South Africa Electricity Traders Association

Policy to power

Ten actions to deliver green, accessible and secure electricity

About this report

This report was commissioned by the South Africa Electricity Traders Association (SAETA). Krutham produced it with technical support and insights from SAETA members, and the contents represent the views of both Krutham and SAETA. As part of the founding framework for this project, Krutham has prioritised the need to address issues affecting all stakeholders in a fair and transparent manner, rather than focusing solely on the concerns of SAETA.

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Key concepts

ERA (as amended)

The primary legal framework for electricity reform. It shifts South Africa from a vertically integrated monopoly to a competitive, multi-market system. The act amends the Electricity Regulation Act to introduce new institutions, including an independent transmission system operator (TSO) and market operator, and mandates open, non-discriminatory grid access. It sets the direction of reform but depends on effective implementation.

Reform roadmap

A Cabinet-endorsed plan to turn the ERA (as amended) into sequenced, practical actions. It defines the market target state and Eskom's future role, allocates accountability across institutions, and aligns timelines and targets. A single political champion would reduce policy risk, improve coordination and strengthen investor confidence.

SAWEM

The mechanism that operationalises the ERA (as amended). It establishes a phased, competitive wholesale market managed by the National Transmission Company South Africa (NTCSA) as market operator. From January 2025, it requires a Market Code, with approvals overseen by NERSA.

Market Code

The Market Code sets the binding rules for buying and selling electricity in the SAWEM. It governs trading, dispatch, balancing and settlement between generators, traders, retailers and consumers that opt to participate, supporting short-term market operations while safeguarding medium- and long-term security of supply. Maintaining a Market Code is a condition of the market operator licence, which NERSA granted the NTCSA in 2025. The code will define wholesale trading, balancing and settlement arrangements and include transparent governance processes for amendments.

Aggregators & traders

Aggregators pool supply from independent power producers and match it with customer portfolios through wheeling. Traders hold a NERSA licence to buy and sell electricity at wholesale or retail level, and may aggregate supply and demand. Participation in the SAWEM and market risk management sits outside the scope of the licence.

Trading rules

The trading rules (currently in draft format) set out how electricity can be bought and sold as the sector moves from a single-buyer model to a more competitive market. Issued by NERSA, they define who may trade, how wheeling, billing, settlement and supplier switching must work, and how risks and responsibilities are shared between traders, generators and network operators. The rules introduce a phased opening of the market and provide the transitional framework that will operate alongside the SAWEM Market Code. The rules will continue to govern bilateral trading, while the SAWEM Market Code applies to short-term market trading.

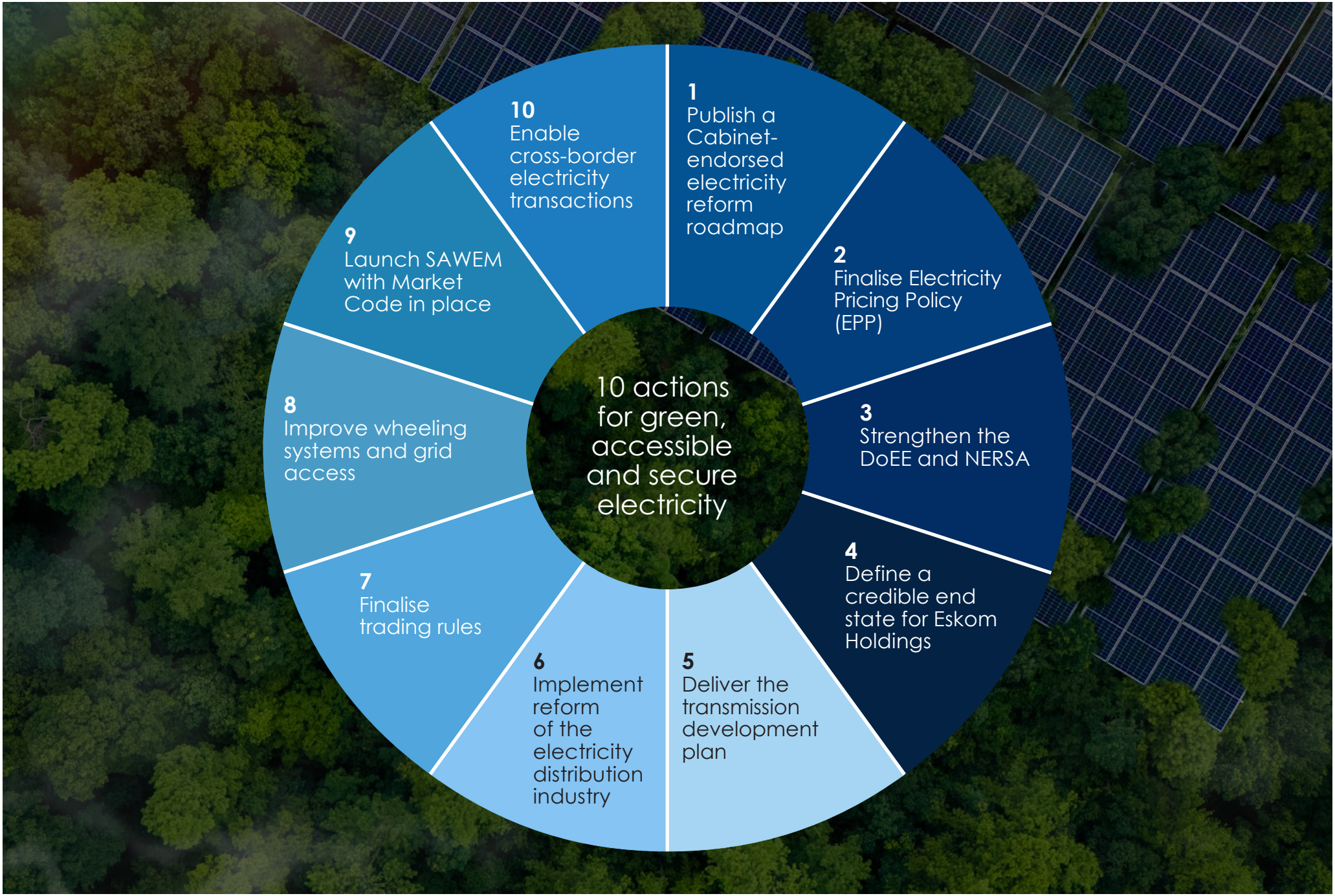
Wheeling

The use of the NTCSA, Eskom Distribution and distributor networks to move electricity from generation to consumption. Wheeling is governed by the NERSA regulatory rules on network charges for third-party wheeling of energy. At present, several different wheeling frameworks are being used and/or developed:

Traditional wheeling
Contractual delivery from a seller to one or more consumers within a network, and applies to high- and medium-voltage end users. Consumers' existing electricity supply agreements are amended for those connected to municipalities, Eskom Distribution or the transmission system, with volumes measured at grid entry and exit points and credits provided to the consumer in respect of electricity procured from third parties.

Virtual wheeling
An Eskom concept that is a financial settlement model that lets companies with multiple sites procure renewable electricity from one or more independent power producers (IPPs) under a single structure. Energy is reconciled financially across Eskom Distribution or municipal connections, consolidating loads and settling at a corporate Eskom account level. It also services low-voltage wheeling, unlike traditional wheeling.

Portfolio wheeling (in development by Eskom)
A multi-to-multi model allowing sellers to supply electricity from one or more IPPs to a portfolio of Eskom Distribution-connected off-takers under a single arrangement, with time-of-use allocation and separate commercial settlement.


10 actions for green, accessible and secure electricity
1 Publish a Cabinet-endorsed electricity reform roadmap
2 Finalise Electricity Pricing Policy (EPP)
3 Strengthen the DoEE and NERSA
4 Define a credible end state for Eskom Holdings
5 Deliver the transmission development plan
6 Implement reform of the electricity distribution industry
7 Finalise trading rules
8 Improve wheeling systems and grid access
9 Launch SAWEM with Market Code in place
10 Enable cross-border electricity transactions

1 Executive summary

1.1 Introduction

South Africa is at a pivotal moment in electricity reform. After more than a century of monopoly control, the country is moving towards a multi-market electricity model designed to unlock the investment needed to deliver a least-cost, resilient power system – one that can support rapid economic growth while creating increased competitiveness through lower energy tariffs.

> Eskom Holdings' unbundling is the most important economic reform since 1994.

It will facilitate the establishment of a wholesale electricity market, encouraging competition, enabling trading among many participants and providing the foundation for an electricity multi-market.

1.1.1 Context for reform

Electricity reform in South Africa is driven by both global change and domestic constraints.

Globally, the electricity sector is undergoing a fundamental transition. The cost of renewable generation has fallen sharply, altering how power systems are built and operated. On a levelised cost of electricity basis, in 2024, 91%[1] of all newly commissioned utility-scale renewable projects delivered electricity at a lower cost than the cheapest new fossil fuel-fired alternative, underscoring how economic forces now favour clean generation over conventional fossil fuels. This shift requires substantial investment in transmission and grid flexibility to manage a more complex generation mix and to move power efficiently from where it is produced to where it is consumed.

South Africa faces this global transition while confronting a uniquely severe domestic challenge. Much of the country's coal-fired generation fleet is old, unreliable and nearing the end of its technical life. More than half of existing generation capacity will need to be replaced within the next 15 years. Continuing to rely on this fleet raises costs, undermines reliability and constrains economic growth. The combined result is a requirement for unprecedented levels of capital investment in both generation and transmission.

This scale of the required investment cannot be met by Eskom, the public sector or the fiscus alone. It requires a new electricity sector construct that can attract private capital at scale, allocate risk more efficiently and support long-term system reliability.

Electricity reform is therefore not optional. It is the mechanism through which South Africa can replace ageing capacity, modernise the grid and mobilise the investment needed to support growth, affordability and security of supply.

1.1.2 The reform response – the Energy Action Plan (EAP)

South Africa's electricity reforms build on the president's Energy Action Plan (EAP) of July 2022, which linked urgent load shedding relief to deeper structural reform. The EAP created a clear reform pathway. It utilised the burning platform of then chronic load shedding to imagine deeper change in the electricity supply industry after more than 20 years of policy research. At the core of the EAP was a reimagining of how investment, risk sharing and pricing signals are dealt with, not through regulatory determinations but through a marketplace that can match demand and supply and crowd in both financing and investment outside the public sector's limited balance sheet. Traders are a key piece of that new machinery.

The transition also builds on government's stated objectives in Medium-Term Development Plans, annual Budget Reviews and successive State of the Nation Addresses (SONA). This includes the most recent SONA in February 2026[2], where President Cyril Ramaphosa announced a plan to create a fully independent transmission entity, with all its assets transferred out of Eskom Holdings. A task team in the National Energy Crisis Committee (NECOM) chaired by the President will devise a plan, budget and timeline to execute this objective within two years, ahead of the end of his final term.

Read **Appendix 1: Background** for more information.

1 IRENA (2025), *Renewable power generation costs in 2024*, International Renewable Energy Agency, Abu Dhabi.
2 Ramaphosa, C. (2026, February 12). *State of the Nation Address 2026*. South African Government.

1.1.3 The market vision – SAWEM and a multi-market system

The South African Wholesale Electricity Market (SAWEM), enabled by the Electricity Regulation Act (ERA) of 2006 as amended (2024), offers a further pathway to competitive pricing, diversified investment and better risk allocation. Its impact will be measured not by legislation alone, but by whether a functioning multi-market emerges that expands access, improves affordability, ensures security of supply and attracts private capital at scale.

This reform path points to a multi-market model that combines a competitive wholesale market, centred on the SAWEM, with bilateral trading that will continue alongside it.

The multi-market should integrate bilateral contracts, public supply and the SAWEM. These segments serve different needs and must operate coherently. The Market Code should govern the wholesale market, while trading rules should govern bilateral transactions. The two frameworks should align, but not be conflated or allowed to conflict, and must apply on a neutral and non-discriminatory basis.

> This transition depends on structural reform, tariff reform, municipal reform and the unbundling of Eskom Holdings, but its success will be judged by what it creates – a functioning market that expands access to electricity, improves affordability and security of supply, and attracts capital by allocating risk efficiently and matching demand and supply in real time.

If done well, the reforms can crowd in private funding across generation, transmission and distribution. This investment can support delivery of the objectives set out in the ERA (as amended) and the Integrated Resource Plan (IRP).

1.1.4 Entering the implementation phase

Legislation already supports participation by multiple stakeholders, including IPPs and traders, who are mobilising significant private capital for new generation and related infrastructure.

The challenge lies not in policy intent, but in execution – clarifying the sequencing of reforms and the institutional responsibilities required to deliver them, while managing conflicts of interest and ensuring consistent treatment across market participants. While there has been progress, reforms are now entering a complex phase in which detailed design, sequencing, and institutional coordination matter most. This is also where confidence can be lost if clarity falters.

It is at this point that the vision of the EAP looks less certain and more at risk – and with it the ability to crowd in further investment – as reform processes move into the detailed work required to embed the new market framework.

1.1.5 Market rules, neutrality and fair access

This transition to a multi-market must be underpinned by clear rules, non-discriminatory access and confidence that no participant enjoys undue advantage. It should protect Eskom Holdings by ensuring generators (either directly or via their distributor) are accountable for deviations between their forecast and actual supply, while guaranteeing that the costs of maintaining the grid in balance are more equitably shared. To achieve this, system operations and network access must be insulated from related-party commercial interests.

A well-designed market model can reduce tariff pressure through efficiency and private investment, unlock new generation capacity, improve reliability and support economic growth.

Fair and equal treatment of all market participants is essential. Any party wheeling power from one point to another should face the same rights and responsibilities, whether an IPP or a trader. Likewise, any party supplying a customer under a commercially agreed tariff should operate under the same obligations, regardless of business model. Third-party wheeling rules and trading rules must apply consistently and in tandem, without preferential access or discriminatory conditions.

Ongoing reforms must manage this transition carefully, with clear regulation and strong regulatory oversight by a well capacitated regulator. This will create a level playing field for all participants, limit conflicts of interest and support efficient market outcomes.

1.1.6 Eskom, municipalities and regulation

The long-term sustainability of Eskom Holdings and municipalities remains central to successful reform. This requires unbundled tariffs that allow appropriate recovery of fixed costs, including those associated with being the default provider of capacity to customers. At the same time, these costs should be subject to robust scrutiny by a well-capacitated NERSA to protect consumers and ensure efficiency, and to ensure that regulated charges are not used to distort competition. Reduced reliance on National Treasury (NT) support should follow from improved operational and financial stability, rather than from cost shifting.

Municipalities need targeted support to enable wheeling and market participation, including standardised frameworks, systems and templates developed with regulatory guidance. Without this support, wheeling risks remain theoretical across much of the country, limiting the benefits of reform for consumers and the wider economy, and entrenching uneven access to market opportunities.

1.1.7 Momentum is building

Reform is moving forward and recent work by the Department of Electricity and Energy (DoEE) with the Energy Council of South Africa and the National Energy Crisis Committee (NECOM) shows the green shoots of alignment around a shared vision.

Initial reforms have already unlocked a significant wave of private investment. Between 2023 and 2025, almost 4.7GWs[3] of private-contracted power projects above 5MW reached financial close. Of this, 56% (2.6GW) are contracted to eight traders who responded to an anonymous survey conducted by Krutham in February 2026. Most projects that reached financial close in 2023 (2,141MW) were bilaterial, while 2024 saw a mix of bilateral and trader projects (1,456.6MW) and then 2025 saw mostly trader projects reach financial close (1,101MW), highlighting the important role traders already play in securing new generation capacity. Reinforcing this trend, the traders surveyed have a pipeline of an additional 18GW that will reach financial close in coming years.

Critically, these projects would otherwise have needed to wait for procurement under a government led program such as the REIPPP, further exacerbating the fiscal burden that centralised procurement has placed on treasury. These projects do not impact the national balance sheet and in many instances effect meaningful grid upgrades as part of their required self-build agreements with Eskom.

Momentum is also visible in system performance and market access. Eskom's energy availability factor has recovered from crisis lows, with year-to-date performance reaching 64.55% as of early January 2026 and the fleet achieving or exceeding 70% EAF on 55 occasions[4]. This improvement has been driven mainly by a sharp reduction in unplanned outages, which fell to 7,705MW in early January from 13,876MW a year earlier, alongside lower planned maintenance requirements. At the same time, progress on wheeling, including the automation of virtual wheeling and early commercial platforms, appears to be expanding market access beyond large customers to smaller and lower-voltage users. The result has been fewer load shedding incidents, reduced reliance on diesel generation and materially lower operating costs, creating space for structural reforms to advance while new capacity comes online.

The next step is to bring this momentum together in a clear roadmap that sets out practical actions, strengthens coordination across institutions and builds on work already under way.

1.1.8 Purpose of this report

This report is designed to step back and consider the vision of the EAP and what is now required to achieve it. Its purpose is to bring together the key strands of electricity reform into a single, coherent view of the work that must still be completed to deliver the policy intent and desired outcomes of the ERA (as amended).

> Rather than starting from a private sector or institutional lens, it asks a simple question: if we pull on the reform thread, which hard problems must be solved, by whom and in what sequence?

3 Power Futures Lab. *South Africa's Private Power Projects Dashboard*. Last data update: end December 2025.

4 Eskom Holdings SOC Ltd. (2026, 9 January). *Eskom's power system remains stable, recording year-on-year gains with the energy availability factor remaining on an upward trend and unplanned outages down to 6 171 MW*. Eskom.

The EAP, which led to NECOM, had deliberately short timelines, but won wide political support. That brevity helped unlock momentum, but it also meant the plan could not surface or resolve the complex issues that have emerged as reforms have deepened. Nor could it deal with how these issues interact across institutions, markets and timeframes. Multiple stakeholders are now engaged in discrete but interdependent activities that must proceed in parallel and in a coordinated way. This report seeks to collate those moving parts into a shared reference point for open engagement and, ultimately, a credible basis for an agreed plan of action for the sector over the next few years, spanning government, the regulator, utilities and private participants.

A durable transition must balance the needs of Eskom Holdings and the private sector. Eskom Holdings must address its legacy issues, complete unbundling and define its future role. The private sector needs certainty on policy, regulation and timelines to reach bankable and commercially viable projects. These needs are well understood and do not conflict if the state accepts that Eskom Generation's relative fleet will shrink as private investment enters, in tandem with the anticipated coal decommissioning schedule.

> The task now is to manage that transition deliberately and fairly. That requires clear decisions on Eskom Holdings' end state, explicit timelines for implementation, and strong safeguards to ensure the independence of key functions to avoid conflicts of interest and support a level playing field.

It also requires stronger regulatory capacity, a viable distribution sector and a path that aligns energy security with climate ambition, while safeguarding neutrality, non-discrimination and efficient market functioning.

1.1.9 Why electricity market reform matters

South Africa's electricity reforms are not optional adjustments. They are a structural response to deep economic, energy and climate pressures that have built up over decades. The ultimate objective is faster, more inclusive and more competitive economic growth. Achieving that outcome requires three conditions: secure electricity supply, affordable and predictable prices, and a credible pathway to decarbonisation.

While the reforms accelerated in response to the crisis, their foundations stretch back to the democratic transition and the 1998 White Paper on Energy Policy[5], which already recognised the need for more capacity, more participants and cleaner technologies. Today, the stakes are higher. Reform outcomes will shape growth, competitiveness, energy security and the credibility of South Africa's decarbonisation pathway.

A competitive multi-market electricity system is the chosen pathway to deliver these outcomes. International experience and recent domestic progress show that diversified supply, active trading and well-functioning markets are more effective at delivering security, affordability and investment than single-buyer monopoly models. Against this backdrop, the key reasons for reform are set out below.

- **Sustainable faster growth:** A competitive electricity market can remove a binding constraint on economic growth by restoring supply security, lowering costs and crowding in private investment. Facilitating the participation of more market participants improves flexibility and efficiency, enhances risk management and improves market liquidity.
- **Electricity security:** South Africa remains highly exposed to constraints in Eskom Generation. Strong private-sector offtake commitments, including from traders, can help unlock investment into new generation capacity. Market mechanisms can also attract new resources and strengthen system balancing.
- **Decarbonisation pathway:** Market reform underpins decarbonisation by enabling rapid investment in renewables, supporting corporate decarbonisation and reducing exposure to carbon border measures such as the EU's Carbon Border Adjustment Mechanism (CBAM). Alignment with domestic carbon taxes and carbon budgets makes electricity reform an economic necessity, not only a climate one.
- **Tariff minimisation and affordability:** Competitive price formation, least-cost dispatch and active trading can flatten

5 Department of Minerals and Energy. (1998). *White paper on the energy policy of the Republic of South Africa*. South African Government.

long-term tariff trajectories compared with administratively set monopoly pricing. This is critical for households, municipalities and businesses under sustained affordability pressure.

- **Importance of a multi-market system:** International experience shows that no single wholesale market operates in isolation. A wider ecosystem of bilateral contracts, trader-led transactions and short-term markets delivers better reliability, lower system costs and stronger investment signals than single-buyer models.

Each of these themes is explored in detail in the appendix, with supporting data, international evidence and implications for market design and implementation.

Read **Appendix 2: Why it is so important** for more details.

1.2 Focus on 10 key actions

The 10 actions below set out an integrated agenda for executing electricity reform. Together, they reflect the minimum set of decisions and deliverables required to move from policy and legislation to a functioning electricity multi-market. Each action addresses a binding constraint in the system, from institutional capacity and pricing to networks, trading and market operation. Taken together, they provide a clear line of sight from reform intent to implementation, and define what must be done to secure a competitive, reliable and investable electricity system.

Action 1: Publish a Cabinet-endorsed electricity reform roadmap

South Africa needs a clear, Cabinet-endorsed electricity reform roadmap that sets out the intended market target state, key milestones and institutional responsibilities. The roadmap should bring together existing reform strands under the ERA (as amended), including the establishment of the SAWEM, Eskom Holdings' unbundling and reform of pricing and the distribution industry. Clear targets, sequencing and accountability, backed by political authority, are essential to maintain momentum, reduce uncertainty and give investors confidence as reforms move into a more complex execution phase. The DoEE has such a draft under development and follows on from a similar roadmap developed by the Department of Public Enterprises in 2019[6].

Why this matters

Without Cabinet approval and political primacy, reforms remain weakly coordinated, vulnerable to resistance and unable to overcome entrenched interests that continue to block change.

Action 2: Finalise Electricity Pricing Policy (EPP)

Finalising and implementing the EPP is critical to underpinning a multi-market electricity system. The policy must provide long-term price certainty, support cost-reflective and unbundled tariffs and align regulated pricing with competitive market outcomes. A credible pricing framework will enable bilateral power purchase agreements (PPAs) to remain bankable alongside the wholesale market, support financing of new capacity and protect consumers through robust regulatory oversight by NERSA.

Why this matters

Without tariff reform, the wider restructuring effort cannot deliver financial sustainability, fair competition or investment at scale.

Action 3: Strengthen the DoEE and NERSA

Government must strengthen the capacity of the DoEE and NERSA to regulate a more complex, competitive electricity system. This includes policy clarity, appropriately skilled and experienced staff and adequate resources to implement the EPP, award, monitor and enforce licences and oversight of market conduct. Without stronger institutions, uncertainty around grid access, pricing and compliance will continue to undermine bankability and hinder reform.

Why this matters

Insufficient regulatory capacity risks inconsistent decisions, delays and loss of investor confidence when private capital is most needed.

Action 4: Define a credible end state for Eskom Holdings

Eskom Holdings' unbundling is central to electricity reform and requires a clearly defined and credible end state with defined timelines for achieving this. This includes the future role of Eskom Generation as its fleet declines, separation of commercial interests from network and system operations and a sustainable balance sheet path. Clarity on Eskom Holdings' role will help manage the transition fairly, protect security of supply and align public support with improved operational and financial performance rather than ongoing cost shifting.

Why this matters

Unresolved capital structure issues will stall reform and leave Eskom carrying risks meant for markets.

6 Department of Public Enterprises. (2019). *Roadmap for Eskom HoldCo in a reformed electricity supply industry*.

Action 5: Deliver the transmission development plan (TDP)

Delivery of the TDP is essential to unlock grid capacity and crowd in private investment across generation and storage. Transmission investment underpins both bilateral trading and the wholesale market, enabling non-discriminatory access to the grid and reducing congestion. Progress on transmission will directly affect the pace at which new capacity can connect and the credibility of South Africa's move to a competitive electricity market.

Why this matters

Lack of tangible progress on transmission infrastructure build out will prevent investment in generation.

Action 6: Implement reform of the electricity distribution industry

Reforming the electricity distribution industry is critical to the success of market liberalisation. Municipal distributors face deep financial and operational stress that threatens service delivery and limits market participation. Distribution reform must place municipalities on a path to financial sustainability, address municipal debt and provide targeted support for wheeling, systems and standardised processes, while managing tariff cross-subsidisation that underpins local government revenues.

Why this matters

Municipal financial stress will erode service delivery and block effective market participation.

Action 7: Finalise trading rules

Finalising and operationalising trading rules will enable bilateral electricity transactions to function alongside the wholesale market. The rules must recognise traders as independent market participants, apply consistently to all parties and remove unnecessary regulatory friction. Trading rules should only govern bilateral contracts, while the Market Code governs SAWEM.

Why this matters

Trading rules will codify the interface between sellers, customers and network owners, providing clarity needed to attract private capital.

Action 8: Improve wheeling systems and grid access

Harmonised wheeling frameworks and grid access are essential to enable true market participation. All forms of wheeling should be non-discriminatory and possible across the grid, including municipal networks. This requires removal of rigid requirements around connection use of system agreements, electricity supply agreements and licence amendments, standardised and automated reconciliation and billing, and recognition that all wheeling is a financial settlement rather than a physical flow of electrons. The technology platform must scale with the market. With more than 18GW in the pipeline, wheeling will require modern digital systems for data exchange, energy accounting and financial settlement.

Why this matters

If wheeling remains fragmented, manual and discretionary, market access will stay uneven and investor confidence will continue to erode.

Action 9: Launch SAWEM with Market Code in place

Launching the SAWEM with the Market Code in place is a key milestone in the reform process. The wholesale market should operate coherently alongside bilateral trading, with clear rules that allocate risk, manage deviations between forecast and actual supply and demand and support competitive price discovery. Success will be judged by whether a functioning market emerges that improves affordability, security of supply and investment outcomes.

Why this matters

Without a well-governed SAWEM, the multi-market vision remains theoretical.

Action 10: Enable cross-border electricity transactions

Enabling cross-border electricity transactions can deepen market liquidity, improve regional security of supply and support efficient investment across the Southern African power system. Cross-border trade should align with domestic market reforms, apply consistent trading and wheeling rules and build on existing regional arrangements. This will help integrate South Africa's market with neighbouring systems and reinforce the benefits of a multi-market model.

Why this matters

Without regional integration, the market will remain shallower, more volatile and less resilient to future supply shocks.

1.3 Key blockages to overcome

What now holds progress back are a small number of structural and institutional blockages that continue to slow implementation, deter investment and weaken system performance.

1 Lack of reform roadmap and accountability

The ERA (as amended) sets a clear direction for reform. Implementation now depends on a clear, time-bound roadmap that aligns roles, sequencing and accountability across institutions. Without defined accountability for delivery and coordination, reforms risk drifting across state entities. Sustained executive focus and coordination, backed by political authority, will be critical to maintain momentum and deliver the Act's objectives.

2 Eskom's transition and market functions

Eskom's end state remains unsettled, but the immediate risk lies in the pace of functional independence. While the ERA (as amended) sets a clear destination, delivery remains fragmented. Near-term independence in grid access, transmission planning and market operations is critical to sustain investment and unlock grid expansion.

3 Regulatory certainty and oversight

Private investment depends on bankability, which requires a clear, stable regulatory framework. Limited capacity at NERSA, slow approvals and uncertainty around grid access raise risk, delay projects and undermine non-discriminatory access to the system.

4 Municipal distribution crisis

Municipal distributors manage about 40% of the grid but face high losses, ageing infrastructure and mounting debt to Eskom. Financial instability blocks wheeling and threatens service delivery, making EDI reform and debt resolution essential to market expansion.

5 Transmission build constraint

Electricity reform hinges on transmission capacity. New generation cannot connect without a rapid expansion of the grid, making transmission build the binding constraint on system reliability. The NTCSA must add about 1,450km of new lines by 2034 to connect 56GW of new capacity. Progress has improved, but delivery must still accelerate sharply. Without faster rollout, private projects will remain stranded and system risk will persist.

Addressing these constraints is essential to unlocking a competitive wholesale electricity market, stabilising the electricity system and delivering affordable, reliable power. The blockages set out above highlight where reform is stalling and where focused action is needed to move from policy to execution. These blockages carry real backlash risks. If reforms stall or deliver uneven outcomes, investor confidence will weaken, and the system will remain vulnerable to renewed supply shocks. A new crisis could accelerate reform, but it could also prompt an operational stagnation largely still representative of the vertical integrated model if the transition is seen as too slow or uncertain. As such, South Africa has a narrow window to lock in reform.

1.4 Traders show early impact, ready for multi-market

Electricity traders are no longer a theoretical feature of future reform. They are already active in South Africa's power market, shaping how new generation is financed, contracted and delivered. As the system moves towards a multi-market anchored by the SAWEM, their importance will increase sharply.

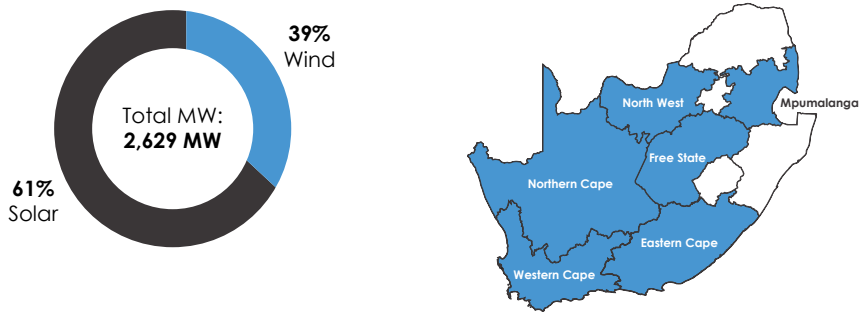
Traders sit at the centre of this transition because they connect generators, customers, financiers and networks across multiple time horizons and risk profiles. They are becoming a core mechanism through which private capital, flexible procurement and system resilience are delivered.

1.4.1 Impact on the sector

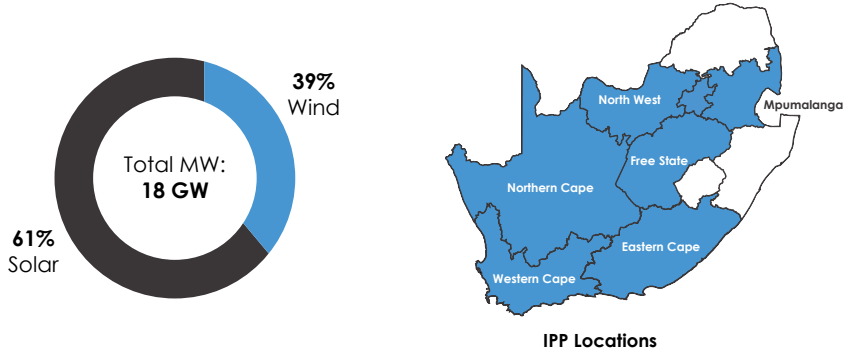
Electricity traders are already translating market reform into physical assets on the ground. Projects contracted to trader off-takers are moving from concept to construction, with a growing pipeline of renewable energy capacity spread across multiple provinces.

This activity shows how traders are unlocking demand, aggregating risk and enabling investment in new solar and wind projects at scale. The result is a clearer picture of how the market is reshaping where and how fast new generation is being built.

Renewable energy projects that have reached financial close between 2023 and 2025 with traders as the off-taker



Renewable energy projects in pipeline for trader off-takers



Electricity trading is changing what customers can buy, and the terms and risks accepted in buying the renewable energy. By aggregating demand and sourcing power from a diversified portfolio of generators, traders can absorb and manage volume, price and counterparty risks that financiers would otherwise place on individual customers. This allows structured contracts that support short, medium and long-term power procurement without forcing end users to take on risks they are not equipped to manage.

This risk-transfer function is central to unlocking investment in new generation. Traders act as credible off-takers for projects that may struggle to reach financial close if they relied on bilateral contracting with individual customers or municipalities. Customers gain access to renewable electricity and associated renewable energy credits, supporting credible decarbonisation strategies while maintaining operational and financial certainty and cost competitiveness. For energy-intensive firms, this improves planning confidence and international competitiveness, including resilience to carbon-related trade measures such as the CBAM, the carbon tax and upcoming carbon budget thresholds.

1.4.2 From bilateral saturation to aggregation at scale

South Africa's power crisis accelerated private-sector participation in generation and broke the dominance of the traditional single-buyer model. The first inflection point came in June 2021, when the licence exemption threshold was raised from 1MW to 100MW, followed by a second in August 2022, when this larger cap for private and wheeling projects was removed entirely. By 2023, NERSA registered about 4.4GW[7] of private generation in a single year, dominated by large-scale solar PV. Registered private projects now total over 18GW[8], excluding projects linked to the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP), even though grid access, demand and financing remain binding constraints.

This private build-out uses the foundation created by REIPPPP in 2011, which established South Africa's renewable energy industry and delivered all projects from bid windows 1 to 4, adding 6.2GW[9] to the grid. At the same time, delivery under later bid windows has been uneven. Around half of the roughly 14.5GW of preferred bidder capacity from all REIPPPP rounds has reached commercial operation, with the main bottleneck emerging before financial close rather than after.

Now, as utility-scale bilateral PPAs between individual IPPs and single off-takers approach saturation, the limits of one-to-one contracting are becoming clear. This is where traders matter. By aggregating demand from multiple customers and supply from multiple generators, they unlock new routes to market that individual projects cannot access on their own. This aggregation function allows new generation to proceed even when single off-takers are unwilling or unable to sign long-term contracts at scale.

1.4.3 Matching supply and demand at least cost

At its core, electricity trading is about responding to price, volume and performance signals and matching them at least cost. Traders and aggregators expand the number of actors doing this work, increasing competition and reducing reliance on a small set of dominant counterparties. They purchase electricity from IPPs and sell it to customers through wheeling arrangements, operating in accordance with the Electricity Regulation Act (as amended). Licensing, grid access rules and credit limits are all designed to protect system stability as this activity scales.

Today, traders play an important role by aggregating supply and demand and enabling new generation to reach the ultimate consumers. However, as renewable energy penetration rises, the system must manage growing variability and congestion, and fairly allocate the costs of doing so. Congestion is already increasing rapidly, with more than 100 curtailment events recorded this financial year, compared with fewer than 30 in the previous year.

These operational pressures highlight the need for a more complete market design. The SAWEM will introduce balancing responsibility and settlement obligations, with clear rules to allocate costs and manage intermittency. This framework will be critical to support higher levels of renewable energy and ensure the system operates reliably at scale.

This role becomes more important as variable renewable energy grows. Traders can manage intermittency, portfolio effects and timing mismatches that individual generators or customers cannot handle efficiently on their own. By operating across portfolios rather than single assets, they absorb complexity and reduce system-wide costs.

However, the current market remains structurally incomplete. Trading today relies largely on bespoke bilateral contracts rather than standardised products priced off a transparent forward curve. Settlement arrangements, imbalance treatment and loss allocation vary by network and municipality, raising working capital requirements and widening risk premia. The transition to the multi-market and the SAWEM, supported by a licensed market operator and a phased market code, is therefore not a technical nice-to-have. It is the mechanism through which reference prices, common products and bankable settlement rules emerge. Without these, trading remains viable only for well-capitalised firms willing to warehouse risk. With them, competition deepens and prices can converge towards the least cost.

7 Swilling, M. (2023, 22 August). *Massive bottom-up response to the power crisis sees spike in private energy generation.* Daily Maverick.

8 NERSA. (2026, 30 January). *NERSA registers 147 generation facilities in the third quarter of the 2025/26 financial year* [Media statement].

9 IPP Office. (n.d.). *IPP Projects Programme Status at October 2025*.

1.4.4 Intermediating risk across time horizons

Electricity systems perform best when risk sits with entities that can manage it at the lowest cost. South Africa's legacy model concentrates price, volume and performance risk on Eskom Holdings and, ultimately, the fiscus. A market reallocates this risk across generators, traders, customers and financiers.

The multi-market will intermediate supply-demand risk across different time horizons. Short-term markets will balance real-time supply and demand and manage outages and renewable variability.

Medium-term bilateral contracts will smooth price volatility and secure supply for municipalities and large customers. Long-term physical and financial contracts will underpin investment in new generation and grid assets. Traders link these layers. They hedge price and volume exposure, manage credit risk between counterparties and provide continuity between operational balancing and long-term planning.

This risk intermediation only works if access to networks and market mechanisms is non-discriminatory. Ongoing uncertainty around virtual wheeling access for licensed traders, alongside litigation and uneven municipal wheeling rules, materially raises transaction costs and constrains portfolio optimisation. These issues sit outside traders' control, yet they directly affect their ability to manage basis, curtailment and credit risk. Resolving them is therefore a system requirement, not a concession to a particular business model. Clear eligibility for virtual wheeling, harmonised use-of-system charges and nationally enforced settlement standards, enabled by a sufficiently sophisticated technology solution, are prerequisites for disciplined trading at scale.

There is also a legitimate concern about market discipline. If licensing outpaces prudential regulation, thinly capitalised traders could amplify rather than absorb risk. This argues for stronger, not weaker, trading rules – including capital adequacy, collateral requirements, position limits and transparent default procedures embedded in the Market Code and enforced by the system operator. Properly designed, these safeguards protect customers and generators while allowing capable traders to intermediate risk efficiently. Poorly designed or delayed, they leave the system exposed to both overpricing and disorderly failure.

1.4.5 Unlocking finance and lowering the cost of capital

Traders also play a critical role in unlocking financial markets. By aggregating contracts across many buyers and producers, they diversify off-taker risk, stabilise revenues and reduce risk premia. This makes projects more bankable without relying on sovereign guarantees. Lower financing costs feed through into lower wholesale electricity prices over time and faster capacity deployment.

This shift matters in a context of tightening fiscal space. NT has made clear that the single-buyer model, with its heavy reliance on government guarantees, is no longer sustainable. Traders offer a pathway to scale private investment while limiting contingent liabilities and pressure on public balance sheets.

1.4.6 Building a competitive and resilient ecosystem

A market with active traders supports the emergence of strong domestic trading, retail and aggregation firms. These players deepen liquidity, increase competition and reduce dependence on a single dominant utility. A broader ecosystem strengthens system resilience and encourages innovation in contracting, risk management and digital platforms.

This has wider economic benefits. Growing trader activity increases demand for local professional services, data systems and operational capabilities. It supports the objectives of industrial development and a just transition by building skills, strengthening local value chains and aligning electricity reform with job creation and investment.

1.4.7 From transition mechanism to permanent feature

> Traders are not a temporary workaround or a substitute for generation or networks. They are a permanent feature of a modern electricity system.

By reallocating risk away from the state and towards market participants equipped to manage it, they allow the state to shift from risk bearer to market steward. Regulation, oversight and system integrity remain public responsibilities. Investment, optimisation and risk-taking increasingly sit with traders and their counterparties.

While this report focuses on private licensed traders, trading is not limited to the private sector. Public entities have long participated in electricity trading, including within the Southern African Power Pool, and can continue to do so. The key principle is that all participants – public and private – operate on the same commercial and regulatory terms to support a level playing field.

In short, traders are already making a material difference to how electricity is procured and financed in South Africa. As the market takes shape, they will become one of the most important pillars of a resilient, investable and competitive electricity system.

1.5 Key stakeholders

A coherent plan must spell out clear roles and responsibilities:

- **Eskom Holdings** has indicated it will support the work of the NECOM task team established by the President at the 2026 SONA to establish a fully independent Transmission System Operator (TSO). It will need to assist in the process to move its transmission assets over to this company in the timelines set by the task team. It will also need to support other planning processes around the complete end state of the utility, which still needs to be defined.
- **Traders and IPPs** need stable rules for market entry, pricing and investment, underpinned by a clear and credible EPP.
- **Municipal distributors**, which carry a large share of the grid, sit at the centre of electricity reform. Electricity pricing and Electricity Distribution Industry (EDI) reform must place them on a path to financial sustainability and improved service delivery, while still managing the tariff cross-subsidisation that currently underpins municipal tariff design and revenue management.
- **NERSA** needs unambiguous policy direction and adequate resources to implement the EPP and licensing, monitor and enforce a more competitive system.
- **National Treasury (NT)** will play an important role in the TSO establishment and shift of transmission assets from Eskom Holdings to the new entity. Beyond end state support, it will also need to support Eskom Holdings with its transition through targeted capacity support and measures that steady Eskom Generation's balance sheet as legacy assets fall away.
- **Development finance institutions** also play a critical role, particularly in crowding in private capital, de-risking early investments and supporting renewable energy, grid and storage infrastructure.
- **Banks** hold a key lever in this transition. They can finance new capacity at scale, but only where the EPP, market design, grid access and Eskom Generation's future role are clear and credible.

These priorities are reflected in the reform themes that follow in Section 2. Together they outline the actions, institutions and responsibilities required to translate policy intent into practical reform. Above all, they speak to what investors need to see: credible price paths, contracting certainty, predictable grid expansion timelines and a regulator with the capacity to enforce rules consistently. Without these foundations, confidence will remain fragile, and reform outcomes will fall short of their promise.

2 Time for renewed action

South Africa has moved from debating electricity reform to testing whether it can deliver it. The next phase must focus on execution. That means updating the EPP to support competition, publishing a clear electricity reform roadmap, strengthening stewardship from the DoEE and equipping NERSA to regulate a multi-player market.

It also requires faster investment in transmission, effective implementation of the Grid Capacity Allocation Rules – ensuring network service providers do not impose additional, anti-competitive requirements – and alignment across Eskom, municipalities and national planning frameworks. Without coordinated action on these building blocks, reform risks stalling at the point where it should begin to unlock growth, investment and reliability.

> A competitive market cannot function efficiently without intermediaries that aggregate demand, manage risk and convert policy intent into contracts that investors can finance.

Finalising trading rules, maturing wheeling and making the sector bankable for lenders are therefore core reform actions. The operational and system issues involved are substantial. Capacity constraints, congestion management and system stability are real risks, and any instability will trigger sudden curtailment. Traders link generators, customers and the grid, reduce reliance on Eskom's balance sheet and help shift risk away from the state. Getting this right will determine whether the SAWEM becomes a functioning market or remains a partial transition.

2.1 Action 1: Publish Cabinet-endorsed electricity reform roadmap

An overarching, Cabinet-endorsed reform roadmap that sets out government objectives for implementing the multi-market, with clear milestones and defined roles for key stakeholders such as Eskom Holdings, municipalities, IPPs, traders and lenders, would help align efforts and maintain focus.

2.1.1 Purpose and authority

The roadmap should be a single, authoritative framework for implementing electricity reform. Cabinet endorsement would give it clear political authority and confirm that it supersedes parallel plans and informal processes. This would provide a common reference point for government, regulators and market participants, and reduce uncertainty about direction and sequencing.

2.1.2 Time-bound development process

The roadmap should be developed through a structured, time-limited process with a clear start and end date. To accelerate delivery, all industry participants – Eskom Holdings, the NTCSA, IPPs, traders, lenders, large power users and other key stakeholders – should lead its development, with endorsement from NERSA. This approach – like the industry process that informed load shedding licence conditions – would focus on delivery risks, sequencing and institutional readiness, rather than reopening agreed policy choices. Cabinet should set a deadline for completion to avoid slippage and maintain reform momentum.

2.1.3 Stakeholder engagement

Stakeholder engagement should be targeted and disciplined. Government should engage Eskom Holdings, municipalities, IPPs, traders, lenders and large customers to test implementation feasibility and identify constraints. Engagement should inform how reforms are phased and coordinated, not whether they proceed.

2.1.4 Governance and accountability

The roadmap should establish a clear governance structure for delivery. It should assign lead responsibility for each reform area, define decision rights across institutions and set escalation mechanisms where mandates overlap or disputes arise. A single political champion – ideally the minister of electricity and energy – should be accountable for overall delivery.

2.1.5 Monitoring and public reporting

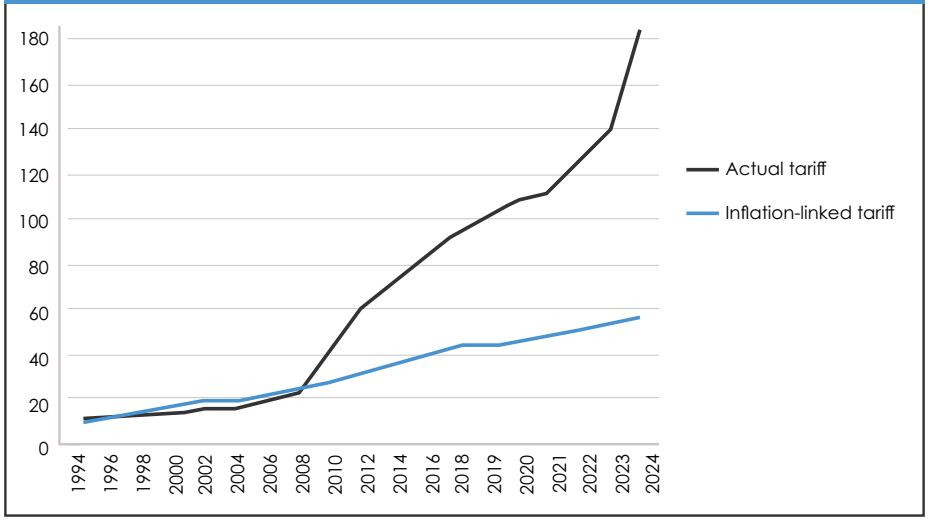
The roadmap should include a formal system for monitoring and reporting progress. This should track delivery against agreed milestones and be reported publicly at regular intervals. Transparent reporting would strengthen accountability, signal commitment to reform and give investors greater confidence in implementation.

2.2 Action 2: Finalise Electricity Pricing Policy

NERSA discharges its mandate within the framework set by the EPP, applying regulatory formulae and rules to give effect to policy decisions. For more than two decades, this framework has centred on regulated cost recovery, with Eskom treated as a vertically integrated monopoly entitled to recover efficient costs and earn a regulated return through the multi-year price determination (MYPD). While South Africa has always had multiple electricity prices differentiated by time of use, customer type, location and supply characteristics, the anchor for the system has remained a regulated, Eskom-centred MYPD model incorporating "allowed revenue". The system has been shaped by development objectives and cross-subsidies, including free basic electricity for poor households.

The scale of divergence from general inflation highlights the strain within this model. Between 2007 and 2024, average electricity tariffs increased by 937%[10], more than 500 percentage points above cumulative inflation of about 155%. This widening gap reflects both a long period of under-pricing before 2007 and a sharp, politically contested catch-up thereafter.

Average electricity prices in South Africa



Source: Moolman (2024)

This architecture increasingly struggled as load shedding intensified and electricity volumes declined.

> The allowed-revenue framework created tension between Eskom's need to recover largely fixed costs and falling sales, giving rise to contentious volume and cost rebalancing through the Regulatory Clearing Account (RCA) and pass-throughs for items such as open-cycle gas turbine use.

As load shedding worsened, these mechanisms pushed future tariffs higher, fuelling political backlash and repeated regulatory interventions to restrain increases. NERSA has argued that many of these costs stem from historic underinvestment and avoidable inefficiencies, and should not be fully passed on to customers. Eskom has countered that such costs are unavoidable in the short term and that withholding recovery threatens financial viability. Both positions have partly prevailed, with court rulings between 2021 and 2023 exposing weaknesses in NERSA's decisions, while NT bailouts ultimately closed much of the gap.

The revised EPP is intended to reset this trajectory. It aims to align electricity pricing with the broader restructuring of the power sector under the ERA (as amended), supporting a more open and competitive market while retaining safeguards against abuse of dominance. At its core, the revised policy seeks to balance affordability for low-income households with more cost-reflective tariffs for other consumers, and to shift pricing from a narrow focus on Eskom's historic costs towards a framework that can accommodate multiple generators and market-based outcomes over time.

The policy revision was consulted on at the National Economic Development and Labour Council in 2024, and, during engagements with Parliament's electricity and energy committee in August 2025, there was broad agreement that reform is urgent. Minister Kgosientsho Ramokgopa emphasised the need to simplify tariffs and broaden participation, noting sharply different pricing impacts across urban and rural areas and acknowledging that high electricity prices are

10 Moolman, S. (2024, 10 August). *2024 update: Eskom tariff increases vs inflation since 1988 with projections to 2026.* PowerOptimal.

undermining competitiveness and growth. Institutions such as the South African National Energy Development Institute, universities and think tanks are being drawn into the process to widen perspectives and improve legitimacy.

Against this backdrop, NERSA attempted to replace the MYPD with a new Electricity Price Determination Methodology. The intent was to reduce tariff volatility and reliance on regulatory clawbacks. However, the proposal was withdrawn in mid-2024 due to concerns over legal alignment, implementability and weak conceptual foundations. The pause reflected a shared stakeholder view that while the MYPD is flawed, the proposed replacement would have created greater uncertainty at a sensitive moment in market reform.

As a result, the MYPD methodology remains in place. In theory, it is a rate-of-return framework with some performance incentives. In practice, NERSA has never awarded Eskom a return equal to its weighted average cost of capital, with allowed returns often close to zero or negative in real terms. The persistent tariff gap has narrowed from around 35% in 2018 to about 15% today, but only through slow convergence and substantial fiscal support, including the R256bn NT bailout.

Unbundling has begun to change how prices are set and presented. In 2025, NERSA assessed Eskom's generation, transmission and distribution price applications separately for the first time, although a combined Eskom tariff remains the system lodestar. The MYPD 6 tariff increases announced in January 2025[11] – 12.74%, 5.4% and 6.2% over the next three years – reflect this aggregated outcome. Eskom has also applied to recover R15.5bn through the Regulatory Clearing Account (RCA)[12] for 2023/24, largely driven by R26.6bn spent on open-cycle gas turbines. NERSA approved a revision to MYPD6 in January 2026 after correcting a R54bn understatement in Eskom's generation asset base[13]. The recovery will be phased into tariffs, lifting average increases to about 8.8% in both 2026/27 and 2027/28, with no retrospective adjustment for 2025/26. The 2026/27 tariff will rise by about 7.5c to roughly 240c/kWh, taking effect on 1 April for Eskom customers and 1 July for municipal users. Further carry-overs of about R19.7bn and an earlier R40bn settlement point to continued upward pressure on future tariffs, although NERSA aims to limit volatility and manage affordability risks.

The concept of regulated allowed revenue will remain central for some time, especially given Eskom's dominance and the wording in the ERA (as amended) that floors market prices against regulated tariffs.

Responsibility for collecting and allocating the combined tariff will shift to the NTCSA, creating new risks around arrears and revenue flows. At the same time, tariffs are being restructured to separate fixed and variable costs more clearly, reflecting the rise of self-generation and the growth of IPPs. While cost reflectivity across all tariff elements is essential, unduly high fixed charges risk stifling private investment in generation and weakening price signals. NERSA has acknowledged that fixed costs dominate both generation and distribution, but implementation has been slow, and the absence of a settled tariff framework risks distorting signals as the market emerges.

The next phase of reform is to provide clear, credible direction on how prices are set in a system that is unbundled, increasingly competitive and more reliant on market outcomes. The following priority actions set out what needs to happen in 2026 to stabilise electricity pricing, restore regulatory coherence and align affordability, investment and competition objectives.

The wholesale tariff will become the foundation for retail tariffs going forward and the viability of wheeling transactions. NERSA will need to provide this direction to the market.

> Cabinet should approve the revised EPP early in 2026 and issue a clear implementation roadmap. The policy must give NERSA unambiguous direction on how pricing should evolve in a more competitive market, including explicit guidance on cross subsidies, cost-reflective tariffs and treatment of legacy assets.

NERSA should review the MYPD against the revised EPP once updated and consider targeted improvements, rather than pursuing a wholesale redesign. The focus should be on strengthening alignment, consistency and credibility in how the framework operates, while reducing reliance on corrective tools such as the RCA. Grounding decisions in clear, evidence-

11 NERSA. (2025, 30 January). *NERSA's decision on Eskom's MYPD6 revenue application for the 2025/26, 2026/27 and 2027/28 financial years* [Media statement].

12 NERSA. (2025, December). *Invitation to comment on the Eskom regulatory clearing account (RCA) and its consultation paper*.

13 NERSA. (2026, February). *Media statement: NERSA approves re-determination of Eskom Generation regulatory asset base (RAB)*.

based processes would also reduce the scope for protracted litigation and strengthen regulatory credibility. In parallel, NERSA should strengthen monitoring and enforcement of its determinations and accelerate the development of unbundled, cost-reflective tariffs for Eskom's Generation, the NTCSA and Distribution businesses to reflect operational realities, incentivise efficiency and support the transition to a competitive electricity market.

NERSA should review and, where necessary, revise its regulated asset base methodology, in particular for Eskom Generation under the MYPD methodology. The modern equivalent asset value approach, which values assets at depreciated replacement cost, is increasingly ill-suited to Eskom Generation as asset lives shorten and transition risks rise.

> NERSA should set out a clear transition path from administered prices to market-based pricing for generation, anchored in the design and phased unwinding of vesting contracts. This should include interim rules for price caps or floors, treatment of Medupi and Kusile during debt run-down and clear criteria for reducing regulatory intervention as market liquidity deepens.

The DoEE should finalise and implement a revised free basic electricity (FBE) framework. It is currently consolidating studies by the South African Local Government Association (SALGA), NT and academic institutions, with a draft framework expected for public comment in the fourth quarter of the 2025/26 financial year. By year-end, the department aims to settle the appropriate monthly FBE range for indigent households, likely between 50kWh and 200kWh. Concluding this process in 2026 is critical to anchor affordability policy within the broader electricity pricing framework, clarify targeting and funding mechanisms and ensure that any expansion of FBE is sustainable without adding pressure to the national fiscus.

In early 2026, NERSA should prioritise completing a set of long-running regulatory and rules processes that are creating uncertainty and weakening market signals. These include the market inquiry into generation charges, the Independent Transmission Projects (ITPs) cost recovery rules and Eskom's application to amend the generator losses charge.

Finalising these items is essential to provide clarity on cost allocation, price signals and risk sharing as the market evolves, and to ensure that new entrants, Eskom entities and the system operator operate under settled and transparent regulatory rules.

In 2026, NERSA and government should treat the ferrochrome intervention as a test case for a clearer, rules-based approach to supporting energy-intensive industries. On 29 January 2026, NERSA approved[14] a 12-month tariff reduction for the distressed Samancor and Glencore-Merafe smelters to 87.7c/kWh, down from 135.82c/kWh under negotiated price agreements, to avert closure and protect around 4,000 direct jobs and 20,000 indirect jobs.

> The decision reflects the high system cost of closure, but it leaves a critical question unresolved: who will fund the roughly 35% discount?

This intervention should now lead to a time-bound, transparent framework that makes the source of funding explicit, avoids shifting costs onto other customers and replaces repeated hardship clauses and ad hoc waivers. It should align with the negotiated pricing agreement framework, set clear criteria for when targeted industrial support is justified and define how support will be phased down or restructured over time, while taking account of longer-term risks to export competitiveness from carbon-intensive power.

14 NERSA. (2026, January). *Media statement: NERSA approves electricity price relief for the ferrochrome smelters*.

2.3 Action 3: Strengthen the DoEE and NERSA

2.3.1 Enhance DoEE stewardship

The electricity and energy minister holds three roles – shareholder of Eskom Holdings (and others); policymaker for the sector; and executive oversight of the regulator – which brings great responsibility, as it affects how key stakeholders interpret and implement policy direction. He also needs to manage potential conflicts with the regulator and participants reporting to the same minister. As a policymaker, the DoEE is creating a competitive market framework and enabling private participation through measures such as wheeling. As Eskom Holdings' shareholder, it is focused too on protecting the utility's financial position. Balancing these mandates requires boundaries and clear communication.

The minister's statement at the launch of the 2025 IRP that "the state will lead and the market will follow" can and should be interpreted as an affirmation of the reforms already underway, rather than a retreat from liberalisation. In practice, the state has led the move towards a competitive electricity market: lifting the 100MW licensing threshold, streamlining registration, unblocking procurement barriers and passing the Electricity Regulation Amendment Act, which creates the SAWEM and opens the sector to new participants. These were decisive state actions that enabled private capital to flow and allowed the system to begin its transition from monopoly to competition.

> Seen through this lens, the minister's comments reinforce an important principle: the state sets the policy direction, safeguards security of supply, and ensures a fair and rules-based system.

The market delivers investment, innovation and efficiency. This mirrors global experience, where governments actively shape wholesale markets to manage the shift to variable renewables, while relying on private developers and financiers to build and operate new capacity.

The minister's assurance that investment will be "off balance sheet" and privately funded aligns squarely with the reform agenda. What matters is not a rhetorical distinction between state and market leadership, but the practical outcome: competitive, bankable and least-cost projects being built at scale.

The ERA (as amended) recognises this reality by defining the IRP as an indicative plan rather than a command tool, allowing markets to allocate capital to the lowest-cost technologies within a clear policy framework.

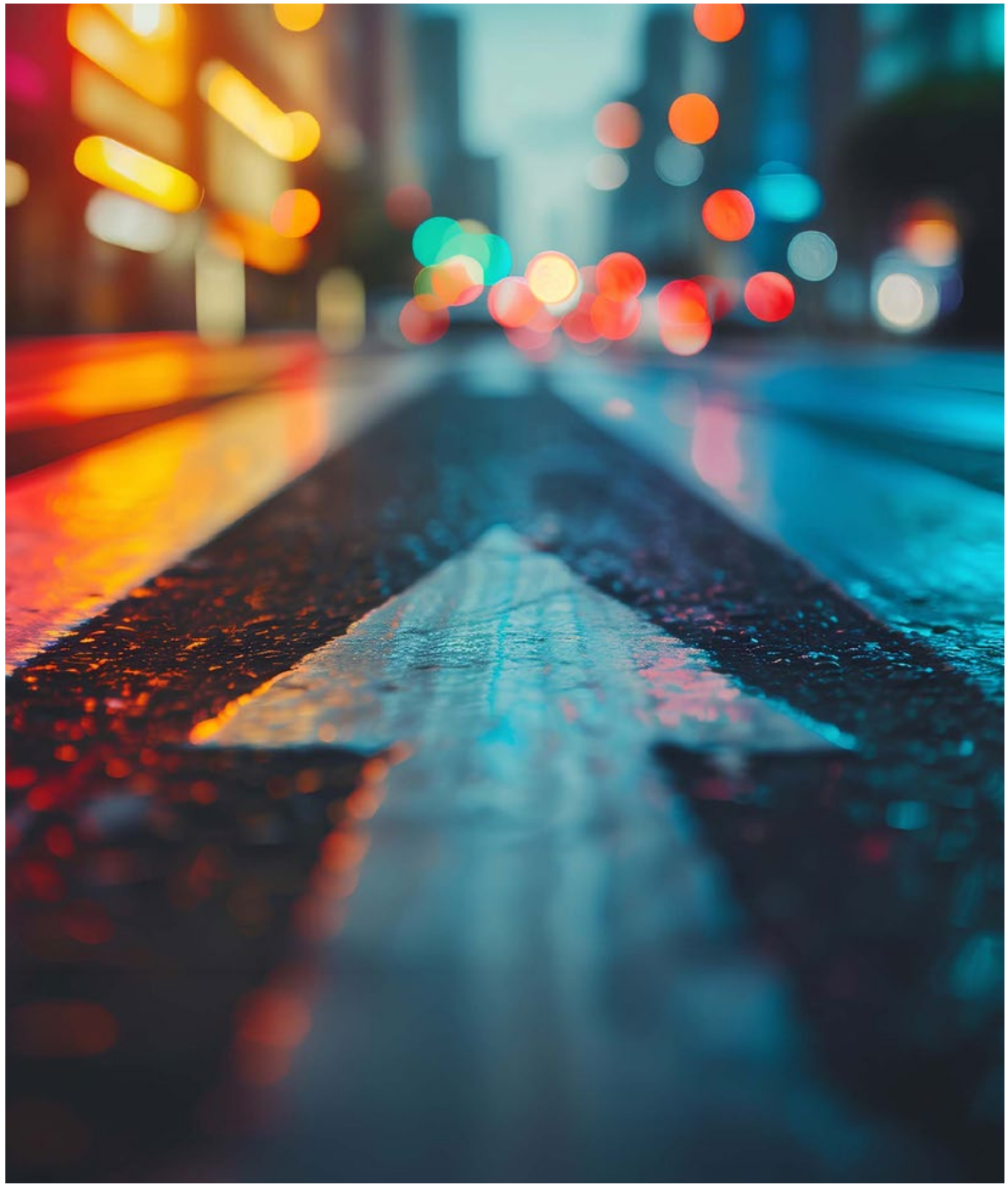
> Viewed positively, the minister's message is a call for partnership rather than hierarchy. Government has created the enabling environment for the SAWEM, and now the task is for the state and market to move together – each playing to its strengths – to deliver a reliable, affordable and modern electricity system.

"The state will lead and the market will follow"[15] sets the right tone for South Africa's electricity reforms. It affirms that the state must steer the transition while enabling the market to invest and compete. To make this work in practice, a reform-focused ministry requires qualities that drive credible, coordinated and sustained implementation, as highlighted on the following page.

15 Creamer, T. (2025, October 20). *Minister's 'State will lead, market will follow' electricity assertion raises questions*. Engineering News.

Qualities of a reform-focused ministry

- **Clear, published reform roadmap** – with timelines, milestones and responsibilities that give stakeholders confidence and enable the industry to plan.
- **Decisive implementation oversight** – ensuring that regulatory reforms, grid expansion and procurement processes move on schedule, with visible accountability.
- **Consistent public communication** – regular updates that explain progress, acknowledge constraints and reinforce the direction of travel.
- **Policy clarity on market design** – coherent signals on tariff reform, grid access, procurement roles and the evolution of the SAWEM to help investors and municipalities make bankable decisions.
- **Partnership mindset** – working closely with Eskom Holdings, Eskom Generation, the NTCSA, Eskom Distribution, municipalities, private developers and financiers to align efforts and unblock constraints.
- **Investor-oriented governance** – creating a predictable environment that reduces risk premiums, supports least-cost technologies and attracts sustainable capital.
- **Evidence-based decision-making** – using system data, modelling and international best practice to guide reforms and adapt policy as the energy mix changes.
- **Commitment to transparency** – publishing data, decisions and assumptions that build credibility and strengthen public trust in the reform process.
- **Focus on affordability and equity** – ensuring the transition reduces long-term costs, manages tariff pressures and supports a just energy transition.



While the DoEE has made excellent progress, it has naturally faced blockages that require attention going forward, as outlined below.

Blockages to be overcome

Blockage	Details	Solutions
Lack of central coordination lodestar and roadmap	OV and NECOM have developed a draft electricity reform paper for ministerial consideration, providing a strong foundation for the next phase of sector modernisation. A lack of movement in 2025 has stalled this key paper.	Advancing this work into a Cabinet-endorsed roadmap would give all stakeholders a shared, sequenced view of the structural and regulatory reforms ahead. A clear roadmap, with defined milestones and indicators, would help align efforts across the system and sustain reform momentum. The DoEE is well placed to prioritise this and translate the draft into an actionable plan that supports the state's leadership of the transition.
Continued focus on reform in the DoEE	As NECOM winds down and OV focuses on other areas, this body will need to transition in the DoEE to ensure the excellent collaboration between the public and private sectors continues. This wind down will likely now only be after the task team completes its TSO work in early 2028.	The DoEE should appoint key officials and set up a task force or working group to focus on managing the reform agenda. This team could meet regularly with the minister and be able to hold Eskom and NERSA, etc, accountable.
Role of Eskom Generation in the SAWEM	Eskom Generation remains central to the success of the SAWEM, both as the anchor generator, which will initially, in practice, set the system marginal price, and as a partner in delivering a stable transition to competitive markets. The market approach is a stated policy direction, yet the pace and sequencing of reform sometimes create uncertainty for Eskom and other participants.	Clear, actionable guidance from the DoEE will ensure Eskom Generation's actions align consistently with principles of non-discrimination and open access. It will help Eskom Holdings' board navigate the dual responsibilities of reform and debt restructuring, while ensuring alignment with the market framework set out in the ERA (as amended). Strengthening this clarity and accountability will support Eskom Generation's long-term sustainability and give investors confidence that all participants are working toward the same end state.
Municipal debt risk to Eskom Distribution and SAWEM operations	Municipal arrears to Eskom exceeded R105bn by September 2025 and pose a systemic risk to Eskom's finances, the fiscus and electricity reform. Repeated debt restructurings failed to change payment behaviour or halt network decline. It is also a material risk to SAWEM's operations as the transition progresses.	NT has endorsed Distribution Agency Agreements (DAAs) as a national stabilisation mechanism to improve cash flow and payment discipline, and to bridge to longer-term structural reform. Eskom acts as agent for key distribution functions under DAAs. Eskom has identified 47 municipalities for direct control and is prioritising 14 high-arrears municipalities, representing about 58% of total debt, for DAAs.
Electricity pricing policy and free basic electricity framework	The current EPP is under pressure as the sector unbundles, competition increases and market-based outcomes expand. The FBE framework remains unresolved, with uncertainty around unconditional grants that may not be targeted to provide basic services, eligibility, monthly allocation, funding and fiscal sustainability.	Finalise and implement the EPP in early 2026, with clear direction to NERSA on cost-reflective tariffs, affordability support and treatment of legacy assets. Finalise the FBE framework in 2026, including targeting, funding and monthly allocations.

Blockage	Details	Solutions
Improved management of IRP and IEP	The DoEE plans to publish the Integrated Energy Plan (IEP) in 2026 and should publish an updated IRP more regularly, which would make energy policy planning less challenging.	Now that the DoEE has published the IRP2025, the IEP should be prioritised to ensure it meets its 2026 target. Efforts must be made to improve the capacity and process to renew these annually.
Financial expert support for DoEE, NTCSA required	Past financial advice focused on Eskom Holdings; the broader SOE system was not fully advised, creating structural obstacles to reform.	The DoEE needs better independent financial advice as the shareholder of Eskom Holdings and for matters such as NT's Credit Guarantee Vehicle, which will launch in 2026.
Political and vested interests	Corruption and entrenched networks exacerbate delays, though not always causally.	The DoEE needs to ensure that corruption and fraud within Eskom and its other entities are not ignored due to the complexity of this issue.

Source: Krutham (2025)

Going forward, the minister of electricity and energy should focus on translating agreed reforms into delivery. This starts with maintaining strong centre-of-government coordination, with OV working alongside the presidency through a post-NECOM structure to set clear priorities, timelines and accountabilities. Implementing Cabinet-approved reforms requires this kind of central oversight to overcome weak coordination and fragmented accountability that have slowed progress across departments for years.

NECOM has demonstrated the value of this approach by driving hard decisions that line departments and Eskom up behind shared objectives. It has created the political space to take decisions that individual departments would struggle to advance on their own, and has helped improve Eskom's plant performance in line with the EAP. NECOM has also strengthened alignment across the presidency, the DOEE, NT and other key actors, reducing conflicting policy signals that undermine investor confidence.

> As NECOM's role evolves, the risk is that this alignment and momentum weaken. Preventing this requires an explicit mechanism to carry forward central coordination and decision-making.

The next step is to embed reform priorities, deliverables and deadlines within departmental annual performance plans. This would keep electricity reform central to each department's mandate, create clear consequences for missed targets and drive the recruitment of the technical and regulatory skills needed to sustain reform over time.

2.3.2 Equip NERSA for reform

NERSA is now the central institution steering South Africa's shift from a vertically integrated monopoly to a competitive electricity market, a role it has grown increasingly aware of over the past year, but still needs more capacity and support to fulfil. The table below summarises how NERSA has sought to give effect to government's electricity reform objectives over the past five years, highlighting both areas of progress and remaining gaps.

NERSA's efforts to enact government's policy objectives in the past five years

Topic	Description	Date
Generation project registrations	Since the licence cap was lifted to 100MW in 2021 and then removed in 2022, NERSA has registered 2,054 private projects, totalling almost 16GW as of October 2025. NERSA has also managed to shorten turnaround times for registration, averaging about 11 days.	2021-ongoing
Trading licences	Almost a decade after PowerX received the first trading licence, NERSA has approved another 21 trading licences since 2022. Trading licences allow holders to buy and sell electricity, including through wheeling. They enable participation in the emerging SAWEM by aggregating supply, securing PPAs and managing price risk.	2022-ongoing
Regulatory rules on network charges for third-party wheeling of energy	The rules set out how generators, traders and customers may use transmission and distribution networks to move electricity across the system. They are designed to ensure non-discriminatory, cost-reflective and transparent access; balance the interests of users and network service providers; maintain network reliability; support renewable energy use; promote standardisation across network operators; and provide regulatory certainty under NERSA's oversight so that all parties can wheel electricity on fair and consistent terms. However, barriers to their comprehensive implementation remain, including the need to capacitate municipalities to introduce wheeling frameworks. This could be accelerated if NERSA developed template frameworks for municipalities to adopt.	March 2025
Net billing rules approved	These allow households and businesses to receive bill credits for excess electricity exported to the grid, rather than cash payments. The framework applies to Eskom and municipal distributors and is intended to support rooftop solar uptake while maintaining revenue neutrality for distributors. Credits are settled within the monthly billing cycle and may be carried forward, but not beyond the distributor's financial year.	February 2025
NTCSA operationalisation	NERSA has approved the transmission operator licence, trading and import and export licences and market operator licence for the entity, and is set to consider the trading rules in addition to the Market Code. These are all critical milestones to launch the SAWEM in 2026. NERSA has also established a 14-member Electricity Market Advisory Forum to support regulatory oversight of market operations and help ensure readiness and broad stakeholder inclusion as the new electricity market takes shape.	2023 to 2025
Congestion curtailment – Generation Connection Capacity Assessment (GCCA)	NERSA approved the NTCSA's request to treat congestion curtailment as a constrained-generation ancillary service, creating a temporary mechanism to unlock limited grid capacity in the Western and Eastern Cape. The approval, capped at 4% curtailment and valid from April 2025 to March 2028, enables about 1,580MW of additional wind capacity to connect while grid upgrades proceed. IPPs are compensated through existing ancillary-services frameworks, with total recoverable costs capped under the MYPD6.	2025
Market inquiry into fixed and capacity charges	NERSA initiated a market inquiry into electricity charges following complaints about structure, fairness and justification. This should strengthen NERSA's oversight on pricing starting at the wholesale tariff level and, in the long term, ensure the financial sustainability of Eskom Holdings and municipalities through the correct application of tariffs rates and structures that are more cost-reflective.	2025

Topic	Description	Date
Grid capacity allocation rules	The rules replace Eskom's interim framework and address grid congestion by ensuring fair, transparent and non-discriminatory access. NERSA reaffirmed the "first ready, first served" principle and clarified readiness criteria, reducing discretion, improving predictability and preventing speculative projects from locking up scarce capacity. The rules are silent on any requirement to identify end customers, and remove Eskom's discretion to request additional information such as PPA heads of terms from end consumers. This is key to eliminating impractical requirements during early project development and must be enforced in practice. Any such requirements for visibility over end customers are also inappropriate in the context of the SAWEM, which could facilitate merchant plants with no specified end customers.	2025
Market operator licence	Licensing a market operator is central to the shift to a competitive electricity market. The NTCSA was awarded the licence under the ERA (as amended), which assigns this function to the TSO. The application relies on transitional provisions that allow the NTCSA to act as market operator for up to five years, providing a legally grounded bridge to full market implementation while an independent TSO is established.	2025

While signs of progress are emerging, implementation remains uneven. The regulator's workload is heavily weighted towards municipal revenue and tariff applications (including cost of supply studies), consultations and Eskom revenue and tariff reviews, leaving limited capacity for strategic leadership. This has contributed to a reactive approach to reform, which has kept the regulator on the back foot. NERSA is simultaneously trying to learn, design and implement new market structures.

The table on the following page sets out the importance, as well as the risks, regarding NERSA's recent activities in supporting electricity market reform. It focuses on the regulator's work to develop trading rules, allocate grid capacity, license a market operator and strengthen market governance through the Market Code and vesting contracts. It also covers NERSA's interventions on pricing and cost recovery, including its market inquiry into generation charges, the Eskom generator losses charge amendment application and updates to cost recovery rules.

Importance of current NERSA activities

Focus	Importance	Risks
Develop trading rules	Establishes rules for all traders – including Eskom Distribution and municipalities – to contract with customers, switch supply, access meter data and compete on price and service.	Delays and balancing conflicting views between traders and Eskom may result in vague rules that fail to ensure a fair playing field. It is also unclear whether these rules will apply equally to generators that sell wheeled energy to customers. The substance of the transactions is the same and applying different rules to generators and traders risks creating an uneven playing field. The current draft of the trading rules has significant overlap with the Market Code which may create inconsistency. The trading rules should govern bilateral trading, both pre- and post-SAWEM launch and sit alongside the Market Code once approved.
Wholesale tariff and market inquiry into generation charges	Provides oversight and transparency on the recovery of generation costs in the wholesale tariff.	Very high fixed and capacity charges would reduce wheeling benefits, impact low load factor customers significantly, would likely be hugely unpopular and pass most volume risk to customers.
Cost recovery rules	Ensures mechanisms for recovering costs from ITPs as part of Phase 1 of the initiative.	Poorly designed rules could create uncertainty for investors and weaken the appetite to finance early ITP projects.
Eskom generator losses charge amendment application	Adjusts charges for generator losses, affecting project economics.	Delays or misalignment with other rules could distort market signals and affect project viability. The NTCSA may propose future changes to its use-of-system and losses charges.
Market Code	Defines the technical and operational rules governing the wholesale electricity market, including participant conduct, settlements and coordination with the market operator.	Resistance from Eskom and delays in approval could create regulatory gaps, increase operational risk and reduce initial investor confidence in the SAWEM, with delay risks.
Vesting contracts	Transitional agreements between Eskom Generation, distributors that are market participants and the Central Purchasing Agency (CPA) to provide a financial hedge and ensure market liquidity at the launch of the SAWEM. The framework is being developed for NERSA's consultation and approval, after which the contracts will be negotiated.	Tight timelines – finalising in H1 of 2026 is ambitious. While the Market Code can progress without these contracts, delays could affect market readiness, liquidity and transparency. The design still requires public debate and NERSA's final determination. Unresolved Eskom distribution, generation and Section 34 vesting contracts could delay the launch of the SAWEM. Very high generation capacity payments could negatively impact the system marginal price, create barriers to entry for other participants and stall new generation investment.

Source: Krutham (2025)

NERSA's attention to short-term tasks comes at the expense of shaping long-term and strategic outcomes. The regulator must expand capacity, build technical expertise and define a clear vision for South Africa's electricity market. Without this, it will remain a reactive administrator rather than a strategic regulator capable of guiding the energy transition. NERSA should shift towards outcome-based regulation that prioritises access, affordability and decarbonisation, rather than prescriptive, process-driven oversight. This would mean setting clear, measurable outcomes for reliability, cost efficiency and emissions reduction, and linking utility revenues to performance against those outcomes, while giving firms flexibility over how they deliver them.

The table below highlights how NERSA can help remove entrenched constraints that continue to slow electricity market reform. It identifies key blockages in the regulator's structure, approach and decision-making, alongside specific regulatory gaps, which affect pricing, tariffs, wheeling and affordability.

NERSA can unblock outdated ways of operating

Blockage	What it means	What should change
Structural and organisational weakness	From the board to the employees, there are various issues related to capabilities, capacity and funding that are holding NERSA back from performing effectively. In 2025, new regulators, including a full-time electricity regulator, were appointed, and 14 members of the new Electricity Market Advisory Forum were announced.	While recent appointments are a step in the right direction, to further strengthen NERSA, governance and structural reviews are required, and a plan designed and implemented to reform the regulator.
Outdated regulatory approach	NERSA still uses a compliance-heavy model that limits innovation and forward planning.	Shift to outcome-based regulation focused on access, affordability and decarbonisation.
Weak thought leadership	The regulator lacks capacity to steer long-term market design or give clear signals to investors.	Build internal expertise on competition, new technologies and system planning.
Multi-year price determination instability	The revenue determination and tariff process is inconsistent, often ends in litigation and creates planning uncertainty for both Eskom and investors.	Stabilise the methodology, publish clearer guidance and reduce legal ambiguity to avoid repeat court battles. NERSA needs a methodology that also applies equally to municipalities.
Updated electricity pricing policy	The revised EPP is to set the policy direction for electricity pricing in an unbundled, more competitive and increasingly market-based system. It defines how affordability, cost recovery, legacy assets and competition should be balanced.	Once finalised, NERSA should align its regulatory decisions and pricing methodologies to the updated EPP, provide clear signals on cost-reflective tariffs and affordability support, and apply the policy consistently to reduce regulatory uncertainty and rebuild credibility.
Tariffs and affordability	Push for cost-reflectivity and high fixed charges risks pricing users off the grid.	Balance tariffs with targeted support and clear reform incentives. Ensure transparency in pricing processes. Be aware of unintended consequences.
Weak wheeling framework	The existing rules need to be expanded to provide greater clarity on scaling, aggregation and virtual wheeling models, and to support their efficient development and rollout.	Expand wheeling rules and align with grid reform and access planning, with Eskom system and technology readiness treated as a core regulatory requirement rather than a secondary consideration.
Rigid trading licence and contracting framework	Trading licence schedules and standard contractual arrangements reflect a bilateral model that requires individual generators and end customers to be explicitly listed in licence conditions, connection and use-of-system agreements and electricity supply agreements. This rigidity raises transaction costs, slows deal execution and constrains the development of a dynamic market.	Amend trading licence schedules and standard contract requirements to remove mandatory listing of individual generators and end customers. Enable portfolio-based trading, aggregation and substitution within approved parameters, while maintaining appropriate regulatory oversight.

A peer review in 2024 found that NERSA was not ready for the market and faced serious capacity deficits. NERSA chair Thembani Bukula acknowledged the challenge in late 2025, saying the regulator is being asked to build a market that does not yet exist, while managing more complex pricing, licensing and enforcement functions. With more players able to challenge decisions in court, NERSA must be strengthened to ensure predictable, lawful and timely decisions – essential for investor confidence. Despite reform progress, NERSA is struggling with resource and capacity constraints.

Bukula has acknowledged that staffing remains an ongoing battle, with the ERA (as amended) requiring urgent skills expansion. While NERSA continues to face heavy workloads from revenue and tariff applications, new rulemaking and court challenges, appointments in December 2025 have started to stabilise its leadership. The electricity sub-committee now has a permanent head following the appointment of Willie Majola as full-time electricity regulator, while Nomfundo Maseti has been confirmed as full-time regulator for gas, easing the strain created by her earlier dual acting role during a critical phase of market reform. NERSA is also engaging with NECOM and OV on a way forward to improve capacity and capabilities.

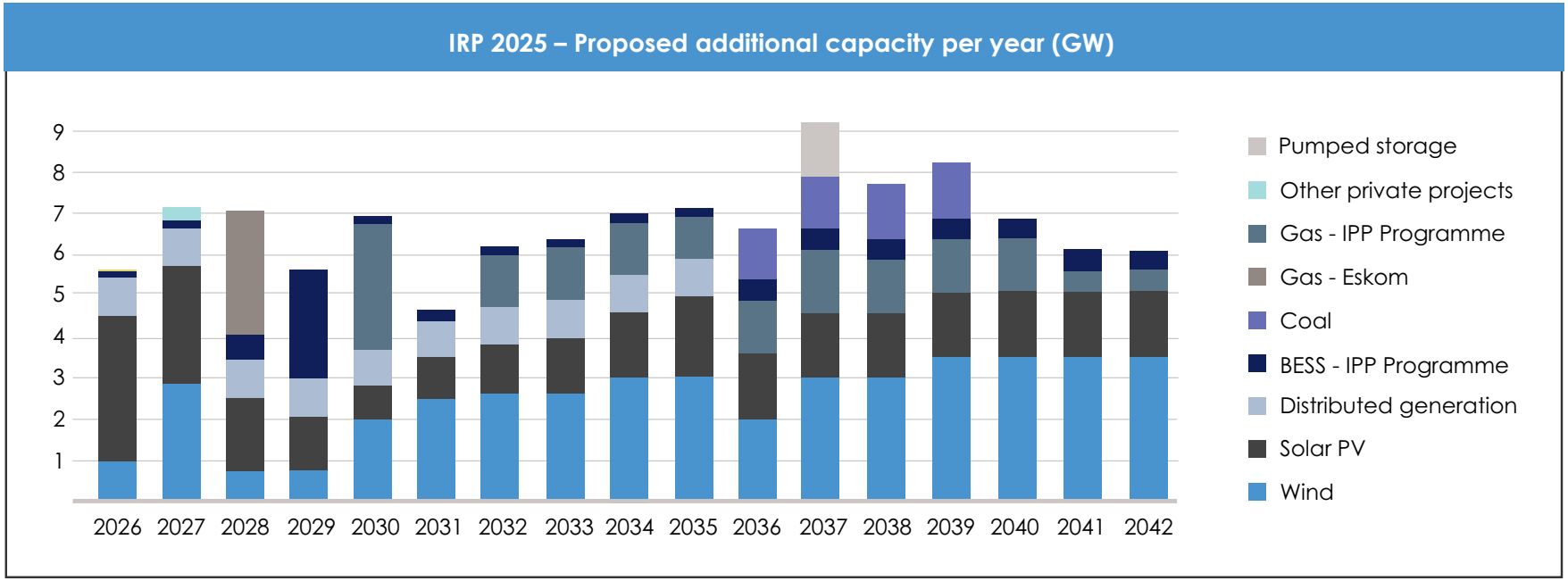
External partners have signalled a willingness to support capacity building. In April 2024, NERSA signed a memorandum of understanding with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) to strengthen technical cooperation, training and regulatory capability across electricity regulation, pricing, licensing and system planning.

> This support can help close skills gaps, but it cannot substitute for sustained internal reform, stable funding and long-term staffing commitments.

2.3.3 Adopt IRP as guidance, not blueprint

South Africa's energy planning will strengthen with an updated IEP as the main framework to guide electricity, gas and broader energy decisions. This plan will provide clear policy direction and alignment across government once gazetted. The IEP, required under the National Energy Act of 2008, is yet to be gazetted. It should align energy security, affordability, access and environmental goals across sectors such as transport, water and trade. Without it, overlapping and outdated plans – including the IRP and the Gas Masterplan – operate in silos.

After six years, the DoEE gazetted the IRP on 28 October 2025. The IRP remains advisory but is essential for guiding least-cost investment decisions – and credibility matters when assumptions are already years out of date. It sets out South Africa's energy build targets to 2042, calling for 43GW of new wind, 28.7GW of solar PV, 18.2GW of gas-to-power, 8GW of battery storage and 5.2GW of nuclear. While these figures suggest ambition, the plan's priorities raise concern about feasibility, affordability and coherence with policy objectives.



Source: IRP (2025)

The IRP2025 reflects the state's effort to lead the market and safeguard energy security. Its focus on clean coal, gas-to-power and new nuclear signals government priorities. The question is whether this emphasis might divert attention from faster renewable deployment, more storage and a stronger grid, which the market continues to identify as least-cost options.

The plan assumes gas plants will run at a 50% load factor to support investment in a young domestic sector. Should this assumption prove difficult to realise, it might create cost pressures that influence future electricity prices. Ensuring affordability remains central to energy security, so clearer alignment between planning assumptions and market conditions may help.

Coal capacity remains at roughly 15GW through 2040, signalling slower decommissioning and continued reliance on the existing fleet rather than a decisive shift away from coal.

> Mixed public signals about coal's long-term role risk complicating investment and planning, even as global cost trends continue to favour cheaper clean technologies.

The IRP gives limited weight to regional electricity imports through the Southern African Power Pool (SAPP). These imports could provide flexible, least-cost support to variable renewables and reduce pressure to build new domestic gas capacity, yet they remain underplayed in current planning.

Although the IRP is formally advisory, the Medium-Term System Adequacy Outlook effectively treats it as a fixed pathway. This approach narrows the space for market-led investment, despite the ERA (as amended)'s intent to support a more open and competitive system. Using the IRP as a guiding framework rather than a binding directive would preserve flexibility while keeping the state in a leadership role.

Applying IRP assumptions as hard caps in grid access decisions risks constraining private wind and solar development at a time when domestic project pipelines and global trends point to rapidly falling renewable costs. Allowing the market to respond to least-cost signals would better support the objective of a secure, affordable and resilient electricity system.

Seen in this light, the IRP2025 can anchor policy direction without fixing outcomes. Allowing market behaviour, technology costs and regional opportunities to shape delivery may strengthen reform and help South Africa secure reliable, affordable power over time.

2.4 Action 4: Define a credible end state for Eskom Holdings

The immediate priority is to define a credible end state for Eskom Holdings. President Cyril Ramaphosa's 12 February 2026 State of the Nation Address creates the platform to do this. He announced the establishment of a dedicated task team under NECOM, reporting to him within three months, to produce firm proposals, timelines and a phased plan to establish a fully independent transmission entity, including transferring transmission assets out of Eskom Holdings. Led by the ministers of electricity and energy, finance and the presidency, the intervention reasserts central authority and responds to conflicting signals that had begun to undermine confidence in the reform trajectory.

This action responds to a period of growing uncertainty. In recent months, Eskom and the DoEE advanced proposals that would have retained transmission assets within Eskom Holdings. This created confusion among creditors and market participants and raised concerns about governance, financial independence and the credibility of the future market operator. At the same time, reform momentum has been affected by a cautious, sequential approach in which Eskom Holdings has sought full certainty on future structures, rules and revenue before enabling new market activity. This linear sequencing risks delaying implementation in a reform process that requires parallel progress across institutions, market rules and participation.

Eskom's concern about stability is valid. The utility will remain central to energy security and electrification. Its management and board have publicly supported electricity market reform and accepted that unbundling is irreversible, while emphasising that the transition must protect reliability, financial sustainability and long-term affordability.

> However, process discipline should be no substitute for implementation. Delays driven by sequencing preference rather than practical requirements weaken confidence and slow the early market activity needed to build liquidity, capability and trust.

The NECOM process should therefore do more than resolve institutional design questions. It must define a clear, time-bound end state in which the TSO owns and controls transmission assets, operates the market as a neutral system operator and sits structurally and financially separate from Eskom's generation and distribution businesses. With the policy direction now explicit, the task is disciplined execution that gives Eskom, investors and lenders a credible and stable reform pathway. Eskom has committed to supporting the task team, which is an important step to ensure this is prioritised.

2.4.1 Why Eskom and DoEE's proposal has been overturned

In December 2025, Eskom and the DoEE advanced a revised unbundling approach that has since been overtaken by the President's February 2026 directive. The proposal, approved by the minister following endorsement by Eskom's board, was presented as a risk-managed interim model to maintain system stability and protect the utility's balance sheet during the transition. Under this approach, transmission assets would have remained within Eskom Holdings through the NTCSA. A separate, legally independent transmission system operator (TSO) would have been created outside the Eskom group to run system and market operations, but it would not have owned the grid. Ownership and investment responsibility would have stayed with the network service provider inside Eskom.

Eskom and the NTCSA argue that retaining transmission assets on Eskom's balance sheet would protect lenders, limits fiscal risk and supports continuity of investment during the five-year transition envisaged in the ERA (as amended). In practice, this approach defers decisions on asset ownership and control rather than resolving them. Functional separation proceeds, but ownership remains unchanged, leaving the TSO dependent on an asset owner that remains within the Eskom group.

Public statements by the Eskom CEO have emphasised that creditor consent and balance sheet stability are central considerations in any move toward asset separation. These are legitimate concerns. However, they are shareholder matters that fall within the remit of NT and the presidency, informed by transaction advice and aligned with Cabinet-endorsed policy. They should be addressed directly between Eskom, its creditors and the state, rather than shaping or constraining the pace of electricity market reform.

From a system perspective, the network service provider should lead grid strengthening and expansion. While the NTCSA's regulated asset base could, in principle, support lower-cost borrowing and sustained investment, continued control by Eskom Holdings limits institutional independence and weakens investor confidence. This constrains access to capital at scale and at cost, at a time when rapid grid expansion is essential to unlock new generation and storage.

Effective market reform, therefore, depends on clear functional and governance separation between the network service provider, the system operator and the market operator, with each acting independently and in the interests of all grid users. As electricity trading, virtual wheeling and short-term markets expand, the need for clarity on control, funding responsibility and the trajectory of asset ownership becomes more pressing, not less.

The risk of the current structure is that it extends the system's binding constraint: underinvestment in transmission capacity.

> Without a pathway toward a truly independent transmission entity with the ability to raise capital efficiently, delays in grid connection are likely to persist, increasing the risk of future supply constraints despite strong generation investment.

Structural reform of transmission ownership remains a core element of the electricity reform agenda. Resolving creditor and balance sheet issues is essential, but these discussions must proceed in parallel with market reform, not as a precondition for it. Clear shareholder direction on Eskom's end state is therefore critical to prevent financial risk considerations from spilling over into implementation delays, investor uncertainty and weaker system outcomes.

2.4.2 Clarity on Eskom's end state

Eskom Holdings needs clear direction from its board, anchored in a strengthened shareholder compact aligned with a Cabinet-endorsed roadmap. That roadmap should define Eskom's end state across its operations, balance sheet and functions, and provide a single lodestar for government. Unbundling remains constrained by the Lazard upward guarantee between the NTCSA and Eskom Holdings, unresolved municipal debt and concerns about accounting and creditor implications of balance sheet separation. These constraints continue to delay the establishment of an independent transmission entity and the National Electricity Distribution Company of South Africa (NEDCSA). Over time, Eskom's generation portfolio should contract as coal plants retire. At the same time, the role, mandate and funding of Eskom Green remain unclear and raise competition and grid access concerns that need to be resolved as part of the end-state design. There should be clarity on how Eskom Green will fund its projects, including confirmation that no public money will be used and a clear outline of the financial structures it plans to use to partner with the private sector.

Alignment between NT, the DoEE and the presidency is now critical to sustain momentum in electricity reform. A Cabinet-endorsed roadmap would reduce policy risk and give NT the authority to use its instruments in support of structural reform. NT should define and publish Eskom's end-state balance sheet and capital structure, informed by independent advice on resolving the Lazard guarantee that constrains the NTCSA unbundling. While NT cannot dictate the content of the shareholder compact without encroaching on the DoEE's mandate, it can shape outcomes through debt relief conditions. Used well, these conditions can reinforce reform by requiring Eskom to actively support the transfer of transmission assets rather than delay it. Conditions must, however, remain credible and achievable to avoid undermining the relief programme and broader macroeconomic stability.

The debt relief programme must succeed if Eskom is to stabilise its balance sheet and restore access to capital markets without routine reliance on sovereign guarantees. Some guarantees will still be required, including to crowd in private capital for public–private partnerships. The emerging Credit Guarantee Vehicle could play a role in supporting future borrowing if well-designed and transparently governed. Treasury should clarify Eskom's long-term capital structure as part of the end-state roadmap. Eskom Generation's legal form and financial sustainability remain unresolved, particularly as coal retirements accelerate, and may require further targeted support or restructuring to prevent renewed balance sheet stress.

For reform to move from intent to delivery, Eskom must recognise licensed electricity traders explicitly under its revised wheeling policy and engage with them on a non-discriminatory basis.

> At present, Eskom's refusal to engage meaningfully with traders creates a de facto barrier to market entry that is not grounded in legislation or regulation. This undermines the objectives of the ERA (as amended) and weakens confidence in the SAWEM's early operation.

Eskom should allow traders to participate fully in wheeling arrangements, including virtual wheeling. Eskom's current position excludes traders altogether. Virtual wheeling is not available to traders, and Eskom's wheeling policy makes no provision for trader participation. These positions are discriminatory and inconsistent with NERSA's Third Party Wheeling Rules. Excluding traders delays liquidity, price discovery, aggregation and risk intermediation, and reduces the potential for meaningful municipal participation.

Eskom must also clarify, simplify and expedite practical issues around distribution connections, use-of-system agreements and amendments to electricity supply agreements for traders. Eskom should be held to time-bound processing of documents as part of its licence conditions, with NERSA oversight. Delays and uncertainty stem from discretionary and inconsistent information requests in distribution processes, which increase transaction risk and slow deal closure. This issue affects traders and should be resolved through final grid capacity allocation rules (GCAR) that remove Eskom's discretion to request additional information unrelated to network access, including end-customer meter numbers. Clear, standardised approaches to distribution access and contract amendments are essential to enable wheeling at scale, support municipal participation and reduce disputes that can derail reform momentum.

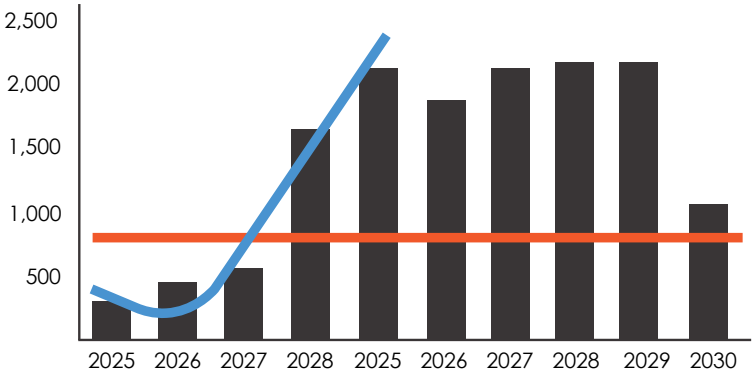
2.4.3 Managing competition risks linked to Eskom Green

The role of Eskom Green must be clarified to prevent competition distortions in the SAWEM. While Eskom Green could play a useful role in supporting renewable energy deployment, its position within Eskom Holdings raises risks of preferential access to grid capacity, information asymmetry and cross-subsidisation. Clear governance, ring-fencing and regulatory oversight are required to ensure that Eskom Green operates on a fair, transparent and non-discriminatory basis, consistent with market rules that apply equally to all participants. Without this, Eskom Green risks undermining confidence in the neutrality of the market and deterring private investment.

2.5 Action 5: Deliver the transmission development plan

While the NTCSA in 2023 missed its targets for transmission of 166km (it built only 74km), it has started to improve, with its current performance surpassing targets. The 2024 Transmission Development Plan (TDP)[16] calls for 14,500km of new lines and 210 transformers to be added by 2034. To meet this, the NTCSA must deliver a hockey-stick rollout – a slow build in the early years followed by a steep surge later in the decade, requiring construction at a pace five times faster than the previous 10 years.

Hockey stick (blue line) curve of the transmission network rollout (km) with limit on industry capacity (orange line)



Source: NTCSA (October, 2025)

2.5.1 Slow but improving progress

In the 2024/2025 financial year, the NTCSA built 292.6km of new transmission lines, exceeding its 286km target. The 2025/2026 financial year target is 423.1km, with just over 108km[17] completed, as at October 2025. Although progress remains slow, the NTCSA expects a sharper ramp-up from 2028.

2.5.2 Industrial and investment impact

Delays in grid expansion constrain industrial investment, skills development and local manufacturing capacity. The NTCSA has budgeted R133bn for the first five years of the TDP, with key supplier contracts already in place, but execution remains the key challenge.

2.5.3 Local supply chain constraints

Local capacity shortfalls and global equipment delays are slowing implementation. To address this, the NTCSA signed 19 long-term agreements with local engineering, procurement and construction firms in 2024 and launched an incubation programme with the DoEE, the Industrial Development Corporation and the Department of Trade, Industry and Competition to strengthen domestic capability.

2.5.4 Hybrid model needed for scale

Meeting the TDP's ambitious targets will require public-private collaboration through the ITP procurement programme. The first bid window aims to procure 1,164km of new lines and 2,630MVA of transformer capacity across seven priority corridors.

2.5.5 Concerns over local exclusion

The first ITP bid round, issued through a request for qualification in July 2025, drew strong criticism from local industry. Associations, including the Powerline and Substation Association, the Steel and Engineering Industries Federation of Southern Africa and the Manufacturing Circle, warned that high financial and technical thresholds effectively excluded South African firms, favouring large foreign entities.

16 NTCSA. (2024, December). *Transmission development plan 2024 – Public report*. NTCSA.

17 Eskom Holdings. (2025, October). *PCEE annual results and summer outlook* (October 2025).

2.5.6 Government's localisation assurances

The IPP Office and Minister Ramokgopa have maintained that the ITP will support local industrialisation through skills transfer and knowledge sharing. Projects must include at least 49% South African equity, but experience in the REIPPPP suggests that foreign-led ownership may again dominate, with limited domestic value retention.

2.5.7 Alignment to boost financial support

The first ITP bid window will now align with the establishment of the Credit Guarantee Vehicle (CGV), expected by mid-2026. Without this facility, lenders would be unwilling to finance projects based only on a Treasury letter of support. The request for proposals is now expected in the third quarter of 2026, following a draft issued on 15 December alongside the prequalified bidder list. While frustrating, the delay is justified to ensure financial bankability.

Despite progress on planning and procurement, South Africa's slow transmission rollout remains the single biggest threat to energy security and decarbonisation. Without faster grid expansion, private renewable projects cannot connect, and public confidence in reform will continue to erode. Some stakeholders fear that these delays reflect not just capacity challenges but a deeper reluctance within Eskom to open the grid to private competitors.

2.6 Action 6: Implement reform of the electricity distribution industry

Municipalities sit at the centre of South Africa's electricity system. They own and operate about half of the distribution grid and are essential to universal access and decarbonisation. Yet they remain on the margins of reform. As competition enters with the transition to a market, municipalities will operate as participants alongside others, with revenues determined by market outcomes rather than regulatory protection.

2.6.1 Electricity supplier of choice

Municipal customers still face practical barriers to choosing their electricity supplier because most municipal distributors do not allow wheeled energy from private players. This limits access to competitive offers from traders and sits uneasily with the ERA (as amended)'s aim to promote competition and customer choice. Traders seek clear trading rules that support an open and stable market where customers can select the supplier that best meets their needs. Eskom notes that customer choice is not an absolute right and must align with the governing frameworks of the industry. The question is how these frameworks can evolve so that municipal networks are open to non-Eskom generators in a way that protects system integrity while advancing the ERA (as amended)'s objective of end-user choice.

2.6.2 SALGA warns on finances

SALGA, which represents all 257 municipalities, supports reforms that are just, inclusive and sustainable, but has warned that municipal finances are at risk. It raised concerns during the drafting of trading rules and challenged the ERA (as amended)'s definition of "reticulation", which would have curtailed municipal authority to distribute and trade power. Although the definition was removed, the issue exposes a deeper problem: municipal finances remain fragile and unresolved in the reform process and require deliberate solutions. This risk could further delay reform, adding to the complexities of Eskom's unbundling and the electricity pricing policy review.

2.6.3 Revenue at risk

For three decades, municipal electricity sales have cross-subsidised basic services. This support now needs transparent unbundling and fair allocation, rather than being hidden in electricity pricing. As paying customers shift to private and cleaner power, this revenue is falling, exposing the scale of the subsidy, eroding investment in infrastructure and weakening service delivery. Acting DoEE director-general Subesh Pillay warned that poorly managed reforms could pose an "existential threat" to local government finances.

2.6.4 Safeguarding municipal finances

SALGA and the Association of Municipal Electricity Utilities (AMEU) have cautioned that energy reforms, if poorly designed, could destabilise local government revenue and disrupt service delivery. In submissions to NERSA, both organisations stressed the need for trading rules that protect municipalities' financial sustainability while enabling fair market participation.

2.6.5 Uneven progress and energy inequality

Municipal reform is fragmented. Only 10 municipalities have adopted wheeling policies and seven have approved tariffs. Operational frameworks exist mainly in financially stable metros such as Cape Town, George and Nelson Mandela Bay. This uneven progress risks deepening energy inequality between urban and smaller municipalities.

2.6.6 Efforts to stabilise finances

Even leading metros such as Cape Town are feeling the strain. While the city has pioneered rooftop solar and feed-in tariffs, rising electricity tariffs are pricing out higher-income households. NT's Metro Trading Services Reform programme aims to ringfence revenue streams for services such as electricity, water and waste – a step towards improving municipal financial sustainability.

2.6.7 Emerging models for power procurement

Some Western Cape municipalities are exploring direct power procurement from traders. In February 2026, the City of Cape Town issued a tender to establish a panel of energy traders and aggregators to supply up to 500MW of power, with bids closing on 13 May 2026[18]. The panel approach aims to speed up contracting, improve flexibility and strengthen supply resilience as an alternative to traditional IPP tenders. This builds on the city's plan to contract significant volumes of power through trader-mediated PPAs. However, most municipalities still lack the technical, commercial and legal capacity to run similar processes, reinforcing the need for targeted support and standardised procurement frameworks.

2.6.8 Risks of partial reform

While intended to address governance and service delivery failures, DAAs alone cannot fix structural weaknesses. Looking ahead, the development of the updated White Paper on Local Government[19], due in April 2026, is key to reviewing the municipal fiscal framework to address sustainability in water and electricity revenue. In parallel, OV, NECOM and the DoEE are developing an electricity distribution industry (EDI) reform roadmap for release in June 2026. If aligned, these documents should provide clear steps toward achieving financial sustainability, so that municipal participation in the new electricity market is possible. No doubt these documents would require hard decisions to be made – municipalities cannot continue to receive grants from NT or do things the same way as debt levels escalate. A risk worth watching is the local government elections, which will take place between November 2026 and January 2027. New political leadership could speed up or slow down such momentum.

2.6.9 What we should do

Reforming the EDI is essential to stabilising the electricity system and enabling wider market reform. Distribution sits at the point where financial failure, weak governance and poor service delivery converge, and where national energy reforms succeed or fail.

The minister of electricity and energy is leading the process, with NECOM coordinating the technical work across the DoEE, Eskom, NT, NERSA, OV and local government. The focus is twofold: stabilise distribution in the short term and place the EDI on a sustainable long-term footing.

NECOM has drafted the EDI reform paper, which is now with the DoEE and is expected to be released for public comment in March 2026. The objective is to create an efficient, financially viable and well-regulated distribution sector that can deliver affordable, reliable electricity and adapt to a more competitive and decentralised electricity system.

2.6.10 Responding to the immediate crisis

Municipal arrears to Eskom, now above R105bn[20], are a systemic risk to Eskom's finances, the fiscus and electricity reform. Years of debt restructurings and conditional relief failed to change payment behaviour or arrest network decline.

A decisive shift has now occurred. NT has publicly endorsed DAAs as a national stabilisation mechanism. This marks Treasury's entry into electricity distribution governance and reframes municipal electricity failure as a macro-fiscal threat rather than a localised problem. In its 2025 medium-term budget policy statement, NT describes DAAs as a transition instrument "intended to stabilise cash flows, improve payment discipline and create a bridge to longer-term structural reforms in the local government fiscal framework". It also signals that stronger interventions may follow where failures persist.

Under a DAA, Eskom acts as the municipality's agent for defined distribution functions, typically including billing, collections, metering and targeted maintenance. The aim is to break the cycle of failing networks, weak revenue collection and escalating arrears, while protecting supply and restoring predictable payment flows. A concern is that Eskom Distribution faces challenges in managing its own infrastructure, so taking on additional responsibilities might not deliver the intended outcomes.

18 City of Cape Town. (2026, February 13). *Tender 156S/2025/26: Purchase of electrical power from energy traders and/or aggregators (panel appointment) up to 500MW*. EasyTenders.

19 Department of Cooperative Governance. (2025). *Review of the White Paper on Local Government: Discussion document*.

20 Creamer, T. (2025, December 5). *Eskom prioritises 14 municipalities for distribution agency agreements to tackle R105bn arrear debt.* Engineering News.

Treasury's endorsement comes as Eskom identified[21] 47 municipalities for direct operational control, following non-compliance with debt relief conditions. Fourteen high-arrears municipalities – with about 58% of total debt – were prioritised for the first wave of DAAs.

2.6.11 The deeper challenge: long-term EDI sustainability

Beyond municipal arrears and cashflow stress, NECOM has identified a set of structural weaknesses undermining the EDI across both Eskom Distribution and municipal distributors.

Service provision is fragmented, leading to inefficiencies, unequal tariffs and wide disparities in service quality. Financial instability is entrenched due to structural underfunding, declining sales, electricity theft and persistent non-payment. Ageing infrastructure and maintenance backlogs threaten reliability and constrain economic activity.

Regulatory weaknesses compound these problems. Compliance with NERSA licence conditions is uneven, with limited enforcement and weak accountability. This further highlights the urgent need for NERSA to strengthen its technical resources. Governance failures and skills shortages – including leadership instability, limited technical capacity and poor asset management – further weaken distributors.

At the same time, market disruptions are accelerating. Embedded generation, wheeling, digital technologies and the shift towards the SAWEM are changing the role of distributors and how they procure power and engage with customers. NECOM's work recognises that the EDI must adapt structurally to this new environment.

NECOM's work is anchored in a clear end state – a future-proof distribution utility. This includes reliable service with minimal outages, support for bi-directional energy flows and non-discriminatory grid access. It requires cost-effective operations, with targeted reduction of technical and commercial losses.

Customer engagement becomes central, with distributors actively managing demand and supporting prosumers. Regulation must be both supportive and firm, enabling innovation while enforcing performance and compliance. Financial stability is essential, supported by cost-reflective, properly structured cost-of-supply tariffs that enable long-term infrastructure investment.

2.6.12 Developing the EDI reform roadmap

To address these long-term challenges, NECOM has led the development of a comprehensive EDI Reform Roadmap. The roadmap defines the reform problem, sets a clear reform direction and proposes solution pathways rather than a single blueprint. It also sets out a sequenced reform journey that allows for adaptation over time.

The roadmap responds to changes since 2011 on both the demand and supply sides. On the demand side, higher tariffs and energy efficiency, rapid uptake of embedded generation driven by load shedding, growing wheeling demand from large customers seeking green power, and the anticipated rise of electric vehicles are reshaping electricity consumption.

On the supply side, Eskom's unbundling, tariff restructuring, and the transition towards a multi-participant SAWEM require distribution utilities to evolve from passive retailers into active system operators and market participants. NECOM has ensured the roadmap reflects these realities.

The roadmap outlines three pathways for reform as a single blanket approach will not be appropriate given the differing status and needs of municipalities. See the table on the next page.

21 Allan, K. (2025, December 8). *Eskom agreements signal shift in how Treasury sees municipal debt crisis*. Business Day.

Pathway 1 Modernisation and sustainability with mandated changes in service provision arrangements.	Applies to severely distressed municipalities in default to Eskom. Cannot effectively deliver electricity services. Municipality may require external service delivery options; consolidation is possible.
Pathway 2 Modernisation and sustainability with more extensive voluntary changes in service provision arrangements	These municipalities are struggling financially and operationally, but have the capability to improve performance through structured interventions like ringfencing. Consolidation is a possibility, but not necessary.
Pathway 3 Modernisation and sustainability with limited changes in service provision arrangements of individual utilities	These municipalities are performing well and are stable. They may need reforms to modernise and keep up with evolving trends, while ensuring operations are not destabilised.

Source: Operation Vulindlela (November, 2025)

2.6.13 Alignment with national reforms

EDI reform is embedded in the broader local government reform programme under OV. NECOM works closely with OV to ensure alignment between energy reform and wider municipal reform initiatives. OV is also working to ensure local governments improve financial and operational sustainability with initiatives like the trading services reform programme led by NT.

Within this framework, EDI reform focuses on resolving structural weaknesses in distribution, while related programmes – such as Metro Trading Services Reform – aim to strengthen governance, financial sustainability and service efficiency in metros. Parallel reforms in water services highlight the shared need for stronger regulation, ring-fencing and accountability across network industries.

There are a number of reform programmes underway to strengthen municipalities. The Municipal Utility Reform Project, driven by the UK Foreign and Commonwealth Development Office, focuses on just energy transition reforms and has resulted in improved billing systems in certain energy projects, as well as reducing commercial losses with the climate benefit of reducing greenhouse gas emissions.

The White Paper on Local Government is under review and will be updated, also focusing on introducing a differentiated local government model for metros, secondary cities and rural areas. It will also look at fiscal reforms such as ring-fencing funding for operations and maintenance and including performance-based transfers, diversifying revenue streams and taking into account climate change, with strategies for disaster risk reduction, green energy and promoting distributed energy and efficiency in municipal operations.

2.6.14 Driving momentum through no-regret actions

While the roadmap is being finalised, NECOM is driving a set of immediate no-regret actions with key institutions. NECOM is working with NERSA and NT to strengthen regulatory monitoring and enforcement.

> Performance-based regulation, systematic benchmarking and credible consequence management are critical to the success of EDI reform.

NECOM is also supporting NT and the Department of Cooperative Governance in prioritising the rollout of smart meters for large power users. Advanced metering infrastructure is positioned as a core element of grid modernisation – enabling accurate billing, loss reduction, grid visibility and bi-directional energy flows.

Finally, NECOM is advancing the ring-fencing of electricity businesses within municipalities. Building on existing Treasury programmes in metros, this work aims to improve transparency, financial discipline and accountability, using lessons from municipal debt and trading services reforms.

2.7 Action 7: Finalise trading rules

The trading rules will be a central building block in the transition envisaged by the ERA (as amended) and the shift from a single-buyer system to a competitive, multi-market structure. The trading rules are intended to regulate bilateral electricity trading, and should focus only on matters that are not already covered by the ERA (as amended), the Wheeling Rules, the grid and distribution codes, or the Grid Capacity Allocation Rules (GCAR). Their purpose is to enable a competitive, multi-seller electricity supply industry by defining the operational, commercial and conduct framework for bilateral transactions between generators, traders, customers and network service providers (NSPs).

This role is distinct from the SAWEM and its Market Code. The Market Code will govern trading within the short-term competitive market, while the trading rules should apply only to bilateral transactions outside of SAWEM. Bilateral trading will continue alongside SAWEM both before and after its implementation.

> There is no natural linkage between the launch of SAWEM and the timing or phasing of the trading rules, and participation in SAWEM remains voluntary.

The rules should apply to all participants – generators, traders, customers and NSPs – in relation to the bilateral purchase and sale of electricity to third parties. To support a competitive electricity supply industry, equivalent transactions should be subject to equivalent regulation. Obligations should therefore apply consistently to all sellers undertaking third-party wheeling, not to licensed traders alone.

The NTCSA has noted that most wheeling transactions currently originate from generators. The consequences of non-performance should be the same regardless of the seller – whether a generator or a trader. For example, a failure to supply a contracted customer should trigger equivalent treatment, all sellers should have the same access to metering data and all should be subject to the same network charges and operational requirements. This is also consistent with the Wheeling Rules, which apply equally to all sellers of wheeled energy.

Given the structural dominance of Eskom Distribution and municipalities, the trading rules must actively prevent the leveraging of network control. Clear requirements on non-discriminatory access, data provision, supplier switching and functional separation are essential to avoid gatekeeping, switching delays, opaque pricing or other conduct that could undermine customer choice and market entry.

2.7.1 NERSA process and timing

The regulator has undertaken an extensive development process, including stakeholder working groups in 2025, publication of draft rules for public comment in November 2025, written submissions received until the end of January 2026 and a public hearing on 12 February 2026. The key issues have been tested through multiple rounds of consultation and are well understood.

While stakeholders broadly support the introduction of the rules, Eskom Distribution's regulation division has indicated that it reserves the right to pursue legal review and has called for further engagement. However, further workshops would delay implementation without materially improving the framework. Municipal stakeholders have raised additional concerns regarding revenue protection and cost recovery. There is general agreement that certain fixed costs and subsidies should be non-bypassable and should remain payable by all customers. This is an important principle for Eskom and municipalities, given the implications for revenue stability and cross-subsidisation. The trading rules can confirm that non-bypassable charges will apply. However, decisions on what these charges should cover, and the appropriate level, should be determined through the electricity pricing policy and formal tariff determinations, rather than through the trading rules themselves.

NERSA now has sufficient information to make regulatory choices, resolve outstanding issues and align the rules with related instruments. Prompt finalisation is needed to provide regulatory certainty and enable the expansion of bilateral trading. Continued delay risks slowing market development and undermining momentum in electricity sector reform. If Nersa is unable to settle on a final set of rules itself, it should seek additional independent expert advice that is objective and unbiased to balance the conflicting interests of stakeholders and draw on international best practice.

2.7.2 Key issues to resolve

Scope and regulatory hierarchy: The draft rules overlap with existing instruments in areas such as wheeling arrangements, grid access and technical requirements. The final rules should clearly define their scope and confirm the hierarchy between the ERA (as amended), tariff determinations, the Market Code, the grid and distribution codes, the Wheeling Rules and the GCAR. Matters already regulated elsewhere should be removed to avoid duplication and conflict.

Relationship with SAWEM: Provisions that assume mandatory market participation, impose obligations on the Market Operator or link implementation phases to the launch of SAWEM should be removed. The trading rules should regulate bilateral transactions only, independent of wholesale market timing.

Phased implementation and eligibility: The proposed restriction of bilateral trading to transmission and high-voltage customers in an initial phase would create a significant barrier to competition. Most existing wheeling occurs at medium voltage and through virtual arrangements serving low-voltage customers.

> Eligibility should be based on objective technical readiness – such as metering and settlement capability – rather than voltage level or customer category. If phasing is retained, it should be short, clearly defined and supported by published criteria and advance notice.

Eskom has proposed delaying implementation until tariff unbundling is complete, which would risk significant delay. As an alternative, Eskom has proposed a temporary limit on the share of a customer's demand that may be supplied by third parties to reduce the impact on NSP's fixed cost recovery. Both approaches highlight the urgency of reforming the electricity pricing policy (EPP) to support cost-reflective tariffs and enable market development without undermining network sustainability.

Portfolio flexibility and administrative efficiency: Current requirements to amend licence schedules, electricity supply agreements and connection and use-of-system agreements for individual transactions create unnecessary administrative barriers and limit portfolio flexibility, leading to inefficiency and cost in the system. These constraints should be removed or overridden to allow sellers to optimise supply and demand and to support market liquidity. Reporting and compliance requirements should apply consistently to all sellers engaged in bilateral trading.

Market conduct and NSP neutrality: The rules should include clear safeguards against discriminatory behaviour by NSPs, including delays in approvals, data withholding or opaque top-up pricing. Effective oversight, monitoring and enforcement – including penalties where necessary – will be required to prevent incumbents from protecting retail margins at the expense of competition.

Cross-border trading and licensing: Eskom has argued that trader imports and exports may conflict with section 34(B)(5) of the ERA, implying exclusive rights for the CPA. However, the Act empowers NERSA to issue import and export licences, and the Market Code provides for trading through the SAPP. The final rules should confirm that licensed traders with an import and export licence may participate in cross-border transactions to avoid regulatory uncertainty. The trading rules should however only relate to the portion of cross-border trades within South Africa and avoid extraterritorial reach.

2.7.3 Matters to address outside the trading rules

Several issues raised during consultation fall outside the appropriate scope of the trading rules and should be addressed through other policy or regulatory instruments:

- Non-bypassable charges, cross-subsidies and legacy cost recovery – wheeling rules, electricity pricing policy and tariff determinations
- Retail market design and consumer protection – a potential retail code
- Financial sustainability of Eskom entities and municipalities – broader reform and fiscal policy
- SAWEM governance, scheduling, balancing and financial security – the Market Code
- System operation, technical standards, connection requirements and reliability – the grid and distribution codes
- Grid access processes and capacity allocation – the GCAR
- Regional trading obligations and system coordination – SAPP frameworks

Clear separation of these issues is essential to avoid regulatory overlap and legal risk. The trading rules should focus on their core purpose – enabling transparent, non-discriminatory bilateral trading as the foundation of a competitive, multi-seller electricity market.

2.8 Action 8: Improve wheeling systems and grid access

Wheeling is a cornerstone of the energy transition and the move towards a competitive electricity multi-market. It allows IPPs and traders to supply electricity directly to end-users across Eskom and municipal networks. This eases pressure on the national utility, improves energy security and accelerates the shift to cleaner generation. Wheeling also helps businesses meet environmental, social and governance commitments and manage exposure to climate and trade measures such as the carbon tax and the EU's CBAM. Carbon budget regulations aligned with South Africa's nationally determined contributions, gazetted in 2025, will further raise the cost of emissions once finalised.

> Against this backdrop, access to lower-carbon electricity through wheeling is becoming a commercial and compliance necessity.

NERSA approved the Third-Party Wheeling Rules in March and published them in May 2025. The framework sets out the principles of non-discriminatory grid access, cost-reflective tariffs, transparency and reliability, forming the foundation for open and fair participation in the electricity market. They clarify that fixed network charges cannot be avoided to protect the NSPs, as outlined in the previous action.

These rules are a key reform to enable third-party access to the national electricity grid. The framework supports the delivery of electricity from independent generators to customers, directly or via traders, across different areas using Eskom's or municipal networks. It introduces open access to the grid, promotes competition in generation and aims to lower electricity prices. Compliance requirements include licensing, contractual agreements, metering and grid code standards.

Key principles include non-discriminatory access, cost-reflective tariffs, transparency and grid reliability. The reforms aim to enable the just energy transition and diversify South Africa's energy mix beyond Eskom. Minister Ramokgopa described the move as critical to ensuring energy security and affordability, especially for marginalised communities.

In a move that was inconsistent with the rules set by NERSA, Eskom in August 2025 published a wheeling of energy and net-billing policy to outline how energy use is measured and settled when electricity is supplied through third-party wheeling, net-billing or direct energy purchase arrangements. These include cases where Eskom buys electricity from an IPP, but the electricity is used directly by the customer rather than flowing through Eskom's own generation.

Eskom's current approach to wheeling raises issues that need resolution to support the development of a competitive electricity market. Eskom does not recognise traders as counterparties for allocating wheeled energy on behalf of consumers and limits their access to the wheeling platform. Eskom may view these restrictions as necessary to prevent grid capacity from being reserved without a final customer. In practice, however, large generation projects often rely on early trading and aggregation before customers are fully contracted. A requirement to match electricity from a single generator to a single end-user also sits uneasily with grid operations, where energy is supplied into a blended system. Clarifying the role of traders and ensuring non-discriminatory access to wheeling arrangements would improve market confidence and allow new generation projects to progress.

"Enable wheeling of power to customers on municipal distribution networks" is a priority outcome of OV2.0, and key stakeholders working to achieve this outcome should support NERSA in developing and publishing clear rules for wheeling that apply consistently across Eskom and municipal networks.

2.8.1 Create non-discriminatory grid access and independence

Non-discriminatory grid access is essential for a competitive electricity market, and it matters as much for traders as for generators. While traders do not connect to the grid themselves, they must be recognised as legitimate off-takers so that the IPPs they contract with can secure grid access on a neutral basis. Where grid access is made contingent on identifying ultimate end customers and providing meter numbers years ahead of commercial operation, it creates unnecessary barriers to trading-led models. This is particularly problematic in the context of the SAWEM, where such requirements prevent uncontracted capacity from being available to bid into the market, undermining liquidity and competition.

Without credible grid independence that separates the role of the grid operator from that of a utility trader, independent traders cannot operate at scale, and the SAWEM cannot deliver liquidity, competition or efficient price discovery. Eskom's grid access unit (GAU) plays a central role as a customer service function in connecting new generation projects to the grid, but its location within Eskom Distribution has raised serious competition concerns due to the conflict with Eskom Generation and Distribution's role as a supplier of energy.

> The unit's lack of structural independence creates potential conflicts between Eskom's commercial interests and its separate responsibility to facilitate fair, non-discriminatory access.

2.8.2 The GAU established within the NTCSA

The grid access unit is to be established within the NTCSA to separate Eskom's commercial interests from network access and system operation. Driven by NECOM, the reform is expected to be finalised by March 2026, with operations starting later in the financial year. On its own, however, this may not resolve the underlying problem. The grid access unit would still need to interact with Eskom Distribution as the network operator and as the agent responsible for billing and customer interfaces, leaving scope for continued friction and misaligned incentives. While the reform aims to address competition concerns around grid access, its effectiveness will depend on safeguards that go beyond formal organisational separation, given that Eskom Holdings remains the asset owner. A more practical solution may be to separate Eskom Distribution's trading function from the wires business, limiting the grid access unit's role to neutral grid access decisions, while customer service, billing and queries sit with a distinct trading entity. Without this deeper functional separation, governance measures alone may struggle to deliver credible neutrality in practice.

2.8.3 Independence concerns persist

Eskom executives insist that a "Chinese wall" separates the GAU from Eskom Generation's commercial divisions. At Windaba 2025, Eskom Green CEO Rivoningo Mnisi and Group CEO Dan Marokane both defended the process as fair and compliant with NERSA rules. Yet industry remains unconvinced, pointing to Eskom's dual role as both gatekeeper and market participant.

2.8.4 NTCSA's limited authority

The NTCSA continues to struggle with limited decision-making power, which is currently being resolved. Its board includes an Eskom board member, and key decisions often require approval from Eskom Holdings. Without full delegation of authority, the NTCSA cannot operate as an independent system and market operator. Addressing board and leadership stability is an important issue that requires attention.

2.8.5 Grid Capacity Allocation Rules

The NERSA Grid Capacity Allocation Rules (GCAR), in force from 24 December 2025 following a DoEE gazette, mark a critical reform in managing one of the most binding constraints in South Africa's electricity system – access to limited grid capacity. These rules will replace the Eskom interim grid capacity rules, which gave Eskom discretionary and potentially discriminatory powers. As congestion at substations and along key transmission corridors intensifies, particularly in the western parts of the country, unmanaged access risks capacity being locked up by speculative or inactive projects.

> The new rules respond directly to this risk by guaranteeing fair, transparent and non-discriminatory access, while ensuring that only credible, ready-to-connect projects are able to advance.

NERSA maintained a clear focus on equal treatment for all applicants and reaffirmed the "first ready, first served" principle as the most effective way to allocate scarce grid capacity. In response to public comment, the regulator strengthened the framework by clearly defining what "first ready" means and by setting out detailed readiness criteria. This clarity reduces discretion, improves predictability and limits disputes over queue position.

NERSA also refined the structure of the allocation process based on feedback. Earlier proposals that relied on design and construction contracts were removed, reflecting concerns about feasibility and

premature cost exposure. Instead, the rules now centre on three clearly defined milestones – pre-feasibility, capacity reservation and capacity allocation – which structure the queue and govern how projects enter, advance, or lose priority.

The GCAR still allow NSPs to request additional technical and project information where required. This flexibility enables NSPs to confirm network readiness and manage allocation risk. However, it also creates a potential implementation risk. Because the rules do not prescribe an exhaustive list of evidence, NSPs retain significant discretion in determining what constitutes readiness. If applied conservatively, this discretion could reintroduce barriers similar to the interim regime (under which Eskom refused to accept traders as valid off-takers and required a direct look-through to the ultimate consumers) and slow or block connections in practice.

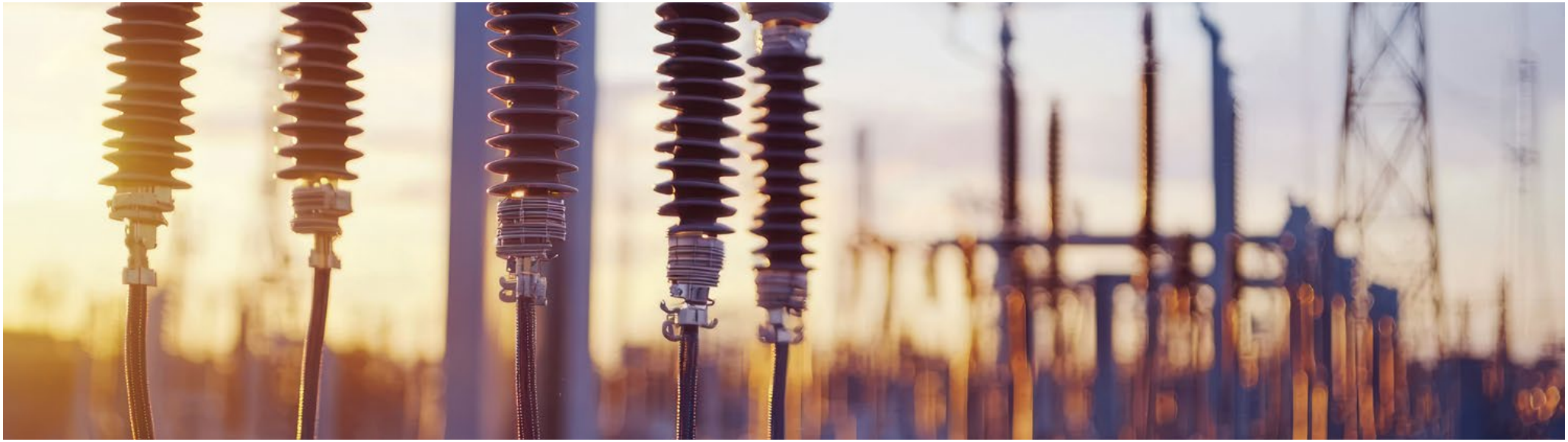
This risk is particularly acute for projects with traders as off-takers. In recent cases, NSPs have required full look-through to end customers – including meter numbers – for power that may only be delivered several years in the future. Such requirements are not aligned with the commercial structure of trading arrangements and risk undermining the role of traders as credible counterparties. Where projects have committed capital and lenders consider the offtake structure bankable, NSPs should recognise traders as valid off-takers and avoid imposing additional evidentiary hurdles.

The issue will become more material as SAWEM develops, where fully merchant plants may emerge and end-customer information will not be available at the time of connection.

Calls for special treatment of municipalities were explicitly rejected. While municipalities argued that procurement and funding delays linked to integrated development plans justified exemptions, NERSA concluded that preferential treatment would undermine fairness and non-discrimination. Municipal projects, like all others, must demonstrate readiness aligned with actual delivery capability.

Industry stakeholders have broadly endorsed the final framework as a critical reform step aligned with the ERA (as amended) and government's commitment to a competitive wholesale electricity market. NERSA is authorised under the ERA (as amended) to provide an independent, fit-for-purpose allocation rule and non-discriminatory access is foundational to investor confidence, financing and participation in the SAWEM.

Whether the reform delivers its intended market access will depend less on the rules themselves than on how NSPs exercise their discretion in practice, and how firmly NERSA enforces consistency and non-discrimination.



2.9 Action 9: Launch SAWEM with Market Code in place

The successful launch of the SAWEM depends on alignment across the electricity sector, from NERSA's regulatory approvals to NTCSA's operational readiness. The following sets out the core elements shaping the path to launch, the current status, the key risks and the actions needed to keep the SAWEM on track.

Component	Current status	Key risks	Required actions
SAWEM launch readiness	Internal launch date in the next few months, with external launch likely in September 2026. NERSA approved the market operator licence, but with conditions that need to be finalised.	Eskom in January 2026 requested another 30 days to confirm licence conditions. Any further regulatory delays and resistance may delay implementation.	NERSA should finalise the licence conditions before the process causes delays. It should also publish the internal and external launch date, while the NTCSA continues final testing of market systems.
Market Code	NERSA aims to approve the Market Code ahead of the external launch.	Complex stakeholder engagement and Eskom's extensive legal objections may slow progress.	Finalise and gazette the code after transparent consultation, balancing Eskom's input with broader market needs.
Wholesale tariff	Approval by NERSA of the wholesale tariff structure and the initial annual wholesale tariff set by the CPA prior to the SAWEM go-live.	Delay in approval of the wholesale tariff framework or first annual tariff could delay market launch or weaken early price formation and settlement accuracy.	Finalise and approve the wholesale tariff structure and initial annual wholesale tariff in advance of market launch, alongside CPA designation, Market Operator readiness and operator licence.
Vesting contracts	The NTCSA has drafted a framework paper for NERSA's review and public consultation.	Poorly designed vesting contracts could allow Eskom Generation to shift costs from energy to capacity and availability charges. This would artificially suppress the SAWEM system marginal price, reinforce Eskom's market dominance and deter entry by new generators.	NERSA to approve vesting contracts with clear constraints on the balance between fixed and variable costs, tight definitions of allowable capacity and availability charges and strong governance and transparency requirements to prevent cost shifting and market distortion.
Independent TSO	Must be operational within five years.	Eskom's delay tactics could undermine independence and slow reform.	Presidency to ensure NECOM task team timeline to create TSO is on track and meets milestones.
Roles and governance	To be formalised within the reform roadmap.	Ambiguity in mandates may delay implementation and fragment authority.	Define responsibilities for Eskom entities, NTCSA, NERSA, NT, IPP offices, traders and municipalities.
NERSA capacity	Limited technical and institutional capacity.	Weak regulation could erode confidence, delay reform and distort market outcomes.	Strengthen NERSA's expertise, streamline regulatory frameworks and enforce coherent, outcomes-based oversight.

2.10 Action 10: Enable cross-border electricity transactions

South Africa has taken an important first step towards regional electricity trade. In 2025, the energy regulator issued its first import and export trading licence, creating a legal pathway for South African companies to buy and sell power across the region and participate in the Southern African Power Pool (SAPP). At the same time, regional institutions and development partners are accelerating implementation through initiatives and programmes such as the SAPP-sponsored Regional Transmission Infrastructure Financing Facility (RTIFF) and the World Bank–supported RETRADE SAPP initiative, signalling a shift from policy alignment to delivery. South Africa's policy and operational framework now need to keep pace with this regional momentum.

Licensing alone, however, does not enable trade. For cross-border transactions to occur in practice, licensed traders must be able to schedule hourly imports and exports as the regional markets operate on an hourly basis. To export power, a clear energy balancing framework with the TSO is also required. At present, this operational layer is missing. There is no defined framework or procedure for managing hourly schedules for cross-border trading or for balancing export energy within the South African system. Without this, licensed traders cannot transact, cannot export surplus power and cannot participate in regional markets. The priority action is therefore for the NTCSA to develop and publish clear arrangements for cross-border scheduling and balancing, and associated reconciliation and settlement, aligned with regional market rules. This alignment is essential if South Africa is to translate regional investment and institutional progress into real electricity flows and system benefits.

2.10.1 Access to a broader regional electricity market

Regional electricity trade strengthens South Africa's electricity security by expanding the pool of available supply beyond national borders. Participation in the SAPP gives South Africa access to a multi-country market that pools demand and supply across Southern Africa, allowing power to be sourced from a wider range of generators and technologies. This reduces exposure to domestic supply constraints and creates additional options to manage periods of tight system conditions.

A larger regional market also supports market-based trading, competition and price discovery. Deeper regional markets improve liquidity and reduce exposure to country-specific risks, while power pool structures lower transaction costs by avoiding multiple bilateral arrangements. For South Africa, this creates a more flexible and resilient electricity ecosystem that supports affordability, reliability and long-term supply adequacy.

2.10.2 System efficiency through regional resource diversity

A regional power system allows South Africa to draw on complementary generation profiles across the region. Hydropower in the north of the region can provide flexible, dispatchable energy to balance variable renewable generation such as solar and wind in the south. This reduces curtailment, lowers the need for expensive domestic peaking capacity, and improves the utilisation of existing assets across the system.

Regional integration also enables shared operating reserves, balancing services and backup capacity across borders. This strengthens reliability and climate resilience while lowering total system costs. For South Africa, a regional approach supports the integration of large volumes of renewable energy without requiring all flexibility investments to be built domestically.

2.10.3 Lower costs through new transmission flows

Regional transmission interconnectors are essential to converting resource diversity into real system benefits. Financing and building these links unlock new electricity flows, allowing generation in the region to supply high-demand markets such as South Africa and allowing surplus supply in South Africa to reach customers beyond its borders. Applying a regional lens can also improve the investment case for new generation and transmission capacity in South Africa, as use of system charges can be levied on regional market participants who use the South African network for cross-border transactions. Without adequate interconnection, regional trade remains constrained, and system costs remain higher than necessary.

Evidence shows that regional power integration can deliver large system-wide savings through economies of scale and optimal

resource use. For South Africa, expanded regional transmission lowers long-term electricity costs, strengthens competition, improves energy security and reduces fiscal pressure by limiting the need for costly, purely domestic capacity additions.

2.10.4 Regional trade is moving from concept to delivery

Regional electricity trade is shifting from policy intent to implementation. In November 2025, the World Bank approved the RETRADE SAPP project to expand and deepen the regional electricity market within the SAPP. The project provides $12m in technical assistance to increase cross-border trading, improve market liquidity, crowd in private capital for transmission, and accelerate renewable energy integration across SAPP's 12 member countries. As part of the wider Regional Energy Transmission, Trade and Decarbonisation multi-phase programme, RETRADE SAPP also supports the preparation and implementation of World Bank-financed interconnector projects.

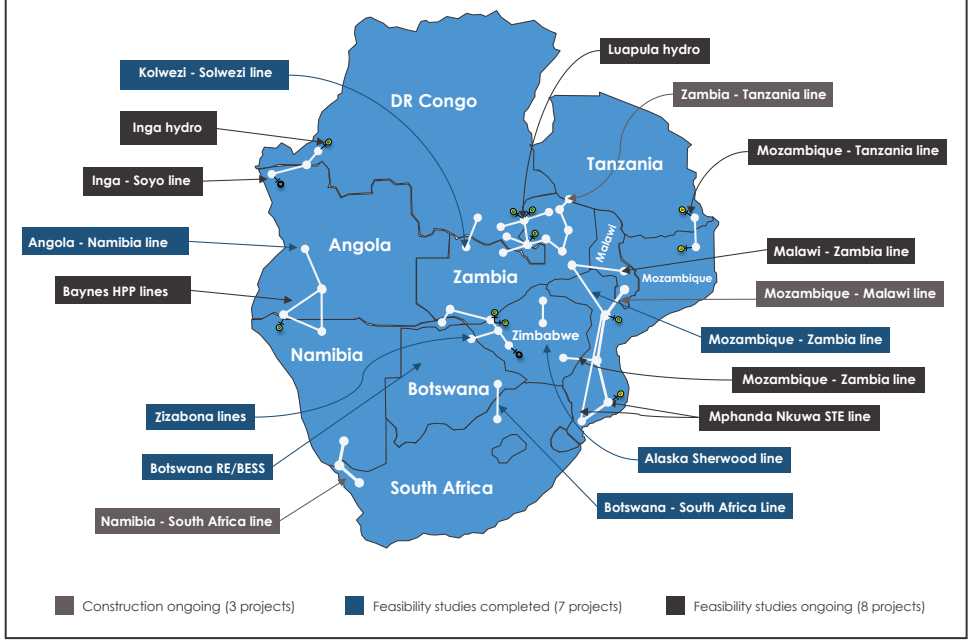
> The World Bank's analysis is clear that infrastructure and the enabling environment must advance together.

While feasibility studies show strong returns, many priority interconnectors remain stalled by financing constraints. To close this gap, the SADC and SAPP have launched the Regional Transmission Infrastructure Financing Facility (RTIFF), a blended finance platform initially targeting $1.3bn to de-risk and mobilise private investment in regional transmission corridors.

At the same time, progress depends on harmonised regulation, coordinated planning, deeper competitive markets and transparent, cost-reflective wheeling charges across jurisdictions, alongside capacity building for regional institutions and national utilities. These efforts align with the Africa Single Electricity Market, the African Union's Programme for Infrastructure Development in Africa, the SADC's Regional Infrastructure Development Master Plan, and Mission 300, underscoring that regional integration is now backed by funding, institutions and a delivery pathway.

Other countries in the region are already harnessing the opportunities afforded by cross-border trade. For example, private sector power is already being traded regionally from Zambia, Zimbabwe and Namibia, and private-sector facilitated regional imports have helped alleviate the impact of severe drought on Zambia's heavily hydro-based power system.

Regional transmission projects in SAPP (as of June 2025)



Source: SAPP / World Bank 2025

2.10.5 What an import and export licence enables – and what it does not

Receiving a NERSA-issued import and export licence is only the first step in enabling cross-border electricity trade. While the licence authorises a trader to buy and sell electricity, it does not provide automatic access to the transmission system or the ability to move power across borders. Before any electricity can flow, a trader must complete a series of operational, contractual and system integration steps with the TSO, system operator, market institutions and counterparties.

The table below sets out these requirements and shows how they translate licensed trading activity into real, scheduled and balanced power flows.

What the trader must do	Who is involved	What this enables
Conclude the system operation agreement	TSO	Scheduling and reconciliation of power flows
Secure wheeling arrangements and pay use-of-system charges	NTCSA, Eskom networks	Physical access to the transmission grid
Comply with SAPP rules	SAPP members	Participation in regional electricity markets
Submit hourly schedules and follow dispatch instructions	TSO	System balancing and reliability
Settle balancing, wheeling and system operation charges	Eskom, NTCSA	Ongoing grid operation
Comply with licence conditions and regulatory reporting	NERSA	Continued validity of the import export licence

Source: NERSA (2025), Krutham (2026)

The table underscores the missing link between licensing and delivery. Without defined arrangements for cross-border scheduling and balancing, import and export licences cannot translate into actual electricity flows. The NTCSA should put this operational framework in place in 2026, so licensed traders can participate effectively in regional power markets and, in so doing, deliver additional benefits to South Africa.

3 How we can work together

The report identifies the role-players that will influence the transition to an electricity market – highlighting the need for collaboration to achieve common objectives of energy security, affordability and decarbonisation. The transition is complex, with many moving parts that must be managed simultaneously. The reform process will not happen linearly, and all players need to be aware that it will take some leaps.

Private sector investments are needed for new generation projects, and now transmission in light of the ITP programme. Derisking mechanisms like the CGV are critical until the market matures. There is a growing need for more flexible power contracts over shorter time horizons, where traders and aggregators will become increasingly important to unlock growth for renewable energy and meet the demands of smaller off-takers.

Amid all the reforms, the role of municipalities in delivering power to indigent consumers must not be neglected. Private sector participants cannot be excluded from these social responsibilities, and the private sector should be proactive and innovative in the ways that it can partner with government to deliver on these goals. An example is the opportunity for traders to act as concessionaries delivering electricity services for municipalities, as has been seen in the water sector.

> The government and the private sector must simply work together, as they have done in structures like NECOM, to plug resource gaps to push reform forward. It will be hard to reverse reform when the reforms are tied politically to resolving a crisis like load shedding. This is even more the case when there are no other viable state-led options to address the power crisis.

While there is broad agreement on the need for reform, implementation remains complex and contested. Progress depends on tighter alignment across government, particularly between NT and the DoEE, which reinforces the case for a Cabinet-endorsed roadmap to prevent policy drift or conflicting signals. A structured public-private interface, supported by a formal working group like NECOM, is also essential to translate policy intent into workable market design and implementation choices. This forum should provide transparency, enable early identification of practical constraints and ensure that market participants can engage consistently and constructively with government and regulators. Clear political backing remains critical, with the presidency acting as a backstop to unblock institutional deadlocks and sustain momentum where coordination failures persist.

The Department of Electricity and Energy (DoEE)

The DoEE needs to work on recruiting the right skills to champion reforms. It should dust off the NECOM/OV electricity reform roadmap and establish a unit within the department for its implementation. The roadmap should provide the push the DoEE needs to hold the Eskom board accountable to support reforms. The DoEE will have to use resources from NECOM, such as the EDI reform working paper. It must ensure policy alignment with the reform paper, eg, electricity price policy.

National Treasury (NT)

Alignment between NT, the DoEE and the presidency on reform in the electricity sector is important, which is why a Cabinet-endorsed roadmap is important. The 2026 SONA announcement of a NECOM task team including these ministries is an important step to achieve this. In addition to the TSO focus, NT should work to publish Eskom's end-state balance sheet and capital structure, based on independent advice. Its work on the TSO will also need the NT to help resolve the Lazard upward guarantee structure, which is preventing the NTCSA unbundling.

National Energy Regulator of South Africa (NERSA)

NERSA should adopt outcome-based regulatory frameworks that set strategic, forward-looking targets on access, affordability and decarbonisation. These frameworks would define measurable outputs, such as reduced load shedding for better access, or stabilised tariffs to enhance affordability. This will enable NERSA to innovate and achieve goals.

NERSA's capacity and expertise must be expanded to deliver on its mandate, including credible electricity pricing determinations – such as the wholesale pricing of vesting contracts under the SAWEM – as well as the timeous approval of licences and other applications. This should be supported by transparent service-level standards, including published timelines for processing applications and issuing reasons for decisions, to reduce uncertainty and avoid transparency gaps. It must also have expertise and capacity to monitor and enforce licence conditions and rules, have consequence management in place for compliance failures and ensure a transparent and level playing field. The regulator should also drive research and innovation for the sector for medium- and long-term development. Finally, it needs to ensure that there are effective and fair rules for a fair and balanced SAWEM, including when necessary updated trading rules, wheeling rules, grid access rules.

South African Local Government Association (SALGA)

SALGA will remain central to ensuring municipalities are not left behind in the shift to a multi-market. The forthcoming EDI reform paper will also need SALGA's support if implementation is to succeed.

Municipalities can use reform to improve energy security, diversify supply and reduce costs through competitive market pricing and through buying from IPPs and traders. Municipalities that are market participants can stay within a regulated buyer model, with NERSA-approved tariffs linked to the wholesale tariff and their own prudent and ringfenced costs. Where they are market participants, the CPA would buy power through the vesting contracts on their behalf, limiting exposure to market volatility. Municipalities that are participants, however must take on the responsibilities of market participation, including balancing demand and supply, which will need stronger technical and financial capacity. Alternatively, these municipalities could hedge their exposure to market price risk through long-term contracts with traders. Municipalities that are not market participants will continue to buy from Eskom Distribution at retail tariffs.

National Transmission Company South Africa (NTCSA)

The NTCSA should ensure that appointments across all its functions are based on appropriate qualifications, experience and demonstrated competence, with leadership that is strategic, reform-focused and forward-looking. Its operational independence must be protected, including autonomy over communications and finances. Alongside this, the NTCSA should continue to strengthen its governance framework to minimise conflicts of interest and accelerate transmission expansion, including through effective private-sector participation under the ITP.

Eskom Holdings

Eskom Holdings has stated it will support the TSO task team workstream – this should be done in a way that does not delay the deadline set by the President. Further, it should be guided by an electricity reform roadmap on its end state. A shareholder compact should align with the roadmap – detailing targets, responsibilities and clear timelines for unbundling, with constant reporting back to the DoEE on progress. Performance incentives, as well as consequence management linked to reforms, should be introduced. The issue of competitiveness in the electricity market is inevitable, and Eskom would have to play a role in a competitive environment.

Traders

Traders are central actors in both the SAWEM and the broader market environment. As balance responsible parties, they manage portfolios across wholesale, bilateral and cross-border transactions, ensuring balance between supply and demand while managing price and volume risk. Beyond the wholesale market, traders facilitate long-term bilateral contracts, including cross-border arrangements, that provide price certainty and flexibility for customers and generators. By aggregating supply and demand, traders expand customer choice and offer a range of products such as green power with renewable tradable attributes, time-of-use pricing and bundled energy services. Their commercial and contractual innovation improves liquidity and helps link the wholesale market to longer-term investment signals.

Independent Power Producers (IPPs)

IPPs play a critical role across both the wholesale market and longer-term contracting markets by developing, financing and operating generation assets. In the SAWEM, they participate as sellers of electricity, contributing to competition and short-term price formation. In parallel, they underpin the multi-market and cross-border environment through long-term bilateral contracts with traders, utilities and large customers, which are essential for project financing and capacity expansion. By bringing new renewable and other generation capacity to market, IPPs diversify supply, strengthen system resilience and support security of supply across the regional power system.

Financial institutions

Financial institutions play a critical role in the electricity market by deploying capital and providing liquidity to enable the development of new generation capacity. They create innovative finance products that support traders and other market participants, helping to increase market participation and flexibility. By taking market views and offering sophisticated risk management solutions, banks help unlock investment opportunities and facilitate more dynamic trading environments. While concerns about default risk and reduced government guarantees remain, these concerns are reinforced by rigid requirements around connection use of system agreements, electricity supply agreements and licence amendments when changing suppliers, which limit how quickly IPPs and traders can access a broader market. Greater flexibility to diversify offtake and trade more freely would reduce reliance on tightly structured bilateral contracts, increase lender comfort with market risk and ease the current constraint on genuine trading activity. These institutions are adapting to a shifting market landscape. To fully leverage their role, they require clearer price signals and improved market transparency, as limited visibility around future price paths can lead to higher risk exposure during this transition. Active participation in the public-private working group post-NECOM would help strengthen market design, improve confidence in price formation and support the development of bankable trading arrangements.

4 Time to act

South Africa has made substantial progress in reforming the electricity sector. The DoEE, Eskom, NERSA, NECOM, OV and other institutions have put in sustained effort to design and advance a complex reform programme under difficult conditions. Crucially, this work has created the space for traders to operate as intermediaries between generators, customers and the grid, translating reform into real transactions and investment signals. As the country approaches a critical juncture, with the SAWEM scheduled to launch internally in the next few months and externally in September 2026, there is a strong foundation and momentum upon which to build. This momentum represents an opportunity to translate years of policy, regulatory and institutional work into tangible benefits for households, businesses and the economy.

> To realise these gains, the pace of implementation now matters as much as the quality of design.

Slower-than-needed execution risks diluting the objectives of energy security, affordability, accessibility and decarbonisation, weakens South Africa's ability to attract investment, mobilise finance and reduce the cost of clean electricity. Traders are central to capturing these benefits because they improve risk allocation, aggregate demand and supply, and lower financing costs for new generation. The suggested reforms, if implemented according to a predictable schedule, have the potential to crowd in private capital, improve risk allocation and deliver lower-cost green electricity that customers increasingly demand. Capturing this opportunity requires coordinated action and sustained momentum across government, regulators, Eskom and market participants.

The period ahead should therefore focus on collaborative, disciplined execution. A Cabinet-endorsed roadmap will provide clear direction, and success will depend on institutions working together to implement it consistently and transparently. The NECOM task team to create an independent TSO is a critical workstream that requires full co-operation from Eskom Holdings, NTCSA, DoEE, NT, the Presidency and key private stakeholders such as financial institutions. Strengthening NERSA's regulatory capacity, maintaining Eskom's operational readiness and using NECOM as a coordinating mechanism will be essential. Equally, clear trading rules, credible wheeling arrangements and non-discriminatory grid access must be in place so traders can perform their market-making role from day one. With shared commitment and accountability, the transition from planning to implementation can unlock a more secure, affordable and inclusive electricity system that supports economic growth and delivers benefits to all South Africans.

Kicking off 2026 with these key actions

Action area	Priority actions
Action 1 Publish Cabinet-endorsed electricity reform roadmap	• Establish a time-bound, structured process to co-develop a shared electricity reform roadmap, led by OV and NECOM, with formal participation from the DoEE, NT, NERSA and market participants. • Secure Cabinet endorsement of an electricity reform roadmap with clear targets and defined roles. • Establish central coordination through OV, working with NECOM. • Embed reform deliverables and deadlines in departmental performance plans with consequences for missed targets.
Action 2 Finalise Electricity Pricing Policy	• Finalise and operationalise the revised EPP early in 2026. • Reform the MYPD, tightening prudency and efficiency benchmarks, providing appropriate incentives and clarifying risk allocation. • Clarify the transition from regulated to market-based generation pricing. • Finalise and implement a revised free basic electricity framework for indigent households. • Manage NERSA processes, including the wholesale tariff generation charges, independent transmission project cost recovery and future changes proposed by the NTCSA and distributors to their tariffs. • Stabilise energy-intensive industry through time-bound, transparent pricing arrangements, which leverage the private sector's lower cost of generation as a key intervention to support energy-intensive users and economic recovery.
Action 3 Strengthen the DoEE and NERSA	**At NERSA** • Fill senior vacancies and recruit additional technical, financial, commercial and legal capacity. • Apply prudency tests more rigorously in tariff determinations. • Improve enforcement of market rules and licence conditions. • Increase transparency in electricity pricing decisions. • Secure additional funding and review of organisational structure. • Shift towards an outcome-based, forward-looking regulatory approach. • Remove administrative requirements around approval of private sector arm's length commercial contracts and updating of licence schedules. • Standardisation of models and data inputs. **At DoEE** • Implement Cabinet-approved reforms, including those set out by the President. • Maintain strong centre-of-government coordination, with OV working alongside the presidency through a post-NECOM structure to set clear priorities, timelines and accountabilities. • Embed reform priorities, deliverables and deadlines within the departmental annual performance plan.
Action 4 Define a credible end state for Eskom	• Define Eskom Holdings' end state for operations, the balance sheet and functions through a strengthened shareholder compact. • NECOM task team to set out a plan for the unbundling of transmission assets from Eskom to an independent TSO in three months, per the President's SONA 2026. • Resolve the Lazard guarantee issue between the NTCSA and Eskom Holdings. • Address municipal debt blocking the creation of the Distribution Company of South Africa. • Ensure the debt relief programme enables Eskom to raise capital without sovereign guarantees. • Clarify the role, funding and governance of Eskom Green to ensure compliance with level-playing-field principles in grid access and to prevent preferential treatment in connection, wheeling or trading arrangements.

Action area	Priority actions
Action 5 Deliver the transmission development plan	• The NTCSA executive and board should ensure delivery of the TDP 2024's target of 14,500km new lines and 210 transformers by 2034 • The NTCSA should support the ITP programme in achieving its targets set by the minister of electricity and energy • National Treasury must ensure the Credit Guarantee Vehicle is operational to support the ITP first phase from H2 2026.
Action 6 Implement reform of the electricity distribution industry	• Stabilise distribution through agency agreements for municipalities requiring direct operational support. • Release the EDI reform paper for public comment by March 2026. • Roll out smart meters for large power users as a priority. • Advance ring-fencing of municipal electricity businesses. • Address municipal arrears to Eskom, exceeding R105bn, as a systemic risk.
Action 7 Finalise trading rules	• Complete public consultation and finalise trading rules. • Ensure rules apply equally to all wheeled energy suppliers including generators. • Remove the phased implementation approach and enable a coherent, system-wide rollout of the trading rules focused on bilateral trading, independent of the timing or implementation of the SAWEM, ensuring clarity and certainty for market participants. • Address gaps in trader recognition in grid capacity allocation practice, connection and use of system agreements and electricity supply agreements, and with regard to implementing wheeling interventions.
Action 8 Improve wheeling systems and grid access	• Publish clear, consistent rules for wheeling across Eskom and municipal networks. • Resolve Eskom's refusal to recognise traders as counterparties for wheeled energy. • Enable trader access to virtual wheeling platforms. • Develop standardised template wheeling frameworks for adoption by municipalities together with capacity building. • Scale wheeling through municipal partnerships, potentially including pilots using tradable electricity tokens from mid-2026.
Action 9 Launch SAWEM with Market Code in place	• NERSA to finalise the NTCSA's operator licence conditions. • NERSA to conduct consultation and finalise the market code. • NERSA to conduct consultation and finalise the vesting contracts. • NERSA to conduct consultation and finalise the wholesale tariff structure.
Action 10 Enable cross-border electricity transactions	• NTCSA should develop and publish clear arrangements for cross-border scheduling and balancing, and associated reconciliation and settlement, aligned with regional market rules.

5 Appendix 1: Background

The foundations for a modern, competitive power system are being laid through the combined efforts of NERSA, NT, Eskom Holdings, and the DoEE, alongside private investors, traders and other market participants. Together, these actors are beginning to restore confidence, strengthen governance and unlock private investment in a sector long defined by monopoly and instability.

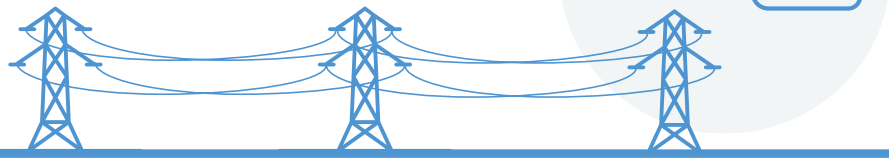
Timeline of electricity supply in South Africa

Foundation of monopoly

1890s to 1948

1860s – The minerals–energy complex
Cheap coal-based electricity powers mining and heavy industry, establishing the minerals-energy complex that defines South Africa's economy.

1923 – Eskom is created
The Electricity Supply Commission is formed to provide cheap power to industry.
By 1948, Eskom becomes a vertically integrated monopoly, controlling generation, transmission and distribution.



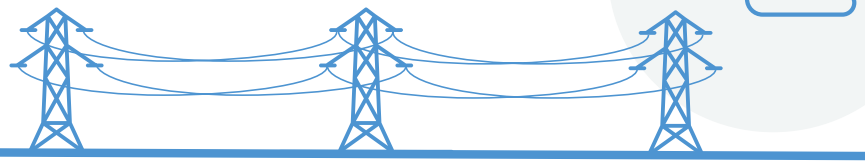
1998 – White Paper on Energy Policy
Government outlines five reform priorities:

- Affordable, accessible energy for all
- Transparent governance
- Private participation and competition
- Environmental protection and efficiency
- Security of supply through market trading.

It ignored warnings of a supply shortfall by **2007**, setting the stage for crisis.

Reform blueprint ignored

1990s



Crisis and capture

2000s to 2010s

2007 – The lights go out
Load shedding begins as capacity shortages hit. Eskom resists unbundling; fears of privatisation stall reform.

2008 - EPP gazetted
The framework introduced time-of-use tariffs, network charges and transparent levy management.

2010-2015 – REIPPPP success and sabotage
Early renewable procurement rounds thrive, but by **2015**, Eskom blocks new projects, refusing to sign power purchase agreements.

2007-2025 – The Medupi and Kusile saga
Two coal mega-projects balloon from R80bn–R112bn each to about R467bn[22] combined. Final unit (Kusile 6) came online in Sept 2025.

2010s – State capture deepens
Eskom and other state entities are hollowed out. A proposed R1tn nuclear deal linked to political patronage collapses after a court ruling. Eskom's debt climbs to R450bn.

2017-18 – Schedule 2 of ERA amended
Generators up to 1MW are exempt from licensing by NERSA for own use or wheeling.

Crisis-led reform revival

2020 to 2024

2020-2023 – Schedule 2 of ERA further amended
Generators up to 100MW were exempt from licensing by NERSA for own use or wheeling in 2020, with the 100MW cap removed in 2022–23.

2020s – Reform reignited
Operation Vulindlela (OV) and Necom drive regulatory change. Licence caps for new generation are lifted, enabling private investment.

2022 – EAP
Launched by Presidency to address severe load shedding, led by Necom.

2024 – ERA (as amended)
Sets the framework for an electricity multi-market with multiple participants trading power. Marks the formal beginning of Eskom's structural transition.

Transition to a market

2024 to 2030

Design and implementation of the reform roadmap

- Eskom's unbundling advances across generation, transmission and distribution
- NERSA's market oversight capacity expands
- Tariff reform enables cost-reflective pricing and fair competition
- Traders gain grid access under transparent rules.

22 Labuschagne, H. (2025). *18 years and R467 billion later – Most expensive mistakes in the history of Eskom*. MyBroadband.

South Africa has come a long way in the energy transition – even if progress may at times feel disruptive, slow and bumpy. Remembering this journey is perhaps useful for all stakeholders to arm themselves with fortitude for the road ahead.

Since the 1998 White Paper on Energy Policy first set out a vision for access, affordability and competition, the journey has been marked by progress and setbacks. The call to open the market to private participation was largely ignored. Early warnings of capacity shortages went unheeded, culminating in the first load shedding in 2007. Eskom Holdings' determination to protect its monopoly, labour's concerns about privatisation and the political capture of state institutions all contributed to deep structural decline. The state capture years hollowed out Eskom Holdings' technical and financial capacity, leaving a fragile system and an overburdened utility.

The crisis that followed forced a rethink among all stakeholders. It became clear that solving South Africa's energy challenge required a partnership between the state and the private sector. OV, the DoEE and NECOM emerged as vital structures to unblock regulatory constraints and enable investment – with Eskom playing a key role. With presidential support, reforms – such as removing the licence cap on new generation – opened the door for a wave of private renewable projects and new sources of supply.

South Africa has taken an important step towards a more modern and reliable electricity system with the adoption of the ERA (as amended) of 2024.

> The act lays the legal foundation for a wholesale electricity market in which multiple generators and traders can compete on an open, rules-based platform. This marks a shift away from the single-buyer model dominated by Eskom Holdings and brings South Africa in line with the market structures used in most BRICS economies and many emerging and developed markets.

A wholesale market is not simply about more participants trading power. It introduces new forms of trading, sources of capital and infrastructure investment, risk intermediation and price formation. These include bilateral contracts between generators, traders and customers, supported by use of system wheeling arrangements with the relevant network operator, wholesale trading through a central platform, and regulated procurement by the state or municipalities. Together, these mechanisms create clearer price signals, support investment and financing decisions and allow the system operator to dispatch the lowest-cost power first.

NT has described this shift as central to restoring energy security: "The transition to a competitive energy market structure will increase generation capacity and enhance energy reliability… attract private investment… and strengthen technical capacity while contributing to economic growth and job creation." The state sees reform not as an ideological contest between public and private actors, but as a practical response to structural challenges and the evolution of a critical building block of the economy.

One of the challenges is the scale of sovereign fiscal exposure to state-owned entities. Contingent liabilities remain elevated at about R1.13tn in 2025/26[23], with REIPPPP guarantees comprising 20% of this at about R230bn. Guarantees to state-owned enterprises (SOEs) still account for almost R500bn, and the standing committee on finance continues to flag the risk Eskom Holdings poses to the sovereign balance sheet. NT has maintained its stance against new bailouts, while the Financial and Fiscal Commission warns that continued SOE strain threatens fiscal sustainability and service delivery. Ratings agencies Moody's, Fitch and S&P cite Eskom's weak financial position in their ratings updates, which all have the utility's ratings at below investment grade. These pressures limit the state's ability to fund new generation and transmission assets at the pace required.

The wholesale market is therefore a tool to mobilise private capital into new capacity and grid investment without deepening contingent liabilities. Earlier rounds of the REIPPPP demonstrate the value of private generation in reducing fiscal exposure. A competitive market builds on this by allowing generators to sell into bilateral, platform and regulated channels, spreading risk and shifting capital requirements off the public balance sheet.

23 National Treasury. (2025, May). Budget overview 2025. Republic of South Africa.

As market rules are developed, several design questions will shape outcomes. These include how capacity and energy are priced, the role of vesting contracts to provide revenue certainty during the transition, their impact on the system marginal price, and how the SAWEM and its day ahead market will operate. International experience shows the need for a clear system architecture, supporting systems and technology to sequence reforms, support price discovery, and ensure dispatch transparency.

Across emerging markets, research shows that wholesale electricity platforms have expanded supply, improved price signals and supported renewable investment – as seen in China's staged rollout of spot markets, India's growth in power-exchange trading and market coupling, and Brazil's experience of auction-driven private investment, all while regulators and system operators maintain strong oversight of networks and system security. South Africa can now do the same.

The ERA (as amended) provides the starting point; the detailed Market Code and contractual framework will determine how quickly the benefits materialise. The priority is to give the market a clear roadmap, reduce uncertainty for investors and align the reforms already under way across institutions. With the right sequencing, the wholesale market can help close the capacity gap, improve reliability and ease the fiscal risks that have built up around the electricity sector.

This shift promises lower prices, more efficient dispatch, faster decarbonisation and clearer policy signals. The reforms open the market to new buyers and sellers, enabling new generation without adding to NT's already high contingent liabilities and easing pressure on Eskom Holdings' balance sheet. Private developers will deliver at least 6GW of solar and 3.5GW of wind by 2030, which is about R132bn in investment, according to a 2025 Green Cape report[24]. Looking ahead, the DBSA's Green Industrialisation[25] scenario shows the scale of need: R1.65tn in generation, R383bn in grid capacity and R3.59tn in total system investment by 2050.

> Unlocking private capital through market reform is essential to meeting these requirements while containing fiscal risk.

Yet the reforms still need a clear implementation roadmap, setting out how the ERA (as amended)'s fundamental changes will unfold across the system, including Eskom Holdings' role. An updated version of the 2019 "Roadmap for Eskom Holdings in a reformed electricity supply industry" would form an important part of this.

Some resistance persists within Eskom Holdings and its subsidiaries and the DoEE. In addition, the perception that the crisis is over risks eroding momentum, especially given the risk of load shedding returning from 2028 if new generation and transmission capacity is not added at scale and pace.

NERSA, while pivotal to the transition, faces the immense task of adapting to a dynamic, decentralised market and having the capacity and skills to do so. It has shown great promise in the past year of the change it is capable of, but needs further capacity and support from political principals. The work ahead is to sustain the reform drive, strengthen institutions and deliver on the promise of an affordable, reliable and competitive electricity system for all South Africans and elevate NERSA to a best-in-class regulator.

24 GreenCape. (2025). *Large-scale renewable energy market intelligence report 2025*.

25 Development Bank of Southern Africa, National Treasury, National Planning Commission, & Presidential Climate Commission. (2025). *South Africa's energy sector investment requirements to achieve energy security and net zero goals by 2050*. Development Bank of Southern Africa.

5.1 Eskom Holdings financial and operational crisis

Eskom Holdings finds itself trying to rectify a prior decline that reflected years of corruption, mismanagement and policy failure. State capture hollowed out its skills and capacity, leaving the utility financially unstable and operationally weak – while also redefining itself to the new policy paradigm. Medupi and Kusile, meant to end load shedding, became symbols of excess and graft. Their combined cost has exceeded R465bn, and they account for most of Eskom Holdings' R450bn debt. That legacy still shapes the system today.

But the past two years have also produced one of Eskom Holdings' strongest financial recoveries in more than a decade. For the year ending March 2025, Eskom Holdings reported a profit before tax of R23.9bn[26] – its first profit in eight years. The turnaround has been driven by government's debt relief package, a 12.74% tariff increase from April 2025, and improved operational performance as energy availability rose and load shedding eased. However, the recovery comes amid declining electricity sales and underlying revenue pressure, as demand remains weak and customers continue to self-supply. The return and introduction of units at Medupi and Kusile, alongside more stable plant performance, supported the operational rebound but do not yet resolve Eskom's longer-term revenue challenge.

The momentum continued into the first half of the 2026 financial year. Eskom Holdings posted an after-tax profit of R24.3bn[27], up 37% year on year. Revenue increased 4% to R191.3bn despite pressures from rising municipal arrears, reflecting tariff adjustments that are moving prices closer to sustainable levels. Importantly, the system recorded no load shedding from mid-May 2025, helping to stabilise cash flows and rebuild confidence.

Government support has been central to this financial improvement. Debt-relief measures and NERSA-approved tariffs have created headroom for Eskom Holdings to invest in generation maintenance, emissions-reduction projects and critical transmission and distribution upgrades. Management has prioritised cost control, cash-balance stability and targeted reinvestment to strengthen the grid and support the energy transition.

Significant structural challenges remain – especially ageing infrastructure, persistent municipal debt and the need for a credible long-term reform pathway under the ERA (as amended). But the recent results show that when governance stabilises and operational discipline holds, Eskom Holdings can regain its footing. The task now is to consolidate these gains while positioning the utility for a reformed, competitive electricity market.

Below, we highlight some of the issues that Eskom Holdings and NERSA still need to manage.

- **The utility death spiral**
  Poor plant performance led to load shedding and falling electricity sales. Eskom Holdings responded with tariff hikes, pushing industrial, commercial and residential customers towards self-generation and eroding revenue further. The cycle left the utility dependent on repeated bailouts.
- **Negotiated Pricing Agreements (NPA)**
  The NPA framework was introduced in 2021 to prevent electricity-intensive, minerals-beneficiating industries from curtailing production as tariffs rose sharply. In 2025, Eskom applied for 10 additional NPAs as part of its MYPD6 application[28], implying around R20bn in foregone revenue in 2026/27. Locking in discounted tariffs for a small share of sales, with NPAs accounting for about 13% of electricity volumes, shifts cost recovery onto remaining users.
- **Debt relief and short-term gains**
  In February 2023, NT announced a R254bn debt-relief package (later adjusted to R230bn) over three years[29]. The reprieve freed funds for

26 Eskom Holdings (2025). *Implementing the turnaround strategy returns Eskom to profitability for the first time in eight years – Profit before tax of R23.9 billion to be invested back into the business for critical infrastructure.*

27 Eskom Holdings (2025). *Continued execution of turnaround plan drives Eskom Group's profitability and sustainability – Profit after tax increases to R24.3 billion (unaudited) in first six months of FY2026 to be reinvested.*

28 Eskom Holdings. (2024, August 7). *MYPD6 submission*.

29 Rajlal, R. (2025, March 26). *Presentation to the Standing Committee on Appropriations on the Eskom Debt Relief Amendment Bill, 2025*. National Treasury.

maintenance and helped Eskom Holdings post its first profit in eight years in 2024/25. This improvement, however, is temporary – the support ends in 2028/29.

- **Rising municipal arrears**
  Non-payment by municipalities remains a critical threat. Arrears almost doubled from R55.3bn in March 2024 to R94.6bn by March 2025 and could reach R300bn by 2030[30]. Treasury's debt-relief scheme failed as most municipalities did not meet conditions, reflecting deeper structural problems as unsustainable tariff cross-subsidisation and declining revenues triggered wider service delivery crises.
- **Revenue recovery measures**
  Government and Eskom Distribution plan to roll out smart meters to improve billing and detect non-payment and illegal connections. Law enforcement and credible recourse will be essential for success.
- **Distribution agency agreements**
  Cabinet approved a proposal in November 2025 for Eskom Distribution to take over electricity services in failing municipalities under time-bound agreements. Treasury supports the plan but warns that stronger interventions may be required.
- **Ongoing financial risk**
  Eskom Generation is likely to require further Treasury support after 2028 if municipal debt continues to grow. Writing off arrears appears inevitable, but current debt-relief funds do not cover such costs.
- **Tariffs and inefficiency**
  NERSA's multi-year price determination (MYPD) process has historically approved tariffs that fall short of full cost recovery, as allowances are based on efficient, not actual, expenditure. The Regulatory Clearing Account helps reconcile variances between forecast and actual sales and certain controllable costs, but it excludes inefficiencies such as load shedding or procurement overruns, which Eskom Generation absorbed.

Past spending choices deepened the problem. Eskom Generation prioritised new-build projects and primary plant maintenance over transmission and distribution upgrades, resulting in chronic underinvestment in the grid and delaying the connection of large volumes of renewable projects. Recent MYPD decisions continue to approve increases below Eskom Holdings' requests, although the higher 2025/26 tariff has supported its financial recovery. The challenge is to balance affordability with a tariff path that enables the system reinvestment needed for long-term reliability.

The tariff regime is, however, changing as Eskom Holdings prepares for a competitive market. The regulator's role will shift from setting Eskom's price to ensuring non-discriminatory grid access and a level playing field for competition. Eskom Generation and IPPs will bid into day-ahead and intra-day markets, with prices set through the system marginal price.

NERSA will intervene only if there is abuse of dominance or unfair pricing. Tariffs will remain regulated for monopoly services, including the use of the grid, and for captive customers who do not yet have effective market choice.

During the transition, NERSA will rule on Eskom Generation's revenue determination requests, but NERSA Chair Thembani Bukula told News24[31] in November 2025 that tariffs have now reached their ceiling: from MYPD7 (2028), they should rise more slowly and eventually only with inflation, reflecting lower financing costs at Medupi and Kusile and operational improvements. A temporary minimum tariff may still be needed to service legacy debt on the mega-projects, implemented through vesting contracts, according to Bukula. The broader unbundling process has also separated generation, transmission and distribution charges for the first time, exposing customers to fixed network charges that signal a shift towards recovering fixed costs through fixed charges and improving transparency around cost drivers. This may bring about new challenges, such as a costly ITP programme. NERSA is currently determining the fair split between fixed and variable costs, benchmarking Eskom Generation's proposed fixed-cost allocation against international norms.

> These shifts highlight the core challenge: balancing affordability with the investment required to stabilise the grid and support competition. Tariffs that are too low undermine system reinvestment; tariffs that rise too fast burden customers during a fragile economic recovery.

The move towards market-based pricing will gradually align incentives, but Eskom Generation's financial sustainability during the transition still depends on cost-reflective tariffs and structures, disciplined expenditure and sustained improvements in plant performance.

30 Labuschagne, H. (2025). *Eskom facing R300 billion threat*. MyBroadband.

31 Paton, C. (2025, November 24). *SA's electricity revolution and how power pricing will change.* News24.

5.2 Crisis drives government reform

As NECOM approaches the end of its first phase, a new risk is emerging: the crisis that forced reform is easing, but the reforms it unlocked remain incomplete. The question is no longer whether government can respond under pressure, but who will sustain momentum once the crisis machinery winds down.

Electricity reform has been driven less by strategy than by crisis. After Jacob Zuma's exit in 2018, President Cyril Ramaphosa and then energy minister Jeff Radebe restarted the REIPPPP by signing Bid Window 4. But load shedding soon returned, forcing a deeper rethink of the role of private generation and the design of the electricity market itself.

In August 2019, NT, under Tito Mboweni, released Economic transformation, inclusive growth and competitiveness: Towards an Economic Strategy for South Africa[32] – known as the "Tito paper". It called for urgent reform in network industries, including electricity, and proposed Eskom Holdings' unbundling and the creation of an independent transmission company to buy power from private producers.

At the centre were two figures in the Presidency: Rudi Dicks and Saul Musker, whose efforts drove reform from intent to action. Dicks provided coordination and political alignment; Musker brought policy depth and pace. Together, they bridged government silos and proved that effective reform depends on leadership, persistence and a shared mission. Key challenges now lie ahead: expanding the transmission grid with private investment, completing Eskom Holdings' unbundling, strengthening NERSA for a competitive market, supporting municipal reform, and launching the SAWEM and setting out a clear policy reform roadmap to sequence these changes.

Addressing these challenges is critical because the structure of South Africa's electricity market directly shapes the fiscal burden carried by government and Eskom Holdings. Under the single-buyer model, sovereign guarantees for energy procurement accumulated rapidly, driving contingent liabilities up by more than 700% between 2005 and 2020 to about R632bn[33]. These guarantees sit on NT's balance sheet and crowd out space for other priorities. These reforms shift risk away from the fiscus by reducing the need for sovereign backing of new capacity. Without these reforms, the ITP procurement programme risks repeating the mistakes of the REIPPPP model: replicating guarantees and increasing fiscal exposure. If structured with non-sovereign recourse, diversified revenue through wheeling and cross-border trade, and a stronger regulator, the ITP can unlock new transmission investment without deepening fiscal risk.

For government and Eskom Holdings, the savings from avoiding additional guarantees are material, representing billions in liabilities that do not need to be absorbed by the sovereign. This is why expanding the grid with private capital, strengthening NERSA, enabling municipal reform, and advancing market reform are essential components of a fiscally sustainable energy transition.

As NECOM nears the end of its first phase, uncertainty remains over who will sustain reform momentum. Ideally, the DoEE should lead – but its limited capacity raises concern that progress could stall if the sense of crisis fades.

Ultimately, what is required is a shift from a crisis mindset driving reluctant change, to reform driven by the positives it will deliver as a public good – to achieve energy security, which will boost economic growth.

Operation Vulindlela

Momentum accelerated in 2020 with the launch of OV, a joint initiative between Treasury and the Presidency to drive structural reforms. OV's early wins included:

- Mapping the private sector electricity embedded generation regulatory processes and blockages
- Raising the generation licence threshold to 100MW, later scrapped entirely to fast-track new capacity
- Advancing Eskom's unbundling launching the NTCSA
- Supporting private generation and rooftop solar through tax incentives and feed-in tariffs.

32 National Treasury. (2019). *Towards an economic strategy for South Africa*.

33 Julies, A. (2021). *Risks that contingent liabilities are posing to national budgets: A South African case study*. Collaborative Africa Budget Reform Initiative (CABRI).

Energy Action Plan

In 2022, the Presidency announced a 10-point Energy Action Plan (EAP), implemented by NECOM, to coordinate efforts across government, business and labour. Highlights include:

- Driven regulatory reform to attract private investment
- Revived the renewable energy procurement programme
- Enabled the Electricity Regulation Amendment Act (2024) to create a competitive market.

5.3 Pressure to transition to net zero

South Africa faces growing pressure to cut emissions while protecting jobs and communities. With its coal-heavy energy mix, it remains one of the world's top 15 carbon emitters. Electricity is responsible for roughly 40% of the country's greenhouse gas emissions.

As a Paris Agreement signatory, South Africa must reduce greenhouse gases under its Nationally Determined Contributions (NDCs). Emissions have remained below 450MtCO_2e since 2000, mostly from coal-fired power.

Current targets: The latest NDCs (October 2025[34]) set emission limits of 350 to 420MtCO_2e (2026–2030) and 320 to 380MtCO_2e (2031–2035), less ambitious than the Presidential Climate Commission's proposal and not aligned with a 1.5°C pathway – the goal of limiting global warming to no more than 1.5°C above pre-industrial levels by rapidly cutting emissions and reaching net zero around 2050. Eskom Generation aims to reduce its emissions by 40% in 2030 and then 50% in 2035[35]. Based on its targets, the figure below highlights Eskom Generation's share of emissions reductions given the NDC targets in 2030 (26%) and 2035 (23%).

Just transition focus: Government insists climate goals must align with socioeconomic development, cushioning coal-dependent workers and communities.

Financing the transition: The Just Energy Transition Partnership (JETP), launched at COP26 (2021), pledged $8.5bn, now expanded to about $14.3bn[36]. Funding aims to support renewable energy, green hydrogen and new energy vehicles. Disbursement remains slow, mainly due to Eskom Holdings' debt-relief borrowing restrictions.

Future energy mix (IRP 2025[37]): Targets by 2039 include 25GW solar, 34GW wind, and 8.5GW battery storage, alongside 16GW gas and 5.2GW nuclear to replace coal capacity.

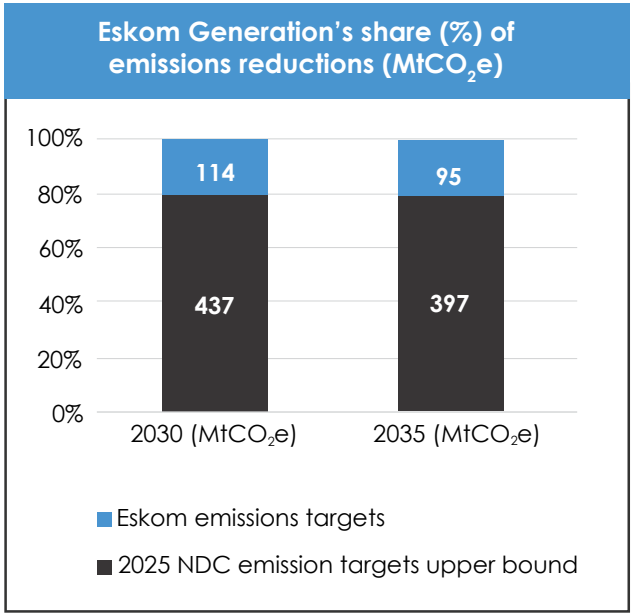
Coal phase-down: Eskom Generation's ageing coal fleet, with stations such as Camden (1967–1969), Grootvlei (1969–1977) and Hendrina (1970–1976) now exceeding or nearing their 50-year design life, faces declining reliability, high unplanned outages and persistent non-compliance with Minimum Emission Standards (MES). While particulate-matter compliance work is underway at Kendal, Matimba, Matla, Tutuka and Kriel, and current SO_2 and NO_2 limits are being met, the far stricter 2030 standards will require major upgrades. Six large stations – Medupi, Majuba, Kendal, Matimba, Lethabo and Tutuka – hold MES exemptions only until 1 April 2030; extending these further would carry an estimated R257bn in SO_2 compliance costs if decommissioning drifts beyond 2030.

34 Department of Forestry, Fisheries and the Environment. (2025). *South Africa's second nationally determined contribution (NDC)*. United Nations Framework Convention on Climate Change.

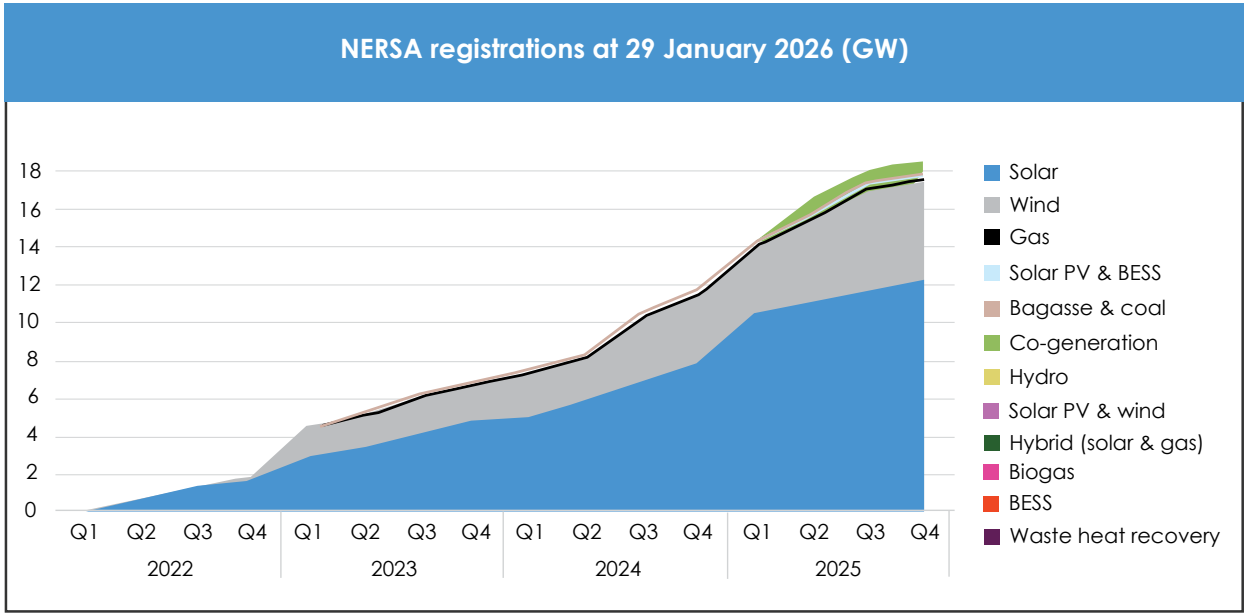
35 Eskom Holdings. (2025). *Eskom reaffirms commitment to cleaner air through decades of emissions reduction, environmental stewardship and sustainable energy practices*.

36 Presidential Climate Commission. (2025). *Just Energy Transition Investment Plan (JET IP) – Q3 report dashboard*.

37 DoEE. (2025). *Integrated resource plan 2025*.



Source: Krutham, Eskom (2025)



Source: NERSA (2025)

Against this backdrop, Eskom Generation's plan to retire 8GW of coal by 2030 and a further 15GW by 2042 is unavoidable, driven primarily by plant age and condition rather than policy pressure. The utility plans to repower several sites with about 5GW of renewable capacity, with construction on the first 2GW scheduled to begin by 2026 under its just energy transition strategy[38]. Part of this objective includes the accelerated establishment of Eskom Green Co as the company's renewable energy business.

Gas transition risk: To address the supply gaps, the IRP projects 6GW of Combined Cycle Gas Turbines to be up and running by 2030 and over 1GW of gas-to-power to be added every year between 2032 and 2042. This is to ensure energy security while also reducing emissions. That said, gas releases methane, which is 80 times more potent than carbon dioxide (which would have been emitted from coal power plants) in a 20-year period.

These risks come as South Africa faces a "gas cliff", which begins with the halt of Pande-Temane pipeline gas in mid-2028, followed by the end of Sasol's methane-rich gas bridging solution in mid-2030.

This places members of the Industrial Gas Users Association of South Africa at risk of shutdowns. This could result in 70,000 to 100,000 job losses and as much as a 5% GDP impact[39]. Lead times for new gas-to-power value chains are long, leaving a narrow window from late 2025 to commit to projects if the 2030 cliff is to be avoided.

Challenge ahead: According to Krutham analysis, load shedding could return from 2029 as demand rises and coal units retire from 2030, making sustained investment, private participation and policy certainty essential to meeting climate goals while keeping the lights on. The 2025 IRP links load shedding directly to Eskom Generation's EAF, noting that once the EAF falls below about 60%, no fast-acting supply options exist, making outages inevitable. The 2025 Medium-Term System Adequacy Outlook[40] shows the system remains secure only if the EAF stays at or above this threshold. With the EAF now at 63.1% and load shedding largely absent since March 2024, the system sits in a narrow corridor: rising self-supply and weaker grid demand erode Eskom's revenue base, while any drop in plant performance would quickly reintroduce load shedding. This reinforces the need for batteries and synchronous condensers to support the expansion of renewable energy to offset this risk.

38 Marx, M. (2025). *Eskom outlines 20GW clean energy plan under revised JET strategy*. Energize.

39 Human, J. (2025). *One year closer to the gas cliff – South Africa government silence*. Industrial Gas Users Association of Southern Africa.

40 NTCSA. (2025, October). *Medium-term system adequacy outlook 2026–2030.*

Coal life-extension research: Eskom Generation is exploring emissions-abatement technologies that may be cheaper and more efficient than flue gas desulphurisation to prolong coal plant operations, but these options remain costly, unproven and less practical than rapidly deployable, cheaper renewable alternatives. The question is if they will demand excessive focus vs the new industry Eskom must be part of creating.

Eskom Generation's JET strategy: The 2025 JET strategy[41] signals Eskom Generation's intention to invest in new power generation, including a new renewables portfolio. It is important to note that Eskom Generation and Eskom Green will need to be unbundled, legally separated from Eskom Holdings and required to compete on equal terms with private producers – without preferential treatment from NERSA, the NTCSA or Eskom Distribution.

This shift is not ideological but fiscal and structural, as NT has been clear that the ERA (as amended)'s move to a competitive market structure aims to reduce this risk by allowing multiple generators to participate directly in the market, attracting private capital, improving reliability and easing the burden on public finances.

In this context, Eskom Generation's long-term footprint will be shaped less by policy preference than by capital constraints, grid needs and the imperative to limit fiscal exposure. A shared view between Eskom Holdings, the DoEE and Treasury on the end-state of Eskom Generation – and the conditions under which government will intervene only to address clear market failures, such as nuclear or gas-to-power procurement – will provide clarity for planning and ensure alignment with the objectives of electricity reform.

South Africa's power crisis has accelerated private-sector participation and reshaped the electricity market once dominated by Eskom. Removing the 100MW licence cap for generators (that are wheeling) and expanding wheeling unlocked record-breaking private projects. In 2023 alone, NERSA[42] registered about 4.4GW of private generation projects, with 85% made up of projects over 50MW and 60% made up of solar PV.

41 Eskom Holdings. (2025). *Eskom sustainability report 2025*.

5.4 Rise of IPPs and traders

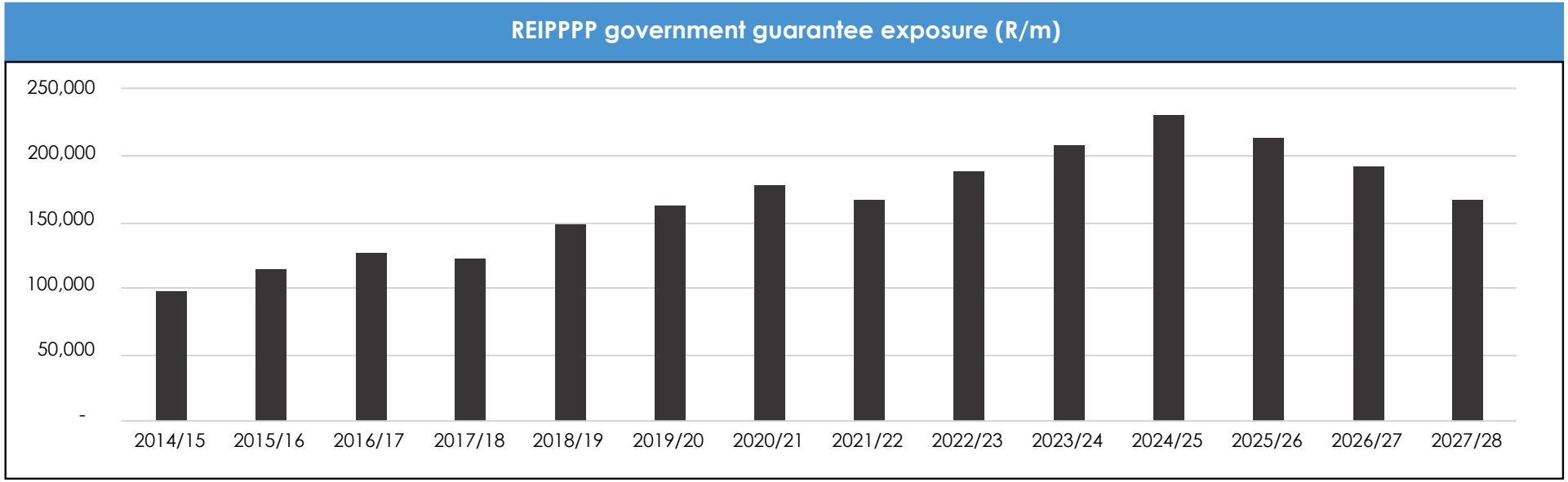
The involvement of the private sector in generation has been promoted by the need for green and lower cost power – responding first to public sector signals (from public sector procurement) and then private sector signals that are now emerging as the sector reforms.

Registered private projects now total nearly 18GW (excluding the REIPPPP), though progress depends on grid access and financial close. The REIPPPP remains central to public procurement, but no new capacity was added in 2024/25.

Future additions depend on grid capacity and financing. By 2023, 2,700MW of solar PV was installed, falling to 937MW in 2024 as load shedding eased. Yet interest remains high – the 2025 Renewable Grid Survey shows 220GW of planned renewable projects (121GW solar, 83GW wind). While this pipeline might not be fully realised – in the short term, given grid, reform and more importantly, demand constraints – in the medium run, it is a strong signal of the optionality the system has available and maps out the investment opportunities.

Fiscal limits are now the strongest driver of market reform, with NT steadily reducing its exposure to REIPPPP guarantees and signalling that the single-buyer model is no longer sustainable. Government's guarantee exposure[43] to REIPPPP projects has climbed from R96.2bn in 2014/15 to a projected peak of R229.5bn in 2024/25, before falling sharply to R166.4bn by 2027/28 as guarantees are scaled back and older contracts expire.

The IPP Office has already capped sovereign guarantees for REIPPPP Bid Window 7 at 80% of project costs, with NT planning further reductions. As fiscal space tightens, this reinforces Treasury's support for a multi-market. The private sector, largely facilitated by traders, is already demonstrating the ability to deliver new generation at pace and scale. Shifting procurement to willing-buyer–willing-seller arrangements reduces



Source: National Treasury (2025)

42 NERSA (n.d.) *Electricity licensing and registration*.

43 National Treasury. (2025, May). *Budget overview 2025*. Republic of South Africa.

contingent liabilities, limits pressure on Eskom Holdings' balance sheet and channels investment through private rather than sovereign risk.

As the utility-scale bilateral PPAs market (IPP direct to off-taker) nears saturation, electricity traders and aggregators are becoming key to aggregating demand, unlocking new generation funding and capacity, managing risk and enabling further renewable energy growth. Electricity trading began with PowerX's pilot licence in 2009, but gained momentum after the 2020s energy crisis. NERSA approved trading licences for Enpower, Envusa, Etana and EXSA in 2022/2023, officially introducing competition. By 2025, 21 trading licences had been issued. However, five trading licences, including an import and export licence, were challenged by Eskom. In 2024, the NTCSA also received its trading, transmission and import/export licences.

Energy aggregators and traders are pivotal in transforming South Africa's energy market, promoting the shift from a centralised electricity supply system toward a more liberalised and diverse energy landscape. Fundamentally, the aggregator and trader space is about the creation of a broader number of actors attuned to supply and demand signals in the electricity market and matching them at least cost. This activity will operate according to the ERA (as amended) and Market Code, which are designed to protect system stability, including NERSA licensing, market and grid access, network congestion rules, balancing and settlement obligations, and credit and volume caps to manage system and financial risk during the transition.

By acting as intermediaries, aggregators purchase electricity from IPPs, including those focused on renewable energy projects, and sell it to consumers via a process known as wheeling (see key concepts at the start of the report).

Virtual wheeling with tradable electricity tokens is a conceptual extension of virtual wheeling that proposes the use of digital electricity credits to represent verified renewable generation and facilitate settlement across multiple buyers and sellers. The model aims to reduce credit and settlement risk and enable fractional participation, peer-to-peer trading and secondary markets for clean-energy claims. It remains an idea on paper and is not an Eskom product.

The evolution of South Africa's electricity market signals the potential emergence of more aggregators and traders, especially with the shift towards the SAWEM. Given the trend of increasing Eskom Generation tariffs, electricity supplied by these aggregators is expected to remain a more cost-effective alternative.

Traders are not meant to substitute Eskom Generation but to complement it by unlocking access to alternative, often lower-cost electricity, which is increasingly renewable. They can help ease the anticipated long-term electricity shortfall in South Africa. Eskom Generation's role in providing baseload power, especially during periods when solar energy is not available (such as nighttime), and in managing the national grid, remains indispensable. The higher costs associated with supplying electricity during non-solar hours, when generation technologies are typically more expensive, need to be adequately recognised and remunerated. This will be strengthened through the SAWEM, which is expected to better reflect the time value of electricity by pricing power more accurately across different hours of the day based on supply and demand dynamics.

The shift away from a single buyer model towards a multi-market, with an independent TSO and an electricity market operator, requires businesses to adapt quickly to regulatory changes. This adaptation is crucial for tapping into new opportunities for energy procurement and trading. The traditional single buyer model, characterised by its reliance on Eskom and limited flexibility, has been critiqued for its inefficiency and inability to meet the country's demand promptly. Companies have learned the importance of exploring alternative arrangements, like wheeling, to secure electricity at competitive prices and reduce exposure to supply constraints.

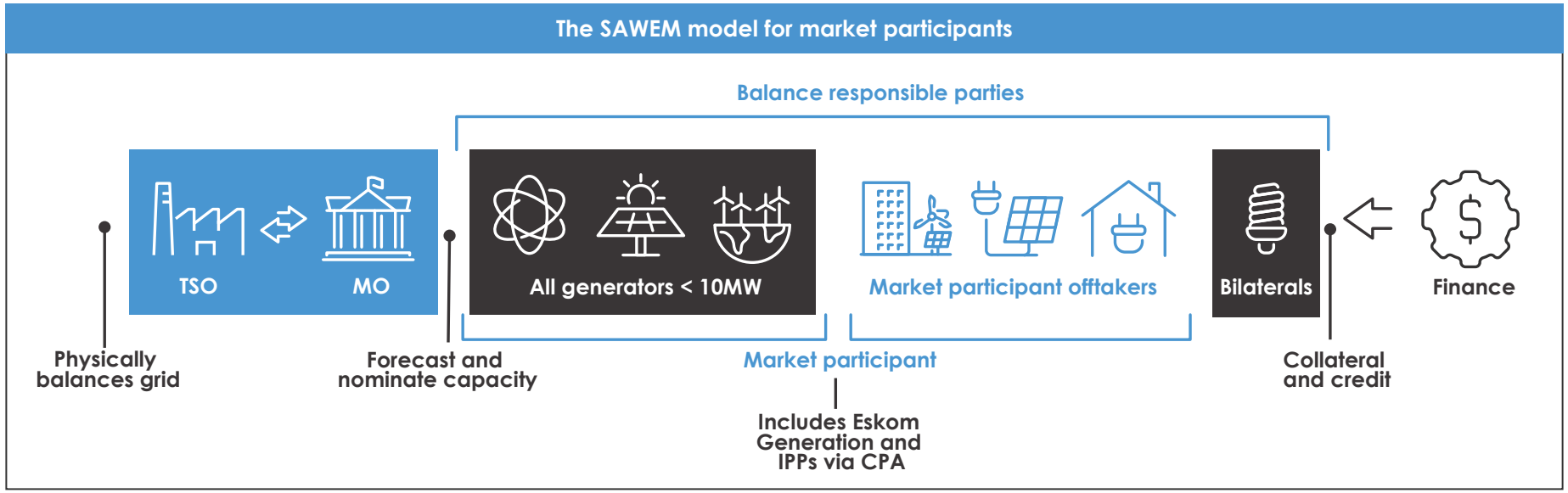
The emergence of third-party electricity traders, facilitated by regulatory adaptations, underscores the importance of supply and demand aggregation. These intermediaries help connect customers to wheeled electricity, often from renewable projects, while reducing exposure to long-term PPAs and offering greater flexibility and choice.

This model already enjoys backing from financial institutions, which are supporting the management of trading, timing and settlement risks associated with wheeling and electricity trading. With this foundation in place, wheeling arrangements are well-positioned to be rolled out at scale, provided a supportive and predictable regulatory environment is implemented to sustain investment and market growth.

5.5 How SAWEM will work

The market will start in early 2026 with Eskom Generation and public-procured REIPPPPs before expanding by mid-2026 to private generators and traders. This structure replaces administratively determined dispatch with merit-order competition, transparent price formation and contractual flexibility across bilateral, platform and regulated channels.

The SAWEM is set to launch in a phased approach in 2026, with full liberalisation by 2031, enabling competitive trading between generators, distributors and traders to lower costs and improve access. A central purchasing agency (CPA) will be created under the NTCSA, later moving to the TSO, as per the ERA (as amended).



Source: NECOM (2025)

5.5.1 Transition arrangements

The SAWEM will transition in phases to manage risk while competition deepens, according to the draft Market Code. A revised September 2026 external launch date would be sensible, as the system requires a six-month pre-commencement window for processing applications from balance responsible parties and market participants, and systems and processes are still required. This raises implementation risk and may compress timelines further, reducing the effectiveness of the proposed grace periods around go-live. From the commencement date, a formal transition period will begin, overseen by NERSA, with annual market assessments to test market dominance, exposure to market prices and the scope to unwind vesting arrangements.

During this period, balancing prices will be adjusted around the system marginal price to limit volatility. Eskom generators will participate fully in the market but operate under NERSA-approved vesting contracts that cover fixed costs, hedge energy price risk, and pay for ancillary services, while the NTCSA will manage the interim market and system operations until the market matures.

5.5.2 Role of CPA

The CPA is the anchor institution that manages South Africa's legacy contracting system while enabling the transition to competitive wholesale trading. Its core mandate is to take over all existing long-term bilateral contracts – including those procured under the REIPPPP framework, short-term procurement programmes and Eskom Generation output via vesting contracts – and integrate them into the SAWEM in a way that preserves system stability and shields legacy arrangements from market volatility. To do this, the CPA becomes both a market participant and a balance responsible party, bidding contracted energy into SAWEM, managing forecasting and imbalance risks, and ensuring that generators and distributors operating under legacy terms are not exposed to obligations they were never designed to carry.

A major CPA function is contract administration and transparency. It must maintain a public register of all its contracts, publish annual reports on vesting arrangements and forecasts, and calculate the "legacy charge" that recovers the cost difference between contracted prices and wholesale market revenues. This charge, approved and periodically reviewed by NERSA, ensures that the costs of integrating legacy PPAs into the new market remain predictable and non-discriminatory for consumers.

For vesting contracts with Eskom Distribution and other distributors, the CPA sets the annual wholesale tariff, agrees on quarterly volumes, and settles any difference between contracted prices and SAWEM prices. For Eskom Generation, which operates under generation facility-specific vesting contracts, the CPA agrees annual energy volumes and reserve rates, calculates availability payments, settles ancillary services activated by the System Operator (SO), and manages disputes. The CPA may also form or participate in balancing groups by combining multiple REIPPPP and other Section 34 projects into trading units to minimise imbalance costs, consistent with the rules that allow any balance responsible party to establish balancing groups within defined balancing areas. It will use either system operator or independent power producer forecasts, depending on the bid window rules.

The technical and financial complexity of these roles for NERSA underscores the need for additional capacity within the regulator, particularly in financial and economic analysis, to assess methodologies, review assumptions and exercise effective regulatory oversight.

The CPA is also South Africa's interface for regional and international bilateral contracts. It alone manages pre-market cross-border agreements, schedules them according to the SAPP rules, secures transmission capacity through the SO and settles both regional and national imbalances. However, the scope for private-sector participation in cross-border bilateral trading remains under discussion. While private-sector members of the SAPP are permitted to trade directly on the platform, this is not yet practicable in South Africa due to the absence of regulatory engagement to define and implement the required hourly scheduling and balancing arrangements.

The CPA supports future ministerial (section 34) procurement processes and undertakes the programme management required to bring new capacity into the system, a role currently carried out by the IPP Office. It procures additional energy and ancillary services as needed, and recovers the associated costs through wholesale tariffs. In this way, the CPA provides continuity from the single-buyer era while creating a clear, rules-based bridge into the SAWEM, maintaining system reliability, integrating legacy contracts and allowing competitive markets to scale without destabilising the power system.

5.5.3 Market operator (MO)

The MO, which sits within the NTCSA, will manage the trading platforms – the Day-Ahead Market, Intra-Day Market, Balancing Market and Reserve Market. In the case of the Day-Ahead Market, market participants will have to forecast electricity demand for each of the 24 hours the following day. Sellers (generators or traders) need to indicate the volume of electricity in megawatts (MW) they can provide and at what prices for each of the hours (R/MWh). These will be submitted as bids (an offer price which they are prepared to accept) to the MO. They should also indicate any flexibility in supply volumes.

In turn, market participant buyers (which also includes traders, distributors and large power users) will submit to the MO hourly bids for the available electricity (MW) they would want to buy for each hour and prices they are prepared to pay. The MO will conduct a bid matching process to ultimately discover the market clearance price where available electricity matches available demand. All market participants will trade at the agreed market-clearing price.

The MO will issue dispatch schedules, which the system operator (SO) implements to ensure electricity is physically delivered in line with forecasts. Where supply and demand do not match because market participants fail to follow dispatch instructions, the SO sources or curtails generation elsewhere to keep the system balanced. The cost of these imbalances is allocated through imbalance charges and carried by the Balance Responsible Party (BRP), creating a strong incentive to align forecasts with actual demand and generation.

All generators (with capacity equal to or greater than 10MW) are automatically BRPs operating in the balancing market. Balance responsibility is linked to physical connection points, with one BRP for injection and one BRP for withdrawal at each connection point, which may be the same entity. An off-taker - such as a small business that purchases power from a trader or distributor is not obliged to be a BRP. Consumers may, however, opt to become market participants, in which case they assume balance responsibility. Where consumers do not do so, balance responsibility rests with the NSP of the network to which they are connected.

The Intra-day Market will function similarly to the Day-Ahead Market but with shorter timeframes, as bid submissions would take place every few hours on a particular day and not the day before. The various markets must contribute towards a balanced electricity system. Market participation is voluntary, and its primary benefit lies in improved price discovery and risk management rather than access to specific generation attributes, as electricity traded through the SAWEM is not differentiated by technology and the market is expected to remain dominated by Eskom generation in the near term.

5.6 NERSA's role as regulator

Under the ERA (as amended) and the draft Market Code, NERSA's responsibility extends far beyond tariff determinations. The regulator must build, oversee and enforce the rules of a market in which multiple generators, traders and buyers interact on a level playing field, while ensuring that Eskom Generation's dominance does not distort competition. It must ensure grid access is non-discriminatory and should not regulate every price in a multi-market. No longer just a tariff regulator, NERSA will be the arbiter of competition, the rule-setter for market behaviour, the enforcer of non-discrimination and the guarantor of transparent, accessible, rules-based electricity trading. Without a capacitated, credible and independent NERSA, South Africa cannot deliver the market envisioned in the ERA (as amended) – nor attract the scale of private investment required to secure energy security and fiscal stability.

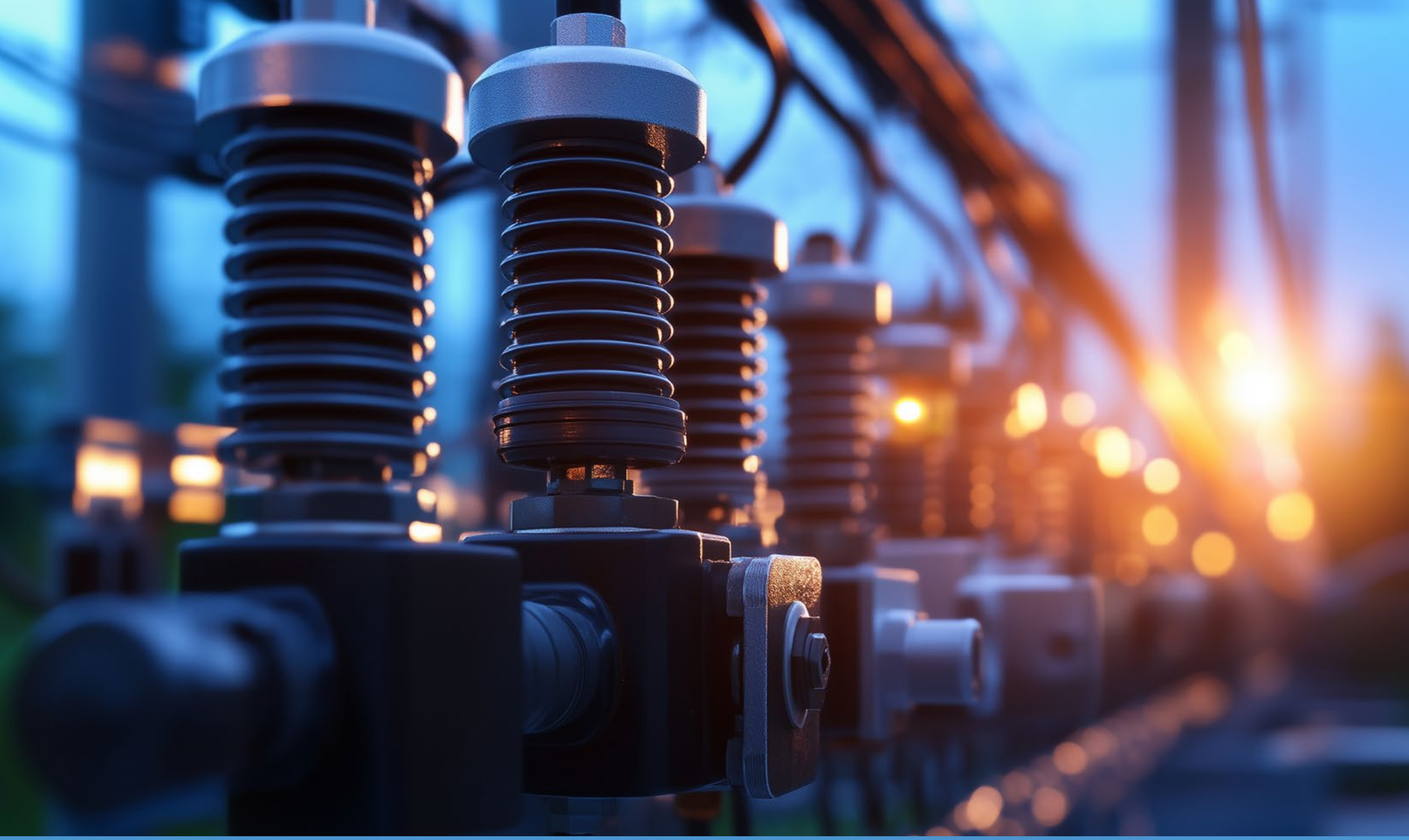
Market governance and competition oversight: NERSA must regulate and approve the Market Code and ensure the Market Operator provides a transparent, non-discriminatory trading platform. This gives NERSA the power to enforce fair conduct, curb abuse of dominance and intervene where market participants – including Eskom Generation – behave in ways that distort competition. NERSA's role will fundamentally shift from regulating Eskom's generation price to ensuring that the market produces the lowest-cost electricity through competitive bidding, backed by clear rules and oversight.

Licensing authority across the value chain: NERSA has full licensing control over generation, transmission, distribution, trading, import/export and the MO and SO. This includes assessing new capacity applications for alignment with the IRP and ensuring that grid access frameworks are fair. Grid access disputes and discriminatory practices were early red flags requiring NERSA to step in and regulate wheeling and connection rules. In the new market, NERSA's licensing authority becomes a competition tool.

Tariff, cost recovery and price unbundling: Until full market liberalisation in 2031, NERSA remains responsible for Eskom's tariff approvals and for municipal distributors, which have now reached their limit and should rise only with inflation from MYPD7, according to the NERSA chair. The ERA (as amended) shifts NERSA from revenue and price-setting to approving efficient, cost-reflective tariffs, while market-based contracts and competitive market prices may operate outside direct approval. NERSA is also leading the unbundling of electricity tariffs into fixed and variable components – a reform crucial for cost transparency and for preventing cross-subsidies in a system with growing behind-the-meter generation.

Market monitoring, dispute resolution and rule enforcement: NERSA becomes the referee of a far more complex system: resolving disputes between producers, traders, system operators and municipal distributors; monitoring market behaviour; and intervening when monopoly power or discriminatory conduct emerges.

Ensuring a just and credible transition: NERSA must oversee new responsibilities, including grid-access rules, wheeling frameworks, trading rules and the certification of market participants – all while Eskom Generation remains dominant for the next decade. This makes NERSA the safeguard, ensuring that early liberalisation does not entrench unfair advantages or slow the entry of new competitors.



6 Appendix 2: Why it is so important

South Africa's energy reforms matter because they carry material execution risk. Legal challenges related to Eskom, gaps in regulatory capacity, persistent municipal failures and delays in grid expansion all threaten to slow or distort implementation. At the same time, poorly designed interventions – including vesting contracts and the utility's strategy to create a renewables business in Eskom Green – risk entrenching market distortions just as competition is meant to deepen. Slippage in launching the SAWEM would compound these pressures, weakening investor confidence and blunting the reform dividend. These risks do not sit at the margins. They shape whether reform delivers a competitive, investable market or stalls into a partial and fragile transition.

South Africa's energy reforms were a reaction to the crisis, but they were always necessary. The 1998 White Paper on Energy Policy already recognised that the country needed more power, more players and cleaner technologies. That vision implicitly required new intermediaries – including electricity traders – to connect generators and customers in a more flexible system. At the time, most South Africans still lacked electricity access, a global consensus was forming that monopolies threatened energy security, and the 1997 Kyoto Protocol had begun shifting attention towards renewables. The post-apartheid investment boom made reform both possible and urgent. Today, reform is not optional – it is essential for economic stability, energy security and climate alignment. Businesses face rising carbon border tariffs, especially under the CBAM, making decarbonisation a competitiveness issue as much as an environmental one.

The stakes are high if the reform path falters. A renewed supply crisis could trigger political pressure to accelerate change, reinforcing the shift towards a competitive market with a larger role for private generators and traders. Equally, it could produce the opposite reaction, with a return to centralised control and a strengthened role for Eskom Generation if policymakers conclude the transition is not delivering fast enough. This tension makes market design and implementation decisive. Traders are central to this outcome because they turn reform on paper into functioning markets by enabling contracting, managing risk and supporting system balance. This is why Eskom's role in the SAWEM transition is so critical – and why execution risk matters as much as policy intent.

6.1 Sustainable faster growth

A smoothly implemented wholesale electricity market, enabled by the ERA (as amended), could materially lift South Africa's economic growth by restoring supply security, lowering costs and crowding in private investment. Electricity shortages have been a binding constraint on growth for more than a decade, cutting GDP growth by an estimated 1.5 percentage points in 2023 alone. While load shedding eased sharply in 2024, only a competitive wholesale market, expanded grid investment and reformed distribution can lock in these gains and prevent a return to crisis. By improving reliability and predictability, a functioning market would allow firms to operate at capacity, support new industrial investment and improve household welfare.

Electricity traders play a central role in making this market work. By aggregating supply and demand, managing price and volume risk and facilitating bilateral and short-term transactions, traders improve liquidity and price discovery. Their participation lowers barriers to entry for IPPs, supports flexible contracting for customers and broadens access to diverse generation portfolios. Under the SAWEM, traders also share in the costs of balancing the system as variable renewable energy expands. In doing so, traders reduce investment risk and help mobilise private capital into both generation and transmission, accelerating capacity build-out despite Eskom's financial constraints and wider fiscal pressure.

International experience reinforces this link between market reform and growth. The RES4Africa report, Establishing a Competitive Electricity Market in South Africa, shows how wholesale market reforms can improve efficiency, reduce prices and attract sustained private investment. Markets with active traders increase liquidity, draw in new entrants and weaken monopoly dominance, while regulatory oversight can address affordability risks. Tools such as zonal pricing help signal where grid investment is most needed by reflecting location-specific network costs faced by generators and consumers. This guides siting and consumption decisions, lowers system costs over time and improves operational efficiency, supporting broader economic performance.

For South Africa, the payoff depends on a smooth transition. The OECD Economic Surveys: South Africa 2025 report stresses that reforms must be coordinated across generation, transmission and distribution, with credible trading rules, reformed municipal funding models and sustained momentum behind unbundling. If implemented coherently, the SAWEM can turn electricity from a drag on growth into a catalyst, with electricity traders acting as key intermediaries that improve market functioning, unlock private investment and support faster, more inclusive economic growth.

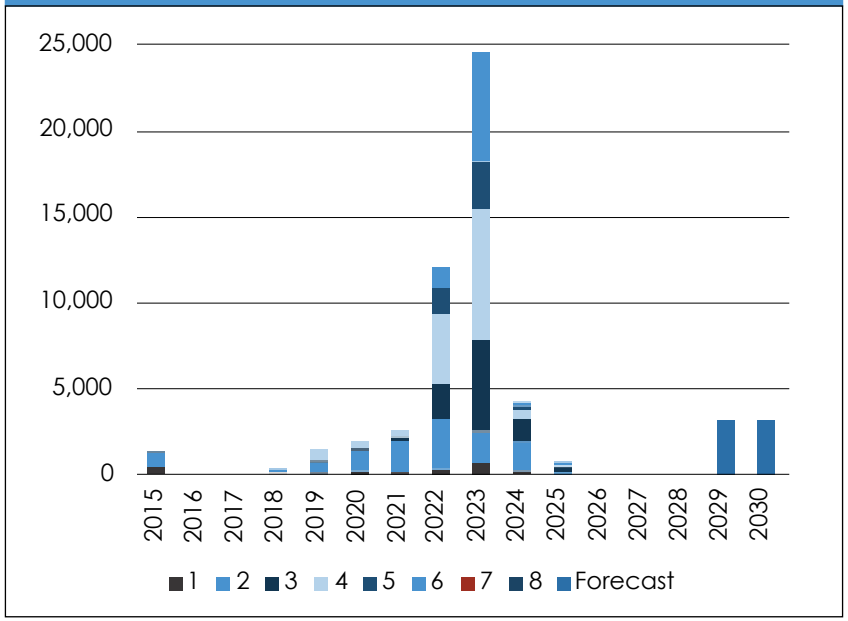
6.2 Electricity security

The proverb "When Eskom sneezes, South Africa catches a cold" remains true – and will until the country secures reliable, diversified power. Eskom Generation still supplies nearly 90% of South Africa's electricity, mostly from ageing coal plants, leaving the economy exposed to every failure. When generation falters, the entire economy slows.

Load shedding has been a major drag on growth. Between 2007 and 2019, it cost the economy R34.5bn[44] (in 2020 values). In 2023 alone, the South African Reserve Bank (SARB)[45] estimated that power cuts shaved 1.5 percentage points off GDP growth, while the Council for Scientific and Industrial Research (CSIR)[46] calculated total losses of R1.25tn – about R116,570 per MWh not supplied. Our analysis shows the economy takes a serious hit from stage 4 load shedding onward, costing around R600m a day.

Energy insecurity is now one of the biggest constraints to sustained growth. The newest coal plants, Medupi and Kusile, have struggled with reliability, and up to 8GW of older coal capacity will be decommissioned from 2030. Without replacement generation, renewed shortages are inevitable later in the decade. There is a real risk of load shedding returning from 2029 if renewable build stalls, if 6GW of gas-to-power does not materialise or if market failures delay private investment despite rising demand. Additional risks stem from a potential acceleration in GDP growth toward 2%, accompanied by a rebound.

Load shedding forecast to 2030 (GWh)



Source: Krutham (2024)

44 Walsh, K., Theron, R., Seedat, A., & Reeders, C. (2020). Estimating the economic cost of load shedding in South Africa: Appendix C [Report for Eskom Holdings SOC Ltd]. Nova Economics. National Energy Regulator of South Africa.

45 SARB. (2023). *Reflections on load shedding and potential GDP: June 2023.*

46 CSIR. (2025, January). *Utility statistics report: January 2025*.

NT's debt relief created space for Eskom Generation to focus on maintenance, lifting plant availability from 55% in 2023 to over 60% in 2025 and reducing load shedding from 335 days in 2023 to 12 so far in 2025. This recovery has been supported by higher diesel use during peak periods and by falling grid demand, which has reduced pressure on the system but also weakened Eskom's sales volumes. Electricity demand has declined as a weak economy has constrained consumption – GDP growth dropped from 1.8% in 2022 to 0.7% in 2023 and 0.6% in 2024[47] – alongside rapid behind-the-meter solar uptake. By February 2026, rooftop solar reached 7,464MW[48],exceeding the 7,388MW produced through the REIPPPP, reinforcing the structural decline in Eskom's energy sales even as operational performance improves.

The shift to private supply is only now beginning to influence industrial load. Even with recent gains, forecasts suggest shorter periods of load shedding could re-emerge from 2029 as GDP growth edges towards 2% (Krutham data) and industrial demand begins to recover. As renewable penetration rises without sufficient grid-forming technologies or firm backup, system stability becomes harder to maintain. We forecast moderate delays to gas-to-power and under-allocation in recent REIPPPP rounds, but deeper slippage would prolong the risk. The IPP Office is reviewing its procurement process to align with the SAWEM and improve efficiency, with completion expected in early 2026.

47 StatsSA. (n.d.). *StatsSA*.

48 NTCSA. (2026, February). *Weekly system status report 2026 – Week 6.*

6.3 Decarbonisation pathway

South Africa faces rising pressure to cut emissions while protecting jobs and communities. With a coal-heavy energy mix, it remains among the world's top 15 emitters, with electricity accounting for about 40%[49] of national greenhouse gas emissions.

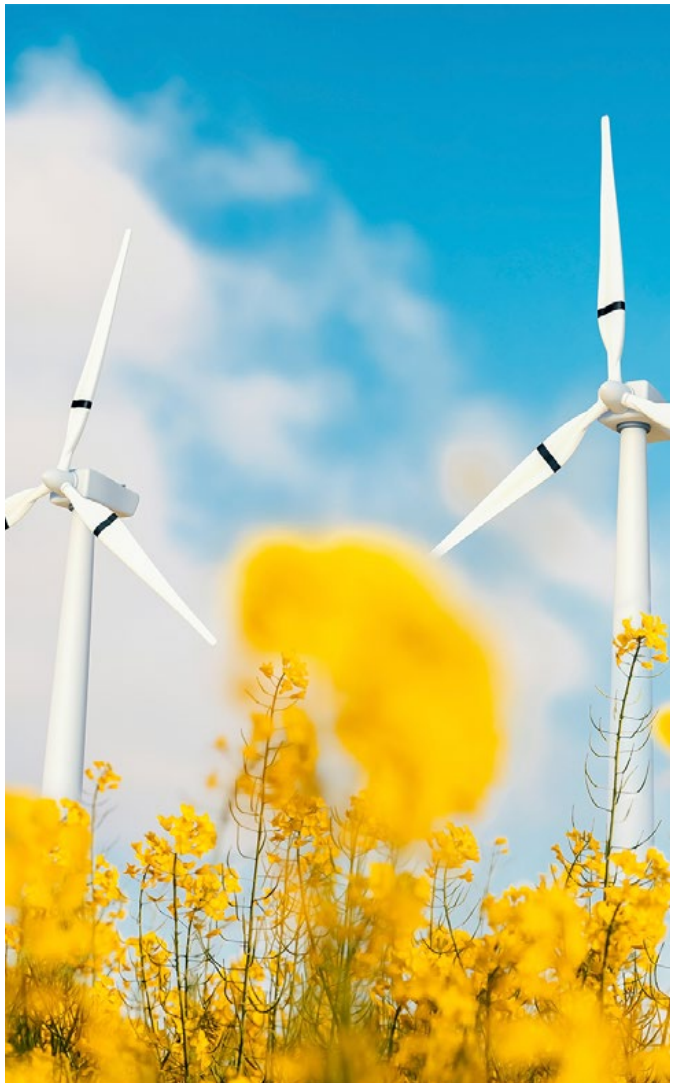
South Africa, as a signatory to the Paris Agreement, has committed to capping total greenhouse gas emissions within defined ranges. Emissions must stay between 350–420 million tonnes of carbon dioxide equivalent ($MtCO_2e$) a year from 2026 to 2030, tightening to 320–380$MtCO_2e$ a year from 2031 to 2035. Eskom Generation, which produces most of the country's electricity, plans to cut its own emissions by 40% from baseline levels by 2030 and by 50% by 2035. These reductions would deliver about 26% of South Africa's required emissions cuts by 2030 and 23% by 2035. This reflects Eskom's outsized role in the emissions profile – coal-fired power has historically accounted for about 42%[50] of national emissions – and leaves industry, transport and other sectors to deliver the remaining reductions.

The country faces rising climate and economic risks that demand urgent action. Extreme heat, droughts and floods are intensifying, worsening poverty and inequality. At the same time, global markets are shifting towards low-carbon production. South Africa's coal-heavy energy mix now exposes its exports, jobs and growth to climate-related trade penalties and rising domestic costs. Energy transition is an economic imperative. Increasing heat, droughts and floods threaten food security, livelihoods and infrastructure, deepening social inequality.

For businesses, opting for renewable energy generation is not only a least-cost option: it also aids efforts to decarbonise operations and avoid EU CBAM penalties, as well as domestic carbon taxes, which are set to increase steeply from 2026. Traders can help create investment in new renewable energy, enhancing supply reliability for businesses while supporting decarbonisation efforts.

Trade exposure: The CBAM will impose tariffs on carbon-intensive imports such as iron, steel and aluminium. With the electricity grid dominated by coal, exporters face steep cost penalties unless decarbonisation accelerates. The SARB estimates that carbon taxes imposed by trading partners could cut exports by 10% and reduce GDP by 9% by 2050[51]. CBAM allows deductions for an effective carbon price paid in the exporting country – meaning South Africa's carbon tax can offset part of this risk.

Domestic carbon pricing: The Carbon Tax Act (2019) started at R120/tCO_2e, with allowances reducing the effective rate to below R10/tCO_2e. By 1 January 2025, the headline rate rose to R236/ tCO_2e and will rise to R462/tCO_2e by 2030[52]. Under the Climate Change Act, companies will face legally binding carbon budgets.

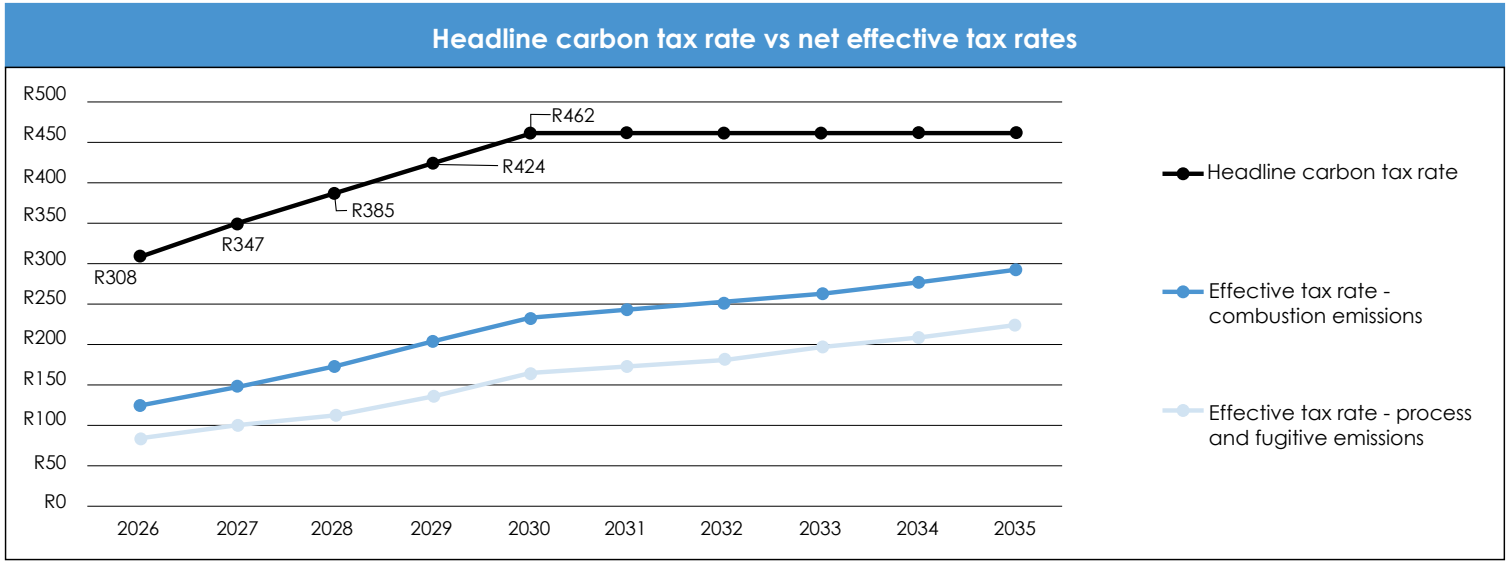


49 OECD. (2025). OECD economic surveys: South Africa 2025. Organisation for Economic Co-operation and Development

50 Eskom Holdings (n.d.). *GHG emissions – Eskom data portal*. Eskom.

51 Loewald, C. (2024, April). *Carbon taxation in South Africa and the risks of carbon border adjustment mechanisms (Occasional Bulletin of Economic Notes No. 01/2024)*. South African Reserve Bank.

52 National Treasury. (2013). *Carbon tax policy paper: Reducing greenhouse gas emissions and facilitating the transition to a green economy in South Africa (Phase two of the carbon tax)*. National Treasury, Republic of South Africa.



Source: Brundtland (2025)

Exceeding these budgets could trigger a penalty rate of up to R640/ tCO_2e from 2026, sharply raising the effective carbon price curve. For electricity generators, the transitional relief that allowed deductions for the electricity generation levy and the renewable energy premium embedded in REIPPPP tariffs expired on 31 December 2025. From January 2026, this concession has fallen away, increasing the effective carbon cost faced by fossil-based generation as the policy framework tightens around decarbonisation. Treasury's 2025 Draft Taxation Laws Amendment Bill, which will update the carbon tax, extends electricity price neutrality to 2030, when carbon taxes on electricity will begin to flow through to tariffs and could add up to 30c/kWh for consumers. From 2026, the carbon tax replaces the electricity generation levy, with tax applied only to combustion emissions, and generators may still deduct part of the renewable energy premium. The extension is intended to support investment in independent generation, stabilise prices and strengthen Eskom's finances. As private generation expands under the ERA (as amended), government will review how generators should be fully incorporated into the carbon tax system.

Health costs of coal: The South African Medical Research Council (2025) found people living near coal power stations faced a 6% higher risk of health impacts, such as respiratory diseases, cardiovascular disease and premature death. It estimates that more than one million people are affected by air pollution in district municipalities with coal-fired power stations.

Decline of coal and rise of clean power: The Integrated Resource Plan (IRP 2025) confirms coal's role will shrink as renewables, battery storage and gas expand. New generation and transmission infrastructure must be unlocked through private investment and climate finance.

Just Energy Transition (JET): The JET Partnership supports a shift from coal, funding renewables and diversifying regional economies. The Just Energy Transition Investment Plan (2023–2027) outlines six priorities: electricity infrastructure, Mpumalanga diversification, skills, municipal reform, green hydrogen and new energy vehicles. The transition is framed as a growth opportunity – to attract investment, create jobs and achieve energy security and climate resilience.

Strategic alignment: JETP investment provides the finance to decarbonise South Africa's grid. CBAM and carbon taxes create market incentives to accelerate this shift. Carbon budgets ensure accountability and price carbon-intensive production. These measures strengthen South Africa's credibility, protect exports and enable a just, inclusive energy transition. Without alignment between transition finance, carbon pricing and trade policy, SA faces escalating social, economic and competitiveness risks. With alignment, it can lead Africa's shift to a low-carbon, climate-resilient future.

6.4 Tariff minimisation

Energy security is not just an economic issue – it underpins basic human rights. The High Court ruled in 2023 that power cuts violate rights to security, healthcare, food, water, education and a safe environment. Rising electricity tariffs, well above inflation, add pressure on households and businesses, prompting a review of pricing policy as the DoEE pursues universal access by 2030. The minister of electricity and energy has stressed that achieving this depends on private sector participation.

Municipalities facing supply and revenue pressures can partner with electricity traders and aggregators to secure least-cost power in much the same way that concessions support water services. These public-private arrangements help stabilise revenue, enable reinvestment in local infrastructure and reduce reliance on Eskom by allowing municipalities to source competitively priced electricity from a mix of independent power producers and traders. By aggregating demand from multiple consumers, traders can negotiate more favourable terms with independent producers, driving down costs and accelerating the uptake of renewable energy. This diversification also improves energy security and reduces exposure to high-cost, carbon-intensive generation.

The SAWEM plays a distinct and system-wide role in tariff minimisation by shifting price formation from administered tariffs to competitive market outcomes. Through transparent and fair vesting contracts and wholesale pricing, least-cost dispatch and active trading, the SAWEM will enable lower-cost generators to set prices more often, reducing the overall cost of supply. This also creates clear price signals that stimulate investment in the right mix of technologies to meet system demand. Improved price discovery exposes inefficiencies, disciplines costs across the value chain and limits the pass-through of avoidable costs to consumers. Over time, this competitive pressure supports flatter tariff trajectories than those driven by vertically integrated monopoly pricing.

Interventions such as NERSA's development of network charge rules for third-party wheeling and net-billing are critical complements to the SAWEM, but material gaps remain. Many municipalities still lack the capacity or frameworks to implement wheeling in practice and will need targeted support to do so. Together with the wholesale market, these measures lower barriers to entry, expand access to cheaper renewable electricity and allow tariff reductions to flow beyond direct market participants to end users. This includes households and small businesses, but only if trading rules evolve beyond the proposed phase one design and do not exclude them. In this way, tariff minimisation under the SAWEM is not a one-off reduction, but a structural outcome of sustained competition, transparency and investment discipline.

6.5 Importance of multi-markets

Electricity multi-markets have become the global norm in both advanced and emerging economies, offering a proven pathway to lower long-run system costs, improve reliability and accelerate decarbonisation. In practice, these outcomes rely on a wider market, not on a single wholesale market platform like the SAWEM. Private market activity already takes place, and will continue to take place, outside the SAWEM through bilateral contracts, trader-led transactions and other commercial arrangements.

Within this broader landscape, wholesale markets play a critical role by providing transparent reference prices that reward lowest-cost generation, support efficient dispatch across large systems and improve operational efficiency. Active electricity traders connect buyers and sellers across both market-based and bilateral arrangements, provide liquidity, manage short-term risk and translate price signals into real transactions.

> Together, these elements show that competition at the wholesale level, embedded within a functioning broader market, delivers better outcomes than administrative single-buyer systems, particularly as new technologies and decentralised investment play a growing role.

International evidence shows that competitive wholesale electricity markets deliver measurable savings for consumers and reduce fiscal exposure for the state. Transparent day-ahead auctions and marginal pricing consistently lower procurement and balance costs better than with regulated dispatch, while liquid trading platforms improve the integration of variable renewables and reduce system inefficiencies. Independent market oversight and clear rules also strengthen investment signals, drawing in significantly more private capital and reducing reliance on state guarantees.

> By allowing private generators to sell electricity through transparent markets and diversified off-takers, future capacity can be financed largely independent of the public balance sheet.

This reduces contingent liabilities for NT and frees up limited fiscal space for priorities such as grid expansion, distribution reform and social infrastructure. Market-based price formation also reduces the risk of over-procurement or mispriced contracts, supporting long-run affordability.

A wholesale market also strengthens system reliability. Countries with mature power exchanges have seen improved forecasting accuracy, reduced reserve requirements and more efficient use of flexible assets. Competitive balancing markets incentivise generators to maintain plant performance because imbalance penalties directly reflect system conditions. This creates a discipline that administrative systems often lack. For South Africa, which remains vulnerable to load shedding when Eskom Generation's energy availability drops, better forecasting, real-time balancing and transparent scheduling will support a more resilient grid and reduce reliance on expensive emergency generation.

Finally, global evidence shows that wholesale markets can help legacy state utilities transition to sustainable business models. Rather than carrying the full burden of new generation investment, state utilities in other markets earn stable, regulated revenues from transmission, system operation and ancillary services, while competitive generation exposes plants to clear economic signals that reward reliability and efficiency. Over time, this strengthens the utility's financial position, reduces political pressure around tariffs and builds a more balanced electricity sector. For South Africa, these advantages are critical: a well-designed wholesale market can improve Eskom Holdings' financial stability, reduce long-term fiscal risks and support a cleaner, more competitive and more secure energy system.

Wholesale electricity market factsheet for selected regions, 2024

Region	Coverage	Market liberalisation year	Population served (million)	Peak demand (GW)	Largest generation source (share)	Variable renewable energy share	High voltage grid length (km)
Australia	Six states and territories	1998	23	34	Coal, 56%	32%	40,000
France	Whole country	2000	69	86	Nuclear, 67%	12%	105,000
Germany	Four control areas	1998	84	75	Wind, 27%	42%	35,000
Spain	Whole country	1998	49	38	Wind, 22%	40%	46,000
Japan	Ten TSO areas	1995	125	161	Coal, 30%	11%	40,000
Great Britain	England, Wales and Scotland	1990	67	45	Wind, 30%	35%	19,000
US	California and Nevada	1996	32	48	Gas, 35%	31%	42,000
US	Texas	1996	27	85	Gas, 44%	35%	87,000
US	13 eastern states and DC	1996	67	153	Gas, 28%	3.50%	142,000

Source: IEA (2025)

Markets that liberalised in the 1990s (see the table above) now face a new wave of structural change. Demand is rising, systems are more decentralised and weather-dependent generation has reshaped operations. These markets worked well for decades, but the original designs are no longer enough on their own. Regulators are refining short-term markets to capture finer system conditions and unlock flexibility, while also strengthening long-term markets so investors can manage risk and finance capital-intensive technologies. Most regions now rely on a blend of competitive markets and complementary tools such as capacity mechanisms and renewable schemes. The priority is to keep these elements aligned so they support reliable operations, efficient price formation and stable investment as systems evolve.

South Africa is entering this space at a moment when global models are being rewritten. This creates an opportunity. Rather than copying the 1990s template, South Africa aims to build a wholesale market that reflects today's needs, including deeper forward markets, strong short-term signals, better access for distributed resources and a clear role for complementary mechanisms. The SAWEM provides a credible starting framework, but it will not be complete at launch. Electricity markets continue to evolve, and there is no fixed end-state. Success will depend on learning by doing, adapting rules as system conditions change and maintaining alignment between market design, investment incentives and operational realities. Done well, this approach can deliver a more flexible and resilient system that supports investment and reliability as electricity becomes more central to the economy.

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