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## Decision on Balancing and Settlement Code (BSC) modification proposal P485 'Stabilise the Transmission Loss Factor (TLF) for BSC Year 2025/26 at 2024/2025 levels'

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Decision	The Authority <sup>1</sup> directs that this modification be made <sup>2</sup>
Target audience	National Energy System Operator (NESO), Parties to the BSC, the BSC Panel and other interested parties
Date of publication:	9 April 2025
Implementation date:	16 April 2025

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### Background

Transmission loss factors (TLFs) were introduced in 2018 as part of the Balancing and Settlement Code (BSC) modification P350 'Introduction of a seasonal Zonal Transmission Losses scheme'.<sup>3</sup> P350 was introduced to the market on 1 April 2018 as a result of an investigation by the Competition and Markets Authority (CMA).<sup>4</sup> The CMA's energy market investigation concluded that the absence of locational pricing for transmission losses has an adverse effect on competition, including cross-subsidisation, inefficiencies in the location of generation and demand and ultimately higher consumer bills. The CMA's remedy introduced locational charging for transmission losses in Great Britain.

The P350 modification allocates transmission losses on a geographical basis for each BSC season<sup>5</sup> by calculating them by TLF zones, which align with the existing Grid Supply Point groups. TLFs feed into the calculations of the transmission loss multipliers that adjust the metering of Balancing Mechanism units and affect Balancing Services Use of System charges.

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<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.

<sup>3</sup> [P350: Zonal Transmission Losses - Elexon BSC](#)

<sup>4</sup> The CMA documentation on the electricity transmission losses remedy can be found at <https://www.gov.uk/cma-cases/energy-market-investigation>

<sup>5</sup> [BSC Season - Elexon BSC](#)

The implementation of P350 saw Elexon allocated as the TLF Agent, responsible for calculating the TLF value, for the following year, using market data provided by NESO (then NGET).

The TLF values for BSC year 2025-26 were published in December 2024.<sup>6</sup> Compared with 2024-25, the 2025-26 TLFs are significantly different for north and south Scotland zones, particularly in the winter season when they more than doubled year on year for north Scotland and more than quadrupled for south Scotland. Several electricity generators with assets in north and south Scotland questioned the calculations and have voiced their concerns about the accuracy of what they believe are unexpected changes.

Elexon is currently investigating the reasons behind the significant change in TLFs for 2025-26, with support from NESO. This investigation was still ongoing as of 1 April 2025, when the 2025-26 TLFs started to apply.

### **The modification proposal**

On 19 March 2025, ScottishPower Renewables (the 'Proposer') raised BSC modification proposal P485 'Stabilise the Transmission Loss Factor (TLF) for BSC Year 2025/26 at 2024/2025 levels'.<sup>7</sup> On the same date, the BSC Panel unanimously recommended P485 be treated as urgent.<sup>8</sup> We approved BSC Panel's urgency request on 25 March 2025.<sup>9</sup>

P485 seeks to temporarily freeze the TLF value for the 2025-26 period until 21 November 2025 at the 2024-25 value until Elexon's ongoing investigation is concluded and the values for 2025-26 are confirmed by the BSC Panel.

The Proposer stated that the 2025-26 TLF increases for Scotland were unpredictable and placed a significant commercial risk to parties. It highlighted that this may lead to increased costs to consumers because of higher risk premia flowing through to investments via the

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<sup>6</sup> [ELEXON Portal](#)

<sup>7</sup> [P485 Stabilise TLFs for BSC Year 2025/26 at 2024/25 levels - Elexon BSC](#)

<sup>8</sup> [P485 Stabilise TLFs for BSC Year 2025/26 at 2024/25 levels - Elexon BSC](#)

<sup>9</sup> [Balancing and Settlement Code \(BSC\) modification proposal P485: decision on urgency | Ofgem](#)

upcoming Contract for Difference (CfD) Allocation Round 7 auction, as well as being applied to wholesale prices and balancing costs.

The BSC Panel launched a three-day urgent modification consultation that closed on 28 March 2025, receiving 15 responses.

The Final Modification Report (FMR) estimated the potential adverse impact on generators of not implementing P485 on affected assets to be a 3-4% reduction in their electricity available for sale, equivalent to a potential loss of £1m-£10m or higher for 2025-26, and a 30% reduction in their net present value.

According to the Proposer, the freeze would allow for a full investigation of the reasons behind the change in TLFs to be concluded. This, in turn, would provide generators and investors with confidence ahead of Allocation Round 7 of the CfD scheme and in delivering government's Clean Power 2030 target.<sup>10</sup>

Under the proposed solution, once the investigation is concluded and the 2025-26 TLFs approved by the BSC Panel, the standard 14-month BSC reconciliation process would be used to reconcile the settlements from 1 April 2025 calculated using the 2024-25 TLFs with the settlements recalculated using the confirmed 2025-26 TLFs. For the proposed solution, the deadline for the BSC panel to make its determination on the 2025-26 TLFs was set on or before 27 February 2026.

A BSC Panel member raised an alternative solution. This would implement a freeze similar to the proposed solution, but would not include a reconciliation process. The TLF would be frozen at 2024-25 values from the implementation date of P485 until the end of the BSC season in which the panel confirms the appropriate 2025-26 TLFs.

Under the alternative solution, the BSC Panel must make its determination on or before 21 November 2025 in order to implement the confirmed 2025-26 TLF values from the following

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<sup>10</sup> [Clean Power 2030 Action Plan - GOV.UK](https://www.gov.uk/government/consultations/clean-power-2030-action-plan)

BSC season. All charges referring to the period between the P485 implementation date and the season in which the new TLFs are implemented would be settled using the 2024-25 TLFs, without any reconciliation process.

Elexon stated that they can implement either solution in five working days after we publish our decision on P485, with implementation costs believed to be low for industry, less than £20,000 for Elexon and nought for NESO.

### **BSC Panel<sup>11</sup> recommendation**

At the BSC Panel meeting on 31 March 2025, the BSC Panel unanimously considered that P485 would better facilitate applicable BSC objectives (b) and (c) than the baseline, and that the alternative solution better facilitates applicable BSC Objective (c) than the proposed solution by providing greater market certainty. Therefore, the BSC panel recommended the approval of the alternative solution.

### **Our decision**

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR)<sup>12</sup> dated 1 April 2025. We have considered and taken into account the responses to the industry consultation on the modification proposal, which are attached to the FMR. We have concluded that:

- implementation of the alternative solution of the modification proposal will better facilitate the achievement of the applicable objectives of the BSC than the baseline;<sup>13</sup> and

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<sup>11</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>12</sup> BSC modification proposals, modification reports and representations can be viewed on the Elexon website at [www.elexon.co.uk](http://www.elexon.co.uk)

<sup>13</sup> As set out in Condition E1 of the Electricity System Operator Licence.

- directing that the modification be made is consistent with our principal objective and statutory duties.<sup>14</sup>

### **Reasons for our decision**

We consider the alternative solution of the modification proposal will better facilitate BSC objectives (b) and (c) than the baseline, and has a neutral impact on the other applicable objectives.

Freezing TLF values until the investigation has concluded will ensure accuracy and will provide certainty for market participants. We review proposed retrospective adjustments on a case by case basis in line with our urgency criteria.<sup>15</sup> In this case, we consider that the advantages of ensuring certainty and market confidence around costs to all parties outweigh the benefits that a reconciliation mechanism could have. For this reason, we believe the Alternative proposal is the most appropriate solution.

### ***(b) the efficient, economic and co-ordinated operation of the National Electricity Transmission System***

The Proposer and the BSC Panel, following an industry consultation, believe that P485 better facilitates BSC objective (b). Applying the proposed 2025-26 TLFs could lead to inefficient dispatch decisions and higher balancing costs for consumers. Both the Proposer and the BSC Panel would like Elexon to conclude its investigation and confirm the 2025-26 TLFs. This would allow all parties to analyse and understand any variations and implement future adjustments more effectively. This would prevent the uncertainty around TLFs' volatility from knocking on investment decisions and operations.

We agree with the BSC Panel's view that applying TLF values which are still being scrutinised and investigated could introduce inaccuracies and unintended consequences. Erratic

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<sup>14</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.

<sup>15</sup> [Code Modification Urgency Criteria](#)

unexplained TLF changes could impact the cost efficiency of generators and suppliers' operations and hinder stakeholders' confidence on the system's economic signals.

We believe that the alternative solution, by removing the reconciliation procedure for delivered BSC seasons, is better than the baseline. The alternative solution should reduce the costs passed on to consumers as it would eliminate uncertainties about which TLFs will apply once the investigation is concluded months after volumes were delivered. More certainty on TLF values should improve the efficiency of operations within the wholesale market and Balancing Mechanism, particularly in the short-term, as market participants would have a firmer view of their costs.

***(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***

The Proposer and the BSC Panel, following an industry consultation, believe that P485 better facilitates BSC objective (c), as a temporary freeze to the TLFs would allow market participants to avoid a sudden unexplained change in costs that disproportionately impacts certain generators and suppliers.

In the Proposer and BSC Panel's view, if the variations in TLFs are not well understood, the 2025-26 values could give an unfair disadvantage to market participants in certain locations. At the same time, cost unpredictability may be passed on to consumers, while a freeze to the TLFs would enable a thorough assessment of the TLF drivers to inform future adjustments.

The BSC Panel believes that the alternative solution would better support objective (c), as the absence of any retrospective/reconciliation process reduces uncertainty and unnecessary complexity. On this basis, the BSC Panel recommended the approval of the alternative solution.

We agree that P485 will positively impact BSC objective (c).

Freezing TLFs until the investigation concludes will increase market participants' confidence in the wholesale electricity market and their understanding of the drivers behind TLFs ahead of future BSC years. Greater transparency and confidence around TLFs will promote competition as well as reduce consumer cost risk.

Were the investigation to find inaccuracies with the original TLFs for 2025-26, both the P485 proposed and alternative solutions would be beneficial to competition as they would prevent the introduction of distortive meter adjustments and network charges across different TLF zones.

We observe that, were the investigation to eventually confirm the original 2025-26 TLFs, the proposed solution would allow for the correct apportionment of TLFs through the standard 14-month reconciliation process. This would ensure no cross-subsidisation takes place between market participants located in England and Wales in favour of market participants situated in Scotland.

The alternative solution could instead lead to a degree of cross-subsidisation until the BSC Panel approves the confirmed 2025-26 TLFs by 21 November 2025 at latest. We note that – in the scenario that the confirmed TLFs came into force on 1 December 2025, ie the start of the winter BSC season – such cross-subsidisation would be especially notable for the spring and autumn BSC seasons, where TLF changes are larger compared with summer.

However, we believe that this potential cross-subsidisation would be offset by the benefit of having certainty and clarity on which TLFs to apply while the investigation continues, reducing the consumer cost risk when operating on the wholesale market and the Balancing Mechanism. This, in turn, should ensure higher consumer benefit overall.

We also observe that the 21 November 2025 deadline under the alternative solution would allow for the correct 2025-26 TLFs to apply in at least some of the months where wind generation is typically higher, which is therefore when the potential cross-subsidisation in favour of Scottish generators would be larger.

Finally, it is our view that retrospective modifications should be avoided as a general principle as they undermine market confidence. We have not ruled out changes with retrospective implications, but we consider these on a case-by-case basis. In this case we consider that the advantages of ensuring certainty around costs to all parties outweigh the benefits that a reconciliation mechanism could have.<sup>16</sup>

## **Further remarks**

A further conclusion of the CMA investigation, and reiterated by Ofgem in the P350 decision document, was a recommendation issued to Ofgem and to industry to assess alternative solutions for the future of TLF charging and, if and when appropriate, consider whether to develop and implement a further code modification based on the most effective solution.

The FMR submitted by the BSC Panel, as well as the Proposer's submission and feedback received as part of the consultation, highlighted several areas in which stakeholders feel the TLF process can be improved. These ranged from increasing the transparency of the model used to calculate TLFs, to introducing a longer-term forecast of TLFs and undergoing a deeper revision of the assumption behind the TLF model, which was adopted in 2018.

These stakeholder concerns are not matters addressed in P485. Additionally, the TLF model reflects underlying principles which have been carefully formulated under P350. Moving forward we suggest BSC parties address their concerns surrounding TLFs by appropriately proposing or discussing modification options using the routes available to them. We expect industry to raise these in a timely fashion, so that the proposal receives careful industry consideration and can be resolved in advance of the BSC year commencing to provide certainty to industry.

Additionally, we would expect Elexon and NESO to put forward any conclusions to their investigation as soon as they are able to. It is in the best interest of industry to understand the reasons behind the changing TLF values as soon as feasible to bring certainty to future

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<sup>16</sup> For guidance on what criteria we might consider when assessing a modification with retroactive effects, please see: [Code Modification Urgency Criteria](#)



market operations and investments, particularly with consideration to the next CfD Allocation Round 7 auctions.

### **Decision Notice**

In accordance with Condition E1 of the Electricity System Operator Licence, the Authority hereby directs that modification proposal BSC P485 'Stabilise the Transmission Loss Factors (TLFs) for BSC Year 2025/26 at 2024/25 levels' be made under the alternative solution.

**Maryam Khan**

**Head of Electricity Security and Market Management**

Signed on behalf of the Authority and authorised for that purpose