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Application for Permission to Intervene in Energy Licence Modification Appeal 2026

For the attention of the CMA Panel

Summary of Intervention Notice

Introduction

1. Citizens Advice wishes to intervene, to oppose this appeal, as part of its statutory role to represent domestic and small business energy consumers in Great Britain.

2. Estimating productivity is challenging. However, it is likely that economy and sector wide productivity estimates based on non-regulated companies situated within competitive markets will be too low for regulated network companies - counter to company claims.

3. Regulated network companies should be expected to out-perform competitive benchmarks. Unlike competitive companies who innovate at their own expense and take on all risk, network companies have innovation funded by consumers and these guaranteed revenue streams de-risk innovation. This provides a more enabling environment to drive productivity increases.

4. Further, a regulated sector allows each network company's progress to be shared across all over network companies, despite each being individually funded to innovate. This means regulated network companies receive a

'multiplier effect' from their innovation spending, and means their productivity increases should by default outperform the competitive sector.

5. AI has the potential to accelerate productivity increases across network companies, which may not be captured in external productivity estimates. Real world evidence from industry pilots suggests that AI interventions within network companies specifically can drive field productivity improvements of 20-30%. An ongoing efficiency target of 1% is therefore insufficient.

6. Cadent's claim that productivity assumptions could lead to overspending and erode investor returns are not supported by the evidence. Firstly, companies have not offered any evidence that actual expenditure is expected to exceed allowances. Secondly, the evidence suggests that baseline returns are set too high.

7. Real-world energy network transactions show significant premiums being paid. For instance, Engie will acquire UKPN at a market-to-asset ratio (MAR) of 1.5, and Iberdrola acquired an 88% stake in ENWL at a MAR of 1.6. Such premiums cannot be explained other than higher than required returns or expected significant out-performance.

8. Further, Ofgem has erred when setting its allowed return of equity which leads to it being over-estimated. Ofgem makes a change from their established equity beta methodology, against the CMA's decision at RIIO-2 appeals, without sufficient evidence. They further err in how they apply this decision, by relying on out-dated (higher) asset beta data, despite publishing updated data. This leads to an over-estimation of the allowed return on equity.

9. These factors mean the allowed return on equity is too high. This effectively gives 'headroom' before investors would be unable to make the base rate of return, if evidence can be provided that companies are likely to overspend, let alone the rate of return required by investors.

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Citizens Advice request to intervene

10. This is an Application to Intervene by Citizens Advice. We make this request to intervene in this appeal as an interested third party in accordance with the provisions of the Acts and the Energy Licence Modification Appeals Rules and Guide. Citizens Advice opposes this appeal.

11. The application is necessarily based on publicly available information only. We have not had access to any appeal documents other than those available through the CMA website. Our analysis is also limited to data published.

Material interest

12. We are the statutory consumer voice for energy in Great Britain, and the consumers that we represent have an interest in this appeal as they may be materially affected by this decision given the additional amounts consumers will pay if the Appellants are successful. We also have a material interest in the outcome of the appeal as a party that has capacity to appeal the Energy Licence Modification in its own right under the Electricity Act 1989. [1]

Unique perspective

13. Citizens Advice provides a unique perspective that will assist the CMA in the determination of this appeal. As the statutory consumer advocate for energy, Citizens Advice have been heavily engaged in the RIIO process and so can provide informed insight. We intervened previously in the 2023 RIIO-ED2 appeals process[2], and the 2021 RIIO-GD2 and T2 appeals process.[3] As in RIIO-2, we have again represented the interests of consumers at each stage of the RIIO-3 price control process.[4] We have engaged closely with Ofgem throughout.

Proportionate approach

14. Our evidence is regarding the common ground across Appellants on on-going efficiency. We recognise that productivity estimates are highly sensitive to productivity metrics, comparator sectors, time periods, and growth rates. As such, we are not providing evidence on productivity estimate methodology, but

[1] Electricity Act 1989, 11C
[2] Citizens Advice, Application to intervene in the CMA Energy Licence Modification Appeal 2023 (ED2), April 2023.
[3] Citizens Advice, Application for Permission to Intervene in Energy Licence Modification Appeals 2021, April 2021
[4] Citizens Advice, Response to RIIO-3 Draft Determinations, August 2025

rather on whether the ongoing efficiency target adequately reflects the productivity potential of GDNs, within the regulatory context.

Further engagement

15. We request access to the following information that we have not been able to review. We request permission to make a later submission (as per Rule 10.4) to the CMA Panel if we wish to make further comments following our review of these documents.
    a. Witness statements and supporting documents provided to the CMA Panel by the Appellants.
    b. Witness statements and supporting documents provided to the CMA Panel by the Gas and Electricity Markets Authority (Ofgem) or Ofgem.
    c. Any witness statements and supporting documents provided to the CMA Panel by other parties.

16. We wish to attend any hearings and would be happy to make oral representations.

Appeal ground: ongoing efficiency

17. We provide evidence to rebut the common sub-grounds across Appellants that Ofgem erred in:
    a. Its methodological choices when setting an ongoing-efficiency parameter of 1%,
    b. Setting an ongoing efficiency target that is inconsistent with UK evidence,
    c. Relying on qualitative factors in support of its ongoing-efficiency figure; and,
    d. Assuming that regulated network companies can out-perform UK economy productivity.

18. We further provide evidence to rebut that Ofgem's decision infringes on its Finance Duty, that is, to have regard to the need to secure that licence holders are able to finance the activities which are the subject of obligations imposed by or under the legislation cited.

Methodological choices and inconsistencies with economy-wide productivity

19. The companies maintain that Ofgem erred in its methodological choices and benchmarking against UK productivity. However, challenges with measuring productivity are widely recognised within the field. Results are highly sensitive to productivity metrics, comparator sectors, time periods, and growth rates. The claims that Ofgem has made methodological errors when estimating productivity or has selected a target that is inconsistent with UK estimates, should be viewed within the context of the companies' commercial incentive to reduce their ongoing efficiency target by preferring parameters that arrive at the lowest plausible estimate of productivity.

20. The sensitivity of productivity estimates is demonstrated by the initial wide range of between -1% and 4.2% produced by Grant Thornton in Ofgem's first commissioned independent report on ongoing efficiency.[5] Ofgem's estimate sits within a plausible wide range of highly sensitive and uncertain evidence, and is therefore not inconsistent with UK productivity estimates. Given there is no single 'correct' methodology for estimating a productivity benchmark for network companies, and the cost of setting an ongoing efficiency target that is too low will be significant for consumers, there must be a high bar for determining that Ofgem has erred in its adopted range.

[5] Grant Thornton, Independent Report on Ongoing Efficiency, July 2025

The use of qualitative factors in support of the ongoing-efficiency figure

21. The uncertainty within the productivity evidence makes it vital that these estimates are balanced with the real-world context of the regulated monopoly network sector. Ofgem is therefore not wrong in using qualitative evidence to supplement quantitative estimates.
22. Firstly, the productivity evidence relies on selecting comparator sectors, with the results highly sensitive to which sectors are included. Qualitative evidence is therefore required as external benchmarks are not a perfect comparison for UK regulated energy network companies.
23. Secondly, even where the most relevant sectors are selected, the majority of companies within those sectors will be situated within non-regulated, competitive markets. It is not reasonable to think that productivity potential will be equivalent across regulated monopoly and unregulated competitive sectors. Therefore an element of qualitative assessment is necessary.

Regulated network companies can out-perform UK economy productivity

24. In addition to driving business-as-usual innovation[6] regulated network companies are *funded* by consumers to innovate and increase productivity through the Network Innovation Allowance and the Strategic Innovation Fund. It is not reasonable for network companies to be provided funding for innovation, whilst at the same time not being expected to deliver above-market average efficiencies. By setting an ongoing efficiency target that is too low, consumers are paying for innovation spending that does not benefit them.

25. Competitive companies innovate at their own expense. GDN's guaranteed revenue stream and consumer-funded R&D de-risks network company innovation. It allows them to take greater risk in innovative projects with the potential to exponentially increase productivity, with consumers picking up the bill for any failures. This enabling environment *should* allow network companies to out-perform non-regulated sectors.

26. Further, regulated network companies are likely to out-perform the productivity of competitive companies since every network company within a regulated sector can benefit from a single company's productivity initiative. This is due to mechanisms to share best practice that cannot exist in a competitive market. For

[6] For example: NGN, RIIO-GD3 Business Plan 2026-2031, p.27

example, GDN's were formerly part of the Energy Network Association, whose mission is 'to facilitate collaboration across our sector, share best practices…' [7]. GDN's new representative body, Future Energy Network, has an innovation portal which is a centralised hub that 'promotes the sharing of innovation and collaboration'[8]. Indeed, NGN's business plan confirms this:

'*We will also* ***enhance our engagement with other energy network companies****, stakeholders, innovators and partners. We will do this by developing an* ***Innovation Ecosystem****, in partnership with the Energy Innovation Centre (EIC). This will foster a culture of* ***genuine collaboration and continuous improvement****, and provide access to a wider range of resources, funding and expertise.*'[9]

27. As a result, whilst each network company receives individual funding for innovation, learnings *should* be shared and replicated across network companies. This means consumers should be receiving a multiplier effect on cost-savings from the innovation they fund. The collaborative nature of the regulated sector means network companies' expected efficiency improvements *must* sit above competitive benchmarks. Consumers cannot be expected to fund inefficiencies because of failures in collaboration across network companies.

28. Some Appellants have argued that their business plan costs already reflect innovation benefits. However, due to the significant information asymmetry between the network companies and Ofgem there is simply no way to verify this. Further, business plan costs can only capture cost-efficiencies from *past* innovation. Future cost efficiencies, whether driven by innovation or BAU, are explicitly excluded from cost-estimates as per Ofgem's guidance. Rather, network companies commission external agencies to produce an ongoing efficiency target estimate, and apply this to their business plan costs. These external estimates are highly sensitive to parameters which could be chosen to arrive at lower estimates for productivity. They are not estimated 'bottom-up' from the cost-efficiencies network innovation projects are *actually* likely to deliver.

29. Ultimately, network companies have an incentive to under-estimate cost efficiencies and maximise allowances. We suggest the CMA requests that the companies provide their 'bottom-up' assessment of future cost-efficiencies.

[7] ENA, About ENA - our mission, 2026
[8] FEN, Innovation Portal, 2026
[9] NGN, RIIO-GD3 Business Plan 2026-2031, p.29

30. The evidence that is available suggests that exogenous efficiency estimates could under-state expected productivity increases. For instance, WWU argues that GDN's physical infrastructure offers less scope for AI-driven productivity than information-intensive sectors such as financial services. However, that GDN's have historically been information-light is evidence they have *more* to gain from AI than financial services which have already embedded AI-driven efficiencies. This gives weight to the argument that GDN's are in a position to out-perform other sectors.

31. Further, evidence suggests AI-driven productivity advancements are highly adoptable by GDNs. The emergence of AI in utility operations represents a structural shift in the cost of delivery, which is likely to *accelerate* efficiency gains. Evidence from a major industry pilot demonstrates that the transition to AI-enabled, risk-based scheduling and predictive maintenance yields significant productivity gains. McKinsey ran a pilot which found that smart-scheduling through the use of AI improved field productivity and reduced waste by 20-30%.[10] Another of McKinsey's projects found that generative scheduling across infrastructure, energy and data centres reported schedule accelerations of up to 20% and significant cost savings.[11] Further, BCG found that the use of 'digital twins', which some GDNs are involved in the development of, can improve capital productivity by 15%.[12]

32. The ongoing efficiency target of 1%, and the network companies' proposal of a 0.5% ongoing efficiency target, considerably under-estimates these expected productivity increases. Since the sharing of any additional under-spend beyond the 1% target means consumers pay more than the costs of the outputs they receive, consumers will not be passed on the full cost savings from the expected leap-frog productivity gains.

33. Further, whilst some Appellants have argued that the impact of AI on productivity may be captured within the external productivity estimates, how AI will impact the whole economy, or specific sectors, is likely to be uncertain and unevenly distributed. The evidence above and the focus on AI within business plans suggests the benefits accruing to network companies may be above the average impact on the economy.

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[10] McKinsey, Smart scheduling for utilities: A fast solution for today's priorities, January 2023
[11] McKinsey, McKinsey and ALICE Technologies collaborate to transform capital project delivery with generative scheduling, April 2026.
[12] BCG, The AI-First Power and Utility Company: Defining the Industry's Future, March 2026

34. The network companies' argument that the 1% ongoing efficiency target is challenging is at odds with their own narratives around their cost-saving measures. For instance:
    a. Gas network companies annual innovation report highlights data and digitalisation projects which focus on 'building digital tools and advanced modelling techniques to support *more efficient operations and planning.*'
    b. Cadent's Digital Platform for Leakage Analytics (DPLA) is expected to bring about a financial benefit of £2.86 billion by 2050,[13]and their digital inspector 'significantly reduces manual tasks currently being undertaken on site and in the office'[14]
    c. SGN's Intelligent Gas Grid (IGG) project 'holds promise for enhancing the *efficiency*, sustainability, and reliability of the UK gas network'.[15] and their Predictive Safety Intervention (PSI) is an AI-driven safety initiative that 'boosts operational efficiency'[16]
    d. NGN's Vorte Heating Solution leads to a 'significant reduction in operational costs'[17], the benefits of which they say *can* be passed on to consumers.
    e. WWU is participating in the Powering Wales Renewably project which will create a digital twin of Wales' entire energy system. This is expected to bring about cost savings from increased network coordination, and better visibility of network requirements and capacity. [18]

35. These projects all allude to future, potential and expected efficiency improvements. Since network companies have not attempted to quantify these, and indeed the exact productivity improvements are uncertain, it is not reasonable to assume they are all captured within the ongoing efficiency targets proposed by the network companies.

36. Further, the above is a selection of measures that network companies have chosen to publicise. It is likely that AI and digitalisation is increasingly being embedded in network companies business as usual, meaning reporting of SIF-funded projects may under-estimate the level of efficiency-enhancing

[13] Cadent, Annual Innovation Summary 2023/24, p.18
[14] Cadent, Annual Innovation Summary 2023/24, p.20
[15] SGN, Innovation Annual Summary 2024/25, p.41
[16] SGN, Innovation Annual Summary 2024/25, p.43
[17] NGN, Annual Innovation Summary 2023/24, p.11
[18] FEN, Gas network companies Annual Innovation Report 2024/25, p.31 (appended to ENA's Annual Innovation Summary Report 2025).

innovation. For instance, SGN[19], WWU[20] and Cadent[21] all offer 'auto-quote' tools for disconnections and other services. The efficiency gains from quote automation reduce administrative costs and operational waste on field visits by assimilating the relevant information, cutting search and discovery time and reducing the risk of failed site visits. Since GDN's typically charge assessment and design fees, despite the work being automated, consumers are effectively double paying if the ongoing efficiency target is too low.

Financial impacts

37. Cadent argues that the impact of Ofgem's alleged mistakes is 'to increase the extent to which Cadent will overspend its allowances and its investors will not be able to earn the base rate of return'.[22] Further, Appellants have claimed that Ofgem failed its duty to have regard to the need to secure that licence holders are able to finance their licensed activities.

38. Firstly, from a consumer perspective, underfunding should simply be where funding is below expenditure[23]. We note that Cadent does not present evidence that it will spend in excess of their total expenditure (totex) allowance or that it will be unable to complete the necessary work. We do not believe that there is any reason to believe that Cadent will spend more than their totex allowances and so be underfunded.

39. Further, even if network companies fail to achieve their ongoing efficiency target, the real-world evidence is that investors would still be highly likely to earn generous returns. There is a long-list of network companies being acquired at a significant premium. Recent examples include the announcement that Engie will acquire UK Power network companies at a Market-to-Asset premium of 50%. In August 2024, Iberdrola acquired an 88% stake in Electricity North West (ENWL) at a premium of 60%. Ofgem themselves recognise that 'it is difficult to accept that large MAR premiums can be justified by assumptions other than higher than required returns or lengthy and consistent expected outperformance',[24].

[19] SGN, check current costs and leadtimes, 2026
[20] WWU, new supply application, 2026
[21] Cadent, Apply for a Service Pipe Disconnection, 2026
[22] Cadent, NOTICE OF APPEAL ENERGY LICENCE MODIFICATION RIIO-GD3 PRICE CONTROL, March 2026, p. 28
[23] Including cost of capital
[24] Ofgem, RIIO-3 Draft Determinations - Finance Annex, July 2025, p.64.

40. Also, we believe Ofgem has made two errors when setting the allowed return on equity. Firstly, Ofgem introduces European comparators into the equity beta estimation. This is despite having strongly argued against their inclusion in RIIO-2 appeals, on the grounds there were 'inherent difficulties'[25] due to differences in multiple types of risk between the UK and European jurisdictions e.g. political, regulatory and macro risks.

41. Secondly, Ofgem, when selecting which European comparators to include, disregarded the Portuguese company REN for having an abnormally low equity beta, whilst keeping in the Italian companies with abnormally high equity betas. Ofgem does not provide justification for this selection.

42. Ofgem also makes a mistake when implementing their comparator decision. At Draft Determinations, Ofgem describes the asset beta as 'the approximate mid-point of our range of 10-year betas'[26]. At Final Determinations however, whilst stating '[w]e have decided to retain our Draft Determinations position',[27] Ofgem decides upon an asset beta that is well above the mid-point of the range, at around the 70th percentile. This is because whilst Ofgem published updated asset beta data at Final Determinations, it used the old mid-point from *Draft Determinations*. By Final Determinations, the asset betas had lowered, which resulted in the allowed return on equity derived from the Draft Determinations data being over-estimated.

43. Further details can be found on these issues in our response[28] to Ofgem's Statutory Consultation on the RIIO-3 Licence Drafting modifications.

44. These factors mean the allowed return on equity is too high. This effectively gives 'headroom' before investors would be unable to make the base rate of return, if evidence can be provided that companies are likely to overspend, let alone the rate of return required by investors.

[25] Ofgem, RIIO-2 PRICE CONTROL: RESPONSE TO APPEALS ON FINANCE ISSUES AND TNUOS, April 2021, p.43
[26] Ofgem, Draft Determinations - Finance Annex, July 2025, p.57.
[27] Ofgem, Final Determination - Finance Annex, December 2025, p.55.
[28] Citizens Advice, Citizens Advice response to Ofgem's Statutory Consultation on the RIIO-3 Licence Drafting modifications, January 2026

STATEMENT OF TRUTH

The Intervenor believes that the facts stated in this Application to Intervene are true

Signature of Authorised Representative

Andy Manning

Andy Manning

Date: 23/4/2026

Andy Manning, Head of Energy System Transformation, for and on behalf of Citizens Advice