

# Guidance

GD2 PCFM Guidance			
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<b>Version</b>	[1.0 (draft for consultation)] <sup>1</sup>	<b>Email:</b>	<a href="mailto:RegFinance@ofgem.gov.uk">RegFinance@ofgem.gov.uk</a>

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

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<sup>1</sup> [Note: This guidance document is a work in progress (WIP) and the content is subject to further review and decisions. Square brackets [] are used to provide notes to the reader or to indicate items that cannot yet be added or are otherwise provisional.]

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Any enquiries related to the text of this publication should be sent to Ofgem at:  
10 South Colonnade, Canary Wharf, London, E14 4PU. Alternatively, please call Ofgem on 0207 901 7000.

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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 us for each Annual Iteration Process (AIP).

1.2. It also sets out the required information that should be submitted to Ofgem in the supporting narrative commentary.

1.3. This document should be read in conjunction with chapter 2 of the GD2 Price Control Financial Handbook, which contains a detailed description of the PCFM modification process and the AIP dry run process. Additionally, this document should be read in conjunction with Appendix 1 ('Glossary') of the GD2 Price Control Financial Handbook.

### 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 GD2 Price Control Financial Instruments*).

1.5. The modification and governance process for the PCFM Guidance and the steps of the Annual Iteration Process are set out in Special Licence Condition 8.2 (*Annual Iteration Process for the GD2 Price Control Financial Model*).

### Purpose

1.6. The purpose of this document is to provide guidance to enable GDNs to complete each dry run of an AIP that is submitted to Ofgem. As described in GD2 Price Control Financial Handbook, dry run process entails amending and confirming values over a number of months,

from 31 July<sup>2</sup> to early November for each Regulatory Year, iterative to account for updates to the Variable Values as they become known.

1.7. This document provides information on:

- instructions and guidance on how to populate the PCFM Variable Values for submission for an Annual Iteration Process;
- guidance on the process and timeframe for reporting and submitting the required data; and
- any requirements that apply to supporting information, documentation or commentary to be submitted.

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<sup>2</sup> For the first year of RIIO-2, this date has been moved to 31 August 2021.

## 2. The Price Control Financial Model

### Introduction

2.1. We set ex-ante allowed revenues for each licensee at the outset of the RIIIO-2 price control based on the information available at the time.

2.2. Throughout the price control, we use the AIP to update the variable values in the PCFM by updating inputs for actual expenditure and performance as well as updating forecasts for the latest view.

2.3. The revenue calculation macro in the model is then re-run to capture this new information and to calculate an adjustment to allowed revenue ( $AR_t$ ) using the latest information.

2.4. This model and the re-calculated value of  $AR_t$  as well as the adjustment to revenue known as  $ADJR_t$  is published on Ofgem's website by 30 November each year and is the value that licensees must use to set their charges for the forthcoming Regulatory Year under special condition 2.1 (*Revenue restriction*).

### Model structure

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

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

Input	<p>The Input tab is the starting point for all calculations in the PCFM and contains all the inputs necessary to calculate all the components of <math>AR_t</math>.</p> <p>The Input tab pulls from the eight identically structured company-specific input tabs at the end of the model, using a choose function, depending on which company is selected.</p>
Calculation sheets: Totex TIM Depn FuelPoor Return&RAV TaxPools Finance&Tax ReturnAdj Revenue AR	<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 GDN.</p>
Results sheets	<p>The "LiveResults" sheet shows a live summary of the changes to the components of <math>AR_t</math>, following any input updates. The values in this sheet update automatically following any changes to inputs to the year or company selector switch. This sheet shows results for the selected company.</p> <p>The "SavedResults" sheet hard-codes the values in the "LiveResults" sheet for comparison and record-keeping purposes, after the RunForOne or RunForAll macro has been run in the "UserInterface" sheet. This sheet shows the summary of results for all companies.</p>
Monthly Inflation input sheet Annual Inflation input sheet	<p>The "Monthly Inflation" sheet shows the values for monthly outturn and forecast price indices relating to the Retail Price Index (RPI), Consumer Price Inflation including owner-occupiers' housing costs (CPIH) and Price index (PI), as defined in chapter 2 of PCFH.</p> <p>The "Annual Inflation" sheet shows the derivation of annual indices and inflation rates by aggregating the data in the "Monthly Inflation" sheet.</p>

	The inflation rates in the “Annual Inflation” sheet are used to derive “real to nominal” conversion factors used throughout the PCFM in relation to 2018/19 price base.
Company-specific input sheets	The blue and grey shaded inputs, also known as the PCFM Variable Values, in each company-specific input sheet are the inputs which should be updated as part of an AIP. These are the values that this guidance document pertains to, unless otherwise specified.

## Subsidiary models

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

- Cost and Volumes Regulatory Reporting Pack<sup>3</sup>
- GD2 Revenue workbook<sup>4</sup>
- Tax workbook<sup>5</sup>

## Reporting timescales

2.7. The licensee must submit the PCFM, the required subsidiary models and commentary to the Authority by 31 August 2021 and by 31 July prior to each Regulatory Year t, thereafter.<sup>6</sup>

2.8. Ofgem will maintain up-to-date copies of and make any modifications, if required, to the PCFM and its subsidiary models, the PCFH and the PCFM Guidance on an annual basis in accordance with the relevant governance processes set out in special conditions 8.1 and 8.2.

<sup>3</sup> Applicable to future Regulatory Years only (regulatory period starting 2022/23).

<sup>4</sup> The GD2 Revenue workbook is to be submitted for the submission due on 31 August 2021, only. In future periods, the calculations in this workbook will be moved into the Cost and Volume RRP.

<sup>5</sup> Applicable to future Regulatory Years only (regulatory period starting 2022/23).

<sup>6</sup> See the PCFM functional cut-off dates set out in Table 2.1 of the GD2 PCFH.



2.9. To allow licensees sufficient time to populate a PCFM for submission, modifications will be reflected in the version of the PCFM to be used for an upcoming AIP by 01 June 2021 and 01 May prior to each Regulatory Year, thereafter.<sup>6</sup>

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

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

2.12. The steps of the AIP are specified in Special Condition 8.2, Part A and the process is further described in the GD2 PCFH.

## Submissions

2.13. By 31 August 2021 and by 31 July prior to each Regulatory Year  $t$  thereafter<sup>7</sup>, the licensee must submit to the Authority the GD2 PCFM, with a completed variable values table (covering activity in the prior Regulatory Year and changes to forecast activity<sup>8</sup>), which has been run to calculate  $AR_t$ .

2.14. As well as this, the licensee must submit the relevant subsidiary models used to derive the variable values and any relevant commentary.

2.15. All of the documents submitted as part of a dry run of the AIP must be sent to the Authority either through email or a secure file-sharing application such as Huddle.

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<sup>7</sup> See the PCFM functional cut-off dates set out in Table 2.1 of the GD2 PCFH.

<sup>8</sup> Variable Values for Regulatory Years later than Regulatory Year  $t$  do not feed into the calculation of the term  $AR_t$ . Therefore, calculated values in the PCFM for Regulatory Years later than Regulatory Year  $t$  represent only a forecast. This is without prejudice to the status of the Variable Values concerned, which may have been decided and/or directed under licence conditions and which may or may not be subject to subsequent revision.

## Forecasting

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

2.17. Where a PCFM Variable Value is not known at the time of submission, we expect the licensee to forecast a value using its best estimate under Special Condition 8.2.

2.18. It is acknowledged that forecasts will not be as accurate as actual reported data and that all forecasts will be made with a view to truing-up at a subsequent dry run or AIP, however we expect that the inclusion of forecasts will reduce the magnitude of any subsequent true-ups and reduce revenue volatility.

## Price base

2.19. As described in chapter 2 of the GD2 PCFH, when ascertaining calculated revenue, the GD2 PCFM works in a constant 2018/19 price base except in respect of some calculations internal to the model that use nominal prices, eg, tax and legacy calculations.

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

## Related documents

GD2 Price Control Financial Handbook

GD2 Price Control Financial Model

GD2 Regulatory Instructions and Guidance (RIGs)

GD2 Regulatory Financial Performance Reporting

Other relevant Associated Documents as listed in [Table 3.1](#)

### 3. The GD2 Price Control Financial Model Variable Values

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

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

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**Table 3.1 - RIIO-GD2 variable values (VV)**

VV	Description	SpC	Cross-reference / Associated Document
<b>Variant Totex Allowances - PCDs</b>			
GHRR <sub>t</sub>	Gas Holder demolitions Price Control Deliverable [WWU and NGN only]	SpC 3.25	PCFM Guidance
NARM <sub>t</sub>	Baseline Network Risk Output	SpC 3.1	PCFM Guidance
T1MD <sub>t</sub>	Tier 1 Mains decommissioned Price Control Deliverable	SpC 3.10	PCFM Guidance
T1SR <sub>t</sub>	Tier 1 Services Repex Price Control Deliverable	SpC 3.11	PCFM Guidance
BMI <sub>t</sub>	Biomethane improved access rollout Price Control Deliverable [SGN only]	SpC 3.30	PCFM Guidance
RPM <sub>t</sub>	Remote pressure management Price Control Deliverable [SGN only]	SpC 3.29	PCFM Guidance, PCD Reporting Requirements and Methodology Document
IPR <sub>t</sub>	Intermediate pressure reconfigurations Price Control Deliverable [SGN only]	SpC 3.28	PCFM Guidance
CAP <sub>t</sub>	Capital projects Price Control Deliverables	SpC 3.12	PCFM Guidance, PCD Reporting Requirements and Methodology Document
OTC <sub>t</sub>	Commercial fleet Price Control Deliverable	SpC 3.13	PCFM Guidance
GER <sub>t</sub>	Gas escape reduction Price Control Deliverable	SpC 3.31	PCFM Guidance, PCD Reporting Requirements and Methodology Document
CROT <sub>t</sub>	Resilience Non-TIM Price Control Deliverable and use it or lose it	SpC 3.2	PCFM Guidance, PCD Reporting Requirements and Methodology Document
CRIT <sub>t</sub>	Resilience TIM Price Control Deliverable	SpC 3.3	PCFM Guidance, PCD Reporting Requirements and Methodology Document
PSUP <sub>t</sub>	Physical security Price Control Deliverable	SpC 3.4	PCFM Guidance, PCD Reporting Requirements and Methodology Document
LMP <sub>t</sub>	London Medium Pressure Price Control Deliverable [Cadent North London ONLY]	SpC 3.27	PCFM Guidance, PCD Reporting Requirements and Methodology Document
PWF <sub>t</sub>	Personalising welfare facilities Price Control Deliverable	SpC 3.26	PCFM Guidance

VV	Description	SpC	Cross-reference / Associated Document
RDF <sub>t</sub>	Net zero and Re-opener development use it or lose it allowance	SpC 3.5	PCFM Guidance
<b>Variant Totex Allowances - UMs</b>			
RE <sub>t</sub>	Tier 2A mains and services replacement volume driver	SpC 3.16	PCFM Guidance
REP <sub>t</sub>	HSE Repex policy Re-opener	SpC 3.17	PCFM Guidance, Re-opener Guidance and Application Requirements
CAM <sub>t</sub>	Coordinated adjustment mechanism Re-opener	SpC 3.8	PCFM Guidance, Re-opener Guidance and Application Requirements
HPRA <sub>t</sub>	Heat policy and energy efficiency Re-opener	SpC 3.19	PCFM Guidance, Re-opener Guidance and Application Requirements
FPA <sub>t</sub>	Fuel Poor Network Extension Scheme volume driver	SpC 3.14	PCFM Guidance, FPNES Governance Document
NZ <sub>t</sub>	Net zero Re-opener	SpC 3.6	PCFM Guidance, Re-opener Guidance and Application Requirements
SMR <sub>t</sub>	Smart Metering Roll-out Costs Re-opener	SpC 3.23	PCFM Guidance, Re-opener Guidance and Application Requirements
STW <sub>t</sub>	Specified Streetworks Costs Re-opener	SpC 3.24	PCFM Guidance, Re-opener Guidance and Application Requirements
NLLR <sub>t</sub>	New Large Load Connections Re-opener	SpC 3.22	PCFM Guidance, Re-opener Guidance and Application Requirements
CA <sub>t</sub>	Domestic Connections volume driver	SpC 3.15	PCFM Guidance
STUB <sub>t</sub>	Tier 1 Stubs Repex policy Re-opener	SpC 3.18	PCFM Guidance, Re-opener Guidance and Application Requirements
DIV <sub>t</sub>	Diversions and Loss of Development Claims policy Re-opener	SpC 3.20	PCFM Guidance, Re-opener Guidance and Application Requirements
MOBS <sub>t</sub>	Multiple Occupancy Buildings safety Re-opener	SpC 3.21	PCFM Guidance, Re-opener Guidance and Application Requirements
NOIT <sub>t</sub>	Non-operational IT Capex Re-opener	SpC 3.7	PCFM Guidance, Re-opener Guidance and Application Requirements
NZP <sub>t</sub>	Net zero pre-construction works and small net zero projects re-opener	SpC 3.9	PCFM Guidance, Re-opener Guidance and Application Requirements

VV	Description	SpC	Cross-reference / Associated Document
CROTRE <sub>t</sub>	Resilience Non-TIM Re-Opener	SpC 3.2	PCFM Guidance, PCD Reporting Requirements and Methodology Document
CRITRE <sub>t</sub>	Resilience TIM Re-Opener	SpC 3.3	PCFM Guidance, PCD Reporting Requirements and Methodology Document
PSUPRE <sub>t</sub>	Physical Security Re-Opener	SpC 3.4	PCFM Guidance, PCD Reporting Requirements and Methodology Document
RPE <sub>t</sub>	RPEs		PCFM Guidance
<b>Actual Totex</b>			
Capitalisation rate 1:			
ALC	Actual load related capex		PCFM Guidance
AOC	Actual other capex		PCFM Guidance
ACO	Actual business support (opex)		PCFM Guidance
ADO	Actual directs (opex)		PCFM Guidance
ARE	Actual replacement expenditure		PCFM Guidance
Capitalisation rate 2:			
ALCU	Actual load related capex		PCFM Guidance
AOCU	Actual other capex		PCFM Guidance
ACOU	Actual business support (opex)		PCFM Guidance
ADOU	Actual directs (opex)		PCFM Guidance
AREU	Actual replacement expenditure		PCFM Guidance
<b>Pass-through expenditure</b>			
SL <sub>t</sub>	Shrinkage	SpC 6.1, Part D	PCFM Guidance
LF <sub>t</sub>	Licensed Activity	SpC 6.1, Part A	PCFM Guidance
RB <sub>t</sub>	Prescribed Rates	SpC 6.1, Part B	PCFM Guidance
EDE <sub>t</sub>	Pension Scheme Established Deficit repair	SpC 6.1, Part A	PCFH section 7
PD <sub>t</sub>	Distribution Network Pension Deficit Charge	SpC 6.1, Part A	PCFM Guidance
TPWI <sub>t</sub>	Third Party Damage and Water Ingress Costs	SpC 6.1, Part C	PCFM Guidance
TG <sub>t</sub>	Gas Illegally Taken	SpC 6.1, Part A	PCFM Guidance

VV	Description	SpC	Cross-reference / Associated Document
BD <sub>t</sub>	Bad Debt	SpC 6.1, Part E	PCFM Guidance
EC <sub>t</sub>	NTS Exit Flat Capacity Costs and NTS Exit Flex Capacity Costs	SpC 6.1, Part A	PCFM Guidance
CDSP <sub>t</sub>	CDSP Costs	SpC 6.1, Part A	PCFM Guidance
MP <sub>t</sub>	Miscellaneous pass-through	SpC 6.1, Part A	PCFM Guidance
SLDZ <sub>t</sub>	Other - Stranraer LDZ	SpC 6.1, Part A	PCFM Guidance
<b>Incentive Revenue</b>			
CS <sub>t</sub>	Customer Satisfaction Survey ODI	SpC 4.2	PCFM Guidance
CM <sub>t</sub>	Complaints metric ODI	SpC 4.3	PCFM Guidance
UIP <sub>t</sub>	Unplanned Interruption Mean Duration ODI [NGN, SGN and WWU]	SpC 4.5	PCFM Guidance
UIP <sub>t</sub>	Unplanned Interruption Mean Duration ODI [Cadent only]	SpC 4.5	PCFM Guidance
SM <sub>t</sub>	Shrinkage Management ODI	SpC 4.4	PCFM Guidance
CSW <sub>t</sub>	Collaborative streetworks ODI [Cadent Lon & EoE, SGN So Networks only]	SpC 4.6	PCFM Guidance
<b>Other Revenue Allowances</b>			
NIA <sub>t</sub>	RIIO-2 Network Innovation Allowance	SpC 5.2	PCFM Guidance, RIIO-2 Network Innovation Allowance Governance Document
CNIA <sub>t</sub>	RIIO-1 Network Innovation Allowance	SpC 5.3	PCFM Guidance, RIIO-1 Network Innovation Allowance Governance Document
VCM <sub>t</sub>	Vulnerability and Carbon Monoxide Allowance	SpC 5.4	PCFM Guidance, VMCA Governance Document
<b>Legacy Adjustments</b>			
LPT <sub>t</sub>	Legacy pass-through	SpC 7.2	PCFH section 8, PCFM Guidance
LMOD <sub>t</sub>	Legacy MOD	SpC 7.3	PCFH section 8, PCFM Guidance
LK <sub>t</sub>	Legacy K Correction	SpC 7.4	PCFH section 8, PCFM Guidance
LTRU <sub>t</sub>	Legacy TRU term	SpC 7.5	PCFH section 8, PCFM Guidance

VV	Description	SpC	Cross-reference / Associated Document
NOCO <sub>t</sub>	Close out of the RIIO-1 Network Outputs	SpC 7.6	PCFH section 8, PCFM Guidance
LDRW <sub>t</sub>	Close out of the RIIO-GD1 Discretionary Reward Scheme	SpC 7.8	PCFH section 8, PCFM Guidance, Stakeholder Engagement Incentive Guidance
LBM <sub>t</sub>	Close out of the RIIO-GD1 Broad Measure of Customer Satisfaction Incentive	SpC 7.9	PCFH section 8, PCFM Guidance
LEEI <sub>t</sub>	Close out of the RIIO-GD1 Environmental Emissions Incentive	SpC 7.11	PCFH section 8, PCFM Guidance
LSHR <sub>t</sub>	Close out of the RIIO-GD1 Shrinkage Allowance Revenue Adjustment	SpC 7.10	PCFH section 8, PCFM Guidance
LFPI <sub>t</sub>	Close out of the RIIO-GD1 Fuel Poor Network Extension Scheme Incentive	SpC 7.12	PCFH section 8, PCFM Guidance
LE <sub>xt</sub>	Close out of the RIIO-GD1 Exit Capacity Cost Adjustment	SpC 7.13	PCFH section 8, PCFM Guidance
LRAV <sub>t</sub>	Legacy net RAV additions (after disposals)	SpC 7.14	PCFH section 8, PCFM Guidance
<b>Directly Remunerated Services</b>			
PREDRS <sub>t</sub>	Pre-vesting directly remunerated services		PCFM Guidance
POSDRS <sub>t</sub>	Post-vesting directly remunerated services		PCFM Guidance
OIDRS <sub>t</sub>	Other income from directly remunerated services		PCFM Guidance
IDRS <sub>t</sub>	Identified directly remunerated services costs		PCFM Guidance
<b>Finance Inputs</b>			
iBTA <sub>t</sub>	iBoxx trailing average		PCFH section 4, PCFM Guidance
RFR	Risk-free rate		PCFH section 4, PCFM Guidance
I <sub>j</sub>	Sterling Overnight Index Average (SONIA)	SpC 1.1, Part B	PCFH section 2, PCFM Guidance
AND <sub>t</sub>	Adjusted net debt		PCFM Guidance
TDNI <sub>t</sub>	Tax deductible net interest cost		PCFM Guidance



VV	Description	SpC	Cross-reference / Associated Document
TAXA <sub>t</sub>	Tax allowance adjustment	SpC 2.2	PCFH section 6, PCFM Guidance
TTE <sub>t</sub>	Tax liability allowance adjustments - driven by tax trigger events		PCFH section 6, PCFM Guidance
OGP <sub>t</sub>	General pool capital allowance opening balance brought forward		PCFM Guidance
OSRP <sub>t</sub>	Special Rate capital allowance opening balance brought forward		PCFM Guidance
OSBP <sub>t</sub>	Structures and buildings capital allowance opening balance brought forward		PCFM Guidance
ODRP <sub>t</sub>	Deferred revenue expenditure opening balance brought forward		PCFM Guidance
LODRP <sub>t</sub>	Deferred revenue pool additions (RIIO1) plus opening balance at start of RIIO1		PCFM Guidance
OTL <sub>t</sub>	Tax loss brought forward		PCFM Guidance
ARGP <sub>t</sub>	Totex Allocation to "General" tax pool		PCFM Guidance
ARSR <sub>t</sub>	Totex Allocation to "Special Rate" tax pool		PCFM Guidance
ARSB <sub>t</sub>	Totex Allocation to "Structures and Buildings" tax pool		PCFM Guidance
ARDR <sub>t</sub>	Totex Allocation to "Deferred Revenue" tax pool		PCFM Guidance
ARR <sub>t</sub>	Totex Allocation to "Revenue" tax pool		PCFM Guidance
ARNQ <sub>t</sub>	Totex Allocation to "Non Qualifying" tax pool		PCFM Guidance
CT <sub>t</sub>	Corporation tax rate		PCFM Guidance
GCA <sub>t</sub>	General pool capital allowance rate		PCFM Guidance
SRCA <sub>t</sub>	Special Rates capital allowance rate		PCFM Guidance
SBCA <sub>t</sub>	Structures and buildings capital allowance rate		PCFM Guidance
DRCA <sub>t</sub>	Deferred Revenue Expenditure capital allowance rate		PCFM Guidance
RIIO-1AR <sub>t</sub>	RIIO-1 allowed revenue		PCFM Guidance

VV	Description	SpC	Cross-reference / Associated Document
RR <sub>i</sub>	Recovered revenue	SpC 2.1, Part B	PCFM Guidance
PRP <sub>t</sub>	Penal rate proportion	SpC 2.1, Part H	PCFM Guidance

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## 4. Instructions for completing the PCFM Variable Values table

4.1. 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.

4.2. Unless otherwise specified, all row and cell references relate to the licensee input sheets of the RIIO-GD2 PCFM.

4.3. Where the guidance refers to cost or other data that links to the GD2 Revenue workbook from the Cost and Volumes Regulatory Reporting Pack (C&V RRP), these values should be directly input into the GD2 Revenue workbook<sup>9</sup> for the PCFM submission due on August 31<sup>st</sup> 2021.

4.4. The first submission of the RIIO-2 Cost and Volumes RRP will be in July 2022 and so for the first PCFM submission in August 2021, the Cost and Volume file will not be available. In the absence of this file, the licensee should enter its best estimate of forecast costs and outputs data into the yellow input cells of the GD2 Revenue workbook to calculate the PCFM Variable Values that will be included in the November 2021 AIP.

4.5. The contents of the GD2 Revenue workbook will be included within the Cost and Volumes RRP in all future Regulatory Years along with the required guidance for the underlying inputs, which will be included in the RIGs.

Variable Value category	Guidance for Completion
<b><u>Variant Totex Allowances – Price Control Deliverables</u></b> <ul style="list-style-type: none"> <li>Gas Holder demolitions Price Control Deliverable [WWU and NGN only]</li> <li>Baseline Network Risk Output</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</p>

<sup>9</sup> Licensee must select Regulatory Year t and Company's name on the "Cover" sheet of the GD2 Revenue workbook before updating PCFM Variable Values.

<ul style="list-style-type: none"> <li>• Tier 1 Mains decommissioned Price Control Deliverable</li> <li>• Tier 1 Services Repex Price Control Deliverable</li> <li>• Biomethane improved access rollout Price Control Deliverable [SGN only]</li> <li>• Remote pressure management Price Control Deliverable [SGN Southern only]</li> <li>• Intermediate pressure reconfigurations Price Control Deliverable [SGN Scotland only]</li> <li>• Capital projects Price Control Deliverable</li> <li>• Commercial fleet Price Control Deliverable</li> <li>• Gas escape reduction Price Control Deliverable [SGN only]</li> <li>• Cyber resilience OT Price Control Deliverable and use it or lose it</li> <li>• Cyber resilience IT Price Control Deliverable</li> <li>• Physical security Price Control Deliverable</li> <li>• London Medium Pressure Price Control Deliverable [Cadent London only]</li> <li>• Personalising welfare facilities Price Control Deliverable [Cadent only]</li> </ul>	<p>reductions are provided by directions from the Authority.</p> <p>For the Variable Values in rows 19:37, the actual adjustments directed by Ofgem should be input into the yellow adjustment cells in the “PCDs” 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 PCFM..</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, they should use best endeavours to forecast the expected adjustment into the yellow adjustment cells in the “PCDs” sheet.</p> <p>.</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>• Net zero and Re-opener development fund use it or lose it allowance</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>• Fuel Poor Network Extension Scheme volume driver</li> <li>• Domestic Connections volume driver</li> </ul>	<p>For actual periods, Variable Values in rows 38,42 and 47, data should be input directly into the yellow input cells of the “Volume Drivers” sheet of the GD2 Revenue workbook. This data is then picked up in the allowance values on the PCFM Input Summary sheet, which should be used to populate the PCFM..</p> <p><b>Forecasting</b></p> <p>For forecast periods relating to future Regulatory Years, the values in row 38, 42 and 47, data should be input directly into the yellow input cells of the “Volume Drivers” sheet of the GD2 Revenue workbook. This data will then be picked up in the allowance values on the PCFM Input Summary sheet, which should be used to populate the PCFM..</p>
<p><b><u>Variant Totex Allowances – Re-openers</u></b></p> <p>HSE policy Re-opener</p> <ul style="list-style-type: none"> <li>• Coordinated adjustment mechanism Re-opener</li> <li>• Heat policy and energy efficiency Re-opener</li> <li>• Net zero Re-opener</li> <li>• Smart Metering Roll-out Costs Re-opener</li> <li>• Specified Streetworks Costs Re-opener</li> <li>• New Large Load Connections 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> <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 the Variable Values in rows 39:55, where actual amounts are known at the time of the dry run, i.e. where a decision has already been made on a</p>

<ul style="list-style-type: none"> <li>• Tier 1 Stubs Repex policy Re-opener</li> <li>• Diversions and Loss of Development Claims policy Re-opener</li> <li>• Multiple Occupancy Buildings safety Re-opener</li> <li>• Non-operational IT Capex Re-opener</li> <li>• Net zero pre-construction works and small net zero projects re-opener</li> <li>• Cyber resilience OT Re-opener</li> <li>• Cyber resilience IT Re-opener</li> <li>• Physical Security Re-Opener</li> </ul>	<p>reopener 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 Inputs Summary sheet, which should be used to populate 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><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. This should be done by updating the yellow adjustment and 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 applied for through the relevant re-opener and the adjusted allowance should be based on the information that the licensee has provided in the 'Re-opener pipeline log' in the GD2 Cost and Volumes RRP.</p>
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	Any supporting justification should be provided in addition to the log as per the re-opener guidance specified in the GD RIGs.
<b><u>Actual Totex</u></b>	<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 the values in rows 66:77, actual data for the reporting period in question should be input directly into the yellow input cells of the "PCFM Inputs Summary" sheet of the GD2 Revenue workbook, which should be used to populate the PCFM.</p> <p><b>Forecasting</b></p> <p>Forecasts for future regulatory periods should be input directly into the yellow input cells of the "PCFM Inputs Summary" sheet of the GD2 Revenue workbook, which should be used to populate the PCFM.</p>
<b><u>Pass-through costs - other</u></b> <ul style="list-style-type: none"> <li>• Shrinkage</li> <li>• Licensed Activity</li> <li>• Prescribed Rates</li> <li>• Pension Scheme Established Repair Costs</li> <li>• Distribution Network Pension Deficit charge</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) and are reported within the Cost and Volumes RRP.</p> <p>For the Variable Values in rows 81:92, actual data for the reporting period in question should be input directly into the yellow input cells of the "Pass-</p>

<ul style="list-style-type: none"> <li>• Third Party Damage and Water Ingress costs</li> <li>• Gas Illegally taken</li> <li>• Bad Debt (Further guidance provided below)</li> <li>• NTS Exit Flat and Flex Capacity Costs</li> <li>• CDSP Costs</li> <li>• Miscellaneous Pass-through costs</li> <li>• Stranraer LDZ (SGN Scotland only)</li> </ul>	<p>through costs” sheet of the GD2 Revenue workbook. This data will then be picked up in the allowance values on the PCFM Input Summary sheet, which should be used to populate the PCFM.</p> <p>Where required, further detailed guidance for updating these variable values will be provided in the GD RIGs.</p> <p><b>Forecasting</b></p> <p>Forecasts for future regulatory periods should be input directly into the yellow input cells of the “Pass-through costs” sheet of the GD2 Revenue workbook. This data will then be picked up in the allowance values on the PCFM Input Summary sheet, which should be used to populate the PCFM.</p>
<p><b><u>Pass-through costs – Bad Debt</u></b></p>	<p>Bad Debt costs relate to any amounts that are incurred (or forecast) by the licensee due to network charges owed to it by one or more defaulting gas shippers and are treated as pass-through under SpC 6.1 (Pass-through items).</p> <p>Values should be input into the yellow input cells of the bad debt section of the “Pass Through” sheet. This data is then picked up in the PCFM Input Summary sheets, which should be used to populate the PCFM.</p> <p>The <i>Provisional Bad Debt cost</i> should include the Bad Debt costs that the licensee expects to incur including any COVID-19 Bad Debt, with respect to network charges owed to the licensee by one or more Defaulting Gas Shippers. This row contains forecasts only and should not include any actual</p>



	<p>costs, which should be input in the row below labelled <i>Actual Bad Debt cost incurred</i>.</p> <p>For the <i>Interest income accrued adjustment</i> value, the licensee should input the adjustment for any interest income relating to late or non-payment of network charges. The adjustment is the difference between interest accrued at the default rates set out in the Uniform Network Code net of WACC with respect to the COVID-19 Scheme. Where this is an income amount, this should be entered as a negative.</p> <p>The <i>Recovered Bad Debt</i> value should be input as a positive value and should include the aggregate value of any Bad Debt recovered (including COVID-19 Bad Debt), where the costs have previously been recovered via the BDA term.</p> <p>All values should be exclusive of VAT.</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 [NGN, SGN and WWU]</li> <li>• Unplanned Interruption Mean Duration ODI [Cadent only]</li> <li>• Shrinkage Management ODI</li> <li>• Collaborative streetworks ODI [Cadent Lon &amp; EoE, SGN So only]</li> </ul>	<p>Incentive revenue or output delivery incentives (ODI) are used to reward or penalise licensees for their performance.</p> <p>For the values in rows 98:103, actual data for the reporting period in question should be input directly into the yellow input cells of the "Output Delivery Incentives" sheet of the GD2 Revenue workbook. This data will then be picked up in the allowance values on the PCFM Input Summary sheet, which should be used to populate the PCFM.</p> <p>Further detailed guidance for updating these variable values will be provided in the GD RIGs.</p> <p><b>Forecasting</b></p>

	<p>Forecasts for future regulatory periods should be input directly into the yellow input cells of the “Output Delivery Incentives” sheet of the GD2 Revenue workbook. This data will then be picked up in the allowance values on the PCFM Input Summary sheet, which should be used to populate the PCFM.</p>
<p><b><u>Other Revenue allowances</u></b></p> <ul style="list-style-type: none"> <li>• RIIO-2 network innovation allowance</li> <li>• Carry-over Network Innovation Allowance</li> <li>• Vulnerability and carbon monoxide allowance</li> </ul>	<p>For the values in rows 107:112, actual data for the reporting period in question should be input directly into the yellow input cells of the “Other Revenue Allowances (ORAt)” sheet of the GD2 Revenue workbook. This data will then be picked up in the allowance values on the PCFM Input Summary sheet, which should be used to populate the PCFM.</p> <p>With respect to <i>Total NIA Expenditure</i>, licensee must input expenditure excluding any expenditure which is deemed to be ‘Unrecoverable NIA Expenditure’ as it does not satisfy the requirements of the RIIO-2 NIA Governance Document.</p> <p>Further detailed guidance for updating these variable values will be provided in the GD RIGs.</p> <p><b>Forecasting</b></p> <p>Forecasts for future regulatory periods should be input directly into the yellow input cells of the “Other Revenue Allowances (ORAt)” sheet of the GD2 Revenue workbook. This data will then be picked up in the allowance values on the PCFM Input Summary sheet, which should be used to populate the PCFM.</p>
Legacy MOD	<p>Legacy values will be directed by Ofgem following the formal close-out of the RIIO-GD1 price control.</p> <p>In the interim period between the beginning of GD2 and the direction of these values following the close-</p>

	out of GD1, Ofgem will provide provisional LMOD values in accordance with the processes set out in chapter 8 of the PCFH.
RIIO-1 net RAV additions (after disposals)	<p>Legacy values will be directed by Ofgem following the formal close-out of the RIIO-GD1 price control.</p> <p>In the interim period between the beginning of GD2 and the direction of these values following the close-out of GD1, Ofgem will provide provisional LRAV values in accordance with the processes set out in chapter 8 of the PCFH.</p>
<p><b><u>Other Legacy adjustments</u></b></p> <p>Legacy pass-through items</p> <p>Legacy K correction</p> <p>Legacy TRU</p> <p>Close out of the RIIO-GD1 Network Outputs</p> <p>Close out of the RIIO-GD1 Discretionary Reward Scheme</p> <p>Close out of the RIIO-GD1 Broad Measure of Customer Satisfaction Incentive</p> <p>Close out of the RIIO-GD1 Environmental Emissions Incentive</p> <p>Close out of the RIIO-GD1 Shrinkage Allowance Revenue Adjustment</p> <p>Close out of the RIIO-GD1 Fuel Poor Network Extension Scheme Incentive</p> <p>Close out of the RIIO-GD1 Exit Capacity Cost Adjustment</p>	<p>Legacy values will be directed by Ofgem following the formal close-out of the RIIO-GD1 price control.</p> <p>In the interim period between the beginning of GD2 and the direction of these values following the close-out of GD1, Ofgem will provide provisional legacy values for input in rows 116:127 of the PCFM in accordance with the processes set out in the "Legacy Adjustment to Revenue section" of chapter 8 of the PCFH.</p>
<p><b>Directly remunerated services</b></p> <p>Pre-vesting directly remunerated services</p> <p>Post-vesting directly remunerated services</p>	For the values in rows 131:134, actual and forecast data for the reporting period in question should be input directly into the yellow input cells in "PCFM Inputs Summary" sheet, which should be used to populate the PCFM.

Other income from directly remunerated services Identified directly remunerated services costs	
iBoxx trailing average ( $iBTA_t$ ) 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>The input values in rows 138:139 are calculated and populated by Ofgem during the final dry run of each AIP, which usually takes place in early November.</p> <p>These values are sourced from the updated WACC allowance model. The methodology for the derivation of <math>iBTA</math> and RFR is described in chapter 4 of the PCFH.</p>
Sterling Overnight Index Average ( $I_t$ )	<p>This finance input is calculated by the Authority using the WACC allowance model and is used in calculation of the correction term (<math>K_t</math>).</p> <p>The input value in this row is calculated and populated by Ofgem during the final dry run of each AIP, which usually takes place in early November.</p> <p>This value is sourced from the updated WACC allowance model.</p>
Real Price Effects (RPEs) 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 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>

Adjusted net debt	<p>For this variable value, actual and forecast data for the reporting period in question should be input directly into the company specific input sheets of the PCFM.</p> <p>The figures used to update this variable value should be those reported as “Net Debt as per the Regulatory (RIIO-1) definition” in the licensee’s submitted RFPR.</p> <p>See the RFPR Guidance for further detail on what this value comprises.</p>
Tax deductible net interest cost	<p>For this variable value, actual and forecast data for the reporting period in question should be input directly into the company specific input sheets of the PCFM.</p> <p>The figures used to update this variable value should be those reported as “Net Interest as per the Regulatory (RIIO-1) definition” in the licensee’s submitted RFPR.</p> <p>See the RFPR Guidance for further detail on what this value comprises.</p>
Tax liability allowance adjustments – driven by tax trigger events	<p>This value will not be applicable unless the licensee has followed the notification process set out in chapter 6 of the PCFH.</p> <p>Ofgem will provide confirmation of the final figure to be used for this variable value.</p>
Tax liability 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>
Capital allowance opening pools brought forward	<p>Legacy values will be directed by Ofgem following the formal close-out of the RIIO-GD1 price control.</p>

	<p>In the interim period between the beginning of GD2 and the direction of these values following the close-out of GD1, an estimate of the closing balances taken from the legacy GD1 PCFM as agreed with Ofgem during the 2021 Legacy AIP should be used.</p> <p>The estimated legacy GD1 PCFM will be re-run by Ofgem during the course of the dry runs process and, as such, for the first submission in August 2021 this Variable Value should remain as was set in the PCFM issued by Ofgem on 1 June 2021.</p>
Tax loss brought forward	As above for "Capital allowance opening pools brought forward".
Tax pool allocation rates	<p>For the values in rows 159:164, 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 GD2 Revenue workbook.</p> <p>Allocation percentages of totex categories to tax pools should be input by the licensee in the yellow input rows based on their actual allocations. These rates will then be used to derive capital allowance allocation rates used by the PCFM.</p>
Recovered Revenue	This variable value as defined in SpC 2.1, Part B of GD License should be provided by licensees and input directly into company specific input sheets of the GD2 PCFM.
Penal rate proportion	This value will be calculated and input by Ofgem.
CPIH Outturn	This value is shown in the "Monthly inflation" sheet of the PCFM and will be updated by the Authority in line with the methodology for the Price Index calculation set out in chapter 2 of the PCFH.

	Ofgem will update the CPIH outturn index during the final dry run of each AIP using data that is available as at 31 October.
RPI Outturn	<p>This value is shown in the “Monthly inflation” sheet of the PCFM and will be updated by the Authority in line with the methodology for the Price Index calculation set out in chapter 2 of the PCFH.</p> <p>Ofgem will update the RPI outturn index during the final dry run of each AIP using data that is available as at 31 October.</p>
RPI inflation forecast (Calendar year)	<p>This value is shown in the “Annual inflation” sheet of the PCFM and will be updated by the Authority in line with the methodology for the Price Index calculation set out in chapter 2 of the PCFH.</p> <p>Ofgem will update the RPI inflation forecast during the final dry run of each AIP using Office for Budget Responsibility (OBR) data that is available as at 31 October.</p>
Long term CPIH inflation forecast	<p>This value is shown in the “Annual inflation” sheet of the PCFM and will be updated by the Authority in line with the methodology set out in chapter 4 of PCFH.</p> <p>Ofgem will update this inflation forecast during the final dry run of each AIP using OBR data that is available as at 31 October.</p>
CPI inflation forecast (Calendar year)	This value is shown in the “Annual inflation” sheet of the PCFM and will be updated by the Authority in line with the methodology for the Price Index calculation set out in chapter 2 of the PCFH.

	Ofgem will update the RPI inflation forecast during the final dry run of each AIP using OBR data that is available as at 31 October
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## 5. PCFM Dry Run Commentary

### Background

5.1. This licensee's PCFM submission should be accompanied by supporting commentary as well as any applicable subsidiary 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 Allowed Revenue 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
- [Corporate governance narrative]
- 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 ADJR and ART.

5.5. The licensee should provide detail on the following areas at a minimum:

- a summary of the updates the licensee has made to the PCFM Variable Values in the input sheet(s) since the last published version of the PCFM that was made available by Ofgem;
- the source of the data used to update the PCFM Variable Values (ie, Ofgem directions, Cost and Volumes RRP, Legacy PCFM or forecast data);
- a description of the impact of the changes on ADJR and Allowed Revenue and the key driver(s) of this impact;
- for any forecast data, the licensee should include a statement confirming that it has used its best estimate to ensure forecasts are reasonable in light of the information available at the time and that any significant changes to forecast values have suitable supporting statements;

- [a statement on corporate governance including detail on the licensee's executive remuneration and its dividend policy;]
- A data assurance statement briefly setting out the assurance processes that the information in the commentary, the PCFM inputs sheet and any underlying input files (eg, Cost and Volume 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 they 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).

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