

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 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 [dry run of the](#) 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 and with Part B of Special Condition 1.1 (*Interpretation and Definitions*).

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 the ET2 Price Control Financial Handbook, the dry runs process entails amending and confirming values for each Regulatory Year over a number of months, from ~~30¹ August-September~~ to early ~~November~~ [January](#), on an iterative basis to account for updates to the PCFM 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 AIP [dry run](#);
- 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.

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 ~~310 November~~ January 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_t.</p> <p>The Input tab pulls from the <u>eight-three</u> 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_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.</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> <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.</p>
<p>SHET</p> <p>SPTL</p> <p>NGET</p>	<p>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.</p>

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:

- ET2 Regulatory Reporting Pack (RRP)⁴
- Legacy ET1 PCFM and supporting files
- 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 ~~30¹ August~~ September prior to each Regulatory Year t⁵.

⁴ From regulatory period starting 2021/22.

⁵ This term is defined in Part B of Special Condition 1.1 (Interpretations and Definitions).

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 01 July~~ne~~ prior to each Regulatory Year¹.

~~2.9.~~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~~January in the Regulatory Year t. 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.

~~2.10.~~2.11. The AIP will be completed by 31~~0 November~~January prior to each Regulatory Year t, or as soon as is reasonably practicable thereafter. The deadline of 31~~0 November~~January reflects the ~~need for the licensee to have confirmation of its AR^{t2} in time to calculate and licensee's deadline for~~ setting its use of system charges.

~~2.11.~~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

~~2.12.~~2.13. By 30~~1 August~~September prior to each Regulatory Year t, and at each dry run 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 activity³), which has been run to calculate AR_t along with an updated copy of the ET2 RRP.

¹ See the PCFM functional cut-off dates set out in Table 2.1 of the ETGD2 PCFH.

² ~~This term is defined in Part B of Special Condition 1.1 (Interpretations and Definitions)~~

³ 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

~~2.13.~~2.14. As well as this, the ~~relevant~~ licensee must submit the relevant supporting models used to derive the variable values and any relevant commentary. For the submission due on ~~30¹ August~~September and thereafter at each dry run, the variable values in the “PCFM inputs summary” sheet of the ET2 RRP should ~~be linked to~~match the company-specific input sheets of the ET2 PCFM, where applicable.

~~2.14.~~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

~~2.15.~~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.

~~2.16.~~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.

~~2.17.~~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

~~2.18.~~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.

~~2.19.~~2.20. The price base for each PCFM Variable Value is set out in the PCFM input sheets, for the avoidance of doubt.

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.

Annual inflation updates

2.21. Ofgem will update and circulate the inflation data contained in the “Universal Data” tab of the ET2 RRP by the end of April in each Regulatory Year, reflecting actual RPI and CPIH data until the end of March as well as data from the March OBR forecast. This inflation data must be used by the licensee in its RRP submission due on 31 July. This will ensure the latest inflation data is feeding into the ET2 RRP and PCFM.

2.22. Ofgem will perform a further inflation update in July in each Regulatory Year, reflecting actual RPI and CPIH data until the end of June. This will be published in the version of the PCFM to be used for the next AIP. This inflation data must be used by the licensee in the RRP and the PCFM that it submits as part of its first AIP dry run by 30 September.

2.23. Ofgem will normally perform a final inflation update in November following the publication of the OBR’s autumn forecast, in line with the methodology prescribed in the PCFH.

~~2.21. As per paragraph 2.20 of the ET2 PCFH, the forecasts in the PCFM will be the Office for Budget Responsibility’s (OBR) forecast of CPI and RPI from the “economic and fiscal outlook” publication. Any forecast nominal values provided by licensees during the first dry run will be based on the March OBR update, the PCFH requires that we refresh the OBR forecast data used in the PCFM by 31 October during each AIP. As such, we need to we need to update the old forecast values to ‘new nominal’ forecasts based on the 31 October forecast assumptions.~~

~~2.22. This update is based on the following assumptions:~~

- ~~• OBR publishes the forecast in time for the October update i.e. by October 31. If the update is not available, nominal forecasts will not be updated from those that were submitted.~~
- ~~• The update will be applied to nominal forecast values, only.~~
- ~~• The October OBR forecast will be updated by Ofgem.~~

~~2.23. The OBR forecast will be updated in the 'Annual inflation' worksheet of the PCFM resulting in updated combined RPI-CPIH price index values (financial year average), which will be used in the 'Inflation update' worksheet of the ET2 RRP. The differential between the previous and new OBR forecast will determine the new nominal values, which will be used in the 'Pass-through' worksheet of the RRP.~~

~~2.24. For more detail on this inflation update, please see 'pass through costs' section in chapter 4.~~

Related documents

ET2 Price Control Financial Handbook

ET2 Price Control Financial Model

ET2 Regulatory Instructions and Guidance (RIGs)

ET2 Regulatory Reporting Pack

ET2 Regulatory Financial Performance Reporting

Other relevant Associated Documents as listed in [Table 3.1](#) ~~Table 3.1~~ of the PCFH

~~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 RIGs, as applicable.~~

Table 3.1—RIIO-ET2 variable values (VV)

VV	Description	SpC	Cross-reference / Associated Document
Variant Totex Allowances—Price Control Deliverables			
EPI_t	Enhancing Pre-existing Infrastructure Projects allowance	SpC 3.10	PCFM Guidance, PCD Reporting Requirements and Methodology Document
$LOTIA_t$	Large Onshore Transmission Investment Re-opener Project 1—Hinckley Sea Bank	SpC 3.13	PCFM Guidance, LOTI Guidance and Submissions Requirement Document
WW_t	Wider Works Price Control Deliverable	SpC 3.9	PCFM Guidance
$PSUP_t$	Physical Security Price Control Deliverable	SpC 3.4	PCFM Guidance, PCD Reporting Requirements and Methodology Document
$CROT_t$	Cyber resilience OT Baseline	SpC 3.2	PCFM Guidance, PCD Reporting Requirements and Methodology Document
$CRIT_t$	Cyber resilience IT Baseline	SpC 3.3	PCFM Guidance, PCD Reporting Requirements and Methodology Document
$NARM_t$	Baseline Network Risk Output	SpC 3.1	PCFM Guidance, Network Asset Risk Workbook, NARM Handbook
GRI_t	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 _t	Resilience and Operability Price Control Deliverable (SHET and SPTL only)	SpC 3.18	PCFM Guidance, PCD Reporting Requirements and Methodology Document
OTC _t	Operational Transport Carbon Reduction Price Control Deliverable (NGET only)	SpC 3.21	PCFM Guidance
SS _t	Shared Schemes Price Control Deliverable (SHET and SPTL only)	SpC 3.17	PCFM Guidance, PCD Reporting Requirements and Methodology Document
EER _t	Enhanced Environmental Requirements use it or lose it allowance (SPTL only)	SpC 3.19	PCFM Guidance
SF6 _t	SF6 asset intervention Price Control Deliverable (NGET only)	SpC 3.27	PCFM Guidance
SAS _t	Substation Auxiliary Systems use it or lose it allowance (NGET only)	SpC 3.26	PCFM Guidance
InT _t	Instrument Transformer Price Control Deliverable (NGET only)	SpC 3.22	PCFM Guidance
BA _t	Bay Assets Price Control Deliverable (NGET only)	SpC 3.23	PCFM Guidance
PC _t	Protection and Control Price Control Deliverable (NGET only)	SpC 3.24	PCFM Guidance
OC _t	Overhead Line Conductor Price Control Deliverable (NGET only)	SpC 3.25	PCFM Guidance
PCF _t	Pre-Construction Funding Price Control Deliverable	SpC 3.15	PCFM Guidance, PCD Reporting Requirements and Methodology Document
RDF _t	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
Variant Totex Allowances—UMs			
VIMRE _t	Visual Impact Mitigation Re-opener	SpC 3.10	PCFM Guidance, Re-opener Guidance and Application Requirements
LOTIRE _t	Large Onshore Transmission Investment Re-opener Project 2—Shetland	SpC 3.13	PCFM Guidance, LOTI Guidance and Submissions Requirement Document
GCE _t	Generation Connections volume driver	SpC 3.11	PCFM Guidance
DRI _t	Demand Connections volume driver (SPTL and NGET only)	SpC 3.12	PCFM Guidance
NZ _t	Net zero Re-opener	SpC 3.6	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
MSIPRE _t	Medium Sized Investment Projects Re-opener	SpC 3.14	PCFM Guidance, Re-opener Guidance and Application Requirements
SF6RE _t	SF6 asset intervention Re-opener (NGET only)	SpC 3.27	PCFM Guidance
SCR _t	Sub-sea Cable Re-opener (SHET only)	SpC 3.28	PCFM Guidance, Re-opener Guidance and Application Requirements
UNLRE _t	Uncertain non-load related projects Re-opener (SPTL only)	SpC 3.29	PCFM Guidance, Re-opener Guidance and Application Requirements
NOITRE _t	Non-operational IT Capex Reopener	SpC 3.7	PCFM Guidance, Re-opener Guidance and Application Requirements

VV	Description	SpG	Cross-reference / Associated Document
TCR _t	Tyne Crossing Project Re-opener (NGET only)	SpC 3.34	PCFM Guidance, Re-opener Guidance and Application Requirements
BRG _t	Bengeworth Road GSP Project Price Control Deliverable (NGET only)	SpC 3.35	PCFM Guidance, Price Control Deliverable assessment principles and reporting requirements)
CWR _t	Civil Related Works Re-opener (NGET only)	SpC 3.32	PCFM Guidance, Re-opener Guidance and Application Requirements
TSF _t	Tower Steelworks and Foundations Re-opener (NGET only)	SpC 3.33	PCFM Guidance, Re-opener Guidance and Application Requirements
WWV _t	Wider Works Volume Driver (NGET only)	SpC 3.30	PCFM Guidance
FWR _t	Fibre Wrap Replacement Re-opener (NGET only)	SpC 3.31	PCFM Guidance, Re-opener Guidance and Application Requirements
ARR _t	Access Reform Change Re-Opener	SpC 3.16	PCFM Guidance, Re-opener Guidance and Application Requirements
-T10A _t	RIIO-ET1/RIIO-ET2 offset adjustment (NGET only)	-SpC 3.38	PCFM Guidance
PCFRE _t	Pre-Construction Funding Re-Opener	SpC 3.15	PCFM Guidance, Re-opener Guidance and Application Requirements
PSUPRE _t	Physical Security Re-Opener	SpC 3.4	PCFM Guidance, Re-opener Guidance and Application Requirements

VV	Description	SpG	Cross-reference / Associated Document
CROTRE _t	Cyber resilience OT non-baseline	SpC 3.2	PCFM Guidance, Re-opener Guidance and Application Requirements
CRITRE _t	Cyber resilience IT non-baseline	SpC 3.3	PCFM Guidance, Re-opener Guidance and Application Requirements
OE _t	Opex-escalator	SpC 3.36	PCFM Guidance
EECA _t	Entry and Exit Connection Asset Allowance	SpC 3.37	PCFM Guidance
LGCE _t	Legacy Baseline Connections Volume Driver (SHET only)	SpC 3.39	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 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
Pass-through expenditure			
RB _t	Prescribed Rates	SpC 6.1, Part B	PCFM Guidance
EDE _t	Pension Scheme Established Deficit Repair	SpC 6.1, Part A	PCFM Guidance
TPD _t	Temporary physical disconnection costs	SpC 6.1, Part A	PCFM Guidance

VV	Description	SpC	Cross-reference / Associated Document
SHCP _t	Energy Note Supplied Compensatory scheme (SHET only)	SpC 6.2	PCFM Guidance
Incentive Revenue			
ENSI _t	Energy Not Supplied ODI	SpC 4.2	PCFM Guidance
HGI _t	Insulation and Interruption Gas emissions ODI	SpC 4.3	PCFM Guidance
CONADJ _t	Timely connections ODI	SpC 4.4	PCFM Guidance
QCS _t	Quality of connections satisfaction survey ODI	SpC 4.5	PCFM Guidance
SOTO _t	SO TO Optimisation ODI	SpC 4.7	PCFM Guidance, SO TO Optimisation Governance
ESI _t	Environmental Scorecard ODI	SpC 4.6	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 Network Innovation Allowance	SpC 5.3	PCFM Guidance, RIIO-1 NIA Governance Document
NZF _t	Net Zero Fund use it or lose it allowance (SHET and SPTL only)	SpC 5.5	PCFM Guidance
NZ3C _t	Net zero carbon Capital Construction use it or lose it allowance (NGET only)	SpC 5.6	PCFM Guidance
NTMP _t	Non-Technical Mitigation Projects allowance	SpC 5.4	PCFM Guidance
LTIRG _t	Transmission investment for renewable generation (SHET and SPTL only)	SpC 5.6 (SHET) SpC 5.7 (SPT)	PCFM Guidance
-PRPN _t	Pre-RIIO-1 pension true-up	-SpC 5.1	PCFM Guidance
Legacy Adjustments			
LPT _t	Close-out of RIIO-ET1 pass-through items	SpC 7.2	PCFH section 8, PCFM Guidance
LMOD _t	Legacy MOD	SpC 7.3	PCFH section 8, PCFM Guidance

VV	Description	SpC	Cross-reference / Associated Document
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 RIIO-ET1 network outputs	SpC 7.10	PCFH section 8, PCFM Guidance
LSSO _t	Close-out of RIIO-ET1 stakeholder satisfaction output	SpC 7.6	PCFH section 8, PCFM Guidance, Stakeholder Engagement Reward Guidance
LEDR _t	Close-out of RIIO-ET1 environmental discretionary reward scheme adjustment	SpC 7.7	PCFH section 8, PCFM Guidance, Environmental Discretionary Reward Scheme
LSFI _t	Close-out of RIIO-ET1 sulphur hexafluoride gas emissions incentive	SpC 7.8	PCFH section 8, PCFM Guidance
LRI _t	Close-out of RIIO-ET1 energy not supplied reliability incentive	SpC 7.9	PCFH section 8, PCFM Guidance
LRAV _t	RIIO-1 net RAV additions (after disposals)	SpC 7.12	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			
iBTA _t	iBoxx trailing average	-	PCFH section 4, PCFM Guidance
iBAFY _t	iBoxx average (Financial Year)	-	PCFH section 4, PCFM Guidance
iBAAO _t	iBoxx average (April – October)	-	PCFH section 4, PCFM Guidance
RFR	Risk-free rate	-	PCFH section 4, PCFM Guidance
I ₃	Sterling Overnight Index Average (SONIA)	SpC 1.1, Part B	PCFH section 2, PCFM Guidance
RPE _t	RPE annual growth	-	PCFM Guidance

VV	Description	SpG	Cross-reference / Associated Document
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
OGPA _t	General pool opening balance adjustment	-	PCFM Guidance
OSRPA _t	Special Rate pool opening balance adjustment	-	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	Allocation to "Special Rate" tax pool	-	PCFM Guidance
ARSB _t	Allocation to "Structures and Buildings" tax pool	-	PCFM Guidance
ARDR _t	Allocation to "Deferred Revenue" tax pool	-	PCFM Guidance
ARRe _t	Allocation to "Revenue" tax pool	-	PCFM Guidance
ARNQ _t	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-1AR _t	RIIO-1 allowed revenue	-SpC 2.1	PCFM Guidance

VV	Description	SpG	Cross-reference / Associated Document
RR _t	Recovered revenue	SpC 2.1, Part B	PCFM Guidance

4.3. Instructions for completing the PCFM Variable Values table

3.1. The PCFM Variable Values that can be revised during an AIP are set out in Table 3.1 in Chapter 3 of the PCFH.

3.2. For each variable value, table 3.1 provides a description, cross-references to the relevant Special Condition(s) (where appropriate) and details of Associated Documents (where relevant).

3.1.3.3. 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.

3.2.3.4. Unless otherwise specified, all references relate to the Revenue input sheets of the ET2 RRP.

3.3. Where the guidance refers to cost or other data that links to the ET2 Revenue workbook from the ET2 RRP, these values should be directly input into the ET2 Revenue workbook for the PCFM submission due on August 31st 2021.

3.4. The first submission of the ET2 RRP will be in July 2022 and so for the first PCFM submission in August 2021, the ET2 RRP 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.

The contents of the ET2 Revenue workbook will be included within the ET2 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> <ul style="list-style-type: none"> Enhancing Pre-existing Infrastructure Projects allowance 	In general, the value of the Price Control Deliverable is an ex-ante allowance, subtracting any reductions that have been directed by the Authority.

<ul style="list-style-type: none"> • Large Onshore Transmission Investment Re-opener Project 1 - Hinckley Sea Bank • Wider Works Price Control Deliverable • Physical Security Price Control Deliverable • Cyber Resilience OT Baseline • Cyber Resilience IT Baseline • Baseline Network Risk Output • Generation Related Infrastructure Price Control Deliverable (NGET only) • Resilience and Operability Price Control Deliverable (SHET and SPTL only) • Operational transport carbon reduction Price Control Deliverable (NGET only) • Shared Schemes Price Control Deliverable (SHET and SPTL only) • Enhanced Environmental Requirements use it or lose it allowance (SPTL only) • SF6 asset intervention Price Control Deliverable (NGET only) • Substation Auxiliary Systems use it or lose it allowance (NGET only) • Instrument Transformer Price Control Deliverable (NGET only) • Bay Assets Price Control Deliverable (NGET only) • Protection and Control Price Control Deliverable (NGET only) 	<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 these Variable Values, the actual adjustments directed by Ofgem should be input into the yellow adjustment cells in the 'Rev Workbook Linking Sheet' of the ET2 RRP. This data will then be picked up in the PCDs" and "PCDs – Supporting Calculations" sheets and subsequently the allowance values on PCFM Input Summary sheets, which should be used to populate the licensee input sheets in the PCFM.</p> <p>Forecasting</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, it should use best endeavours to forecast the expected adjustment into the yellow adjustment cells in the "Rev Workbook Linking Sheet".</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"> • Overhead Line Conductor Price Control Deliverable (NGET only) • Pre-Construction Funding Price Control Deliverable • Net Zero And Re-opener Development Fund use it or lose it allowance 	
<p><u>Variant Totex Allowances – Volume Drivers</u></p> <ul style="list-style-type: none"> • Generation Connections volume driver • Demand Connections volume driver (SPTL and NGET only) • Wider Works Volume Driver (NGET only) • Legacy Baseline Connections Volume Driver (SHET only) 	<p>For actual periods data should be input into the yellow cells in the "Scheme_Output" sheet" of the ET2 RRP. This data will then be picked up in the "Volume Drivers" sheet and subsequently the allowance values on PCFM Input Summary sheets, which should be used to populate licensee input sheets in 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 <i>Legacy Baseline Connections Volume Driver</i> (SHET only), the licensee should input the allowance value directly into the yellow cells in the "Rev Workbook Linking Sheet" -which will then be picked up in the allowance values on the PCFM Input Summary sheet.</p> <p>Forecasting</p> <p>For forecast periods relating to future Regulatory Years data should be input directly into the yellow input cells of the above referenced "Scheme_Output" sheet of the ET2 RRP. This data will then be picked up in the "Volume</p>

	Drivers” sheet and the allowance values on PCFM Input Summary sheets, which should be used to populate licensee input sheets in the PCFM.
<p><u>Variant Totex Allowances – Re-openers</u></p> <ul style="list-style-type: none"> • Visual Impact Mitigation Re-opener • Large Onshore Transmission Investment Re-opener Project 2 - Shetland • Net zero Re-opener • Coordinated adjustment mechanism Re-opener • Medium Sized Investment Projects Re-opener • SF6 asset intervention Re-opener (NGET only) • Subsea Cable Re-opener (SHET only) • Uncertain non-load related projects Re-opener (SPTL only) • Non-operational IT Capex Reopener • Tyne Crossing Project Re-opener (NGET only) • Bengeworth Road GSP Project Price Control Deliverable (NGET only) • Civil Related Works Re-opener (NGET only) • Tower Steelworks and Foundations Re-opener (NGET only) • Fibre Wrap Replacement Re-opener (NGET only) 	<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> <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>Within the application window</p> <p>For these Variable Values, 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 “Rev Workbook Linking Sheet” of the ET2 RRP. This data will then be picked up in the “Re-openers” sheet and in the allowance values on the PCFM Input Summary sheets, which should be used to populate licensee input sheets in 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</p>

<ul style="list-style-type: none"> • Access Reform Change Re-Opener • Pre-Construction Funding Re-Opener • Physical Security Re-Opener • Cyber Resilience OT non-baseline • Cyber Resilience IT non-baseline 	<p>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>Outside of the application window</p> <p>The licensee may choose to update its re-opener allowance variable values using forecast data ahead of any relevant re-opener window, <u>at any dry run</u>. This should be done by updating the yellow adjustment and allowance cells in the “Rev Workbook Linking Sheet” of the ET2 RRP <u>and in the re-opener pipeline log, which should be updated on a consistent basis</u>.</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 RRP. <u>Where the values submitted in the pipeline log are out of date and need to be changed, the licensee should update the Re-opener pipeline log as part of any subsequent dry run submissions for the purpose of AIP.</u></p> <p>Any supporting justification should be provided in addition to the log as per the re-opener guidance specified in the RIGs.</p>
<p><u>Variant Totex Allowances:</u></p>	<p>The value relates to the Entry and Exit Connection Asset Allowance.</p>

<ul style="list-style-type: none"> Entry and Exit Connection Asset Allowance 	<p>Within the "Rev Workbook Linking Sheet" sheet in the ET2 RRP the value to be input for $EECC_t$ (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><u>Variant Totex Allowances:</u></p> <ul style="list-style-type: none"> RIIO-ET1/RIIO-ET2 -Offset Adjustment (NGET only) 	<p>The values in are a pre-determined fixed allowance of -£15.768m per year as set out in SpC 3.38 (RIIO-ET1/RIIO-ET2_Offset Adjustment).</p>
<p><u>Opex Escalator</u></p>	<p>The opex escalator provides an additional allowance for any capital expenditure incurred on the eligible re-openers and volume drivers listed in SpC 3.36 (Opex escalator).</p> <p>For the variable value, actual and forecast data should be input into the yellow input cells is linked to the "Scheme C&V Calc Load Allow" and "Volume Drivers" sheet in the "Opex Escalator – Supporting" sheet of the ET2 Revenue workbook RP.</p> <p>Any actual or forecast expenditure for each of the eligible re-openers and volume drivers within the $UMTERMA_{i,t}$ term are reported in the "Re-opener pipeline log", which will is included within the ET2 RRP.</p> <p>These values for re-openers and volume drivers within the $UMTERMA_{i,t}$ term (load related), require an energisation date to be input, on a per project basis 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 UMTERMB_t are linked to the relevant allowance within the 'Re-openers' and 'Volume Drivers' sheet in the ET2 RRP.</p> <p>This data is collected in the "Opex Escalator" sheet of the ET2 RRP, and is subsequently picked up as an allowance on the PCFM Input Summary sheet, which should be used to populate licensee input sheets in the PCFM.</p>
<p><u>Actual Totex</u></p> <p><i>Capitalisation rate 1:</i></p> <ul style="list-style-type: none"> • Actual load related capex expenditure • Actual asset replacement capex expenditure • Actual other capex expenditure • Actual network operating costs (opex) • Actual Indirects (opex) • Actual non-operational capex <p><i>Capitalisation rate 2:</i></p> <ul style="list-style-type: none"> • Actual load related capex expenditure • Actual asset replacement capex expenditure • Actual other capex expenditure • Actual network operating costs (opex) • Actual Indirects (opex) • Actual non-operational capex 	<p>Totex is reported in one of two buckets, capitalisation rate 1 and capitalisation rate 2.</p> <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 totex values, actual and forecast data for the reporting period in question will be automatically linked from the "Rev Workbook Linking Sheet" sheet to the "PCFM Input Summary" of the ET2 RRP. These values should be used to populate the PCFM.</p>
<p><u>Pass-through costs</u></p> <ul style="list-style-type: none"> • Prescribed Rates 	<p>Pass-through costs are specified costs that are predominantly outside of a licensee's control and may be passed through to consumers. These</p>

<ul style="list-style-type: none"> • Pension Scheme Established Deficit repair • Temporary physical disconnection costs • Energy not supplied compensatory scheme (SHET only) 	<p>costs are defined in SpC 6.1 (Pass-through items).</p> <p>For pass-through variable values, actual data for the reporting period in question should be put directly into the yellow input cells of the "D_4.9_Pass_Through" sheet- of the ET2 RRP. This data is then picked up in the "Pass-Through" sheet and the PCFM Input Summary sheet, which should be used to populate the licensee input sheets in the PCFM.</p> <p>Forecast nominal values in the 'Pass-through' sheet will need updating if Ofgem updates the OBR inflation forecast used in the PCFM by October 31. These values are linked to the 'Inflation update' worksheet.</p> <p>At each AIP, when the availability of OBR update is confirmed in October, Ofgem will update row 20 on the 'Inflation update' sheet resulting in a differential on row 26 based on the difference between March and latest OBR update.</p> <p>Ofgem will then select 'YES' on row 7, which will automatically populate additional tables incorporated in 'Pass-through'. These new nominal values will then feed into the PCFM input summary sheets, where applicable, and will be used to populate PCFM.</p> <p>Where required, further detailed guidance for updating these variable values is provided in the RIGs.</p> <p>Forecasting</p>
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	<p>Forecasts for future regulatory periods should be taken directly input directly into the yellow input cells of the- "D_4.9_Pass_Through"- sheet of the ET2 RRP, which should be used to populate the licensee input sheets in the PCFM.</p>
<p><u>Incentive revenue (Output Delivery Incentives)</u></p> <ul style="list-style-type: none"> • Energy not supplied ODI • Insulation And Interruption Gas emissions ODI • Timely Connections ODI • Quality of connections satisfaction survey ODI • SO-TO Optimisation ODI • Environmental scorecard ODI 	<p>Incentive revenue or output delivery incentives (ODI) are used to reward or penalise licensees for their performance.</p> <p>For ODI values, actual data for the reporting period in question should be input directly into the yellow input cells of the relevant incentive sheets of the ET2 RRP. This data is then picked up in the "Output Delivery Incentives" sheet and the "PCFM Input Summary" sheet, which should be used to populate the licensee input sheets in the PCFM.</p> <p>Forecasting</p> <p>Forecasts for <u>year t or</u> future regulatory periods, <u>if available</u>, should be input directly into the yellow input cells of the relevant incentive sheets of the ET2 RRP. This data will then be picked up in the "Output Delivery Incentives" sheet and the allowance values on the "PCFM Input Summary" sheet, which should be used to populate the licensee input sheets in the PCFM</p>
<p><u>Other Revenue allowances</u></p> <ul style="list-style-type: none"> • RIIO-2 network innovation allowance • Carry-over Network Innovation Allowance • Net Zero Fund use it or lose it allowance (SHET and SPTL only) 	<p>For ORA values, actual data for the reporting period in question should be input directly into the yellow input cells of the relevant ORA sheets of the ET2 RRP. This data will then be picked up in the "Other Revenue Allowances" sheet and the allowance values on the "PCFM Input Summary" sheet, which should be used to populate the licensee input sheets in the PCFM</p>

<ul style="list-style-type: none"> • Net zero carbon Capital Construction use it or lose it allowance (NGET only) • Non-Technical Mitigation Projects allowance • Transmission investment for renewable generation (SHET and SPTL only) 	<p>sheet, which should be used to populate the licensee input sheets in the PCFM.</p> <p>With respect to <i>Total NIA Expenditure</i>, the licensee must input expenditure excluding any 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 is provided in the ET RIGs.</p> <p>Forecasting</p> <p>Forecasts for future regulatory periods should be input directly into the yellow input cells of the relevant ORA sheets of the ET2 RRP. This data will then be picked up in the "Other Revenue Allowances" sheet and the allowance values on the "PCFM Input Summary" sheet, which should be used to populate the licensee input sheets in the PCFM.</p>
<p>Legacy MOD</p> <p>Closeout adjustment</p>	<p>These Legacy values will be directed by Ofgem following the formal close-out of the RIIO-ET1 price control.</p> <p>Legacy MOD</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 for 2021/22 and 2022/23 in accordance with the processes set out in the "Legacy MOD (LMOD_t)" section of chapter 8 of the PCFH. These values have now been set and</p>

will not be revised further beyond the 2022 AIP. Any subsequent revisions will feed through the closeout adjustment.

Closeout adjustment

For the 2023 AIP and beyond, the value of $LMOD_t$ will be calculated within the PCFM based on the value of COA_t (the closeout adjustment).

In the interim period before the direction of the closeout adjustment value, the licensee must calculate its provisional closeout adjustment value in accordance with the processes set out in the "LMOD values to finalise the closeout of RIIO-ET1" section of chapter 8 of the PCFH.

~~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 $MOD_{2022/23}$ 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.~~

~~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.~~

If the Licensee chooses to make any such provisional revisions to the Legacy ET1 PCFM, do

	<p>this, it must also submit a description of the specific modifications made to the Legacy ET1 PCFM along with <u>a copy of the Closeout methodology reporting file and</u> a justification for <u>the revision</u> them in its PCFM Dry Run Commentary (see section 5 of this Guidance).</p>
<p><u>RIIO-1 net RAV additions (after disposals)</u></p>	<p>Legacy <u>RIIO-1 net RAV additions</u> 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 <u>close-out methodologies and</u> processes set out in <u>chapter 8</u> of the PCFH.</p> <p><u>If the Licensee chooses to make any such provisional revisions to the Legacy ET1 PCFM, it must submit a description of the specific modifications made to the Legacy ET1 PCFM along with a copy of the Closeout methodology reporting file and a justification for the revisions in its PCFM Dry Run Commentary (see section 5 of this Guidance).</u></p> <p><u>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.</u></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 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><u>Other Legacy adjustments</u></p> <ul style="list-style-type: none"> • Close-out of RIIO-ET1 pass-through items • Legacy K correction • Legacy TRU term • Close-out of RIIO-ET1 network outputs • Close-out of RIIO-ET1 stakeholder satisfaction output • Close-out of RIIO-ET1 environmental discretionary reward scheme adjustment • Close-out of RIIO-ET1 sulphur hexafluoride gas emissions incentive • <u>Close-out of RIIO-ET1 energy not supplied reliability incentive</u> • <u>Revenue for TRU term</u> • <u>RIIO-1 RPI forecast term</u> 	<p>Legacy <u>adjustments to revenue are calculated on a lagged basis by the licensee in accordance with the relevant special conditions and the process set out in the "Legacy Adjustment to Revenue section" of chapter 8 of the PCFH.</u> values will be directed by Ofgem following the formal close-out of the RIIO-ET1 price control.</p> <p><u>In some cases, these legacy variable values will be directed by Ofgem following the formal close-out of the RIIO-ET1 price control.</u></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 in accordance with the processes set out in the "Legacy Adjustment to Revenue section" of chapter 8 of the PCFH.</p>
<p><u>Directly remunerated services</u></p>	<p>For DRS values, actual and forecast data for the reporting period in question should be input</p>

<ul style="list-style-type: none"> • Pre-vesting directly remunerated services • Post-vesting directly remunerated services • Other Income directly remunerated services • Identified directly remunerated services costs 	<p>directly into the yellow input cells in the “DRS & De Minimis” sheet of the ET2 RRP. This data will then be picked up in the allowance values on the “PCFM Input Summary” sheet, which should be used to populate the licensee input sheets in the PCFM.</p>
<p>iBoxx trailing average (iBTA_t) iBoxx average (Financial Year) (IBAFY_t) iBoxx average (April - October) (IBAAO_t) Risk-free rate (RFR)</p>	<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>These values are calculated and populated by Ofgem during the final dry run of each AIP dry runs. <u>This update</u> 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 iBTA and RFR is described in chapter 4 of the PCFH.</p>
<p>Sterling Overnight Index Average (I_t)</p>	<p>This finance input is calculated by the Authority using the WACC allowance model and is used in calculation of the correction term (K_t).</p> <p>The input value in row 157 is calculated and populated by Ofgem during the final dry run of each AIP dry runs. <u>This update</u> which usually takes place in early November.</p> <p>This value is sourced from the updated WACC allowance model.</p>
<p>Real Price Effects (RPEs) annual growth rate</p>	<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 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-2) definition” in the licensee’s submitted RFPR.</p> <p>See the RIIO-2 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-2) definition” in the licensee’s submitted RFPR.</p> <p>See the RIIO-2 RFPR Guidance for further detail on what this value comprises.</p>
Tax liability allowance adjustments – driven by tax trigger events General Pool Opening Balance Adjustment Special Pool Opening Balance Adjustment	<p>These variable values will not be applicable unless the licensee has followed the notification process set out in chapter 6 of the PCFH.</p>

	<p><u>These values will be calculated according to the methodology that has been agreed to by Ofgem.</u></p> <p>Ofgem will provide confirmation of the final figures to be used for these variable values.</p>
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	<p><u>These</u> 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 RIIO-2 PCFM.</p> <p>The closing balances should come from the same version of the legacy ET1 PCFM that the LRAV, and LMOD <u>and COA</u> values are taken from.</p>
Tax loss brought forward⁴	As above for "Capital allowance opening pools brought forward".
Tax pool allocation rates	<p>For these values, 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 RRP.</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</p>

⁴ This variable value relates to a licensee's regulatory opening tax losses and not statutory tax losses per corporation tax returns.

	<p>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>
Recovered Revenue	<p>This variable value as defined in SpC 2.1, Part B of ET Licence should be provided by licensees. Recovered revenue is net of Bad Debt.</p>
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>

	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	<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 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>
<u>Totex variant allowances allocation percentages</u>	<p><u>Where a licensee has provided a forecast for a variant allowance variable value, which does not have a corresponding hard-coded (“yellow-box”) allocation rate, it may update these variable values with its own forecast allocation rates.</u></p> <p><u>This will enable any forecast values for the affected variant allowances to feed through to Allowed Revenue.</u></p> <p><u>Where Ofgem directs these allocation rates, the directed values must be used.</u></p>

5.4. PCFM Dry Run Commentary

Background

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

4.2. 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 ART for the Regulatory Year t , in narrative form.

Structure of the commentary

4.3. 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
- Data assurance statement
- Other relevant information

4.4. 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.

4.5. 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, ET2 RRP, Legacy PCFM or forecast data);
- a description of the impact of the changes on ADJR and ART 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 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, ET2 RRP) are subject to; and,
- any other information the licensee considers is appropriate to explain the PCFM submission.

Submission

4.6. 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 it may submit a single commentary to cover all licensees.

4.7. 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.

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