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Guidance

RIIO-ET2 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).

Contents

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 dry run of the 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 ET2 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 ET2 Price Control Financial Handbook and 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 ET2 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 Condition 8.2 (*Annual Iteration Process for the ET2 Price Control Financial Model*).

Purpose

1.6. The purpose of this document is to provide guidance to enable the licensee to complete each dry run of an AIP that is submitted to Ofgem. As described in the ET2 Price Control Financial Handbook, the dry runs process entails amending and confirming values for each Regulatory Year over a number of months, from 30 September to December, 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 or commentary to be submitted.

2. The Price Control Financial Model

Background

2.1. We set ex-ante allowed revenues for each licensee at the outset of the RIIO-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 adjusted revenue term known as $ADJR_t$ is published on Ofgem's website by 31 January 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	This sheet contains company and year selector switch allowing the user to switch between companies and Regulatory Years. 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.

Input	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 ARt. The Input tab pulls from the three identically structured company-specific input tabs at the end of the model, using a choose function, depending on which company is selected.
Calculation sheets: Totex TIM Depn Return&RAV TaxPools Finance&Tax NonCore ReturnAdj Revenue AR	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 the TO.
Results sheets	The "LiveResults" sheet shows a live summary of the changes to the components of AR_t, 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. 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.
Monthly Inflation input sheet Annual Inflation input sheet	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. The "Annual Inflation" sheet shows the derivation of annual indices and inflation rates by aggregating the data in the "Monthly Inflation" sheet.

	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.
SHET SPTL NGET	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.

Supporting 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:

- ET2 Regulatory Reporting Pack (RRP)[4]
- Legacy ET1 PCFM and supporting files (if applicable)
- ET1 Revenue RRP (for LAR values) (if applicable)

Reporting timescales

2.7. The licensee must submit the PCFM, the required supporting models and commentary to the Authority by 30 September prior to each Regulatory Year t[5].

2.8. Ofgem will maintain up-to-date copies of and make any required modifications to the PCFM and its supporting 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.

[4] From regulatory period starting 2021/22.
[5] This term is defined in Part B of Special Condition 1.1 (Interpretations and Definitions).

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 July prior to each Regulatory Year[1].

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 December in the Regulatory Year t. 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 31 January in each Regulatory Year t, or as soon as is reasonably practicable thereafter. The deadline of 31 January reflects the licensee's deadline for setting 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 ET2 PCFH.

Submissions

2.13. By 30 September prior to each Regulatory Year t and at each dry run the licensee must submit to the Authority the ET2 PCFM, with a completed variable values table (covering activity in the prior Regulatory Year and changes to forecast activity[2]), which has been run to calculate AR_t along with an updated copy of the ET2 RRP.

2.14. As well as this, the licensee must submit the relevant supporting models used to derive the variable values and any relevant commentary. For the submission due on 30 September and thereafter at each dry run, the revenue worksheets used to derive variable values in the "PCFM inputs summary" sheet of the ET2 RRP should be updated, and the "PCFM inputs summary" sheet should match the company-specific input sheets of the ET2 PCFM, where applicable.

[1] See the PCFM functional cut-off dates set out in Table 2.1 of the ET2 PCFH.
[2] 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.

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.

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 ET2 PCFH, when ascertaining calculated revenue, the ET2 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.

Annual inflation updates

2.21. Ofgem will update and circulate the inflation data contained in the ”Universal Data” tab of the ET2 RRP by the end of April in each Regulatory Year, reflecting actual RPI and 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 is feeding into the ET2 RRP and PCFM.

2.22. Ofgem will perform a further inflation update in July in each Regulatory Year, reflecting actual RPI and 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.

2.23. Ofgem will normally perform a final inflation update in November following the publication of the OBR's autumn forecast, in line with the methodology prescribed in the PCFH.

Related documents

ET2 Price Control Financial Handbook
ET2 Price Control Financial Model
ET2 Regulatory Instructions and Guidance (RIGs)
ET2 Regulatory Reporting Pack
ET2 Regulatory Financial Performance Reporting
Other relevant Associated Documents as listed in Table 3.1 of the PCFH

3. Instructions for completing the PCFM Variable Values

3.1. The PCFM Variable Values that can be revised during an AIP are set out in Table 3.1 in Chapter 3 of the PCFH.

3.2. 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).

3.3. 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.

3.4. Unless otherwise specified, all references relate to the Revenue input sheets of the ET2 RRP.

Variable value category	Guidance for Completion
Variant Totex Allowances – Price Control Deliverables (PCDs) • Enhancing Pre-existing Infrastructure Projects allowance • Large Onshore Transmission Investment Re-opener Project 1 - Hinckley Sea Bank • Wider Works Price Control Deliverable • Physical Security Price Control Deliverable • Cyber Resilience OT Baseline • Cyber Resilience IT Baseline • Baseline Network Risk Output • Generation Related Infrastructure Price Control Deliverable (NGET only)	In general, the value of the Price Control Deliverable is an ex-ante allowance, subtracting any reductions that have been directed by the Authority. The ex-ante allowances are given in the appendix for the relevant Special Condition, and the reductions are provided by directions from the Authority. For these Variable Values, the actual adjustments directed by Ofgem should be input into the yellow adjustment cells in the 'Rev Workbook Linking Sheet' "of the ET2 RRP. This data will then be picked up in the PCDs" and "PCDs – Supporting Calculations" sheets and subsequently the allowance values on PCFM Input Summary

• Resilience and Operability Price Control Deliverable (SHET and SPTL only) • Operational transport carbon reduction Price Control Deliverable (NGET only) • Shared Schemes Price Control Deliverable (SHET and SPTL only) • Enhanced Environmental Requirements use it or lose it allowance (SPTL only) • SF6 asset intervention Price Control Deliverable (NGET only) • Substation Auxiliary Systems use it or lose it allowance (NGET only) • Instrument Transformer Price Control Deliverable (NGET only) • Bay Assets Price Control Deliverable (NGET only) • Protection and Control Price Control Deliverable (NGET only) • Overhead Line Conductor Price Control Deliverable (NGET only) • Pre-Construction Funding Price Control Deliverable • Net Zero And Re-opener Development Fund use it or lose it allowance	sheets, which should be used to populate the licensee input sheets in the PCFM. **Forecasting** 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 "Rev Workbook Linking Sheet". Details of the assumptions made should be provided in the supplementary commentary.
Variant Totex Allowances – Volume Drivers • Generation Connections volume driver • Demand Connections volume driver (SPTL and NGET only)	For actual periods data should be input into the yellow cells in the "Scheme_Output" sheet" of the ET2 RRP. This data will then be picked up in the "Volume Drivers" sheet and subsequently the allowance values on PCFM Input Summary

• Wider Works Volume Driver (NGET only) • Legacy Baseline Connections Volume Driver (SHET only)	sheets, which should be used to populate licensee input sheets in the PCFM. With respect to the *Wider Works Volume Driver*, the licensee must supply the data sheets used to calculate the inputs alongside relevant supporting commentary. With respect to the *Legacy Baseline Connections Volume Driver* (SHET only), the licensee should input the allowance value directly into the yellow cells in the "Rev Workbook Linking Sheet" which will then be picked up in the allowance values on the PCFM Input Summary sheet. **Forecasting** For forecast periods relating to future Regulatory Years data should be input directly into the yellow input cells of the above referenced "Scheme_Output" sheet of the ET2 RRP. This data will then be picked up in the "Volume Drivers" sheet and the allowance values on PCFM Input Summary sheets, which should be used to populate licensee input sheets in the PCFM.
Variant Totex Allowances – Re-openers • Visual Impact Mitigation Re-opener • Large Onshore Transmission Investment Re-opener Project 2 - Shetland • Net zero Re-opener • Coordinated adjustment mechanism Re-opener	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. The ex-ante allowances are given in the appendix for the relevant Special Condition, and the

• Medium Sized Investment Projects Re-opener • SF6 asset intervention Re-opener (NGET only) • Subsea Cable Re-opener (SHET only) • Uncertain non-load related projects Re-opener (SPTL only) • Non-operational IT Capex Reopener • Tyne Crossing Project Re-opener (NGET only) • Bengeworth Road GSP Project Price Control Deliverable (NGET only) • Civil Related Works Re-opener (NGET only) • Tower Steelworks and Foundations Re-opener (NGET only) • Fibre Wrap Replacement Re-opener (NGET only) • Access Reform Change Re-Opener • Pre-Construction Funding Re-Opener • Physical Security Re-Opener • Cyber Resilience OT non-baseline • Cyber Resilience IT non-baseline • Accelerated strategic transmission investment Pre-Construction Funding Re-opener • Accelerated strategic transmission investment Re-opener	adjustments are provided by directions from the Authority. **Within the application window** For these Variable Values, where actual amounts are known at the time of the dry run, ie, where a decision has already been made on a reopener application, the licensee must use the adjustment values as published by the Authority to update the relevant re-opener allowance and adjustment yellow input cells in the "Rev Workbook Linking Sheet" of the ET2 RRP. This data will then be picked up in the "Re-openers" sheet and in the allowance values on the PCFM Input Summary sheets, which should be used to populate licensee input sheets in the PCFM. 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. This is with a view to updating these values at a later dry run (or AIP) to correspond to a subsequent Ofgem decision. **Outside of the application window** The licensee may choose to update its re-opener allowance variable values using forecast data ahead of any relevant re-opener window, at any dry run This should be done by updating the yellow allowance cells in the "Rev Workbook

	Linking Sheet" of the ET2 RRP and in the re-opener pipeline log, which should be updated on a consistent basis. 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 should be based on the information that the licensee has provided in the "E1.11 ET Pipeline Log~~Re-opener pipeline log~~", which will be included in the ET2 RRP. Where the values submitted in the pipeline log are out of date and need to be changed, the licensee should update the E1.11 ET Pipeline Log ~~Re-opener pipeline log~~ as part of any subsequent dry run submissions for the purpose of AIP. If there are variances between the "Re-opener pipeline log" and other RRP tables containing details of re-openers this should be explained in the dry run commentary. Any supporting justification should be provided in addition to the log as per the re-opener guidance specified in the RIGs.
Variant Totex Allowances: • Entry and Exit Connection Asset Allowance	The value relates to the Entry and Exit Connection Asset Allowance. Within the Scheme_C&V_Calc_Load_Actuals and Scheme_C&V_Calc_NonLoad_Actuals sheets in the ET2 RRP the value to be input for $EECC_t$ (Capital contribution from Users relating to Transmission Connection Assets) should be negative in the case of the licensee receiving a

	capital contribution, and positive in the case of the licensee paying a reimbursement.
Variant Totex Allowances: • RIIO-ET1/RIIO-ET2 Offset Adjustment (NGET only)	The values in are a pre-determined fixed allowance of -£15.768m per year as set out in SpC 3.38 (RIIO-ET1/RIIO-ET2 Offset Adjustment). This value may be forecasted per the Decision on the closeout methodologies for RIIO-ET1 until such a time that this is directed by Ofgem[3].
Opex Escalator	The opex escalator provides an additional allowance for any capital expenditure incurred on the eligible re-openers and volume drivers listed in SpC 3.36 (Opex escalator). For the variable value, actual and forecast data is linked to the "Scheme_C&V_Calc_Load_Allow" and "Volume Drivers" sheet in the "Opex Escalator – Supporting" sheet of the ET2 RRP. Any actual or forecast expenditure for each of the eligible re-openers and volume drivers within the $UMTERMA_{i,t}$ term are reported in the "Re-opener pipeline log", which is included within the ET2 RRP. These values for re-openers and volume drivers within the $UMTERMA_{i,t}$ term (load related), require an energisation date. Where an energisation date is not known, no values are required. The values for re-openers and volume drivers within $UMTERMB_t$ are linked to the relevant

[3] Decision on the closeout methodologies for RIIO-ET1 | Ofgem

	allowance within the 'Re-openers' and 'Volume Drivers' sheet in the ET2 RRP. This data is collected in the "Opex Escalator" sheet of the ET2 RRP, and is subsequently picked up as an allowance on the PCFM Input Summary sheet, which should be used to populate licensee input sheets in the PCFM.
Actual Totex *Capitalisation rate 1:* • Actual load related capex expenditure • Actual asset replacement capex expenditure • Actual other capex expenditure • Actual network operating costs (opex) • Actual Indirects (opex) • Actual non-operational capex *Capitalisation rate 2:* • Actual load related capex expenditure • Actual asset replacement capex expenditure • Actual other capex expenditure • Actual network operating costs (opex) • Actual Indirects (opex) • Actual non-operational capex	Totex is reported in one of two buckets, capitalisation rate 1 and capitalisation rate 2. Any expenditure relating to ex-ante, or baseline funded activities including PCDs is subject to capitalisation rate 1. Any expenditure relating to activities that have been funded under Uncertainty Mechanisms (as labelled in the PCFM) is subject to capitalisation rate 2. For totex values, actual and forecast data for the reporting period in question will be automatically linked from the "Rev Workbook Linking Sheet" sheet to the "PCFM Input Summary" of the ET2 RRP. These values should be used to populate the PCFM.
Pass-through costs • Prescribed Rates • Pension Scheme Established Deficit repair	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).

• Temporary physical disconnection costs • Energy not supplied compensatory scheme (SHET only)	For pass-through variable values, actual data for the reporting period in question should be put directly into the yellow input cells of the "D_4.9_Pass_Through" sheet of the ET2 RRP. This data is then picked up in the "Pass-Through" sheet and the PCFM Input Summary sheet, which should be used to populate the licensee input sheets in the PCFM. Where required, further detailed guidance for updating these variable values is provided in the RIGs. **Forecasting** Forecasts for future regulatory periods should be taken directly input directly into the yellow input cells of the "D_4.9_Pass_Through" sheet of the ET2 RRP, which should be used to populate the licensee input sheets in the PCFM.
Incentive revenue (Output Delivery Incentives) • Energy not supplied ODI • Insulation And Interruption Gas emissions ODI • Timely Connections ODI • Quality of connections satisfaction survey ODI • SO-TO Optimisation ODI • Environmental scorecard ODI	Incentive revenue or output delivery incentives (ODI) are used to reward or penalise licensees for their performance. For ODI values, actual data for the reporting period in question should be input directly into the yellow input cells of the relevant incentive sheets of the ET2 RRP. This data is then picked up in the "Output Delivery Incentives" sheet and the "PCFM Input Summary" sheet, which should be used to populate the licensee input sheets in the PCFM.

	Forecasting Forecasts for year t or future regulatory periods, if available, should be input directly into the yellow input cells of the relevant incentive sheets of the ET2 RRP. This data will then be picked up in the "Output Delivery Incentives" sheet and the allowance values on the "PCFM Input Summary" sheet, which should be used to populate the licensee input sheets in the PCFM
Other Revenue allowances • RIIO-2 network innovation allowance • Carry-over Network Innovation Allowance • Net Zero Fund use it or lose it allowance (SHET and SPTL only) • Net zero carbon Capital Construction use it or lose it allowance (NGET only) • Non-Technical Mitigation Projects allowance • Transmission investment for renewable generation (SHET and SPTL only)	For ORA values, actual data for the reporting period in question should be input directly into the yellow input cells of the relevant ORA sheets of the ET2 RRP. This data will then be picked up in the "Other Revenue Allowances" sheet and the allowance values on the "PCFM Input Summary" sheet, which should be used to populate the licensee input sheets in the PCFM. With respect to *Total NIA Expenditure*, the licensee must input expenditure excluding any expenditure which is deemed to be 'Unrecoverable NIA Expenditure' as per the requirements of the RIIO-2 NIA Governance Document. Further detailed guidance for updating the underlying inputs to the calculations in the "Other Revenue Allowances" sheet is provided in the ET RIGs. **Forecasting** Forecasts for future regulatory periods should be input directly into the yellow input cells of the relevant ORA sheets of the ET2 RRP. This data will then be picked up in the "Other Revenue Allowances" sheet and the allowance values on the "PCFM Input Summary" sheet, which should

	be used to populate the licensee input sheets in the PCFM.
Legacy MOD Closeout adjustment	These legacy values will be directed by Ofgem following the formal close-out of the RIIO-ET1 price control. **Legacy MOD** In the interim period between the beginning of ET2 and the direction of these values and the establishment of a close-out methodology, the licensee must calculate its provisional Legacy MOD values for 2021/22 and 2022/23 in accordance with the processes set out in the "Legacy MOD ($LMOD_t$)" section of chapter 8 of the PCFH. These values have now been set and will not be revised further beyond the 2022 AIP. Any subsequent revisions will feed through the closeout adjustment. **Closeout adjustment** For the 2023 AIP and beyond, the value of $LMOD_t$ will be calculated within the PCFM based on the value of COA_t (the closeout adjustment). In the interim period before the direction of the closeout adjustment value, the licensee must calculate its provisional closeout adjustment value in accordance with the processes set out in the "LMOD values to finalise the closeout of RIIO-ET1" section of chapter 8 of the PCFH. If the Licensee chooses to make any such provisional revisions to the Legacy ET1 PCFM, it must submit a description of the specific

	modifications made to the Legacy ET1 PCFM along with a copy of the Closeout methodology reporting file and a justification for the revision in its PCFM Dry Run Commentary (see section 5 of this Guidance).
RIIO-1 net RAV additions (after disposals)	Legacy RIIO-1 net RAV additions values will be directed by Ofgem following the formal close-out of the RIIO-ET1 price control. In the interim period between the beginning of ET2 and the direction of these values and the establishment of a close-out methodology, the licensee must calculate its provisional RIIO-1 net RAV additions (LRAV) values in accordance with the close-out methodologies and processes set out in chapter 8 of the PCFH. If the Licensee chooses to make any such provisional revisions to the Legacy ET1 PCFM, it must submit a description of the specific modifications made to the Legacy ET1 PCFM along with a copy of the Closeout methodology reporting file and a justification for the revisions in its PCFM Dry Run Commentary (see section 5 of this Guidance).
Other Legacy adjustments • Close-out of RIIO-ET1 pass-through items • Legacy K correction • Legacy TRU term • Close-out of RIIO-ET1 network outputs	Legacy adjustments to revenue are calculated on a lagged basis by the licensee in accordance with the relevant special conditions and the process set out in the "Legacy Adjustment to Revenue section" of chapter 8 of the PCFH.

• Close-out of RIIO-ET1 stakeholder satisfaction output • Close-out of RIIO-ET1 environmental discretionary reward scheme adjustment • Close-out of RIIO-ET1 sulphur hexaflouride gas emissions incentive • Close-out of RIIO-ET1 energy not supplied reliability incentive • Revenue for TRU term • RIIO-1 RPI forecast term	In some cases, these legacy variable values will be directed by Ofgem following the formal close-out of the RIIO-ET1 price control.
Directly remunerated services • Pre-vesting directly remunerated services • Post-vesting directly remunerated services • Other Income directly remunerated services • Identified directly remunerated services costs	For DRS values, actual and forecast data for the reporting period in question should be input directly into the yellow input cells in the "DRS & De Minimis" sheet of the ET2 RRP. This data will then be picked up in the allowance values on the "PCFM Input Summary" sheet, which should be used to populate the licensee input sheets in the PCFM.
iBoxx trailing average (iBTA$_t$) **iBoxx average (Financial Year) (IBAFYt)** **iBoxx average (April - October) (IBAAOt)** **Risk-free rate (RFR)**	These finance inputs are calculated by the Authority using the WACC allowance model and feed into the licensee's allowed return on capital. These values are calculated and populated by Ofgem during the AIP dry runs. This update usually takes place in November. 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.
Sterling Overnight Index Average (I_t)	This finance input is calculated by the Authority using the WACC allowance model and is used in calculation of the correction term (K_t).

	The input value in row 161 is calculated and populated by Ofgem during the AIP dry runs. This update usually takes place in November. This value is sourced from the updated WACC allowance model.
Real Price Effects (RPEs) annual growth rate	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. 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.
Adjusted net debt	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. The figures used to update this variable value should be those reported as "Net Debt as per the Regulatory (RIIO-2) definition" in the licensee's submitted RFPR. See the RIIO-2 RFPR Guidance for further detail on what this value comprises.
Tax deductible net interest cost	For this variable value, actual t 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.

	The figures used to update this variable value should be those reported as "Net Interest as per the Regulatory (RIIO-2) definition" in the licensee's submitted RFPR. See the RIIO-2 RFPR Guidance for further detail on what this value comprises.
Tax liability allowance adjustments – driven by tax trigger events General Pool Opening Balance Adjustment Special Pool Opening Balance Adjustment	These variable values will not be applicable unless the licensee has followed the notification process set out in chapter 6 of the PCFH. These values will be calculated according to the methodology that has been agreed to by Ofgem. Ofgem will provide confirmation of the final figures to be used for these variable values.
Tax liability allowance adjustments	This value will not be applicable unless the Authority has directed a value following a tax review under Special Condition 2.2.
Capital allowance opening pools brought forward	These legacy values will be directed by Ofgem following the formal close-out of the RIIO-ET1 price control. In the interim period between the beginning of ET2 and the direction of these values, the licensee must use the provisional closing balances taken from the legacy ET1 PCFM to populate the Capital allowance opening pools brought forward balances in its RIIO-2 PCFM. The closing balances should come from the same version of the legacy ET1 PCFM that the LRAV. LMOD and COA values are taken from.

Tax loss brought forward[4]	As above for "Capital allowance opening pools brought forward".
Tax pool allocation rates	For these values, the rates used to allocate totex into the different tax pools can be updated using the calculations in the "Tax Pools Totex allocations" sheet of the ET2 RRP. Allocation percentages of totex categories to tax pools should be input by the licensee in the yellow input rows 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. Allocation rates should not be retrospectively updated for a year where the ADJR* value has already been published and charges have already been set.
Recovered Revenue	This variable value as defined in SpC 2.1, Part B of ET Licence should be provided by licensees.
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 prior to the first dry run of each AIP using data that is available as at 31 July.
RPI 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

[4] This variable value relates to a licensee's regulatory opening tax losses and not statutory tax losses per corporation tax returns.

	Price Index calculation set out in chapter 2 of the PCFH. Ofgem will update the RPI outturn index prior to the first dry run of each AIP using data that is available as at 31 July.
RPI 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 in November of each AIP using Office for Budget Responsibility (OBR) data that is available as at 31 October.
Long term CPIH inflation forecast	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. Ofgem will update this inflation forecast in Novemberof each AIP using OBR data that is available as at 31 October.
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 in November of each AIP using OBR data that is available as at 31 October.
Totex variant allowances allocation percentages	Where a licensee has provided a forecast for a variant allowance variable value, which does not have a corresponding hard-coded ("yellow-box") allocation rate, it may update these variable values with its own forecast allocation rates.

	This will enable any forecast values for the affected variant allowances to feed through to Allowed Revenue. Where Ofgem directs these allocation rates, the directed values must be used.

4. PCFM Dry Run Commentary

Background

4.1. The licensee's PCFM submission should be accompanied by supporting commentary as well as any applicable supporting models and underlying workings.

4.2. 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

4.3. 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

4.4. 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.

4.5. 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, ET2 RRP, Legacy PCFM or forecast data;
- a description of the impact of the changes on ADJR and ARt and the key driver(s) of this impact;
- for any forecast data, the licensee should include a statement confirming that it has used its best estimate to ensure forecasts are reasonable in light of the 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 (eg, ET2 RRP) are subject to; and,
- any other information the licensee considers is appropriate to explain the PCFM submission.

Submission

4.6. 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.

4.7. The dry run commentary should reconcile with and refer to the PCFM dry run submitted. Any narrative or tables in the commentary should be clearly disaggregated by licensee. A full dry run commentary is required for the first dry run submission and for any subsequent dry runs, a narrative will only be required for any variable values, which have been amended from the prior dry run.

4.8. 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 eg, through hyperlinks.