



Prudent discounts

Purpose of this Information Sheet

This Information Sheet describes the prudent discount policy under the transmission pricing methodology (TPM).

A prudent discount provides discounted transmission charges for one or more customers compared to the transmission charges that would otherwise apply under the TPM.

This Information Sheet provides an overview of:

- the two types of prudent discount
- the prudent discount application requirements and fee
- prudent discount recovery charges.

The prudent discount policy is contained within Part I of the TPM.

All clause references in this Information Sheet are to clauses of the TPM.



Legal disclaimer

This Information Sheet provides a high-level overview of the relevant subject matter only.

Transpower recommends you review the TPM itself and seek independent expert advice before relying on anything in this Information Sheet.

Transpower cannot, and does not, accept any liability for the accuracy or completeness of this Information Sheet or the consequences of your or others' reliance on it.

If you provide this Information Sheet or an extract from it to any other person you must include this disclaimer.



Version history for this guide

Version	Published	Key amendments compared to previous version
1	1 February 2023	n/a



1 Background

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.

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.

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 information sheet relates to both types.

More information about the requirements and process for obtaining a prudent discount are in the prudent discount practice manual.¹

2 Inefficient bypass prudent discount

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. That is, the additional costs due to unnecessary duplication would increase costs for all electricity consumers, and in that sense would be inefficient. This results in a situation where consumers would be better off paying higher transmission charges to fund a prudent discount to avoid the alternative project going ahead.

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.

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.

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

¹ Under the TPM Transpower must publish a prudent discount manual, which contains assumptions and detailed methodologies Transpower intends to apply to assessing prudent discount applications and that are expected to be consistent across different applications. The prudent discount practice manual is published on our website [here](#). The manual also contains the application requirements and application fee.

- 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 (in the sense explained above).

3 Stand-alone cost prudent discount

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 currently receives. This is assessed by considering what the customer's transmission costs would be in the hypothetical situation where the grid is designed to provide transmission services solely to that customer. This is a new type of prudent discount.

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.

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 customer with the same or substantially similar level of transmission services as the customer currently receives
- 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.

4 Prudent discount agreement

Both types of prudent discount are applied through 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.

5 Prudent discount application requirements and fees

The prudent discount application requirements are set out in the prudent discount manual. The requirements are grouped under the following headings:

- General information
- Non-financial information on the alternative project
- Financial information on the alternative project
- Information about commercial viability, inefficiency and the annuity
- Supporting information, including confirmation of screening fee payment and independent verification.

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 in the application or requested by Transpower. The level of detail required is the level of detail a prudent board of directors of a company would reasonably expect when assessing an investment proposal for the alternative project.

As well as complying with the application requirements, 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**

The prudent discount application fee is specified in out in the prudent discount manual. The application fee is in two parts:

- a screening fee that must be paid up-front
- a detailed assessment fee that must be paid when Transpower accepts the application for detailed assessment after screening it.

6 Prudent discount recovery charges

The amount of a prudent discount is the difference between what the recipient's transmission charges would have been without the prudent discount and the annuity the recipient pays under the PDA. Transpower recovers this amount from other customers through prudent discount recovery charges under the TPM.

To the extent the prudent discount relates to benefit-based investments, the amount of the prudent discount is recovered from the other beneficiaries of those investments in proportion to the beneficiaries' allocations. The rest is recovered from load customers in proportion to their residual charges.

