

## Gap Site and Vacant Properties Incentive Scheme April 2010

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This document presents the Commission's response to its December 2009 consultation on the proposals for the creation of an incentive payment to identify gap sites and vacant properties.

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## Background

The Commission's Draft Determination laid out plans for the creation of an incentive for licensed providers to seek out and register non-household customers at sites that either are marked as vacant or are not, but should be, 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.

We considered various options for the implementation of such an incentive. The three options considered were granting the licensed provider a time limited monopoly for the customer, reducing wholesale charges and a cash payment. Options 1 and 2 were rejected because they either ran counter to market principles, were complex and difficult to administer or would have required too great an involvement of the CMA, delaying the delivery of other high priority projects.

We therefore consulted on Option 3, an upfront cash payment from Scottish Water to a customer's licensed provider. After reviewing the responses received, the Commission has revised its proposal and sets out below how it intends to implement this policy.

## Consultation Response

We received four responses to our consultation from Business Stream, Osprey, Scottish Water and WaterWatch Scotland. We would like to thank them for their comments and suggestions, which we have found very useful.

Business Stream expressed concern that there was the potential for licensed providers to be charged twice for backdated charges. We agree that customers and licensed providers should only be charged once for any service. If backdated charges are paid by another process, such as the retrospective amendment process, then the licensed provider should not be responsible for paying the same charges again as part of any incentive process.

Osprey enquired if a SPID could still be flagged as vacant after an incentive payment has been made. We will not be affecting a site's eligibility for being marked vacant in the future as part of this incentive program. If a site meets all the criteria for being marked vacant, it may be marked as such by the licensed provider.

Osprey also enquired if sites that become vacant during the course of the program would be eligible for another incentive payment. It also raised the issue of properties that regularly change tenants. To fairly address both, the incentive payment for vacant sites will be limited to one payment per SPID per wholesale charges scheme period i.e. one payment per financial year. This will allow payments to be claimed for properties that become vacant after a lease is up, but also protects Scottish Water from potential abuse of this incentive program.

Osprey also raised the issue of whether payments would continue to be made to the licensed provider that located the gap site if the customer then chose to move to another licensed provider. As the incentive is designed to bring customers into charge for the benefit of the entire market, we confirm that it is the licensed provider that originally locates the gap site and successfully brings it into charge that will receive the payments from Scottish Water i.e. the payments are not linked to whether that licensed provider continues to supply the customer.

Scottish Water expressed concerns that an upfront payment could cause cash flow problems. The revenue that offsets the upfront incentive payment would be collected over a number of years straddling strategic review periods. Because it is not in a position to access further funds beyond those allocated by Government, Scottish Water believes that upfront payments could jeopardise its cash flow. It also expressed concern that a site's volumetric consumption could drop or the site could be permanently disconnected. Both of these events could prevent Scottish Water from recovering the whole amount of the incentive payment from the future wholesale revenue for these sites.

The Commission agrees with Waterwatch's observation that customers should pay for services they are being provided. Having non-household customers who are currently gap or vacant sites brought into correct billing is fair for customers, licensed providers and Scottish Water.

## **Incentive payments**

Below we set out the modifications to the gap site and vacant site incentive payments. For the avoidance of doubt, we confirm that neither the gap site nor the vacant site incentive payments may be claimed by Scottish Water.

### ***Gap Site Payment***

In response to the concerns expressed, the nature of the gap site incentive will be changed to become a share of the wholesale charges for a five-year period, up to 300% of the annual wholesale revenue generated. The share of wholesale charges will decline over time.

This change will ensure the incentive payment is not greater than the wholesale revenue over the five-year period. It will also tie the payment of the incentive to when Scottish Water is receiving the revenue, thus alleviating any potential cash flow issues. The declining share means the incentive payments are greatest at the beginning, when the licensed provider incurs the expense of indentifying gap sites.

The share of the wholesale revenue to be paid to the licensed provider who originally identifies and registers the gap site will therefore be as follows:

Year One: 80%  
Year Two: 70%  
Year Three: 60%  
Year Four: 50%  
Year Five: 40%

The licensed provider's share of the wholesale charges under this incentive scheme will be based on all wholesale charges collected by Scottish Water for the SPID over the previous 12 months. This amount will be rebated back to the licensed provider by Scottish Water on the yearly anniversary of registering the gap site.

The revised gap site payment process guidelines are attached as Appendix 1.

### ***Vacant Site Payment***

To provide greater certainty of the amount of vacant site incentive payments and to alleviate concerns that licensed providers may have been overly incentivised under the previous proposal, the payment for identifying and moving vacant sites into billing will be a onetime fixed payment.

For claims submitted between the program's commencement and 31 March 2012, the payment will be £300 for each eligible site. From 1 April 2012 until 31 March 2015, the payment will be £250. Thereafter, the incentive payment will be £200. These amounts are based on the default tariffs' charges for five, four and three hours of survey time respectively. This amount of incentive payment should cover the additional cost of verifying if a site is occupied or not. The decreasing nature of the payments is to incentivise licensed providers to identify gap sites during the first phase of the program.

Vacant site incentive payments are not for sites where the customer just changes its legal persona. The site must be flagged as vacant at the CMA and then returned to charge before a licensed provider will be eligible to receive a payment.

Since Scottish Water is currently undertaking a project to identify vacant properties, the incentive program will commence in the next charging year to coincide with the new wholesale charges scheme and default tariffs.

The revised vacant site payment guidelines are attached as Appendix 2.

### **Next Step**

Having consulted on its proposals for the gap and vacant site incentives, the Commission will liaise with Scottish Water with a view to implementing these incentive programs beginning on 1 July 2010.

## Appendix 1

### Process for claiming Gap Site incentive payments

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:
  - a. it should be in the market;
  - b. the Licensed Provider will be serving it; and
  - c. 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 in line with the requirements of Operational Code Process 30.
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 the appropriate form, for payment of the gap site incentive. The form must have the basic consumer information and SPID along with a signed declaration of eligibility. A meter reading must be submitted for metered customers to the CMA at the same time as any application.
5. To be eligible to qualify as a gap site:
  - a. the premise must not have been registered in the market;
  - b. the customer must have been located at their present site for more than 30 days; and
  - c. the customer must have been operating as a non-household at such site for more than 30 days.

Eligibility must be affirmed in the Licensed Provider's signed declaration to Scottish Water.

6. Gap site 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. Where an application is rejected, Scottish Water will provide the licensed provider with the reason for the rejection. The licensed provider will then have 5 business days from the date of notification of rejection to reapply.

7. If the application is complete and valid, Scottish Water will calculate on the yearly anniversary of the customer being registered the total amount of wholesale charges for the customer over the previous 12 months. This will include all fixed and volumetric charges for water and wastewater. The final year payment may be delayed until RF to allow for reconciliation. Scottish Water will then include payment in the next regular non-Primary charges bill.
  
8. The Licensed Provider will have 10 business days from the date of payment to dispute the amount of the payment. If the Licensed Provider disputes the amount, it will provide Scottish Water with evidence of the amount of wholesale charges the payment should be based on. Scottish Water will have 10 business days to reply to the Licensed Provider's dispute.

## Appendix 2

### Process for claiming Vacant Site incentive payments

1. Upon identifying a non-household customer who meets the definition of being a vacant premise, 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 for metered customers as well.
2. To be eligible to qualify as a vacant premise;
  - a. the relevant supply point must have been registered in the central system as being vacant;
  - b. there must have been a previous occupant, i.e. the site cannot be a new connection; and
  - c. the current occupant cannot be the same as last known occupant e.g. a seasonal business that shuts down for more than 30 days and then resumes operations may not be eligible for an incentive payment.

Eligibility must be affirmed in the Licensed Provider's signed declaration to Scottish Water.

3. 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 basic consumer information and SPID along with a signed declaration of eligibility, including a statement that the current occupant is not the same as the last known occupant.
4. 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, do not fall under the definition of a vacant premise or an incentive payment has already been made for the site during the current wholesale charges scheme period i.e. during that financial year. 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.

5. If the application is complete and valid, Scottish Water will issue payment to the Licensed Provider. Scottish Water must confirm acceptance of the application no later than 20 business days after vacant premises enters charging to allow the customer to switch licensed providers if it wishes. Scottish Water will then include payment in the next regular non-Primary charges bill.