Decision

Amending the price cap methodology to account for Group Correction Factors (GCFs)

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In August 2025 we published a consultation on a proposal to update the energy price cap ('the cap') methodology to include an adjustment for Group Correction Factors (GCFs).

GCFs are an established part of the electricity settlement process and are used to reconcile discrepancies between energy entering the distribution system and energy allocated to suppliers. These discrepancies have become increasingly significant over time, prompting us to review how we account for these electrical losses in the cap.

The consultation proposed incorporating GCFs into the existing Demand and Losses Model, by applying a two-year GB average uplift to the existing electrical loss factors, using GCF data published by Elexon.

This document sets out our decision to proceed with an adjustment for GCFs. It sets out the rationale for the approach that we have decided to adopt following the feedback we received in response to our consultation, the next steps in terms of implementation and our approach to enduring updates.

Contents

1. Introduction

Background and context

The default tariff cap

1.1 The price cap (also known as the default tariff cap, or 'the cap') protects domestic customers on standard variable and default tariffs (which we refer to collectively as 'default tariffs'), ensuring that they pay a fair price for their energy, which reflects the efficient underlying costs to supply that energy.

1.2 The cap is provided for in legislation through the Domestic Gas and Electricity (Tariff Cap) Act 2018 (the 'Act'), which sets out the overall objective and five matters to which we must have regard when setting the cap. In setting the cap, we are required to exercise our functions under the Act with our primary consideration being the protection of existing and future domestic customers who are on default tariffs.

1.3 In doing so we must also have regard to the following matters (see section 1(6) of the Act):

- the need to create incentives for holders of supply licences to improve their efficiency
- the need to set the cap at a level that enables holders of supply licences to compete effectively for domestic supply contracts
- the need to maintain incentives for domestic customers to switch to different domestic supply contracts
- the need to ensure that holders of supply licences who operate efficiently are able to finance activities authorised by the licence
- the need to set the cap at a level that takes account of the impact of the cap on public spending

1.4 The requirement to have regard to these matters does not mean that we must achieve them all. In reaching decisions on certain aspects of the cap, the weight to be given to each of these considerations is a matter of judgement. Often, a balance must be struck between competing considerations.

1.5 In reaching the decisions put forward in this document, we have sought to achieve the objective set out in the Act to protect existing and future default tariff customers. Through our regulatory judgement, we have balanced the various considerations set out in the Act (including the need to ensure suppliers who operate efficiently are able to finance their licensed activities).

Group Correction Factors (GCFs)

1.6 Group Correction Factors are multipliers used to reconcile discrepancies in the amount of energy entering the distribution networks and the total actual settled demand, where this cannot be attributed to electricity losses or other assumptions. In effect, GCFs apply an adjustment to each supplier's allocated volumes in the electricity settlement process. A GCF above 1 (or 100%) suggests that estimated consumption is understated, leading to an under-allocation of costs to suppliers. Conversely, a GCF below 1 (or 100%) indicates that estimated volumes are overstated, resulting in downward scaling.

1.7 When the price cap was first introduced, we considered that no specific adjustment was necessary for GCFs. At that time, GCFs were trending close to 1 (or 100%) and it was expected that any deviations would broadly net off over time. Historically, GCFs had remained around this level, indicating that the assumed profiled volumes were well aligned with actual grid usage.

1.8 However, recent evidence suggests that this is no longer the case. GCFs have, on average, risen above this level by a significant margin, indicating a consistent under-allocation of energy volumes. As a result, GCFs have become an increasingly important factor in determining the costs suppliers incur in providing electricity to their customers. In practice, a GCF above 1 (or 100%) scales up the volume of energy allocated to suppliers, resulting in suppliers incurring higher costs than those assumed through Line Loss Factors (LLFs) alone. We consider this represents a material and systematic departure from the costs currently included in the cap (the efficient level of losses accounted for through LLFs) and we have seen no evidence of any corresponding or offsetting benefit.

1.9 As outlined in our consultation, we consider these discrepancies have now become both a material and systematic cost to suppliers, and one which they have limited control over. We therefore decided that it was necessary to consult on proposals to account for these costs in the cap methodology, to ensure it continues to reflect the efficient underlying costs of supplying energy by a notional supplier.

What we consulted on

1.10 We consulted on proposals to update our assumptions underpinning the electrical loss factors, which are applied to certain cost allowances within the price cap methodology, to include an additional adjustment for GCFs. Our consultation set out a proposed method for applying a two-year GB average uplift to existing electrical LLFs. We proposed using data published by Elexon and to incorporate this adjustment into the "Demand and Losses Model" supplementary workbook.

1.11 We proposed to implement this adjustment from January 2026 (cap period 15b) and update the values on an annual basis each August.

Our decision

Summary of our decision

1.12 We have decided to broadly proceed with our minded-to position to include an adjustment for GCFs as part of the Demand and Losses Model supplementary workbook. However, following supplier feedback, we have made a refinement to our averaging approach and will adopt a demand weighted average, rather than a simple average adjustment.

1.13 We have therefore decided to:

1.14 introduce a specific adjustment for GCFs into our calculation of loss factors. From 1 January 2026 this adjustment will be a 1.89% uplift to all existing electrical loss factors

1.15 base this adjustment on a demand weighted average, using Elexon GCF data for two financial years. For the first adjustment these years will be 2023 to 2024 and 2024 to 2025

1.16 update this value annually each August to ensure that the GCF adjustment continues to reflect the actual levels of unaccounted losses in settlement

Context and related publications

1.17 The main general documents relating to the cap are:

- Domestic Gas and Electricity (Tariff Cap) Act 2018
- 2018 Decision on the default tariff cap methodology
- Energy Prices Act 2022

1.18 The main documents relating to this publication are:

- Energy price cap methodology: group correction factors

Decision-making stages

Stage 1 Consultation open: 27 August 2025

Stage 2 Consultation closes (awaiting decision). Deadline for responses: 26 September 2025

Stage 3 Responses reviewed, and consultation decision published: 21 November 2025

Send us your feedback

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this decision. We would also like to get your answers to these questions:

- Do you have any comments about the quality of this document?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Or could it have been better written?
- Are its conclusions balanced?
- Did it make reasoned recommendations?
- Do you have any further comments?

Please send your feedback to stakeholders@ofgem.gov.uk.

2. Decision, stakeholder feedback and considerations

Our decision

Decision to apply an adjustment

2.1 We received detailed and comprehensive feedback from stakeholders on our proposals and our response focuses on the substantive points that are directly relevant to this particular decision. We have carefully considered all the representations and evidence submitted and have decided to introduce a specific adjustment for GCFs into our calculation of loss factors.

2.2 From 1 January 2026, the adjustment will be a 1.89% uplift to all existing electrical loss factors, using demand weighted GB average GCF data for financial years 2023 to 2024 and 2024 to 2025.

Implementation and enduring updates

2.3 We will apply this adjustment from 1 January 2026 (price cap period 15b) onwards. We will update this value annually as part of the August cap update, where the first update after implementation will be in August 2026 (taking effect 1 October 2026), using the latest 2 financial years of completed final settlement run data, to ensure that the GCF adjustment responds on an ongoing basis to the latest and most robust available data.

Methodological approach

2.4 We received extensive feedback from suppliers on the calculation of a GCF adjustment, as well as views on alternative ways in which we might consider applying these within the cap methodology. We have made some changes to our proposed methodology in response to the feedback received to improve the robustness of our estimate where we felt there was a strong case to do so.

2.5 However, we have also decided to limit further changes to our intended approach where these would introduce unnecessary complexity into the price cap, particularly where there is a less clear case that such changes would deliver benefits for consumers and/or suppliers.

2.6 As we set out in our consultation, there are no robust forecasts of GCFs, meaning that any adjustment must be based on historical data. However, historical GCF data have limitations in how well they reflect current or future costs. We therefore do not consider it appropriate for the price cap to mirror exactly the way suppliers are invoiced for GCFs in a lagged way using historical data. We recognise there is an inherent level of uncertainty in determining an appropriate level of adjustment in any given year. While historical GCFs can provide a useful indication of the likely overall scale of the impact, they do not offer a precise forecast, particularly at more granular levels.

2.7 We have therefore decided not to introduce further complexity, for example by applying GCFs at a regional level or by using different GCF adjustments for certain cost allowances. This is because we don't consider this level of granularity is necessary to ensure suppliers are able to recover their efficient costs. Furthermore, it risks introducing considerable volatility, particularly at a regional level, that would be difficult for consumers to understand.

2.8 Although we acknowledge that suppliers cannot avoid GCF costs, we also recognise that they have a limited ability to influence GCFs by taking appropriate steps to minimise settlement error where possible. We therefore consider it appropriate to encourage industry to continue to work together to improve the accuracy of settlement.

2.9 We set out further details with respect to our views on the specific items of feedback received in the following section.

Implications for the cap level

2.10 The resulting uplift will apply across a range of cost allowances within the cap, resulting in an increase of £6 to the cap level from January 2026 across several different cost allowances.

2.11 GCFs are inherently variable and are indexed to the various cost allowances to which they are applied. Therefore, the actual impact in any given cap period will scale with both the level of the adjustment and the level of the cost allowances themselves.

Our August consultation sought views on the following questions:

Q1. Should we update our electrical loss factor assumptions to include Group Correction Factors (GCFs)?
Q2. Does applying a two-year Great Britain (GB) average uplift provide a simple and transparent way to do this
Q3. Do you have any views on conducting a potential interim cap update in November 2025?
Q4. What are your views on the timing for updating GCF input values on an ongoing basis?
Q5. Do you have any comments on how enduring GCF assumptions should be set?

Summary of responses and considerations

2.12 We received nine responses to our consultation: one response from a consumer, and eight from suppliers. We have published non-confidential responses alongside this decision on our website.

Including an adjustment for GCFs

2.13 The consumer who responded was opposed to any measures that would increase the price cap, suggesting that market forces should be allowed to operate and this would result in shippers applying pressure on Distribution Network Operators (DNOs) to improve their systems to account for losses and discrepancies. Of the suppliers who responded, all were in support of introducing an adjustment, with most offering alternative suggestions on how we might do so.

2.14 We recognise that consumers do not wish to see the price cap go up. We have an objective to protect existing and future domestic customers who pay standard variable and default rates and we also recognise that in exercising this duty we must also have regard to the need, for example, to create incentives for holders of supply licences to improve their efficiency.

2.15 We agree that market participants have an important role to play in ensuring that settlement error is managed at an efficient level and industry are currently working together to address , including GCFs through an industry working group.

2.16 Whilst we recognise that suppliers have some limited ability to influence GCFs, we do not consider it appropriate for them to be fully exposed to the risk of elevated GCFs and the associated costs. In setting the cap at a level achievable by a notionally efficient supplier we must also have regard to the need to ensure that holders of supply licences who operate efficiently are able to finance activities authorised by the licence. Given that the recent trends in GCFs are both material in their cost and systematic in the direction in which they are trending, with little evidence that these effects will net off over time, we consider it appropriate to account for this feature of settlement within the cap methodology.

2.17 Consequently, we consider that an adjustment is appropriate and have therefore decided to proceed with our proposal to account for GCFs within the cap methodology.

Data set to use

2.18 In our consultation we set out our intention to use two financial years of GCF data to determine the proposed adjustment, specifically the most recent two years (2023 to 2024 and 2024 to 2025). We proposed this because a two-year period was aligned with our treatment of Unidentified Gas (UIG) and, when applied on a rolling basis, this would strike an appropriate balance between introducing a responsive yet stable adjustment.

2.19 Five of the suppliers that responded indicated support for using two financial years of data to calculate the adjustment. However, one supplier proposed using only final reconciliation settlement run data in our calculation, suggesting that including earlier settlement run data in the two-year average may understate the

true level of GCFs. The supplier highlighted that GCFs often increase as settlement data is refined, so relying on earlier runs will not fully reflect final reconciled values.

2.20 We acknowledge that the data we have used includes a mixture of provisional and final reconciliation settlement runs. Final reconciliation settlement run data is currently available fourteen months in arrears (although this delay is expected to reduce following the full implementation of market-wide half-hourly settlement). In setting the adjustment, we aim to balance using the most recent data with ensuring that the adjustment is accurate and relatively stable. We consider a 2-year average remains appropriate, as it smooths short-term fluctuations while still reflecting reasonably up-to-date data.

2.21 We have decided to maintain a 2023 to 2024 and 2024 to 2025 average, but we have refreshed the data we have used since consultation to take account of the latest final reconciliation settlement run data. This means that we have final reconciliation settlement run data for the entire 2023 to 2024 period and for around 6 months of 2024 to 2025 to use to inform the adjustment to apply in January 2026.

2.22 We have decided to update the GCFs each August. In doing so and in recognition of supplier feedback with respect to final settlement data, we will have regard to the most recent two financial years for which final reconciliation settlement run data is available. This means that in August 2026 we will update the GCF values using the latest data for the 2023 to 2024 and 2024 to 2025 financial years.

Regional adjustment

2.23 All eight of the suppliers who responded suggested a regional approach to GCFs, stating that it would more accurately reflect supplier-specific costs, reduce competitive distortions, and lead to more accurate cost recovery compared to a flat national average.

2.24 We have undertaken further analysis of the potential impact of implementing regional GCF adjustments. We recognise that a regional approach using historical data would act more like a lagged pass-through allowance and, consequently, would provide more accurate cost recovery compared to using a single GB average. However, our analysis also suggests that there are significant regional differences that could result in some regions experiencing larger increases in the cap level compared to others.

2.25 We recognise that there are legitimate cost reflectivity arguments which support adjustments to the price cap to reflect genuine regional cost variations, as is currently done for certain network costs. However, we don't consider it to be in consumers' interests to introduce further regional variations as part of the GCF adjustment at this time. This is particularly the case given our ongoing work, through the Energy system cost allocation and recovery review (CARR), which is

examining cost allocation issues, including how costs which vary across regions should be accounted for within regulatory arrangements and paid for by consumers.

2.26 We consider that our CARR work is the most appropriate place to assess regional cost variations in aggregate, as opposed to addressing the regional element of this issue in isolation through the GCF adjustment.

2.27 We recognise that suppliers will face different costs based on the regional distribution of their customers, however, we think that as far as suppliers have a mix of customers across regions, that this will go some way to mitigate any potential distortions and therefore the need to implement a regional adjustment from a financeability perspective.

2.28 We also note that introducing a more complex adjustment at a regional level would require detailed consideration of the distributional impacts, which could risk delaying implementation of any adjustment.

2.29 For these reasons we have maintained our minded to position to apply a GB average GCF adjustment.

Averaging approach

2.30 Six of the suppliers who responded stated that applying a simple average did not reflect the actual costs they face as a result of GCFs. This is because demand varies each settlement period, and therefore it would be more appropriate to use a demand weighted average.

2.31 We have decided to apply a demand weighted average GCF rather than a simple average. We think this reflects the interaction between the demand in each settlement period and the associated GCF, which together determine the additional settlement cost faced by suppliers. We have therefore decided to update our calculations, by applying the existing ex-ante demand weights used in the cap methodology to the relevant year's GCF values, to produce a demand weighted GCF adjustment. This is because we think that this provides a broad weighting for periods of higher demand and even if it does not precisely reflect the pattern of outturn demand and is likely to lead to a more representative estimate of the actual costs that suppliers incur due to GCFs than a simple average.

Application to certain cost allowances

2.32 Two of the suppliers that responded suggested accounting for Transmission Network Use of System (TNUoS) charges and Capacity Markets (CM) charges separately, as they are settled on consumption at differing times (4pm-7pm for TNUoS and 4pm-7pm on weekdays in the months of November to February for CM). They suggested this would more accurately reflect the costs as they are concentrated during peak demand periods.

2.33 We recognise that certain costs are charged to suppliers in a way that makes them dependent on demand at different times of the day and year. For reasons we have already set out in response to feedback on our methodological approach, we have decided to maintain a uniform GB adjustment across all cost allowances in our decision.

Domestic versus non-domestic

2.34 One supplier suggested that we work with Elexon to determine a domestic only GCF adjustment to apply. It provided bespoke analysis for its own portfolio to demonstrate the difference between domestic and non-domestic GCFs.

2.35 As a general principle the price cap relies on publicly available information where possible. Given there is no domestic only GCF data currently available to us, we have decided to proceed with our proposals to use the data currently published by Elexon. However, consistent with our approach to unidentified gas, we will consider working with Elexon to assess whether a more appropriate data input could be used in place of that which is currently publicly available.

Other feedback

2.36 One supplier suggested that the GCF estimates should be updated every quarter and one suggested that we should apply differing GCFs for each quarter at the point of the August update, as this would better capture seasonal variations, improve cost reflectivity and support financial planning for suppliers. Introducing quarterly updates to GCFs, or varying values each quarter, would significantly increase the complexity of the Demand and Losses Model. It would require revising Annexes 3a and 4 four times a year instead of the current six-monthly cycle, decreasing stability of some cap allowances. Furthermore, this increased frequency could lead to reliance on more volatile or incomplete data, potentially undermining the accuracy of cost allowances.

2.37 Four of the suppliers that responded suggested that we consider the potential impact of Market-wide Half-Hourly Settlement (MHHS) when designing the enduring methodology to ensure GCF costs are accurately reflected. The introduction of MHHS will bring significant changes to the electricity market and we will consider the appropriate treatment of GCFs, amongst other things, when designing any alternative approaches to set the cap that accounts for MHHS.

Retrospective adjustment

2.38 Two of the suppliers that responded suggested applying an additional uplift to account for previously incurred costs resulting from elevated GCFs, with one highlighting the use of 2 years outturn data as a proxy for a forward-looking adjustment as evidence that this would be appropriate. We recognise that GCFs have been trending above 1 for some time, however, the cap is set on an ex-ante basis. Whilst ex-post adjustments have occasionally been applied in the past,

these are exceptional and not standard practice. In this instance, we do not consider an ex-post adjustment appropriate.

2.39 We must keep in mind that the objective of the Act is to protect current and future default tariff customers. We consider protecting customers to mean that prices reflect underlying efficient costs with ex post reviews used only for circumstances in which we consider the interests of these customers to be at risk from not doing so.

Implementation and next steps

2.40 We have used the value set out in this decision to inform the calculation of the January to March 2026 cap level. In the interests of transparency, we have included an annex outlining the data we have used and how we have arrived at the calculated value. A copy of the updated model has been published alongside the January 2026 price cap publication.

2.41 We will aim to ensure that our GCF adjustment remains broadly reflective of those faced by suppliers, recognising there is an inherent level of uncertainty in these adjustments.

2.42 We will update our GCF assumptions on an annual basis, each August, to ensure they continue to reflect the most recent two full years of final reconciliation settlement run data.

Appendices

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Appendix 1

Calculation of Demand Weighted GCFs

This annex sets out how we have arrived at the demand weighted GCF adjustment using the Elexon data.

We have:

- Merged Elexon GCF data (as at 28 October 2025) for a given financial year with the corresponding demand weights from the Demand and Losses Model.
- For each half-hourly settlement period, demand weights are multiplied by the respective GCF values.
- These weighted values are then summed to produce a GB-level GCF estimate.
- The final GCF adjustment is expressed as the percentage deviation from a baseline value of 1.
- Having derived a demand weighted GCF value for each relevant financial year, we then take a simple average of the two financial years' values to arrive at the final adjustment.

Appendix 2

Modelling Changes

This annex outlines the changes we have made to the Demand and Losses Model, supplementary workbook as part of this decision.

The Table below outlines the specific to incorporate the GCF adjustment:

- GCFs have been added as an additional input in the Demand and Losses model.
- The existing formulas used to calculate loss multipliers have been updated to account for GCFs.

Table: Changes made to the Demand and Losses Model to incorporate GCFs

Type	Change	Description
Input	Added another input sheet to include GCFs. “3d GCF”	An additional input sheet has been added to the model to incorporate demand weighted GCFs into the estimation of loss multipliers.
Output	Amended all the formulas in existing sheet. “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 adding the GCF adjustment.