

## 1. Introduction

- 1.1 The PCFM Guidance provides network operators (licensees) with information on how to fill out the PCFM Variable Values and any underlying templates that feed into them, which they are required to submit 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 the ED2 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 ED2 Price Control Financial Instruments).
- 1.5 The modification and governance process for the PCFM Guidance is set out in standard condition 46 of network licences.

## Purpose

- 1.6 The purpose of this annex is to provide instructions and guidance for the completion and submission of the ED2 PCFM and related commentary.

## 2. Annual Iteration Process

### Dry runs and submission process

- 2.1 Prior to each Regulatory Year commencing on or after 1 April 2024, the Annual Iteration Process will be comprised of the following steps:
  - a) **1 June:** The Authority will consolidate modifications resulting from engagement with the PCFM Working Group for that year into the applicable price control financial instruments
  - b) **31 August:** Licensee must submit a ED2 PCFM with completed variable values table to the Authority (dry-run 1)
  - c) **10 November:** The Authority provides an update to common variable values set out in the PCFM Handbook
  - d) **30 November:** Licensee must submit a ED2 PCFM with an updated variable values table to the Authority (dry-run 2)
  - e) **Prior to Regulatory Year:** Licensee must submit the ED2 PCFM no less than 14 days prior to network charge setting in accordance with Chapter 2 of the Price Control Financial Handbook

- 2.2 This submitted version of the RIIO-ED2 PCFM may contain provisional values for variable values that are unknown at the time of submission. An example of a variable values which will not be known by 31 August is a re-opener term which is subject to an outstanding decision by the Authority.
- 2.3 Where a variable value is unknown at the time of submission, the licensee must calculate a provisional value using the approach specified within this handbook or the RIIO-ED2 PCFM Guidance, as applicable, and otherwise provide its best estimate with the information available at the time.

## **PCFM Commentary**

- 2.4 Submissions of the ED2 PCFM to the Authority must be accompanied by supporting commentary as well as any applicable subsidiary models and underlying workings
- 2.5 The 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, in narrative form.

### **Structure of the commentary**

- 2.6 The outline structure of the commentary is as follows:
- a) Executive summary
  - b) Updates to the PCFM Variable Values
  - c) Impact on Allowed Revenue
  - d) Statement on forecast data
  - e) Data assurance statement
  - f) Other relevant information
- 2.7 The sections outlined above should contain sufficient detail such that the Authority would be able to re-perform the updates made since the last submitted version of the ED2 PCFM and arrive at the same value of Allowed Revenue.
- 2.8 The licensee must provide detail on the following areas at a minimum:
- a) 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
  - b) the source of the data used to update the PCFM Variable Values (ie, Ofgem directions, ED2 RRP, Legacy PCFM or forecast data;
  - c) a description of the impact of the changes on ADJR and Allowed Revenue and the key driver(s) of this impact ranked in order of materiality;
  - d) 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;
  - e) 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,
  - f) any other information the licensee considers is appropriate to explain the PCFM submission.

### **3. The ED2 Price Control Financial Model**

[This section explains the sheets and calculations, macros, etc]

### **4. Variable Values**

[sets out variable values that can be revised during an AIP and a cross reference to any further guidance or data source]

### **5. Instructions for completing the PCFM Variable Values Table**

[Practical instructions with row references, etc]