

Drought in Brazil Hits Hydropower and Energy Rationing is Increasingly Likely



Brasilia, May 7 (NNN-RHC) -- With less than 40 days remaining before the country takes center stage as host of the 2014 FIFA World Cup, Brazilian hydropower power operators are facing a severe drought that makes energy rationing an increasing likelihood.

The drought, which has been affecting hydroelectric output for more than a year, is particularly concerning in Brazil, where about 70% of the country's energy is generated by water.

Though companies' abilities to provide energy is now becoming an issue for consumers, so too is it becoming an issue for their own credit ratings, according to the Moody's Corporation, an international market analysis group.

"Energy rationing would have a negative impact on all hydro generation companies not just because of lower sales," Moody's vice president Alexandre Leite said.

"The companies would also be forced to buy energy in the higher priced spot market to make up for the difference between their current generation and the physical energy assigned to each by the regulator."

A Moody's report also said the drought affects distribution companies by causing a drop in operating revenues and cash flows.

The study noted that distributors would be entitled to tariff adjustments, but would remain susceptible to risk regarding the timing and magnitude of those changes.

“Even without rationing, hydro generation companies would potentially suffer depending on contract structures and the need to access the spot market if their effective generation is lower than their allocated physical energy,” Moody's vice president, Jose Soares, said.

“In addition, the credit quality of energy distribution companies would also weaken if the federal government fails to adequately cover costs related to thermal power acquisition and involuntary exposure to the spot market.”

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