

Market Review: Consultation on Changes to the Gap Site Scheme

January 2020

In September 2018 the Commission published a notice setting out its intention to carry out a comprehensive review of the non-household retail market and providing an indicative timeline and scope for the review.

As part of that review, this document consults on changes to the Gap Site Incentive Scheme to ensure that the scheme keeps on working well for Scottish Water and market participants. The Commission is seeking stakeholders' views on these proposals.

The Commission welcomes comments on these proposals which should be sent by email by 7 February 2020 to competitionteam@watercommission.co.uk

This consultation has been sent to:

- All Licensed Providers;
- Scottish Water;
- The Central Market Agency Limited;
- The Scottish Government; and
- Citizens Advice Scotland.

This document is also available on the Commission's website: www.watercommission.co.uk

Background

In the Draft Determination for the period 2010-15, the Commission set out its intention to create 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. The Commission consulted with market participants in December 2009 on an incentive scheme and published its response to that consultation in April 2010.

In March 2014 the Commission changed the gap site incentive from an incentive based on the share of the wholesale charges to a set of fixed payments based on the size of the customer and whether the site was located through the Scottish Assessors Association (SAA) Silver Tassie project.

The incentive is paid by Scottish Water in two equal payments: the first payment after the premises are registered and the second two years after the premise is registered. The second payment is conditional on whether the total wholesale charges are greater than the combined two incentive payments.

Proposed Revisions

The Commission has now reviewed the Gap Site Incentive Scheme and following feedback from market participants is consulting on changes to the scheme.

The Commission is proposing to remove the reduced payment for sites which have been identified by the SAA Silver Tassie project. As this data is no longer available the Commission proposes to remove the reduced incentives for these sites.

In 2014 the levels of incentives were set to reflect three years' worth of wholesale charges. Since 2014 the average wholesale charges for gap sites has reduced significantly. Therefore, the Commission proposes to divide gap sites into three categories and adjust the incentive payment to reflect the reduced wholesale charges.

The payment for category 1 has been set as to provide a proportionate and fair incentive, considering that licensed providers do not incur significantly higher costs than the costs incurred when identifying lower value premises.

Category	Gap site	Proposed incentive payment
1	<ul style="list-style-type: none"> a) Water services are provided; and b) Meter larger or equal to 40mm or rateable value (RV) larger or equal to £20K. 	£4,000 as a single payment
2	<ul style="list-style-type: none"> a) Water services are provided and b) £20K > RV > £2.5K and c) The meter is smaller than 40mm. 	£1000 in 2 instalments of £500
3	<ul style="list-style-type: none"> i) Surface water drainage only; or ii) <ul style="list-style-type: none"> a) Water services are provided and b) The RV is smaller or equal to £2.5K and c) The meter is smaller than 40mm. 	£450 in 2 instalments of £225

These revised payment levels provide licensed providers with an upfront incentive payment whilst ensuring that the incentive payments are proportionate to the wholesale revenue that Scottish Water receives.

The revised gap site payment process guidelines are set out in the Appendix to this document.

Administrative Charge

Scottish Water can levy an administrative fee of £250 on licensed provider who have applied for an incentive payment for a SPID subsequently removed from the market with retrospective effect.

The Commission is proposing that where the information used by the licensed provider to assess and register the SPID was incorrect due to an error on Scottish Water's behalf, no administration charge should be levied by Scottish Water.

Implementation

The Commission is proposing to implement these changes to gap site applications submitted from 1 April 2020.

Appendix

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 of Code Subsidiary Document 0101. All procedures and time scales set out in that document will be followed.
4. Upon receipt of T035.0 from the CMA, the Licensed Provider will apply, within 3 business days of receipt, 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 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.
 - ~~e.d.~~ The premise must have been included on the SAA database for a period exceeding 12 weeks prior to, and remain unregistered at the time a Licensed provider notifies Scottish Water that the premise is a gap site.

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 the total amount of wholesale charges for the customer over the previous 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. Scottish Water will then include payment in the next regular non-Primary charges bill.
 - 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.~~

- ~~11.10.~~ Scottish Water may levy a £250 administration charge and recover any incentive payment made 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.
 - e. Where the above conditions apply and the information used by the Licensed Provider to assess the SPID has been incorrect due to an error on Scottish Water's behalf, no administrative charge will be levied although Scottish Water may recover the incentive payment made.