Eskom/NERSA MYPD Public Hearings

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Findings from modelling of the effects of electricity price increases, loadshedding, credit-rating downgrades and interest rate increases

Research Findings

- Real electricity price increases will, fairly obviously, have a negative economic impact on the general economy, relative to a BAU baseline (in a similar way as a tax or petrol price increase would)
- We modelled <u>different magnitudes and speeds</u> of electricity price adjustments to reach a cost-reflective level (as indicated by Eskom)
- There is a <u>concern that the BAU baseline is unsustainable</u>, which may lead (and already has since this research was first conducted) to credit-rating downgrades and interest rate (RRoR) increases, so we modelled these scenarios too
- In addition, <u>assumptions about the BAU baseline growth</u> may have a tangible impact on how shocks are <u>absorbed and perceived</u> in the economy (shocks in low growth environments may yield negative level effects instead of just negative relative to BAU effects)

Research Findings

- Our findings suggest that the economy-wide effects of even a modest credit-rating downgrade (such as those experienced over the past three years) will be more severe than those of a medium-paced adjustment of electricity prices toward cost-reflective levels (loadshedding yields the worst economic impact) (yes, there are some endogeneity concerns here)

- South Africa’s recent economic performance shows this to be true as GDP and investment growth has stagnated following rating downgrades (of course, there were many contributing factors, but the financial position of SOEs have been of particular concern)

- Regardless of what happens with Eskom’s business model or the price path they are allowed, Eskom’s financial stability must be secured as soon as possible as further credit rating downgrades and increases in the ERoR from investors will come at a significant cost