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Guidance

ESO PCFM Guidance

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Version	1.2~~1~~	**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 variable 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 ESO Price Control Financial Handbook, which contains a detailed description of the PCFM modification process and the AIP dry runs process. Additionally, this document should be read in conjunction with Appendix 1 (*'Glossary'*) of the ESO 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 Conditions 5.1 (*Governance of the ESO Price Control Financial Instruments*) and 5.2 (Annual Iteration Process for the ESO Price Control Financial Model).

Purpose

1.5. 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 ESO Price Control Financial Handbook, the dry runs process entails amending and confirming values for each Regulatory Year over a number of months, from 31 August to early November, on an iterative basis to account for updates to the PCFM Variable Values as they become known.

1.6. 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 ($SOIAR_t$) using the latest information.

2.4. This model and the re-calculated value of $SOIAR_t$ as well as the adjusted~~ment to~~ revenue term known as $ADJR_t$ is published on Ofgem's website by 30 November each year and is the value that licensees must use to set their charges for the forthcoming Regulatory Year under Special Condition 4.2~~1~~ (*System Operator Internal Allowed Revenue*~~*System Operator Internal 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" macro button, enabling the user to perform the model's recalculation function.
Input and Calculation sheets: SystemOperator	The 'SystemOperator' sheet is an input sheet where the blue and grey shaded inputs are held, also known as the PCFM Variable Values, which should be updated as part of

SOIAR	an AIP. These are the values that this guidance document pertains to, unless otherwise specified. This sheet is the starting point for all calculations in the PCFM and contains all the inputs necessary to calculate all the components of $SOIAR_t$. The 'SOIAR' sheet is a calculation sheet 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.
Results sheets	The "LiveResults" sheet shows a live summary of the changes to the components of $SOIAR_t$, 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.

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:

- ESO Regulatory Reporting Pack (ESO RRP)[4]
- Legacy ESO PCFM and any supporting files (if applicable)
- RIIO-1 ESO RRP (if applicable)

Reporting timescales

2.7. The licensee must submit the PCFM, the required supporting models and commentary to the Authority by 31 August prior to each Regulatory Year t[5].

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 5.1 and 5.2.

2.9. To allow licensees sufficient time to populate a PCFM for submission, modifications will be reflected in the version of the PCFM to be used for an upcoming AIP by 1 June prior to each Regulatory Year[6].

2.10. There will be one or more dry runs of the PCFM between the licensee's initial submission of the ESO PCFM and the final run in early November. The number of dry runs needed will

[4] From the regulatory period starting 2022/23.
[5] This term is defined in Part B of Special Condition 1.1 (Interpretations and Definitions).
[6] See the PCFM functional cut-off dates set out in Table 2.1 of the ESO PCFH.

depend on the number and timing of variable value updates required for the licensee in any particular Regulatory Year.

2.11. The AIP will be completed by 30 November prior to each Regulatory Year t, or as soon as is reasonably practicable thereafter. The deadline of 30 November reflects the need for the licensee to have confirmation of its $SOIAR_t$[7] in time to calculate and set its use of system charges.

2.12. The steps of the AIP are specified in Special Condition 5.2, Part A and the process is further described in the ESO PCFH.

Submissions

2.13. By 31 August prior to each year Regulatory Year t~~,~~ and at each dry run the licensee must submit to the Authority the ESO PCFM, with a completed variable values table (covering activity in the prior Regulatory Year and changes to forecast activity[8]), which has been run to calculate $SOIAR_t$ along with an updated copy of the ESO RRP.

2.14. As well as this, the licensee must submit the relevant supporting models used to derive the variable values and any relevant commentary. For the first submission due on 31 August and thereafter at each dry run, the revenue worksheets used to derive variable values in the "1.2 PCFM Inputs Summary" sheet of the ESO RRP should be updated, and the "PCFM inputs summary" sheet ~~should be linked to~~match the "SystemOperator" sheet of the ESO 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.

[7] This term is defined in Part B of Special Condition 1.1 (Interpretations and Definitions).
[8] Variable Values for Regulatory Years later than Regulatory Year t do not feed into the calculation of the term $SOIAR_t$. 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.

Forecasting

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

2.17. Where a PCFM Variable Value is not known at the time of submission, we expect the licensee to forecast a value using its best estimate under Special Condition 5.2.

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 ESO PCFH, when ascertaining calculated revenue, the ESO 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 i~~I~~nflation updates

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

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. In accordance with paragraph 2.20 of the ESO 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 '1.8 – Inflation update' worksheet of the ESO RRP. The differential between the previous and new OBR forecast will determine the new nominal values, which will be used in the '1.3 Pass Through' worksheet of the RRP.~~

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

Related documents

ESO Price Control Financial Handbook
ESO Price Control Financial Model

ESO Regulatory Instructions and Guidance (RIGs)

ESO Regulatory Reporting Pack

ESO Regulatory Financial Performance Reporting

ESORI Arrangements Guidance Document

Other relevant Associated Documents as listed in of the PCFH

~~3. The ESO Price Control Financial Model Variable Values~~

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

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

Table 3.1 – PCFM Variable Values (VV)

VV	Description	SpC	Cross-reference / Associated Document
Actual Totex			
SOANC	Actual Capex	-	PCFM Guidance
SOACO	Actual Opex	-	PCFM Guidance
Pass-through expenditure			
RB_t	Business Rates Payments	SpC 4.1, Part H	PCFM Guidance
WCF_t	Additional Funding – WCF	SpC 4.1, Part G	PCFM Guidance
$SOBD_t$	Bad Debt Allowance	SpC 4.1, Part I	PCFM Guidance
EDE_t	Pension scheme established deficit	SpC 4.1, Part G	PCFH section 6, PCFM Guidance
Other Revenue Allowances			
NIA_t	Network Innovation Allowance	SpC 4.6	PCFM Guidance, RIIO-2 NIA Governance Document
$CNIA_t$	Carry Over RIIO-1 Network Innovation Allowance	SpC 4.7	PCFM Guidance, RIIO-1 NIA Governance Document
Other Funding			
ADF_t	Additional Funding – Other	SpC 4.1, Part D	PCFM Guidance
$ESORI_t$	Reporting & Incentive Arrangements	SpC 4.3	PCFM Guidance, ESORI Guidance Document
Legacy Adjustments			
$LSOMOD_t$	System Operator legacy MOD	SpC 4.8, Part B	PCFH section 7, PCFM Guidance

VV	Description	SpC	Cross-reference / Associated Document
$LSOTRU_t$	Legacy TRU term	SpC 4.8, Part A	PCFH section 7, PCFM Guidance
$LSOEMRINC_t$	Legacy Financial Incentives on EMR	SpC 4.8, Part A	PCFH section 7, PCFM Guidance
$LSORAV_t$	RIIO-1 net addition to RAV (including disposals)	SpC 4.9	PCFH section 7, PCFM Guidance
Directly Remunerated Services			
$DRSR_t$	Directly remunerated services revenue	SpC 4.1	PCFM Guidance
$DRSC_t$	Less directly remunerated services cost	SpC 4.1	PCFM Guidance
Finance Inputs			
SOCDE	Allowed percentage cost of debt	-	PCFH section 4, PCFM Guidance
SORFR	Risk-free rate	-	PCFH section 4, PCFM Guidance
AND_t	Adjusted net debt	-	PCFM Guidance
$TDNI_t$	Tax-deductible net interest cost	-	PCFM Guidance
TTE_t	Tax liability – tax trigger events	-	PCFH section 5, PCFM Guidance
$TAXA_t$	Tax allowance adjustment	SpC 4.1, part J	PCFH section 5, PCFM Guidance
SOOGPAt	General pool opening balance adjustment	-	PCFM Guidance
SOOSRPAt	Special Rate pool opening balance adjustment	-	PCFM Guidance
SOIAPGPt	Transfer intangible assets to the general pool		PCFM Guidance
$SOOGP_t$	Opening balance brought forward	-	PCFM Guidance

VV	Description	SpC	Cross-reference / Associated Document
$SOOSRP_t$	Special Rate capital allowance opening balance brought forward	-	PCFM Guidance
$SOOSBP_t$	Structures and buildings capital allowance opening balance brought forward	-	PCFM Guidance
$SOODRP_t$	Deferred revenue expenditure opening balance brought forward	-	PCFM Guidance
$SOOIAP_t$	Intangible assets capital allowance opening balance brought forward	-	PCFM Guidance
$SOOTL_t$	Tax loss brought forward	-	PCFM Guidance
$SOARGP_t$	Totex allocation to "General" tax pool	-	PCFM Guidance
$SOARR_t$	Totex allocation to "Revenue" tax pool	-	PCFM Guidance
$SOARSR_t$	Totex allocation to "Special rate" tax pool	-	PCFM Guidance
$SOARSB_t$	Totex allocation to "Structures and Buildings" tax pool	-	PCFM Guidance
$SOARNQ_t$	Totex allocation to "Non Qualifying" tax pool	-	PCFM Guidance
$SOARDR_t$	Totex allocation to "Deferred revenue" tax pool	-	PCFM Guidance
$SOARIA_t$	Totex allocation to "Intangible assets" tax pool	-	PCFM Guidance
$SOCT_t$	Corporation tax rate	-	PCFM Guidance
$SOGCA_t$	Capital Allowance rate	-	PCFM Guidance
$SOSRCA_t$	Special Rate allowance rate	-	PCFM Guidance
$SOSBCA_t$	Structures and buildings allowance rate	-	PCFM Guidance
$SODRCA_t$	Deferred revenue expenditure allowance rate	-	PCFM Guidance
$SOIACA_t$ CST_t	Intangible assets allowance rate Capitalised share of totex	-	PCFM Guidance PCFM Guidance

3. Instructions for completing the PCFM Variable ~~Value~~s ~~table~~

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

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

~~3.1.~~3.3. The below table contains instructions for licensees on how to populate the PCFM Variable Values table for submission to the Authority at each dry run of an AIP.

~~3.2.~~3.4. Unless otherwise specified, all references relate to the Finance input sheets of the ESO RRP.

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

~~3.4. The first submission of the RIIO-2 ESO RRP will be in July 2022 and so for the first PCFM submission in August 2021, the ESO RRP will not be available. In the absence of this file, the ESO should enter its best estimate of forecast costs and outputs data into the yellow input cells of the ESO Revenue workbook to calculate the PCFM Variable Values that will be included in the November 2021 AIP.~~

~~The contents of the ESO Revenue workbook will be included within the ESO 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
Actual Totex: • Actual Capex • Actual Opex	For totex values, actual data for the reporting period in question should be input directly into the yellow input cells of ESO RRP relevant sheets, which are linked to "1.2 PCFM Inputs Summary"

	sheet. The "1.2 PCFM Inputs Summary" sheet should be used to populate the licensee input sheets in the PCFM. **Forecasting** Forecasts for future regulatory periods should be input directly into the yellow input cells of the ESO RRP relevant sheets, which are linked to "1.2 PCFM Inputs Summary" sheet. The "1.2 PCFM Inputs Summary" sheet should be used to populate the licensee input sheets in the PCFM.
Pass-through costs: • Business Rates Payments • Additional Funding - WCF • Bad debt allowance (guidance provided below) • Pension scheme established deficit • Future System Operator	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 Parts ~~G and I~~F of Special Condition 4.2~~1~~ (System Operator Internal AllowedRevenue~~ Restriction~~) and are reported within the ESO RRP. For pass-through Variable Values, actual data for the reporting period in question should be input directly into the yellow input cells of "1.3 Pass-through" sheet of the ESO RRP. This data is then picked up in the "1.2 PCFM Input Summary" sheet of the ESO RRP, which should be used to populate the licensee input sheets in the PCFM. ESO Working Capital Facility (WCF) fees relate to costs associated with the set up and management of ESO credit facilities procured to support working capital needs. This includes upfront, extension and agency fees, commitment fees and reasonably incurred costs and expenses incurred by the agent or any finance party in connection with the set up or amendment of the facility agreement.

	~~Forecast nominal values in the '1.3 Pass Through' sheet will need updating if Ofgem updates the OBR inflation forecast used in the PCFM by October 31. These values are linked to the '1.8 - Inflation update' worksheet.~~ ~~At each AIP, when the availability of OBR update is confirmed in October, Ofgem will update row 20 on the '1.8 - 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 '1.3 Pass Through'. These new nominal values will then feed into the PCFM input summary sheets, where applicable, and will be used to populate PCFM.~~ ~~The ESO must select the Reporting Year in cell Q6.~~ All values should be exclusive of VAT. **Forecasting** Forecasts for future regulatory periods should be input directly into the "1.3 Pass-through" sheet of the ESO RRP. This data is then picked up in the "1.2 PCFM Input Summary" sheet of the ESO RRP, which should be used to populate the licensee input sheets in the PCFM.
Pass through costs – SO Bad Debt	SO 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 Connection and Use of System Code Party and are treated as pass-through under Part H of Special Condition 4.2, Formula for calculating the SO Bad Debt term~~SpC 4.1, Pass-through items~~. Values should be input into the yellow input cells of the bad debt section of the "Pass-through". This data is then picked up in the "1.2 PCFM Input Summary" sheet of the ESO RRP, which should be used to populate the licensee input sheets in the PCFM. The *Provisional SO Bad Debt cost* should include the SO Bad Debt costs that ESO expects to incur including any RIIO-1 SO Bad Debt. This row contains forecasts only and should not include any actual costs, which should be input in the row below labelled *Actual SO Bad Debt cost incurred*. The *Recovered SO Bad Debt* value should be input as a positive value and should include the aggregate value of any bad debt recovered (including RIIO-1 SO Bad Debt), where the costs have previously been recovered via the SOBDA term. All values should be exclusive of VAT.
Other Revenue allowances: • Network Innovation Allowance	For NIA values in row 23 of the "1.2 PCFM Input Summary" sheet, actual data for the reporting period in question should be input directly into the yellow input cells within the "7.3 NIA " sheet of the ESO RRP. The NIA values in row 23 should

	be used to populate the licensee input sheets in the PCFM. Licenses must input Total NIA 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 will be provided in the ESO RIGs. **Forecasting** Forecasts for future regulatory periods should be input directly into the yellow input cells within the "7.3 NIA " sheet of the ESO RRP. The NIA values in row 23 should be used to populate the licensee input sheets in the PCFM.
Other Revenue allowances: • Carry Over RIIO-1 Network Innovation Allowance	For CNIA value in row 24 of the "1.2 PCFM Input Summary" sheet, actual data for the reporting period in question should be input directly into the yellow input cells within the " 7.4 CNIA " sheet of the ESO RRP. The CNIA value in row 24 should be used to populate the licensee input sheets in the PCFM. Further detailed guidance for updating these variable values will be provided in the ESO RIGs.
Additional Funding - Other	The values in row 28, are a pre-determined fixed allowance of £4.8m per year as set out at

	paragraph 5.28 of the Final Determinations ESO Annex.[1] This value does not need to be updated by the ESO, however it may be updated by the Authority during the Price Control Period in line with any licence modifications and our Final Determinations for BP2.
Reporting & Incentive Arrangements	Reporting and Incentive Arrangements (ESORI) is used to reward or penalise licensees for their performance. For the values in rows 29, actual data for the reporting period in question should be input directly into the yellow input cells of the " 1.2PCFM Inputs Summary" sheet of the ESO RRP, which should be used to populate the licensee input sheets in the PCFM. . The value of $ESORI_t$ will be directed by the Authority and will be no greater than a maximum value of £30m, in aggregate, across each 2 year period of the Business Plan Cycle and not less than a minimum value of negative £12m, in aggregate across each 2 year period of the Business Plan Cycle, as determined under Special Condition 4.43 and the ESORI Arrangements Guidance Document. Further detailed guidance for updating these variable values will be provided in the ESO RIGs

[1] See https://www.ofgem.gov.uk/system/files/docs/2021/02/final_determinations_-_eso_annex_revised.pdf

	and the ESORI Arrangements Guidance Document. **Forecasting** Forecasts for future regulatory periods should be input directly into the yellow input cells of the " 1.2 PCFM Inputs Summary" sheet of the ESO RRP, which should be used to populate the licensee input sheets in the PCFM.
Legacy SOMOD Closeout adjustment	These ~~L~~legacy values will be directed by Ofgem following the formal close-out of the RIIO-ET1 price control. **Legacy SOMOD** In the interim period between the beginning of RIIO-2 and the direction of these values and the establishment of a close-out methodology, the licensee must calculate its provisional Legacy SOMOD values for 2021/22 and 2022/23 in accordance with the processes set out in the "Legacy MOD ($LSOMOD_t$)" section of chapter 7 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 $LSOMOD_t$ 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 "LSOMOD$_t$ values to reflect the closeout of RIIO-ET1" section of chapter 7 of the PCFH. ~~The licensee must update its legacy ESO PCFM for any outturn data relating to the 2020/21 Regulatory Year as taken from its 31 August 2021 RIGs submissions. The legacy ESO PCFM must then be run to generate the legacy SOMOD$_{2022/23}$ value. This should then be inflated using the RPIF figure from the ET1 Revenue RRP and input in the Legacy SOMOD (LSOMOD) variable value input row in the SystemOperator sheet in the RIIO-2 ESO PCFM for 2022/23.~~ ~~The Licensee may choose to incorporate other modifications as it considers necessary to the Legacy ESO PCFM to reflect any anticipated close-out adjustments for which Ofgem has not yet provided a methodology in the Legacy SOMOD value for 2022/23.~~ If the Licensee chooses to make any such provisional revisions to the Legacy ESO PCFM ~~do this~~, it must ~~also~~ submit a description of the specific modifications made to the Legacy ESO PCFM along with a copy of the Closeout methodology reporting file and a justification for the revision~~m~~ in its PCFM Dry Run Commentary (see section 5 of this Guidance).
RIIO-1 Legacy 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-ET1 price control. In the interim period between the beginning of RIIO-2 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 (LSORAV) values in accordance with the close-out methodologies and processes set out in chapter 7 of the PCFH. If the Licensee chooses to make any such provisional revisions to the Legacy ESO PCFM, it must submit a description of the specific modifications made to the Legacy ESO 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 4 of this Guidance). ~~The licensee must update its legacy ESO PCFM for any outturn data relating to the 2020/21 Regulatory Year as taken from its 31 August 2021 RIGs submissions. The legacy ESO PCFM must then be run to generate the provisional closing RAV position and this should be input in the LSORAV variable value input row in the SystemOperator sheet in the RIIO-2 ESO PCFM, covering the historical RIIO-1 period to 31 March 2021.~~ ~~The Licensee may choose to incorporate other modifications as it considers necessary to the Legacy ESO PCFM to reflect any anticipated close-out adjustments, for which Ofgem has not yet provided a methodology, in its LSORAV values.~~ ~~If the Licensee chooses to do this, it must also submit a description of the specific modifications made to the Legacy ESO PCFM along with a justification for them in its PCFM Dry Run Commentary (see section 5 of this Guidance).~~

Other Legacy adjustments: • $LSOTRU_t$ • $LSOEMRINC_t$ • 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 7 of the PCFH. ~~values will be directed by Ofgem following the formal close-out of the RIIO-ET1 price control.~~ In some cases, these legacy variable values will be directed by Ofgem following the formal close-out of the RIIO-ET1 price control. ~~In the interim period between the beginning of RIIO-ESO and the direction of these values following the close-out of ET1, the licensee must use the legacy values for input in rows 36:37 of the PCFM in accordance with the processes set out in the "Legacy Adjustment to Revenue section" of chapter 7 of the PCFH.~~
Directly remunerated services: • Directly remunerated services revenue • Less directly remunerated services cost	For DRS Revenue ($DRSR_t$), actual and forecast data for the reporting period in question should be input directly into the yellow input cells of the "1.7 DRS" sheet of the ESO RRP, which is linked to the "1.2 PCFM Inputs Summary" sheet of the ESO RRP. That sheet should then be used to populate the licensee input sheet of the PCFM. Revenues should be input as positive values for each category of DRS as set out in Part C of Special Condition 2.9 (Services treated as Directly Remunerated Services). For DRS costs ($DRSC_t$), actual and forecast data for the reporting period in question should be input directly into the yellow input cells of the

	"7.2 DRS" sheet of the ESO RRP, which is linked to the "1.2 PCFM Inputs Summary" sheet of the ESO RRP. That sheet should then be used to populate the licensee input sheet of the PCFM.
Allowed return on debt ($SOCDE_t$) 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. The input values are calculated and populated by Ofgem during the ~~final dry run of each~~ AIP dry runs.~~,~~ This update ~~which~~ usually takes place in ~~early~~ November. These values are sourced from the updated WACC allowance model. The methodology for the derivation of SOCDE and RFR is described in chapter 4 of the PCFH.
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. The licensee may also update forecast data. The figures used to update this variable value should be those reported as "Net Debt as per the Regulatory (RIIO-1) definition" in the licensee's submitted RFPR. See the RIIO-1 RFPR Guidance for further detail on what this value comprises.
Tax deductible net interest cost	For this variable value, actual data for the reporting period in question should be input directly into the company specific input sheets of the PCFM. The licensee 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-1) definition" in the licensee's submitted RFPR. See the RIIO-1 RFPR Guidance for further detail on what this value comprises.
Tax liability allowance adjustments – driven by tax trigger events 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 5 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 Part I of Special Condition 4.2~~Special Condition 4.1~~.
Capital allowance opening pools brought forward	The opening capital allowance pool balances should be input directly into the yellow input cells of the "1.4 Tax Pool Inputs " sheet of the ESO RRP, using the actual pool balances as per the ESO's CT600 return as at March 2021. This is linked to the "1.2 PCFM Inputs Summary" sheet of the ESO RRP and should be used to populate the licensee input sheet of the PCFM. A copy of this CT600 form should be provided alongside of the submission and referred to in the commentary.

Tax loss brought forward[2]	Legacy values will be directed by Ofgem following the formal close-out of the RIIO-ET1 price control. In the interim period between the beginning of RIIO-2 and the direction of these values following the close-out of RIIO-1, the licensee must use the provisional closing balance taken from the legacy ESO PCFM to populate the Tax loss brought forward in its RIIO-2 PCFM. The closing balances should come from the same version of the legacy ESO1 PCFM that the LSORAV and LSOMOD values are taken from.
Tax pool allocation rates	For these values, the rates used to allocate totex into the different tax pools should be updated using the calculations in the "1.4 Tax Pool Inputs " sheet of the ESO 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.

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

Capitalised share of totex	These values are shown in the "SystemOperator" sheet of the PCFM. These values should be updated by the licensee for the final 3 years of the RIIO-2 Price Control using forecast data from the latest submission of the ESO's second Business Plan.[3] These values should be updated following Draft Determinations, and subsequently updated following Final Determinations.
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. ~~Ofgem will update the CPIH outturn index during the final dry run of each AIP using data that is available as at 31 October.~~
RPI Outturn	This value is shown in the "Monthly inflation" sheet of the PCFM and will be updated by the Authority in line with the methodology for the Price Index calculation set out in chapter 2 of the PCFH. Ofgem will update the RPI outturn index prior to the first dry run of each AIP using data that is available as at 31 July. ~~Ofgem will update the RPI outturn index during the final dry run of each AIP using data that is available as at 31 October.~~

[3] ESO Business Plan Guidance | Ofgem

RPI inflation forecast (Calendar year)	This value is shown in the "Annual inflation" sheet of the PCFM and will be updated by the Authority in line with the methodology for the Price Index calculation set out in chapter 2 of the PCFH. Ofgem will update the RPI inflation forecast ~~during the final dry run~~in November of each AIP using Office of Budget Responsibility (OBR) data that is available as at 31 October.
Long term CPIH inflation forecast	This value is shown in the "Annual inflation" sheet of the PCFM and will be updated by the Authority in line with the methodology set out in chapter 4 of PCFH. Ofgem will update this inflation forecast ~~during the final dry run~~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~~in November 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 SO Internal Allowed Revenue.

	Where Ofgem directs these allocation rates, the directed values must be used.

4. PCFM Dry Run Commentary

Background

4.1. This 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 Allowed Revenue 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 SOIARt.

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, ESORRP, Legacy PCFM or forecast data;
- a description of the impact of the changes on ADJR and Allowed Revenue and the key driver(s) of this impact;
- for any forecast data, the licensee should include a statement confirming that it has used its best estimate to ensure forecasts are reasonable in light of the information available at the time and that any significant changes to forecast values have suitable supporting statements;

- A 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, ESORRP) 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 they may submit a single commentary to cover all licensees.

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

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