



16 January 2025

Citizens Advice response to Statutory Consultation on the RIIO-3 Licence Drafting modifications

We believe these licence conditions do not accurately reflect the consultation position in Draft Determinations or the decision in Final Determinations with regards to how equity beta, derived from the asset beta, is set through the Price Control Financial Models (PCFMs). The Draft Determinations state that the asset beta coefficient is *'...the approximate mid-point of our range of 10-year betas...'*¹ and Final Determinations state *'[w]e have decided to retain our Draft Determinations position'*². However, the asset beta coefficient proposed is around the 70th percentile of the range of the 10-year betas published at Final Determinations, and so does not accurately reflect the Draft Determinations position, confirmed as being retained at Final Determinations, of being the approximate mid-point.

The PCFMs underpin the licence conditions which implement the RIIO-3 price control settlements. Citizens Advice believes there to be an error within the PCFMs, specifically in relation to the equity beta within the allowed return on equity formula. The equity beta for Electricity Transmission is listed as 0.74 and the equity beta for Gas Transmission and Distribution is listed as 0.83. We believe these values to be based on an error in the underlying proposed asset beta. We have raised our concerns about this apparent methodological error with Ofgem and welcome the engagement with the Ofgem team to date.

At Draft Determinations, Ofgem published asset betas for its chosen 8 comparator companies with 10-year data available. Ofgem proposed to set the asset beta coefficient

¹ Ofgem, [RIIO-3 Draft Determinations - Finance Annex](#), July 2025, p.57

² Ofgem, [RIIO-3 Final Determinations - Finance Annex](#), December 2025, p.54

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to a value of 0.375, which they stated '*is the approximate mid-point of our range of 10-year betas*³. This is the mid-point of Ofgem's range of 0.3 to 0.45.

The Draft Determinations clearly imply that the approximate mid-point of the range of 10-year asset beta data is the *methodology* proposed for calculating the asset beta. However, despite stating that the Draft Determinations decision had been retained, at Final Determinations this methodology is not followed. Despite publishing updated asset beta data at Final Determinations, the Draft Determination mid-point of 0.375, which is not supported by the updated observed data, is used. We further note that the Sector Specific Methodology Decision used a range of 0.3 to 0.4⁴. This was subsequently updated for Draft Determinations so it is also clear that the methodology is to update the range for the latest data.

The range of the 10-year observed asset betas at Final Determinations is 0.31 to 0.42. The mid-point of this data is 0.365. An asset beta of 0.375 is not supported by the mid-point, nor the mean average (0.358), nor the median (0.35) of the observed asset beta data. In fact, an asset beta of 0.375 sits at around the 70th percentile of the observed asset beta range. This represents a significant upward skew in the asset beta at Final Determinations.

We believe following the methodology set out at Draft Determinations, and confirmed at Final Determinations, does not result in the value proposed for the asset beta, and so this value is an error. To derive this value would require a methodological change between Draft Determinations and Final Determinations, but no mention is made of this and no reasoning provided. This would change the methodology for calculating the asset beta from a data-driven exercise, defining the asset beta as the mid-point of the observed asset beta data range, to an arbitrary one, defining the asset beta as a fixed-value carried over from out of date data. If this is the case, Ofgem has provided no reasoned justification for doing so in the context of available updated data. No other financial variable within the price control relies on past data where current data is available.

Setting the asset beta close to the 70th percentile of the observations, rather than the 50th percentile (median) or mid-point, represents significant aiming-up within the cost of equity calculation and therefore a significant relaxing of the price control. Ofgem has a duty to be upfront about such a decision, yet has failed to do so. It is our view that this error must be corrected before RII03 licence modifications can be made.

³ Ofgem, [RIIO-3 Draft Determinations - Finance Annex](#), July 2025, p.57

⁴ Ofgem, [RIIO-3 Sector Specific Methodology Decision](#), July 2024, p.98

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