

## Ofgem decision to reject Balancing and Settlement Code (BSC) P507: ‘Reverting the legacy Half Hourly scaling factors in Market Domain Data to the pre-M10 values’ and to approve the P507 Alternative Modification

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| Decision          | The Authority <sup>1</sup> has decided to reject P507 and to approve the P507 Alternative Modification <sup>2</sup> |
| Target audience   | National Energy System Operator (NESO), Parties to the BSC, the BSC Panel and other interested parties              |
| Date of decision: | 2 April 2026  |

### Background

The implementation of Market-Wide Half Hourly Settlement (MHHS) on 22 September 2025 (MHHS Milestone M10, or ‘M10’) led to a significant change in Grid Supply Point (GSP) Group Correction Scaling Weights (or Scaling Factors). These are parameters used in settlement to apportion unallocated electricity in each GSP Group between different groups of customers. GSP Group Correction is not applied uniformly to all customer types because they are not all judged to contribute equally to errors in settlement. For example, one large source of error is inaccuracies in legacy non-half-hourly (NHH) profiles, and customers with accurate half-hourly (HH)-settled metering are not contributing to that specific error.

To reflect this, the settlement arrangements categorise metered data into different Consumption Component Classes (CCCs). Each CCC is assigned a Scaling Weight (or Scaling Factor). This is a non-negative number that controls the extent to which GSP Group Correction is applied to consumption in that CCC.

<sup>1</sup> References to the “Authority”, “Ofgem”, “we” and “our” are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work. This decision is made by or on behalf of GEMA.

<sup>2</sup> This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

The approach taken to defining Scaling Weights at M10 was baselined in MHHS Design Artefact DES2404. That document<sup>3</sup> sets out the principles underlying the approach taken:

- A. Scaling weights should reflect the estimated volume error in each CCC
- B. If volume error cannot be estimated, the scaling weight should be based on that of similar CCC IDs
- C. Scaling weights should be higher for estimated volumes such as estimates and losses
- D. Scaling weights should not disincentive transition to the new MHHS TOM
- E. Scaling weights should not unduly impact 'late movers' to the new arrangements.

The approach taken for 'new' CCCs (associated with Migrated Metering Systems) was to calculate the Scaling Weights for each CCC as the sum of two separate components. One relates to the connection voltage, and the other relates to errors in estimation. For legacy CCCs (associated with non-Migrated Metering Systems), Scaling Weights were calculated as an average of values for the most similar non-legacy CCCs. This approach (and the values derived from it) were consulted on by the Change Code and Development Group in 2020 and again as part of the Transition Design in 2023. No substantive objections were raised during this period, though a few respondents to the latter process stated that it was difficult to engage meaningfully at that stage given the inherent complexity of the subject matter and the high sensitivity of the calculations to factors that were then unknown. Since M10, however, concerns have been raised by some suppliers that:

- the new approach does not reflect the Issue 55 finding<sup>4</sup> that accurate allocation of errors requires the Scaling Weight for each group of customers to take into account the size of that customer group and the extent to which errors in its consumption are correlated with broader market error
- the impact of applying non-zero scaling weights to non-Migrated Extra High Voltage customers is disproportionate. (The calculation determined under Issue 55 attributed very little error to EHV customers, so the scaling weight was set to zero.)

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<sup>3</sup> [MHHS-DES240-Provisional Transitional Scaling Weights v1.1](#). This document makes clear that the scaling weights to be introduced at M10 were to be provisional, pending further input from suppliers. To facilitate this, Annex S-4 of the BSC was modified on 22 September 2025 as part of Modification P478 to require quarterly scaling weight reviews so that they may evolve over time in response to supplier input.

<sup>4</sup> [Grid Supply Point \(GSP\) Group Correction Scaling Weights to Export Consumption Component Classes \(CCCs\) - Issue 55](#).

## The modification proposal and its alternative

Drax Energy Services Limited ('the Proposer') raised P507 on 9 December 2025. At the BSC Panel meeting on 11 December 2025, the BSC Panel unanimously agreed to recommend to Ofgem that P507 should be progressed as an Urgent Modification Proposal.

The Proposer stated, in the Modification Proposal Form<sup>5</sup>, that the post-M10 GSP Group Correction Scaling Weights had increased costs in relation to non-migrated HH customers. This was particularly affecting "precisely metered" Extra High Voltage (EHV) customers who were facing charges for energy that they had not consumed. The Proposer noted that the new calculation methodology represented a departure from the previous approach to setting these factors, which was based on principles established through Issue Group 55 in 2014. The Modification proposed to reinstate the pre-M10 GSP Group Correction Scaling Weights for all non-migrated Half Hourly (HH) customers (that is, all NHH) Metering Systems in Measurement Classes 'C' to 'G'). The Proposer stated that removing what it saw as "distortive" scaling weights would lead to more accurate settlement and billing that properly reflects the usage of the customer. The Proposer therefore concluded that P507 would better facilitate Applicable BSC Objectives (c) and (d).

P507 also proposes that the resetting should have retrospective effect from M10 on 22 September 2025. This would, according to the Proposer, prevent (or put right) any consumer detriment arising since the introduction of the new scaling factors at M10. Finally, the Proposer noted that P507 was intended as a temporary measure pending the outcome of Issue 120, which was and is expected to deliver a longer-term solution.<sup>6</sup>

At the same meeting on 11 December 2025, the BSC Panel also agreed to recommend to Ofgem that an Alternative Modification to restore the previous scaling factors for all non-migrated half-hourly settled customers - but applying only from the date of implementation rather than from 22 September 2025 - should also be progressed as an Urgent Modification Proposal for industry consideration at the same time.

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<sup>5</sup> [P507 Reverting legacy Half Hourly scaling factors to pre-M10 values - Elexon BSC](#).

<sup>6</sup> [Issue 120 Review of the approach to GSP Scaling Factors post M8/10 - Elexon BSC](#) was raised on 14 November 2025 to "examine supplier concerns that the new MHHS method for GSP Group Correction Scaling Factors may reduce post-M10 Settlement accuracy compared to the Issue 55 approach. Suppliers are seeking a review of the current calculation to better understand its impacts and consider potential improvements." A workgroup has been established and its work has informed Elexon's recent [consultation on a proposed approach to reviewing scaling weights](#), which in turn will inform the first of the quarterly reviews of scaling weights required by Annex S-4 of the BSC.

Taking all these matters into account, Ofgem agreed that the issue raised in the proposals had the potential to cause a significant commercial impact on affected consumers. On 15 December 2025, therefore, Ofgem decided that P507 ('the Proposal') and its Alternative should be treated as Urgent Modification Proposals and consulted upon for 15 Working Days. The consultation ran from 18 December 2025 to 12 January 2026.

### **BSC Panel<sup>7</sup> considerations**

At the BSC Panel meeting on 19 January 2026, the BSC Panel noted

- the “general consensus of views from industry” that the scaling weights introduced at M10 were “arbitrary and unsupported and that reverting scaling factors to pre-M10 values would improve settlement accuracy”
- that most respondents believed P507 would “remove distortions that unfairly impact accurately metered HH customers, particularly large sites, and prevent cross-subsidy from HH customers to NHH customers due to misallocated settlement error”
- that most respondents preferred P507 to the Alternative Modification since P507 would “restore accurate settlement from the moment the defect occurred (M10)” rather than from the date on which the proposal is implemented
- that many respondents believed P507 was “necessary as a temporary fix while Issue Group 120 develops a long-term methodology”.

On the other hand, the Panel acknowledged concerns raised by a minority of consultation respondents that the modification “could undermine the agreed MHHS design” and that introducing P507, especially with retrospective effect, could amongst other things “introduce market uncertainty” and “penalise parties who planned based on the published values”. In this context, however, the Panel stated that “the MHHS design did not intend to create distortions for EHV customers”. The Panel also noted the following statements from Exelon:

- “Exelon agree that this modification (particularly the retrospective aspect) is undoing one small part of the overall MHHS design that was consulted on over a period of

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<sup>7</sup> The BSC Panel is established and constituted pursuant to and in accordance with Section B of the BSC and Condition E1 of the Electricity System Operator Licence.

years by the MHHS Programme”

- “Elexon acknowledge that those consultations did not explicitly highlight the impacts of scaling weight changes on legacy customers, which may have contributed to some Suppliers not raising concerns at an earlier stage, and being unprepared when the changes were implemented at M10”
- “Elexon is required to perform regular reviews of scaling weights and, on 6 January 2026, the Supplier Volume Allocation Group agreed that Elexon should consult parties on basing the first such review on ideas discussed at the Issue 120 Workgroup. Subject to the responses received, this will lead to EHV customers being given a zero-scaling weight (resolving some of the Proposer’s concerns). However, the timescales for this process to complete depend on the issues raised in the responses. The changes would also be forward-looking only, not retrospective”.

In granting urgency for these proposals in December 2025, we stated that we expected that the Final Urgent Modification Report will include a robust and credible estimate of the costs of the present arrangements to Parties and consumers, and of how these Proposals would affect those costs, to inform our decision on whether either of the Proposals should be approved and implemented. Several suppliers provided their own confidential estimates.

Elexon also prepared an analysis, which looked at the impact of P507 on Measurement Class ‘C’ customers - including EHV customers - in November 2025. The analysis was restricted to a month of data given the timetable for the Urgent Modification process. Elexon considered actual and estimated consumption. At M10 the Scaling Factors for Measurement Class C changed from zero to 0.55 (for Actuals) and 0.95 (for Estimates). Overall, this increased consumption for Measurement Class C by 0.22%, equating to a net total of 21,087 MWh. At an average Imbalance Price of £75/MWh, that was a total net cost of about £1.6m for all Measurement Class C customers. Conversely, other sectors of the market (mainly NHH-settled customers) benefitted, as this 21,087 MWh of energy would otherwise have been allocated to them.

Elexon found that the size and direction of GSP Group Correction varied by time of day and GSP Group. The post-M10 correction process had reduced the demand attributed to

Measurement Class C customers by nearly 2% in the morning<sup>8</sup> but had increased it by nearly 2.5% in the evening. Thus, the net figure of 0.22% may conceal larger gross cash flows for some customers. P507 would reverse the M10 changes and thus transfer the net volume of 21,087 MWh and the net costs of £1.6m from Measurement Class C customers back to other, mainly NHH-settled customers. However, individual Measurement Class C customers could benefit or lose out financially depending on when in the day they use electricity.

### **BSC Panel<sup>9</sup> recommendation**

Taking all these matters into account, the Panel unanimously considered that both P507 and the Alternative Modification would better facilitate Applicable BSC Objectives (c) and (d). However, the Panel unanimously agreed that P507 was better than the Alternative Modification. The Panel therefore unanimously recommended approval of P507 and rejection of the Alternative Modification. The Panel also unanimously recommended an implementation date of one month after any Authority approval decision. Finally, the Panel “recognised that reverting to the pre-M10 values is a temporary measure with an enduring solution expected through Issue 120”.

### **Our decision**

We have considered the issues raised by P507 and the Alternative Modification and the Final Urgent Modification Report (FUMR)<sup>10</sup> dated 20 January 2026. We have considered and taken account of all the responses to the industry consultation on the proposals (including the confidential responses submitted by several parties) and further information provided by Elexon. We have concluded that:

- implementation of P507 would, on balance, not better facilitate the achievement of the applicable objectives of the BSC
- implementation of the P507 Alternative Modification would, on balance, be likely to better facilitate the achievement of the Applicable Objectives of the BSC and that

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<sup>8</sup> Elexon noted that this could for example be caused by solar generation spilling onto the system without being settled, or profiling errors caused by over-estimating the consumption of certain NHH customer groups.

<sup>9</sup> The BSC Panel is established and constituted pursuant to and in accordance with Section B of the BSC and Condition E1 of the Electricity System Operator Licence.

<sup>10</sup> BSC modification proposals, modification reports and representations can be viewed on the [Elexon website](#).

directing that the P507 Alternative Modification be made is consistent with our principal objective and statutory duties.<sup>11</sup>

### Reasons for our decision

We consider that the Alternative Modification would, on balance, be likely to better facilitate BSC objectives (c) and (d) and will have a neutral impact on the other applicable objectives.

#### **(c) promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity**

Based on all the evidence provided to Ofgem, we consider that the scaling values applied since M10 to accurately metered legacy HH customers (particularly EHV customers) are likely to result in the misallocation of settlement error in a manner that reduces settlement accuracy and increases costs for those suppliers and their customers.

On that basis, we agree with the Panel that reverting temporarily to the previous scaling values for Measurement Classes C to G, pending the introduction of an enduring solution as soon as possible via Issue 120, provides a reasonable short-term solution to the issue. Doing so would be likely to prevent further misallocation of settlement error in relation to those unmigrated HHS customer groups and improve settlement accuracy relative to the current position. To that extent, both proposals would better facilitate the promotion of competition in electricity generation and supply.

We note that the Panel (and most respondents to the consultation) consider that P507 facilitates this objective better than the Alternative Modification. We note that this is because P507 would have retrospective effect dating back to M10 and thus would avoid (or undo) any misallocation of settlement error introduced by the scaling weights from 22 September 2025 rather than merely from the date of implementing the change, as would be the case under the P507 Alternative modification. Retrospectivity is an important issue and we address it below.

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<sup>11</sup> The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989.

In Ofgem’s published guidance on [code modification urgency criteria](#), we stated that “retrospective modifications should be avoided as they undermine market confidence. It is a general principle that rules ought not to change the character of past transactions, completed on the basis of the then existing rules”. This remains our firm view.

We have, though, considered whether the circumstances surrounding the introduction of the M10 scaling weights could give rise to the need for a retrospective change. Consistent with the guidance, we have considered whether:

- there was fault or error, giving rise to additional costs or losses, which was directly attributable to central arrangements
- there were combinations of circumstances that could not reasonably have been foreseen
- the possibility of a retrospective action had been clearly flagged to the participants in advance, allowing the detail and process of the change to be finalised with retrospective effect
- any cost/loss incurred due to the prevailing rules is material.

We note that Elexon has stated that MHHS Programme could have flagged more clearly the potential impact on legacy HH customers of the proposed scaling weights in its 2023 consultation. Nevertheless, Ofgem concludes that no perceived procedural oversight in this regard amounts to “fault or error...directly attributable to central arrangements”.

We acknowledge the complexity of the subject matter and the high sensitivity of the calculations to factors that in 2023 were unknown (such as the mix of estimation types and the impact of metered export). However, we do not consider that this amounts to a combination of circumstances that could not have been foreseen. Rather, we are disappointed that many suppliers were not sufficiently well engaged to influence the development of policy over the five years since the CCDG published its recommendations in this area, despite having the opportunity to do so. We also note that, before M10, no supplier had suggested that any future revisions to the post-M10 scaling weights should be back dated to 22 September 2025. While the post-M10 scaling weights were explicitly branded as “provisional”, and P478 introduced an ongoing process for reviewing scaling weights, embedding the flexibility to adapt is very different from approving a retrospective change.

Finally, in addition to the analysis provided by Elexon, we have noted the confidential quantified estimates provided by several suppliers about the impact of P507. Based on the information provided, we note that the post-M10 scaling factors have indeed increased settlement-related costs for the suppliers of HH-settled customers. On the other hand, we note that approving P507 would impose additional costs on those suppliers that had taken commercial positions in good faith after the scaling weights were formally baselined in 2023. We do not consider that the materiality of the impact on suppliers serving legacy HH settled customers is sufficient to warrant the approval of a retrospective modification proposal.

Overall, we are not convinced that the benefits of P507 would outweigh the potential damage to regulatory and market certainty that might arise from approving this modification proposal. Given the risks to market confidence, we therefore consider that, on balance, P507 would not better facilitate the promotion of competition in electricity generation and supply.

By contrast, we consider that the Alternative Modification would, on balance, better facilitate the promotion of competition in electricity generation and supply. This is because, as noted above, the evidence provided to us suggests that it would prevent further misallocation of settlement error to the affected suppliers and their legacy HH-settled customers while maintaining the principle of avoiding the retrospective application of regulatory rules.

#### **(d) promoting efficiency in the implementation and administration of the Balancing and Settlement Arrangements**

We note the view of the Panel (and of most respondents to the consultation) that P507 and the Alternative Modification better facilitate this objective than the current M10 scaling weights. This is because both the proposals restore a long-established scaling weights methodology (established via Issue 55) which appears – based on the analysis presented to us in relation to Measurement Class C customers – more accurately to allocate settlement error than the post-M10 methodology. Approving either of these proposals would result in settlement more accurately reflecting actual consumption relative to the current baseline.

We again note the Panel's view (and that of most consultation respondents) that P507 would facilitate this objective better than the Alternative Modification because the former would have retrospective effect dating back to the M10 date. However, for the reasons given above, we are not prepared in this instance to approve a modification that has retrospective effect.

We consider that the P507 Alternative Modification better facilitates Applicable Objective (d) because it restores a long-established scaling weights methodology whilst maintaining the principle of avoiding the retrospective application of regulatory rules.

### Further remarks

Further to section 5A of the Utilities Act 2000, we have considered whether it would be appropriate to conduct a statutory impact assessment in relation to these modification proposals. As noted above, we have had access to cost assessments by Elexon and by several of the affected suppliers and all these estimates have informed our decision. Consistent with our decision last December to grant urgency for these proposals and with the need to provide industry certainty as soon as possible, we have decided that it would be inappropriate for Ofgem now to conduct a statutory impact assessment.

We consider that the principles<sup>12</sup> underlying the M10 scaling weight changes remain relevant. Looking forward, we expect that any further changes to the scaling weights resulting from the Issue 120 and quarterly review processes will be consistent with those principles and based on an evidence-based calculation methodology. Subject to the responses to its recent consultation on scaling weights, Elexon has advised Ofgem that it is reasonable to expect that the conclusions will be implemented by the summer. We require that Elexon will now determine how the implementation of the P507 Alternative Modification interacts with this process and whether a further Modification Proposal will be needed promptly to align the scaling weights reintroduced by the P507 Alternative Modification with those conclusions.<sup>13</sup>

### Decision Notice

In accordance with Condition E1 of the Electricity System Operator Licence, the Authority hereby directs both that modification proposal BSC P507: 'Reverting the legacy Half Hourly scaling factors in Market Domain Data to the pre-M10 values' shall not be made and that the BSC P507 Alternative Proposal shall be made.

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<sup>12</sup> Listed on page 2 above.

<sup>13</sup> See page 4 of [Proposed approach to reviewing Scaling Weights](#).



**Charlotte Friel**

**Director, Retail Pricing & Systems**

Signed on behalf of the Authority and authorised for that purpose