



Rate of Inflation - IRP 2010 Input Parameter information sheet (Output)

This sheet is to be used as the primary stakeholder engagement tool. This document provides the information that will allow the stakeholders to make a meaningful contribution to the IRP Input parameters

Parameter	Rate of Inflation
Purpose	Dependent variable on the outcome of the IRP price cones which will inform the likely price path for electricity over the period and therefore the likely impact on inflation.
Impact on the IRP	<p>Inflation's effects on the economy and therefore the IRP are diverse and can be simultaneously positive and negative. Negative effects of inflation include a decrease in the real value of money over time; uncertainty about future inflation may discourage investment and saving, or may lead to reductions in investment of productive capital and increase savings in non-producing assets. This can reduce overall economic productivity rates, as the capital required to retool companies becomes more elusive or expensive.</p> <p>High inflation may lead to shortages of goods if consumers begin hoarding out of concern that prices will increase in the future.</p> <p>Positive effects include a mitigation of economic recessions, and debt relief by reducing the real level of debt.</p> <p>Higher energy prices act as a driver of inflationary pressure.</p> <p>Inflationary increases however have a positive impact on debt and hence need to be considered in the financial and funding processes.</p>
Assumptions included in establishing the parameter values in this sheet	<ul style="list-style-type: none">• Influenced by Price Cone• Security of supply• Outcome of pricing models
Parameter Value	For inflation the draft IRP assumed no specific inflation rate as all



	cost calculations were in real terms (in 2009 rands). However in the calculation of the real discount rate there was an assumption of 7% inflation (but does not seem to have impacted greatly on the resulting rate calculation as the other parameters are expressed in real terms).
Range of Parameter Value	6-8%
Preconditions necessary to make possible for this parameter to be included in the IRP	
Parameter Owner	National Treasury