

August 31, 2020

Transpower  
PO Box 1021  
Wellington

**Re: ENA submission on TPM Design Principles**

Dear Transpower

Thank you for the opportunity to provide input to the design principles that Transpower proposes to guide its implementation of the TPM Guidelines. The ENA looks forward to a robust and transparent design and implementation process where the many trade-off decisions that you will need to make are perceived as being well taken and fair.

A principled approach is welcomed, and we think it is useful to provide public visibility of the principles that will guide you.

A test of the design principles is to consider their discriminatory power – do they help you make trade-offs between different, but compliant pricing approaches? One way to test a principle is to consider its opposite – if the opposite doesn't make any reasonable sense, then it is probably not a necessary principle – you are likely to do this anyway. For example, the opposite of "Pricing is transparent" is "Pricing is opaque": it would seem unlikely that Transpower would (or could) choose to develop a pricing methodology that is hidden from any scrutiny, so this is probably not a necessary principle. The greater challenge is more likely to be the degree to which your approaches are transparent. Would you expect to publish sufficient information and make models available so that a well-resourced and informed stakeholder could replicate your prices? Is that feasible, and at what cost?

We have a few comments on the principles that you propose, as follows:

Prices are explainable and predictable for customers

The ENA members make up the bulk of your customers as you know. Reducing their uncertainty and risk with transmission pricing is a good start point. Enabling customers to understand how different choices, by themselves and in combination, will impact on their transmission charges will also be

important to them but you may also want to consider how principles of “stability” and “adaptability” are relevant to your choices.

#### Transparent and non-discretionary

As noted in the example above, transparency as an absolute principle probably lacks discriminatory power, it is the degree to which your pricing approach is transparent which will become an important question. We also think it will be impossible for you not to exercise some discretion in developing prices – it is the process and the transparency of the choices, and decision-making process, that will be important. We think you need to consider a more nuanced statement.

#### Pricing complements investment test

We think this principle is too narrowly stated. There are a wider set of prices and regulatory arrangements that the implementation of the TPM needs to consider.

#### Pricing is robust to dispute and legal challenge

We are not sure this principle is necessary. Transpower will inevitably need to develop prices that meet the legal requirements of the TPM Guidelines.

#### TPM model is implementable and cost effective to administer

Again we are not sure that “implementable” is a necessary principle as it would not make sense for Transpower to develop prices that can’t be implemented, however we support cost-effectiveness as a principle. Inevitably Transpower will need to make judgements about approximations, and the like, to ensure that the models can be developed and run cost-effectively. You may also like to consider cost-effectiveness for stakeholders who would seek to understand how different choices may affect future prices.

Overall, we think Transpower should give further consideration to design principles that will provide it with greater discriminatory power in selecting between compliant pricing approaches. We endorse Transpower setting out principles but are unsure that you will find the proposed principles that useful as a guide to your decisions.

We trust these comments are useful and we look forward to engaging with you through-out the implementation of the TPM Guidelines.

Kind Regards

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