S5: Exchange Rate - IRP 2010 Input Parameter

Parameter	**Exchange Rate**
Parameter Value	The exchange rate will be used as per EPRI report, using R7.40/USD (as at beginning January 2010)
Rationale	Since the IRP deals with real values over the period of the study, exchange rate fluctuations would be inconsistent with this approach. With significant changes to the modelling inputs, allowance can be made to varying exchange rates, but we do not see significant benefit from this change.

Responses to Public Inputs

Summary of specific comments	Response
Exchange rate should not be constant for the model. A range of exchange rates should be included in this parameter. (90x2030, CIC, ELA, Exxaro, Private-AR, Windlab Developments SA)	All costs in the model are determined on a real basis (thus the model effectively ignores the impact of inflation on future prices). If exchange rates shift in line with this inflation then the real costs should remain unchanged.
Exchange rate proposed implies a weak local currency. More appropriate to use a more realistic short-term currency and use Monte Carlo type simulation to provide more realistic band (CEF)	The proposed exchange rate has been changed to that at the start of 2010 on which basis the generic supply side costs have been calculated. While the exchange rate is likely to vary from this, it may be reflected in the inflation rate which is effectively ignored in the model (as all costs are in real terms).
Forward exchange rates curves can be obtained from main SA commercial banks (CIC)	Noted.
Consideration should be given for IPP PPA tariffs being negotiated in dollar or euro terms, enabling developers to access foreign loans. (CSP Developers)	Noted. This is not directly an IRP issue.
A sensitivity study on the effect of exchange rate volatility on generation costs of various technologies needs to be conducted as part of the IRP process to determine the price cone. (DoE)	Noted.
It is prudent to choose technologies with higher proportions (or potential) for domestic manufacturing and limited imported fuel. The risks associated with exchange rate fluctuations need to be incorporated. (Energy Caucus)	Noted.
A credible economic forecaster's exchange rate should be used (Exxaro).	Noted.
Exchange rate issues can be reduced in proportion to the quantity of RE and storage equipment manufactured locally (Mbani Wesizwe).	Noted.
The values are very conservative, but are the correct input values (Private-WB)	Noted. The exchange rate was changed to the rate at the beginning of 2010.
The proposed ZAR/EUR assumptions are at levels close to the peak during the recent financial crisis which is unsatisfactory. If the modelling is done in real terms, some attempt must be made to model an equilibrium exchange rate and allow the exchange values to fade back towards this level over time. (SASOL)	Noted.
A clear explanation must be provided for the proposed exchange rates. (SAWEA)	The revised proposal is based on the rate as at January 2010 and was used by EPRI to determine the local currency cost for generic options.
If the inflation rate is 6-7%, this needs to be reflected in the exchange rate (ie. it should not be constant). (SAWEA)	All costs in the model are determined on a real basis (thus the model effectively ignores the impact of inflation on future prices). If exchange rates shift in line with this inflation then the real costs should remain unchanged.