

# Guidance

## GD3 PCFM Guidance

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

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# 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 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 GD3 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 GD3 Price Control Financial Instruments).
- 1.5. The modification and governance process for the PCFM Guidance is set out in Standard Special Condition A40 (Regulatory Instructions and Guidance).

## Purpose

- 1.6. The purpose of this document is to provide guidance to enable Gas Distribution Networks (GDNs) to complete each dry run of an AIP that is submitted to Ofgem. As described in 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

### **Submission of the GD3 PCFM**

- 2.1 The Annual Iteration Process (AIP) is an annual cycle through which the licensee updates and recalibrates the GD3 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 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.
- 2.3 The licensee must submit an updated copy of the accompanying GD3 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 GD3 PCFM, thereafter.
- 2.4 The PCFM Variable Values in the PCFM Interface sheet of the RRP should match the licensee-specific input sheets of the GD3 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 GD3 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 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.
- 2.7 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 GD3 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 accompanying interim RRP must be populated at a minimum:
  - 2.01 Revenue - PCDs

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- 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
- 3.01 Revenue – PCFM interface

- 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 GD3 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 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.
- 2.12 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 GD3 PCFH or this guidance document, as applicable, or 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 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 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 early January 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 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.
- 2.21 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 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.
- 2.23 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 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 blue cells 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.

2.24 In accordance with paragraph 2.26 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.

2.25 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.

2.26 In accordance with paragraph 2.27 of the GD3 PCFH, the licensee will not be required to provide a further copy of the GD3 PCFM with another 14-day notice

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period where the Authority requires the licensee to make a change to the GD3 PCFM provided as part of this notification.

### **Publication of the GD3 PCFM**

- 2.27 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.
- 2.28 The requirements for the publication of the GD3 PCFM are set out in paragraphs 2.28 to 2.30 of the GD3 PCFM.
- 2.29 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**

- 2.30 The last Regulatory Year in which there will be an AIP for the GD3 PCFM is 2029/2030 for the purpose of determining the value of the term AR<sub>t</sub> 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 AR<sub>t</sub> 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<sub>t</sub>.
- 2.32 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.

### 3. The GD3 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 GD3 Price Control Financial Model by 31 January containing the value of Allowed Revenue it used when setting Network Charges for the Regulatory Year to which the relevant Transportation Charging Statement relates. This must be published together with its final pricing notice prepared in accordance with Standard Special Condition A4 (Charges – General).

#### Model structure

- 3.5 The table below sets out the structure and contents of the sheets in the GD3 PCFM:

Sheet	Contents
Cover	Content directory and model key
UserInterface	This sheet contains licensee selector switch allowing the user to switch between licensees.
Checks	This sheet pulls together the results of the various check functions used throughout the model.
Transformation sheets: LicenseeSelect VariantAllowances Transform	<p>The <i>LicenseeSelect</i> sheet picks up data from the eight 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</p>

Sheet	Contents
	from the <i>SelectedInputs</i> to allow the PCFM to calculate Allowed Revenue.
Calculation sheets: Totex TIM Depreciation NonCore Return&RAV TaxPools Finance Tax ReturnAdj Revenue AllowedRevenue	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.
Inflation	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 GD3 PCFH.
Licensee-specific input sheets: East London North West West Midlands Northern Scotland Southern Wales & West	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.  These are the values that this guidance document pertains to, unless otherwise specified.

## Supporting files

3.6 As well as the GD3 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) Costs, Volumes and Revenue Regulatory Reporting Pack (RRP)
- b) GD2 legacy PCFM and GD2 legacy RRP template (if revisions to the legacy adjustments are proposed)
- c) Any other relevant underlying files, e.g. a Tax Trigger Event model

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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 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 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 GD3 RRP.

Variable Value category	Guidance for Completion
<p><b><u>Variant Totex Allowances – Price Control Deliverables</u></b></p> <ul style="list-style-type: none"> <li>• Baseline Network Risk Outputs</li> <li>• Cyber Resilience PCD</li> <li>• Cyber Resilience Use It or Lose It Allowance [NGN]</li> <li>• Cyber Resilience Use It or Lose It Allowance [All except NGN and WWU]</li> <li>• Physical Security Price Control Deliverable</li> <li>• Decarbonisation Project Development Fund Use It or Lose It Allowance</li> <li>• Operational Transport Emissions Reduction PCD</li> <li>• Tier 1 Mains Decommissioned Price Control Deliverable</li> </ul>	<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 “2.01 Revenue - PCDs” sheet of the GD3 RRP. This data will then be picked up in the allowance values on the “3.01 Revenue - PCFM Interface” sheet, which should be used to populate the licensee input sheets in the PCFM.</p> <p>Baseline Network Risk Outputs (NARM) PCD - Companies should input their actual or forecast NARM in the yellow input cells which feed into the “3.01 Revenue - PCFM Interface” sheet. Unlike other PCDs, there is no license algebra that</p>

<ul style="list-style-type: none"> <li>• Tier 1 Services Repex Price Control Deliverable</li> <li>• Tier 1 Stubs Decommissioning PCD</li> <li>• Biomethane Distributed Entry Reinforcement Use It or Lose It Allowance</li> <li>• FWACV Compliance [Cadent all]</li> <li>• Grays Medium Pressure PCD (Cadent all)</li> <li>• Tinsley Viaduct Diversion (Cadent all)</li> <li>• South London Mains PCD (SGN all)</li> <li>• Full Site and System Rebuilds (SGN_all)</li> <li>• Glenmavis System Rebuild and Rationalisation (SGN-Sc)</li> <li>• Isle of Grain PRS - Full System Rebuild and Odorant System Replacement PCD (SGN_So)</li> <li>• Welling PRS - Full Site Rebuild</li> <li>• London Medium Pressure PCD</li> <li>• Mandated Category 3 Security Price Control Deliverable [Cadent all]</li> </ul>	<p>allows for an adjustment for NARM, however licensees are allowed to input their best estimate or actuals in the yellow input cells, which will be over-written with the values as and when directed by Ofgem.</p> <p>Tier 1 Mains De-Commissioned and Tier 1 Services Repex PCDs: Licensees should input the forecast workload figures for the full 5yrs period in the yellow input cells provided. This will be compared to the baseline activity volume for the 5yr period, pre-populated by Ofgem as per the GD3 license to derive allowance values, which then feeds into the “3.01 Revenue – PCFM Interface.”</p> <p><b>Forecasting</b></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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<ul style="list-style-type: none"> <li>• Pipeline Replacement HS007 [WWU]</li> <li>• Pipeline Replacement HS009 [WWU]</li> <li>• Pipeline Replacement HS010 [WWU]</li> <li>• GD2/GD3 Crossover Adjustment</li> </ul>	
<p><b><u>Variant Totex Allowances – Volume Drivers</u></b></p> <ul style="list-style-type: none"> <li>• Tier 2A Mains and Services Replacement Volume Driver</li> <li>• Safety Disconnections Volume Driver</li> </ul>	<p>For actual periods, data should be input directly into the yellow input cells of the “2.02 Revenue - Volume Drivers” sheet of the GD3 RRP. This data is then picked up in the allowance values on the “3.01 Revenue – PCFM Interface” sheet, which should be used to populate the licensee input sheets in the PCFM.</p> <p><b>Forecasting</b></p> <p>For forecast periods relating to future Regulatory Years, data should be input directly into the yellow input cells of the “2.02 Revenue - Volume Drivers” sheet of the GD3 RRP. This data will then be picked up in the allowance values on the “3.01 Revenue – PCFM Interface” sheet, which should be used to populate the licensee input sheets in the PCFM.</p>
<p><b><u>Variant Totex Allowances – Re-Openers</u></b></p> <ul style="list-style-type: none"> <li>• Cyber Resilience Re-Opener</li> <li>• Resilience Activity Re-Opener</li> </ul>	<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>

<ul style="list-style-type: none"> <li>• Physical Security Re-Opener</li> <li>• Small Decarbonisation Projects Re-Opener</li> <li>• Decarbonisation and Environmental Policy Re-Opener</li> <li>• Digitalisation Re-Opener</li> <li>• Coordinated Adjustment Mechanism Re-Opener</li> <li>• HSE Policy Re-Opener</li> <li>• Heat Policy Re-Opener</li> <li>• Diversions and Loss of Development Claims Policy Re-Opener</li> <li>• New Large Load Connections Re-Opener</li> <li>• Specified Streetworks Costs Re-Opener</li> <li>• General Reinforcements Re-Opener</li> <li>• Complex Distribution Systems Re-Opener</li> <li>• London Subways and Tunnel Re-Opener [Cadent All]</li> <li>• Mandated Category 3 Security Re-Opener [Cadent]</li> </ul>	<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><b>Within the application window</b></p> <p>For these Variable Values, where actual amounts are known at the time of the dry run, i.e. where a decision has already been made on a re-opener application, the licensee must reflect the adjustment values as published by the Authority in the yellow input cells in sheet “2.03 Revenue - Re-openers” to update the relevant re-opener’s allowance. This data will then be picked up in the allowance values on the “3.01 Revenue – PCFM Interface” sheet, which will 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 (draft determination) by the Authority. Where no draft determination has been published, the licensee will use the same values included in its application.</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><b>Outside of the application window</b></p> <p>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 “2.03 Revenue - Re-openers” sheet.</p>
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	<p>The values to use are the actual costs incurred or forecast costs expected to be incurred in each Regulatory Year and applied for through the relevant re-opener application submitted.</p>
<p><b><u>Actual Totex</u></b></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 “3.01 Revenue - PCFM Interface” sheet of the GD3 RRP. These values should be used to populate the licensee input sheets in the PCFM.</p>
<p><b><u>Pass-through costs - other</u></b></p> <ul style="list-style-type: none"> <li>• Licence Fee</li> <li>• Prescribed Rates</li> <li>• Gas Transporters' Share of Xoserve Costs</li> <li>• Miscellaneous Pass-through Costs</li> <li>• Gas Theft</li> <li>• NTS Exit Costs</li> </ul>	<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 input directly into the yellow input cells of the “2.04 Revenue-Pass-through costs” sheet of the GD3 RRP. This data will then be picked up in the allowance values on the “3.01 Revenue-PCFM Interface” sheet, which should be used to populate the licensee input sheets in the PCFM.</p>

<ul style="list-style-type: none"> <li>• Third Party Damage and Water Ingress Costs</li> <li>• Shrinkage Costs</li> <li>• Established Pension Deficit Recovery Plan Payment</li> <li>• Other - Stranraer LDZ (SGN Scotland only)</li> <li>• Last Resort Supply: Payment Claims</li> </ul>	<p>Where required, further detailed guidance for updating these variable values is provided in the GD RIGs.</p> <p>For Licence fees: where a rebate is given by Ofgem in relation to Licence fee costs for the previous regulatory year, that rebate should be netted off against the Licence Fee costs, when reported in the PCFM.</p> <p>E.g. if Ofgem provides a rebate to networks in the 26/27 year, relating to the 25/26 year, the licensee may either restate its Licence fee variable value for the regulatory year 25/26 or it may net off the rebate from the licence fee variable value for the 2026/27 regulatory year.</p> <p><b>Forecasting</b></p> <p>Forecasts for future regulatory periods should be input directly into the yellow input cells of the “2.04 Revenue-Pass-through costs” sheet of the GD3 RRP. This data will then be picked up in the allowance values on the “3.01 Revenue-PCFM Interface” sheet, which should be used to populate the licensee input sheets in the PCFM.</p>
<p><b><u>Incentive revenue (Output Delivery Incentives)</u></b></p> <ul style="list-style-type: none"> <li>• Customer Satisfaction Survey ODI</li> <li>• Complaints Metric ODI</li> <li>• Unplanned Interruption Mean Duration ODI</li> </ul>	<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 of the “2.05 Revenue - ODI” sheet of the GD3 RRP. This data will then be picked up in the allowance values on the “3.01</p>

<ul style="list-style-type: none"> <li>• 7 and 28 day Repair Output Delivery Incentive</li> <li>• Collaborative Streetworks ODI (Cadent Lon &amp; EoE, SGN So only)</li> </ul>	<p>Revenue-PCFM Interface” sheet, which should be used to populate the licensee input sheets in the PCFM.</p> <p><b>Forecasting</b></p> <p>Forecasts for year t or future regulatory periods, if available, should be input directly into the yellow input cells of the “2.05 Revenue - ODI” sheet of the GD3 RRP. This data will then be picked up in the allowance values on the “3.01 Revenue-PCFM Interface” sheet, which should be used to populate the licensee input sheets in the PCFM.</p>
<p><b><u>Other Revenue allowances</u></b></p> <ul style="list-style-type: none"> <li>• GD3 Network Innovation Allowance</li> <li>• Carry-over Network Innovation Allowance</li> <li>• Vulnerability and Carbon Monoxide Allowance</li> </ul>	<p>Most components of Other Revenue Allowances are calculated based on the referenced licence algebra in the RRP and linked to the relevant tables. For the yellow input cells, licensees should enter values as directed by the authority. This data will then be picked up in the Other Revenue Allowances section on the “3.01 Revenue-PCFM Interface” sheet, which should be used to populate the licensee input sheets in the PCFM.</p> <p>For Vulnerability and Carbon Monoxide Allowance, licensees should ensure that the validation check in the GD3 RRP remains TRUE for each GD3 year.</p> <p><b>Forecasting</b></p> <p>Forecasts for future regulatory periods should be input directly into the yellow input cells of the “2.06 Revenue – ORA” sheet of the GD3 RRP. This data will then be picked up in the Other Revenue Allowances section on the “3.01 Revenue-PCFM Interface” sheet, which should be used to populate the licensee input sheets in the PCFM.</p>
<p><b><u>Legacy Adjustments</u></b></p> <ul style="list-style-type: none"> <li>• Legacy Adjustment Term</li> <li>• Legacy K Correction</li> </ul>	<p>These legacy values will be determined by Ofgem following the formal close-out of the GD2 price control.</p>

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<ul style="list-style-type: none"> <li>• Exit Legacy Adjustment</li> <li>• Exit K Correction</li> <li>• Solr Legacy Adjustment</li> <li>• Solr K Correction</li> <li>• General Pool Capital Allowance Opening Balance Brought Forward</li> <li>• Special Rate Capital Allowance Opening Balance Brought Forward</li> <li>• Structures and Buildings Capital Allowance Opening Balance Brought Forward</li> <li>• Deferred Revenue Opening Balance Brought Forward</li> <li>• General Pool Opening Balance Adjustment</li> <li>• Special Rate Pool Opening Balance Adjustment</li> <li>• Structures and Buildings Pool Additions (GD3) Plus Opening Balance at Start of GD3</li> <li>• Deferred Revenue Pool Additions (GD3) Plus Opening Balance at Start of GD3</li> <li>• Tax Loss Brought Forward</li> </ul>	<p>In the interim period between the beginning of GD3 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 methodologies and processes in chapter 8 of the GD3 PCFH.</p> <p>Updates to the Legacy GD2 PCFM must be accompanied with a description of the specific changes along with a corresponding copy of the GD2 RRP and any relevant underlying calculation files used to populate the Legacy GD2 PCFM (see section 5 of this Guidance).</p>
<p><b>Directly remunerated services</b></p> <p>Pre-Vesting Directly Remunerated Services</p> <p>Post-Vesting Directly Remunerated Services</p> <p>Other Income from Directly Remunerated Services</p> <p>Identified Directly Remunerated Services Costs</p>	<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 “2.08 Revenue - DRS” sheet of the GD3 RRP. This data will then be picked up in the allowance values on the PCFM Interface sheet, which should be used to populate the licensee input sheets in the PCFM.</p>

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<ul style="list-style-type: none"> <li>Revenue Profiling Adjustment</li> </ul>	<p>The values were agreed with the licensees at the beginning of the GD3 price control. The values may be adjusted in the company specific input sheets of the PCFM by the licensee with agreement from Ofgem.</p>
<ul style="list-style-type: none"> <li>iBoxx Trailing Average (iBTAR<sub>t</sub>)</li> <li>Risk-free Rate (RFR<sub>t</sub>)</li> </ul>	<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 populated by Ofgem during the AIP dry runs. This update usually takes place in November.</p> <p>These values are sourced from the updated WACC allowance model. The methodology for the derivation of iBTA and RFR is described in chapter 4 of the PCFH.</p>
<p>Real Price Effects (RPE<sub>t</sub>) Annual Growth Rate</p>	<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 PCFH.</p> <p>A redacted version of this workbook will be shared with the licensee and published by Ofgem following each AIP, alongside the PCFM and WACC Allowance Model.</p>
<p>Adjusted Net Debt</p>	<p>For this variable value, actual data for the reporting period in question should be input directly into the company specific input sheets of the PCFM. Licensees may also update forecast data for this variable value.</p> <p>For the submission in 2027 and onwards the figures used to update this variable value should be those reported as “Regulatory Net Debt including forecast new debt/refinancing” in the licensee’s submitted RFPR.</p> <p>See the RIIO-2 RFPR Guidance for further detail on what this value comprises.</p>
<p>Tax Deductible Net Interest Cost</p>	<p>For this variable value, actual data for the reporting period in question should be input directly into the company specific input sheets of</p>

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	<p>the PCFM. Licensees may also update forecast data.</p> <p>For the submission in 2027 and onwards the figures used to update this variable value should be those reported as “Regulatory Net Interest including forecast new financing/refinancing costs” in the licensee’s submitted RFPR.</p> <p>See the RIIO-2 RFPR Guidance for further detail on what this value comprises.</p>
<p>Tax Liability Allowance Adjustments – Driven by Tax Trigger Events</p> <ul style="list-style-type: none"> <li>• General Pool Opening Balance Adjustment</li> <li>• Special Rate Pool Opening Balance Adjustment</li> </ul>	<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>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>
<p>Tax allowance adjustment</p>	<p>This value will not be applicable unless the Authority has directed a value following a tax review under Special Condition 2.2.</p>
<p><b><u>Tax rates</u></b></p> <ul style="list-style-type: none"> <li>• Corporation Tax Rate</li> <li>• General Pool Capital Allowance Rate</li> <li>• Special Rates Capital Allowance Rate</li> <li>• Structures and Buildings Capital Allowance Rate</li> <li>• Deferred Revenue Expenditure Capital Allowance Rate</li> <li>• General Pool Additions Qualifying for Full Expensing Allowance</li> <li>• Special Rate Pool Additions Qualifying for Full Expensing Allowance</li> </ul>	<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>Tax Pool Allocation Rates</p>	<p>For these values, the rates used to allocate totex into the different tax pools can be updated using the calculations in the “2.07 Revenue-</p>

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	<p>TaxPoolTotex Alloc” sheet of the GD3 RRP reporting pack.</p> <p>Allocation percentages of totex categories to tax pools should be input by the licensee in the yellow input rows in the “2.07 Revenue-TaxPoolTotex Alloc” sheet of the GD3 RRP 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>
Recovered Revenue	This variable value is defined in SpC 2.1, Part B of the GD Licence and should be provided by licensees.
SoLR Recovered Revenue	This variable value should be provided by licensees and represents the amount of recovered revenue that relates to Supplier of Last Resort costs, only.
Exit Recovered Revenue	This variable value should be provided by licensees and represents the amount of recovered revenue that relates to NTS Exit Flat Capacity costs as defined in Standard Special Condition A3 (Definitions and Interpretation), only.
Base Revenue (as published)	This variable value is defined in Part G of Special Condition 2.1 (Revenue Restriction) of the GD3 Licence and should match the value of BRt 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.

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Allowed Revenue (as published)	This variable value is defined in Part G of Special Condition 2.1 (Revenue Restriction) of the GD3 Licence and should match the value of $AR_t$ contained in the corresponding PCFM published in advance of charge setting for year t.
Base Revenue Forecasting Penalty Adjustment	This variable value is defined in Part G of Special Condition 2.1 (Revenue restriction) of the GD3 Licence and should have the value of 1 unless the Authority directs otherwise.
Recovered Revenue Forecasting Penalty Adjustment	This variable value is defined in Part G of Special Condition 2.1 (Revenue restriction) of the GD3 Licence and should have the value of 1 unless the Authority directs otherwise.
Outturn Index ( $CPIH_m$ )	<p>This value is shown in the “Inflation” sheet of the GD3 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>
CPIH Forecast (financial year) - $FYCPIH_t$	<p>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.</p> <p>Ofgem will update the CPIH inflation forecast in November at each AIP using the most recent OBR outlook available during November.</p>

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<p>Long term CPIH Inflation Forecast - LTCPIHt</p>	<p>This value will be updated by the Authority in line with the methodology set out in chapter 2 of PCFH.</p> <p>Ofgem will update this inflation forecast in November at each AIP using OBR data that is available as at 31 October.</p>
<p>Totex Variant Allowances Allocation Percentages</p>	<p>Where a licensee has provided a forecast for a variant allowance variable value, which does not have a corresponding hard-coded allocation rate, it may update these blue box variable values with its own forecast allocation rates.</p> <p>This will enable any forecast values for the affected variant allowances to feed through to Allowed Revenue.</p> <p>Where Ofgem directs these allocation rates, the directed values must be used.</p>
<p>Disposals Net Sale Proceeds</p>	<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>

## 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, GD3 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

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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 (e.g. GD3 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 (by network for Cadent). A full dry run commentary is required for the first dry run submission and for any subsequent dry runs, a narrative will only be required for any variable values, which have been amended from the prior dry run.
- 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.