

Gap Site and Vacant Properties Incentive Scheme December 2009

This consultation seeks the views of market participants on the Water Industry Commission for Scotland's proposal for the creation of an incentive payment for the registration of gap and vacant premises.

Comments should be sent to the address below before **8 January 2010**.

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Background

The Commission's Draft Determination laid out the idea of creating an incentive for licensed providers to seek out and register non-household customers at sites that either are marked as vacant or are not already part of the non-household retail market.

With the Final Determination phasing the transfer of the three new retail areas between now and 2012 and some market participants expressing concerns how gap sites are registered, gap sites and vacant premises need to be addressed now. The Commission acknowledges that gap sites and vacant premises will continue to be an issue for the market and are looking to address them by the creation of this incentive payment.

We considered various options for implementation of such an incentive. The three options considered included granting the licensed provider a time limited monopoly for the customer, reducing wholesale charges and a cash payment. Option 1 was rejected as it ran counter to the principles of the market; consumers must have the freedom to choose their provider for themselves and forcing them to stay with a specific provider at the very point they enter the market for the first time is contrary to this principle. Option 2 was rejected as it was complex and difficult to administer. It would require lowering the wholesale charges for particular SPIDs and later raising them to normal levels. This would require the involvement of the CMA and likely changes to the central system. Given the other priorities of the CMA, such as including customer names on the central system and the RF settlement run, increasing its workload at this time would not be ideal and it would likely be many months before such a system could be implemented.

Option 3 was therefore chosen as the preferred option; an upfront cash payment from Scottish Water to a customer's licensed provider linked to the mechanism for calculating reasonable cost payments. It will be the easiest to set up and administer as all the data required is already collected within the market or can be using existing processes. It will also be the fairest to all parties. In addition, the calculation of the payment is based on the reasonable cost contribution principles, which are already in use by the water industry. We therefore set out below details of how the proposed upfront cash payments would be calculated and administered.

The Commission welcomes comments on its proposal. Please provide any responses before **8 January 2010**.

The Commission's proposal

1. Incentive Payment

The incentive being proposed for licensed providers to locate and begin billing non-household customers currently outside the retail market, gap sites, is based on the concept of reasonable cost contribution. This considers the future revenue Scottish Water will gain from collecting wholesale charges from these customers. The proposed formula to calculate the amount of the incentive payment will be similar to the formula currently used for reasonable cost contributions for new connections¹. Future Scottish Water revenue will be discounted to a present day value.

For this incentive program, there will be charging bands dependent on whether or not the customer is metered. For metered customers, the bands will be linked to the different meter sizes installed. For unmetered customers, the bands will be based on consumption estimated through the reassessed charges process. This reassessed charge process is an established way to estimate charges for non-metered customers of differing types.

This structure has several advantages. First, it uses information that is already collected by licensed providers and Scottish Water as part of the registration process. Second, it is easy to calculate and also predictable; customers' meter size or wholesale charge band will place them into a tier, and each tier will have a set payment amount. A licensed provider should therefore be able to estimate with a degree of certainty the incentive payment they are likely to receive from Scottish Water at the start of any application. Third, it is fair to Scottish Water, as it will mean smaller payments for smaller customers.

For vacant premises, the payment amount calculated will be divided in half. This is to recognise that these sites are already registered in the market.

2. Collection of Backdated Charges

As part of this incentive program, we are proposing that Scottish Water will be able to collect up to four years worth of back charges for any gap sites found. This provision does not apply to vacant premises. As customers at gap sites should have been in the market from its inception, Scottish Water should have been receiving wholesale charges from them. The amount of backdated charges will be based on the amount used as "A" in the incentive payment calculation. This amount, up to four years worth, will be reduced by the amount (if any) of water charges paid by the customer as part of their council tax and any other amount already recovered.

¹ The formula to be used to calculate the incentive payment is explained in greater detail in Appendix 1.

If a suitable site is located, Scottish Water may deduct the amount of backdated charges it is owed from the incentive payment to be paid to the licensed provider. In this way, part of the incentive payment is used to pay Scottish Water the amount the customer owes in backdated charges, without the customer being asked for the monies directly. However, the collection of backdated charges should have no affect on the timing of the incentive payment.

3. Administration of Program

Scottish Water will administrate this program based on the published procedural guidelines (see Appendix 2). Administration of the program should be uncomplicated as the program relies on existing structures as much as possible.

To apply to receive an incentive payment, licensed providers must complete the appropriate process to register the gap as their customer or move the vacant premises into charge. After this process is complete, the licensed provider will forward details of the SPID, meter size or estimated consumption, basic consumer information, and a signed declaration of eligibility to Scottish Water.

Upon verifying that the customer is eligible for an incentive as either a gap site or vacant premises, Scottish Water will send payment to the licensed provider. Payment will only be issued after the non-household customer is registered. However, it must be issued within 20 business days of the customer beginning to receive services from the Licensed Provider so as to allow the customer to switch providers after 20 business days if they wish.

4. Gap Site Registration

In order to ensure the incentive is as effective as possible and also to address existing inefficiencies in the market, the gap site registration process will be refined. Changes will be made to the Operational Code to clarify the registration process between licensed providers and Scottish Water. Please see Appendix 3 for details of these changes.

As part of the process to register a gap or vacant premises, licensed providers will be required to submit a meter reading. It may be either a customer or licensed provider read.

Consultation

The Commission believes that an upfront payment will provide licensed providers with a strong incentive to actively seek out gap sites and vacant premises and register them.

In framing responses to this consultation, the Commission would like respondents to consider the following questions in addition to their general comments.

1. Do stakeholders agree that reasonable cost contributions are the best basis for the incentive payment?

2. Is the method of calculating the incentive payment fair to both Scottish Water and licensed providers? Will it promote licensed providers to actively seek out gap sites and vacant premises?
3. This consultation proposes allowing Scottish Water to collect the backdated charges it may be owed by a customer by subtracting them from the incentive payment to the licensed provider. Do stakeholders agree this is best method?

We should receive representations on our proposals on or before **8 January 2010**.

Appendix 1

Below is the formula that will be used to calculate the payment amount. It is based on the formula currently used for reasonable cost contributions for new connections.

$$\pounds = \frac{A}{c} \left[1 - \left(\frac{1}{1+c} \right)^{12} \right]$$

“A” will be based on the average volumetric charges Scottish Water will collect for the customer. This will be determined by a series of charging bands dependent on whether or not the customer is metered. For metered customers, the bands will be linked to the different meter sizes installed. For unmetered customers, the licensed provider will be required to submit to Scottish Water information that estimates consumption for the customer. The estimated consumption will be used to determine the appropriate wholesale charge band. For each band, an average volumetric consumption will be used to determine the wholesale charge Scottish Water will receive.

“C” in the formula refers to Scottish Water’s cost of capital as determined by the Commission. This will be used as the discount rate in the calculation.

The period in the formula will be twelve years. This number was chosen because it is the same number of years used in the reasonable cost contribution calculation for new connections.

The payment amount calculated will be divided in half for vacant premises.

Appendix 2

Process for claiming Gap Site and Vacant Premises incentives

1. Upon identifying a non-household customer who meets the definition of being a gap site, the Licensed Provider will contact the customer to inform it that it should be in the market, the Licensed Provider will be serving it, and the customer may change to a provider of their choice after 20 business days.
2. Within one business day of identifying the gap site, the Licensed Provider will notify Scottish Water of the site and provide them with the details of the site needed to request a new SPID.
3. The registration process for the gap site will continue as laid out in sections 3.1.1 and 5.4.9 of Market Code Subsidiary Document 0101. All procedures and time scales set out in that document will be followed.
4. Upon the completion of step Q of section 3.1.1 of CSD 0101, the Licensed Provider will apply, within 3 business days of completion, to Scottish Water, using form X, for payment of the gap site incentive. The form must have the correct meter size or estimated consumption and basic consumer information along with a signed declaration of eligibility. A meter reading must be submitted to the CMA at the same time as any application.
5. To be eligible to qualify as a gap site, a customer must not have been registered in the market, been located at their present site for more than 30 days, and also been operating as a non-household at such site for more than 30 days. To be eligible to qualify as a vacant premises, the relevant supply point must have been registered in the central system as being vacant and the current occupant cannot be the same as last known occupant. Eligibility must be affirmed in the Licensed Provider's signed declaration to Scottish Water.
6. Upon identifying a non-household customer who meets the definition of being a vacant premises, the Licensed Provider will contact the customer to inform it that it should be billed as a non-domestic household, the Licensed Provider will be serving it, and the customer may change to a provider of their choice after 20 business days. The Licensed Provider will then inform the CMA to change the site's status. A meter reading must be submitted as well.
7. Upon the notification by the Licensed Provider to the CMA of a change to a premises' status from vacant to chargeable, the Licensed Provider will apply, within 3 business days, to Scottish Water, using form X, for payment of the vacant premises incentive. The form must have the correct meter size or estimated consumption and basic consumer information along with a signed declaration of eligibility, including a statement that the current occupant is not the same as the last known occupant.
8. Gap site or vacant premises incentive application forms that are found to be incomplete or contain incorrect information may be rejected by Scottish Water. Scottish Water will also reject applications for sites that have not completed the registration process or do

not fall under the definition of a gap site or vacant premises. Where an application is rejected, Scottish Water will provide the licensed provider with the reason for the rejection. The licensed provider will then have 3 business days from the date of notification of rejection to reapply.

9. If the application is complete and valid, Scottish Water will determine which tier the customer belongs to based on their meter size or wholesale charge band. Based on this tier, the amount of the incentive payment will be calculated.
10. Scottish Water can calculate any backdated charges it is owed for a gap site up to a maximum of four years charges. The amount owed will be reduced by charges paid by the customer as part of their council tax and any other amount already recovered during that period. No backdated charges may be collected for vacant premises. The amount owed to Scottish Water in backdated charges will be deducted from the incentive payment due to the licensed provider.
11. Scottish Water will issue payment to the Licensed Provider. The Licensed Provider must be paid no later than 20 business days after the date of registration of the gap site or vacant premises.
12. The Licensed Provider will have 10 business days from the date of payment to dispute Scottish Water's backdated charges deducted from the incentive payment for a gap site. If the Licensed Provider disputes the amount, it will provide Scottish Water with evidence that the backdated wholesale charges should be lower. Scottish Water will have 10 business days to reply to the Licensed Provider's dispute.

Appendix 3

In addition to the creation of a gap site incentive, the process of registering gap sites will be reformed to make the process more efficient and uniform. A form M will be created which will be sent from licensed providers to Scottish Water as part of the process of registering gap sites. A draft version of Form M is attached below. Form M will contain details for the customer's premises and also the services to be provided there.

Processes 29 and 30 will be added to the Operational Code. Process 29 outlines the process for when Scottish Water identifies a gap site. It allows the customer 15 business days to choose their own licensed provider before they are allocated one by the CMA as specified in the Market Code. Process 30 outlines the corresponding process when a licensed provider identifies a gap site. The proposed changes to the Operational Code are attached below.

Form M

**Gap Site Supply Point Request Form
For Use by Licensed Providers**

1. Licensed Provider Details:

Licensed Provider: _____

Licensed Provider ID: _____

Licensed Provider's own Reference: _____

Contact name: _____

Contact number: _____

Contact e-mail: _____

2. Premises Details:

SAA property reference number²: _____

Company name: _____

Building number: _____

Building name: _____

Address line 1: _____

Address line 2: _____

Address line 3: _____

Town: _____

Postcode: _____

Contact name at site (if available): _____

Contact number at site (if available): _____

Rateable Value of property: _____

² SAA (Scottish Assessors Association) property reference number can be obtained from the Scottish Assessor's website – www.saa.gov.uk

3. Services at the premises:

Please indicate all services provided at the premises:

3.1 Water Services

Water Connection:

Metered Water:

Number of Services to Caravans: _____

Number of Troughs and Drinking Bowl Connections: _____

Number of Outside Taps: _____

Other:

if other, please specify: _____

If water services to the property are provided through a Scottish Water revenue meter, please provide meter details below:

	Meter 1	Meter 2	Meter 3
Meter type:	_____	_____	_____
Meter make:	_____	_____	_____
Meter size:	_____	_____	_____
Number of Dials:	_____	_____	_____
Meter serial number(s):	_____	_____	_____
Meter reading:	_____	_____	_____
Date of reading:	_____	_____	_____
x,y coordinates:			
Northing:	_____	_____	_____
Easting:	_____	_____	_____
Meter location:	_____		

3.2 Sewerage Services

- Sewerage Connection:
- Roads Drainage:
- Property Drainage:
- Metered Sewerage:

Is there a discharge of Trade Effluent from the premises to the public sewer?

- Yes
- No

4. Supply Point (SPID) Request:

Please indicate the services for which a Supply Point ID (SPID) is required:

- Water SPID required
- Sewerage SPID required
- Both Water and Sewerage SPID required

Where only Water or only Sewerage SPID is required because a Water/Sewerage SPID already exists at the site, please provide the existing SPID at the site: _____

Otherwise, please state the reason for only a single service request, e.g. 'septic tank':

5. Additional Information:

Please provide any additional information that may be useful in identifying the property. For example, GIS co-ordinates or a map of the site:

6. Consent to Contact Non-Household Customer:

Scottish Water may wish to contact the Non-Household Customer to arrange a visit to the premises. Please indicate whether you give consent for Scottish Water to contact the Non-Household Customer directly to arrange a visit to the premises?

Yes:

No:

7. Declaration on behalf of the Licensed Provider:

We hereby acknowledge that we have undertaken all reasonable endeavours to complete this form, to confirm the status of Water Services and/or Sewerage Services at this site and that following these investigations we believe this is a Gap Site as defined under the Market Code. The information provided in this form is correct to the best of our knowledge and up to date at the date of submission.

Name: _____

Job Title: _____

Signature: _____

Date: _____

Proposed new Operational Code Processes 29 and 30

Verification of Supply Point and Gap Site Registration

General Introduction

Processes 28-30 set out the procedures to be followed by the Licensed Provider and Scottish Water when there is a requirement to verify the details of a physical Supply Point in relation to the corresponding details held on record, and when registering a new Supply Point as a Gap Site in the Supply Point Register.

Verification of Supply Point and Gap Site Registration

Process 28 – Verification of Supply Point

Purpose and scope of Process 28: -

The physical inspection of Supply Point(s) for the purpose of verifying records and/or connections to the Network is the responsibility of Scottish Water. This Process sets out the operational arrangements that apply where either a Licensed Provider or Scottish Water consider that the physical Supply Point differs from the details held on their records.

Process:-

Step 1

Either:-

- (i) the Licensed Provider makes a request to Scottish Water to verify Supply Point(s) by submitting a verification of supply form (Form K) as set out in the Appendix to this Code. The Licensed Provider's request will detail the following:
 - the Non-Household Customer's Supply Point ID; and
 - the Licensed Provider's reasons for the request and any supporting information; or
- (ii) Scottish Water, where records are deemed inaccurate, will notify the Licensed Provider that it intends to make a physical verification of Supply Point(s).

Step 2

Scottish Water will make a planned visit to the Non-Household Customer's Premises on a date and time agreed with the Licensed Provider to physically inspect the Supply Point(s). The Licensed Provider may be present at the time of the planned visit.

Step 3

Where the Licensed Provider has requested the verification, Scottish Water shall notify the Licensed Provider of findings of the inspection within 10 Business Days of the Licensed Provider's request.

Step 4

Where Scottish Water has requested the verification, Scottish Water will notify the Licensed Provider of the findings of the inspection within 5 Business Days of the visit taking place.

Step 5

Scottish Water may recover its reasonable cost of the visit from the Licensed Provider in accordance with the Wholesale Charges Scheme.

Step 6

Where records of Supply Point(s) differ from the findings of the inspection, Scottish Water shall notify the Central Market Agency according to the relevant process for the nature of the change or within 2 Business Days of completion of the investigation.

Verification of Supply Point and Gap Site Registration

Process 29 – Gap Site Supply Point Registration for Gap Sites identified by Scottish Water

Purpose and scope of Process 29: -

This Process sets out the operational arrangements which apply where Scottish Water identifies Eligible Premises which are in receipt of Water Services and/or Sewerage Services where no Supply Points are registered in relation to such Eligible Premises in the Supply Point Register. This Process may be preceded or followed by an installation of a meter for a new Supply Point (see Process 8).

Process:-

Step 1

Where Scottish Water identifies a Gap Site it will, within 2 Business Days of becoming aware of the site, write to the Non-Household Customer at the Eligible Premises informing them that they must choose a Licensed Provider within 15 Business Days of the date of the letter or a Licensed Provider will be allocated to the site.

Step 2

Either:-

(i) Where a Licensed Provider agrees to supply the Eligible Premises (following contact from the Non-Household Customer resulting from Step 1 above), the Licensed Provider will notify Scottish Water within 1 Business Day of agreeing to supply the Eligible Premises. Scottish Water will notify the CMA of the requirement for a new Supply Point(s) and of the identity of the Licensed Provider to whom the Supply Point(s) should be registered in accordance with the Market Code;

or,

(ii) Where Scottish Water does not receive a notice from any Licensed Provider of agreement to supply the Non-Household Customer, within 17 Business Days from the date of Scottish Water's letter to the Non-Household Customer, Scottish Water will notify the CMA of the requirement for a new Supply Point(s) and a Licensed Provider will be allocated by the CMA in accordance with the Market Code.

Verification of Supply Point and Gap Site Registration

Process 30 – Gap Site Supply Point Requests and Registration for Gap Sites identified by a Licensed Provider

Purpose and scope of Process 30: -

This Process sets out the operational arrangements which apply where a Licensed Provider identifies Eligible Premises which are in receipt of Water Services and/or Sewerage Services where no Supply Points are registered in relation to such Eligible Premises in the Supply Point Register.

Process:-

Step 1

Where a Licensed Provider identifies a Gap Site it will, within 1 Business Day of becoming aware of the site, notify Scottish Water by submitting a Gap Site request form (Form M) as set out in the Appendix to this Code. The Licensed Provider will endeavour to complete all sections of the form and will include the provision of the following information:

- Licensed Provider ID;
- the address of the Eligible Premises; and
- a declaration by the Licensed Provider regarding the information supplied in the form.

Step 2

On receiving the request from the Licensed Provider, Scottish Water will endeavour to confirm the information supplied with its records and assess whether a site visit will be required to verify the Services at the Supply Point, in which case Scottish Water will liaise with the Licensed Provider in accordance with Process 28 above.

Step 3

Within 5 Business Days of receipt of a valid request from the Licensed Provider, Scottish Water will either:-

- (i) notify the CMA of the requirement for a new Supply Point(s) in accordance with the Market Code; or,
- (ii) notify the Licensed Provider that it considers the request to be invalid, providing reasons for its decision.