

1 Purpose

The purpose of this document is to define the policy which Scottish Water will apply to the collection of wholesale revenue from Licensed Providers to ensure that a transparent and consistent approach is applied.

Throughout this document, any reference to the 'Wholesale Services Agreement' refers to the Wholesale Services Agreement in force between the relevant Licensed Provider and Scottish Water. This document does not affect the legal rights of either Scottish Water or the Licensed Provider and in the event of any conflict between it and the terms of the Wholesale Services Agreement the terms of that agreement will prevail.

2 Types of Invoices

The debt recovery approach applied to Licensed Providers will vary according to the type of invoice. Invoices will be split into the following four categories:

- **Primary Provisional** – The Provisional Monthly Charge
- **Primary Reconciliation** – Reconciliation Statements issued in respect of any settlement run
- **Non-Primary** – Invoices in respect of any activities in section 6 ('Other Wholesale Services (Non-Primary Charges)') of the Wholesale Scheme of Charges and invoices for late payment interest.
- **Interest** – Invoices in respect of interest on reconciliation issued under section 8.3.3 of the Wholesale Services Agreement or invoices in respect of late payment interest issued under section 8.8.1 of the Wholesale Services Agreement
- **Other** – Any invoices not covered by the categories above

3 Debt Recovery Measures

Scottish Water will apply the following measures in the collection of overdue wholesale revenues in accordance with the Wholesale Services Agreement.

3.1 Late Payment Interest

Under section 8.8.1 of the Wholesale Services Agreement, interest can be applied to any late payments at a rate of 4% per annum over the published base lending rate of the Bank of Scotland. Late payment interest will be applied according to the recovery paths set out in section 5. When late payment interest is to be applied, the Licensed Provider will be notified of the amount of interest already accrued and the daily interest that will continue to accrue until payment is received.

3.2 Non-Payment Notices

Schedule 3 of the Wholesale Services Agreement outlines the various events which lead to Licensed Provider Default which enables the Agreement to be terminated. There are two scenarios where non-payment by a Licensed Provider can result in Default under the Agreement. Paragraph 1 (Non-Payment) applies only to the largest invoices and results in Licensee Default more quickly than Paragraph 2 (Persistent Non-Payment) which applies to any invoice. The steps leading to Licensee Default in each case are as follows:

- **Non-Payment (paragraph 1)**
If the Licensed Provider fails to pay the Provisional Monthly Charge or any other charge(s) greater than the 'Default Trigger Amount' (the value of the Provisional Monthly Charge in the month in which the invoice was due) within 5 business days of the due date, a non-payment notice under paragraph 1 can be issued. Failure to pay the outstanding amount within a further 5 business days would result in Licensee Default.
- **Persistent Non-Payment (paragraph 2)**
If the Licensed Provider fails to pay any sum by the due date, a non-payment notice under paragraph 2 can be issued. Licensee Default occurs if, within a twelve month period, the Licensed Provider fails to pay three separate invoices within the following timescales:

- 10 business days of the date of notice on the first occasion
- 5 business days of the date of notice on the second occasion
- the due date of the invoice on the third occasion

3.3 Notification to Water Industry Commission for Scotland

Where non-payment notices have been issued to a Licensed Provider, Scottish Water may notify the Water Industry Commission for Scotland (WICS).

4 Method of Payment

Payment of all wholesale invoices should be made by CHAPS as specified in section 8.5.2 of the Wholesale Services Agreement. If payment is submitted by any other method it will not be accepted and the invoice will be treated as being unpaid.

5 Recovery Paths

Two recovery paths will be applied to Licensed Provider invoices: Standard and Accelerated. The same recovery path will be applied to all types of invoices sent to an LP.

By default all LPs will be placed on the Standard recovery path. Sections 3.3 and 3.4 outline the trigger events which will cause an LP to be moved between the Accelerated and Standard recovery paths.

5.1 Standard Recovery Path

Invoices issued to LPs on the Standard recovery path will be subject to the following debt recovery timetable. All timescales quoted in the table below are measured from invoice date. Recovery actions will cease when payment is received or be suspended when a dispute is raised pending outcome of the dispute. Further details on recovery actions following a dispute are set out in section 4.

Invoice Type	Terms of Payment	Verbal Reminder	Written Reminder	Late Payment Interest Applied	Non-Payment Notice ¹	Persistent Non-Payment Notice ²	LP Default
Primary Provisional	+4 business days	+5 business days	+5 business days	+6 business days	+9 business days	N/A	+14 business days
Primary Reconciliation	+10 business days	+11 business days	+11 business days	+15 business days	+20 business days	+15 business days	Dependent on type of notice
Non-Primary	+10 business days	N/A	+11 business days	+15 business days	+20 business days	+20 business days	
Interest	+10 business days	N/A	+11 business days	+15 business days	+20 business days	+20 business days	
Other	+30 days	N/A	+30 days +1 business day	+30 days +5 business days	+30 days +10 business days	+30 days +10 business days	

¹ Notice of Non-Payment under section 1 (Non-Payment) of Schedule 3 of the Wholesale Services Agreement. This applies only to provisional invoices or other invoices or aggregated groups of invoices which exceed the Default Trigger Amount (the value of the Provisional Monthly Charge in the month that the invoice was due). See section 3 for further details.

² Notice of Non-Payment under section 2 (Persistent Non-Payment) of Schedule 3 of the Wholesale Services Agreement. See section 3 for further details.

Where late payment interest is applied it will be calculated from the date that the terms of payment expired in accordance with section 8.8.1 of the Wholesale Services Agreement.

5.2 Accelerated Recovery Path

Invoices issued to LPs on the Accelerated recovery path will be subject to the following debt recovery timetable. All timescales quoted in the table below are measured from invoice date. Recovery actions will cease when payment is received or be suspended when a dispute is raised pending outcome of the dispute. Further details on recovery actions following a dispute are set out in section 6.

Shortened timescales compared to Standard recovery path are shown in red.

Invoice Type	Terms of Payment	Verbal Reminder	Written Reminder	Late Payment Interest Applied	Non-Payment Notice ¹	Persistent Non-Payment Notice ²	LP Default
Primary Provisional	+4 business days	+5 business days	+5 business days	+5 business days	+9 business days	N/A	+14 business days
Primary Reconciliation	+10 business days	+11 business days	+11 business days	+11 business days	+20 business days	+11 business days	Dependent on type of notice
Non-Primary	+10 business days	N/A	+11 business days	+11 business days	+20 business days	+15 business days	
Interest	+10 business days	N/A	+11 business days	+11 business days	+20 business days	+15 business days	
Other	+30 days	N/A	+30 days +1 business day	+30 days +1 business days	+30 days +10 business days	+30 days +5 business days	

¹ Notice of Non-Payment under section 1 (Non-Payment) of Schedule 3 of the Wholesale Services Agreement. This applies only to provisional invoices or other invoices or aggregated groups of invoices which exceed the Default Trigger Amount (the value of the Provisional Monthly Charge in the month that the invoice was due). See section 3 for further details.

² Notice of Non-Payment under section 2 (Persistent Non-Payment) of Schedule 3 of the Wholesale Services Agreement. See section 3 for further details.

Where late payment interest is applied it will be calculated from the date that the terms of payment expired in accordance with section 8.8.1 of the Wholesale Services Agreement.

5.3 Trigger events to move from Standard to Accelerated Recovery Path

All LPs will be placed onto the Standard recovery path in the first instance. An LP will be moved onto the Accelerated recovery path when one of the following trigger events occurs:

- A non-payment notice is issued under either section 1 or 2 of Schedule 3 of the Wholesale Services Agreement
- Late payment interest is applied to 5 separate invoices
- Written reminders are issued for 10 separate invoices

5.4 Trigger events to move from Accelerated to Standard Recovery Path

An LP will typically be moved from the Accelerated to the Standard recovery path when 3 consecutive months have elapsed in which all invoices issued have been paid or properly disputed within the payment terms stated on the invoice.

Scottish Water reserves the right to postpone moving an LP from the Accelerated to the Standard recovery path when it sees fit. In such a scenario Scottish Water will communicate to the LP what further actions would be required by the LP in order to return to the Standard recovery path.

6 Disputes

Clause 8.6.2 of the Wholesale Services Agreement allows for disputes to be raised by LPs. It states that where an item is disputed, payment shall not be withheld on the remainder of the invoice and that disputes may only be raised in good faith and on grounds which are not vexatious or frivolous.

6.1 Conditions for Dispute

Scottish Water will treat a line item of an invoice as being in dispute when the following conditions have been satisfied:

- The LP has identified specifically which line items on an invoice are disputed;
- The LP has provided an explanation of why each line item is being disputed which demonstrates why the charge can reasonably be considered to inconsistent with either the Wholesale Services Agreement, Wholesale Scheme of Charges, Market Code, Operational Code, Disconnections Document or other document or instrument which has contractual or statutory effect;
- The LP has paid any line items on the invoice which have not been properly disputed as outlined above within the payment terms.

6.2 Scottish Water response to Disputes

Where an item has been properly disputed by an LP, Scottish Water will review the grounds for dispute and provide a response within the payment term that applied to the invoice, measured from the date on which the item was disputed.

Where a dispute is upheld by Scottish Water, a credit note will be issued to the LP in respect of the line items to cancel the outstanding balance.

Where a dispute is rejected by Scottish Water, a response will be provided per line item disputed setting out the reasons for the rejection.

6.3 Rejected Disputes

Where Scottish Water rejects a dispute but additional information has to be provided which was not previously available to the LP in order to demonstrate the validity of the charges, the line item will be treated as having returned to the start of the relevant recovery path with the date of Scottish Water's response treated as the invoice date.

Where Scottish Water rejects a dispute and demonstrates that the line item is valid based on information which was previously available to the LP, the line item will be treated as having re-entered the relevant recovery path based on the original invoice date. The recovery path will not be treated as having been suspended during the period that the item was in dispute.

7 General

Scottish Water may amend, withdraw or replace this Policy.

END; 25 November 2008