and reporting arrangements evolve for future price controls. Changes to the scope of NARM, the treatment of maintenance and other interventions, or the assessment of delivery will be made through the applicable NARM policy and governance processes, rather than through the Audit Methodology.

AHI and price control decision-making

3.12 Licensees sought clarity on how Audit Findings would affect regulatory submissions, agreed outputs, allowances and future investment commitments. They emphasised that Audits should not retrospectively alter price control settlements or disadvantage companies because of their timing. Licensees also highlighted competing demands on specialist staff, particularly during business plan preparation, regulatory reporting and other assurance activities.

3.13 We recognise these concerns. AHI is intended to provide additional assurance of asset management practice, not to reopen price control decisions through an Audit. Where Audit Findings identify matters relevant to price controls, these would be considered through the applicable regulatory processes rather than an Audit itself determining changes to allowances, outputs or investment commitments.

3.14 We have also considered whether AHI activity could be scheduled to avoid periods of significant price-control activity. The challenge is that price control periods do not align for all sectors and therefore there is no single period in which Audits could take place without competing demands on licensees' resources. Deferring Audit activity until those demands have passed would also risk delaying assurance where it is needed.

3.15 Our approach therefore is to take into account known commitments when developing the Audit programme and engage with selected licensees on practical arrangements. Forward visibility, notification and the use of existing information would help licensees prepare and reduce unnecessary duplication. However, competing commitments would not automatically prevent an Audit from proceeding, particularly where regulatory intelligence or emerging risks indicate a need for timely assurance. The proposed Audit notification and planning arrangements are explained in Section 5 and 6.

AHI and Data Assurance Guidance (DAG)

3.16 There is an interaction between Ofgem's existing DAG framework and the intended role of the AHI. DAG provides a risk-based framework for assuring the integrity of information submitted to Ofgem, including asset health-related regulatory reporting. The AHI is broader by providing additional assurance over the underlying asset management systems, processes and physical condition that support that reporting, helping Ofgem establish a clearer line of sight between reported asset health and conditions in practice. In other words, the two are complementary with AHI building on the regulatory assurance provided by DAG.

AHI and Ofgem NIS Inspections

3.17 Licensees sought clarification of how AHI's regulatory boundary interacts with Ofgem's Competent Authority (CA)'s Network Information and Systems (NIS) inspections, noting the potential duplication between Audits and Ofgem's NIS inspections.

3.18 AHI Audits and Ofgem's NIS inspections are intended to fulfil distinct regulatory functions with discrete regulatory objectives, scopes and assurance activities;

however, we do acknowledge that there may be some scope for potential overlap between asset health and cyber resilience assurance[21]. AHI Audits' overall focus is on licensees' management and condition of their physical network assets. Audits will assure whether licensees have effective Asset Management Systems, governance, maintenance policies, Asset Information, and processes in place, and whether those arrangements are being followed in practice. The aim of AHI Audits is to provide assurance that network companies are managing Asset Health effectively, maintaining reliable and resilient infrastructure, and identifying and addressing deterioration before it leads to failures.

3.19 Ofgem has been designated under the NIS Regulations as a joint CA with the Department for Energy Security and Net Zero (DESNZ). In its role as CA, Ofgem undertakes NIS inspections on operators designated as Operators of Essential Service (OES) under the NIS Regulations 2018. The purpose of such inspection is to assess if an OES has fulfilled its duties imposed under Regulations 10 and 11 of the NIS Regulations. This includes assessing whether operators have appropriate and proportionate technical and organisational measures to manage risks posed to the security of the network and information systems on which their essential service relies, and to prevent and minimise the impact of incidents. While NIS inspections are concerned with cyber security and the physical resilience of critical information systems, AHI Audits are limited to assurance over asset health management and the condition of network assets.

3.20 Our objective is not to duplicate NIS assessment within AHI Audits, but to ensure the AHI and Cyber inspection regimes are coordinated and that relevant scope issues are identified and directed to the appropriate regulatory team. Additionally, AHI is working closely with Ofgem's NIS CA to coordinate Audit activity and maintain visibility of the scheduling of AHI Audits and NIS inspections to ensure that regulatory burden associated with these activities is minimised, as much as possible.

AHI role and external agencies

AHI and NESO's Resilience & Emergency Management function

3.21 The National Energy System Operator (NESO), as the Independent System Operator and Planner for GB, has a Resilience and Emergency Management (REM) function. Against this function, NESO has Licence Conditions C6 of its Gas System Planner (GSP) licence and C7 of its Electricity System Operator (ESO)

[21] We believe areas of potential overlap between asset health and NIS assurance may particularly relate to: organisational technology, digitally enabled assets, remote monitoring/control and supplier-supported systems.

licence which require that NESO provide energy risk and threat advice and conduct post-event and post-emergency analysis.

3.22 NESO has begun to establish this function and has already completed several reports of its own initiation and at government / Ofgem's request, most notably the North Hyde review referenced earlier in this document.

3.23 The AHI, with its associated audit capability, has been introduced to provide increased assurance of network licensee Asset Management, including with scope to audit network licensees following a network incident (as more fully described in Section 5, 'Non-Routine' heading in this document). This is expected to support a resilience energy sector and high-quality consumer service.

3.24 We are aware, as the North Hyde review indicates, that there could be overlap between the AHI and NESO's REM function which both intend to ensure a resilient energy sector. However, we are confident that this is not duplicative for the following reasons:

- chiefly, the AHI has a narrower scope – network licensee asset management and asset health – whereas NESO has a broader remit around threat assessment and post-event analysis for the energy sector.
- NESO is unlikely to specifically target individual licensee practices through its function, whereas the AHI will apply a specific licensee lens to each Audit (in addition to sharing notable practices across industry parties).
- NESO's functions are primarily driven at providing advice to Ofgem and DESNZ, and so deconfliction should be easily achievable.
- there is established governance around the NESO REM function which includes Ofgem and DESNZ, whereby consideration of the right party to be assigned the tasking is made (for example, if Ofgem determined that its AHI function should conduct an Audit following an incident, it would not instruct NESO to do the same).

3.25 For the avoidance of doubt, however, there may be cases where the AHI conducts an Audit and NESO conducts an REM investigation into a related matter. For example, this could occur where an asset failure (AHI) is part of a broader network resilience piece such as network design (NESO REM).

AHI and HSE functions

3.26 The HSE is GB's national regulator for workplace health and safety. In line with its responsibilities in the Health and Safety at Work Act 1974, HSE conducts inspections of natural gas transmission and distribution networks to ensure

compliance with health and safety legislation. Gas licensees have identified the potential for duplication between AHI Audits and HSE inspections.

3.27 We are confident that Audits conducted by AHI serve a separate function and do not duplicate or cut across HSE's regulatory activities. While HSE inspections are concerned with ensuring compliance with health and safety requirements, AHI Audits would be limited to assurance over asset health management and the condition of network assets, in so far as they enable reliable energy supply.

3.28 For the avoidance of doubt, AHI Audits will not supplant or override HSE's existing regulatory functions. Should Audit activities identify any safety risks, AHI would be obliged to refer the matter(s) to HSE, given its relevant responsibilities.

AHI is working with HSE to maintain visibility of the scheduling of Audits and HSE inspections to ensure that associated regulatory burden is proportionate and reasonable.

Questions

Q5. Do you agree with the AHI's proposed initial scope covering incumbent gas and electricity licensees?

Q6. What considerations should inform the future extension of the arrangements?

Q7. Are the proposed arrangements for coordinating with other Ofgem regulatory functions appropriate and are there other areas of interaction that should be considered?

Q8. Are the proposed arrangements for coordinating with other assurance and investigation functions including those of NESO and HSE appropriate and are there other areas of interaction that should be considered?

4. Our Approach to Asset Management Assurance

This section explains the proposed role of ISO 55001 certification and our asset-led, three pillar approach to assessing licensees' asset management arrangements.

4.1 We propose obligations covering licensees' Asset Management Systems, Asset Information and maintenance of Relevant Assets. These would make our expectations explicit across the arrangements licensees establish, the information supporting their decisions and the maintenance undertaken in practice. Our proposed approach to examining those arrangements is set out in this section.

4.2 Licensees would remain responsible for operating and managing their network, subject to legal and licence requirements.

ISO 55001 certification

4.3 We propose to require that each licensee's Asset Management System forms part of a broader system of asset management, certified to ISO 55001 (or an equivalent standard approved by the Authority). Recognised certification would provide an independently assessed foundation for asset management, without introducing a separate AHI certification standard.

4.4 Certification provides assurance over the asset management system but does not replace targeted regulatory examination of the condition of selected assets, the accuracy of supporting Asset Information and how maintenance policies are applied in practice. We consider that this obligation on licensees provides a baseline for assurance, and therefore can help to minimise and target the AHI Audit programme.

Three pillar model

4.5 We propose to adopt a three pillar assurance model to provide a comprehensive and proportionate assessment of how network companies are managing the health of their assets. Using a three pillar model recognises that asset health outcomes are not determined by physical asset condition alone, but by the interaction between a network company's policies and standards, the quality of its data and systems, and the condition of assets in the field.

4.6 The three Audit pillars are:

- **policies and standards** – the frameworks, governance arrangements, processes and controls that companies establish to manage asset health – refer Section 3.3.3.1 of the draft Audit Methodology.

- **data and systems** – the Asset Information and supporting systems that enable companies to monitor, assess and make decisions about asset condition and risk – refer Section 3.3.3.2 of the draft Audit Methodology.
- **onsite condition** – the extent to which the condition of assets observed in the field is consistent with companies' policies, maintenance activities and reported asset health information – refer Section 3.3.3.3 of the draft Audit Methodology.

4.7 AHI's three pillar model is informed by the principles of the international asset management standard, ISO 55000, and the IAM's 10-box capability model.[22] We have chosen to base our three pillar audit model on ISO 55000 as, in addition to be internationally recognised, it is the standard that has been widely adopted by GB's electricity and gas network companies to establish their Asset Management Systems and manage their assets. This approach ensures alignment with adopted industry practice and will ensure the three audit pillars provide a structured and consistent approach to examining the practical operation of a licensee's Asset Management System.

Relationship between each pillar

4.8 The three pillars would inform, test and reinforce one another. This would enable AHI to identify inconsistencies, validate evidence from multiple sources and build a more complete understanding of a licensee's asset management approach. We consider that it would provide a robust and transparent assessment of whether policies, systems, processes and controls enable the licensee to maintain resilient, reliable and well-managed assets.

4.9 Without considering the three pillars, gaps or issues may go unidentified, for example, policies may appear robust on paper but may not be implemented consistently in practice, Asset Information may indicate that assets are being maintained appropriately, while physical inspections reveal condition issues not reflected in records.

4.10 Conversely, isolated observations from site visits may not provide a complete picture unless considered alongside the policies, procedures and Asset Information that informed the relevant asset management and maintenance decisions.

[22] The IAM's 10 box capability model is an expanded maturity model for the establishment of an organisation's asset management system that conforms with the requirements of ISO55001 – refer to Institute of Asset Management, Excellence & Maturity: development of the 10-box model.

Asset-led approach

4.11 Licensees sought assurance that AHI would not duplicate ISO 55001 certification audits and that physical inspections would be considered within their wider asset management context.

4.12 We have taken this feedback into account by proposing an asset-led approach. Audit plans would start with selected assets or sites, and would trace how the licensee's policies, procedures and wider Asset Management System algin to examined asset condition, supporting maintenance / other records and the decisions made about their management.

4.13 This would complement existing certification by examining how arrangements are applied to the assets within scope. We would use relevant evidence from certification, internal assurance and established governance processes where suitable, rather than request its reproduction solely for AHI.

4.14 Licensees also questioned how conclusions about wider practices could be drawn from a limited number of site visits. We recognise that selected assets do not necessarily constitute a representative sample of a licensee's network. Wider conclusions would therefore need supporting evidence linking the observations to broader arrangements or practices, rather than being inferred from isolated condition observations alone.

4.15 Over time, Audits covering more licensees, asset types and sites would build a broader evidence base for identifying recurring themes and changes in practice. Though we recognise that this would not, in of itself, make the assets examined a statistically representative sample of each licensee's network.

Assessment

4.16 Licensees asked for a consistent and transparent assessment approach, while cautioning against Ofgem prescribing common technical standards that might not reflect differences between networks and assets, and the importance of preserving technical industry standards.

4.17 We do not propose to prescribe detailed engineering standards for individual asset types or introduce a separate AHI maturity benchmark. Licensees' own policies, procedures and standards would inform the assessment but would not be treated as sufficient simply because they exist and are followed. As outlined in our draft Audit Methodology, we would also examine whether those arrangements are informed by relevant standards and Good Industry Practice (see the draft Audit Methodology, Section 1.8.2), and supported by appropriate justification, including for material deviations. Our proposed points for Auditor consideration

for each Audit pillar (e.g. Pillar 1, 2, 3) are outlined in Section 3.3.3 of the draft Audit Methodology.

4.18 We recognise that scoring or ratings could help communicate assessments and respond to licensees' requests for clarity and consistency. However, we do not propose to introduce a scoring or RAG-rating system initially. Meaningful criteria require a sound evidence base that recognises legitimate differences between assets and operating context. We would consider the potential for scoring or ratings in light of consultation responses, findings from pilot and early Audits, before any future development of such criteria-based assessment. Whether such an approach would be appropriate, and its design and timing, remain open. In the meantime, Audit Findings would explain the supporting evidence and its significance rather than assign a score or rating.

Questions

Q9. Do you agree that ISO 55001 is an appropriate standard for providing baseline assurance against the proposed Asset Health Licence Condition? Do you agree we should allow for Authority-approved equivalents?

Q10. Does the proposed asset-led, three pillar model provide an appropriate basis for assessing asset management arrangements in practice?

Q11. Is the proposed basis for assessment, including the use of a licensees' own policies, relevant standards, Good Industry Practice and justification for material deviations, sufficiently clear and proportionate?

5. Our Approach to Audit Planning

This section sets out the policy considerations and licensee feedback underpinning our proposed approach to licensee selection and audit planning.

Licensee selection

5.1 Licensees sought greater clarity on Audit frequency, company rotation and the expected level of involvement. Respondents also highlighted competing demands on specialist staff and the importance of considering regulatory reporting, business planning and existing assurance activity when scheduling Audits.

5.2 We have taken this feedback into account by proposing a baseline level of coverage across in-scope licensees, alongside a risk-based and intelligence-led approach to audit selection. Our position is that each licensee should be audited at least once during each price control period. We consider this provides a proportionate degree of assurance across the sectors without burdening licensees with overly frequent Audits. We will retain reasonable flexibility during implementation, recognising that AHI's commencement will not align with the start of every price control period.

5.3 Baseline coverage will not prevent further scrutiny where evidence indicates that additional assurance is appropriate. We do not consider that a proportionate and balanced programme requires identical audit frequency where circumstances differ. Regulatory intelligence, incidents or other evidence of risk may justify more frequent attention to a particular licensee or licensee group, while previous Audit activity and the demands placed on licensees will also inform our planning. We do not therefore propose a fixed interval or 'cool-off' period that would prevent us from responding to emerging concerns.

5.4 We will use information already available to Ofgem, where suitable, to inform selection and initial scoping. This may include NARM information and other regulatory intelligence. However, this information will inform rather than determine Audit selection or scope, and Audits will not be intended to specifically assure other regulatory processes.

5.5 Following notification of AHI's intent to Audit a licensee, the specific sites and assets within scope will be developed through the Audit Terms of Reference (Audit ToR), informed by regulatory intelligence and licensee input. This allows us to make efficient use of existing information while retaining the flexibility to examine the matters on which we require assurance.

5.6 The proposed licensee and Audit focus selection arrangements are set out in Section 2.1 of the draft Audit Methodology. Asset and site selection, including consideration of licensee comments and finalisation through the Audit ToR, is explained in Sections 2.2 and 3.1.3.

Routine Audits

5.7 We propose to plan a programme of Routine Audits ahead of each regulatory year. Routine Audits are those included in that programme. Our starting presumption is that we will use most of our capacity for Routine Audits each year, while retaining capacity for Non-Routine Audits. We consider this provides a proportionate starting point that allows us to build assurance across licensees while retaining sufficient capacity to respond to matters arising outside the planned programme. We will review the balance between Routine and Non-Routine considering findings, available funding and delivery experience.

5.8 Licensees broadly supported the publication of a forward audit programme, noting that visibility of planned activity would allow them to allocate specialist staff, prepare evidence and coordinate site access safely and efficiently. Many licensees also emphasised that AHI activity should take account of wider regulatory and business planning cycles, including RIIO-ED3 submissions, annual regulatory reporting and existing assurance activities. Several licensees suggested multi-year planning or an annual audit plan to provide greater certainty over forthcoming activity.

5.9 We agree that providing licensees with visibility of planned activity would improve transparency and support more effective planning. We therefore propose to publish an annual forward programme (ahead of each regulatory year) setting out the number and broad sectoral profile of planned Routine Audits, broken down by quarter. However, the programme will not identify individual licensees, sites or assets. We consider that this strikes an appropriate balance between providing transparency about AHI activity and avoiding giving individual licensees such significant advance notice that it could affect the representative nature of the assurance obtained through an Audit. The programme will remain open to change where regulatory needs dictate. Section 2.3 of the draft Audit Methodology sets out the proposed annual programme and publication arrangements.

5.10 Publication of the forward audit programme will not constitute formal notification of an individual Audit. It will provide a forward view of our planned activity, while the formal notification process (Section 3.1.2 of the draft Audit Methodology) and subsequent Audit ToR (Section 3.1.3 of the draft Audit Methodology) will establish the arrangements for an individual Audit.

Non-Routine Audits

5.11 Licensees recognised that limited-notification or reactive activity may be appropriate in exceptional circumstances, but sought clearer expectations about the circumstances, governance and notice associated with such activity. Licensees noted that following significant incidents their immediate priorities will be restoration, investigation and site safety. Respondents therefore considered that responsive audits should be evidence-led and proportionate, should take account of practical constraints such as outage programmes and asset access, and should not unnecessarily interfere with operational response activities.

5.12 Licensees also noted that audits responding to network incidents could overlap with the roles of NESO, the HSE and other incident investigation processes. In particular, they highlighted the risk that parallel investigations could duplicate activity, increase regulatory burden or divert resources from incident recovery. Licensees therefore emphasised the importance of clear governance and coordination to ensure that AHI activity adds regulatory value rather than unnecessarily duplicating other investigations.

5.13 We have taken this feedback into account and consider it important that AHI retains the ability to undertake audits outside the planned annual programme. We therefore propose to reserve capacity for Non-Routine Audits. These may be informed by regulatory intelligence, responsive to events, or initiated without a specific trigger. They may also focus on selected elements of the AHI assurance model where appropriate. Importantly, the fact that an audit is 'Non-Routine' does not itself indicate that it has been triggered by an incident or that Ofgem has a specific concern about the licensee.

5.14 Section 2.1.2 of the draft Audit Methodology explains the proposed basis for initiating Non-Routine Audits, including coordination with other regulatory bodies where appropriate.

Questions

Q12. Do you agree with our position that each in-scope licensee should be audited at least once during each price control period, with additional Audits informed by risk and regulatory intelligence?

Q13. Do you agree with the proposed process for publishing an annual forward audit programme?

Q14. Do you agree the proposed approach to initiating Non-Routine Audits in response to incidents or emerging risks is sufficiently proportionate?

6. Our Approach to Conducting Audits

This section sets out our proposed process for conducting Audits and addresses specific licensee feedback. The detailed process is set out in Section 3 of the draft Audit Methodology.

Notification of Routine Audits

6.1 Licensees generally favoured relatively long lead times for Routine Audits. Although views varied, a common theme was that advance notice is necessary to allow for gathering information, availability of subject matter experts, arranging of access to operational sites including managing safety and security requirements. Suggestions included at least two or three months' notice for planned site visits, with some respondents favouring confirmation of audit sequencing up to 12 months in advance. Licensees considered that sufficient notice would improve the quality of Audits by ensuring that the appropriate personnel and evidence were available while minimising disruption to operational activities.

6.2 Our proposed notification, acknowledgement and site access requirements for Routine Audits are set out in Section 3.1.2.1 of the draft Audit Methodology. We recognise the practical benefits of providing licensees with sufficient notice of a Routine Audit process commencing and before Auditors access licensees' sites. However, there is a balance to be struck – in setting audit notification periods we must also ensure that the notice periods are not so long as to undermine AHI's ability to obtain contemporary assurance about how a licensee's Asset Management arrangements operate in practice. We therefore propose that once an Audit Notice is issued to the licensee, there will be a minimum of 40 Working Days before a Routine Audit[23] can commence. We have retained the flexibility for the Audit to commence at an earlier date, but a shorter time frame would need to be agreed by the licensee.

6.3 During this period, we propose the Audit ToR and other pre-Audit arrangements are developed with the licensee. Once the Audit ToR are agreed, we propose that we would issue an Access Notice (distinct from an Audit Notice) to the licensee to set out the sites to be accessed, our rationale for doing so (i.e. what we will look at while on site, and why those sites), and the named personnel who will access the site. We are proposing to require licensees to provide access to site as an obligation under Asset Health Licence Conditions, which for Routine Audits will not be less than 10 Working Days from the date listed on the Access Notice, or an

[23] This also includes a Non-Routine Audit which is not responding to a specific trigger.

earlier date, as agreed by the licensee. We consider that obtaining site access to conduct Audits is an essential requirement of the AHI, as we believe it will provide additional contextual evidence on which Auditors can make a robust assessment of a licensee's policies, procedures and data when compared to observed onsite asset condition.

6.4 We acknowledge that licensees have health and safety, security, environmental, information security and other reasonable requirements that Auditors will need to be made aware of, and follow, while attending licensees' sites. We propose that these would be discussed during Audit planning but would be required to be formally notified to the Authority by the licensee within 3 Working Days of the date listed on the Access Notice.

6.5 We consider that our proposed process for Routine Audit notification appropriately balances the feedback we received from licensees with the overall purpose of AHI (i.e. to provide independent assurance). Our approach provides licensees with time to make information available in a usable form, coordinate the necessary personnel and arrange safe site access, while avoiding significantly longer periods of individual advance notice that could reduce our ability to obtain a representative view of a licensees' contemporary arrangements in practice.

Notification of Non-Routine Audits

6.6 The proposed notification, acknowledgement and site access arrangements for Non-Routine Audits are set out in Section 3.1.2.2 of the draft Audit Methodology.

6.7 Where a Non-Routine Audit is undertaken in response to a specific event or emerging risk, a shorter notification period may be necessary so that we can obtain timely assurance. We therefore propose a shorter notification period for reactive Non-Routine Audits: under our proposal, licensees would be required to acknowledge receipt of an Audit Notice within 1 Working Day, but the Authority may determine that a longer time period is appropriate for licensees to provide acknowledgement.

6.8 When an Access Notice is issued for a reactive Non-Routine Audit, licensees would be required to provide access to the specified sites not less than 1 Working Day from the date listed on the Access Notice. Any specific requirements which Auditors must adhere to while on site must be communicated to the Authority by the licensee on the date of the Access Notice for a reactive Non-Routine Audit. In developing this position, we have sought to preserve AHI's ability to respond promptly while recognising the practical constraints highlighted by licensees, particularly where operational response or restoration activity is underway. We consider that this approach best supports our objective of allowing timely

remediation to take place and to allow for the Authority to gain assurance of a licensee's processes "as they were" at a point in time.

6.9 We expect that Non-Routine Audits instigated reactively to incidents or emerging risks would be more narrowly focussed than either Routine Audits or Non-Routine Audits following the Routine Audit process (i.e. Audits not included in the annual forward programme). For example, in the case of a Power Transformer failure that the Authority determined warranted an investigation, the Audit is most likely to focus on that asset and associated components only (including relevant policies and data, etc), rather than the entire site. We consider that this narrower focus would also justify the shorter notice period, but we would keep this under review as the AHI is implemented.

6.10 We further consider that our overall policy balances longer notice Audits and shorter notice Audits, using shorter notice Audits only in response to specific events. Thus, we consider the burden on licensees to be reasonable.

6.11 The distinction between Routine and Non-Routine Audits therefore relates principally to whether an Audit forms part of the published forward programme. It does not determine the reason for selection or imply a particular Audit scope. This distinction preserves our ability to operate a transparent planned programme while retaining sufficient flexibility to respond where additional assurance is required.

Audit process

6.12 Licensees emphasised the importance of the Audit Methodology providing a transparent, clear and replicable process to ensure Audits are conducted consistently and fairly across licensees in scope of Audits. We agree with these views and believe our proposed Audit process outlined in Section 3 of the draft Audit Methodology provides clear steps and a replicable process to ensure Audits are undertaken consistently and fairly for each licensee.

6.13 Licensees requested that the Audit Methodology provides opportunities for licensee engagement throughout the Audit process. We agree and have built in engagement steps with licensees and Auditors through the development of the Audit ToR and planning meetings (see Sections 3.1.3 and 3.2 of the draft Audit Methodology). While under our proposal, the Authority will issue the final Audit ToRs, licensees will be given an opportunity to provide comment on the draft Audit ToRs.

6.14 As set out in Section 3.2 of the draft Audit Methodology, planning meetings can take place once the Audit Notice has been issued. Planning meetings will allow the licensee and Auditors to agree practical arrangements, including key

milestones, documentation requirements, arrangements for staff meetings and logistics for inspections of the selected plant, equipment and sites. We believe that this engagement with the licensee during the planning and scoping phase will enable Auditors to take sufficient account of licensees' specific operational requirements and consider any constraints before conducting an Audit, while also ensuring that the process remains fair and consistent across Audits.

6.15 Licensees noted the potential for increased administrative burden associated with supporting Audits. They also indicated that AHI should consider the timing of data requests to avoid overburdening licensees at busy times (allowing time for full and accurate responses) and consider how Audits could use information already available to Ofgem provided through existing regulatory reporting. We note this feedback and propose that the 'information base' for Pillar 1, 2 and 3 audits (outlined in the draft Audit Methodology, Section 3.3.3), would aim to use, as much as possible, information provided as part of existing regulatory reporting processes, to form the basis of Audit. Moreover, since electricity and gas network companies are ISO 55001 certified organisations, we anticipate that licensees would have already developed significant documentation to support their Asset Management Systems and certification audits, which we propose to use, as much as possible, for the purposes of Audit.

6.16 To conduct an Audit, our draft Audit Methodology proposes a standard evidence gathering process (Section 3.3.2), which will draw upon multiple information sources, including documentary evidence, meetings with licensees' relevant staff and onsite physical inspections of sites, plant and equipment. We believe that our proposal to use multiple information sources will provide Auditors with a complete body of relevant evidence, allow consideration of broader contextual information and avoids reliance on a single source of information to draw observations. We expect that our proposed evidence-gathering process will result in the development of robust, evidence-based Audit Findings.

6.17 The information required for Audits (described above) must be made available to the Authority by the licensee by at least the 40th Working Day after the date listed on an Audit Notice (though the actual date by which provision is required may vary, as defined in the Audit ToR). To support the evidence gathering process, licensees may provide information (such as policies, site diagrams, etc) during the Audit ToR development / pre-Audit planning period, which may expedite the Audit process.

6.18 Several licensees noted Auditors would be accessing commercially, operationally and security sensitive asset management information and sought assurance that the Audit Methodology would provide safeguards for information handling, storage and disclosure. While we note this feedback, it will be necessary for

Auditors to require access to licensees' information to complete Audits. We propose that licensees will be afforded the opportunity to identify information they consider sensitive, including any security-classification or transfer constraints, prior to the Authority confirming handling arrangements. Auditors will also be required to comply, where possible and reasonable, with the licensees' policies in relation to confidentiality and data security.

Questions

Q15. Do you agree with the proposed notice periods set out for Audits? Do you agree with our proposal that Audit planning and development of the Audit ToR should take place during this time period?

Q16. Are the proposed site access notification arrangements and acknowledgement timeframes for Routine and reactive Non-Routine Audits appropriate?

Q17. Is the proposed combination of documentary evidence, staff meetings and site inspections an appropriate evidence information base for producing robust Audit Findings?

Q18. Does the proposal for licensees to use their existing regulatory submissions, certification documentation and evidence of internal assurance, as the information base for Audit, address concerns regarding the potential for increased administrative burden?

Q19. Are the proposed arrangements for identifying and handling sensitive information sufficiently clear and are there any additional safeguards that may be required?

7. Audit Process Conclusion

This section explains our proposed approach to finalising Audit Findings, considering licensees' responses and distinguishing Audit outcomes from licence compliance decisions. The detailed process is set out in Section 4 of the draft Audit Methodology.

Finalising Audit Findings

7.1 Licensees sought more detail on the Audit conclusion and close-out processes. They indicated that post-audit processes should provide sufficient opportunity for licensees to give additional context, clarify evidence and provide a feedback step for licensees to review draft Audit Findings before they are finalised.

7.2 Following an Audit, a draft auditor report will be developed by Auditors. We propose the draft report will contain a list of draft Audit Findings which will be the Auditor's observations which are documented with evidence obtained during the Audit. For clarity, the Authority is not seeking specific Audit Findings but would identify issues which have been observed by Auditors and supported with evidence obtained during the Audits.

7.3 We have considered licensees' requests for a feedback mechanism to respond to Audit Findings. We propose to give licensees the opportunity to review the draft auditor report and draft Audit Findings and provide feedback on any factual inaccuracies contained within. We propose to provide licensees with 10 Working Days from the date of receipt of the draft auditor report to provide their response. We believe that this engagement process would provide licensees with sufficient opportunity to review the draft auditor report and correct any factual inaccuracies, while preserving AHI's function of developing independent, evidence-based Audit Findings to provide regulatory assurance of licensees' Asset Management System and the assets in scope of Audit.

7.4 We propose that the final auditor report will be attached to an Audit Letter.[24] AHI will reasonably endeavour to issue the Audit Letter (which includes the consolidated list of Audit Findings) and final auditor report to the licensee within 20 Working Days of AHI's receipt of the licensees' response to the draft auditor report.

[24] As outlined in Section 4.2 in the draft Audit Methodology, the Audit Letter will be addressed to the licensee (from the Authority) and include: i) high-level overview of the audit scope as defined in the AHI Audit ToR, ii) final Audit Findings, and, iii) a requirement for the licensee to provide an Action Plan in response.

Responding to the Audit Letter

7.5 Licensees sought clarity on the post-audit processes including responsibilities for the management of recommendations and action plans.

7.6 We propose that an Action Plan should constitute the licensee's formal response to the Audit Letter. Licensees must produce their Action Plans as per the terms set out in proposed Licence Condition Part E and Section 4.3 of the draft Audit Methodology. The Action Plan would set out the licensee's proposed response to each relevant finding, including proposed actions and the timetable to implement proposed actions, or, where applicable, a reasoned explanation for taking no action.

7.7 We believe this proposed approach, whereby the licensee is responsible for developing its own Action Plan takes account of licensees' bespoke approaches to asset management and preserves licensees' autonomy and responsibility for their asset management decision-making when responding to an Audit, while also ensuring licensees remain accountable for actioning Audit Findings.

7.8 We propose the licensee would submit the Action Plan within 30 Working Days of the date listed on the Audit Letter, or such other period as agreed with the Authority. Advisory observations or suggestions would be distinguished from Audit Findings, and would not automatically require an Action Plan.

7.9 We propose that the Authority will review a licensee's Action Plan. Where the Authority is satisfied that the closure tests (see Section 8 of this document and Section 5.2 of the draft Audit Methodology) are reasonably likely to be met through delivery of the Action Plan, the Authority will approve the Action Plan and notify the licensee in writing of its approval. Where the Authority does not consider that the closure tests are reasonably likely to be met, it will require the licensee to produce an updated Action Plan before approval can be provided.

7.10 We believe the Authority's decision-making role in agreeing the Action Plan is required to ensure there is regulatory assurance that licensees' proposed Action Plans are sufficient to address the Audit Findings in a reasonable and effective manner.

Publication

7.11 Guided by our principle of transparency, we are proposing to publish the Audit Letter (including Audit Findings) and agreed Action Plan on Ofgem's website at the conclusion of each Audit. We have considered licensees' feedback in relation to the trade-offs and sensitivities associated with publication but have concluded that promoting transparency of Audit Findings and Action Plans will give additional

confidence to consumers and the market that network companies are responding to Audit Findings.

7.12 Prior to publication, we will consult affected licensees in line with our statutory requirements.[25] Audit Findings will be clearly distinguished from conclusions of regulatory non-compliances.

7.13 Licensees sought further information about how AHI proposes to ensure Audit Findings are consistent over time, across different Audits and Auditors, particularly given the use of contractors in the first phase of the AHI's establishment. Licensees emphasised the importance of Auditors carrying out a robust and replicable audit process to instil confidence in Audit Findings and ensure fairness across licensees.

7.14 We recognise that confidence in AHI depends on a common approach to assessing evidence and developing Audit Findings. We therefore propose to use the Audit Methodology as the common basis for assessment. Alongside this, the Audit Findings would be supported by clear documentation linking each Audit Finding to the evidence and observations gathered during Audit, and taking account of the licensee's asset management policies, procedures and practices. Consistency would mean applying the same assessment principles, not expecting identical arrangements or outcomes across licensees. Differences in assets, operating circumstances and justified asset management approaches would need to be considered in context. Further, while the Audit may be conducted by third-party inspectors on the Authority's behalf, the final Audit Findings will be the view of the Authority (based on the evidence provided), allowing for a consistent approach to final outcomes of the process.

Questions

Q20. Does the proposed process for licensees' review of draft Audit Reports, including the 10 Working Day response period, provide sufficient opportunity for licensees to comment on factual inaccuracies?

Q21. Do you consider that the proposed requirements for preparing, obtaining the Authority's approval of, and implementing Action Plans are clear and

[25] Section 48 of the Electricity Act 1989 and Section 35 of the Gas Act 1986 permit the Authority to publish advice and information where it appears that publication would promote consumers' interests. Before deciding to publish advice or information relating to a particular individual or body, the Authority must consult that individual or body and have regard to the statutory safeguards concerning prejudicial disclosure. Ofgem will also comply with the applicable restrictions on disclosure under Section 105 of the Utilities Act 2000.

	proportionate? Do you consider the proposed 30 Working Day period for licensees to submit an Action Plan is appropriate and proportionate?
Q22.	Do you agree with the plans to publish Audit Letters (including Audit Findings) and approved Action Plans, subject to applicable publication restrictions?

8. Action Plan Delivery by Licensee

This section sets out the process by which licensees will be expected to report on delivery of their Action Plan and details of the AHI's proposed closure tests. The detailed process is set out in Section 5 of the draft Audit Methodology.

Approach to assessing Action Plan delivery

8.1 Licensees sought further clarity on how Audit Findings and Action Plans would be monitored and how Audit activities would be closed out.

8.2 We propose to adopt a structured approach to determining whether a licensee has demonstrated delivery of their Action Plan. The overriding purpose of the process is to provide assurance to the Authority that identified issues are being appropriately addressed by the licensee, that associated risks continue to be managed while corrective action is undertaken, and that the underlying causes of material deficiencies are addressed.

Undertaking progress reporting

8.3 Section 5.1 of the draft Audit Methodology details how licensees are required to report progress against the delivery of their Action Plans.

8.4 The approval of an Action Plan does not provide assurance that the identified issues have been addressed. The purpose of progress reporting is to provide a mechanism for Ofgem to track delivery, identify delay or emerging risks, and determine whether further assurance is required.

8.5 We consider our proposed quarterly reporting provides a reasonable default balance between effective regulatory oversight and administrative burden. However, we also recognise that a uniform reporting requirement may not be proportionate for every case. We recognise that a low-risk procedural finding with a short implementation period may require relatively limited oversight whereas a material asset integrity concern accompanied by significant residual risk may justify more frequent reporting, and some longer-term deliverables may not need to be reported on frequently as there is no likelihood of change in the near term. We therefore propose to retain some discretion for the Authority to tailor the frequency and nature of reporting requirements to the specific issue.

8.6 In addition to progress reporting, we propose that Ofgem would have the ability to undertake proportionate follow-up activities to verify compliance with the Action Plan where necessary, including the requirement for additional self-reporting requirements and follow-up audits. We believe this would provide for additional

assurance, however, we recognise the importance of only undertaking such action where it is proportionate.

Applying a closure test

8.7 AHI intends to apply a test to determine whether an Action Plan can be closed.

8.8 We propose an outcomes-based, rather than a purely administrative, closure test. This would comprise of three different components:

(1) Has the immediate Audit Finding been addressed? - The starting point for closure should be the specific issue that gave rise to the finding. This is essentially an 'evidence-of-correction' test and hence can be supported by evidence such as putting revised procedures in place, asset records being updated or impacted assets receiving the required intervention.

(2) Has the associated risk been controlled? - Completion of a corrective action does not necessarily demonstrate that the underlying asset risk has been reduced to an appropriate level. This stage would therefore consider the effectiveness of the measures taken and whether any remaining risk has been identified, assessed and appropriately managed.

(3) Has the underlying deficiency been addressed? - An Audit Finding may indicate a wider systemic weakness in a licensee's asset management arrangements rather than an isolated deficiency. Addressing the individual Audit Finding and controlling its immediate risk may therefore be insufficient where the same underlying weakness could affect other assets or lead to a recurrence. This test is perhaps best considered as minimising future risk.

8.9 Again, it is intended that these tests would be applied proportionately. The evidence required to demonstrate that the tests have been met will vary. Where an Audit Finding indicates a potentially systemic weakness or material asset integrity risk, it will be appropriate to seek greater assurance that the issue has been addressed beyond the specific instance identified through the Audit.

Issuing an Action Plan Close-out Letter

8.10 Where Ofgem is satisfied (based on licensee representations) that the licensee has provided sufficient evidence to close the Action Plan, we are proposing that closing the Action Plan will occur in the form of a letter from the Authority to the licensee – the Action Plan Close-out Letter – and that this letter should be

published (by the Authority, on its website), subject to relevant restrictions on publication (as outlined in Section 7 of this document, 'Publication').

8.11 The reason for this approach is that we consider it is important that the Audit process has a clear and transparent conclusion. Adopting this approach complements the publication of the Audit Letter and the Action Plan and by doing so, allows stakeholders to see that issues identified through the Audit process have subsequently progressed through to formal closure.

8.12 The intention is that the Action Plan Close-out Letter should provide sufficient information to explain the Audit Findings that have been closed and the basis on which Ofgem reached that conclusion, while remaining proportionate and avoiding unnecessary duplication of the Action Plan and supporting evidence.

8.13 Closure of an Action Plan would relate specifically to the Audit Findings and Actions considered through the AHI process. It would not constitute confirmation of the licensee's wider compliance with its statutory or licence obligations.

Q23. Do you agree that quarterly reporting is appropriate for demonstrating delivery against approved Action Plans and what factors should Ofgem consider when determining whether more or less frequent reporting is required?
Q24. Do you agree with the proposed three-part closure test covering the immediate Audit Finding, associated risk and underlying deficiency? Are there other outcomes Ofgem should consider?
Q25. Do you agree with our proposed approach to issuing and publishing an Action Plan Close-out Letter?

9. Annual Report

This section provides details of AHI's proposed annual report, including considerations regarding publication.

9.1 We propose to publish an annual report summarising AHI's activity, the Audits undertaken and the principal findings and themes arising from Audits.[26] This would provide transparency about delivery against the published Audit programme and act as a mechanism to share learning from individual Audits to benefit the wider sector.

9.2 Licensees raised concerns about being named in external-facing reporting and the publication of sensitive information. We consider that identifying audited licensees would support accountability, while high-level summaries would provide visibility without publishing detailed auditor reports. In line with our statutory obligations, we would engage affected licensees and consider confidentiality, commercial sensitivity and security concerns in line with applicable publication requirements before publishing licensee-specific information.

9.3 The annual report would highlight notable practices, recurring trends and lessons relevant to other licensees. It is not intended to rank licensees or imply that findings from Audits with different scopes and ToR provide a like-for-like comparison of their asset management arrangements.

9.4 The proposed annual reporting arrangements, including report content, sector learning and the treatment of licensee-specific information, are set out in Section 6 of the draft Audit Methodology.

Q26. Do you consider that the proposed approach to annual reporting strikes an appropriate balance between regulatory transparency and the protection of confidential and sensitive information?

[26] 'Section 48 of the Electricity Act 1989 and Section 35 of the Gas Act 1986 permit the Authority to publish advice and information where it appears that publication would promote consumers' interests. Before deciding to publish advice or information relating to a particular individual or body, the Authority must consult that individual or body and have regard to the statutory safeguards concerning prejudicial disclosure. Ofgem will also comply with the applicable restrictions on disclosure under Section 105 of the Utilities Act 2000.

10. Conclusions and next steps

This section outlines the next steps following the closure of this policy consultation.

We will consider responses to this consultation and learning from pilot Audits completed before the statutory consultation is released when developing the final Methodology.

We intend to publish the final Audit Methodology alongside our statutory consultation on the proposed Asset Health Licence Conditions, currently planned for Q1 2027.

Send us your feedback

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this consultation. We would also like to get your answers to these questions:

- Do you have any comments about the quality of this document?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Or could it have been better written?
- Are its conclusions balanced?
- Did it make reasoned recommendations?
- Do you have any further comments?

Please send your feedback to stakeholders@ofgem.gov.uk.

Appendix 1: Consultation Questions

Q1. Do you agree that the proposed role and objectives of AHI address a need for additional regulatory assurance?

Q2. Do the proposed principles strike the right balance between strengthening regulatory assurance and preserving licensees' enduring responsibility for asset management?

Q3. Do you have suggestions for how Ofgem could best assess the additional value AHI delivers for consumers?

Q4. Do you agree that the proposed licence conditions, including their structure and location, set clear requirements which would enable Ofgem to obtain additional assurance over licensees' asset management arrangements while maintaining licensees' responsibility for managing their assets?

Q5. Do you agree with the AHI's proposed initial scope covering incumbent gas and electricity licensees?

Q6. What considerations should inform the future extension of the arrangements?

Q7. Are the proposed arrangements for coordinating with other Ofgem regulatory functions appropriate and are there other areas of interaction that should be considered?

Q8. Are the proposed arrangements for coordinating with other assurance and investigation functions including those of NESO and HSE appropriate and are there other areas of interaction that should be considered?

Q9. Do you agree that ISO 55001 is an appropriate standard for providing baseline assurance against the proposed Asset Health Licence Condition? Do you agree we should allow for Authority-approved equivalents?

Q10. Does the proposed asset-led, three pillar model provide an appropriate basis for assessing asset management arrangements in practice?

Q11. Is the proposed basis for assessment including the use of a licensees' own policies, relevant standards, Good Industry Practice and justification for material deviations, sufficiently clear and proportionate?

Q12. Do you agree with our position that each in-scope licensee should be audited at least once during each price control period, with additional Audits informed by risk and regulatory intelligence?

Q13. Do you agree with the proposed process for publishing an annual forward audit programme?

Q14. Do you agree the proposed approach to initiating Non-Routine Audits in response to incidents or emerging risks is sufficiently proportionate?

Q15. Do you agree with the proposed notice periods set out for Audits? Do you agree with our proposal that Audit planning and development of the Audit ToR should take place during this time period?

Q16. Are the proposed site access notification arrangements and acknowledgement timeframes for Routine and reactive Non-Routine Audits appropriate?

Q17. Is the proposed combination of documentary evidence, staff meetings and site inspections an appropriate evidence information base for producing robust Audit Findings?

Q18. Does the proposal for licensees to use their existing regulatory submissions, certification documentation and evidence of internal assurance, as the information base for Audit, address concerns regarding the potential for increased administrative burden?

Q19. Are the proposed arrangements for identifying and handling sensitive information sufficiently clear and are there any additional safeguards that may be required?

Q20. Does the proposed process for licensees' review of draft Audit Reports, including the 10 Working Day response period, provide sufficient opportunity for licensees to comment on factual inaccuracies?

Q21. Do you consider that the proposed requirements for preparing, obtaining the Authority's approval of, and implementing Action Plans are clear and proportionate? Do you consider the proposed 30 Working Day period for licensees to submit an Action Plan is appropriate and proportionate?

Q22. Do you agree with the plans to publish Audit Letters (including Audit Findings) and approved Action Plans, subject to applicable publication restrictions?

Q23. Do you agree that quarterly reporting is appropriate for demonstrating delivery against approved Action Plans and what factors should Ofgem consider when determining whether more or less frequent reporting is required?

Q24. Do you agree with the proposed three-part closure test covering the immediate Audit Finding, associated risk and underlying deficiency? Are there other outcomes Ofgem should consider?

Q25. Do you agree with our proposed approach to issuing and publishing an Action Plan Close-out Letter?

Q26. Do you consider that the proposed approach to annual reporting strikes an appropriate balance between regulatory transparency and the protection of confidential and sensitive information?

Appendix 2: Privacy policy

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer.

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk.

2. Why we are collecting your personal data.

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data.

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

4. With whom we will be sharing your personal data.

We will not share your personal data with any other organisation.

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for one year following the publication of the Decision associated with this consultation.

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services

- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
    - to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/ or telephone 0303 123 1113.

7. Your personal data will not be sent overseas.

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system.

10. More information For more information on how Ofgem processes your data, view our Ofgem privacy policy.