Guidance

GD2 PCFM Guidance			
First publication	01 June 2021	**Team:**	Regulatory Finance
Effective date	01 June 2022~~2~~3	**Tel:**	020 7901 7000
Version	~~1.1~~1.2	**Email:**	RegFinance@ofgem.gov.uk

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).

Contents

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 Ofgem 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 GD2 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 GD2 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 GD2 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 GD2 Price Control Financial Model*).

Purpose

1.6. The purpose of this document is to provide guidance to enable Gas Distribution Networks (GDNs) to complete each dry run of an AIP that is submitted to Ofgem. As described in the GD2 Price Control Financial Handbook, the dry runs process entails amending and confirming values for each Regulatory Year over a number of months, from 30 September31 August to

early January~~November~~, on an iterative basis to account for updates to the PCFM Variable Values[1] 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.

---

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

2 The Price Control Financial Model

Introduction

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 3~~10~~January ~~November~~ each year and is the value that licensees must use to set their charges for the forthcoming Regulatory Year under Special Condition 2.1 (*Revenue restriction*).

Model structure

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

Sheet	Contents
Cover	Content directory and Model key
UserInterface	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 AR_t. 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 FuelPoor Return&RAV TaxPools Finance&Tax ReturnAdj Revenue AR	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 each GDN.
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.
Company-specific input sheets	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:

- GD2 Regulatory Reporting Pack (GD2 RRP)[2]
- Legacy GD1 PCFM and any supporting files (if revisions to the legacy adjustments are proposed)
- GD1 Revenue RRP (for LAR values) (if revisions to the legacy adjustments are proposed)

---

[2] From the regulatory period starting 2021/22.

Reporting timescales

2.7. The licensee must submit the PCFM, the required supporting models and commentary to the Authority by 30 September1 August prior to each Regulatory Year t[3].

2.8. Ofgem will maintain up-to-date copies of and make any modifications, if required, 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 Julyne prior to each Regulatory Year.[4]

2.9. Ofgem will circulate the updated inflation contained in the 'Universal Data' tab of the GD2 RRP by end of April each year, reflecting the Actuals through end of March of the prior year and data from the freshly released March OBR forecast, to be used for the upcoming RRP submission on 31st July and 'PCFM for use in AIP'. This would ensure latest inflation feeding into the price base and consistency across the GD2 RRP and PCFM. The second inflation update will occur in July to reflect the actuals through June in the 'PCFM for use in AIP' and the final inflation update may occur, depending on OBR release date, in November in line with the methodology prescribed in the PCFH.

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 NovemberJanuary prior to the Regulatory Year t. The number of dry runs needed will depend on the number and timing of variable value updates required for the relevant licensee in any particular Regulatory Year.

2.11. The AIP will be completed by 310 November January prior to each Regulatory Year t, or as soon as is reasonably practicable thereafter. The deadline of 310 JanuaryNovember

---

[3] This term is defined in Part B of Special Condition 1.1 (Interpretations and Definitions)
[4] See the PCFM functional cut-off dates set out in Table 2.1 of the GD2 PCFH.

reflects the ~~need for the licensee to have confirmation of its ARt[5] in time to calculate and~~licensee's deadline for set~~ting~~ 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 GD2 PCFH.

Submissions

2.13. By 3~~1~~0 September ~~August~~ prior to each Regulatory Year t~~,~~ and at each dry run, the licensee must submit to the Authority the GD2 PCFM~~,~~ with a completed variable values table (covering activity in the prior Regulatory Year and changes to forecast activity[6]), which has been run to calculate AR_t~~.~~ along with an updated copy of the GD2 RRP.

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 ~~31 August~~30 September and thereafter at each dry run, the variable values in the "3.01 Finance Interface" sheet of the GD2 RRP should ~~be linked to~~match ~~with~~ the company-specific input sheets of the GD2 PCFM, where applicable.

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.

---

[5] ~~This term is defined in Part B of Special Condition 1.1 (Interpretations and Definitions)~~
[6] 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.

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 GD2 PCFH, when ascertaining calculated revenue, the GD2 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.

Annual iInflation updates

2.21. Ofgem will update and circulate the inflation data contained in the "Universal Data" tab of the GD2 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 are feeding into the GD2 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 GD2 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 '2.09 Revenue-Inflation update' worksheet of the GD2 RRP. The differential between the previous and new OBR forecast will determine the new nominal values, which will be used in the '2.04 Revenue-Pass-through costs' worksheet of the RRP. For more detail on this inflation update, please see 'pass through costs' section in chapter 4.~~

Related documents

GD2 Price Control Financial Handbook

GD2 Price Control Financial Model

GD2 Regulatory Instructions and Guidance (RIGs)

GD2 Regulatory Reporting Pack

GD2 Regulatory Financial Performance Reporting

Other relevant Associated Documents as listed in <u>Table 3.1 of the PCFH</u> ~~**Table 3.1**~~

3. The GD2 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 (SpC) 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-GD2 variable values (VV)

VV	Description	SpC	Cross-reference / Associated Document
Variant Totex Allowances – PCDs			
GHRR$_t$	Gas Holder demolitions Price Control Deliverable (WWU and NGN only)	SpC 3.25	PCFM Guidance
NARM$_t$	Baseline Network Risk Output	SpC 3.1	PCFM Guidance
T1MD$_t$	Tier 1 Mains decommissioned Price Control Deliverable	SpC 3.10	PCFM Guidance
T1SR$_t$	Tier 1 Services Repex Price Control Deliverable	SpC 3.11	PCFM Guidance
BMI$_t$	Biomethane improved access rollout Price Control Deliverable (SGN only)	SpC 3.30	PCFM Guidance
RPM$_t$	Remote pressure management Price Control Deliverable (SGN only)	SpC 3.29	PCFM Guidance, PCD Reporting Requirements and Methodology Document
IPR$_t$	Intermediate pressure reconfigurations Price Control Deliverable (SGN only)	SpC 3.28	PCFM Guidance
CAP$_t$	Capital projects Price Control Deliverables	SpC 3.12	PCFM Guidance, PCD Reporting Requirements and Methodology Document
OTC$_t$	Commercial fleet Price Control Deliverable	SpC 3.13	PCFM Guidance
GER$_t$	Gas escape reduction Price Control Deliverable	SpC 3.31	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
PSUP$_t$	Physical security Price Control Deliverable	SpC 3.4	PCFM Guidance, PCD Reporting Requirements and Methodology Document
LMP$_t$	London Medium Pressure Price Control Deliverable (Cadent North London only)	SpC 3.27	PCFM Guidance, PCD Reporting Requirements and Methodology Document

VV	Description	SpC	Cross-reference / Associated Document
PWF$_t$	Personalising welfare facilities Price Control Deliverable	SpC 3.26	PCFM Guidance
RDF$_t$	Net zero and Re-opener development use it or lose it allowance	SpC 3.5	PCFM Guidance
Variant Totex Allowances – UMs			
RE$_t$	Tier 2A mains and services replacement volume driver	SpC 3.16	PCFM Guidance
REP$_t$	HSE Repex policy Re-opener	SpC 3.17	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
HPRA$_t$	Heat policy and energy efficiency Re-opener	SpC 3.19	PCFM Guidance, Re-opener Guidance and Application Requirements
FPA$_t$	Fuel Poor Network Extension Scheme volume driver	SpC 3.14	PCFM Guidance, FPNES Governance Document
NZ$_t$	Net zero Re-opener	SpC 3.6	PCFM Guidance, Re-opener Guidance and Application Requirements
SMR$_t$	Smart Metering Roll-out Costs Re-opener	SpC 3.23	PCFM Guidance, Re-opener Guidance and Application Requirements
STW$_t$	Specified Streetworks Costs Re-opener	SpC 3.24	PCFM Guidance, Re-opener Guidance and Application Requirements
NLLR$_t$	New Large Load Connections Re-opener	SpC 3.22	PCFM Guidance, Re-opener Guidance and Application Requirements
CA$_t$	Domestic Connections volume driver	SpC 3.15	PCFM Guidance
STUB$_t$	Tier 1 Stubs Repex policy Re-opener	SpC 3.18	PCFM Guidance, Re-opener Guidance and Application Requirements
DIV$_t$	Diversions and Loss of Development Claims policy Re-opener	SpC 3.20	PCFM Guidance, Re-opener Guidance and Application Requirements
MOBS$_t$	Multiple Occupancy Buildings safety Re-opener	SpC 3.21	PCFM Guidance, Re-opener Guidance and Application Requirements
NOITRE$_t$	Non-operational IT Capex Re-opener	SpC 3.7	PCFM Guidance, Re-opener Guidance and Application Requirements

VV	Description	SpC	Cross-reference / Associated Document
NZP$_t$	Net zero pre-construction works and small net zero projects re-opener	SpC 3.9	PCFM Guidance, Re-opener Guidance and Application Requirements
CROTRE$_t$	Cyber Resilience OT non-baseline	SpC 3.2	PCFM Guidance, PCD Reporting Requirements and Methodology Document
CRITRE$_t$	Cyber Resilience IT non-baseline	SpC 3.3	PCFM Guidance, PCD Reporting Requirements and Methodology Document
PSUPRE$_t$	Physical Security Re-Opener	SpC 3.4	PCFM Guidance, PCD Reporting Requirements and Methodology Document
RPE$_t$	RPEs	–	PCFM Guidance
Actual Totex			
Capitalisation rate 1:			
ALC	Actual load related capex	–	PCFM Guidance
AOC	Actual other capex	–	PCFM Guidance
ACO	Actual business support (opex)	–	PCFM Guidance
ADO	Actual directs (opex)	–	PCFM Guidance
ARE	Actual replacement expenditure	–	PCFM Guidance
Capitalisation rate 2:			
ALCU	Actual load related capex	–	PCFM Guidance
AOCU	Actual other capex	–	PCFM Guidance
ACOU	Actual business support (opex)	–	PCFM Guidance
ADOU	Actual directs (opex)	–	PCFM Guidance
AREU	Actual replacement expenditure	–	PCFM Guidance
Pass-through expenditure			
SL$_t$	Shrinkage	SpC 6.1, Part D	PCFM Guidance
LF$_t$	Licence Fee	SpC 6.1, Part A	PCFM Guidance
RB$_t$	Prescribed Rates	SpC 6.1, Part B	PCFM Guidance
EDE$_t$	Pension Scheme Established Deficit repair	SpC 6.1, Part A	PCFH section 7
PD$_t$	Distribution Network Pension Deficit Charge	SpC 6.1, Part A	PCFM Guidance

VV	Description	SpC	Cross-reference / Associated Document
TPWI_t	Third Party Damage and Water Ingress Costs	SpC 6.1, Part C	PCFM Guidance
TG_t	Gas Illegally Taken	SpC 6.1, Part A	PCFM Guidance
EC_t	NTS Exit Flat Capacity Costs and NTS Exit Flex Capacity Costs	SpC 6.1, Part A	PCFM Guidance
CDSP_t	CDSP Costs	SpC 6.1, Part A	PCFM Guidance
MP_t	Miscellaneous pass-through	SpC 6.1, Part A	PCFM Guidance
SLDZ_t	Other – Stranraer LDZ (SGN Scotland only)	SpC 6.1 Part A	PCFM Guidance
Incentive Revenue			
CS_t	Customer Satisfaction Survey ODI	SpC 4.2	PCFM Guidance
CM_t	Complaints metric ODI	SpC 4.3	PCFM Guidance
UIP_t	Unplanned Interruption Mean Duration ODI (NGN, SGN and WWU only)	SpC 4.5	PCFM Guidance
UIP_t	Unplanned Interruption Mean Duration ODI (Cadent only)	SpC 4.5	PCFM Guidance
SM_t	Shrinkage Management ODI	SpC 4.4	PCFM Guidance
CSW_t	Collaborative streetworks ODI (Cadent Lon & EoE, SGN So Networks only)	SpC 4.6	PCFM Guidance
Other Revenue Allowances			
NIA_t	RIIO-2 Network Innovation Allowance	SpC 5.2	PCFM Guidance, RIIO-2 Network Innovation Allowance Governance Document
CNIA_t	RIIO-1 Network Innovation Allowance	SpC 5.3	PCFM Guidance, RIIO-1 Network Innovation Allowance Governance Document
VCM_t	Vulnerability and Carbon Monoxide Allowance	SpC 5.4	PCFM Guidance, VMCA Governance Document
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

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 the RIIO-1 Network Outputs	SpC 7.6	PCFH section 8, PCFM Guidance
$LDRW_t$	Close out of the RIIO-GD1 Discretionary Reward Scheme	SpC 7.8	PCFH section 8, PCFM Guidance, Stakeholder Engagement Incentive Guidance
LBM_t	Close out of the RIIO-GD1 Broad Measure of Customer Satisfaction Incentive	SpC 7.9	PCFH section 8, PCFM Guidance
$LEEI_t$	Close out of the RIIO-GD1 Environmental Emissions Incentive	SpC 7.11	PCFH section 8, PCFM Guidance
$LSHR_t$	Close out of the RIIO-GD1 Shrinkage Allowance Revenue Adjustment	SpC 7.10	PCFH section 8, PCFM Guidance
$LFPI_t$	Close out of the RIIO-GD1 Fuel Poor Network Extension Scheme Incentive	SpC 7.12	PCFH section 8, PCFM Guidance
LEx_t	Close out of the RIIO-GD1 Exit Capacity Cost Adjustment	SpC 7.13	PCFH section 8, PCFM Guidance
$LRAV_t$	Legacy net RAV additions (after disposals)	SpC 7.14	PCFH section 8, PCFM Guidance
$LSOLR_t$	Legacy supplier of last resort		PCFM Guidance
ttR_t **Directly Remunerated Services**			
$PREDRS_t$	Pre-vesting directly remunerated services	–	PCFM Guidance
$POSDRS_t$	Post-vesting directly remunerated services	–	PCFM Guidance
$OIDRS_t$	Other income from directly remenerated services	–	PCFM Guidance
$IDRS_t$	Identified directly remunerated services costs	–	PCFM Guidance
Finance Inputs			
$iBTA_t$	iBoxx trailing average	–	PCFH section 4, PCFM Guidance
RFR	Risk-free rate	–	PCFH section 4, PCFM Guidance

VV	Description	SpC	Cross-reference / Associated Document
I_j	Sterling Overnight Index Average (SONIA)	SpC 1.1, Part B	PCFH section 2, 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
$OGPAt$	General pool opening balance adjustment	-	PCFM Guidance
$OSRPAt$	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[7]	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

---

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

VV	Description	SpC	Cross-reference / Associated Document
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-1AR$_t$	RIIO-1 allowed revenue	-	PCFM Guidance
RIIO-1 ExitAR$_t$	RIIO-1 exit allowed revenue		PCFM Guidance
RIIO-1 SAR$_t$	RIIO-1 supplier of last resort allowed revenue		PCFM Guidance
BRR$_t$	Recovered revenue billed basis		PCFM Guidance
BD$_t$	Bad Debt		PCFM Guidance
RR$_i$	Recovered revenue	SpC 2.1, Part B	PCFM Guidance
ExitRR$_t$	Recovered revenue – NTS Exit Flat Capacity		PCFM Guidance
SRR$_t$	Recovered revenue - SOLR		PCFM Guidance
PRP$_t$	Penal rate proportion	SpC 2.1, Part H	PCFM Guidance
Totex variant allowances allocation percentages			
RAV and assets			

3 ~~4.~~ 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).

3.3.   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.

Unless otherwise specified, all references relate to the Revenue input sheets of the RIIO-GD2 RRP.

~~Where the guidance refers to cost or other data that links to the GD2 Revenue workbook from the GD2 RRP, these values should be directly input into the GD2 Revenue workbook for the PCFM submission due on August 31st 2021.~~

~~3.4.   The first submission of the GD2 RRP will be in July 2022 and so for the first PCFM submission in August 2021, the RRP will not be available. In the absence of this file, the licensee should enter its best estimate of forecast costs and outputs data into the yellow input cells of the GD2 Revenue workbook to calculate the PCFM Variable Values that will be included in the November 2021 AIP. The licensee must also populate the blue input cells in the GD2 Revenue workbook using the pre-determined allowance values taken from its licence conditions.~~

~~The contents of the GD2 Revenue workbook will be included within the GD2 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
Variant Totex Allowances – Price Control Deliverables	In general, the value of the Price Control Deliverable is an ex-ante allowance, subtracting any reductions that have been directed by the Authority.

• Gas Holder demolitions Price Control Deliverable (WWU and NGN only) • Baseline Network Risk Output • Tier 1 Mains decommissioned Price Control Deliverable • Tier 1 Services Repex Price Control Deliverable • Biomethane improved access rollout Price Control Deliverable (SGN only) • Remote pressure management Price Control Deliverable (SGN Southern only) • Intermediate pressure reconfigurations Price Control Deliverable (SGN Scotland only) • Capital projects Price Control Deliverable • Commercial fleet Price Control Deliverable • Gas escape reduction Price Control Deliverable (SGN only) • Cyber resilience OT Baseline • Cyber resilience IT Baseline • Physical security Price Control Deliverable • London Medium Pressure Price Control Deliverable (Cadent London only)	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 these Variable Values, the actual adjustments directed by Ofgem should be input into the yellow adjustment cells in the "2.01 Revenue - PCDs" sheet of the GD2 RRP. This data will then be picked up in the allowance values on the "3.01 Revenue_Interface" sheet, which should be used to populate the licensee input sheets in the PCFM. Baseline Network Risk Outputs (NARM) PCD - Companies should input their forecast in yellow input cells on row 10 which then feeds into the "3.01 Revenue Interface". Unlike other PCDs, the license algebra does not allow an adjustment for NARM, however licensees are allowed to input their best estimate or actuals on row 10, which will be over-written with the values as and when directed by Ofgem. Tier 1 Mains De-Commissioned and Tier 1 Services Repex PCDs – On rows 51-54 and 73-74 respectively, in each year, licensees should input the current forecast workload for the full 5yrs period. This will be compared to the baseline activity volume for the 5yr period, pre-populated by Ofgem as per the GD2 license to derive allowance values, which then feeds into the "3.01 Revenue Interface". Commercial Fleet PCD - Please follow instructions provided in cells K102, C106, C108 and K 118 of the "2.01 Revenue - PCDs" sheet.

• Personalising welfare facilities Price Control Deliverable (Cadent only) • Net zero and Re-opener development fund use it or lose it allowance	**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, it should use best endeavours to forecast the expected adjustment into the yellow adjustment cells in the "PCDs" sheet. Details of the assumptions made should be provided in the supplementary commentary.
Variant Totex Allowances – Volume Drivers • Tier 2A mains and services replacement volume driver • Fuel Poor Network Extension Scheme volume driver • Domestic Connections volume driver	For actual periods, data should be input directly into the yellow input cells of the "2.02 Revenue - Volume Drivers" sheet of the GD2 RRP. This data is then picked up in the allowance values on the "3.01 Revenue_Interface" sheet, which should be used to populate the licensee input sheets in the PCFM. **Forecasting** For forecast periods relating to future Regulatory Years, data should be input directly into the yellow input cells of the "2.02 Revenue - Volume Drivers" sheet of the GD2 RRP. This data will then be picked up in the allowance values on the "3.01 Revenue_Interface" sheet, which should be used to populate the licensee input sheets in the PCFM.
Variant Totex Allowances – Re-openers HSE policy Re-opener • Coordinated adjustment mechanism 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

• Heat policy and energy efficiency Re-opener • Net zero Re-opener • Smart Metering Roll-out Costs Re-opener • Specified Streetworks Costs Re-opener • New Large Load Connections Re-opener • Tier 1 Stubs Repex policy Re-opener • Diversions and Loss of Development Claims policy Re-opener • Multiple Occupancy Buildings safety Re-opener • Non-operational IT Capex Re-opener • Net zero pre-construction works and small net zero projects re-opener • Cyber resilience OT non-baseline • Cyber resilience IT non-baseline • Physical Security Re-Opener	changing circumstances during the price control period. 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 these Variable Values, where actual amounts are known at the time of the dry run, i.e. 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's allowance and adjustment yellow input cells in the "2.03 Revenue - Re-openers" sheet. This data will then be picked up in the allowance values on the "3.01 Revenue_Interface" sheet, which should be used to populate the licensee input sheets in 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, at any dry run. This should be done by updating the yellow adjustment and allowance cells in the "2.03 Revenue - Re-openers"" sheet and in the re-opener pipeline log, which should be updated on a consistent basis. 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 "11.05 Other_Re-opener_Pipeline" sheet of the GD2 RRP. In the event, wWhere the values submitted in the pipeline log are out of date and need to be changed due to the ongoing discussions with Ofgem or any other reason, the licensees may submitshould update the Re-opener pipeline log that as part of anythe subsequent dry run submissions for the purpose of AIP.s process for Ofgem's review. Any supporting justification should be provided in addition to the log as per the re-opener guidance specified in the RIGs.
Actual Totex	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 totex values, actual and forecast data for the reporting period in question will be automatically linked from the "1.02 Summary_PCFM" sheet to the "3.01 Revenue_Interface" sheet of the GD2 RRP. These values should be used to populate the licensee input sheets in the PCFM.

Pass-through costs - other
  • Shrinkage
  • Licence Fee
  • Prescribed Rates
  • Pension Scheme Established Repair Costs
  • Distribution Network Pension Deficit charge
  • Third Party Damage and Water Ingres costs
  • Gas Illegally taken
  • Bad Debt (Further guidance provided below)
  • NTS Exit Flat and Flex Capacity Costs
  • CDSP Costs
  • Miscellaneous Pass-through costs
  • Stranraer LDZ (SGN Scotland only)
	Pass-through costs are specified costs that are predominantly outside of a licensee's control and may be passed through to consumers. These costs are defined in SpC 6.1 (Pass-through items).
	
	For pass-through Variable Values, actual data for the reporting period in question should be input directly into the yellow input cells of the "2.04 Revenue-Pass-through costs" sheet of the GD2 RRP. This data will then be picked up in the allowance values on the "3.01 Revenue_Interface" sheet, which should be used to populate the licensee input sheets in the PCFM.
	
	~~Forecast nominal values in the '2.04 Revenue-Pass-through costs' sheet will need updating if Ofgem updates the OBR inflation forecast used in the PCFM by October 31. These values are linked to the '2.09 Revenue – Inflation update' worksheet.~~
	
	~~At each AIP, when the availability of OBR update is confirmed in October, Ofgem will update row 20 on the '2.09 Revenue – Inflation update' sheet resulting in a differential on row 26 based on the difference between March and latest OBR update.~~

	~~Ofgem will then select 'YES' on row 7, which will automatically populate additional tables incorporated in '2.04 Revenue-Pass-through costs'. These new nominal values will then feed into the PCFM input summary sheets, where applicable, and will be used to populate PCFM.~~
	Where required, further detailed guidance for updating these variable values is provided in the GD 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.
	Eg 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 "2.04 Revenue-Pass-through costs" sheet of the GD2 RRP. This data will then be picked up in the allowance values on the "3.01 Revenue_Interface" sheet, which should be used to populate the licensee input sheets in the PCFM.
Incentive revenue (Output Delivery Incentives)	Incentive revenue or output delivery incentives (ODI) are used to reward or penalise licensees for their performance.

• Customer Satisfaction Survey ODI • Complaints metric ODI • Unplanned Interruption Mean Duration ODI (NGN, SGN and WWU only) • Unplanned Interruption Mean Duration ODI (Cadent only) • Shrinkage Management ODI • Collaborative streetworks ODI (Cadent Lon & EoE, SGN So only)	For ODI values, actual data for the reporting period in question should be input directly into the yellow input cells of the "2.05 Revenue - ODI" sheet of the GD2 RRP. This data will then be picked up in the allowance values on the "3.01 Revenue_Interface" sheet, which should be used to populate the licensee input sheets in the PCFM. *Shrinkage Management ODI* Licensees must use Annex 1 of the BEIS paper "Valuation of greenhouse gas emissions: for policy appraisal and evaluation" for the Central Price of Carbon input value.[8] **Forecasting** 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 "2.05 Revenue - ODI" sheet of the GD2 RRP. This data will then be picked up in the allowance values on the "3.01 Revenue_Interface" sheet, which should be used to populate the licensee input sheets in the PCFM.
Other Revenue allowances • RIIO-2 network innovation allowance • Carry–over Network Innovation Allowance • Vulnerability and carbon monoxide allowance	For ORA Variable Values, actual data for the reporting period in question should be input directly into the yellow input cells of the "2.06 Revenue – ORA" sheet of the GD2 RRP. This data will then be picked up in the allowance values on the "3.01 Revenue_Interface" sheet, which should be used to populate the licensee input sheets in the PCFM.

---

[8] https://www.gov.uk/government/publications/valuing-greenhouse-gas-emissions-in-policy-appraisal/valuation-of-greenhouse-gas-emissions-for-policy-appraisal-and-evaluation#annex-1-carbon-values-in-2020-prices-per-tonne-of-co2

	With respect to *Total NIA Expenditure, licensee must input expenditure excluding* any expenditure which is deemed to be 'Unrecoverable NIA Expenditure' as it does not satisfy the requirements of the RIIO-2 NIA Governance Document. Further detailed guidance for updating these variable values is provided in the GD RIGs. **Forecasting** Forecasts for future regulatory periods should be input directly into the yellow input cells of the "2.06 Revenue – ORA" sheet of the GD2 RRP. This data will then be picked up in the allowance values on the "3.01 Revenue_Interface" sheet, which should be used to populate the licensee input sheets in the PCFM.
Legacy MOD Closeout adjustment	These lLegacy values will be directed by Ofgem following the formal close-out of the RIIO-GD1 price control. **Legacy MOD** In the interim period between the beginning of GD2 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 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-GD1" section of chapter 8 of the PCFH.

~~The licensee must update its legacy GD1 PCFM for any outturn data relating to the 2020/21 Regulatory Year as taken from its 31 August 2021 RIGs submissions. The legacy GD1 PCFM must then be run to generate the legacy $MOD_{2022/23}$ value. This should then be inflated using the RPIF figure from the GD1 Revenue RRP and input in the 'LMOD' variable value input row in the licensee-specific input sheets in the GD2 PCFM for 2022/23.~~

~~The Licensee may choose to incorporate other modifications as it considers necessary to the Legacy GD1 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~~make any such provisional revisions to the Legacy GD1 PCFM, it must ~~also~~ submit a description of the specific modifications made to the Legacy GD1 PCFM along with a copy of the Closeout methodology reporting file and ~~with~~ a justification for the revisions~~m~~ in its

	PCFM Dry Run Commentary (see section 5 of this Guidance).
RIIO-1 net RAV additions (after disposals)	Legacy RIIO-1 net RAV additions values will be directed by Ofgem following the formal close-out of the RIIO-GD1 price control. In the interim period between the beginning of GD2 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 close-out methodologies and processes set out in chapter 8 of the PCFH. If the Licensee chooses to make any such provisional revisions to the Legacy GD1 PCFM, it must submit a description of the specific modifications made to the Legacy GD1 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). The licensee must update its legacy GD1 PCFM for any outturn data relating to the 2020/21 Regulatory Year as taken from its 31 August 2021 RIGs submissions. The legacy GD1 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 GD2 PCFM, covering the historical GD1 period to 31 March 2021. The Licensee may choose to incorporate other modifications as it considers necessary to the Legacy GD1 PCFM to reflect any anticipated close-

	out adjustments, for which Ofgem has not yet provided a methodology, in its LRAV values. ~~If the Licensee chooses to do this, it must also submit a description of the specific modifications made to the Legacy GD1 PCFM along with a justification for them in its PCFM Dry Run Commentary (see section 5 of this Guidance).~~
Other Legacy adjustments Legacy pass-through items Legacy K correction Legacy TRU Close out of the RIIO-GD1 Network Outputs Close out of the RIIO-GD1 Discretionary Reward Scheme Close out of the RIIO-GD1 Broad Measure of Customer Satisfaction Incentive Close out of the RIIO-GD1 Environmental Emissions Incentive Close out of the RIIO-GD1 Shrinkage Allowance Revenue Adjustment Close out of the RIIO-GD1 Fuel Poor Network Extension Scheme Incentive Close out of the RIIO-GD1 Exit Capacity Cost Adjustment ~~Closeout adjustment~~ Revenue for TRU term RIIO-1 RPI forecast term	Legacy 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. ~~values will be directed by Ofgem following the formal close-out of the RIIO-GD1 price control.~~ In some cases, these legacy variable values will be directed by Ofgem following the formal close-out of the RIIO-GD1 price control. ~~In the interim period between the beginning of GD2 and the direction of these values following the close-out of GD1, 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.~~
Other Legacy adjustments – SOLR Legacy SOLR	This value should be provided by licensees. This value is the SOLR component of the Legacy pass-through items.

Directly remunerated services Pre-vesting directly remunerated services Post-vesting directly remunerated services Other income from directly remunerated services Identified directly remunerated services costs	For these variable values, ~~Post-vesting directly remunerated services and Identified directly remunerated services costs are linked directly to RRP sheets 2.10 and 4.17 respectively. Pre-vesting directly remunerated services and Other income from directly remunerated services~~ ~~actual and forecast data for the reporting period in question~~ ~~s~~should be input directly into the yellow input cells in "3.01 Revenue_Interface" sheet, which should be used to populate the licensee input sheets of the PCFM.
iBoxx trailing average (iBTA$_t$) Risk-free rate (RFR)	These finance inputs are calculated by the Authority using the WACC allowance model and feed into the licensee's allowed return on capital. These values are calculated and populated by Ofgem during the ~~final dry run of each~~ AIP _dry runs~~, which~~. This update_ 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 this row is calculated and populated by Ofgem during the ~~final dry run of each~~ AIP _dry runs. This update~~, 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-2) definition" in the licensee's submitted RFPR. See the RIIO-2 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. 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.

	See the RIIO-2 RFPR Guidance for further detail on what this value comprises.
Tax liability allowance adjustments – driven by tax trigger events General Pool Opening Balance Adjustment Special Pool Opening Balance Adjustment	These variable values will not be applicable unless the licensee has followed the notification process set out in chapter 6 of the PCFH. These values will be calculated according to the methodology that has been agreed to by Ofgem. Ofgem will provide confirmation of the final figures to be used for these variable values.
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	These lLegacy values will be directed by Ofgem following the formal close-out of the RIIO-GD1 price control. In the interim period between the beginning of GD2 and the direction of these values following the close-out of GD1, the licensee must use the provisional closing balances taken from the legacy GD1 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 GD1 PCFM that the LRAV, and LMOD and COA values are taken from.
Tax loss brought forward[9]	As above for "Capital allowance opening pools brought forward".

---

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

Tax pool allocation rates	For these values, the rates used to allocate totex into the different tax pools can be updated using the calculations in the "2.07 Revenue-TaxPoolTotex Alloc" sheet of the GD2 RRP. 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 - billed basis	This variable value should be provided by licensees. This value should be Recovered Revenue as defined below, but inclusive of Bad Debt.
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. Values should be input into the yellow input cells of the bad debt section of the "2.08 Revenue - Recovered Rev" sheet. This data is then picked up in the "3.01 Revenue_Interface" sheet, which should be used to populate the licensee input sheets in the PCFM. The provisional Bad Debt cost should include the Bad Debt costs that the licensee expects to incur including any 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 COVID-19 Bad Debt), where the costs have previously been recovered via the BDA term.
	All values should be exclusive of VAT.
Recovered Revenue	This variable value is defined in SpC 2.1, Part B of GD Licence and should be provided by licensees.
Recovered Revenue - NTS Exit Flat Capacity	This variable value should be provided by licensees and represents the amount of recovered revenue that relates to NTS Exit Flat Capacity costs as defined in Standard Special Condition A3 (Definitions and Interpretation), only.
Recovered Revenue - SoLR	This variable value should be provided by licensees and represents the amount of recovered revenue that relates to Supplier of Last Resort costs, only.
Penal rate proportion	This value will be calculated and input by Ofgem. SoLR revenues, raised in accordance with SSC

	A48, will be excluded from the value of penal rate proportion 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. Ofgem will update the CPIH outturn index prior to the first~~during the final~~ dry run of each AIP using data that is available as at 31 July~~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 prior to the first ~~during the final~~ dry run of each AIP using data that is available as at 31 July~~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 in November at~~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 in November at ~~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 CRPI inflation forecast in November at~~during the final dry run of~~ each AIP using OBR data that is available as at 31 October.
Totex variant allowances allocation percentages	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. This will enable any forecast values for the affected variant allowances to feed through to Allowed Revenue. Where Ofgem directs these allocation rates, the directed values must be used.
Disposals net sale proceeds	For this variable value, actual data for the reporting period in question should be inputted directly into the company specific input sheets of the PCFM in row 467. If the licensee chooses to update the Net sale proceeds for the legacy period (RIIO-1), it must submit a revised Legacy GD1 PCFM along with the Closeout methodology reporting file and a justification for the revisions in its PCFM Dry Run Commentary (see section 5 of this Guidance). The values reported for RIIO-2 will be picked up in row 12 of the "Input" sheet which is used in

	adjustment of the Cap Rate 1 totex allowance called "Non-load related capex – other" in Totex sheet.

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, GD2 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, GD2 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 (by network for Cadent). 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.