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Guidance

GT2 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 GT2 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 GT2 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 GT2 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 GT2 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 GT2 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[1] 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.

[1] 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 (Transportation owner revenue restriction) and Special Condition 2.3 (System operator 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	This sheet contains company and year selector switch allowing the user to switch between companies and Regulatory Years. 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.

Input	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 ARt. 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.
Calculation sheets: Totex TIM Depn SystemOperator FuelPoor Return&RAV TaxPools Finance&Tax NonCore ReturnAdj Revenue AR SOAR	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 and SO.
Results sheets	The "LiveResults" sheet shows a live summary of the changes to the components of AR_t, 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. 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.
Monthly Inflation input sheet Annual Inflation input sheet	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.

	The "Annual Inflation" sheet shows the derivation of annual indices and inflation rates by aggregating the data in the "Monthly Inflation" sheet. 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.
NGGT TO NGGT SO	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[2]
- GT2 Revenue workbook[3]
- Tax workbook[4]
- Legacy GT1 PCFM
- GT1 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.[5]

[2] Applicable to future Regulatory Years only (regulatory period starting 2022/23).
[3] The GT2 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.
[4] Applicable to future Regulatory Years only (regulatory period starting 2022/23).
[5] See the PCFM functional cut-off dates set out in Table 2.1 of the GT2 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.[5]

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 GT2 PCFH.

Submissions

2.13. By 31 August 2021 and by 31 July prior to each Regulatory Year t thereafter[6], the licensee must submit to the Authority the GT2 PCFM, with a completed variable values table (covering activity in the prior Regulatory Year and changes to forecast activity[7]), which has been run to calculate AR_t.

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

[6] See the PCFM functional cut-off dates set out in Table 2.1 of the GT2 PCFH.
[7] 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.

2021, the variable values in the "PCFM inputs summary" sheet of the GT2 Revenue workbook should be linked to the company-specific input sheets of the GT2 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 GT2 PCFH, when ascertaining calculated revenue, the GT2 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

GT2 Price Control Financial Handbook
GT2 Price Control Financial Model
GT2 Regulatory Instructions and Guidance (RIGs)
GT2 Regulatory Financial Performance Reporting
Other relevant Associated Documents as listed in **Table 3.1** and **Table 3.2**

3. The GT2 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 and Table 3.2 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 - RIIO-GT2 variable values (VV) for TO

VV	Description	SpC	Cross-reference / Associated Document
Variant Totex Allowances - PCDs			
$NARM_t$	Baseline Allowed NARM Expenditure	SpC 3.1	PCFM Guidance, Network Asset Risk Workbook, NARM Handbook
$PSUP_t$	Physical security Price Control Deliverable	SpC 3.4	PCFM Guidance, Re-opener Guidance and Application Requirements
BTR_t	Bacton terminal site redevelopment Price Control Deliverable	SpC 3.10	PCFM Guidance, PCD Reporting Requirements and Methodology Document
KLS_t	King's Lynn subsidence Price Control Deliverable	SpC 3.12	PCFM Guidance, Re-opener Guidance and Application Requirements
NLA_t	Asset health - non lead assets Price Control Deliverable	SpC 3.15	PCFM Guidance, PCD Reporting Requirements and Methodology Document
CEP_t	Compressor emissions Price Control Deliverable	SpC 3.11	PCFM Guidance, Re-opener Guidance and Application Requirements
RA_t	Redundant Assets Price Control Deliverable	SpC 3.16	PCFM Guidance, PCD Reporting Requirements and Methodology Document
$FIOC_t$	Funded incremental obligated capacity Price Control Deliverable	SpC 3.13	PCFM Guidance, Re-opener Guidance and Application Requirements
$CROT_t$	Cyber Resilience OT Price Control Deliverable and use it or lose it allowance	SpC 3.2	PCFM Guidance
$CRIT_t$	Cyber Resilience IT Price Control Deliverable	SpC 3.3	PCFM Guidance, Re-opener Guidance and Application Requirements
RDF_t	Net Zero And Re-opener Development Fund use it or lose it allowance	SpC 3.5	PCFM Guidance, Re-opener Guidance and Application Requirements
Variant Totex Allowances - UMs			
$NARMAH_t$	NARM Asset Health Re-opener	SpC 3.1	PCFM Guidance, Re-opener Guidance and Application Requirements
$NOIT_t$	Non-operational IT Capex Re-opener	SpC 3.7	PCFM Guidance, Re-opener Guidance and Application Requirements
CAM_t	Coordinated Adjustment Mechanism Re-opener	SpC 3.8	PCFM Guidance, Re-opener Guidance and Application Requirements

NZ_t	Net Zero Re-Opener	SpC 3.6	PCFM Guidance, Re-opener Guidance and Application Requirements
AH_t	Asset health Re-Opener	SpC 3.14	PCFM Guidance, Re-opener Guidance and Application Requirements
$NLAAH_t$	Asset Health - Non Lead Assets Reopener	SpC 3.15	PCFM Guidance, Re-opener Guidance and Application Requirements
QL_t and PD_t	Uncertain Costs Re-opener	SpC 3.17	PCFM Guidance, Re-opener Guidance and Application Requirements
NZP_t	Net zero Pre-construction Work and Small Net Zero Projects Re-opener	SpC 3.9	PCFM Guidance, Net Zero Pre-construction Work and Small Net Zero projects Re-opener Governance Document
$BTRE_t$	Bacton terminal site redevelopment Price Control Deliverable - Re-Opener Element	SpC 3.10	PCFM Guidance, Re-opener Guidance and Application Requirements
$PSUPRE_t$	Physical Security Price Control Deliverable - Re-Opener Element	SpC 3.4	PCFM Guidance, Re-opener Guidance and Application Requirements
$CEPRE_t$	Compressor Emissions Price Control Deliverable - Re-Opener Element	SpC 3.11	PCFM Guidance, Re-opener Guidance and Application Requirements
$CROTRE_t$	Cyber resilience OT (non-TIM) Price Control Deliverable - Re-Opener Element	SpC 3.2	PCFM Guidance, Re-opener Guidance and Application Requirements
$CRITRE_t$	Cyber resilience IT (TIM) Price Control Deliverable - Re-Opener Element	SpC 3.3	PCFM Guidance, Re-opener Guidance and Application Requirements
$KLSRE_t$	King's Lynn subsidence Price Control Deliverable - Re-Opener Element	SpC 3.12	PCFM Guidance, Re-opener Guidance and Application Requirements
$FIOCRE_t$	Funded Incremental Obligated Capacity Price Control Deliverable - Re-Opener Element	SpC 3.13	PCFM Guidance, Re-opener Guidance and Application Requirements, Guidance on the Incremental Obligated Capacity Re-opener
OE_t	Opex Escalator	SpC 3.18	PCFM Guidance
Actual Totex			
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 non-load (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 non-load (opex)		PCFM Guidance
AIOU	Actual indirects (opex)		PCFM Guidance
ANCU	Actual non-operational capex		PCFM Guidance
Pass-through expenditure			
RB_t	Prescribed Rates	SpC 6.1, Part B	PCFM Guidance
LF_t	Licence Fees	SpC 6.1, Part A	PCFM Guidance
EDE_t	Pension deficit charge	SpC 6.1, Part A	PCFM Guidance
BD_t	Bad Debt	SpC 6.1, Part C	PCFM Guidance
$OPTC_t$	Secretary of State in respect of Policing Costs	SpC 6.1, Part A	PCFM Guidance
IS_t	Gas conveyed to Independent Systems (SIU)	SpC 6.2	PCFM Guidance
PTV_t	PARCA Termination Value	SpC 6.1, Part D	PCFM Guidance
Hy_t	Hy-Net	SpC 6.1, Part E	PCFM Guidance
$NZPS_t$	Distribution Networks' Net Zero Pre-construction Work and Small Net Zero Projects Re-opener	SpC 6.1, Part F	PCFM Guidance
Incentive Revenue			
CSI_t	Customer satisfaction incentive	SpC 4.2	PCFM Guidance
ESI_t	Environmental scorecard output delivery incentive	SpC 4.3	PCFM Guidance
Other Revenue Allowances			
NIA_t	RIIO-2 Network Innovation Allowance	SpC 5.2	PCFM Guidance, RIIO-2 NIA Governance Document
$CNIA_t$	Carry-over RIIO-1 Network Innovation Allowance	SpC 5.3	PCFM Guidance, RIIO-1 NIA Governance Document
$SIFF_t$	Strategic Innovation Fund	SpC 5.7	SIF Governance Document, PCFM Guidance
Legacy Adjustments			
LPT_t	Legacy pass-through	SpC 7.2	PCFH section 8, PCFM Guidance

$LMOD_t$	Legacy MOD	SpC 7.3	PCFH section 8, PCFM Guidance
LK_t	Legacy K Correction	SpC 7.4	PCFH section 8, PCFM Guidance
$LTRU_t$	Legacy TRU term	SpC 7.5	PCFH section 8, PCFM Guidance
$NOCO_t$	Close out of the RIIO-GT1 network outputs	SpC 7.6	PCFH section 8, PCFM Guidance
$NICF_t$	RIIO-1 network innovation competition	SpC 7.7	PCFH section 8, PCFM Guidance
$SSCO_t$	Close out of the RIIO-GT1 stakeholder satisfaction output	SpC 7.8	PCFH section 8, PCFM Guidance
$LRAV_t$	RIIO-1 net RAV additions (after disposals)	SpC 7.9	PCFH section 8, PCFM Guidance
Directly Remunerated Services			
$PREDRS_t$	Pre-vesting directly remunerated services	SpC 9.7	PCFM Guidance
$POSDRS_t$	Post-vesting directly remunerated services	SpC 9.7	PCFM Guidance
$OIDRS_t$	Other income from directly remunerated services	SpC 9.7	PCFM Guidance
$IDRS_t$	Identified directly remunerated services costs	SpC 9.7	PCFM Guidance
Finance Inputs			
RFR	Risk-free rate		PCFH section 4, PCFM Guidance
$iBTA_t$	iBoxx trailing average		PCFH section 4, PCFM Guidance
I_j	Sterling Overnight Index Average (SONIA)	SpC 1.1, Part B	PCFH section 2, PCFM Guidance
RPE_t	RPE annual growth		PCFM Guidance
AND_t	Adjusted net debt		PCFM Guidance
$TDNI_t$	Tax deductible net interest cost		PCFM Guidance
$TAXA_t$	Tax allowance adjustment	SpC 2.2	PCFH section 6, PCFM Guidance
TTE_t	Tax liability allowance adjustments - driven by tax trigger events		PCFH section 6, PCFM Guidance
OGP_t	General pool capital allowance opening balance brought forward		PCFM Guidance
$OSRP_t$	Special Rate capital allowance opening balance brought forward		PCFM Guidance
$OSBP_t$	Structures and buildings capital allowance opening balance brought forward		PCFM Guidance
$ODRP_t$	Deferred revenue expenditure opening balance brought forward		PCFM Guidance
$LODRP_t$	Deferred revenue pool additions (RIIO1) plus opening balance at start of RIIO1		PCFM Guidance
OTL_t	Tax loss brought forward		PCFM Guidance
$ARGP_t$	Totex allocation to "General" tax pool		PCFM Guidance

$ARSR_t$	Totex allocation to "Special Rate" tax pool		PCFM Guidance
$ARSB_t$	Totex allocation to "Structures and Buildings" tax pool		PCFM Guidance
$ARDR_t$	Totex allocation to "Deferred Revenue" tax pool		PCFM Guidance
ARR_t	Totex allocation to "Revenue" tax pool		PCFM Guidance
$ARNQ_t$	Totex allocation to "Non Qualifying" tax pool		PCFM Guidance
CT_t	Corporation tax rate		PCFM Guidance
GCA_t	General pool capital allowance rate		PCFM Guidance
$SRCA_t$	Special Rates capital allowance rate		PCFM Guidance
$SBCA_t$	Structures and buildings capital allowance rate		PCFM Guidance
$DRCA_t$	Deferred Revenue Expenditure capital allowance rate		PCFM Guidance
RIIO-1 AR_t	RIIO-1 allowed revenue		PCFM Guidance
PRP_t	Penal rate proportion	SpC 2.1 Part H	PCFM Guidance
RR_t	Recovered revenue	SpC 2.1, Part B	PCFM Guidance

Table 3.2 - RIIO-GT2 variable values (VV) for SO

VV	Description	SpC	Cross-reference / Associated Document
Variant Totex Allowances - PCDs			
$FIOC_t$	Funded Incremental Obligated Capacity Price Control Deliverable	SpC 3.13	PCFM Guidance, Guidance on the Incremental Obligated Capacity Re-opener
$CROT_t$	Cyber resilience OT (non-TIM) Price Control Deliverable	SpC 3.2	PCFM Guidance, PCD Reporting Requirements and Methodology Document
$CRIT_t$	Cyber resilience IT (TIM) Price Control Deliverable	SpC 3.3	PCFM Guidance, PCD Reporting Requirements and Methodology Document
Variant Totex Allowances - UMs			
$CROTRE_t$	Cyber resilience OT (non-TIM) Price Control Deliverable - Re-Opener Element	SpC 3.2	PCFM Guidance, Re-opener Guidance and Application Requirements
$CRITRE_t$	Cyber resilience IT (TIM) Price Control Deliverable - Re-Opener Element	SpC 3.3	PCFM Guidance, Re-opener Guidance and Application Requirements
NZ_t	Net Zero Re-Opener	SpC 3.6	PCFM Guidance, Re-opener Guidance and

VV	Description	SpC	Cross-reference / Associated Document
			Application Requirements
$FIOCRE_t$	Funded Incremental Obligated Capacity Price Control Deliverable - Re-Opener Element	SpC 3.13	PCFM Guidance, Re-opener Guidance and Application Requirements, Guidance on the Incremental Obligated Capacity Re-opener
$NOIT_t$	Non-operational IT Capex Re-opener	SpC 3.7	PCFM Guidance, Re-opener Guidance and Application Requirements
OE_t	Opex Escalator	SpC 3.18	PCFM Guidance
Actual Totex			
SOANC	Actual non-operational capex		PCFM Guidance
SOACO	Actual controllable opex		PCFM Guidance
Pass-through expenditure			
$SOEDE_t$	Pension Scheme Established Deficit		PCFM Guidance, PCFH Section 7
$SOBD_t$	System operator bad debt	SpC 6.3, Part B	PCFM Guidance
$CDSP_t$	CDSP Costs, excluding costs incurred in relation to UK Link Gemini	SpC 6.3, Part A	PCFM Guidance
Other Revenue			
$CMIR_t$	Constraint management incentive revenue	SpC 5.5, Part B	PCFM Guidance
$RAREnCA_t$	Revenue from accelerated release of incr. obl. entry capacity	SpC 5.5, Part A	PCFM Guidance
$ExBBCNLRA_t$	Exit capacity buyback cost which users are liable to reimburse	SpC 5.5, Part A	PCFM Guidance
RBC_t	Revenue for net residual balancing costs	SpC 5.6, Part A	PCFM Guidance
OMC_t	Total costs for procurement of operating margin services	SpC 5.6, Part A	PCFM Guidance
SC_t	System costs	SpC 5.6, Part A	PCFM Guidance
$RBIR_t$	Residual balancing incentive	SpC 5.6, Part B	PCFM Guidance

VV	Description	SpC	Cross-reference / Associated Document
$QDAIR_t$	Quality of demand forecasting incentive revenue	SpC 5.6, Part C	PCFM Guidance
$GHGIR_t$	Green house gas emissions incentive	SpC 5.6, Part D	PCFM Guidance
MIR_t	Maintenance incentive	SpC 5.6, Part F	PCFM Guidance
Legacy Adjustments			
$SOLMOD_t$	System Operator legacy MOD	SpC 7.11	PCFH section 8, PCFM Guidance
$SOLK_t$	System Operator legacy K correction	SpC 7.12	PCFH section 8, PCFM Guidance
$SOLTRU_t$	System Operator legacy TRU term	SpC 7.13	PCFH section 8, PCFM Guidance
$LCMIR_t$	Close out of the RIIO-GT1 entry and exit capacity constraint management incentive	SoC 7.14	PCFH section 8, PCFM Guidance
$LCMCA_t$	Close out of the RIIO-GT1 constraint management cost adjustment	SpC 7.15	PCFH section 8, PCFM Guidance
$LTSS_t$	Close out of the RIIO-GT1 NTS transportation support services cost adjustment	SpC 7.16	PCFH section 8, PCFM Guidance
$SOLRAV_t$	RIIO-1 net RAV additions (after disposals)	SpC 7.17	PCFH section 8, PCFM Guidance
Finance Inputs			
SORFR	Risk-free rate		PCFH section 4, PCFM Guidance
$iBTA_t$	iBoxx trailing average		PCFH section 4, PCFM Guidance
I_j	Sterling Overnight Index Average (SONIA)	SpC 1.1, Part B	PCFH section 2, PCFM Guidance
RPE_t	RPE annual growth		PCFM Guidance
AND_t	Adjusted net debt		PCFM Guidance
$TDNI_t$	Tax deductible net interest cost		PCFM Guidance
$SOTAXA_t$	Tax allowance adjustment	SpC 2.4	PCFH section 6, PCFM Guidance
$SOTTE_t$	Tax liability allowance adjustments - driven by tax trigger events		PCFH section 6, PCFM Guidance
$SOOGP_t$	General pool capital allowance opening balance brought forward		PCFM Guidance
$SOOSRP_t$	Special Rate capital allowance opening balance brought forward		PCFM Guidance
$SOOSBP_t$	Structures and buildings capital allowance opening balance brought forward		PCFM Guidance

VV	Description	SpC	Cross-reference / Associated Document
$SOODRP_t$	Deferred revenue expenditure opening balance brought forward		PCFM Guidance
$SOLODRP_t$	Deferred revenue pool additions (RIIO1) plus opening balance at start of RIIO1		PCFM Guidance
$SOOTL_t$	Tax loss brought forward		PCFM Guidance
$SOARGP_t$	Allocation to "General" tax pool		PCFM Guidance
$SOARSR_t$	Allocation to "Special Rate" tax pool		PCFM Guidance
$SOARR_t$	Totex allocation to "Revenue" tax pool		
$SOARSB_t$	Allocation to "Structures and Buildings" tax pool		PCFM Guidance
$SOARDR_t$	Totex allocation to "Deferred revenue" tax pool		PCFM Guidance
$SOARNQ_t$	Allocation to "Non Qualifying" tax pool		PCFM Guidance
$SOCT_t$	Corporation tax rate		PCFM Guidance
$SOGCA_t$	General pool allowance rate		PCFM Guidance
$SOSRCA_t$	Special Rate allowance rate		PCFM Guidance
$SOSBCA_t$	Structures and buildings allowance rate		PCFM Guidance
$SODRCA_t$	Deferred revenue expenditure allowance rate		PCFM Guidance
$RIIO\text{-}1SOAR_t$	RIIO-1 allowed revenue		
$SOPRP_t$	Penal rate proportion	SpC 2.3 Part G	
$SORR_t$	Recovered revenue	SpC 2.3, Part B	PCFM Guidance
Totex variant allowances allocation percentages			
$TVAA_t$	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-GT2 PCFM as a "yellow box" hard-coded input.		PCFM Guidance

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 licensee input sheets of the RIIO-GT2 PCFM.

4.3. Where the guidance refers to cost or other data that links to the GT2 Revenue workbook from the Cost and Volumes Regulatory Reporting Pack (C&V RRP), these values should be directly input into the GT2 Revenue workbook for the PCFM submission due on August 31st 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 licensee should enter its best estimate of forecast cost and output data into the yellow input cells of the GT2 Revenue workbook to calculate the PCFM Variable Values that will be included in the November 2021 AIP.

4.5. The contents of the GT2 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**
<u>Variant Totex Allowances – Price Control Deliverables (PCDs)</u> TO: • Baseline Allowed NARM Expenditure • Physical security Price Control Deliverable • Bacton terminal site redevelopment Price Control Deliverable	In general, the value of the Price Control Deliverable is an ex-ante allowance, subtracting any reductions that have been directed by the Authority. The ex-ante allowances are given in the appendix for the relevant Special Condition, and the reductions are provided by directions from the Authority. For the Variable Values in rows 20:30 and rows 16:21 for TO and SO respectively, the actual

• King's Lynn subsidence Price Control Deliverable • Asset health - non lead assets Price Control Deliverable • Compressor emissions Price Control Deliverable • Redundant Assets Price Control Deliverable • Funded incremental obligated capacity Price Control Deliverable • Cyber Resilience OT Price Control Deliverable and use it or lose it allowance • Cyber Resilience IT Price Control Deliverable • Net Zero And Re-opener Development Fund use it or lose it allowance SO: • Funded incremental obligated capacity Price Control Deliverable • Cyber resilience OT Price Control Deliverable and use it or lose it allowance • Cyber Resilience IT Price Control Deliverable	adjustments directed by Ofgem should be input into the yellow adjustment cells in the "TO PCDs" and "SO PCDs" sheets. This data will then be picked up in the allowance values on the TO and SO PCFM Input Summary sheets, which should be used to populate the PCFM. **Forecasting** 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 "TO PCDs" and "SO PCDs" sheets. Details of the assumptions made should be provided in the supplementary commentary.
Variant Totex Allowances – Re-openers TO: • NARM Asset Health Re-opener • Non-operational IT Capex Re-opener	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.

• Coordinated adjustment mechanism Re-opener • Net zero Re-opener • Asset health Re-opener • Asset health – non lead assets Re-opener • Uncertain Costs Re-opener • Net Zero Pre-construction Work and Small Net Zero Projects Re-opener • Bacton terminal site redevelopment Re-Opener • Physical Security Re-Opener • Compressor emissions Re-Opener • Cyber Resilience OT Re-Opener • Cyber Resilience IT Re-Opener • King's Lynn subsidence Re-Opener • Funded incremental obligated capacity Re-Opener SO: • Cyber Resilience OT Re-Opener • Cyber Resilience IT Re-Opener • Net Zero Re-opener • Funded incremental obligated capacity Re-opener • Non-operational IT Capex Re-opener	The ex-ante allowances are given in the appendix for the relevant Special Condition, and the adjustments are provided by directions from the Authority. **Within the application window** For the Variable Values in rows 34:48 and rows 22:26 for TO and SO respectively, 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 yellow input cells in the "TO Re-openers" and "SO Re-openers" sheets. This data will then be picked up in the allowance values on the TO and SO PCFM Input Summary sheets, which should be used to populate the PCFM. 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. This is with a view to updating these values at a later dry run (or AIP) to correspond to a subsequent Ofgem decision. **Outside of the application window** 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

	adjustment and allowance cells in the "TO Re-openers" and "SO Re-openers" sheets. 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 the adjusted allowance should be based on the information that the licensee has provided in the "Re-opener pipeline log", which will be included in the GT2 Cost and Volumes RRP. Any supporting justification should be provided in addition to the log as per the re-opener guidance specified in the GT RIGs.[8]
Opex Escalator TO: • Opex Escalator •	The opex escalator provides an additional allowance for any capital expenditure incurred on the eligible re-openers listed in SpC 3.18 (Opex escalator). For the Variable Value in row 49 for TO, actual and forecast data for the eligible re-openers within $UMTERM_t$ is read into the "Opex Escalator" sheet from the "TO Re-opener" sheet of the GT2 Revenue workbook. This data is then picked up in the allowance values on the TO PCFM Input Summary sheet, which should be used to populate the PCFM.

[8] 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.

Actual Totex TO: *Capitalisation rate 1:* • Actual load related capex expenditure • Actual asset replacement capex expenditure • Actual other capex expenditure • Actual non-load (opex) • Actual indirects (opex) • Actual non-operational capex *Capitalisation rate 2:* • Actual load related capex expenditure • Actual asset replacement capex expenditure • Actual other capex expenditure • Actual non-load (opex) • Actual indirects (opex) • Actual non-operational capex SO: • Actual non-operational capex • Actual controllable opex	Totex is reported in one of two buckets, capitalisation rate 1 and capitalisation rate 2. Any expenditure relating to ex-ante, or baseline funded activities including PCDs is subject to capitalisation rate 1. Any expenditure relating to activities that have been funded under Uncertainty Mechanisms (as labelled in the PCFM) is subject to capitalisation rate 2. For the values in rows 59:73 and row 37:38 for TO and SO respectively, actual data for the reporting period in question should be input directly into the TO and SO PCFM Input Summary sheets, which should be used to populate the PCFM. **Forecasting** Forecasts for future regulatory periods should be input directly into the TO and SO PCFM Input Summary sheets, which should be used to populate the PCFM.
Pass through costs TO: • Bad Debt SO: • SO Bad Debt	Bad debt costs relate to any amounts that are incurred (or forecast) by the licensee due to network charges owed to it by one or more defaulting gas shippers and are treated as pass-through under SpC 6.1 (Transportation owner pass-through items) and SpC 6.3 (System operator pass-through items). Values should be input into the yellow input cells of the bad debt section of the "TO PT" and "SO

	PT" sheets. This data is then picked up in the TO and SO PCFM Input Summary sheets, which should be used to populate the PCFM. The *Provisional Bad Debt cost* should include the Bad Debt costs that the licensee expects to incur including any RIIO-GT1 Bad Debt and COVID-19 Bad Debt, with respect to network charges owed to the licensee by one or more Defaulting Gas Shippers. This row contains forecasts only and should not include any actual costs, which should be input in the row below labelled *Actual Bad Debt cost incurred*. For the *Interest income accrued adjustment* value, the licensee should input the adjustment for any interest income relating to late or non-payment of network charges. The adjustment is the difference between interest accrued at the default rates set out in the Uniform Network Code net of WACC with respect to the COVID-19 Scheme. Where this is an income amount, this should be entered as a negative. The *Recovered Bad Debt* value should be input as a positive value and should include the aggregate value of any Bad Debt recovered (including RIIO-GT1 Bad Debt and COVID-19 Bad Debt), where the costs have previously been recovered via the BDA term.[9] All values should be exclusive of VAT.

[9] For the System Operator, all references to Bad Debt, COVID-19 Bad Debt and RIIO-GT1 Bad Debt should be read as SO Bad Debt, SO COVID-19 Bad Debt and RIIO-GT1 SO Bad Debt respectively.

Pass-through costs – other TO: • Licence fees • Prescribed Rates • Pension Scheme Established Deficit repair • Secretary of State in respect of Policing Costs • PARCA Termination Value • Gas conveyed to Independent Systems • Hy-Net • Net Zero Pre-construction Work and Small Net Zero Projects Re-opener SO: • CDSP Costs • Pension Scheme Established Deficit	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 (Transportation owner pass-through items) and SpC 6.3 (System operator pass-through items). For the Variable Values in rows 77:85 and rows 42:44 for TO and SO respectively, actual data for the reporting period in question should be input directly into the yellow input cells of the "TO PT" and "SO PT" sheets This data is then picked up in the TO and SO PCFM Input Summary sheets, which should be used to populate the PCFM. Where required, further detailed guidance for updating these variable values will be provided in the GT RIGs. For Licence fees: where a rebate is given by Ofgem in relation to Licence fee costs for the previous regulatory year, that rebate should be netted off against the Licence Fee costs, when reported in the PCFM. E.g. if Ofgem provides a rebate to networks in the 21/22 year, relating to the 20/21 year, the licensee may either restate its Licence fee variable value for the regulatory year 20/21 or it may net off the rebate from the licence fee variable value for the 2021/22 regulatory year. **Forecasting** Forecasts for future regulatory periods should be input directly into the yellow input cells of the

	"TO PT" and "SO PT" sheets. which should be used to populate the PCFM.
Incentive revenue (Output Delivery Incentives) TO: • Customer satisfaction survey ODI • Environmental scorecard ODI	Incentive revenue or output delivery incentives (ODI) are used to reward or penalise licensees for their performance. For the values in rows 91:92 for TO, actual data for the reporting period in question should be input directly into the yellow input cells of the "TO ODI" sheet. This data is then picked up in the "TO PCFM Input Summary" sheet, which should be used to populate the PCFM. Further detailed guidance for updating the underlying inputs to the calculations in the ODI sheet will be provided in the GT2 RIGs. **Forecasting** Forecasts for future regulatory periods should be input directly into the yellow input cells of the "TO ODI" sheet.
Other Revenue allowances TO: • RIIO-2 Network Innovation Allowance • Carry-over Network Innovation Allowance • Strategic Innovation Fund SO: • Constraint management incentive revenue	For the values in rows 96:100 and rows 48:58 for TO and SO respectively, actual data for the reporting period in question should be input directly into the yellow input cells of the "TO ORA" and "SOORA" sheets. This data is then picked up in the SO and TO PCFM Input Summary sheets, which should be used to populate the PCFM. With respect to *Total NIA Expenditure*, the licensee must input expenditure excluding any expenditure which is deemed to be 'Unrecoverable NIA Expenditure' as per the

• Revenue from accelerated release of incr. obl. entry capacity • Exit capacity buyback cost which users are liable to reimbourse • Revenue for net residual balancing costs • Total costs for procurement of operating margin services • System costs • Residual balancing incentive • Quality of demand forecasting incentive • Greenhouse gas emissions incentive • Maintenance incentive	requirements of the RIIO-2 NIA Governance Document. Further detailed guidance for updating the underlying inputs to the calculations in the "TO ORA" and "SOORA" sheets will be provided in the GT2 RIGs. **Forecasting** Forecasts for future regulatory periods should be input directly into the yellow input cells of the above referenced TO and SO sheets
Legacy MOD	Legacy values will be directed by Ofgem following the formal close-out of the RIIO-GT1 price control. In the interim period between the beginning of GT2 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. The licensee must update its legacy GT1 PCFM for any outturn data relating to the 2020/21 Regulatory Year as taken from its 31 August 2021 RIGs submissions. The legacy GT1 PCFM must then be run to generate the legacy $MOD_{2022/23}$ value. This should then be inflated using the RPIF figure from the GT1 Revenue RRP and input in the LMOD and SOLMOD variable

	value input row in the licensee-specific input sheets in the GT2 PCFM for 2022/23. The Licensee may choose to incorporate other modifications as it considers necessary to the Legacy GT1 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. If the Licensee chooses to do this, it must also submit a description of the specific modifications made to the Legacy GT1 PCFM along with a justification for them in its PCFM Dry Run Commentary (see section 5 of this Guidance).
RIIO-1 net RAV additions (after disposals)	Legacy values will be directed by Ofgem following the formal close-out of the RIIO-GT1 price control. In the interim period between the beginning of GT2 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 and SOLRAV) values in accordance with the processes set out in chapter 8 of the PCFH. The licensee must update its legacy GT1 PCFM for any outturn data relating to the 2020/21 Regulatory Year as taken from its 31 August 2021 RIGs submissions. The legacy GT1 PCFM must then be run to generate the provisional closing RAV position and this should be input in the LRAV and SOLRAV variable value input row in its licensee-specific input sheet in the GT2 PCFM, covering the historical GT1 period to 31 March 2021.

	The Licensee may choose to incorporate other modifications as it considers necessary to the Legacy GT1 PCFM to reflect any anticipated close-out adjustments for which Ofgem has not yet provided a methodology, in its LRAV and SOLRAV values. If the Licensee chooses to do this, it must also submit a description of the specific modifications made to the Legacy GT1 PCFM along with a justification for them in its PCFM Dry Run Commentary (see section 5 of this Guidance).
Other Legacy adjustments TO: • Legacy pass-through • Legacy K correction • Legacy TRU • Close out of the RIIO-GT1 network outputs • RIIO-GT1 network innovation competition • Close out of the RIIO-GT1 stakeholder satisfaction output SO: • System Operator legacy K correction • System Operator legacy TRU term • Close out of the RIIO-GT1 entry and exit capacity constraint management incentive	Legacy values will be directed by Ofgem following the formal close-out of the RIIO-GT1 price control. In the interim period between the beginning of GT2 and the direction of these values following the close-out of GT1, the licensee must use the legacy values for input in rows 105:111 and 65:69 for TO and SO respectively, of the PCFM in accordance with the processes set out in the "Legacy Adjustment to Revenue section" of chapter 8 of the PCFH.

• Close out of the RIIO-GT1 constraint management cost adjustment • Close out of the RIIO-GT1 transportation support services adjustment	
Directly remunerated services TO: • Pre-vesting directly remunerated services • Post-vesting directly remunerated services • Other income from directly remenerated services • Identified directly remunerated services costs	For the values in rows 116:119 for NGGT-TO, actual and forecast data for the reporting period in question should be input directly into the yellow input cells in the "TO PCFM Input Summary" sheet, which should be used to populate the PCFM.
iBoxx trailing average ($iBTA_t$) Risk-free rate (RFR and SORFR)	These finance inputs are calculated by the Authority using the WACC allowance model and feed into the licensee's allowed return on capital. The input values in rows 123:124 and rows 74:75 for TO and SO respectively, are calculated and populated by Ofgem during the final dry run of each AIP, which usually takes place in early November. These values are sourced from the updated WACC allowance model. The methodology for the derivation of iBTA and RFR is described in chapter 4 of the PCFH.
Sterling Overnight Index Average (I_t)	This finance input is calculated by the Authority using the WACC allowance model and is used in calculation of the correction term (K_t).

	The input value in row 125 and row 76 for TO and SO respectively, is calculated and populated by Ofgem during the final dry run of each AIP, which usually takes place in early November. This value is sourced from the updated WACC allowance model.
Real Price Effects (RPEs) annual growth rate	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. 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.
Adjusted net debt	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. 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. See the RIIO-1 RFPR Guidance for further detail on what this value comprises.
Tax deductible net interest cost	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.

	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. See the RIIO-1 RFPR Guidance for further detail on what this value comprises.
Tax liability allowance adjustments – driven by tax trigger events	This value will not be applicable unless the licensee has followed the notification process set out in chapter 6 of the PCFH. Ofgem will provide confirmation of the final figure to be used for this variable value.
Tax liability allowance adjustments	This value will not be applicable unless the Authority has directed a value following a tax review under Special Condition 2.2.
Capital allowance opening pools brought forward	Legacy values will be directed by Ofgem following the formal close-out of the RIIO-GT1 price control. In the interim period between the beginning of GT2 and the direction of these values following the close-out of GT1, the licensee must use the provisional closing balances taken from the legacy GT1 PCFM to populate the Capital allowance opening pools brought forward balances in its RIIO-2 PCFM. The closing balances should come from the same version of the legacy GT1 PCFM that the LRAV, SOLRAV, LMOD and SOLMOD values are taken from.

Tax loss brought forward[10]	As above for "Capital allowance opening pools brought forward".
Tax pool allocation rates	For the values in rows 144:149 and rows 95:100 for TO and SO respectively, the rates used to allocate totex into the different tax pools can be updated using the calculations in the "TO Tax Pools Totex allocations" and "SO Tax Pools Totex allocations" sheets of the GT2 Revenue workbook. 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. Allocation rates should not be retrospectively updated for a year where the ADJR* value has already been published and charges have already been set.
Recovered Revenue	This variable value as defined in SpC 2.1, Part B of GT License should be provided by licensees and input directly into company specific input sheets of the GT2 PCFM.
Penal rate proportion	This value will be calculated and input by Ofgem.
CPIH Outturn	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.

[10] This variable value relates to a licensee's regulatory opening tax losses and not statutory tax losses per corporation tax returns.

	Ofgem will update the CPIH outturn index during the final dry run of each AIP using data that is available as at 31 October.
RPI Outturn	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. Ofgem will update the RPI outturn index during the final dry run of each AIP using data that is available as at 31 October.
RPI inflation forecast (Calendar year)	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. 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.
Long term CPIH inflation forecast	This value is shown in the "Annual inflation" sheet of the PCFM and will be updated by the Authority in line with the methodology set out in chapter 4 of PCFH. Ofgem will update this inflation forecast during the final dry run of each AIP using OBR data that is available as at 31 October.
CPI inflation forecast (Calendar year)	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.

	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.
Totex variant allowances allocation percentages	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. Some of these allocation percentages are hard-coded inputs, or "yellow-box" values and others are PCFM Variable Values or "blue-boxes". "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 AP207:AT404 for NGGT TO and AP141:AT172 for NGGT SO, the licensee should input the actual and forecast allocation percentage rates corresponding with the relevant variant allowance Variable Value. 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 21 – 23 of this document and should provide further detail on the basis of forecasting in its dry run commentary. 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.

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.[11]
- 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 (by TO and GSO). 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.

[11] 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.