Consultation

Energy price cap methodology: group correction factors

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We are consulting on a proposal to update the underlying assumptions with respect to electrical loss factors in the default tariff cap methodology, to include an adjustment for Group Correction Factors (GCFs). GCFs are used within the settlement process to correct residual discrepancies between energy entering the distribution system and energy allocated to suppliers. These discrepancies have become significant in recent years, and we are considering how best to ensure the treatment of electrical losses in the cap continues to accurately reflect the relevant parameters that are used in settlement. We would like views from all stakeholders with an interest in the level of the default tariff cap.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at Ofgem consultations. If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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Executive Summary

Group Correction Factors (GCFs) are used within the electricity settlement process to correct residual discrepancies between energy entering the distribution system and energy allocated to suppliers. These discrepancies have become both material in magnitude and systematic in the direction in which they are trending since the cap was introduced, leading us to consider whether the way in which we account for electrical losses in the cap reflects the best and most up to date information available.

This consultation sets out our proposal to account for GCFs within our approach to losses, to ensure that electrical losses continue to be accurately reflected in the price cap methodology. We propose to implement any change resulting from this consultation process from Cap Period 15b (January – March 2026) onwards, once we have gathered feedback. We propose to do this through updates to the supplementary 'Demand and Losses' model and consequential updates to the inputs within the related price cap Annexes.

This consultation does not seek views on the GCF mechanism itself. This is part of the established settlement process. Instead, it focuses on how the price cap should account for the cost implications of GCFs on the various cap allowances to which they are applied. We welcome views on the proposed approach, including whether an adjustment is necessary and how it should be applied, to ensure the price cap continues to reflect the underlying cost of supplying electricity.

1. Introduction

GCFs are a normal part of the energy settlement process, which, in tandem with electrical Line Loss Factors (LLFs), are used to account for electricity lost through the distribution system. Recent data shows that in some regions, GCFs have risen significantly above expected levels, and are trending well above the levels observed at the time the price cap was introduced. This means that accounting for electrical losses in the cap through LLFs alone is no longer sufficient to reflect the actual losses through the distribution system.

Background and Context

1.1 Group Correction Factors (GCFs) are a long-standing feature of the electricity settlement process. The process is known as *Grid Supply Point (GSP) group correction*[1] and it adjusts suppliers allocated energy volumes so that the total matches the actual amount of energy entering each region. These regions are referred to as *GSP groups* for settlement purposes. GCFs work by applying a correction factor to each supplier's allocated energy volume.

1.2 GCFs have historically remained close to 1.0 (or 100%). However, recent trends show that GCFs in some regions have exceeded this level by a significant margin, for an extended period. A GCF above 1.0 (or 100%) scales up the energy allocated to suppliers. In practice, this means that suppliers are incurring higher costs than those assumed through LLFs alone in the price cap.

Group Correction Factors

1.3 GCFs are multipliers that are applied to profiled electricity consumption data to reconcile discrepancies between estimated and actual energy usage within each GSP. They help ensure that the energy volumes used in

[1] Grid Supply Point (GSP) Group Correction - Elexon Digital BSC

settlement accurately balance the energy entering and leaving the distribution system, with allocations distributed across suppliers. The GCF is calculated daily, by settlement period[2], on a regional basis, meaning that the GCFs can and do differ throughout the day and year and between regions.

1.4 GCFs were introduced under the Balancing and Settlement Code (BSC) framework to address inherent inaccuracies in non-half-hourly settlement. Traditional electricity meters do not record the consumption in each half-hour. Instead, the meter advance is profiled between half-hours using assumptions. This non-half-hourly settlement process may therefore not reflect actual consumption in any half-hour. GCFs are therefore a critical calculation in settlement, for correcting systemic estimation errors.

1.5 GCFs have typically trended close to 100%, which would indicate that the assumed profiled volumes align closely with actual grid usage. When GCFs rise above 100%, it suggests that estimated consumption is understated, leading to under-allocation of costs to suppliers. Conversely, GCFs below 100% indicate that estimated volumes are overstated, resulting in downward scaling. Recently, GCFs in some regions are routinely exceeding 100%, indicating significant under-allocation of energy volumes.

1.6 The industry recognises this as a persistent and growing issue and in response to this, a formal issue titled: *Issue 119 Understanding and assurance of increasing electricity losses (LLF & GCF)* was raised under the Balancing and Settlement Code (BSC)[3]. A dedicated industry Workgroup has been established and held its first meeting on 23 July

[2] Settlement period – a 30-minute time interval used to measure and settle electricity consumption and generation

[3] Issue 119 - Understanding and assurance of increasing electricity losses (LLF & GCF) - Elexon BSC

2025. The group is investigating the root causes of rising losses, with particular attention to GCFs.

1.7 According to Elexon, there are several possible reasons to explain the trends in GCFs which we set out below, but we think this is a complex area, particularly in the context of a changing energy system and it may take time to see progress:

- Profiling and Scaling Weights – Traditional profiling methods are becoming less accurate due to significant shifts in consumer behaviour and an increased uptake of renewable technologies. As a result, many of the assumptions underpinning existing profiling systems and scaling weights no longer reflect real-world consumption.
- Settlement Estimation and Accuracy – Incomplete or inaccurate data introduces estimation errors that GCFs must correct. This issue is more pronounced in areas with low smart meter adoption, where actual readings are less frequent. There are additional factors, such as communication failure and metering faults.
- Theft and Unaccounted Losses – When energy is consumed but not recorded through metering systems, it creates a gap between actual and settled volumes. This discrepancy then becomes absorbed through GCFs, leading to higher correction factors and increased costs for suppliers.
- Line Loss Factors (LLFs) – These are used to account for the energy lost as electricity travels through the distribution network. LLFs can understate or misallocate losses due to changes in network conditions amongst other reasons.
- Embedded Generation – The accuracy of metering at embedded generation sites directly affects the calculation of GCFs.
- SP Group Take. Embedded generation, such as solar, reduces net demand seen at the GSP level. If the generation is not fully visible in settlement, it can lead to a GCF less than 1.

1.8 It should be noted that the same GCF value applies to all suppliers in each region in any given half-hour. This means that, while there are some actions individual suppliers can take to support the accuracy of settlement for some of the above issues, their own action cannot significantly change the GCF which applies to them.

1.9 When the cap was originally introduced, we did not include an adjustment for GCFs[4]. This was because the evidence available at the time demonstrated that GCFs were trending very close to 1.0 (or 100%). Given the considerable uncertainty over the scale and direction of GCFs in advance, and the low materiality, we did not think it necessary to account for this specifically in the design of the original cap methodology. However, it has now become evident that GCF values are increasing, and we think it represents a material and systematic departure from the efficient level of losses accounted for through LLFs alone. Therefore, we consider a review is necessary to ensure the cap allowances which are dependent on the application of loss factors, reflect the actual cost to suppliers of delivering energy to consumers.

1.10 However, in conducting a review and potential adjustment to account for GCFs, we also think that it is important to underline that this does not remove the need for continued industry collaboration to support the accuracy of settlement.

What we are consulting on

1.11 We are consulting on our proposal to update our assumptions underpinning the electrical loss factors we apply to certain allowances within the price cap methodology to include an adjustment for GCFs.

1.12 In setting the price cap, we are required to exercise our functions with a view to protecting existing and future customers whilst having regard,

[4] Ofgem 2018, Default Tariff Cap: Decision - Appendix_5_-_policy_and_network_costs, 3.7-3.9

amongst other things, to the need to ensure that suppliers who operate efficiently can finance their licensed activities. This proposal is to ensure that electrical losses continue to be accurately reflected in our modelled cost allowances. This helps to ensure that suppliers can recover their legitimately incurred efficient costs, which in turn benefits customers by helping to ensure a stable and investable market. We are therefore consulting to gather views on our proposal to incorporate these revised assumptions, including if we should do so and the method, we have proposed to do so.

1.13 Should we proceed with the proposed approach following consultation, we intend for it to be in place from January 2026 (cap period 15b) onwards.

1.14 We have published a revised supplementary model – "Demand and Losses workbook"– alongside this document, which outlines the requisite modelling changes based on the proposals set out in this consultation.

1.15 Details of how to respond and how we will handle your data, and confidentiality can be found in section 6 of this document.

Next Steps

1.16 This consultation is open from 27 August 2025 and closes on 26 September 2025. Following the consultation close, we will carefully consider all responses before publishing our decision on whether to include an adjustment to account for GCFs in the cap methodology.

Related publications

Related publications:

- Domestic Gas and Electricity (Tariff Cap) Act 2018
- 2018 decision on the cap methodology ('2018 decision')
- Energy Prices Act 2022:

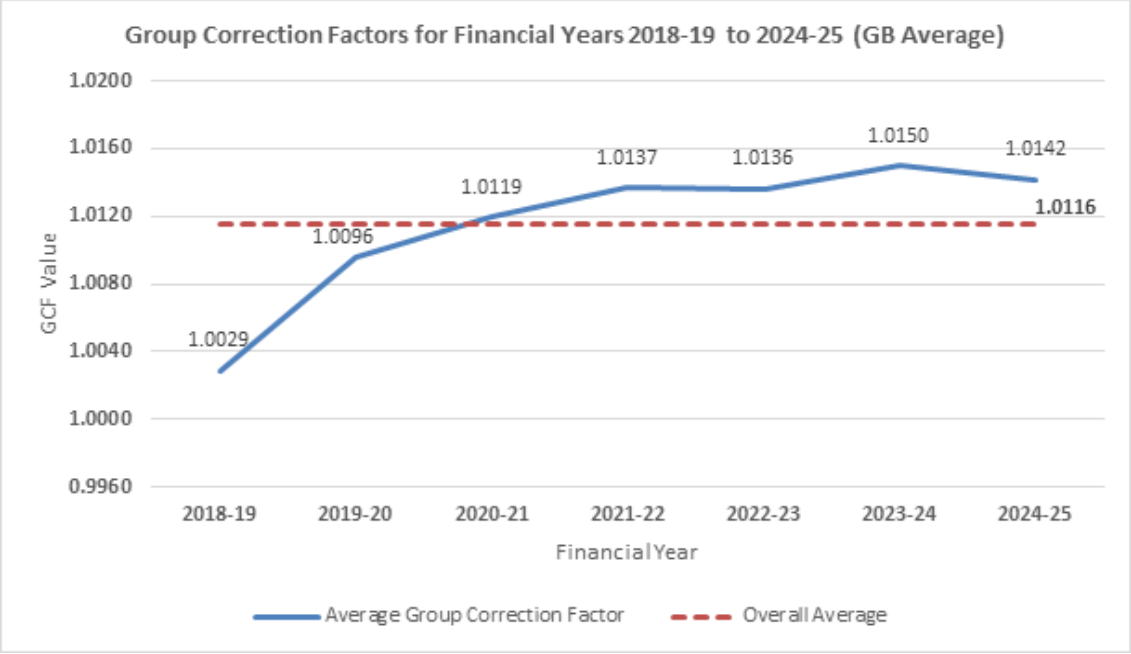
2. Case for Change

This section sets out how GCFs have changed over time and what this means for the price cap methodology.

Trends in GCFs

2.1 GCF's are expected to fluctuate, however recently, values have exceeded the usual expected range and there is a clearly increasing trend over time, as shown in *Figure 1*. This suggests a substantial underestimation of demand in profiling or data inputs.

Figure 1: Average Group Correction Factors from 2018 to 2025.



2.2 This trend has cost implications as GCFs are applied to most volumetric costs to which suppliers are exposed, including wholesale energy, network costs, and some policy costs. It results in suppliers being charged for more energy than they can recover the costs of under the current cap methodology.

Implications for the cap

2.3 Given these developments, and the fact that industry has recognised this as a growing and persistent issue, we think there is now a clear need to

consider updating our assumptions to include an adjustment for GCFs in the price cap methodology. This consultation seeks views on our proposed

option to address the impact of elevated GCFs, with the aim of ensuring actual supplier costs are more accurately reflected through the cap cost allowances and that consumers continue to be protected through a cap that reflects the underlying costs of supplying energy for a notionally efficient supplier.

3. Proposals

This section sets out our proposals on how we intend to update our assumptions on electrical loss factors to include an adjustment for GCFs and our rationale for doing so.

We welcome stakeholders' views on our proposals and minded to position.

Overview

3.1 We are proposing to incorporate GCFs into the Demand and Losses model by augmenting the existing LLFs.

3.2 We propose to do this by applying the average of the last 2 financial years GCFs as published by Elexon[5] to the existing modelled loss factors.

3.3 Based on our analysis of data for 2023/24 and 2024/25 this proposal will result in an uplift of **1.46%** to the existing loss factors to reflect the impact of the observed elevated GCF values.

3.4 Our view is that this proposal:

- reflects the interaction between GCFs and LLFs within the electricity settlement process.
- continues to ensure that all relevant losses are accounted for in the price cap methodology.
- strikes an appropriate balance between accuracy and simplicity.

3.5 LLFs and GCFs both serve to align settlement volumes with actual energy flows, but they operate on different timeframes and data sources. LLFs are calculated using reconciled settlement data from three years prior to the applicable BSC year, meaning they reflect historical conditions. In contrast, GCFs are applied to discrepancies that remain after LLFs are applied, and they incorporate more recent behaviour. GCFs therefore act as a short-term correction whilst LLFs gradually catch up, highlighting the clear relationship between the two mechanisms.

[5] Elexon, data on GCFs can be accessed via - ELEXON Portal

3.6 By incorporating GCFs into the Demand and Losses model, we aim to ensure that the loss multipliers used to adjust the relevant cost allowances throughout the cap are more reflective of those applied through settlement. We think this will more accurately reflect actual costs, whilst maintaining a transparent basis for setting allowances within the price cap.

3.7 Trends in GCFs, are inherently variable and unpredictable, particularly at regional level. The purpose of the cap models is to establish an ex-ante estimate of costs for the upcoming cap period. Using historical data to guide these calculations is appropriate where forecast data is not available and that is what we are proposing here. Given the variability and unpredictability in historical data however, we think a single Great Britain (England, Scotland and Wales) average adjustment (where the trend and level are both clearer and more stable), applied across the existing loss factors maintains alignment of the assumed electrical loss factors in the cap and the actual level of losses in the distribution system.

3.8 We think this will ensure we maintain a set of modelled electrical loss factors in the cap which can be applied consistently through the annexes which are dependent on these inputs, in a simple and transparent way.

Considerations

3.9 We consider that the case for change presents a clear need to act. Given the recent evidence of the material and systematic nature of GCFs, and our previous explicit decision not to include a specific allowance as we expect it the associated costs to trend around zero, we do not consider that it would be suitable for the headroom allowance to cover these increased costs on an ongoing basis.

3.10 We also think that there is a case to act promptly, this is because the evidence shows us that this issue has become persistent since the cap was originally introduced. We have therefore proposed what we consider to be a simple and transparent methodology to account for the impact of

elevated GCFs. On this basis we also propose to implement the outcome of our consultation at the earliest opportunity (ie January 2026) if we decide to proceed with these proposals.

3.11 We have chosen to propose a Great Britain average adjustment, based on the last 2 financial years' group correction factors. We think this is a simple, but accurate, approximation of the scale of adjustment necessary to ensure electrical loss factors continue to remain reflective of those used through the settlement process. A 2-year average is consistent with our recent decision on Unidentified Gas (UIG), and we expect using a 2-year average on a rolling basis will enable a balanced trade-off between responsiveness and stability.

We acknowledge that there is significant regional variation and that line loss factors are applied on a regional basis. As discussed above, we consider that a Great Britain average approach strikes the right balance in setting an ex-ante allowance given the variability and unpredictability in historical data however, as the national trend and level are both clearer and more stable.

4. Implementation

This section sets out how and when we propose to implement our updated assumptions on electrical loss factors, as well as our proposals for updating these assumptions on an enduring basis.

We welcome stakeholders' views on our implementation proposals

Model updates

4.1 If we decide to proceed with this proposal, we intend to incorporate the GCFs into the supplementary "Demand and Losses" model.

4.2 We have published a draft model alongside this consultation to show how we intend to implement GCFs into the demand and losses supplementary workbook and *Appendix 2* provides a summary of the changes we have made.

4.3 We would welcome stakeholder views on its structure, inputs, and practical implementation.

Timing

4.4 We recognise that this proposal will require updates to related models, including Annex 2 ('Wholesale'), Annex 3a ('Electricity Networks') and Annex 4 ('Policy Costs'), to ensure consistency across the cap framework.

4.5 Given our intention to implement these proposals from January 2026 should we decide to proceed, we would propose to reflect these changes in the related annexes in November 2025. This would require us to complete an interim update of Annex 3a and Annex 4 with the normal cycle, to reflect the changes at the earliest opportunity. We are proposing to do this if we decide to update the electrical loss factor assumptions to include GCFs.

Enduring process

4.6 Looking ahead, we propose that GCF inputs would be updated as part of the regular price cap cycle. We think August is the appropriate point to do this, as it will allow us to refresh the underlying GCF assumptions with the latest data, up until the end of the preceding financial year.

4.7 The GCF values would be sourced from the settlement system, with reference to the Group Correction Factors published by Elexon.

4.8 We recognise that updating GCFs in February would align with the annual update of the LLFs, which could simplify implementation. However, the February update would not include the latest data, as it would not be available at this time. We think an August update would allow the use of more current data, representative GCFs assumptions. While this does not align with the LLF update, we think that the benefit of using up-to-date data outweighs the operational convenience of synchronisation. We welcome stakeholder views on this.

5. Questions

This consultation therefore seeks feedback on:

- Whether we should update our electrical loss factor assumptions to include GCFs.
- If we do whether a two-year, Great Britain average uplift does this in a simple transparent way.
- Any views on a potential interim cap update to be conducted in November 2025.
- Any views on the timing of enduring updates to the input values.
  Any comments on enduring GCF assumptions.

6. Your response, data and confidentiality

Consultation stages

6.1 This is a statutory consultation which is open from 27 August 2025 until 26 September 2025. We will then consider consultation responses to inform our decision, which we intend to publish by the end of the November 2025.

How to respond

6.2 We want to hear from anyone interested in this consultation. Please send your response to retailpriceregulation@ofgem.gov.uk.

6.3 Please send your response on or before 26 September 2025.

6.4 We will publish non-confidential responses on our website at Ofgem consultations.

Your response, your data and confidentiality

6.5 You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

6.6 If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

6.7 If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as

retained in domestic law following the UK's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 4.

6.8 If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

General feedback

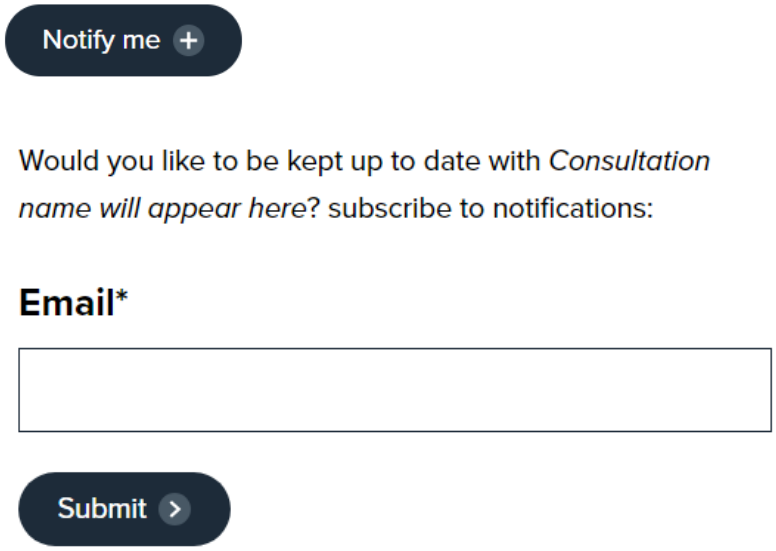
6.9 We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

Please send any general feedback comments to stakeholders@ofgem.gov.uk.

How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website. Choose the notify me button and enter your email address into the pop-up window and submit. ofgem.gov.uk/consultations



Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:

Upcoming > **Open** > **Closed** (awaiting decision) > **Closed** (with decision)

Appendices

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Summary of GCFs

We have used Elexon data to assess the impact of GCFs on a regional and Great Britain average basis. The data on GCFs is available from the ELEXON Portal in the Operational Data section under GSP Group Correction Factors, filenames *GSPGCF_YYYY.xls*.

Analysis of Elexon data

The table below shows average GCFs by region for Financial Year (FY) 2024 to 2025 only and the 2-year average for FY's 2023 to 2024 & 2024 to 2025.

We are proposing to use the 2-year Great Britain average on a rolling basis as the relevant input to make an adjustment to the electrical loss factors.

Regions	GCF for 2024 to 2025	GCF for 2023 to 2024 and 2024 to 2025
Eastern	1.01%	0.77%
East Midlands	0.84%	0.79%
London	1.49%	2.02%
N Wales and Mersey	2.14%	1.75%
Midlands	1.20%	1.29%
Northern	3.91%	2.86%
North West	1.65%	3.22%
Southern	0.97%	0.56%
South East	1.68%	1.17%
South Wales	-0.56%	-0.01%
Southern Western	0.59%	0.50%
Yorkshire	2.74%	3.24%
Southern Scotland	2.96%	2.52%
Northern Scotland	-0.78%	-0.28%
GB Average	**1.42%**	**1.46%**

Proposed modelling changes

Supplementary Model - Demand and Losses Model

The Demand and Losses model is used to calculate loss multipliers and demand weights. As proposed in the consultation, GCFs are now being incorporated into the model to ensure that the loss multipliers applied to cost allowances more closely reflect those used in settlement. Table A2.1 outlines the changes we are proposing to make to the Demand and Losses Model, which include:

- Incorporating GCFs into the Demand and Losses model as an additional input.
- Updating existing formulas to calculate loss multipliers that are adjusted for GCFs.

Table A2.1: Proposed Changes to the Demand and Losses Model to incorporate GCFs

Type	Change	Description
Input	Added another input sheet to include GCFs. Please refer to: "3d GCF"	An additional input sheet has been added to the model to incorporate GCFs into the estimation of loss multipliers.
Output	Amended all the formulas in existing sheet. Please refer to: "1a Loss Multipliers"	All formulas in the sheet have been updated to calculate GCF-adjusted loss multipliers by summing the existing Line Loss Factors (LLFs) and GCFs.

Privacy notice on consultations

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

4. We will not be sharing your personal data

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for six months after the project, including subsequent projects or legal proceedings regarding a decision based on this consultation, is closed.

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/, or telephone 0303 123 1113.

7. Your personal data will not be sent overseas.

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system.

10. More information For more information on how Ofgem processes your data, click on the link to our "ofgem privacy promise".