

# Guidance

ET2 PCFM Guidance			
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This document provides instructions and guidance to licensed network operators to enable them to complete the reporting requirements associated with updating various variable values and performance data in the Price Control Financial Model (PCFM) during the Annual Iteration Process (AIP).

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## 1. Introduction

### Background

1.1. The PCFM Guidance provides network operators (licensees) with information on how to fill out the PCFM Variable Values and any underlying templates that feed into them, which they are required to submit to us for each Annual Iteration Process (AIP).

1.2. It also sets out the required information that should be submitted to Ofgem in the supporting narrative commentary.

1.3. This document should be read in conjunction with chapter 2 of the ET2 Price Control Financial Handbook, which contains a detailed description of the PCFM modification process and the AIP dry run process. Additionally, this document should be read in conjunction with Appendix 1 ('Glossary') of the ET2 Price Control Financial Handbook.

### Legal Framework

1.4. The modification and governance process for the Price Control Financial Model (PCFM) and Price Control Financial Handbook (PCFH), collectively known as the Price Control Financial Instruments, is set out in Special Condition 8.1 (*Governance of the ET2 Price Control Financial Instruments*).

1.5. The modification and governance process for the PCFM Guidance and the steps of the Annual Iteration Process are set out in Special Condition 8.2 (*Annual Iteration Process for the ET2 Price Control Financial Model*).

### Purpose

1.6. The purpose of this document is to provide guidance to enable the licensee to complete each dry run of an AIP that is submitted to Ofgem. As described in ET2 Price Control Financial Handbook, the dry runs process entails amending and confirming values for each Regulatory

Year over a number of months, from 31 July<sup>1</sup> to early November, on an iterative basis to account for updates to the Variable Values as they become known.

1.7. This document provides:

- instructions and guidance on how to populate the PCFM Variable Values for submission for an Annual Iteration Process;
- guidance on the process and timeframe for reporting and submitting the required data; and
- any requirements that apply to supporting information, documentation or commentary to be submitted.

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<sup>1</sup> For the first submission of RIIO-2, this date has been moved to 31 August 2021.

## 2. The Price Control Financial Model

### Background

2.1. We set ex-ante allowed revenues for each licensee at the outset of the RIIO-2 price control based on the information available at the time.

2.2. Throughout the price control, we use the AIP to update the variable values in the PCFM by updating inputs for actual expenditure and performance as well as updating forecasts for the latest view.

2.3. The revenue calculation macro in the model is then re-run to capture this new information and to calculate an adjustment to allowed revenue ( $AR_t$ ) using the latest information.

2.4. This model and the re-calculated value of  $AR_t$  as well as the adjustment to revenue known as  $ADJR_t$  is published on Ofgem's website by 30 November each year and is the value that licensees must use to set their charges for the forthcoming Regulatory Year under Special Condition 2.1 (*Revenue restriction*).

### Model structure

2.5. The table below sets out the structure and contents of the sheets in the PCFM:

Sheet	Contents
Cover	Content directory and Model key
UserInterface	<p>This sheet contains company and year selector switch allowing the user to switch between companies and Regulatory Years.</p> <p>It also includes the "RunForOne" and "RunForAll" macro buttons, enabling the user to perform the model's recalculation function for either just the selected licensee or all licensees.</p>

Input	<p>The Input tab is the starting point for all calculations in the PCFM and contains all the inputs necessary to calculate all the components of AR<sub>t</sub>.</p> <p>The Input tab pulls from the eight identically structured company-specific input tabs at the end of the model, using a choose function, depending on which company is selected.</p>
Calculation sheets: Totex TIM Depn Return&RAV TaxPools Finance&Tax NonCore ReturnAdj Revenue AR	<p>The calculation sheets are purple sheets and will be auto-populated by the model when the inputs are updated for each AIP. The calculations within the majority of these sheets follow the algebra set out in the special licence conditions for the TO.</p>
Results sheets	<p>The "LiveResults" sheet shows a live summary of the changes to the components of AR<sub>t</sub>, following any input updates. The values in this sheet update automatically following any changes to inputs to the year or company selector switch. This sheet shows results for the selected company.</p> <p>The "SavedResults" sheet hard-codes the values in the "LiveResults" sheet for comparison and record-keeping purposes, after the RunForOne or RunForAll macro has been run in the "UserInterface" sheet. This sheet shows the summary of results for all companies.</p>
Monthly Inflation input sheet Annual Inflation input sheet	<p>The "Monthly Inflation" sheet shows the values for monthly outturn and forecast price indices relating to the Retail Price Index (RPI), Consumer Price Inflation including owner-occupiers' housing costs (CPIH) and Price index (PI), as defined in chapter 2 of PCFH.</p> <p>The "Annual Inflation" sheet shows the derivation of annual indices and inflation rates by aggregating the data in the "Monthly Inflation" sheet.</p>

	The inflation rates in the “Annual Inflation” sheet are used to derive “real to nominal” conversion factors used throughout the PCFM in relation to 2018/19 price base.
SHET SPTL NGET	The blue and grey shaded inputs, also known as the PCFM Variable Values, in each company-specific input sheet are the inputs which should be updated as part of an AIP. These are the values that this guidance document pertains to, unless otherwise specified.

## Supporting models

2.6. As well as the PCFM itself, licensees must submit a number of other templates and files, the values from which will feed into the PCFM Variable Values table. These include but are not limited to:

- Cost and Volumes Regulatory Reporting Pack<sup>2</sup>
- ET2 Revenue workbook<sup>3</sup>
- Tax workbook<sup>4</sup>
- Legacy ET1 PCFM
- ET1 Revenue RRP (for LAR values)

## Reporting timescales

2.7. The licensee must submit the PCFM, the required supporting models and commentary to the Authority by 31 August 2021 and by 31 July prior to each Regulatory Year *t*, thereafter<sup>5</sup>.

<sup>2</sup> Applicable to future Regulatory Years only (regulatory period starting 2021/22).

<sup>3</sup> The ET2 Revenue workbook is to be submitted for the submission due on 31 August 2021, only. In future periods, the calculations in this workbook will be moved into the Cost and Volume RRP.

<sup>4</sup> Applicable to future Regulatory Years only (regulatory period starting 2021/22).

<sup>5</sup> See the PCFM functional cut-off dates set out in Table 2.1 of the ET2 PCFH.



2.8. Ofgem will maintain up-to-date copies of and make any required modifications to the PCFM and its supporting models, the PCFH and the PCFM Guidance on an annual basis in accordance with the relevant governance processes set out in Special Conditions 8.1 and 8.2.

2.9. To allow licensees sufficient time to populate a PCFM for submission, modifications will be reflected in the version of the PCFM to be used for an upcoming AIP by 1 June 2021 and 1 May prior to each Regulatory Year, thereafter.<sup>5</sup>

2.10. There will be one or more dry runs of the PCFM between the licensee's initial submission of the PCFM and the final run in early November. The number of dry runs needed will depend on the number and timing of variable value updates required for the licensee in any particular Regulatory Year.

2.11. The AIP will be completed by 30 November prior to each Regulatory Year  $t$ , or as soon as is reasonably practicable thereafter. The deadline of 30 November reflects the need for the licensee to have confirmation of its Allowed Revenue in time to calculate and set its use of system charges.

2.12. The steps of the AIP are specified in Special Condition 8.2, Part A and the process is further described in the ET2 PCFH.

## Submissions

2.13. By 31 August 2021 and by 31 July prior to each Regulatory Year  $t$  thereafter<sup>6</sup>, the licensee must submit to the Authority the ET2 PCFM, with a completed variable values table (covering activity in the prior Regulatory Year and changes to forecast activity<sup>7</sup>), which has been run to calculate  $AR_t$ .<sup>8</sup>

2.14. As well as this, the licensee must submit the relevant supporting models used to derive the variable values and any relevant commentary. For the first submission due on 31 August

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<sup>6</sup> See the PCFM functional cut-off dates set out in Table 2.1 of the ET2 PCFH.

<sup>7</sup> Variable values for Regulatory Years later than Regulatory Year  $t$  do not feed into the calculation of the term  $AR_t$ . Therefore, calculated values in the PCFM for Regulatory Years later than Regulatory Year  $t$  represent only a forecast. This is without prejudice to the status of the variable values concerned, which may have been decided and/or directed under licence conditions and which may or may not be subject to subsequent revision.

<sup>8</sup> For the first year of submission the licensee must submit this to the Authority by 31<sup>st</sup> August.

2021, the variable values in the “PCFM inputs summary” sheet of the ET2 Revenue workbook should be linked to the company-specific input sheets of the ET2 PCFM.

2.15. All of the documents submitted as part of a dry run of the AIP must be sent to the Authority either through email or a secure file-sharing application such as Huddle.

## Forecasting

2.16. The AIP allows for PCFM Variable Values to be updated during the course of the price control for outturn actual data as well as forecast data.

2.17. Where a PCFM Variable Value is not known at the time of submission, we expect the licensee to forecast a value using its best estimate under Special Condition 8.2.

2.18. It is acknowledged that forecasts will not be as accurate as actual reported data and that all forecasts will be made with a view to truing-up at a subsequent dry run or AIP, however we expect that the inclusion of forecasts will reduce the magnitude of any subsequent true-ups and reduce revenue volatility.

## Price base

2.19. As described in chapter 2 of the ET2 PCFH, when ascertaining calculated revenue, the ET2 PCFM works in a constant 2018/19 price base except in respect of some calculations internal to the model that use nominal prices, eg, tax and legacy calculations.

2.20. The price base for each PCFM Variable Value is set out in the PCFM input sheets, for the avoidance of doubt.

## Related documents

ET2 Price Control Financial Handbook

ET2 Price Control Financial Model

ET2 Regulatory Instructions and Guidance (RIGs)

ET2 Regulatory Financial Performance Reporting

Other relevant Associated Documents as listed in **Table 3.1**

### **3. The ET2 Price Control Financial Model Variable Values**

3.1. The variable values that can be revised during an AIP are set out in Table 3.1 below, and are also included as part of the PCFH.

3.2. For each variable value, the table provides a description, cross-references to the relevant Special Condition(s) (where appropriate), and details of Associated Documents (where relevant). It identifies a list of variable values in PCFM for which further guidance is provided either in this document or the Regulatory Instructions and Guidance (RIGs) as applicable.

**Table 3.1 - RIIIO-ET2 variable values (VV)**

VV	Description	SpC	Cross-reference / Associated Document
<b>Variant Totex Allowances – Price Control Deliverables</b>			
EPI <sub>t</sub>	Visual Impact Mitigation Price Control Deliverable and Enhancing Pre-existing Infrastructure Projects allowance	SpC 3.10	PCFM Guidance, PCD Reporting Requirements and Methodology Document
LOTIA <sub>t</sub>	Large Onshore Transmission Investment Re-opener Project 1 - Hinckley Sea Bank	SpC 3.13	PCFM Guidance, LOTI Guidance and Submissions Requirement Document
WW <sub>t</sub>	Wider Works Price Control Deliverable	SpC 3.9	PCFM Guidance
PSUP <sub>t</sub>	Physical Security Price Control Deliverable	SpC 3.4	PCFM Guidance, PCD Reporting Requirements and Methodology Document
CROT <sub>t</sub>	Cyber resilience OT Price Control Deliverable	SpC 3.2	PCFM Guidance, PCD Reporting Requirements and Methodology Document
CRIT <sub>t</sub>	Cyber resilience IT Price Control Deliverable	SpC 3.3	PCFM Guidance, PCD Reporting Requirements and Methodology Document
NARM <sub>t</sub>	Baseline Network Risk Output	SpC 3.1	PCFM Guidance, Network Asset Risk Workbook, NARM Handbook
GRI <sub>t</sub>	Generation Related Infrastructure Price Control Deliverable (NGET only)	SpC 3.20	PCFM Guidance, PCD Reporting Requirements and Methodology Document

VV	Description	SpC	Cross-reference / Associated Document
RO <sub>t</sub>	Resilience and Operability Price Control Deliverable (SHET and SPTL only)	SpC 3.18	PCFM Guidance, PCD Reporting Requirements and Methodology Document
OTC <sub>t</sub>	Operational Transport Carbon Reduction Price Control Deliverable (NGET only)	SpC 3.21	PCFM Guidance
SS <sub>t</sub>	Shared Schemes Price Control Deliverable (SHET and SPTL only)	SpC 3.17	PCFM Guidance, PCD Reporting Requirements and Methodology Document
EER <sub>t</sub>	Enhanced Environmental Requirements use it or lose it allowance (SPTL only)	SpC 3.19	PCFM Guidance
SF6 <sub>t</sub>	SF6 asset intervention Price Control Deliverable (NGET only)	SpC 3.27	PCFM Guidance
SAS <sub>t</sub>	Substation Auxiliary Systems use it or lose it allowance (NGET only)	SpC 3.26	PCFM Guidance
InT <sub>t</sub>	Instrument Transformer Price Control Deliverable (NGET only)	SpC 3.22	PCFM Guidance
BA <sub>t</sub>	Bay Assets Price Control Deliverable (NGET only)	SpC 3.23	PCFM Guidance
PC <sub>t</sub>	Protection and Control Price Control Deliverable (NGET only)	SpC 3.24	PCFM Guidance
OC <sub>t</sub>	Overhead Line Conductor Price Control Deliverable (NGET only)	SpC 3.25	PCFM Guidance
PCF <sub>t</sub>	Pre-Construction Funding Price Control Deliverable	SpC 3.15	PCFM Guidance, PCD Reporting Requirements and Methodology Document
RDF <sub>t</sub>	Net Zero And Re-opener Development Fund use it or lose it allowance	SpC 3.5	PCFM Guidance

VV	Description	SpC	Cross-reference / Associated Document
<b>Variant Totex Allowances – UMs</b>			
VIMRE <sub>t</sub>	Visual Impact Mitigation Re-opener and Enhancing Pre-existing Infrastructure Projects allowance	SpC 3.10	PCFM Guidance, Re-opener Guidance and Application Requirements
LOTIRE <sub>t</sub>	Large Onshore Transmission Investment Re-opener Project 2 - Shetland	SpC 3.13	PCFM Guidance, LOTI Guidance and Submissions Requirement Document
GCE <sub>t</sub>	Generation Connections volume driver	SpC 3.11	PCFM Guidance
DRI <sub>t</sub>	Demand Connections volume driver (SPTL and NGET only)	SpC 3.12	PCFM Guidance
NZ <sub>t</sub>	Net zero Re-opener	SpC 3.6	PCFM Guidance, Re-opener Guidance and Application Requirements
CAM <sub>t</sub>	Coordinated adjustment mechanism Re-opener	SpC 3.8	PCFM Guidance, Re-opener Guidance and Application Requirements
MSIPRE <sub>t</sub>	Medium Sized Investment Projects Re-opener	SpC 3.14	PCFM Guidance, Re-opener Guidance and Application Requirements
SF6RE <sub>t</sub>	SF6 asset intervention Re-opener (NGET only)	SpC 3.27	PCFM Guidance
SCR <sub>t</sub>	Sub-sea Cable Re-opener (SHET only)	SpC 3.28	PCFM Guidance, Re-opener Guidance and Application Requirements
UNLRE <sub>t</sub>	Uncertain non-load related projects Re-opener (SPTL only)	SpC 3.29	PCFM Guidance, Re-opener Guidance and Application Requirements
NOIT <sub>t</sub>	Non-operational IT Capex Reopener	SpC 3.7	PCFM Guidance, Re-opener Guidance and Application Requirements

VV	Description	SpC	Cross-reference / Associated Document
TCR <sub>t</sub>	Tyne Crossing Project Re-opener (NGET only)	SpC 3.34	PCFM Guidance, Re-opener Guidance and Application Requirements
BRG <sub>t</sub>	Bengeworth Road GSP Project Re-opener (NGET only)	SpC 3.35	PCFM Guidance, Re-opener Guidance and Application Requirements
CWR <sub>t</sub>	Civil Related Works Re-opener (NGET only)	SpC 3.32	PCFM Guidance, Re-opener Guidance and Application Requirements
TSF <sub>t</sub>	Tower Steelworks and Foundations Re-opener (NGET only)	SpC 3.33	PCFM Guidance, Re-opener Guidance and Application Requirements
WWV <sub>t</sub>	Wider Works Volume Driver (NGET only)	SpC 3.30	PCFM Guidance
FWR <sub>t</sub>	Fibre Wrap Replacement Re-opener (NGET only)	SpC 3.31	PCFM Guidance, Re-opener Guidance and Application Requirements
ARR <sub>t</sub>	Access Reform Change Re-Opener	SpC 3.16	PCFM Guidance, Re-opener Guidance and Application Requirements
T1OA <sub>t</sub>	T1/T2 offset adjustment (NGET only)	Spc 3.38	PCFM Guidance
PCFRE <sub>t</sub>	Pre-Construction Funding Re-Opener	SpC 3.15	PCFM Guidance, Re-opener Guidance and Application Requirements
PSUPRE <sub>t</sub>	Physical Security Re-Opener	SpC 3.4	PCFM Guidance, Re-opener Guidance and Application Requirements
CROTRE <sub>t</sub>	Cyber resilience OT Re-Opener	SpC 3.2	PCFM Guidance, Re-opener Guidance and Application Requirements

VV	Description	SpC	Cross-reference / Associated Document
CRITRE <sub>t</sub>	Cyber resilience IT Re-Opener	SpC 3.3	PCFM Guidance, Re-opener Guidance and Application Requirements
OE <sub>t</sub>	Opex escalator	SpC 3.36	PCFM Guidance
EECA <sub>t</sub>	Entry and Exit Connection Asset Allowance	SpC 3.37	PCFM Guidance
LGCE <sub>t</sub>	Legacy Baseline Connections Volume Driver (SHET only)	SpC 3.39	PCFM Guidance
<b>Actual Totex</b>			
Capitalisation rate 1:			
ALC	Actual load related capex expenditure		PCFM Guidance
ARC	Actual asset replacement capex expenditure		PCFM Guidance
AOC	Actual other capex expenditure		PCFM Guidance
ACO	Actual network operating costs (opex)		PCFM Guidance
AIO	Actual Indirects (opex)		PCFM Guidance
ANC	Actual non-operational capex		PCFM Guidance
Capitalisation rate 2:			
ALCU	Actual load related capex expenditure		PCFM Guidance
ARCU	Actual asset replacement capex expenditure		PCFM Guidance
AOCU	Actual other capex expenditure		PCFM Guidance
ACOU	Actual network operating costs (opex)		PCFM Guidance
AIOU	Actual Indirects (opex)		PCFM Guidance
ANCU	Actual non-operational capex		PCFM Guidance
<b>Pass-through expenditure</b>			
RB <sub>t</sub>	Prescribed Rates	SpC 6.1, Part B	PCFM Guidance
EDE <sub>t</sub>	Pension Scheme Established Deficit Repair	SpC 6.1, Part A	PCFM Guidance
TPD <sub>t</sub>	Temporary physical disconnection costs	SpC 6.1, Part A	PCFM Guidance
SHCP <sub>t</sub>	Energy Note Supplied Compensatory scheme (SHET only)	SpC 6.2	PCFM Guidance
<b>Incentive Revenue</b>			
ENSI <sub>t</sub>	Energy Not Supplied ODI	SpC 4.2	PCFM Guidance



VV	Description	SpC	Cross-reference / Associated Document
IIGI <sub>t</sub>	Insulation and Interruption Gas emissions ODI	SpC 4.3	PCFM Guidance
CONADJ <sub>t</sub>	Timely connections ODI	SpC 4.4	PCFM Guidance
QCS <sub>t</sub>	Quality of connections satisfaction survey ODI	SpC 4.5	PCFM Guidance
SOTO <sub>t</sub>	SO TO Optimisation ODI	SpC 4.7	PCFM Guidance, SO-TO Optimisation Governance
ESI <sub>t</sub>	Environmental Scorecard ODI	SpC 4.6	PCFM Guidance
<b>Other Revenue Allowances</b>			
NIA <sub>t</sub>	RIIO-2 network innovation allowance	SpC 5.2	PCFM Guidance, RIIO-2 NIA Governance Document
CNIA <sub>t</sub>	Carry-over Network Innovation Allowance	SpC 5.3	PCFM Guidance, RIIO-1 NIA Governance Document
NZF <sub>t</sub>	Net Zero Fund use it or lose it allowance (SHET and SPTL only)	SpC 5.5	PCFM Guidance
NZ3C <sub>t</sub>	Net zero carbon Capital Construction use it or lose it allowance (NGET only)	SpC 5.6	PCFM Guidance
NTMP <sub>t</sub>	Non-Technical Mitigation Projects allowance	SpC 5.4	PCFM Guidance
LTIRG <sub>t</sub>	Transmission investment for renewable generation (SHET and SPTL only)	SpC 5.6 (SHET) SpC 5.7(SPT)	PCFM Guidance
PRPN <sub>t</sub>	Pre-RIIO-1 pension true-up	SpC 5.1	PCFM Guidance
<b>Legacy Adjustments</b>			
LPT <sub>t</sub>	Close-out of RIIO-ET1 pass-through items	SpC 7.2	PCFH section 8, PCFM Guidance
LMOD <sub>t</sub>	Legacy MOD	SpC 7.3	PCFH section 8, PCFM Guidance
LK <sub>t</sub>	Legacy K correction	SpC 7.4	PCFH section 8, PCFM Guidance
LTRU <sub>t</sub>	Legacy TRU term	SpC 7.5	PCFH section 8, PCFM Guidance
NOCO <sub>t</sub>	Close-out of RIIO-ET1 network outputs	SpC 7.10	PCFH section 8, PCFM Guidance

VV	Description	SpC	Cross-reference / Associated Document
LSSO <sub>t</sub>	Close-out of RIIO-ET1 stakeholder satisfaction output	SpC 7.6	PCFH section 8, PCFM Guidance, Stakeholder Engagement Reward Guidance
LEDR <sub>t</sub>	Close-out of RIIO-ET1 environmental discretionary reward scheme adjustment	SpC 7.7	PCFH section 8, PCFM Guidance, Environmental Discretionary Reward Scheme
LSFI <sub>t</sub>	Close-out of RIIO-ET1 sulphur hexafluoride gas emissions incentive	SpC 7.8	PCFH section 8, PCFM Guidance
LRI <sub>t</sub>	Close-out of RIIO-ET1 energy not supplied reliability incentive	SpC 7.9	PCFH section 8, PCFM Guidance
LRAV <sub>t</sub>	RIIO-1 net RAV additions (after disposals)	SpC 7.12	PCFH section 8, PCFM Guidance
<b>Directly Remunerated Services</b>			
PREDRS <sub>t</sub>	Pre-vesting directly remunerated services	SpC 9.7	PCFM Guidance
POSDRS <sub>t</sub>	Post-vesting directly remunerated services	SpC 9.7	PCFM Guidance
OIDRS <sub>t</sub>	Other income from directly remunerated services	SpC 9.7	PCFM Guidance
IDRS <sub>t</sub>	Identified directly remunerated services costs	SpC 9.7	PCFM Guidance
<b>Finance Inputs</b>			
iBTA <sub>t</sub>	iBoxx trailing average		PCFH section 4, PCFM Guidance
iBAFY <sub>t</sub>	iBoxx average (Financial Year)		PCFH section 4, PCFM Guidance
iBAAO <sub>t</sub>	iBoxx average (April - October)		PCFH section 4, PCFM Guidance
RFR	Risk-free rate		PCFH section 4, PCFM Guidance
I <sub>j</sub>	Sterling Overnight Index Average (SONIA)	SpC 1.1, Part B	PCFH section 2, PCFM Guidance
RPE <sub>t</sub>	RPE annual growth		PCFM Guidance
AND <sub>t</sub>	Adjusted net debt		PCFM Guidance
TDNI <sub>t</sub>	Tax deductible net interest cost		PCFM Guidance
TAXA <sub>t</sub>	Tax allowance adjustment	SpC 2.2	PCFH section 6, PCFM Guidance
TTE <sub>t</sub>	Tax liability allowance adjustments - driven by tax trigger events		PCFH section 6, PCFM Guidance

VV	Description	SpC	Cross-reference / Associated Document
OGP <sub>t</sub>	General pool capital allowance opening balance brought forward		PCFM Guidance
OSRP <sub>t</sub>	Special Rate capital allowance opening balance brought forward		PCFM Guidance
OSBP <sub>t</sub>	Structures and buildings capital allowance opening balance brought forward		PCFM Guidance
ODRP <sub>t</sub>	Deferred revenue expenditure opening balance brought forward		PCFM Guidance
LODRP <sub>t</sub>	Deferred revenue pool additions (RIIO1) plus opening balance at start of RIIO1		PCFM Guidance
OTL <sub>t</sub>	Tax loss brought forward		PCFM Guidance
ARGP <sub>t</sub>	Totex allocation to "General" tax pool		PCFM Guidance
ARSR <sub>t</sub>	Allocation to "Special Rate" tax pool		PCFM Guidance
ARSB <sub>t</sub>	Allocation to "Structures and Buildings" tax pool		PCFM Guidance
ARDR <sub>t</sub>	Allocation to "Deferred Revenue" tax pool		PCFM Guidance
ARRe <sub>t</sub>	Allocation to "Revenue" tax pool		PCFM Guidance
ARNQ <sub>t</sub>	Allocation to "Non-Qualifying" tax pool		PCFM Guidance
CT <sub>t</sub>	Corporation tax rate		PCFM Guidance
GCA <sub>t</sub>	General pool capital allowance rate		PCFM Guidance
SRCA <sub>t</sub>	Special Rates capital allowance rate		PCFM Guidance
SBCA <sub>t</sub>	Structures and buildings capital allowance rate		PCFM Guidance
DRCA <sub>t</sub>	Deferred Revenue Expenditure capital allowance rate		PCFM Guidance
RIIO-1AR <sub>t</sub>	RIIO-1 allowed revenue	SpC 2.1	PCFM Guidance
RR <sub>t</sub>	Recovered revenue	SpC 2.1, Part B	PCFM Guidance
<b>Totex variant allowances allocation percentages</b>			
<u>TVAA<sub>t</sub></u>	<u>The range of totex variant allowance allocation percentages relating to any re-opener or uncertainty mechanism, which have not been pre-populated in the RIIO-ET2 PCFM as a "yellow box" hard-coded input.</u>		<u>PCFM Guidance</u>



## 4. Instructions for completing the PCFM Variable Value table

4.1. The below table contains instructions for licensees on how to populate the PCFM Variable Values table for submission to the Authority at each dry run of an AIP.

4.2. Unless otherwise specified, all row and cell references relate to the NGET licensee input sheet of the ET2 PCFM.

4.3. Where the guidance refers to cost or other data that links to the ET2 Revenue workbook from the Cost and Volumes Regulatory Reporting Pack (C&V RRP), these values should be directly input into the ET2 Revenue workbook for the PCFM submission due on August 31<sup>st</sup> 2021.

4.4. The first submission of the RIIO-2 Cost and Volumes RRP will be in July 2022 and so for the first PCFM submission in August 2021, the Cost and Volume file will not be available. In the absence of this file, the licensees should enter its best estimate of forecast costs and output data into the yellow input cells of the ET2 Revenue workbook to calculate the PCFM Variable Values that will be included in the November 2021 AIP.

4.5. The contents of the ET2 Revenue workbook will be included within the Cost and Volumes RRP in all future Regulatory Years along with the required guidance for the underlying inputs, which will be included in the RIGs.

Variable value category	Guidance for Completion
<b><u>Variant Totex Allowances – Price Control Deliverables (PCDs)</u></b> <ul style="list-style-type: none"> <li>Visual Impact Mitigation Price Control Deliverable and Enhancing Pre-existing Infrastructure Projects allowance</li> <li>Large Onshore Transmission Investment Re-opener Project 1 - Hinckley Sea Bank</li> <li>Wider Works Price Control Deliverable</li> </ul>	<p>In general, the value of the Price Control Deliverable is an ex-ante allowance, subtracting any reductions that have been directed by the Authority.</p> <p>The ex-ante allowances are given in the appendix for the relevant Special Condition, and the reductions are provided by directions from the Authority.</p> <p>For the Variable Values in rows 20:39, the actual adjustments directed by Ofgem should be input</p>

<ul style="list-style-type: none"> <li>• Physical Security Price Control Deliverable</li> <li>• Cyber Resilience OT Price Control Deliverable</li> <li>• Cyber Resilience IT Price Control Deliverable</li> <li>• Baseline Network Risk Output</li> <li>• Generation Related Infrastructure Price Control Deliverable (NGET only)</li> <li>• Resilience and Operability Price Control Deliverable (SHET and SPTL only)</li> <li>• Operational transport carbon reduction Price Control Deliverable (NGET only)</li> <li>• Shared Schemes Price Control Deliverable (SHET and SPTL only)</li> <li>• Enhanced Environmental Requirements use it or lose it allowance (SPTL only)</li> <li>• SF6 asset intervention Price Control Deliverable (NGET only)</li> <li>• Substation Auxiliary Systems use it or lose it allowance (NGET only)</li> <li>• Instrument Transformer Price Control Deliverable (NGET only)</li> <li>• Bay Assets Price Control Deliverable (NGET only)</li> <li>• Protection and Control Price Control Deliverable (NGET only)</li> <li>• Overhead Line Conductor Price Control Deliverable (NGET only)</li> <li>• Pre-Construction Funding Price Control Deliverable</li> </ul>	<p>into the yellow adjustment cells in the “PCDs” and “PCDs – Supporting Calculations” sheets. This data will then be picked up in the allowance values on PCFM Input Summary sheets, which should be used to populate the PCFM.</p> <p><b>Forecasting</b></p> <p>Where Ofgem has yet to issue any directions, but a licensee expects not to deliver an output identified in the relevant Special Condition appendices, they should use best endeavours to forecast the expected adjustment into the yellow adjustment cells in the “PCDs” and “PCDs – Supporting Calculations” sheets.</p> <p>Details of the assumptions made should be provided in the supplementary commentary.</p>
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<ul style="list-style-type: none"> <li>• Net Zero And Re-opener Development Fund use it or lose it allowance</li> </ul>	
<p><b><u>Variant Totex Allowances – Volume Drivers</u></b></p> <ul style="list-style-type: none"> <li>• Generation Connections volume driver</li> <li>• Demand Connections volume driver (SPTL and NGET only)</li> <li>• Wider Works Volume Driver (NGET only)</li> <li>• <u>Legacy Baseline Connections Volume Driver (SHET only)</u></li> </ul>	<p>For the Variable Values in rows 53,54,66 and 76, the actuals should be input into the yellow cells in the “Volume Drivers” sheet. This data will then be picked up in the allowance values on PCFM Input Summary sheets, which should be used to populate the PCFM.</p> <p>With respect to the <i>Wider Works Volume Driver</i>, the licensee must supply the data sheets used to calculate the inputs alongside relevant supporting commentary.</p> <p>With respect to the <u>Legacy Baseline Connections Volume Driver (SHET only)</u>, the licensee should <u>input the allowance value directly into the yellow cells in the PCFM Input Summary sheet.</u></p> <p><b>Forecasting</b></p> <p>Forecasts for future regulatory periods should be input directly into the yellow input cells of the above referenced “Volume Drivers” sheet.</p>
<p><b><u>Variant Totex Allowances – Re-openers</u></b></p> <ul style="list-style-type: none"> <li>• Visual Impact Mitigation Re-opener</li> <li>• Large Onshore Transmission Investment Re-opener Project 2 - Shetland</li> <li>• Net zero Re-opener</li> </ul>	<p>A re-opener is a type of uncertainty mechanism, which allows the Authority to adjust a licensee’s allowances (either up or down) based on an application by the licensee, in response to changing circumstances during the price control period.</p>

<ul style="list-style-type: none"> <li>• Coordinated adjustment mechanism Re-opener</li> <li>• Medium Sized Investment Projects Re-opener</li> <li>• SF6 asset intervention Re-opener (NGET only)</li> <li>• Subsea Cable Re-opener (SHET only)</li> <li>• Uncertain non-load related projects Re-opener (SPTL only)</li> <li>• Non-operational IT Capex Reopener</li> <li>• Tyne Crossing Project Re-opener (NGET only)</li> <li>• Bengeworth Road GSP Project Re-opener (NGET only)</li> <li>• Civil Related Works Re-opener (NGET only)</li> <li>• Tower Steelworks and Foundations Re-opener (NGET only)</li> <li>• Fibre Wrap Replacement Re-opener (NGET only)</li> <li>• Access Reform Change Re-OpenerPre-Construction Funding Re-Opener</li> <li>• Physical Security Re-Opener</li> <li>• Cyber Resilience OT Re-Opener</li> <li>• Cyber Resilience IT Re-Opener</li> </ul>	<p>The ex-ante allowances are given in the appendix for the relevant Special Condition, and the adjustments are provided by directions from the Authority.</p> <p><b>Within the application window</b></p> <p>For the Variable Values in rows 43:73, where actual amounts are known at the time of the dry run, ie, where a decision has already been made on a reopener application, the licensee must use the adjustment values as published by the Authority to update the relevant re-opener allowance and adjustment yellows input cells in the “Re-openers” sheet. This data will then be picked up in the allowance values on the PCFM Input Summary sheets, which should be used to populate the PCFM.</p> <p>Where an application has been submitted but no decision has been made, the licensee must use the adjustment values as published in any minded-to position by the Authority. Where no minded-to position has been published, the licensee may use the same values included in its application or the actual costs incurred in the Regulatory Year, whichever is lower.</p> <p>This is with a view to updating these values at a later dry run (or AIP) to correspond to a subsequent Ofgem decision.</p> <p><b>Outside of the application window</b></p> <p>The licensee may choose to update its re-opener allowance variable values using forecast data ahead of any relevant re-opener window. This should be done by updating the yellow</p>
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	<p>adjustment and allowance cells in the “Re-openers” sheet.</p> <p>The values to use are the actual costs incurred or forecast costs expected to be incurred in each Regulatory Year and applied for through the relevant re-opener and should be based on the information that the licensee has provided in the “Re-opener pipeline log”, which will be included in the ET2 Cost and Volumes RRP.</p> <p>Any supporting justification should be provided in addition to the log as per the re-opener guidance specified in the ET RIGs.<sup>9</sup></p>
<p><b><u>Variant Totex Allowances:</u></b></p> <ul style="list-style-type: none"> <li>• <u>Entry and Exit Connection Asset Allowance</u></li> </ul>	<p>The value in row 75 relates to the <u>Entry and Exit Connection Asset Allowance</u>.</p> <p>Within the ‘Re-openers’ sheet in the ET2 Revenue workbook the value to be input for EECC<sub>t</sub> (Capital contribution from Users relating to Transmission Connection Assets) should be negative in the case of the licensee receiving a capital contribution, and positive in the case of the licensee paying a reimbursement.</p>
<p><b><u>Variant Totex Allowances:</u></b></p> <ul style="list-style-type: none"> <li>• T1/T2 Offset Adjustment (NGET only)</li> </ul>	<p>The values in row 69 are a pre-determined fixed allowance of -£15.768m per year as set out in SpC 3.38 (T1/T2 Offset Adjustment).</p>
Opex Escalator	<p>The opex escalator provides an additional allowance for any capital expenditure incurred on</p>

<sup>9</sup> This requirement does not apply for the 31 August 2021 submission; however, beginning next year, licensees are expected to provide any supporting information along with the pipeline log submitted within the Cost & Volumes RRP.

	<p>the eligible re-openers and volume drivers listed in SpC 3.36 (Opex escalator).</p> <p>For the variable value in row 74, actual and forecast data should be input into the yellow input cells in the “Opex Escalator – Supporting” sheet of the ET2 Revenue workbook.</p> <p>The values to input should be the direct capex element of any actual or forecast expenditure for each of the eligible re-openers and volume drivers within the <math>UMTERMA_{i,t}</math> term, as reported in the “Re-opener pipeline log”, which will be included within the ET2 Cost and Volumes RRP.</p> <p>These values for re-openers and volume drivers within the <math>UMTERMA_{i,t}</math> term (load related), require an energisation date to be input, on a per project basis. Where an energisation date is not known, no values are required to be inputted.</p> <p>The values for re-openers and volume drivers within <math>UMTERMB_t</math> are linked to the relevant allowance within the ‘Re-openers’ and ‘Volume Drivers’ tab.</p> <p>This data is collected in the “Opex Escalator” sheet, and is subsequently picked up as an allowance on the PCFM Input Summary sheet, which should be used to populate the PCFM.</p>
<p><b><u>Actual Totex</u></b></p> <p><i>Capitalisation rate 1:</i></p> <ul style="list-style-type: none"> <li>Actual load related capex expenditure</li> </ul>	<p>Totex is reported in one of two buckets, capitalisation rate 1 and capitalisation rate 2.</p>

<ul style="list-style-type: none"> <li>• Actual asset replacement capex expenditure</li> <li>• Actual other capex expenditure</li> <li>• Actual network operating costs (opex)</li> <li>• Actual Indirects (opex)</li> <li>• Actual non-operational capex</li> </ul> <p><i>Capitalisation rate 2:</i></p> <ul style="list-style-type: none"> <li>• Actual load related capex expenditure</li> <li>• Actual asset replacement capex expenditure</li> <li>• Actual other capex expenditure</li> <li>• Actual network operating costs (opex)</li> <li>• Actual Indirects (opex)</li> <li>• Actual non-operational capex</li> </ul>	<p>Any expenditure relating to ex-ante, or baseline funded activities including PCDs is subject to capitalisation rate 1.</p> <p>Any expenditure relating to activities that have been funded under Uncertainty Mechanisms (as labelled in the PCFM) is subject to capitalisation rate 2.</p> <p>For the values in rows 85:98, actual data for the reporting period in question should be input directly into the PCFM Input Summary sheet, which should be used to populate the PCFM.</p> <p><b>Forecasting</b></p> <p>Forecasts for future regulatory periods should be input directly into the TO PCFM Input Summary sheets, which should be used to populate the PCFM.</p>
<p><b><u>Pass-through costs</u></b></p> <ul style="list-style-type: none"> <li>• Prescribed Rates</li> <li>• Pension Scheme Established Deficit repair</li> <li>• Temporary physical disconnection costs</li> <li>• Energy not supplied compensatory scheme (SHET only)</li> </ul>	<p>Pass-through costs are specified costs that are predominantly outside of a licensee’s control and may be passed through to consumers. These costs are defined in SpC 6.1 (Pass-through items).</p> <p>For the variable values in rows 102:105, actual data for the reporting period in question should be put directly into the yellow input cells of the “Pass-Through” sheet. This data is then picked up in the PCFM Input Summary sheet, which should be used to populate the PCFM.</p> <p>Where required, further detailed guidance for updating these variable values will be provided in the ET RIGs.</p>

	<p><b>Forecasting</b></p> <p>Forecasts for future regulatory periods should be taken directly input directly into the yellow input cells of the “Pass-Through” sheet, which should be used to populate the PCFM.</p>
<p><b><u>Incentive revenue (Output Delivery Incentives)</u></b></p> <ul style="list-style-type: none"> <li>• Energy not supplied ODI</li> <li>• Insulation And Interruption Gas emissions ODI</li> <li>• Timely Connections ODI</li> <li>• Quality of connections satisfaction survey ODI</li> <li>• SO-TO Optimisation ODI</li> <li>• Environmental scorecard ODI</li> </ul>	<p>Incentive revenue or output delivery incentives (ODI) are used to reward or penalise licensees for their performance.</p> <p>For the values in rows 111:116, actual data for the reporting period in question should be input directly into the yellow input cells of the “Output Delivery Incentives” sheet. This data is then picked up in the “PCFM Input Summary” sheet, which should be used to populate the PCFM.</p> <p>Further detailed guidance for updating these underlying inputs to the calculations in the “Output Delivery Incentives” sheet will be provided in the ET2 RIGs.</p> <p><b>Forecasting</b></p> <p>Forecasts for future regulatory periods should be input directly into the yellow input cells of the “Output Delivery Incentives” sheet.</p>
<p><b><u>Other Revenue allowances</u></b></p> <ul style="list-style-type: none"> <li>• RIIO-2 network innovation allowance</li> <li>• Carry-over Network Innovation Allowance</li> <li>• Net Zero Fund use it or lose it allowance (SHET and SPTL only)</li> </ul>	<p>For the values in rows 120:128, actual data for the reporting period in question should be input directly into the yellow input cells of the “Other Revenue Allowances” sheet. This data is then picked up in the PCFM Input Summary sheets, which should be used to populate the PCFM.</p> <p>With respect to <i>Total NIA Expenditure</i>, the licensee must input expenditure excluding any</p>

<ul style="list-style-type: none"> <li>• Net zero carbon Capital Construction use it or lose it allowance (NGET only)</li> <li>• Non-Technical Mitigation Projects allowance</li> <li>• Transmission investment for renewable generation (SHET and SPTL only)</li> </ul>	<p>expenditure which is deemed to be 'Unrecoverable NIA Expenditure' as per the requirements of the RIIO-2 NIA Governance Document.</p> <p>Further detailed guidance for updating the underlying inputs to the calculations in the "Other Revenue Allowances" sheet will be provided in the ET2 RIGs.</p> <p><b>Forecasting</b></p> <p>Forecasts for future regulatory periods should be input directly into the yellow input cells of the above referenced sheet.</p>
<p>Legacy MOD</p>	<p>Legacy values will be directed by Ofgem following the formal close-out of the RIIO-ET1 price control.</p> <p>In the interim period between the beginning of ET2 and the direction of these values and the establishment of a close-out methodology, the licensee must calculate its provisional Legacy MOD values in accordance with the processes set out in chapter 8 of the PCFH.</p> <p>The licensee must update its legacy ET1 PCFM for any outturn data relating to the 2020/21 Regulatory Year as taken from its 31 August 2021 RIGs submissions. The legacy ET1 PCFM must then be run to generate the legacy MOD<sub>2022/23</sub> value. This should then be inflated using the RPIF figure from the ET1 Revenue RRP and input in the 'LMOD' variable value input row in the licensee-specific input sheets in the ET2 PCFM for 2022/23.</p>

	<p>The Licensee may choose to incorporate other modifications as it considers necessary to the Legacy ET1 PCFM to reflect any anticipated close-out adjustments for which Ofgem has not yet provided a methodology in the Legacy MOD value for 2022/23.</p> <p>If the Licensee chooses to do this, it must also submit a description of the specific modifications made to the Legacy ET1 PCFM along with a justification for them in its PCFM Dry Run Commentary (see section 5 of this Guidance).</p>
RIIO-1 net RAV additions (after disposals)	<p>Legacy values will be directed by Ofgem following the formal close-out of the RIIO-ET1 price control.</p> <p>In the interim period between the beginning of ET2 and the direction of these values and the establishment of a close-out methodology, the licensee must calculate its provisional RIIO-1 net RAV additions (LRAV) values in accordance with the processes set out in chapter 8 of the PCFH.</p> <p>The licensee must update its legacy ET1 PCFM for any outturn data relating to the 2020/21 Regulatory Year as taken from its 31 August 2021 RIGs submissions. The legacy ET1 PCFM must then be run to generate the provisional closing RAV position and this should be input in the LRAV variable value input row in its licensee-specific input sheet in the ET2 PCFM, covering the historical ET1 period to 31 March 2021.</p> <p>The Licensee may choose to incorporate other modifications as it considers necessary to the Legacy ET1 PCFM to reflect any anticipated close-</p>

	<p>out adjustments for which Ofgem has not yet provided a methodology in its LRAV values.</p> <p>If the Licensee chooses to do this, it must also submit a description of the specific modifications made to the Legacy ET1 PCFM along with a justification for them in its PCFM Dry Run Commentary (see section 5 of this Guidance).</p>
<p><b><u>Other Legacy adjustments</u></b></p> <ul style="list-style-type: none"> <li>• Close-out of RIIO-ET1 pass-through items</li> <li>• Legacy K correction</li> <li>• Legacy TRU term</li> <li>• Close-out of RIIO-ET1 network outputs</li> <li>• Close-out of RIIO-ET1 stakeholder satisfaction output</li> <li>• Close-out of RIIO-ET1 environmental discretionary reward scheme adjustment</li> <li>• Close-out of RIIO-ET1 sulphur hexafluoride gas emissions incentive</li> <li>• Close-out of RIIO-ET1 energy not supplied reliability incentive</li> </ul>	<p>Legacy values will be directed by Ofgem following the formal close-out of the RIIO-ET1 price control.</p> <p>In the interim period between the beginning of ET2 and the direction of these values following the close-out of ET1, the licensee must use the legacy values for input in rows 133:141 of the PCFM in accordance with the processes set out in the "Legacy Adjustment to Revenue section" of chapter 8 of the PCFH.</p>
<p><b><u>Directly remunerated services</u></b></p> <ul style="list-style-type: none"> <li>• Pre-vesting directly remunerated services</li> <li>• Post-vesting directly remunerated services</li> <li>• Other Income directly remunerated services</li> <li>• Identified directly remunerated services costs</li> </ul>	<p>For the values in rows 146:149, actual and forecast data for the reporting period in question should be input directly into the yellow input cells in the "PCFM Input Summary" sheet, which should be used to populate the PCFM.</p>

iBoxx trailing average ( $iBTA_t$ ) iBoxx average (Financial Year) ( $IBAFY_t$ ) iBoxx average (April - October) ( $IBAAO_t$ ) Risk-free rate (RFR)	<p>These finance inputs are calculated by the Authority using the WACC allowance model and feed into the licensee's allowed return on capital.</p> <p>The input values in rows 153:156 are calculated and populated by Ofgem during the final dry run of each AIP, which usually takes place in early November.</p> <p>These values are sourced from the updated WACC allowance model. The methodology for the derivation of <math>iBTA</math> and RFR is described in chapter 4 of the PCFH.</p>
Sterling Overnight Index Average ( $I_t$ )	<p>This finance input is calculated by the Authority using the WACC allowance model and is used in calculation of the correction term (<math>K_t</math>).</p> <p>The input value in row 157 is calculated and populated by Ofgem during the final dry run of each AIP, which usually takes place in early November.</p> <p>This value is sourced from the updated WACC allowance model.</p>
Real Price Effects (RPEs) annual growth rate	<p>This value (%) is calculated by the Authority and is sourced directly from the updated RPE model in accordance with the methodology and process set out in chapter 5 of PCFH.</p> <p>A redacted version of this workbook will be shared with the licensee and published by Ofgem following each AIP, alongside the PCFM and WACC Allowance Model.</p>
Adjusted net debt	<p>For this variable value, actual data for the reporting period in question should be input directly into the company specific input sheets of</p>



	<p>the PCFM. Licensees may also update forecast data for this variable value.</p> <p>The figures used to update this variable value should be those reported as "Net Debt as per the Regulatory (RIIO-1) definition" in the licensee's submitted RFPR.</p> <p>See the RIIO-1 RFPR Guidance for further detail on what this value comprises.</p>
Tax deductible net interest cost	<p>For this variable value, actual data for the reporting period in question should be input directly into the company specific input sheets of the PCFM. Licensees may also update forecast data for this variable value.</p> <p>The figures used to update this variable value should be those reported as "Net Interest as per the Regulatory (RIIO-1) definition" in the licensee's submitted RFPR.</p> <p>See the RIIO-1 RFPR Guidance for further detail on what this value comprises.</p>
Tax liability allowance adjustments – driven by tax trigger events	<p>This value will not be applicable unless the licensee has followed the notification process set out in chapter 6 of the PCFH.</p> <p>Ofgem will provide confirmation of the final figure to be used for this variable value.</p>
Tax liability allowance adjustments	<p>This value will not be applicable unless the Authority has directed a value following a tax review under Special Condition 2.2.</p>
Capital allowance opening pools brought forward	<p>Legacy values will be directed by Ofgem following the formal close-out of the RIIO-ET1 price control.</p>

	<p>In the interim period between the beginning of ET2 and the direction of these values following the close-out of ET1, the licensee must use the provisional closing balances taken from the legacy ET1 PCFM to populate the Capital allowance opening pools brought forward balances in its RIIIO-2 PCFM.</p> <p>The closing balances should come from the same version of the legacy GD1 PCFM that the LRAV and LMOD values are taken from.</p>
Tax loss brought forward <sup>10</sup>	As above for "Capital allowance opening pools brought forward".
Tax pool allocation rates	<p>For the values in rows 176:181, the rates used to allocate totex into the different tax pools can be updated using the calculations in the "Tax Pools Totex allocations" sheet of the ET2 Revenue workbook.</p> <p>Allocation percentages of totex categories to tax pools should be input by the licensee in the yellow input rows based on their best estimate of the allocation rates at the time of updating the inputs. These rates will then be used to derive capital allowance allocation rates used by the PCFM.</p> <p>Allocation rates should not be retrospectively updated for a year where the ADJR* value has already been published and charges have already been set.</p>

<sup>10</sup> This variable value relates to a licensee's regulatory opening tax losses and not statutory tax losses per corporation tax returns.

Recovered Revenue	This variable value as defined in SpC 2.1, Part B of ET License should be provided by licensees and input directly into company specific input sheets of the ET2 PCFM.
CPIH Outturn	<p>This value is shown in the “Monthly inflation” sheet of the PCFM and will be updated by the Authority in line with the methodology for the Price Index calculation set out in chapter 2 of the PCFH.</p> <p>Ofgem will update the CPIH outturn index during the final dry run of each AIP using data that is available as at 31 October.</p>
RPI Outturn	<p>This value is shown in the “Monthly inflation” sheet of the PCFM and will be updated by the Authority in line with the methodology for the Price Index calculation set out in chapter 2 of the PCFH.</p> <p>Ofgem will update the RPI outturn index during the final dry run of each AIP using data that is available as at 31 October.</p>
RPI inflation forecast (Calendar year)	<p>This value is shown in the “Annual inflation” sheet of the PCFM and will be updated by the Authority in line with the methodology for the Price Index calculation set out in chapter 2 of the PCFH.</p> <p>Ofgem will update the RPI inflation forecast during the final dry run of each AIP using Office for Budget Responsibility (OBR) data that is available as at 31 October.</p>
Long term CPIH inflation forecast	This value is shown in the “Annual inflation” sheet of the PCFM and will be updated by the Authority

	<p>in line with the methodology set out in chapter 4 of PCFH.</p> <p>Ofgem will update this inflation forecast during the final dry run of each AIP using OBR data that is available as at 31 October.</p>
CPI inflation forecast (Calendar year)	<p>This value is shown in the “Annual inflation” sheet of the PCFM and will be updated by the Authority in line with the methodology for the Price Index calculation set out in chapter 2 of the PCFH.</p> <p>Ofgem will update the RPI inflation forecast during the final dry run of each AIP using OBR data that is available as at 31 October</p>
Totex variant allowances allocation percentages	<p>These percentage rates allocate any actual or forecast allowances that are input in the variant allowance variable values, for example a re-opener, across different expenditure categories of totex.</p> <p>Some of these allocation percentages are hard-coded inputs, or “yellow-box” values and others are PCFM Variable Values or “blue-boxes”.</p> <p>“Yellow box” values are pre-populated and should not be modified. For the PCFM Variable Values (i.e. the “blue boxes”) in the cell range AP234:AT581 in the licensee-specific input sheets of the PCFM, the licensee should input the actual and forecast allocation percentage rates corresponding with the relevant variant allowance Variable Value.</p> <p>Where the allocation rates relate to a re-opener allowance, these should be forecast in line with the Guidance provided for re-openers on pages 23 – 25 of this document and should provide</p>

	<p>further detail on the basis of forecasting in its dry run commentary.</p> <p>For allocation rates that apply to any other types of variant allowances (i.e. a volume driver) the licensee should provide detail on the basis of forecasting in its dry run commentary.</p>
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## 5. PCFM Dry Run Commentary

### Background

5.1. This licensee's PCFM submission should be accompanied by supporting commentary as well as any applicable supporting models and underlying workings.

5.2. The main purpose of the PCFM dry run commentary is to provide a useful summary of the updates that have been made to the PCFM variable values and the impact that these have had on the licensee's Allowed Revenue for the Regulatory Year  $t$ , in narrative form.

### Structure of the commentary

5.3. The outline structure of the commentary is as follows:

- Executive summary
- Updates to the PCFM Variable Values
- Impact on Allowed Revenue
- Statement on forecast data
- Corporate governance narrative
- Data assurance statement
- Other relevant information

5.4. The sections outlined above should contain sufficient detail such that the Authority is able to re-perform the updates made and arrive at the same value for ADJR and ART.

5.5. The licensee should provide detail on the following areas at a minimum:

- a summary of the updates the licensee has made to the PCFM Variable Values in the input sheet(s) since the last published version of the PCFM that was made available by Ofgem;
- the source of the data used to update the PCFM Variable Values (ie, Ofgem directions, Cost and Volumes RRP, Legacy PCFM or forecast data);
- a description of the impact of the changes on ADJR and Allowed Revenue and the key driver(s) of this impact;
- for any forecast data, the licensee should include a statement confirming that it has used its best estimate to ensure forecasts are reasonable in light of the information available at the time and that any significant changes to forecast values have suitable supporting statements;

- A statement on corporate governance including detail on the licensee's executive remuneration and its dividend policy,<sup>11</sup>
- A data assurance statement briefly setting out the assurance processes that the information in the commentary, the PCFM inputs sheet and any underlying input files (eg, Cost and Volume RRP) are subject to; and,
- any other information the licensee considers is appropriate to explain the PCFM submission.

## Submission

5.6. A dry run commentary is required from all Licensees. Where a Licensee is part of a company that has more than one licence within a sector they may submit a single commentary to cover all licensees.

5.7. The dry run commentary should reconcile with and refer to the PCFM dry run submitted. Any narrative or tables in the commentary should be clearly disaggregated by licensee. A full dry run commentary is required for the first dry run submission and for any subsequent dry runs, a narrative will only be required for any variable values, which have been amended from the prior dry run.

5.8. Where appropriate, the licensee may cross-reference to other information that supports their submission. Any cross-referencing should clearly direct the Authority to the source data used eg, through hyperlinks.

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<sup>11</sup> This requirement does not apply for the 31 August 2021 submission; however, beginning next year, licensees are expected to provide this information for which Ofgem will consult and provide additional guidance.