

# GD3 PCFM Guidance

## 2. Annual Iteration Process

### Submission of the GD3 PCFM

- 2.1 For each Regulatory Year commencing on or after 1 April 2026, the licensee must submit to the Authority a first dry run of the GD3 PCFM with updated PCFM Variable Values (covering activity in the prior Regulatory Year and changes to forecast activity), which has been run to calculate ART by 30th September.
- 2.2 The licensee must submit an updated copy of the accompanying ~~RHO~~ GD3 Costs, Volumes and Revenue (CVR) reporting pack that was used to populate the PCFM Variable Values, and any other relevant supporting files used to derive the PCFM Variable Values and any relevant commentary, as set out in chapter 5 of this guidance, by 30 September and for any subsequent submissions of the GD3 PCFM, thereafter.
- 2.3 The PCFM Variable Values in the PCFM Interface sheet of the CVR reporting pack should match the licensee-specific input sheets of the GD3 PCFM, where applicable.

### Interim submission process for AIP 2026/27

- 2.4 In general, this guidance is applicable to the reporting period ending 31 March 2027, with the first full dry run submission of the GD3 PCFM and accompanying CVR reporting pack (see paragraphs 2.6 and 2.7 below) due on 30 September 2027.
- 2.5 For the reporting period ending 31 March 2026, an interim process will take place allowing the licensee to update the forecasts within the GD3 PCFM from those that were set at Final Determinations. For this process, the licensee must submit to the Authority a first dry run of the GD3 PCFM with updated PCFM Variable Values containing updated forecast data by 30 September 2026.
- 2.6 The licensee must submit by **30 September** accompanying supporting sheets from the CVR reporting pack (see list below) and any other relevant supporting files used to derive the forecast PCFM Variable Values in the GD3 PCFM. As there is no requirement to submit a full CVR reporting pack, we do not expect a full accompanying CVR reporting pack submission, nor would we expect a full Data Assurance Governance (DAG) process to be undertaken.
- 2.7 For the PCFM submissions due for AIP 2026, we expect the following sheets of the accompanying CVR to be populated at a minimum:
  - 1.00 Revenue\_Interface

- 1.01 Summary\_Totex
  - 1.02 Summary\_PCFM
  - 1.03 Forecast Costs
  - 2.01 Revenue - PCDs
  - 2.02 Revenue - Volume Drivers
  - 2.03 Revenue – Re-openers
  - 2.04 Revenue Pass-through costs
  - 2.05 Revenue - ODI
  - 2.06 Revenue – ORA
  - 2.07 Revenue – TaxPoolTotexAlloc
  - 2.08 Revenue – Recovered Rev
  - 2.09 Revenue – DRS Revenue
- 2.8 Where these sheets contain linking cells that link to other sheets within the CVR reporting pack that are not being updated for the forecast submission due in 2026/27, these cells may be overwritten by the licensee with hard-coded forecast values.
- 2.9 Adjusted Net Debt (AND) and Tax Deductible Net Interest (TDNI) values should be sourced from the latest submitted GD2 RFPR, where available. In the absence of an RFPR during the first Annual Iteration Process, the licensee should use their best estimate available at the time when these values are forecasted.

## Forecasting

- 2.10 Submitted versions of the GD3 PCFM may contain provisional values for PCFM Variable Values that are unknown at the time of submission. An example of a PCFM Variable Value which will not be known by 30 September is a re-opener term which is subject to an outstanding decision by the Authority.
- 2.11 Where a PCFM Variable Value is unknown at the time of submission, the licensee must calculate a provisional value using the approach specified within the GD3 PCFH or this guidance document, as applicable, or provide its best estimate with the information available at the time. This will be deemed to be compliant with the best endeavours requirement in paragraph 2.1.3 of the Special Licence Conditions.
- 2.12 Where any PCFM Variable Value relies on a third-party publication that ceases to be published or no longer contains the value required, the value from the most recent publication that did contain the value, or an alternate input agreed to by the Authority must be used.

- 2.13 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 in a subsequent submission when actual data is available, however we expect that the inclusion of forecasts will reduce the magnitude of any subsequent true-ups and reduce revenue volatility.
- 2.14 All forecast values should be stated in 2023-24 prices unless otherwise stated.

## Annual Inflation Updates

- 2.15 Ofgem will update and circulate the inflation data contained in the “Inflation” tab of the CVR reporting pack by the end of April in each Regulatory Year, reflecting actual 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 CVR reporting pack submission due on 31 July. This will ensure the latest inflation data are feeding into the CVR reporting pack and the PCFM.
- 2.16 Ofgem will perform a further inflation update in July in each Regulatory Year, reflecting actual 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 CVR reporting pack and the PCFM that it submits as part of its first AIP dry run by 30 September.
- 2.17 In accordance with the methodology prescribed in the GD3-PCFH, Ofgem will normally perform a final inflation update in early November following the publication of the OBR’s autumn forecast. This update reflects the latest forecast and outturn inflation up to 30<sup>th</sup> September, in accordance with the methodology prescribed in the PCFH.

## Dry Runs process

- 2.18 The process of confirming and amending values will normally take place over a number of months from 30 September to early January and will be iterative to account for updates to the variable values as they become known.
- 2.19 There will be one or more dry runs of the GD3 PCFM between the licensee’s initial dry run submission on 30 September and the final run in early January. 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.
- 2.20 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.
- 2.21 Ofgem will review the submitted GD3 PCFM and confirm whether this has been prepared in accordance with the PCFM Guidance. Where values have not been prepared in accordance with the PCFM Guidance, Ofgem will notify the licensee of any required amendments to such variable values, which the licensee must amend in a subsequent dry run. Where the Authority amends a Variable Value

from an earlier licensee submission, either due to a licensee error or to reflect updates to a provisional value, it will notify the licensee and request a resubmission of the GD3 PCFM at the next available dry run.

2.22 The dry runs process will normally take place with the following timeline:

- **1 July:** The Authority will normally direct and publish on its website modifications resulting from engagement with the PCFM Working Group for that year into the applicable Price Control Financial Instruments.
- **31 July:** The Authority will provide the inflation input values within the “Inflation” sheet of the GD3 PCFM with outturn data to 30 June for the PCFM to be used in next AIP.
- **30 September:** The licensee must submit the GD3 PCFM with updated variable values and accompanying supporting files to the Authority (dry-run 1). Ofgem will then review and respond to this dry run, either confirming or amending the variable values, as appropriate.
- **November Run:** By no later than 30 November, the Authority will provide an update to the Ofgem-provided variable values and the underlying models used to calculate them. These are the WACC allowance model, RPE model, and the grey inflation input values within the “Inflation” sheet of the GD3 PCFM. The WACC allowance model and the inflation indices within the PCFM will be updated using data available up to 31 October, while the RPE model will be updated using data available after 31 October and no later than 10 November. Following the provision of the Ofgem-determined variable values, the licensee must include these values in its subsequent dry-run submissions.
- **December Run:** The licensee will have a further opportunity to provide an updated GD3 PCFM dry-run in early December to reflect any updates, actual or forecast variable values, since the previous dry run. The Authority will review and confirm or amend the variable values, which will normally take place by mid-December.
- **Early January–** Notice of publication of the GD3 PCFM: The licensee will have a further opportunity to provide an updated GD3 PCFM dry run by 4 January to reflect any updates, actual or forecast variable values, since the previous dry run. Ofgem will then review and respond to this dry run, either confirming or amending the variable values, as appropriate.

2.23 In accordance with paragraph 2.267 of the GD3 PCFH, the licensee must give the Authority:

- a copy of the GD3 PCFM which the licensee intends to publish on its website; and
- supporting files and a commentary describing any changes to the PCFM Variable Values and to the value of Allowed Revenue since the last submission of the GD3 PCFM. See Chapter 5 of this document for more on the PCFM dry run commentary. In addition, the commentary must also contain the value of

Allowed Revenue (ARt) for the licensee for the Regulatory Year for which network charges will be set.

- 2.24 The licensee must provide the above to the Authority with no less than 14 days' notice in advance of the publication of the GD3 PCFM on 31st January of regulatory year t-1.
- 2.25 In accordance with paragraph 2.2738 of the GD3 PCFH, the licensee will not be required to provide a further copy of the GD3 PCFM where the Authority requires the licensee to make a change to the GD3 PCFM provided as part of this notification.

## **Publication of the RIIO-GD3 PCFM**

- 2.26 Following the minimum 14-day notice period, the licensee must publish on its website the version of the GD3 PCFM that it will use to set its tariffs for the relevant Regulatory Year.
- 2.27 The requirements for the publication of the GD3 PCFM are set out in paragraphs 2.28 to 2.30 of the GD3 PCFH.
- 2.28 The licensee is responsible for publishing a reduced version of the GD3 PCFM so that it contains the PCFM Variable Values and Allowed Revenues for each of its licensees and should delete any data that relates to other licensees. To do this, the licensee must perform the following steps:
- Navigate to cell A1 in a licensee input tab that should be cleared. Holding down the “Ctrl” key, select all the relevant sheets from which the data should be cleared
  - With these sheets selected, in the current sheet press “Ctrl+A” twice to select the entire contents of the sheet.
  - In the Excel Ribbon, click on the Home tab. In the Editing group click on the “Clear” drop-down menu and select “Clear All”. Navigate to a different tab to de-select the current selected tabs. Data in the other licensee tabs has now been deleted.

## **The final year of the GD3 Annual Iteration Process and other clarifications**

- 2.29 The last Regulatory Year in which there will be an Annual Iteration Process for the GD3 PCFM is 2029/2030 for the purpose of determining the value of the term ARt for Regulatory Year 2030/31.
- 2.30 2Where any PCFM Variable Values are revised for years earlier than Regulatory Year t, the effect of using those revised values in the Annual Iteration Process will, subject to a Time Value of Money Adjustment, be reflected in the calculation of

the term  $AR_t$  for Regulatory Year  $t$  and, for the avoidance of doubt, it will not have any retrospective effect on a previously published value of the term  $AR_t$ .

- 2.31 In Regulatory Year 2030/31 there will be a streamlined process to update a modified version of the GD3 PCFM in order to derive any adjustments that are required to the 2031/32 Allowed Revenue which will be determined by the GD4 PCFM.