

07 June (Northpower) – Prudent discount -how recovered

Question:

The TPM decision document states “The Authority has decided connection charges should be included when assessing a standalone cost prudent discount, as doing so better promotes the Authority’s statutory objective than not doing so” and also “Prudent discounts will be funded as proposed in the 2021 Consultation paper – that is, through benefit-based and residual charges. Each customer’s contribution will be proportional to their share of the benefit-based charges in respect of investments for which the customer receiving the prudent discount also pays such charges, and the residual.”

We’re interested to understand how connection charges will be reallocated using the BBI and residual charges – specifically, will they just be recouped through residual charges as there is no BBI? And will they be allocated to regional customer, or to all of NZ?

Response:

Part I of the new TPM contains the prudent discount policy. The calculation for a customer’s residual prudent discount recovery charge is set out in clause 138(3):

- (3) Subject to subclause (4), **customer c’s residual prudent discount recovery charge** for a **prudent discount** and **pricing year** ($RPDS_c$), where **customer c** is a **load customer** and not the **prudent discount recipient**, is calculated as follows:

$$RPDS_c = (PD - BPDS) \times \frac{RC_c}{\sum_j RC_j}$$

where

PD is the amount of the **prudent discount** for the **pricing year**

BPDS is the part of the amount of the **prudent discount** to be recovered through **BBI prudent discount recovery charges** for the **pricing year**

RC_c is **customer c’s annual residual charge** for the **pricing year**

RC_j is **customer j’s annual residual charge** for the **pricing year**, where **customer j** is not the **prudent discount recipient** (including **customer c**).