

## Licence fees for the retail market – a policy statement

### January 2010

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The Water Services etc. (Scotland) Act 2005 requires the Commission to collect fees from licensed providers to cover the costs incurred by the Commission in exercising its functions relating to water and sewerage services licences.

Scottish Ministers approved the Commission's fees scheme on 27 July 2007. The Commission subsequently published a policy statement setting out more details on the way in which it would collect the fees. This document updates that policy statement and is **effective from 21 January 2010**.

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## Background

1. On 16 March 2007, the Water Industry Commission for Scotland (the Commission) issued a Fees Scheme under section 9 of the Water Services etc. (Scotland) Act 2005. This scheme sets out fees payable by licensed providers of water and sewerage services.<sup>1</sup>
2. Fees are levied with the aim of recovering the Commission's costs. As such, cost-recovery principles inform the size and timing of the fees.
3. Licensees will be liable for the following fees:
  - A licence application fee, designed to cover the Commission's costs of processing applications for licences; and
  - An annual levy, designed to cover the ongoing costs of the Commission's licensing activities.

## Application fees

4. All applicants for a retail water services licence or sewerage services licence will pay the application fee set out in the Fees Scheme (£4,750).
5. The application fee will normally be paid with the application. The Commission will not usually process an application unless the application fee has been paid or the applicant has reached an alternative arrangement with the Commission.
6. The Commission would not refund an application fee if the application were denied, because it would still need to recover the costs of considering the application. An applicant who chose to re-apply for a licence after previously having applied unsuccessfully would be required to pay the application fee again. However, if the original application had errors that could be rectified, the Commission would normally seek to work with the applicant to address those errors rather than denying the application and requiring a re-submission.<sup>2</sup>

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<sup>1</sup> Scottish Ministers approved the Fees Scheme on 27 July 2007. The approved scheme is available on the Commission's website at:  
<http://www.watercommission.co.uk/UserFiles/Documents/Approved%20fees%20schemev1.pdf>.

<sup>2</sup> More information on the licence application process is available on the Commission's website at  
<http://www.watercommission.co.uk/Comp/Applicance.asp>.

## The annual levy

7. The annual levy will cover the costs the Commission incurs in monitoring compliance with licensing terms and administering the licensing regime. These costs are estimated at £1.2 million each year.
8. In accordance with the Fees Scheme, the Commission will calculate the relevant proportion of its costs that each licensee will be required to pay. The calculation will have two components: a fixed component that will apply to each licensee, and a variable component that depends on the licensee's market share.
9. The fixed component will be £60,000 per annum unless either of the following apply:
  - The licensee has at least one registered customer at which point the fixed component will be £3,000 per annum; or
  - The licensee has no registered customers but has provided the Commission with evidence of its attempts to sign customers. The fixed component will be £3,000 per annum provided the licensed provider can continue to show that it is attempting to sign customers.
10. The variable component of the annual levy will cover the vast majority of the Commission's licensing costs. Each licensee will pay a share equal to the share of wholesale charges paid by that licensee.

## Quarterly instalments of annual levy

11. The annual levy will be payable in quarterly instalments. The instalment for each quarter will be calculated and payable according to a timetable consistent with timetable for the calculation and payment of Central Market Agency (CMA) charges as set out in the market code. The annex sets out an example of the calculation.
12. Instalments will be recalculated each quarter to take account of changes over time in the number of licensed providers and their market shares. When the CMA performs its final settlement run in respect of each year, the annual levies paid for that year will be adjusted in light of the updated calculation of wholesale charges.
13. If a licensed provider enters the market, it will become liable for a share of the annual levy at the next calculation of instalments. If a licensed provider leaves the market, fees already paid will not be refunded, and the licensed provider will not be included at the next calculation of instalments. However, the provider may be liable for a further payment following the final settlement run for the year.

## Adjustments

14. The Fees Scheme allows the Commission to adjust the annual levy to take account of an over-estimate or under-estimate in a previous year. Such adjustments may arise from the actual costs incurred by Commission in exercising its licensing functions differing from its estimate.
15. Under- or over-estimates of cost will be resolved within two years of the year in question.
16. Before the beginning of each year (“Year 1”), the Commission will estimate its costs for Year 1. These costs will include a provision to repay any excess collected for the current year (Year 0), or recoup any shortfall. The total will then be allocated equally across the four quarters for the purpose of calculating each licensee’s instalments of the annual levy for Year 1. Any further adjustment, required after ascertaining the actual costs for Year 0, would be reflected in the annual levy for the following year (Year 2).

## Other costs

17. The Water Services etc. (Scotland) Act 2005 (Consequential Provisions and Modifications) Order 2005 allows Scottish Water or a licensee to ask the Commission to refer a licence, or a modification to a licence, to the Competition Commission.
18. Under the Fees Scheme, the annual levy includes the cost of such a reference. This would be added to the annual levy for the licensee to whom the reference relates.

## Enforcement

19. If an applicant for a licence failed to pay the application fee, or make arrangements for the payment of the application fee, the Commission would not process the application. Failure by a licensee to pay an instalment of the annual levy would be a breach of its licence conditions.

## Annex

### Maximum annual levy

1. The amount payable by each individual licensee will depend on the number of licensees and their respective market shares.
2. Assuming that at least two licensees participate in the market, the maximum annual levy that one licensee could pay would be £1.197 million. This would require all customers but one to be registered to one licensee, and for the one other customer to account for a negligible share of total wholesale charges. This licensee's annual levy would comprise:
  - A fixed component of £3,000; and
  - A variable component of £1,194,000.
3. The other licensee would pay a £3,000 fixed component and a negligible variable component.

### Calculation of instalments

4. The following example illustrates how the Commission would calculate instalments of the annual levy, payable by a hypothetical set of licensed providers.
5. For each quarter, the instalment of annual levy payable by each licensed provider will depend on the provider's number of customers and share of wholesale charges for the first month of the quarter. This calculation will be based on the preliminary settlement run performed before the beginning of the quarter. Subsequent adjustments to volumetric data, arising from later settlement runs, will be taken into account in later levy calculations.
6. In this example, four providers have permanent licences, however, one of the providers does not have any registered customers and was granted its licences the month before. Table 1 shows how a quarterly instalment of the annual levy would be calculated.

**Table 1: Instalments of annual levy**

<b>Provider</b>	<b>Customers</b>	<b>Share of charges</b>	<b>Fixed component</b>	<b>Variable component</b>	<b>Total instalment</b>
Provider 1	0	0.0%	£1,500	-	<b>£1,500</b>
Provider 2	1	0.1%	£750	£296	<b>£1,046</b>
Provider 3	60,000	39.9%	£750	£118,204	<b>£118,954</b>
Provider 4	60,000	60.0%	£750	£177,750	<b>£178,500</b>
<b>Total</b>	<b>120,001</b>	<b>100.0%</b>	<b>£3,750</b>	<b>£296,250</b>	<b>£300,000</b>