

Guidance

ET3 PCFM Guidance

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Team:	Regulatory Finance
Telephone:	020 7901 7000
Email:	FRC-RegulatoryFinanceReporting@ofgem.gov.uk

This document provides instructions and guidance to licensed network operators to enable them to complete the reporting requirements associated with updating various values and performance data in the Price Control Financial Model (PCFM) during the Annual Iteration Process (AIP).

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1. Introduction

- 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 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 ET3 Price Control Financial Handbook, which contains a detailed description of the PCFM modification process. Additionally, this document should be read in conjunction 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 ET3 Price Control Financial Instruments).
- 1.5 The modification and governance process for the PCFM Guidance is set out in Standard Licence Condition B15 (Regulatory Instructions and Guidance).

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 Chapter 2, the dry runs process entails amending and confirming values for each Regulatory Year over a number of months, from 30 September to early January, on an iterative basis to account for updates to the PCFM Variable Values as they become known.
- 1.7 This document provides:
 - instructions and guidance on how to populate the PCFM Variable Values for submission for an AIP dry run;
 - guidance on the process and timeframe for reporting and submitting the required data; and,
 - any requirements that apply to supporting information, documentation and commentary to be submitted.

2. Annual Iteration Process

- 2.1 The Annual Iteration Process (AIP) is an annual cycle through which the licensee updates and recalibrates the ET3 PCFM to reflect actual outturn data from the prior Regulatory Year and any revisions to forecast activity. This process ensures that Allowed Revenue (ARt) is calculated using the most up-to-date and accurate information, supported by consistent underlying data and documentation.
- 2.2 For each Regulatory Year commencing on or after 1 April 2026, the licensee must submit to the Authority a first dry run of the ET3 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 30 September.
- 2.3 The licensee must submit an updated copy of the accompanying ET3 Regulatory Reporting Pack (RRP) 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 ET3 PCFM, thereafter.
- 2.4 The PCFM Variable Values in the PCFM Input Summary sheet of the RRP should match the licensee-specific input sheets of the ET3 PCFM, where applicable.

Interim submission process for AIP 2026/27

- 2.5 In general, this guidance is applicable to the reporting period ending 31 March 2027, with the first full dry run submission of the ET3 PCFM and accompanying interim RRP (see paragraphs 2.6 and 2.7 below) due on 30 September 2027.
- 2.6 For the reporting period ending 31 March 2026, an interim process will take place allowing the licensee to update the forecasts within the ET3 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 ET3 PCFM with updated PCFM Variable Values containing updated forecast data by 30 September 2026.
- 2.7 The licensee must submit by 30 September accompanying supporting sheets from the interim RRP (see list below) and any other relevant supporting files used to derive the forecast PCFM Variable Values in the ET3 PCFM. As there is no requirement to submit a full RRP, we do not expect a full accompanying RRP submission, nor would we expect a full Data Assurance Governance (DAG) process to be undertaken.
- 2.8 For the PCFM submissions due for AIP 2026, the following sheets of the interim RRP must be populated at a minimum:
 - PCFM Input Summary
 - PCDs
 - PCDs - Supporting Calculations

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- Re-openers
- Volume Driver – DRI
- Volume Driver - GCE
- Output Delivery Incentives
- Other Revenue Allowances
- Tax Pools Totex Allocations
- DRS

2.9 Where these sheets contain linking cells that link to other sheets within the interim RRP 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.

2.10 Adjusted Net Debt (AND) and Tax Deductible Net Interest (TDNI) values should be sourced from the latest submitted ET3 RFPR, where available. In the absence of an RFPR during the first AIP, the licensee should use their best estimate available at the time when these values are forecasted.

Forecasting

2.11 Submitted versions of the ET3 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.

2.12 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 ET3 PCFH or this guidance document, as applicable, and otherwise provide its best estimate with the information available at the time.

2.13 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.

2.14 Forecasts will not be as accurate as actual reported data and all forecasts will be made with a view to truing-up in a subsequent submission when actual data is available, however, the inclusion of forecasts will reduce the magnitude of any subsequent true-ups and will reduce revenue volatility.

2.15 All forecast values should be stated in 2023/24 prices unless otherwise stated.

Annual Inflation Updates

- 2.16 Ofgem will update and circulate the inflation data contained in the “Inflation” tab of the RRP 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 RRP submission due on 31 July. This will ensure the latest inflation data are feeding into the RRP and the PCFM.
- 2.17 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 RRP and the PCFM that it submits as part of its first AIP dry run by 30 September.
- 2.18 In accordance with the methodology prescribed in the ET3 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 September. This inflation data must be used by the licensee in the RRP and the PCFM in any subsequent dry runs.

Dry Runs process

- 2.19 The process of confirming and amending values will normally take place over a number of months from 30 September to December and will be iterative to account for updates to the variable values as they become known.
- 2.20 There will be one or more dry runs of the ET3 PCFM between the licensee’s initial dry run submission on 30 September and the final run in December. 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.
- 2.21 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.
- 2.22 Ofgem will review the submitted ET3 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 ET3 PCFM at the next available dry run.
- 2.23 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.

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- **31 July:** The Authority will provide the inflation input values within the “Inflation” sheet of the ET3 PCFM with outturn data to 30 June for the PCFM to be used in next AIP.
- **30 September:** The licensee must submit the ET3 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.
- **31 October:** The licensee must submit a further ET3 PCFM with completed variable values table to the Authority (dry-run 2) to reflect any further updates since the first dry run. Ofgem will then review and respond to this dry run, either confirming or amending the variable values, as appropriate.
- **November:** 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 blue inflation input values within the “Inflation” sheet of the ET3 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 – Notice of publication of the ET3 PCFM:** The licensee will have a further opportunity to provide an updated ET3 PCFM dry-run in early December 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.

2.24 In accordance with paragraph 2.26 of the ET3 PCFH, the licensee must give the Authority:

- a copy of the ET3 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 ET3 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.

2.25 The licensee must provide the above to the Authority with no less than 14 days’ notice in advance of the publication of the ET3 PCFM. This will normally take place by 15 December to allow enough time for the licensee to notify the Independent System Operator and Planner of the value for ARt in early January.

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2.26 In accordance with paragraph 2.27 of the ET3 PCFH, the licensee will not be required to provide a further copy of the ET3 PCFM with another 14 day notice period where the Authority requires the licensee to make a change to the ET3 PCFM provided as part of this notification.

Publication of the ET3 PCFM

2.27 Following the minimum 14-day notice period, the licensee must publish on its website the version of the ET3 PCFM that it will use to set its tariffs for the relevant Regulatory Year.

2.28 The requirements for the publication of the ET3 PCFM are set out in paragraphs 2.28 to 2.30 of the ET3 PCFH.

2.29 The licensee is responsible for publishing a reduced version of the ET3 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 ET3 Annual Iteration Process and other clarifications

2.30 The last Regulatory Year in which there will be an AIP for the ET3 PCFM is 2029/2030 for the purpose of determining the value of the term ART for Regulatory Year 2030/31.

2.31 Where any PCFM Variable Values are revised for years earlier than Regulatory Year t , the effect of using those revised values in the AIP will, subject to a Time Value of Money Adjustment, be reflected in the calculation of the term ART 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 ART.

2.32 In Regulatory Year 2030/31 there will be a streamlined process to update a modified version of the ET3 PCFM in order to derive any adjustments that are required to the 2031/32 Allowed Revenue which will be determined by the ET4 PCFM.

3. The ET3 Price Control Financial Model

Background

- 3.1 The PCFM is used by licensees to calculate Allowed Revenue in accordance with the licence conditions.
- 3.2 Throughout the price control, the AIP is used 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.
- 3.3 The purple calculation sheets in the model then capture this new information and calculate an updated Allowed Revenue (ARt) value.
- 3.4 The licensee must publish on its Website, a copy of the ET3 Price Control Financial Model containing the value of Allowed Revenue for year t+1 it used when notifying the ISOP under the STC. This must be done by 31 January in the year t.

Model structure

- 3.5 The table below sets out the structure and contents of the sheets in the ET3 PCFM:

Sheet	Contents
<i>Cover</i>	Content directory and model key
<i>UserInterface</i>	This sheet contains licensee selector switch allowing the user to switch between licensees.
<i>Checks</i>	This sheet pulls together the results of the various check functions used throughout the model.
Transformation sheets: <i>LicenseeSelect</i> <i>VariantAllowances</i> <i>Transform</i>	<p>The <i>LicenseeSelect</i> sheet picks up data from the three identically structured licensee-specific input sheets at the end of the model, using a choose function, depending on which licensee is selected. It too is structured identically to the licensee-specific input sheets.</p> <p>The <i>VariantAllowances</i> sheet picks up data from the <i>LicenseeSelect</i> sheet and generates the variant allowances summary which feeds into the <i>Totex sheet</i>.</p> <p>The <i>Transform</i> sheet is the starting point for the calculations in the PCFM and categorises the raw inputs from the <i>SelectedInputs</i> to allow the PCFM to calculate Allowed Revenue.</p>

Sheet	Contents
<p>Calculation sheets:</p> <p><i>Totex</i> <i>TIM</i> <i>Depreciation</i> <i>NonCore</i> <i>Return&RAV</i> <i>TaxPools</i> <i>Finance</i> <i>Tax</i> <i>ReturnAdj</i> <i>Revenue</i> <i>AllowedRevenue</i></p>	<p>The calculation sheets are purple sheets and will be auto-populated by the model when the inputs are updated for each AIP. The calculations within the majority of these sheets follow the algebra set out in the special licence conditions for each licensee.</p>
<p>Inflation:</p> <p><i>Inflation</i></p>	<p>The <i>Inflation</i> sheet shows the values for monthly outturn and forecast price indices relating to the Consumer Price Index including owner-occupiers' housing costs (CPIH) and Price index (PI), as described in chapter 2 of the ET3 PCFH.</p>
<p>Licensee-specific input sheets:</p> <p><i>NGET</i> <i>SHET</i> <i>SPTL</i></p>	<p>These are the sheets into which the relevant licensee must input its updated variable values (the blue shaded input cells) as part of an AIP.</p> <p>These are the values that this guidance document pertains to, unless otherwise specified.</p>

Supporting files

3.6 As well as the ET3 PCFM itself, licensees must submit other files, the values from which will feed into the PCFM Variable Values. These include but are not limited to:

- a) Regulatory Reporting Pack (RRP)
- b) ET2 legacy PCFM and ET2 legacy RRP template (if revisions to the legacy adjustments are proposed)
- c) Any other relevant underlying files, eg a Tax Trigger Event model

3.7 Where data in supporting files which will feed into the PCFM Variable Values is unchanged from the previous PCFM dry run or final submission, the file is not required to be resubmitted, but a statement should be included in the commentary to this effect.

4. Instructions for completing the PCFM Variable Values

- 4.1 The PCFM Variable Values that can be revised during an AIP are set out in Table 3.1 in Chapter 3 of the ET3 PCFH.
- 4.2 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).
- 4.3 The below table contains instructions for licensees on how to populate the ET3 PCFM Variable Values table for submission to the Authority at each dry run of an AIP.
- 4.4 Unless otherwise specified, all references relate to the Revenue input sheets of the ET3 RRP.

Variable Value category	Guidance for Completion
<p><u>Variant Totex Allowances – Price Control Deliverables</u></p> <ul style="list-style-type: none"> • Baseline Network Risk Output • Cyber resilience Price Control Deliverable • Cyber resilience Use it or Lose it • Physical Security Price Control Deliverable • Operational transport emissions reduction Price Control Deliverable • Closely Associated Indirects • Pre-Construction Funding Price Control Deliverable • Load use it or lose it allowance • ET2/ET3 Crossover adjustments [SHETL] • Connections Mechanism Generation • Connections Mechanism Demand • Legacy Opex Escalator • SF6 asset intervention Price Control Deliverable [NGET & SHETL] • Protection Replacement Price Control Deliverable [SHETL] • Circuit Breaker PCDM [SHETL] • Existing Power Station Works PCDM [SHETL] • Substation PCDM [SHETL] • Flood Mitigation Price Control Deliverable [SHETL] • Bengeworth Road GSP Project Price Control Deliverable [NGET] 	<p>In general, the value of the Price Control Deliverable is an ex-ante allowance, subtracting any reductions that have been directed by the Authority.</p> <p>The ex-ante allowances are given in the appendix for the relevant Special Condition, and the reductions are provided by directions from the Authority.</p> <p>For these Variable Values, the actual adjustments directed by Ofgem should be input into the yellow adjustment cells in the “PCDs” sheet of the ET3 RRP. This data will then be picked up in the allowance values on the “PCFM Input Summary” sheet, which should be used to populate the licensee input sheets in the PCFM.</p> <p>Where required, further detailed guidance for updating their variable values is provided in the ET3 RIGs.</p> <p>Forecasting</p> <p>Where Ofgem has yet to issue any directions, but a licensee expects not to deliver an output identified in the relevant Special Condition appendices, it should use best endeavours to forecast the expected adjustment into the yellow adjustment cells in the “PCDs” sheet.</p> <p>Details of the assumptions made should be provided in the supplementary commentary.</p>

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Variable Value category	Guidance for Completion
<ul style="list-style-type: none"> • REDACTED Substation upgrade Price Control Deliverable [NGET] • 	
<p><u>Variant Totex Allowances – Volume Drivers</u></p> <ul style="list-style-type: none"> • Generation Connections volume driver • Demand Connections volume driver [NGET] • Substation Cable PCD [NGET] • LVAC PCD VD [NGET] • Substation Cable PCD VD [NGET] • Reactive Compensation PCD VD [NGET] • Substation Estate PCD [NGET] • LVAC PCD [NGET] • Substation Efficiency PCD [NGET] • Lead Asset Portfolio - OHL Named [NGET] • Reactive Compensation PCD [NGET] • Post Insulator PCD VD [NGET] • Lead Asset Portfolio - OHL Fittings VD [NGET] • Lead Asset Portfolio - OHL Fittings [NGET] • Auxiliary Earthing Transformer PCD VD [NGET] • Reactor PCD [NGET] • Post Insulator PCD [NGET] • P&C_Portfolio PCDM VD [NGET] • Non Lead Surge Arrester PCD [NGET] • P&C_Portfolio PCDM [NGET] • Non Lead Surge Arrester PCD VD [NGET] • Reactor PCD VD [NGET] • Auxiliary Earthing Transformer PCD [NGET] • Through Wall Bushing PCD VD [NGET] • Super Grid Transformer PCD [NGET] • Instrument Transformer PCD VD [NGET] • Circuit Breaker PCD VD [NGET] • Non Lead Earth Switch PCD [NGET] • Non Lead Disconnecter PCD VD [NGET] 	<p>For actual periods, data should be input directly into the yellow input cells of the “Volume Driver - DRI” and “Volume Driver – GCE” sheets of the RRP pack. This data is then picked up in the allowance values on the “PCFM Input Summary” sheet, which should be used to populate the licensee input sheets in the PCFM.</p> <p>Forecasting</p> <p>For forecast periods relating to future Regulatory Years, data should be input directly into the yellow input cells of the “Volume Driver - DRI” and “Volume Driver – GCE” sheets of the RRP pack. This data will then be picked up in the allowance values on the “PCFM Input Summary” sheet, which should be used to populate the licensee input sheets in the PCFM.</p>

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Variable Value category	Guidance for Completion
<ul style="list-style-type: none"> • Non Lead Disconnecter PCD [NGET] • Through Wall Bushing PCD [NGET] • Circuit Breaker PCD [NGET] • Super Grid Transformer PCD VD [NGET] • Civils PCD [NGET] • Instrument Transformer PCD [NGET] • Non Lead Earth Switch PCD VD [NGET] 	
<p>Variant Totex Allowances – Re-openers</p> <ul style="list-style-type: none"> • Cyber resilience Re-opener • Resilience Activity Re-opener • Physical Security Re-Opener • Decarbonisation and Environmental Policy Re-opener • Digitalisation Re-opener • Coordinated adjustment mechanism Re-opener • Non-Load Re-opener • Business Support Costs Re-opener • Pre-Construction Funding Re-opener • Advanced Procurement Mechanism • Load Re-opener • CSNP Re-opener • ASTI Pre-Construction Funding Price Control Deliverable • Accelerated strategic transmission investment Re-opener • Entry and exit connection asset allowance [SPTL & SHETL] • ET2/ET3 Crossover adjustments [NGET] • ET2/ET3 Crossover adjustments [SPTL] • Visual Impact Mitigation Re-opener • T2 Non-Operational IT Capex Re-opener [NGET] • Subsea Cable Re-opener [SHETL] • Property Re-opener [SHETL] • NESO Separation Re-Opener [NGET] 	<p>A re-opener is a type of uncertainty mechanism, which allows the Authority to adjust a licensee’s allowances (either up or down) based on an application by the licensee, in response to changing circumstances during the price control period.</p> <p>The ex-ante allowances are given in the appendix for the relevant Special Condition, and the adjustments are provided by directions from the Authority.</p> <p>Within the application window 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 re-opener application, the licensee must use the adjustment values as published by the Authority to update the relevant re-opener’s allowance and adjustment yellow input cells in the “Re-openers” sheet. This data will then be picked up in the allowance values on the “PCFM Input Summary” sheet, which should be used to populate the licensee input sheets in the PCFM.</p> <p>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.</p> <p>This is with a view to updating these values at a later dry run (or AIP) to correspond to a subsequent Ofgem decision.</p> <p>Outside of the application window 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 “Re-openers” sheet.</p> <p>The values to use are the actual costs incurred or forecast costs expected to be incurred in each Regulatory Year and</p>

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Variable Value category	Guidance for Completion
<ul style="list-style-type: none"> • Property Re-opener Alpha [NGET] • Property Re-opener Beta [NGET] • Tyne Crossing Project Re-opener [NGET] • NGET Non-Load Related Major Projects Re-opener and Price Control Deliverable [NGET] • NGET V-String Busbars and Price Control Deliverable [NGET] • NGET Reactive Compensation Reopener [NGET] 	<p>applied for through the relevant re-opener application submitted.</p>
<p>Actual Totex</p>	<p>Totex is reported in one of two buckets, capitalisation rate 1 and capitalisation rate 2.</p> <p>Any expenditure relating to ex-ante, or baseline funded activities including PCDs is subject to capitalisation rate 1.</p> <p>Any expenditure relating to activities that have been funded under Uncertainty Mechanisms (as labelled in the PCFM) is subject to capitalisation rate 2.</p> <p>For Totex values, actual and forecast data for the reporting period in question are to be inputted into the yellow cells on the “PCFM Input Summary” sheet of the ET3 RRP. These values should be used to populate the licensee input sheets in the PCFM.</p>
<p>Pass-through costs</p> <ul style="list-style-type: none"> • Prescribed Rates • Pension Scheme Established Deficit repair • Temporary physical disconnection costs • NGESO Pension Transfer Costs • Community funds for transmission infrastructure • Tender support activities costs • Miscellaneous Pass-through Costs • Independent Technical Adviser 	<p>Pass-through costs are specified costs that are predominantly outside of a licensee’s control and may be passed through to consumers. These costs are defined in SpC 6.1 (Pass-through items).</p> <p>For pass-through variable values, actual data for the reporting period in question should be put directly into the yellow input cells of the “Pass-Through” sheet of the ET3 RRP. This data is then picked up in the “PCFM Input Summary” sheet, which should be used to populate the licensee input sheets in the PCFM.</p> <p>Where required, further detailed guidance for updating these variable values is provided in the RIGs.</p> <p>Forecasting</p> <p>Forecasts for future regulatory periods should be input directly into the yellow input cells of the “Pass-Through” sheet of the ET3 RRP, which should be used to populate the licensee input sheets in the PCFM.</p>

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Variable Value category	Guidance for Completion
<p><u>Incentive revenue (Output Delivery Incentives)</u></p> <ul style="list-style-type: none"> • Energy Not Supplied ODI • Insulation and Interruption Gas emissions ODI • Timely connections ODI • Innovative Delivery ODI • SO TO Optimisation ODI • ASTI ODI • Major Projects ODI 	<p>Incentive revenue or output delivery incentives (ODI) are used to reward or penalise licensees for their performance.</p> <p>For ODI values, actual data for the reporting period in question should be input directly into the yellow input cells in the “Output Delivery Incentives” sheet and the “PCFM Input Summary” sheet, which should be used to populate the licensee input sheets in the PCFM.</p> <p>Forecasting</p> <p>Forecasts for year t or future regulatory periods, if available, should be input directly into the yellow input cells of the “Output Delivery Incentives” sheet and the allowance values on the “PCFM Input Summary” sheet, which should be used to populate the licensee input sheets in the PCFM.</p>
<p><u>Other Revenue allowances</u></p> <ul style="list-style-type: none"> • Network Innovation Allowance • Carry-over Network Innovation Allowance • Revenue adjustments in respect of connection performance failures • Aggregate amount notified 	<p>For ORA values, actual data for the reporting period in question should be input directly into the yellow input cells of the relevant ORA sheets of the ET3 RRP. This data will then be picked up in the “Other Revenue Allowances” sheet and the allowance values on the “PCFM Input Summary” sheet, which should be used to populate the licensee input sheets in the PCFM.</p> <p>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 ET3 NIA Governance Document.</p> <p>Further detailed guidance for updating the underlying inputs to the calculations in the “Other Revenue Allowances” sheet is provided in the ET3 RIGs.</p> <p>Forecasting</p> <p>Forecasts for future regulatory periods should be input directly into the yellow input cells of the relevant ORA sheets of the ET3 RRP. This data will then be picked up in the “Other Revenue Allowances” sheet and the allowance values on the “PCFM Input Summary” sheet, which should be used to populate the licensee input sheets in the PCFM.</p>
<p><u>Legacy adjustments</u></p> <ul style="list-style-type: none"> • Legacy adjustment term • Legacy K correction • General pool capital allowance opening balance brought forward • Special rate capital allowance opening balance brought forward 	<p>These legacy values will be determined by Ofgem following the formal close-out of the ET2 price control.</p> <p>In the interim period between the beginning of ET3 and the direction of these values and the establishment of a close-out methodology, the licensee must calculate its provisional legacy values in accordance with the close-out</p>

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Variable Value category	Guidance for Completion
<ul style="list-style-type: none"> • Structures and buildings capital allowance opening balance brought forward • Deferred revenue opening balance brought forward • General pool opening balance adjustment • Special rate pool opening balance adjustment • Structures and buildings pool additions (ET3) plus opening balance at start of ET3 • Deferred revenue pool additions (ET3) plus opening balance at start of ET3 • Tax loss brought forward 	<p>methodologies and processes set out in chapter 8 of the ET3 PCFH.</p> <p>Revisions to the Legacy ET2 PCFM must be accompanied with a description of the specific modifications along with a copy of the ET2 RRP and any relevant underlying calculation files used to populate the Legacy ET2 PCFM (see section 5 of this Guidance).</p>
<p>Directly remunerated services (DRS)</p> <ul style="list-style-type: none"> • Pre-vesting directly remunerated services • Post-vesting directly remunerated services • Other Income directly remunerated services • Identified directly remunerated services costs 	<p>For DRS values, actual and forecast data for the reporting period in question should be input directly into the yellow input cells in the “DRS” sheet of the ET3 RRP. This data will then be picked up in the allowance values on the “PCFM Input Summary” sheet, which should be used to populate the licensee input sheets in the PCFM.</p>
<p>Revenue Profiling Adjustment</p> <ul style="list-style-type: none"> • Revenue Profiling Adjustment 	<p>The values were agreed with the licensees at the beginning of the ET3 price control. The values may be adjusted in their in the company specific input sheets of the PCFM by the licensee with agreement from Ofgem.</p>
<p>Disposals</p> <ul style="list-style-type: none"> • Disposals net proceeds 	<p>For this variable value, actual data for the reporting period in question should be inputted directly into the company specific input sheets of the PCFM.</p>
<p>Guidance for Finance and Tax inputs to be entered directly into the ET3 PCFM licensee input sheets</p>	
<ul style="list-style-type: none"> • iBoxx trailing average (financial year) (iBAFY_t) • Risk-free rate (RFR) 	<p>These finance inputs are calculated by the Authority using the WACC allowance model and feed into the licensee’s allowed return on capital.</p> <p>These values are calculated and provided to the licensee by Ofgem during the AIP dry runs. This update usually takes place in the first half of November.</p> <p>These values are sourced from the updated WACC allowance model. The methodology for the derivation of iBAFY and RFR is described in chapter 4 of the ET3 PCFH.</p>

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Variable Value category	Guidance for Completion
Real Price Effects (RPEI) annual growth rate	<p>This value is calculated by the Authority and is sourced directly from the updated RPE model in accordance with the methodology and process set out in chapter 5 of the ET3 PCFH.</p> <p>Ofgem will share a redacted version of this workbook alongside the WACC Allowance Model no later than 30 November.</p>
Adjusted net debt	<p>For this variable value, actual data for the reporting period in question should be input directly into the licensee-specific input sheets of the ET3 PCFM. Licensees may also update forecast data for this variable value.</p> <p>For the submission in 2027 and onwards the figures used to update this variable value should be those reported as “Net Debt as per the Regulatory (RIIO-2) definition” in the licensee’s submitted RFPR.</p> <p>See the RIIO-2 RFPR Guidance for further detail on what this value comprises.</p>
Tax deductible net interest cost	<p>For this variable value, actual data for the reporting period in question should be input directly into the licensee-specific input sheets of the ET3 PCFM. Licensees may also update forecast data for this variable value.</p> <p>For the submission in 2027 and onwards the figures used to update this variable value should be those reported as “Net Interest as per the Regulatory (RIIO-2) definition” in the licensee’s submitted RFPR.</p> <p>See the RIIO-2 RFPR Guidance for further detail on what this value comprises.</p>
<p><u>Tax liability allowance adjustments – driven by tax trigger events</u></p> <ul style="list-style-type: none"> • General Pool Opening Balance Adjustment • Special Pool Opening Balance Adjustment 	<p>These variable values will not be applicable unless the licensee has followed the notification process set out in Chapter 6 of the PCFH.</p> <p>Companies may include a forecast value in advance of the notification process and Ofgem confirmation being concluded.</p> <p>These values will be calculated according to the methodology that has been agreed to by Ofgem.</p> <p>Ofgem will provide confirmation of the final figures to be used for these variable values.</p>
Tax allowance adjustments	<p>This value will not be applicable unless the Authority has directed a value following a tax review under Special Condition 2.2.</p>

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Variable Value category	Guidance for Completion
<p>Tax rates</p> <ul style="list-style-type: none"> • Corporation Tax rate • General pool capital allowance rate • Special Rates capital allowance rate • Structures and buildings capital allowance rate • Deferred Revenue Expenditure capital allowance rate • General pool additions qualifying for full expensing allowance • Special rate pool additions qualifying for full expensing allowance 	<p>Corporation tax and capital allowance rates should be updated where a rate-change has been announced, as set out in chapter 6 of the PCFH.</p>
<p>Variant and non-variant allowances: tax pool allocations</p>	<p>For these values, the rates used to allocate totex into the different tax pools can be updated using the calculations in the “Tax Pools Totex allocations” sheet of the ET3 RRP.</p> <p>Allocation percentages of Totex categories to tax pools should be input by the licensee 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.</p>
<p>Recovered Revenue</p>	<p>This variable value is defined in Part B of Special Condition 2.1 (Revenue Restriction) of the ET3 Licence and should be provided by licensees.</p>
<p>Base Revenue (as published) (BR_t^*)</p>	<p>This variable value is defined in Part G of Special Condition 2.1 (Revenue Restriction) of the ET3 Licence and should match the value of BR_t as at the time of publication of the PCFM by the licensee for tariff setting for Regulatory Year t in accordance with paragraph 2.1.5 of Special Condition 2.1.</p>
<p>Base Revenue Forecasting Penalty Adjustment (BRFPAt)</p>	<p>This variable value is defined in Part G of Special Condition 2.1 (Revenue Restriction) of the ET3 Licence and should have the value of 1 unless the Authority directs otherwise.</p>
<p>Outturn Index ($CPIH_m$)</p>	<p>This value is shown in the “Inflation” sheet of the PCFM and will be updated by the Authority in line with the methodology for the Price Index calculation set out in chapter 2 of the PCFH.</p> <p>Ofgem will update the CPIH outturn index prior to the first dry run of each AIP using data that is available as at 31 July.</p> <p>Following the update by Ofgem, licensee will update outturn data for CPIH until September of the current year (e.g. in November 2026, the outturn data values would only be entered to September 2026).</p>

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Variable Value category	Guidance for Completion
CPIH inflation forecast (Financial year) “FYCPIHt”	This value 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 inflation forecast in November at each AIP using the most recent OBR outlook available during November.
Long term CPIH inflation forecast “LTCPIHt”	This value will be updated by the Authority in line with the methodology set out in chapter 2 of PCFH. Ofgem will update this inflation forecast in November at each AIP using OBR data that is available as at 31 October.

5. PCFM Dry Run Commentary

Background

- 5.1 The licensee's PCFM submission must be accompanied by supporting commentary as well as any applicable supporting models and underlying workings.
- 5.2 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

- 5.3 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
- 5.4 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 ARt.
- 5.5 The licensee must 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;
 - a description and the basis for each individual PCFM Variable Value that has been updated;
 - the source of the data used to update the PCFM Variable Values (i.e. Ofgem directions, ET3 RRP, Legacy PCFM or forecast data);
 - a description of the impact of the changes on 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

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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 (e.g. ET3 RRP) are subject to; and
- any other information the licensee considers is appropriate to explain the PCFM submission.

Submission

- 5.6 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.
- 5.7 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.
- 5.8 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 e.g. through hyperlinks.