

## **OFGEM CALL FOR INPUT: STANDING CHARGES**

### **SUBMISSION FROM THE SCOTTISH FEDERATION OF HOUSING ASSOCIATIONS (SFHA)**

**JANUARY 2024**

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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 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**

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The Scottish Federation of Housing Associations (SFHA) welcomes the opportunity to respond to Ofgem's call for input on standing charges. While concerns around the impact of standing charges on household finances are understandable, and indeed shared by SFHA members, consideration should also be given to the risk of unintended consequences of reform, particularly for households reliant on electric heating, located in remote and rural areas, or those requiring an advanced heating regime (for example, due to medical reasons).

As the consultation document acknowledges, lower-income households who rely on electricity for heating would find themselves paying more under a scenario where there is a shift from standing charges to charging on a volumetric basis. The analysis undertaken by CSE suggests that 5.5 million low-income households would benefit from a decision to move standing charges to volumetric charges in electricity, but around 1.2 million low-income households would lose out.

The analysis provided highlights that rural households would be adversely affected by a move to volumetric charging, at least in part due to rural households being less likely to have gas central heating. With around 19% of rural Scottish households reliant on electricity as their

primary heating fuel (compared to 9% in urban areas),<sup>1</sup> it is likely that such a move would disproportionately affect rural communities in Scotland.

At the same time, Scottish households using electricity as their primary heating fuel are more likely to be fuel poor (41% fuel poor compared to 16% using gas).<sup>2</sup> This suggests that a move to volumetric charging could adversely impact those customers reliant on electric heating who are already struggling to afford life's necessities.

The *A Perfect Storm – fuel poverty in rural Scotland* report, commissioned by the Rural and Islands Housing Association Forum (RIHAF) and others, makes clear that people living in rural areas of Scotland also face higher living costs. In particular, the wet and windy weather more common in remote areas in the North and West of Scotland and the Islands, combined with poor thermal efficiency in properties, contributes to a higher-than-average fuel spend for rural households. Although standing charges are higher in these areas – giving weight to the calls for reform – the report highlights an additional consideration: the proximity of these communities to renewable energy generation, which is seen as a source of unfairness to many as these communities rarely feel any direct benefit to their energy bills.<sup>3</sup>

Scottish Government is currently consulting on a proposed Heat in Buildings Bill and Social Housing Net Zero Standard which will require a transition to zero direct emissions heating by 2045.<sup>4,5</sup> For many households in Scotland, this will mean a move to technologies such as heat pumps and other forms of electric heating. SFHA members acknowledge that, in general, an increase to the unit rate (as opposed to standing charges) will tend to act as a stronger incentive to use less energy, but members are also concerned that this could have the unintended consequence of making some low-carbon technologies less affordable for domestic customers.

SFHA members are also supportive of calls for wider reform of the domestic energy market. As set out in the recent SFHA report on the impact of the cost of living on social tenants, we would like to see the introduction of a targeted support mechanism in the form of a social tariff for energy;<sup>6</sup> a call also echoed by RIHAF and many other organisations and charities across the UK.

In addition to a social tariff, the equalisation of energy prices across the UK could ensure fairer access to energy, especially for communities in remote parts of Scotland who tend to pay more for fuel. The issue of price equalisation could be addressed through the introduction of a gas-equivalent electricity tariff to provide support to those facing high energy costs as a result of geographical factors (including those living off-grid and / or in rural and remote areas) and heating system (those reliant on electric heating). As well as protecting consumers against high electricity costs, such a move would also provide an incentive for households to transition to zero emissions heating systems.

Overall, SFHA members agree that standing charges should be reviewed and we would urge Ofgem to take this work forward. However, as part of this, efforts must be taken to ensure that households reliant on electric forms of heating – whether as a result of geography, heating

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<sup>1</sup> Scottish Government, [Scottish House Condition Survey: 2021 Key Findings](#) (2023)

<sup>2</sup> Scottish Government, [Scottish House Condition Survey: 2021 Key Findings](#) (2023)

<sup>3</sup> Changeworks, [A Perfect Storm – Fuel Poverty in Rural Scotland](#) (2023)

<sup>4</sup> Scottish Government, [Delivering net zero for Scotland's buildings – Heat in Buildings Bill: consultation](#) (2023)

<sup>5</sup> Scottish Government, [Social housing net zero standard: consultation](#) (2023)

<sup>6</sup> SFHA, ['It's your life's opportunities': The impact of the cost-of-living crisis on social tenants in Scotland](#) (2023)

system, or advanced heating regime requirements – are not disproportionately disadvantaged by any reforms to standing charges.