This document updates the Commission’s April 2010 paper on the Gap Site Incentive Scheme.
Background

In Commission’s 2009 Draft Determination, we laid out plans for the creation of an incentive for Licensed Providers to seek out and register non-household customers at sites which should be part of the non-household retail market but were not registered in the market and therefore not paying charges. We consulted with market participants in December 2009 on an incentive scheme and published our response to that consultation in April 2010.

In 2009, 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 in making changes to its Central System, 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 to the consultation, we revised our proposal to be an incentive payment worth 3 years of wholesale charges paid as a declining share of wholesale charges over 5 years. This ensured the incentive payment is not greater than the wholesale revenue over the five-year period. It also tied the payment of the incentive to when Scottish Water is receiving the revenue, thus alleviating any potential cash flow issues. The Gap Site Incentive Scheme has been operating on this basis since Spring 2010.

Feedback on the current Incentive Scheme

While the Vacant Properties Incentive Scheme was revised in August 2012, the Gap Site Incentive Scheme continues to operate in its original form. Over the course of the nearly four years the Scheme has been operating, we have received feedback from various market participants on the effectiveness and attractiveness of the Scheme. With the CMA’s SAA project ongoing and the resulting gap sites which will be registered as a result of it, it is an appropriate time for us to review the current operation of the Gap Site Incentive Scheme.

While participation in the Vacant Properties Incentive Scheme has been good, the uptake in the Gap Site Incentive Scheme has been lower despite the incentive payments available under it being significantly higher. We have been told by Licensed Providers that the lower levels of participation are partially due to the delayed nature of the incentive payments. Under the current scheme, Licensed Providers must wait 12 months to receive their first incentive payment, worth 80% of that year’s wholesale charges. They do not receive the full incentive payment until five years after registering the Gap Site. Licensed Providers have told us that they will find a more upfront payment to be more attractive as it better matches when they incur the costs of locating gap sites.
We have been told by Scottish Water that the current Incentive Scheme is difficult and more expensive to administer compared to the vacant properties one. It has asked for any revisions to the scheme to make it more straightforward to administer the process. Having a more straightforward scheme should also benefit Licensed Providers as it will be easier for them to ensure they are receiving the correct incentive payments from Scottish Water and reduce disputes over the amounts of the payments.

There have also been discussions on if potential Gap Sites found during the course of the CMA’s SAA project should be eligible for incentive payments. While we recognise Scottish Water’s argument that the CMA is doing much of the work of identifying potential Gap Sites and not the Licensed Providers, the Licensed Providers must still determine if the potential Gap Sites are actual Gap Sites, make contact with the customers and bring them into charge.

Therefore, given the number of potential Gap Site that still exist, we believe that Licensed Provider should still be incentivised to proactively register Gap Sites found by the CMA’s project, albeit at a lower rate to reflect the lower amount of work being done. This will benefit Scottish Water and the wider customer base as it will more quickly increase the amount of wholesale revenue Scottish Water receives and also widen the base which Scottish Water recovers its costs from.

**Gap Site Incentive payments**

In response to the feedback we have received regarding the current scheme, the nature of the gap site incentive will be changed from a share of the wholesale charges for a five-year period to a set of fixed payments based on the size of the customer and whether the site was located through the CMA’s SAA project.

The incentive will be paid by Scottish Water in two equal payments. The first will be paid following the premise being registered and appearing in settlement as occupied. The second half will be paid two years after the premise was registered. The second half of the payment will be conditional on the total wholesale charges paid in respect to the premise being greater than the combined two halves of the incentive payment.

**For sites located by the CMA’s SAA project:**
- For sites with meters up to and including 39mm or so assessed; a total incentive payment of £750 (ie: two payments of £375)
- For sites with meters at 40mm and above; a total incentive payable of £1,500

**For other sites:**
- For sites with meters up to and including 39mm; a total incentive payment of £1,500
- For sites with meters at 40mm and above; a total incentive payable of £3,000
In terms of meeting the second payment’s condition that the total wholesale charges paid is greater than the total incentive payment, all wholesale charges paid in regards to the SPID (or SPID pair if appropriate) will be counted except for secondary charges. For example, this could include drainage charges.

As an example, if £500 of wholesale charges are paid for a premise with a 25mm meter before that premise became vacant, the second half of the incentive payment will not be paid by Scottish Water as the wholesale charges paid did not exceed the total incentive payment. For avoidance of doubt, the occupancy status of premises will not affect the second half of the incentive payment. The second payment will be made for vacant premises as long as the other conditions are met, i.e. as long as enough wholesale charges were paid while the premise was occupied.

These changes will allow Licensed Providers to receive an upfront incentive payment while helping to ensure that the incentive payments are not greater than the wholesale revenue Scottish Water receives from these customers. These revisions will also provide Licensed Providers with greater certainty over the amount of incentive payments they will receive for any particular customer.

Scottish Water shall pay incentive payment generally on a first-come, first-served basis. In the event of a dispute, priority will be given to the Licensed Provider who claimed the site on the CMA’s “Silver Tassie” portal.

The revised gap site payment process guidelines are attached as Appendix 1. Please note that we are not changing the rules on which premises and services are eligible for the scheme.

**Administrative Charge**

When requesting SPIDs be created for Gap Sites, Licensed Providers are responsible for ensuring the premises are actually eligible premises and are not already registered in the market. Licensed Providers should not be registering Gap Sites if they are not confident that the resulting SPIDs should be added to the market. This is the case for those potential Gap Sites which are identified by the CMA’s SAA project as well as regular Gap Sites Licensed Providers may find.

Scottish Water incurs various costs when processing Gap Sites and incentive scheme applications which are not directly passed on to Licensed Providers and customers. While these costs are arguably recovered from Gap Sites through the additional wholesale charges Scottish Water receives, they are not recovered through wholesale charges in those cases where Gap Sites are registered in error and have to subsequently be deregistered. In those cases, Scottish Water still incurs the cost of creating new SPIDs, verifying the services received, processing the incentive applications, investigating the issues with the SPIDs,
deregistering the SPIDs potentially using retrospective amendments and recovering the incentive payments.

Rather than having the wider customer base bear those costs, we will be allowing Scottish Water to recover those costs from the Licensed Provider who requested the SPIDs through an administrative fee. As specified in step 11 of Appendix 1, the fee will only be applicable in cases where the Licensed Provider has a SPID created for a Gap Site, applies for an incentive payment and the SPID is subsequently required to be removed from the market with retrospective effect.

The administrative fee will be £250, which is the same as the administrate fee under the Vacant Site Charging Administration Scheme.
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 section 3.1.1 and 5.4.9 of Market Code of 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, receipt of T035.0 from the CMA, 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 for a gap site incentive payment:
   
   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 pay the first half of the incentive payment within 12 business days of the SPID(s) appearing in the first R1 settlement run following the creation of the SPID(s). Scottish Water will include the payment in the next regular non-Primary charges bill.

8. Two years following from the T035 transaction, 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 12-24 months. This will include all fixed and volumetric charges for water and wastewater and drainage charges as applicable. For the purposes of this calculation, Scottish Water may subtract any vacant property incentive payments from the total wholesale charges paid.
   a. If the total wholesale charges paid in the previous 24 months exceed the total incentive payment available, Scottish Water will pay the second half of the incentive payment. 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.
   a.b. If the SPID(s) are deregistered in the first 24 months, Scottish Water will not make the second payment.

9. The Licensed Provider will have 10 business days from the date of either 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.

10. For the purposes of determining the level of the incentive payment, a gap site will be considered “located by the CMA’s SAA project” if a corresponding record was published on the CMA’s “Silver Tassie” portal at any point during the life of the CMA’s SAA project. A site being removed from the “Silver Tassie” portal will not affect a site’s status.

11. Scottish Water may levy a £250 administration charge if the following conditions apply:
   a. The Licensed Provider requested that a SPID(s) is created for a gap site under section 5.4.9 of the Market Code and Process 30 of the Operational Code.
   b. The Licensed Provider applied for a gap site incentive payment.
   c. Scottish Water creates the SPID(s) in good faith.
   d. The SPID(s) is subsequently removed from the market with retrospective effect due to it being either a duplicate SPID(s) or otherwise not an eligible premise.

   In such cases, Scottish Water may also recover any incentive payments made.