

Prudent discount practice manual

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Version history

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1 Purpose of this document

1. This is the prudent discount practice manual under the transmission pricing methodology (**TPM**). All clause references in this manual are to clauses of the TPM, unless stated otherwise.
2. This manual is intended to be a living document, updated as Transpower and stakeholders build up experience with prudent discount applications. The first edition of this manual is limited to process matters and prudent discount concepts.
3. This manual also contains the prudent discount application requirements and application fee.
4. This manual is not binding on Transpower or any independent expert.
5. Appendix 3 contains a glossary of key prudent discount-related terms.
6. Prudent discounts are covered in Part I of the TPM. This manual should be read in conjunction with the clauses in that Part.

2 Background

7. A prudent discount provides discounted transmission charges for one or more customers (the prudent discount recipients) compared to the transmission charges that would otherwise apply under the TPM.
8. Transpower does not grant prudent discounts proactively. A customer must apply for a prudent discount, and the application must be successful, before the customer will receive the prudent discount.
9. There are two types of prudent discount under the TPM – an inefficient bypass prudent discount (**IBPD**) and a stand-alone cost prudent discount (**SACPD**). This manual relates to both types.

2.1 Inefficient bypass prudent discount

10. The purpose of an IBPD is to help ensure the TPM does not incentivise a customer to invest in a project (the alternative project) that would allow the customer to reduce its transmission charges, by bypassing the grid or part of it, while increasing total economic costs (i.e. would be inefficient overall). This type of prudent discount was available under the previous TPM. The difference under the new TPM is that the alternative project for an IBPD may include new generation.
11. If a customer receives an IBPD:
 - its transmission charges are reduced to what they would be if the alternative project were built (assuming that none of the alternative project costs would be recovered through transmission charges)
 - the customer pays Transpower a levelised annuity reflecting the annual cost of the alternative project. This is deemed to be a charge payable to Transpower under the TPM.

2.2 Stand-alone cost prudent discount

12. The purpose of a SACPD is to help ensure the TPM does not result in a customer paying transmission charges that exceed the efficient stand-alone cost of the transmission services the customer receives. This is assessed by considering the cost of a project (the alternative project) that would provide services in substitution for all such transmission services. This is a new type of prudent discount.
13. If a customer receives a SACPD:
 - its connection charges, benefit-based charges and residual charge are reduced to zero
 - the customer pays Transpower a levelised annuity reflecting the annual cost of the alternative project. This is deemed to be a charge payable to Transpower under the TPM.

2.3 Prudent discount agreement

14. Both types of prudent discount are effected by way of a prudent discount agreement (**PDA**) between Transpower and the recipient (including the reduction in transmission charges and the charging of a levelised annuity). The maximum term of a PDA and therefore a prudent discount (absent re-application and renewal) is 15 years. The recipient can terminate a PDA before it expires without cause by giving Transpower 6 months' notice before the start of a pricing year, in which case the PDA will end at the start of the pricing year.

3 Process

3.1 Prudent discount application process

15. The diagram in Appendix 1 illustrates the prudent discount application process. The TPM clauses relevant to the various steps are noted in the diagram.
16. On receiving an application, Transpower will first screen the application. At this stage:
 - Transpower must reject the application if the applicant is not a customer
 - Transpower may reject the application if the application does not comply with the application requirements, including if it has not been independently verified (see section 4), or the applicant has not paid the screening fee (see section 5)
 - Transpower will provide the applicant with a reasonable opportunity to fix problems with the application that are identified during screening
 - Transpower may also reject the application if the applicant has previously submitted an unsuccessful application that was on the same basis as the current one.
17. Transpower is required to publish an application after it passes the screening stage, but may withhold information the applicant identifies as commercially sensitive if Transpower determines disclosing it would materially commercially disadvantage the applicant or another person. Note, Transpower takes no responsibility for identifying commercially sensitive information. Applicants should ensure any information they consider is commercially sensitive is clearly identified as such.
18. During the screening stage for an application, Transpower will determine whether the application is standard or complex for the purpose of determining the detailed assessment fee (which is higher for a complex application than a standard one - see section 5). A standard application may be a straight-forward IBPD application, such as one involving an alternative project that rationalises the applicant's points of connection to the grid. A complex application may require consideration of wider parts of the grid or power system, likely including any SACPD application.
19. Once an application has passed the screening stage, Transpower will move into a detailed assessment of the application against the relevant tests in the TPM. For the detailed assessment, Transpower is not obliged to use the information the applicant provided in support of the application and may seek additional information. However, Transpower cannot assess a different alternative project than the one put forward in the application.
20. The tests that need to be met for an IBPD are that the alternative project:
 - would provide the same or substantially similar level of service as the bypassed part of the grid
 - is technically feasible (including from a consenting perspective)
 - is operationally feasible
 - is consistent with good electricity industry practice (GEIP)
 - is commercially viable for the customer

- is inefficient.
21. The tests that need to be met for a SACPD are that the alternative project:
 - is an efficient stand-alone investment that would provide the same or substantially similar level of service as the customer receives from the grid
 - is technically feasible (but not necessarily from a consenting or property right perspective)
 - is operationally feasible
 - is consistent with GEIP
 - is commercially viable for the customer.
 22. One of the grounds on which Transpower may reject an application is where an applicant includes a proposed condition in their application but Transpower considers the proposed condition is unlikely to be met within a reasonable time (or at all). Transpower may require a condition to be met within a specified time after the application is approved.
 23. Transpower must consult with all customers on its draft decision to approve or reject the application after detailed assessment.

3.2 Independent expert review

24. Transpower will notify the applicant of its decision on the applicant's prudent discount application after consulting on Transpower's draft decision.
25. The applicant may refer any aspect of Transpower's decision on the application to independent expert review.
26. Under the TPM (definition of "prudent discount confirmation date") Transpower's decision is not final until the applicant's time for referring the decision to independent expert review has expired (60 days from being notified of the decision) or the applicant has confirmed it does not intend to refer the decision.
27. If the applicant does refer the decision to independent expert review:
 - Transpower and the applicant will agree on who the independent expert will be, failing which the independent expert will be appointed by the Authority
 - the costs of the independent expert will be met by the applicant unless the independent expert decides otherwise
 - the independent expert will make the final decision.
28. The prudent discount confirmation date is the date Transpower's or the independent expert's decision is final and, for an approved prudent discount, the PDA has been signed.

3.3 Approved prudent discounts

29. If a prudent discount application is approved, Transpower and the recipient will need to sign a PDA. The prudent discount will not be effective until the PDA is signed by both parties (subject to retrospectivity for back-dated prudent discounts (see section 3.4)).
30. Transpower will prepare the draft PDA and will consult on the key terms of it as part of Transpower's consultation on its draft decision to approve the application.
31. A PDA, and the prudent discount to which it relates, may be conditional on one or more future events happening.
32. The maximum term of a PDA is 15 years from the start of the first pricing year to which the prudent discount applies. The term of a PDA for an IBPD may be shorter if the life of the bypassed grid assets is shorter. The recipient may apply to extend the PDA, and the prudent discount to which it relates, at the end of the PDA's term (as if the recipient were applying for a new prudent discount, but taking account of the expired life of the alternative project).

3.4 Publication of decision

33. After the prudent discount confirmation date, Transpower is required to publish:
 - its decision to approve or reject the application
 - any conditions of approval and a copy of the PDA
 - Transpower's analysis supporting its decision
 - any independent expert report.
34. However, Transpower may withhold information the applicant/recipient identifies as commercially sensitive if Transpower determines disclosing it would materially commercially disadvantage the applicant/recipient or another person (noting there is certain information Transpower must always publish). Note, Transpower takes no responsibility for identifying commercially sensitive information. Applicants/recipients should ensure any information they consider commercially sensitive is clearly identified as such.

3.5 Start pricing year and back-dated prudent discounts

35. A prudent discount always starts at the start of a pricing year (the start pricing year).
36. Normally, the start pricing year for a prudent discount is the next pricing year that starts at least six months after the prudent discount confirmation date. However:
 - the start pricing year for a prudent discount may be an earlier (future) pricing year if Transpower determines less than six months is practicable to give effect to the prudent discount
 - the start pricing year for an IBPD may be a later pricing year if the alternative project, if it were constructed, would not be commissioned before the prudent discount would

normally start (assuming construction commenced when the applicant submitted its application). In this case the start pricing year is the first pricing year that starts after the alternative project's notional commissioning date

- the start pricing year for a back-dated prudent discount is the first pricing year under the TPM (pricing year 2023/24).

37. A back-dated prudent discount is an approved prudent discount for which the application:

- was received by Transpower within six months of the date this manual was first published (i.e. on or before 1 August 2023)
- was not rejected by Transpower at the screening stage.

38. If a customer receives a back-dated prudent discount, the customer's transmission charges will, if required, be washed up to ensure the customer is not over-charged for the relevant pricing year(s). Other customers' transmission charges will not be increased in the wash up.

4 Application requirements

39. The applicant is responsible for all costs of preparing its prudent discount application, including independent verification of it.

4.1 Information requirements

40. A prudent discount application must contain the information described in the application requirements in Appendix 2.
41. Information specific to IBPD or SACPD applications is marked as such in the application requirements.
42. The information described in the application requirements is the minimum information required. Other information may be required to fully support an application, which may be provided with the application or requested by Transpower. The level of detail required is at least the level of detail a prudent board of directors of a company would reasonably expect when assessing an investment proposal for the alternative project.
43. When considering what qualitative and quantitative information and level of detail to include in its application, the applicant should have regard to:
- the complexity and novelty of the alternative project
 - the extent of uncertainty about the viability of the alternative project
 - the reliability of supporting data and opinions
 - the reasonableness of key assumptions and inputs relied on.

4.2 Independent verification

44. A prudent discount application must be independently verified. Under the TPM:
- independent verification** means, for an **application**, a written report on the accuracy and sufficiency of the information and analysis contained in the **application** prepared by 1 or more persons who are—
- (a) recognised technical experts on the subject matter of the **application**; and
 - (b) independent of the **customer** making the **application**; and
 - (c) approved by **Transpower**
45. Note, the independent verifier(s) must be approved by Transpower. It is recommended applicants obtain Transpower's approval before engaging an independent verifier.

5 Application fee

46. A prudent discount application attracts a two-stage application fee:
- a screening fee is charged to incentivise applicants to furnish a complete application, and to cover costs relating to screening activities
 - a detailed assessment fee is charged to cover Transpower's internal and external costs directly attributable to assessing the application in detail, including preparing the PDA (if the application is approved).

Application fee stage	Fee level, at date of publication of this manual (excl. GST)	When is this fee paid?	Is this fee refundable?
Screening fee	\$11,414.85	When the application is submitted	No (whether or not the application is accepted for detailed assessment or ultimately successful)
Detailed assessment fee	\$28,537.11 (standard) or \$57,074.23 (complex), with the potential for an additional amount if necessary to cover costs.	When the application is accepted for detailed assessment.	Yes, to the extent the detailed assessment fee exceeds Transpower's actual costs of detailed assessment (whether or not the application is ultimately successful)

5.1 Screening fee

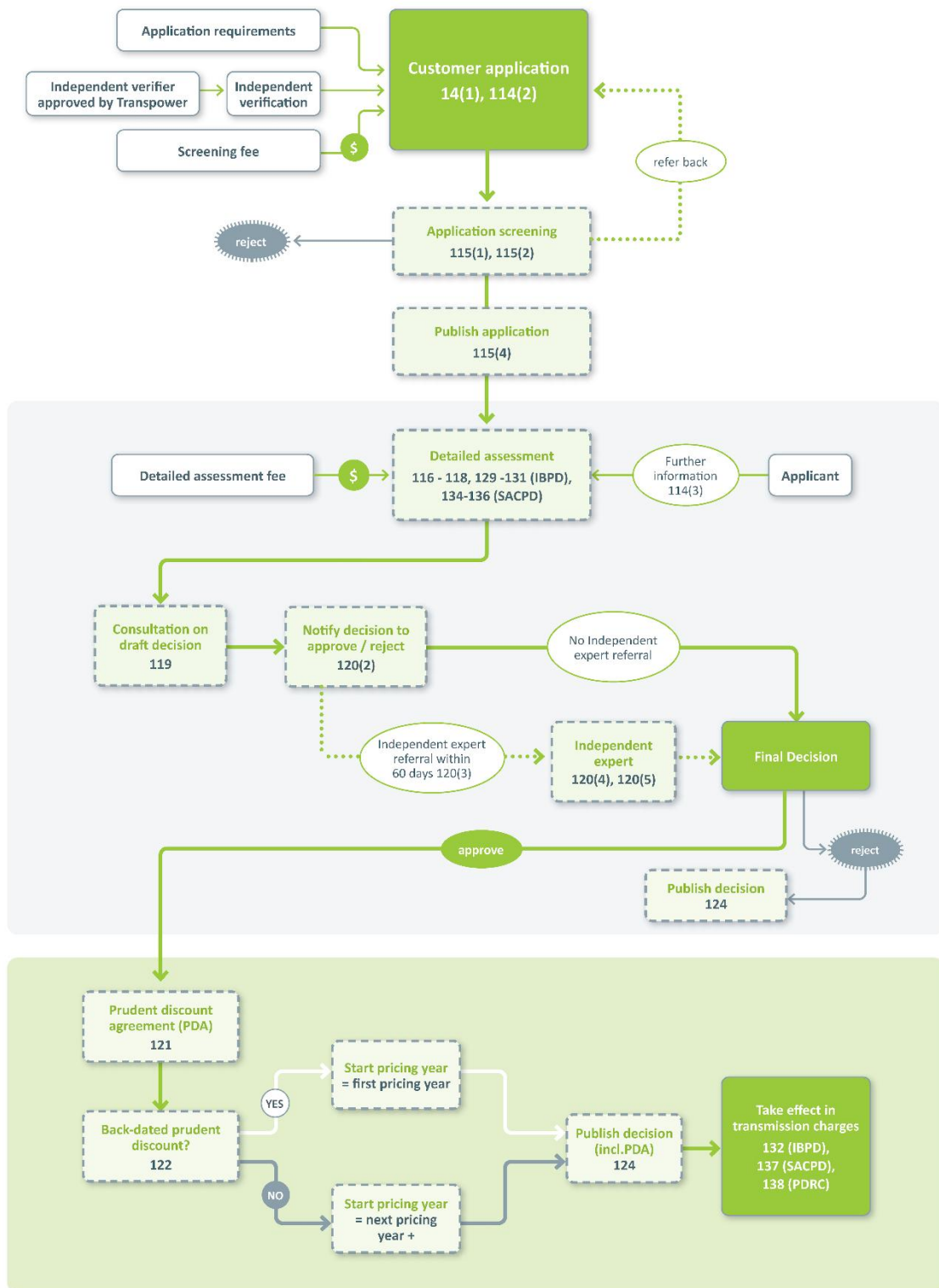
47. The screening fee at the date of publication of this manual is \$11,414.85 plus GST. The screening fee is escalated annually at the rate of the annual change in the Consumer Price Index published by Stats NZ. Transpower will publish the adjusted screening fee on its website in April each year.
48. The applicant must pay the screening fee before submitting its application. Transpower will reject an application if the screening fee for it has not been paid.
49. The applicant should contact Transpower to request an invoice for the screening fee before submitting its application.
50. The screening fee is non-refundable.

5.2 Detailed assessment fee

51. During screening for an application, Transpower will determine whether the application is standard or complex (see paragraph 18 above). If the application is accepted for detailed assessment, Transpower will notify the applicant of the detailed assessment fee and provide an invoice for it.
52. The detailed assessment fee at the date of publication of this manual is:
 - \$28,537.11 plus GST for a standard application
 - \$57,074.23 plus GST for a complex application.
53. The detailed assessment fee is escalated annually at the rate of the annual change in the Consumer Price Index published by Stats NZ. Transpower will publish the adjusted detailed assessment fee on its website in April each year.
54. Transpower will commence detailed assessment of the application once the detailed assessment fee has been paid. Transpower may reject the application if the applicant does not pay the detailed assessment fee by its due date.
55. Transpower will track the cost (internal and external) of detailed assessment and report this to the applicant on request.
56. If the cost rises above 80% of the detailed assessment fee, Transpower will estimate the remaining cost. If Transpower considers the remainder of the detailed assessment fee paid will not be sufficient to cover the full cost of detailed assessment, Transpower will notify the applicant and explain the additional estimated cost. If the applicant wishes to proceed with the application, the applicant must pay an additional detailed assessment fee equal to the estimated additional cost, which Transpower will invoice the applicant for.
57. Transpower may suspend detailed assessment of the application until the additional detailed assessment fee has been paid. Transpower may reject the application if the applicant does not pay the additional detailed assessment fee by its due date.
58. At the end of the application process, Transpower will refund any part of the detailed assessment fee that exceeds Transpower's actual costs relating to the detailed assessment.
59. The detailed assessment fee (including any additional detailed assessment fee) is intended to be reflective of Transpower's internal and external costs of assessing the application in detail, excluding overheads, as set out below:
 - At the date of this manual, Transpower's internal cost is calculated at a blended rate of \$139.26 plus GST per hour. Transpower's blended rate is escalated annually at the rate of the annual change in the Consumer Price Index published by Stats NZ. Transpower will publish the adjusted blended rate on its website in April each year
 - Professional fees may be incurred by Transpower to engage external experts to assist with assessing the application against the requirements of the TPM, preparing consultation collateral, reviewing technical submissions and cross-submissions, preparing decision records and drafting the PDA. External experts in the fields of electrical and civil engineering, finance, modelling, planning and law may be required, for example. External experts' fees will vary.

60. After gaining experience assessing applications, Transpower expects to revisit the fee structure and/or levels. This could mean lower fees if we are regularly processing refunds, or an uplift if we find many applications necessitate additional detailed assessment fees.

Appendix 1: Schematic of prudent discount application process



Appendix 2: Prudent discount application requirements

For ease of screening, applicants are requested to format their application to reflect the structure, numbering and headings of the list below.

Part A – General information

1. Type of prudent discount applied for (IBPD or SACPD)
2. Applicant details
 - 2.1. Name of applicant
 - 2.2. Customer status of applicant (generator, distributor, direct consumer)
 - 2.3. Applicant contact details for correspondence about application and invoicing of application fee
3. Other benefitting customer details (IBPD only)
 - 3.1. Name of other benefitting customer(s)
 - 3.2. Customer status of other benefitting customer(s) (generator, distributor, direct consumer)
4. Overview of alternative project
 - 4.1. Description of alternative project
 - 4.2. Location of alternative project
 - 4.3. Circuit diagram or other schematic showing alternative project
 - 4.4. Grid assets the alternative project would bypass (IBPD only)
 - 4.5. High-level project plan for construction of alternative project, including estimated commissioning date
 - 4.6. Economic life of alternative project
5. Prudent discount parameters
 - 5.1. Basis for cash flows in application (pre-tax or post-tax)
 - 5.2. Proposed prudent discount rate
 - 5.3. Proposed prudent discount calculation period
6. Conditions
 - 6.1. Any proposed conditions for prudent discount (see also requirements 9.2, 10.4, 11.2, 14.4 and 15.5)

7. Commercially sensitive information

- 7.1. Identification of any application content the applicant considers to be commercially sensitive, or state none of it is
- 6.2. Rationale for commercial sensitivity (if applicable)

Part B – Alternative project: Detailed non-financial information

8. Principal plant

- 8.1. List of principal plant required for alternative project, including:
 - a. quantities
 - b. electrical capacities (e.g. kV, MVA, MW)
 - c. reasonable spares over the prudent discount calculation period

9. Equivalence of alternative project

- 9.1. Comparison of existing grid level of service with alternative project level of service, as to:
 - a. power (MW) and energy (MWh) capacity
 - b. electricity quality
 - c. reliability of supply
 - d. security of supply
- 9.2. Any future events or circumstances external to the alternative project on which equivalence depends

10. Technical feasibility of alternative project

- 10.1. Outline of alternative project technologies and construction methods
- 10.2. Assessment of feasibility of any recent, untested or controversial technologies or construction methods, including:
 - a. compliance with relevant asset owner performance obligations in the Code
 - b. compliance with GEIP
- 10.3. Assessment of any property rights, resource consents or other approvals required for alternative project and feasibility of obtaining them
- 10.4. Any future events or circumstances external to the alternative project on which technical feasibility depends

11. Operational feasibility of alternative project

- 11.1. Assessment of feasibility of operation of alternative project, including:
 - a. load flow analysis
 - b. compliance with relevant asset owner performance obligations in the Code

- c. compliance with GEIP
- 11.2. Any future events or circumstances external to the alternative project on which operational feasibility depends

Part C – Alternative project: Detailed financial information

12. Capital costs of alternative project (to applicant/benefitting customers)

- 12.1. Detailed breakdown of estimated design and surveying costs
- 12.2. Detailed breakdown of estimated consenting and property right acquisition costs, including (SACPD only) the basis for costing any infeasible consents or property rights
- 12.3. Detailed breakdown of estimated procurement costs
- 12.4. Detailed breakdown of estimated construction costs
- 12.5. Detailed breakdown of estimated costs of associated works, including for SCADA and control systems
- 12.6. All of the above by category (e.g. substations, lines, cables, buildings, generating plant)
- 12.7. All of the above to include, as appropriate, reasonable allowances for:
 - a. project management
 - b. tendering and contract negotiation
 - c. insurance
 - d. performance bonds and other security
 - e. foreign exchange hedges
 - f. shipping, transport and storage
 - g. labour
 - h. plant hire
 - i. health and safety mitigation and traffic management
 - j. supply/business interruption
 - k. reinstatement and environmental mitigation
 - l. environmental appeals
 - m. weather and other delays
- 12.8. Detailed breakdown of estimated cost recoveries
- 12.9. Estimated financing costs (before, during and after construction)

13. Operating, maintenance and overhead costs of alternative project (to applicant/benefitting customers)

- 13.1. Estimated annual operating costs of alternative project, including for electrical losses relative to status quo
- 13.2. Estimated annual maintenance costs, including for supply/business interruption relative to status quo
- 13.3. Estimated change in overhead cost relative to status quo

Part D – Commercial viability, inefficiency and annuity

14. Commercial viability

- 14.1. Calculation of avoided transmission charges for applicant/benefitting customers over the prudent discount calculation period, including assumptions as to future transmission charges
- 14.2. Calculations demonstrating the test in clause 118(1) is satisfied over the prudent discount calculation period:

118 Assessment of Commercial Viability

- (1) The **alternative project** proposed in a **customer's application** for a **prudent discount** is only commercially viable if it is reasonably likely that:

$$\frac{PVATC - PVAPC}{PVAPC} > 0.1$$

where

PVAPC	is the present value of the alternative project costs for the alternative project calculated under subclause (2)
PVATC	is the present value of the customer's avoided transmission charges calculated under subclause (2).

- (2) In calculating the present values under subclause (1) (PV), **Transpower** must use the formula:

$$PV = \sum_n^{\square} \frac{A_n}{(1+r)^n}$$

where

A_n	are the alternative project costs or avoided transmission charges (as the case may be) for year n of the relevant prudent discount calculation period
r	is the relevant prudent discount rate , which must be pre-tax if the cash flows being discounted are pre-tax and post-tax if the cash flows being discounted are post-tax.

- (3) To avoid doubt—
 - (a) the calculation under subclause (2) does not assume the **alternative project** is fully amortised over the **prudent discount calculation period**; and
 - (b) any residual value of the **alternative project** at the end of the **prudent discount calculation period** is ignored in the calculation under subclause (2).

14.3. Sensitivity analysis for commercial viability sufficient to demonstrate the test is satisfied robustly, covering variations in:

- a. alternative project costs
- b. avoided transmission charges

14.4. Any future events or circumstances external to the alternative project (other than future transmission charges) on which commercial viability depends

15. Inefficiency (IBPD only)

15.1. Description of any capital, operating, maintenance or overhead costs Transpower will or may avoid or incur due to the alternative project over the prudent discount calculation period

15.2. Quantification of any capital, operating, maintenance or overhead costs Transpower will or may avoid or incur due to the alternative project over the prudent discount calculation period

15.3. Calculations demonstrating the test in clause 130(2) is satisfied over the prudent discount calculation period:

130 Assessment whether the Alternative Project is Inefficient

(1) If **Transpower** determines the **alternative project** for an **inefficient bypass prudent discount** satisfies all of the criteria in clause 129, **Transpower** must assess whether the **alternative project** is inefficient under subclause (2).

(2) The **alternative project** is only inefficient if it is reasonably likely that—

$$PVAPC > (PVT_{C_{no\ ap}} - PVT_{C_{ap}})$$

where

PVAPC	is the present value of the capital, operating, maintenance and overhead costs of the alternative project , including, but not limited to, the alternative project costs
$PVT_{C_{no\ ap}}$	is the present value of Transpower's capital, operating, maintenance and overhead costs of providing transmission services to the customer at the required service levels, including the cost of future transmission investments , without the alternative project calculated under subclause (3)
$PVT_{C_{ap}}$	is the present value of Transpower's capital, operating, maintenance and overhead costs of providing transmission services to the customer at the required service levels, including the cost of future transmission investments , with the alternative project calculated under subclause (3).

(3) In calculating the present values under subclause (2) (PV), **Transpower** must use the formula:

$$PV = \sum_n \frac{C_n}{(1+r)^n}$$

where

C_n	is the relevant costs for year n of the relevant prudent discount calculation period
r	is the relevant prudent discount rate , which must be pre-tax if the cash flows being discounted are pre-tax and post-tax if the cash flows being discounted are post-tax.

- 15.4. Sensitivity analysis for inefficiency sufficient to demonstrate the test is satisfied robustly, covering variations in:
- alternative project costs
 - Transpower costs without alternative project
 - Transpower costs with alternative project
- 15.5. Any future events or circumstances external to the alternative project (other than changes to Transpower costs) on which inefficiency depends

16. Annuity

- 16.1. Calculation of proposed annuity under clause 123:

123 Calculation of Annuity

The annuity under a **prudent discount** agreement (AN) is levelised and calculated as follows:

$$AN = \frac{APC}{\sum_{n=1}^N \frac{1}{(1+r)^n}}$$

where

N	is the number of years in the relevant prudent discount calculation period , with each such year being year n
APC	is the present value of the alternative project costs for the relevant alternative project calculated under subclause 118(2)
r	is the relevant prudent discount rate , which must be pre-tax if the present value of the alternative project costs for the alternative project is pre-tax and post-tax if the present value of the alternative project costs for the alternative project is post-tax.

Part E – Supporting information

- Proof of payment of screening fee
- Independent verification of application (clause 114(2)(d))
- Application requirements checklist (including where in the application each applicable requirement is met)
- Other supporting documentation (optional)

Appendix 3: Glossary

Most of these terms have a formal definition in clause 3 of the TPM, which is summarised below. Applicants should refer to the formal definitions also.

Term	Meaning
Alternative project costs	The capital, operating, maintenance and overhead costs of the alternative project. The operating costs include any increase or decrease in electrical losses from the alternative project (a decrease being a negative cost). See clause 117.
Annuity	A levelised annual sum paid by the recipient of a prudent discount to Transpower reflecting the present value of the cost of the alternative project over the term of the prudent discount agreement. The difference between the recipient's non-discounted transmission charges and the annuity is the amount of the prudent discount. See clause 123.
Applicant	A customer who applies for a prudent discount. For an IBPD, there may be more than one benefitting customer in which case there will be multiple applicants.
Application requirements	The minimum content requirements for a prudent discount application. The application requirements are in Appendix 2 of this manual. See clause 114.
Application fee	The fee an applicant must pay Transpower to process a prudent discount application, comprising a screening fee and detailed assessment fee. The application fee is specified in section 5 and published on Transpower's website. See clause 126.
Avoided transmission charges	For an IBPD, the transmission charges the applicant for a prudent discount would avoid if the relevant alternative project were implemented. For an SACPD, this is all of the applicant's connection charges, benefit-based charges and residual charge.
Back-dated prudent discount	A prudent discount that applies from the start of the first pricing year under the TPM (pricing year 2023/24) even if the application is approved later. A prudent discount must be applied for before the publication date of the first version of this manual to have back-dated status.
Benefitting customer	A customer named in an application whose transmission charges are, or would be, discounted under an IBPD. There may be more than one benefitting customer, in which case the commercial viability and inefficiency tests are applied in respect of all benefitting customers.
Commercial viability	A test that must be met for a prudent discount application to be approved (IBPD or SACPD). The test is that the alternative project is commercially viable for the applicant. The alternative project is commercially viable for the applicant only if the present value of the avoided transmission charges exceeds the present value of the alternative project costs (over the prudent discount calculation period) by more than 10% of the present value of the alternative project costs. See clause 118.

Detailed assessment	The stage of the prudent discount application process where Transpower assesses whether the relevant tests for approval of the application are met (commercial viability, equivalence, operational feasibility, technical feasibility, consistency with GEIP and inefficiency). Detailed assessment starts after the application has passed the screening stage and the applicant has paid the detailed assessment fee in full.
Efficient stand-alone cost	The alternative project costs for an efficient stand-alone investment. See clause 133.
Efficient stand-alone investment	A requirement for the alternative project for an SACPD. An efficient stand-alone investment is an investment in the grid and/or transmission alternative(s) an efficient transmission provider would make in the hypothetical situation where the applicant is the only transmission customer, assessed on a “brownfields optimisation” basis. Brownfield optimisation involves: (i) taking the existing grid, transmission alternatives and applicant grid points of connection as a starting point; and (ii) applying optimisation tests to those things to identify (in the single customer hypothetical) stranded assets, excess capacity and other over-engineering. See clause 135.
Equivalence	A test that must be met for a prudent discount application to be approved (IBPD or SACPD). The test is that the alternative project provides the same or a substantially similar level of service as the transmission services the applicant currently receives (or those provided by the bypassed grid assets in the case of an IBPD). This includes an assessment of electricity quality, reliability and security. See clauses 129 and 134.
GEIP	Good electricity industry practice, as defined in the Code but applicable to the management of an alternative project rather than the grid.
Independent expert	A recognised technical expert to whom an applicant may refer Transpower’s decision on a prudent discount application if the applicant disagrees with some aspect of it. If Transpower and the applicant cannot agree on an independent expert, one is appointed by the Authority. The independent expert’s decision is binding. See clause 120.
Independent verification	A report from one or more independent technical experts verifying the information and analysis in a prudent discount application is accurate and sufficient. The independent technical expert(s) must be approved by Transpower. See clause 114.
Inefficiency	A test that must be met for an IBPD application to be approved. The test is that the present value of the total cost of the alternative project exceeds the present value of any savings for Transpower if the alternative project were implemented (over the prudent discount calculation period). See clause 130.
Inefficient bypass prudent discount (IBPD)	A type of prudent discount provided to help ensure the TPM does not incentivise a customer to invest in a project (the alternative project) that would allow the customer to reduce its transmission charges, by bypassing the grid or part of it, while increasing total economic costs (i.e. would be inefficient overall). See clause 127.

Operational feasibility	A test that must be met for a prudent discount application to be approved (IBPD or SACPD). The test is that the alternative project would be feasible to operate, including that the alternative project would comply with applicable asset owner performance obligations and technical codes in Part 8 of the Code. The alternative project must also be otherwise consistent with GEIP. See clauses 129 and 134.
Prudent discount agreement (PDA)	A written agreement between Transpower and a recipient under which the recipient receives a prudent discount for the term of the agreement (maximum 15 years, unless renewed by way of later application). See clause 121.
Prudent discount calculation period	The period over which a prudent discount application is tested for commercial viability and (for an IBPD) inefficiency, being a maximum of 15 years from the start of the prudent discount's start pricing year. This is also the term of the PDA if the application is approved.
Prudent discount confirmation date	The date the applicant's time for referring Transpower's prudent discount decision to independent expert review has expired (60 days from being notified of the decision), the applicant confirms it does not intend to refer the decision or an independent expert has made their decision, and (if the prudent discount is approved) Transpower and the recipient have entered into a PDA for the prudent discount.
Prudent discount rate	The discount rate used to calculate present values for the commercial viability and inefficiency tests and the annuity. This is a regulated weighted average cost of capital (WACC) if one is available (applicant WACC for IBPD and Transpower WACC for SACPD) or otherwise determined by Transpower.
Recipient/prudent discount recipient	A customer who receives a prudent discount. For an IBPD, there may be more than one benefitting customer in which case there will be multiple recipients.
Screening	The stage of the prudent discount application process where Transpower assesses the adequacy of the information provided in and with an application. Transpower may require further information from the applicant at the screening stage, or reject the application. The application only proceeds to detailed assessment if it passes screening. See clause 115.
Stand-alone cost prudent discount (SACPD)	A type of prudent discount provided to help ensure the TPM does not result in a customer paying transmission charges that exceed the efficient stand-alone cost of the transmission services the customer receives. This is assessed by considering the cost of a project (the alternative project) that would provide services in substitution for all such transmission services.
Start pricing year	The first pricing year a prudent discount applies to. This is normally the first pricing year that starts at least six months after the prudent discount confirmation date. For an IBPD, the start pricing year may be later if it would take longer for the recipient to commission the alternative project (counted from the date of the application). For a back-dated prudent discount, the start pricing year is pricing year 2023/24.
Technical feasibility	A test that must be met for a prudent discount application to be approved (IBPD or SACPD). The test is that the alternative project would be feasible to construct using

	present day technology and construction techniques. However, for an SACPD the alternative project does not need to be feasible from a consenting or property right perspective. The alternative project must also be otherwise consistent with GEIP. See clauses 129 and 134.
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