

# SEMO Revenues and Tariffs and TSO Dispatch Balancing Costs (2008-09)

Synergen response to SEM-08-079

## 1 Introduction

This paper sets out Synergen's response to SEM-08-079 regarding SMO revenues and tariffs for the period October 2008 – September 2009. Synergen understands that responses to this consultation may be published, and has no objection to this. Synergen has no comments other than on the proposals referred to in the comments section below.

## 2 Comments

Proposal 2 of the consultation suggests that:

- SEMO operation will be subject to rate-of-return regulation;
- energy and capacity cash flows will be regarded as cost pass through; and
- the Imperfections charge will be regarded as a cost pass through.

Synergen has historically argued that the SEMO's operation should be subject to incentive based rewards. This would relate primarily to the SMO's performance against its T&SC requirements regarding the on time and accurate production and publication of market data. Synergen notes that the SEMO has a number of difficulties in consistently meeting these requirements. Clearly some of these are bedding in issues, and it would be expected that the SEMO performance would improve over time, but Synergen believes that a financial incentive would provide a strong impetus to continually improve operational performance. Synergen is disappointed that the RAs have proposed that a rate of return approach is to be adopted and believes that there are areas where incentives should have been considered in more detail. Synergen suggests that the RAs should look in principles to adopt such measures for the 2009-2010 period onwards and bring forward specific proposals at this stage next year when any bedding down issues will have been worked through. In any incentive based regime it is critical that the impact of any reduction in revenue that results is a shareholder issue, not one for participants to fund in future years.

Synergen supports energy, capacity charges and imperfections charges being outside of the SEMO's liability/exposure. However, as Synergen has previously commented, the SEMO charges cannot be a "pass through" as the charges are never incurred by the SEMO as it is not a party to the transactions under the T&SC. Synergen suggests that the RAs and SEMO utilise a more accurate description of the transaction.

Regarding Proposal 17 Synergen supports the structure of the Tariffs and the proposed charges as set out.