

OFGEM: CALL FOR INPUT ON THE NON-DOMESTIC GAS AND ELECTRICITY MARKET

SUBMISSION FROM THE SCOTTISH FEDERATION OF HOUSING ASSOCIATIONS (SFHA)

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Introduction

SFHA is the membership body for, and collective voice of, housing associations and co-operatives in Scotland.

We exist to represent, support and connect our members. Our purpose has never been as important as it will be over the next three years, as we work together following the coronavirus pandemic.

In these unprecedented times, our vision is that our members are central to Scotland's social and economic recovery and renewal. It is everyone's right to live in a safe, warm and affordable home, in a thriving community. Our members are uniquely positioned as community anchors across Scotland, supporting people and their communities.

Our mission is to sustain and strengthen the impact our members have on people and communities across Scotland.

Response

Q12. Are there any other issues you would like to highlight related to competition in the non-domestic supply market? Please provide detailed explanations.

With the global energy price hikes, social landlords have been experiencing major increases across their entire operations, including increased utility costs for shared spaces and communal heating systems which operate under commercial contracts. While the models and details of the specific contracts will vary, such systems are typically operated as part of a commercial contract where the building owner purchases heat or electricity from the energy supplier and is then responsible for charging tenants either through service charges or a separate fuel charge.

While our members have a duty to provide value for money to tenants and will look to procure the best fixed rate deals available, in the current context of rising costs and a lack of

competition in the market, this is becoming extremely challenging. Our members who have had to procure new contracts in the last 6-12 months have found that they have had very few options available and, in some cases, only one available supplier. Some will use brokers like Utility Aid however the overall lack of competition in the non-domestic market is still pushing up prices at a time when tenants who are already struggling due to the wider cost of living crisis. Costs have typically doubled or tripled although in one example 'heat with rent' costs had increased by 700%.

Some social landlords have been making use of the Scottish Government's public sector framework for gas (supplied by TotalEnergies Gas and Power Ltd) and electricity (supplied by EDF) which has offered some security but has still resulted in major price hikes with further increases expected this coming April due to the fact the energy for this scheme is purchased in advance. Due to the 'substantially increased price risk', the framework is also now temporarily closed to new customers. It does however note that "The Risk Management Committee is currently reviewing a range of options to accommodate public and third sector bodies who do not currently use our energy frameworks."

Q16. What additional protections do you think might need to be put in place to protect domestic customers who are supplied via a non-domestic contract? Please provide an explanation or evidence of the areas of harm any new regulation would protect against.

Many social landlords offer 'Heat with rent' or similar models where energy costs for individual properties are included as part of the social landlord's service charges. As an example, one of our members has reported that nearly 4,000 of their tenants are signed up to this type of scheme. There are also around 1,000 heat networks now operating in Scotland with further targets to increase this going forward.

As noted in the consultation, the adoption of a non-domestic contract for these schemes had previously offered lower rates than in the domestic market. Indeed, the decision to install communal systems and heat networks will have been based on an ambition to provide social tenants with affordable warmth and protecting them from the risks of fuel poverty. These schemes are therefore particularly common in supported and sheltered housing developments where tenants will often have higher energy demands due to health reasons and are therefore particularly exposed to the impacts of the energy crisis.

The cost increases observed over the last 18 months now undermine the initial intention of providing tenants with a more affordable option than a conventional heating system. The end users have also not been offered the same protections as other domestic customers (e.g. domestic price cap, Energy Price Guarantee). While the Energy Bills Relief Scheme has offered limited reductions to some of our tenants, many have not been eligible for any discount due to their existing costs falling below the government supported price. Our members have been trying to protect tenants by absorbing some of these costs in the short term and we are aware of cases where members are heavily subsidising these schemes, including an example where these costs have exceeded £1.7 million. However, this approach is not sustainable.

Some of these tenants have also been disadvantaged by the delay to the Energy Bills Support Scheme payments for those without a direct relationship with a domestic energy supplier. This can occur on cases where the energy supplier does not permit more than one account per property meaning that where 'Heat with Rent' or heat network is offered, the landlord must also take ownership of the electricity supply. While we welcome that the portal

is now open to applications, the fact that this has only now been made available at the end of a difficult winter for those on low incomes who are already struggling due to the wider cost of living pressures is highly disappointing. Customers in this situation also face difficulties in accessing other support which requires an individual electricity account (e.g. Warm Home Discount).

As rightly stated in the consultation document, these domestic customers sitting behind non-domestic contracts will often be classed as 'vulnerable' and need adequate consumer protection and the same access to support schemes offered to domestic consumers. This requires improved stability and competition in the overall energy market. Although changes are already planned with regard to the regulation of heat networks, and we welcome the recent introduction of additional support for heat networks as part of the new Energy Bills Discount scheme, other households falling under a commercial contract should also be included. This may include cases where social landlords have a 'heat with rent' offering where the energy supply is procured through a commercial contract but where tenants still have their own heating system.

Other financial support schemes from both the Scottish and UK Government have been welcome, including the Fuel Insecurity Fund and cost of living payments. However, there is a need to move beyond these emergency funds and provide longer term, more targeted support to vulnerable households who have been exposed to significant increases in their energy bills. We support the recent call by Age UK for Ofgem and UK Government to work together to end the 'commercial supply trap' by ensuring that existing consumer protections and any future social tariff support can be fully accessed by all residential households.

Q17. Do you agree with the definition of, and clarifications around, what is a domestic customer as described in Appendix A? Are there other areas where further clarification is required?

We would like further clarification on options for social landlords providing 'heat with rent' offerings, whether part of a heat network/communal heating system or simply as a communal energy contract (where tenants still have their own heating system), in being considered a 'domestic' rather than 'commercial' customers. We understand this requires the four noted conditions to be met but it is still unclear whether our members who charge tenants on a non-profit basis would be able to meet this criteria. One of our members has been told by a supplier that the only way for their scheme to be treated as 'domestic' would be if the contract was to be transferred to an individual tenant's name.