GT2 PCFM Guidance

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This document provides instructions and guidance to licensed network operators to enable them to complete the reporting requirements associated with updating various 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 GT2 Price Control Financial Handbook, which contains a detailed description of the PCFM modification process and the AIP dry run process. Additionally, this document should be read in conjunction with Appendix 1 ('*Glossary'*) of the GT2 Price Control Financial Handbook 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 GT2 Price Control Financial Instruments*).

1.5. The modification and governance process for the PCFM Guidance and the steps of the Annual Iteration Process are set out in Special Condition 8.2 (*Annual Iteration Process for the GT2 Price Control Financial Model*).

Purpose

1.6. The purpose of this document is to provide guidance to enable the licensee to complete each dry run of an AIP that is submitted to Ofgem. As described in the GT2 Price Control Financial Handbook, the dry runs process entails amending and confirming values for each Regulatory Year over a number of months, from 30 September to early Janauary, 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 31 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 (Transportation owner revenue restriction) and Special Condition 2.3 (System operator revenue restriction).

Model structure

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

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

Input	The Input tab is the starting point for all calculations in the PCFM and contains all the inputs necessary to calculate all the components of ARt. The Input tab pulls input values from the NGGT TO tab and the SystemOperator tab pulls input values from the NGGT SO tab.
Calculation sheets: Totex TIM Depn TaxPools Return&RAV Finance&Tax NonCore SystemOperator ReturnAdj Revenue AR SOAR	The calculation sheets are purple sheets and will be auto-populated by the model when the inputs are updated for each AIP. The calculations within the majority of these sheets follow the algebra set out in the special licence conditions for the TO and SO.
Results sheets	The "LiveResults" sheet shows a live summary of the changes to the components of AR_t, following any input updates. The values in this sheet update automatically following any changes to inputs to the year or company selector switch. This sheet shows results for the selected company. The "SavedResults" sheet hard-codes the values in the "LiveResults" sheet for comparison and record-keeping purposes, after the RunForOne or RunForAll macro has been run in the "UserInterface" sheet. This sheet shows the summary of results for all companies.
Monthly Inflation input sheet Annual Inflation input sheet	The "Monthly Inflation" sheet shows the values for monthly outturn and forecast price indices relating to the Retail Price Index (RPI), Consumer Price Inflation including owner-occupiers' housing costs (CPIH) and Price index (PI), as defined in chapter 2 of PCFH.

	The "Annual Inflation" sheet shows the derivation of annual indices and inflation rates by aggregating the data in the "Monthly Inflation" sheet. The inflation rates in the "Annual Inflation" sheet are used to derive "real to nominal" conversion factors used throughout the PCFM in relation to 2018/19 price base.
NGGT TO NGGT SO	The blue and grey shaded inputs, also known as the PCFM Variable Values, in each company-specific input sheet are the inputs, which should be updated as part of an AIP. These are the values that this guidance document pertains to, unless otherwise specified.

Supporting models

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

- GT2 Regulatory Reporting Pack (RRP)[1]
- Legacy GT1 PCFM and any supporting files (if applicable)
- GT1 Revenue RRP (for LAR values) (if applicable)
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Reporting timescales

2.7. The licensee must submit the PCFM, the required supporting models and commentary to the Authority by 30 September prior to each Regulatory Year t[2]

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[1] From the regulatory period starting 2022/23.
[2] 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.

To allow licensees sufficient time to populate a PCFM for submission, modifications will be reflected in the version of the PCFM to be used for an upcoming AIP by 1 July prior to each Regulatory Year[3].

2.9. 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 January 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 licensee in any particular Regulatory Year.

2.10. The AIP will be completed by 31 January prior to each Regulatory Year t, or as soon as is reasonably practicable thereafter. The deadline of 31 January reflects the need for the licensee to have confirmation of its AR_t[4] in time to calculate and set its use of system charges.

2.11. The steps of the AIP are specified in Special Condition 8.2, Part A and the process is further described in the GT2 PCFH.

Submissions

2.12. By 30 September prior to each Regulatory Year t and at each dry run the licensee must submit to the Authority the GT2 PCFM with a completed variable values table (covering activity in the prior Regulatory Year and changes to forecast activity[12]), which has been run to calculate AR_t along with an updated copy of the GT2 RRP.

2.13. As well as this, the licensee must submit the relevant supporting models used to derive the variable values and any relevant commentary. For the submission due on 30 September

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[3] See the PCFM functional cut-off dates set out in Table 2.1 of the GT2 PCFH.
[4] This term is defined in Part B of Special Condition 1.1 (Interpretations and Definitions).
[12] 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.

and thereafter at each dry run, the variable values in the "4.1 TO PCFM Input Summary" and "4.2 SO PCFM Input Summary" sheets of the GT2 RRP should match the company-specific input sheets of the GT2 PCFM, where applicable.

2.14. 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. 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. 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. 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. As described in chapter 2 of the GT2 PCFH, when ascertaining calculated revenue, the GT2 PCFM works in a constant 2018/19 price base except in respect of some calculations internal to the model that use nominal prices, eg, tax and legacy calculations.

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

Annual inflation updates

2.20. Ofgem will update and circulate the inflation data contained in the "Universal Data" tab of the GT2 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.

2.21. 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.

2.22. 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.

Related documents

GT2 Price Control Financial Handbook

GT2 Price Control Financial Model

GT2 Regulatory Instructions and Guidance (RIGs)

GT2 Regulatory Reporting Pack

GT2 Regulatory Financial Performance Reporting

Other relevant Associated Documents as listed in Table 3.1 of the PCFH

3. Instructions for completing the PCFM Variable Values

3.1. The PCFM Variable Values that can be revised during an AIP are set out in 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.

3.4. Unless otherwise specified, all references relate to the Revenue input sheets of the RIIO-GT2 RRP.

Variable Value category	Guidance for Completion
Variant Totex Allowances – Price Control Deliverables (PCDs) TO: • Baseline Allowed NARM Expenditure • Physical security Price Control Deliverable • Bacton terminal site redevelopment Price Control Deliverable • King's Lynn subsidence Price Control Deliverable • Asset health - non lead assets Price Control Deliverable • Compressor emissions Price Control Deliverable	In general, the value of the Price Control Deliverable is an ex-ante allowance, subtracting any reductions that have been directed by the Authority. The ex-ante allowances are given in the appendix for the relevant Special Condition, and the reductions are provided by directions from the Authority. For these Variable Values, the actual adjustments directed by Ofgem should be input into the yellow adjustment cells in the "TO PCDs" and "SO PCDs" sheets of the GT2 RRP. This data will then be picked up in the allowance values on the TO and SO PCFM Input Summary sheets, which should be used to populate the licensee input sheets in the PCFM.

- Redundant Assets Price Control Deliverable - Funded incremental obligated capacity Price Control Deliverable - Cyber Resilience OT Baseline - Cyber Resilience IT Baseline - Net Zero And Re-opener Development Fund use it or lose it allowance SO: - Funded incremental obligated capacity Price Control Deliverable - Cyber resilience OT Baseline - Cyber Resilience IT Baseline	**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 "TO PCDs" and "SO PCDs" sheets of the GT2 RRP. Details of the assumptions made should be provided in the supplementary commentary.
Variant Totex Allowances – Re-openers TO: - NARM Asset Health Re-opener - Non-operational IT Capex Re-opener - Coordinated adjustment mechanism Re-opener - Net zero Re-opener - Asset health Re-opener - Asset health – non lead assets Re-opener - Uncertain Costs Re-opener - Net Zero Pre-construction Work and Small Net Zero Projects Re-opener - Bacton terminal site redevelopment Re-Opener - Physical Security Re-Opener	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. 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, ie, where a decision has already been made on a reopener application, the licensee must use the adjustment values as published by the Authority to update the relevant re-opener allowance and adjustment yellow input cells in the "TO Re-openers" and "SO

• Compressor emissions Re-Opener • Cyber Resilience OT non-baseline • Cyber Resilience IT non-baseline • King's Lynn subsidence Re-Opener • Funded incremental obligated capacity Re-Opener SO: • Cyber Resilience OT non-baseline • Cyber Resilience IT non-baseline • Net Zero Re-opener • Funded incremental obligated capacity Re-opener • Non-operational IT Capex Re-opener	Re-openers" sheets of the GT2 RRP. This data will then be picked up in the allowance values on the TO and SO PCFM Input Summary sheets, which should be used to populate the 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 allowance cells in the "4.5 TO Re-openers" and "4.6 SO Re-openers" sheets of the GT2 RRP and in the "8.10 Pipeline Log" sheet, 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 forecast expenditure information that the licensee has provided in the "8.10 Pipeline Log", which will be included in the GT2 RRP. Where this is the case, the licensee

	should select "Yes" in the drop-down cells at column H of sheet 8.10. Where the values submitted in the pipeline log are out of date and require updating, the licensee should update the pipeline log as part of any subsequent dry run submission for the purpose of AIP. Any supporting justification should be provided in addition to the log as per the re-opener guidance specified in the RIGs.
Opex Escalator TO: • Opex Escalator	The opex escalator provides an additional allowance for any capital expenditure incurred on the eligible re-openers listed in SpC 3.18 (Opex escalator). For these Variable Values for TO, actual and forecast data for the eligible re-openers within $UMTERM_t$ is fed into the "Opex Escalator" sheet from the "TO Re-opener" sheet of the GT2 RRP. This data is then picked up in the allowance values on the TO PCFM Input Summary sheet, which should be used to populate the licensee input sheets in the PCFM.
Actual Totex TO: *Capitalisation rate 1:* • Actual load related capex expenditure • Actual asset replacement capex expenditure • Actual other capex expenditure • Actual non-load (opex)	Totex is reported in one of two buckets, capitalisation rate 1 and capitalisation rate 2. Any expenditure relating to ex-ante, or baseline funded activities including PCDs is subject to capitalisation rate 1. Any expenditure relating to activities that have been funded under Uncertainty Mechanisms (as

• Actual indirects (opex) • Actual non-operational capex *Capitalisation rate 2:* • Actual load related capex expenditure • Actual asset replacement capex expenditure • Actual other capex expenditure • Actual non-load (opex) • Actual indirects (opex) • Actual non-operational capex SO: • Actual non-operational capex • Actual controllable opex	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 to the "4.1 TO PCFM Input summary" sheet and the "4.2 SO PCFM Input summary" sheet from the "2.1 Revenue_Interface" sheet of the GT2 RRP. The values picked up in the "4.1 TO PCFM Input summary" sheet and the "4.2 SO PCFM Input summary" sheet should be used to populate the licensee input sheets in the PCFM.
Pass-through costs – other TO: • Licence fees • Prescribed Rates • Pension Scheme Established Deficit repair • Secretary of State in respect of Policing Costs • PARCA Termination Value • Gas conveyed to Independent Systems • Hy-Net • Net Zero Pre-construction Work and Small Net Zero Projects Re-opener SO: • CDSP Costs	Pass-through costs are specified costs that are predominantly outside of a licensee's control and may be passed through to consumers. These costs are defined in SpC 6.1 (Transportation owner pass-through items) and SpC 6.3 (System operator pass-through items). For pass-through Variable Values, actual data for the reporting period in question should be input directly into the yellow input cells of the "5.1 TO_Indirects" and "5.2 SO_Indirects"sheets. This data is then picked up in the "4.7 - TO PT" and "4.8 - SO PT" which are linked to the TO and SO PCFM Input Summary sheets, which should be used to populate the licensee input sheets in the PCFM. Where required, further detailed guidance for updating these variable values is provided in the GT RIGs.

• Pension Scheme Established Deficit	For EDE and SOEDE, data should be input directly into the the "4.7 - TO PT" and "4.8 - SO PT" sheets and should be based on the values directed by Ofgem following the most recent pensions reasonableness review. For Licence fees: where a rebate is given by Ofgem in relation to Licence fee costs for the previous regulatory year, that rebate should be netted off against the Licence Fee costs, when reported in the PCFM. E.g. if Ofgem provides a rebate to networks in the 21/22 year, relating to the 20/21 year, the licensee may either restate its Licence fee variable value for the regulatory year 20/21 or it may net off the rebate from the licence fee variable value for the 2021/22 regulatory year. **Forecasting** Forecasts for future regulatory periods should be input directly into the yellow input cells of the of the "5.1 TO_Indirects" and "5.2 SO_Indirects" sheets.. This data is then picked up in the "TO PT" and "SO PT" which are linked to the TO and SO PCFM Input Summary sheets, which should be used to populate the licensee input sheets in the PCFM.
Incentive revenue (Output Delivery Incentives) TO: • Customer satisfaction survey ODI	Incentive revenue or output delivery incentives (ODI) are used to reward or penalise licensees for their performance. For ODI values for TO, actual data for the reporting period in question should be input

• Environmental scorecard ODI	directly into the yellow input cells of the relevant GT2 RRP sheet. This data is then picked up in the "4.10 TO ODI" which is linked "TO PCFM Input Summary" sheet, which should be used to populate the licensee input sheets in the PCFM. Further detailed guidance for updating the underlying inputs to the calculations in the ODI sheet will be provided in the GT2 RIGs. **Forecasting** Forecasts for future regulatory periods should be input directly into the yellow input cells of the relevant GT2 RRP sheet. This data is then picked up in the "4.10 TO ODI" which is linked "TO PCFM Input Summary" sheet, which should be used to populate the licensee input sheets in the PCFM.
Other Revenue allowances TO: • RIIO-2 Network Innovation Allowance • Carry-over Network Innovation Allowance • Strategic Innovation Fund SO: • Constraint management incentive revenue • Revenue from accelerated release of incr. obl. entry capacity • Exit capacity buyback cost which users are liable to reimburse • Revenue for net residual balancing costs	For ORA values, actual data for the reporting period in question should be input directly into the yellow input cells of the "TO ORA" and "SOORA" sheets and into the yellow input cells of the relevant GT2 RRP sheets. This data is then picked up in the SO and TO PCFM Input Summary sheets, which should be used to populate the licensee input sheets in the PCFM. With respect to *Total NIA Expenditure*, the licensee must input expenditure excluding any expenditure which is deemed to be 'Unrecoverable NIA Expenditure' as per the requirements of the RIIO-2 NIA Governance Document. With respect to *Strategic Innovation Fund,* the licensee must input the sum value of SIF Funding that is collected on behalf of all gas networks as per the SIF Governance Document.

- Total costs for procurement of operating margin services - System costs - Residual balancing incentive - Quality of demand forecasting incentive - Greenhouse gas emissions incentive - Maintenance incentive	Further detailed guidance for updating the underlying inputs to the calculations in the "TO ORA" and "SOORA" sheets is provided in the GT2 RIGs. **Forecasting** Forecasts for future regulatory periods should be input directly into the yellow input cells of the "TO ORA" and "SOORA" sheets and into the yellow input cells of the relevant GT2 RRP sheets. This data is then picked up in the SO and TO PCFM Input Summary sheets, which should be used to populate the licensee input sheets in the PCFM.
Legacy MOD Closeout adjustment	Legacy values will be directed by Ofgem following the formal close-out of the RIIO-GT1 price control. **Legacy MOD** In the interim period between the beginning of GT2 and the direction of these values and the establishment of a close-out methodology, the licensee must calculate its provisional Legacy MOD values for 2021/22 and 2022/23 in accordance with the processes set out in the "Legacy MOD ($LMOD_t$ and $SOLMOD_t$)" 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 $LMOD_t$ and $SOLMOD_t$ will be calculated within the PCFM based on the value of COA_t and $SOCOA_t$ (the closeout adjustments).

	In the interim period between the beginning of GT2 and 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 and SOLMOD values to finalise the closeout of RIIO-GT1" section of chapter 8 of the PCFH. If the Licensee chooses to make any such provisional revisions to the Legacy GT1 PCFM, it must also submit a description of the specific modifications made to the Legacy GT1 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).
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-GT1 price control. In the interim period between the beginning of GT2 and the direction of these values and the establishment of a close-out methodology, the licensee must calculate its provisional RIIO-1 net RAV additions (LRAV and SOLRAV) values in accordance with the closeout methodologies and processes set out in chapter 8 of the PCFH. If the Licensee chooses to make any such provisional revisions to the Legacy GT1 PCFM, it must submit a description of the specific modifications made to the Legacy GT1 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).

Other Legacy adjustments TO: • Legacy pass-through • Legacy K correction • Legacy TRU • Close out of the RIIO-GT1 network outputs • RIIO-GT1 network innovation competition • Close out of the RIIO-GT1 stakeholder satisfaction output • Revenue for TRU term • RIIO-1 RPI forecast term SO: • System Operator legacy K correction • System Operator legacy TRU term • Close out of the RIIO-GT1 entry and exit capacity constraint management incentive • Close out of the RIIO-GT1 constraint management cost adjustment • Close out of the RIIO-GT1 transportation support services adjustment • Revenue for SOTRU 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. In some cases, these legacy variable values will be directed by Ofgem following the formal close-out of the RIIO-GT1 price control.
Directly remunerated services TO:	For DRS Revenue values for NGGT-TO, actual and forecast data for the reporting period in question should be input directly into the yellow input cells

• Directly remunerated services revenue • Directly remunerated services cost •	in the "DRS Revenue" sheet of the GT2 RRP, which should be used to populate the licensee input sheets in the PCFM. DRS Cost is directly linked to "2.1 Revenue_Interface". For this value please see the 'Instructions for completing the operational expenditure worksheets' chapter in the 'RIIO-GT2 Regulatory Instructions and Guidance' document. This value should then be used to populate the licensee input sheets in the PCFM.
iBoxx trailing average (iBTA$_t$) Risk-free rate (RFR and SORFR)	These finance inputs are calculated by the Authority using the WACC allowance model and feed into the licensee's allowed return on capital. These input values are calculated and populated by Ofgem during the AIP dry runs. This update usually takes place in November. These values are sourced from the updated WACC allowance model. The methodology for the derivation of iBTA and RFR is described in chapter 4 of the PCFH.
Sterling Overnight Index Average (I$_t$)	This finance input is calculated by the Authority using the WACC allowance model and is used in calculation of the correction term (K$_t$). The input value in row 125 and row 76 for TO and SO respectively, is calculated and populated by Ofgem during the AIP dry runs. This update usually takes place in 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 for this variable value. 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 legacy values will be directed by Ofgem following the formal close-out of the RIIO-GT1 price control. In the interim period between the beginning of GT2 and the direction of these values, the licensee must use the provisional closing balances taken from the legacy GT1 PCFM to populate the Capital allowance opening pools brought forward balances in its RIIO-2 PCFM. The closing balances should come from the same version of the legacy GT1 PCFM that the LRAV, SOLRAV, LMOD, SOLMOD, COA and SOCOA values are taken from.
Tax loss brought forward[5]	As above for "Capital allowance opening pools brought forward".
Tax pool allocation rates	For these values, the rates used to allocate totex into the different tax pools can be updated using

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

	the calculations in the "TO Tax Pools Totex allocations" and "SO Tax Pools Totex allocations" sheets of the GT2 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.
TO: • Bad Debt SO: • SO Bad Debt	Bad debt costs relate to any amounts that are incurred (or forecast) by the licensee due to network charges owed to it by one or more defaulting gas shippers. Values should be input into the yellow input cells of the bad debt section of the "5.1 TO_Indirects" and "5.2 SO_Indirects" sheets. For Regulatory Year 2020/21 these values should be input directly on "4.16 – TO Recovered Revenue" and "4.17 – SO Recovered Revenue" sheets. This data is then picked up in the TO and SO PCFM Input Summary sheets, which should be used to populate the PCFM. The *provisional Bad Debt cost* should include the Bad Debt costs that the licensee expects to incur

	including any RIIO-GT1 Bad Debt and COVID-19 Bad Debt, with respect to network charges owed to the licensee by one or more Defaulting Gas Shippers. This row contains forecasts only and should not include any actual costs, which should be input in the row below labelled *actual Bad Debt cost incurred*. For the *interest income accrued adjustment* value, the licensee should input the adjustment for any interest income relating to late or non-payment of network charges. The adjustment is the difference between interest accrued at the default rates set out in the Uniform Network Code net of WACC with respect to the COVID-19 Scheme. Where this is an income amount, this should be entered as a negative. The *recovered Bad Debt* value should be input as a positive value and should include the aggregate value of any Bad Debt recovered (including RIIO-GT1 Bad Debt and COVID-19 Bad Debt), where the costs have previously been recovered via the BDA term.[6] All values should be exclusive of VAT.
Recovered Revenue	This variable value is defined in SpC 2.1, Part B of GT Licence and is automatically fed from "4.16 – TO Recovered Rev" and "4.17 – SO Recovered Rev".
Penal rate proportion	This value will be calculated and input by Ofgem.

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

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 dry run of each AIP using data that is available as at 31 July.
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 dry run of each AIP using data that is available as at 31 July.
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 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 of each AIP using OBR data that is available as at 31 October.

CPI inflation forecast (Calendar year)	This value is shown in the "Annual inflation" sheet of the PCFM and will be updated by the Authority in line with the methodology for the Price Index calculation set out in chapter 2 of the PCFH. Ofgem will update the RPI inflation forecast during the final dry run of each AIP using OBR data that is available as at 31 October.
Totex variant allowances allocation percentages	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 sales proceeds	

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, GT2 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, GT2 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 TO and GSO). A full dry run commentary is required for the first dry run submission and for any subsequent dry runs, a narrative will only be required for any variable values, which have been amended from the prior dry run.

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.