



Electricity and Gas Network  
Operators and Other Interested  
Parties

*Promoting choice and  
value to customers*

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Dear Colleague

### **Refocusing Ofgem's ARM 2002 Survey to BSI-PAS 55 Certification**

Further to Ofgem's Open Letter on Refocusing ARM activity<sup>1</sup>, a Stakeholder Seminar was held on the 26<sup>th</sup> October 2005 to discuss the feedback received and to inform attendees of Ofgem's preference for a way forward<sup>2</sup>. The main points of discussion were: the anticipated linkages between the assessment of asset management practices and price control review, the potential increase in workload by having to certify to BSI-PAS 55, the development of a robust scoring methodology and concerns about public reporting.

Assessing the rationale for asset management expenditure is an inextricable part of a price control review. BSI-PAS 55 certification can be envisaged as an enhancement to, but not replacement for, this aspect of the review process. Ofgem believes that BSI-PAS 55 certification will establish a greater clarity regarding the asset management policy and processes that underpin an organisation's investment decisions. An in-depth focused analysis will still be a requirement of a price control review, but it is anticipated that certification could make this a smoother process for both Network Companies and Ofgem.

One of the key considerations of Ofgem's refocusing has been to reduce the regulatory burden relative to the ARM 2002 Survey. Ofgem is advised, by BSI-PAS 55 practitioners, that certification is unlikely to necessitate the re-design of an organisation's management system or require the wholesale revision of an organisation's asset management documentation. Furthermore, auditors would not need to undertake duplicate audits where other ISO compliance standards and/or statutory frameworks cover aspects of the BSI-PAS 55 framework, e.g. in environment and safety areas.

Ofgem would welcome the development of a consistent scoring system as an appropriate means of highlighting good practice, supporting continual improvement, tracking those improvements over time, and providing evidence of a sound approach to asset stewardship that is in the long-term interests of customers. Ofgem is keen to see the industry develop such a scoring methodology. The high-level public reporting of certification on an Ofgem webpage (e.g. date of latest certification or surveillance audit and outcome) is viewed to be the most suitable and

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<sup>1</sup> Ofgem website, "170/05 - Refocusing Ofgem's Asset Risk Management (ARM) Activity" – this letter sought views on a revised approach to Ofgem's ARM activity, which recognised the publication of the BSI-PAS 55 asset management framework

<sup>2</sup> Ofgem website, "Presentations from Ofgem's Stakeholder Seminar on the 26th October 2005"

convenient means of conveying certification status to all stakeholders. Ofgem would wish to have visibility of the scores, but it would not be an Ofgem requirement for them to be made public.

Taking into account the comments made at the seminar, it remains Ofgem's preference not to re-run the bespoke ARM 2002 Survey. Instead, Ofgem wishes to encourage each Network Company to undertake BSI-PAS 55 certification on a voluntary basis. Ofgem is of the opinion that an asset management system can be self-assessed or assessed by an industry approved independent third party of appropriate knowledge and experience (typically an organisation recognised by UKAS). However, where self-assessment is undertaken, it is Ofgem's view that certification should be provided by an independent third party.

At this juncture, Ofgem perceives BSI-PAS 55 certification as a measure of adequacy and not a measure of excellence, i.e. certification would represent the minimum level of good practice necessary to demonstrate competence in asset management. Evidence gained from the ARM 2002 Survey indicates that attaining BSI-PAS 55 certification would not represent an excessive challenge in either cost or time for the companies.

Ofgem will welcome views on the merits of creating a Stakeholder Working Group to develop a commonly agreed scoring methodology and to act as a forum for further discussion. Ofgem recognises that such a working group could benefit from drawing on applied knowledge of BSI-PAS 55 certification from both outside and within the energy networks sector. To help this initiative get underway Ofgem would be pleased to co-ordinate nominations for leading a Stakeholder Working Group and for representation on it.

Ofgem intends to report on the certification status of each Company by April 2007. If a Company chooses not to certify to BSI-PAS 55 then Ofgem would propose to undertake its own assessment of that Company's asset management practices using a framework based on the ARM 2002 survey modified to reflect BSI-PAS 55 principles and publish the results accordingly.

Ofgem will welcome comments from the Energy Network Operators and other interested parties on its proposal to move away from the ARM 2002 Survey approach to BSI-PAS 55 Certification and on the formation of a Stakeholder Working Group. This letter is not intended to be exhaustive and should not constrain the scope of any comments that the respondent wishes to make. All responses should be submitted in writing or electronically to arrive at the following address by **16<sup>th</sup> January 2006**. Please make it clear if you wish your comments to be held in confidence.

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If you have any questions about the contents of this letter please do not hesitate to get in touch with me.

Yours sincerely

A handwritten signature in black ink that reads "John Scott". The signature is written in a cursive style with a horizontal line underneath the name.

**JOHN SCOTT**  
Technical Director