Current priorities in the Restructuring of South Africa's Electricity Sector

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Background

Government has articulated a vision of a restructured electricity sector for South Africa in which the country moves into a new era of a more reliable, more competitive, lower-cost, lower-carbon electricity supply which will serve as an engine of economic growth and job creation.

Broadly speaking, this vision is in the process of being implemented, but it is prudent to be aware of risks, threats and difficulties regarding the implementation of this once in a generation, multi-year process, so that blockages can be dealt with and resolved as and when they arise.

The Presidency, including Operation Vulindlela, has a critical co-ordinating and dead-lock breaking role to play in ensuring that the restructuring of the electricity sector stays on course as there are a number of different participants involved in what is necessarily a complex and at times conflictual process, including government departments, regulators, state owned company Eskom, and other public and private entities.

In particular, it is imperative that Eskom, through its restructuring, be positioned in such a manner that its various components effectively facilitate the development of a competitive electricity sector in South Africa, rather than seeking to limit competition as anathema to its corporate interests.

Again, the Presidency has a critical role to play in resolving any potential conflicts of interest in this regard, since government's current structure has combined shareholder responsibility for Eskom as well as policy making for the wider electricity sector under a single department, the Department of Electricity and Energy, whereas previously these distinct governance responsibilities were undertaken by two separate government departments.

The economics behind the new electricity model

Due to technological changes, the historically-efficient, vertically integrated electricity model is no longer the most cost-effective structure for producing electricity. Globally, restructuring of the sector is taking place as the rise of new cost-competitive technologies, particularly solar and wind technologies, has meant that electricity can be produced and consumed more cost-effectively where there are multiple competing sellers and buyers procuring electricity over non-discriminatory transmission and distribution networks.

In this new model, transmission and distribution grid infrastructure and operations continue to have natural monopoly characteristics with the greatest economic benefits being achieved through regional, national, and at times multi-state, planning and coordination. Grid infrastructure enables the functioning of an electricity market. As such, traders are required to pay for the use of grid facilities and these wheeling costs should be calibrated to ensure that there are sufficient resources for the maintenance and expansion of grid

infrastructure, while at the same time not pushing up prices unnecessarily for electricity users. Even after additional grid infrastructure costs to be paid be end users are accounted for the combination of these grid costs with lower cost methods of electricity generation results in a lower future pathway for electricity costs overall.

A current limiting factor to the implementation of this new model has been that grid investment, including in grid expansions, grid access, grid digital modernisation, grid management tools and grid cyber security systems, has fallen behind in many countries and action is required to correct this. As the B20 Energy Mix and Just Transition policy paper has shown, grid capacity is a global issue with stark implications for developing countries, who need to continue seeking models for attracting investment into grid infrastructure to deliver electrification and just-transition pathways. There is a disjuncture between the lead times for critical Transmission and Distribution equipment (transformers, HVDC cables, electrical installations) and the needs for renewable generation, creating growing connection backlogs. Accelerating grid investment, coupled with digital modernisation—smart meters, sensors and AI-enabled grid management will require a conducive environment for energy transition finance supported by streamlined permitting processes and local delivery capacity.

In this new electricity sector model it is imperative that transmission and distribution grids are regulated in a manner that ensures that they operate in a non-discriminatory, pro-competition manner, treating all electricity producers, traders and consumers equally and fairly.

The process for restructuring South Africa's electricity sector is well underway with some critical progress expected in 2026

South Africa has a legislated commitment in the Electricity Regulation Amendment Act of 2024 to transition to a competitive electricity market. The Act, which came into effect on 1 January 2025, lays the basis for a phased transition and sets a five-year timeframe for establishing a fully independent Transmission System Operator (TSO) outside of Eskom.
The state-owned National Transmission Company South Africa (NTCSA) was licensed as Market Operator on 27 November 2025 to serve as market operator during the establishment of a fully independent TSO.

The launch of the South African Wholesale Electricity Market (SAWEM), a competitive electricity market to be made up of many buyers and many sellers, including Eskom and private sector companies, trading electricity over the country's transmission and distribution grids, is targeted for April 2026.

There will also be the development of Market Rules and a Market Code to govern energy trading, settlement, system balancing, capacity remuneration and ancillary services, as well as the development of New Grid Capacity Allocation Rules and the establishment of an Electricity Market Advisory Forum (EMAF) to support the National Energy Regulator of South Africa (NERSA's) role in guiding the transition.

Against this background, in December 2025, with the approval of the Minister of Electricity and Energy, Eskom provided details of its current restructuring plans, as follows:

- The NTCSA will remain a subsidiary of Eskom Holdings, and will continue to be owner of transmission grid assets.
- The National Electricity Distribution Company of South Africa will be established as a subsidiary of Eskom responsible for Eskom's distribution assets.
- GenerationCo will hold all of Eskom's legacy generation assets.
- A new subsidiary Eskom Green will house Eskom's renewable energy business.
- TraderCo will be set up by Eskom to operate along with other licensed traders in the electricity market.
- The TSO will be set up as a new state-owned company outside of Eskom Holdings, but without ownership of the transmission assets. It being envisaged that the TSO will execute the build of the transmission grid by Eskom and independent transmission projects, maintain and operate the transmission grid, and provide non-discriminatory access to the grid to all participants in the electricity market.

While it is clearly desirable that Eskom's restructuring plans should assist in advancing the vision of creating a multi-seller, multi-buyer electricity market in South Africa, it is important that the details of Eskom's plans be closely analysed to ensure that they will indeed be effective in achieving, rather than retarding, this objective.

Identifying key issues to get right in the months ahead

The restructuring must seek to achieve a competitive market in which all participants are treated fairly and equally

A key concern is whether the TSO will be able to operate effectively and manage the national grid in a non-discriminatory, pro-competition manner, if, as was announced in December 2025, the TSO will not be the owner of national grid assets.

It is recommended that the Presidency undertake a detailed consultation on this matter to assess whether the TSO will be able to play an effective role as a non-discriminatory system operator if the NTCSA is to maintain ownership of grid assets, where NTCSA is a subsidiary of Eskom Holdings, part of the same group as Eskom's GenerationCo, Eskom Green and TraderCo, which entities will be competing with other electricity providers and traders on the national grid.

For the competitive market to succeed, Eskom and other buyers and sellers must be treated fairly and equally. Potential conflicts of interest and efforts to delay or limit the creation of a more competitive electricity market will have to be overcome. In this regard, it is correct that government, during 2025, required Eskom to withdraw its planned litigation against the issuing of certain trading licenses by NERSA.

Managing Grid Congestion

The newly approved Grid Capacity Allocation Rules are explicitly aimed at ensuring fair, transparent and non-discriminatory access to limited capacity, preventing inactive projects from blocking the queue and guiding future grid development to reduce delays and disputes. These rules are intended to speed up the connection of credible, ready-to-build projects.

The aim is to bring on new capacity sooner and stabilising or lowering prices over time. In this regard, it is imperative that all electricity generators, including Eskom, are treated equally and fairly based on established rules.

NERSA's capacity must be strengthened to assist in the building of a competitive electricity market

In recent years, NERSA has had its decisions overturned in court applications and at times errors have been made by NERSA in the setting of electricity prices. These patterns are concerning given the important role that NERSA has to play in the restructuring of South Africa's electricity sector. Specifically, in the period ahead NERSA will have to approve the Market Code, Market Rules, wholesale tariff frameworks, and Grid Capacity Allocation Rules.

It is imperative that NERSA must be strengthened to be able to play an effective role in shaping and enforcing the rules and regulations required to achieve a competitive electricity market. NERSA needs resources and technical assistance to ensure that it sharpens its regulatory toolkit. Collaboration with the competition authorities is also crucial in crafting the rules to usher in a new market structure with a level playing field for all participants.

Rising Municipal debt to Eskom has to be resolved

Municipal Debt to Eskom has continued to rise and a sustainable solution is required which aligns with the restructuring of the electricity sector. Municipalities in arrears are entering Distribution Agency Agreements with Eskom to allow the utility to assist in ringfencing electricity payments and to improve metering, billing and collection systems, as well as systems to disburse free basic services to indigent households. This solution will need to be actively monitored to ensure it is supportive in addressing the arrear debt problem without creating unintended consequences for the affected municipalities. There is also a need to tackle the long-term structure of the electricity distribution industry in a way that supports its sustainability.

Continued reform of public private partnership models at local government level would also assist. For example, a similar structure to the Water Partnerships Office could be established to support electricity processes at local level and to enable the mobilisation of a wider range of skills to work in the public interest.

Getting the pricing right to incentivise future investment in lower cost electricity sources

The key feature of SAWEM is to replace a monopoly market with a single supplier with a multi-buyer, multi-seller model. Eskom will no longer be the sole provider of electricity, instead, generators, traders and large consumers will be able to transact through SAWEM. Detailed discussion on future vesting contracts and pricing have been undertaken in the National Energy Crisis Committee (NECOM) with the aim of preventing monopoly abuse, outlining revenue streams and incentivising the efficient operation of power stations. The Presidency should task the Department of Electricity and Energy and National Treasury to participate actively in these processes – and increase transparency - as the rules and pricing

structures that will emerge from these discussions are fundamental to the creation of an effective competitive electricity market in South Africa.

The design of the pricing system is key if it is to incentivise rather than limit future investment. A current concern is a proposal for the new pricing mechanism to treat coal costs as a fixed component of Eskom's electricity production costs, which would have the effect of holding the variable cost of Eskom's coal plant artificially low, even as elevated total costs are passed on to consumers. An effect of such an artificially low competing price is that there would be less incentive for new investments in electricity generation capacity raising the risk of electricity shortages in future.

Low-cost objectives must continue to be central to our electricity planning

Linked to the structural changes in the sector, electricity planning is entering a new era. Private investment is rising and is in the main being driven by low-cost, low carbon objectives. Government planning, through the Integrate Resources Plan 2025 (IRP), should take increasing private investment into account and should continue to aim to achieve low-cost and reliable electricity supply for the country over the medium to long term.

Given the critical impact that future electricity costs will have on the competitiveness, growth rate and employment levels in the South African economy, it is imperative that government signals clearly that any deviation from low-cost electricity planning in the IRP will be transparently quantified, so that the economic costs of such deviations can be measured against their assumed benefits. Without such a disciplined and transparent approach South Africa risks a being locked into high cost electricity path dependency for many years to come.

Not only do high electricity prices put pressure on households and firms (particularly electricity-intensive minerals beneficiation operations that cannot be internationally competitive when electricity costs are too high), high electricity costs make the provision of free basic services more costly for government (and will reinforce the de facto tendency for many indigent households effectively being excluded from the free basic service benefit).

Focus areas for SONA

There should be a clear signal in the SONA that the restructuring of South Africa's electricity sector to achieve a competitive, multi-seller, multi-buyer market, will continue to be implemented as a top economic policy priority during 2026. It should also be communicated that the creation of a more competitive electricity sector will boost the investment in electricity infrastructure needed for security of supply and will enable South Africa to achieve a lower path for future electricity prices, which will serve as a driver of higher levels of economic growth and job creation.

South Africa has among the best solar and wind resources in the world, which based on current technologies and prices should be deployed on a large scale as the key low-cost component of an overall electricity system, including peaking gas, diesel and coal capacity as a counterbalance to the variability of renewable sources, battery systems, the extended life

nuclear capacity and legacy coal and hydro systems could provide the South African economy with a powerful source of competitive advantage.

To be fully realised, South Africa's natural electricity advantages need to be complemented with a well-designed policy framework that encourages investment and competition in the electricity sector and makes realisable economic objectives, such as, minerals beneficiation, industrial development and employment creation, and social objectives, such as, the provision of universal access to electricity and free basic electricity services to poor households.

The SONA could be an important platform to articulate the following:

- To reaffirm that the implementation of government's vision of a restructured electricity sector remains on track. Significant progress was made in 2025, such as, the coming into effect of the Electricity Regulation Amendment Act and the licensing of the NTCSA as market operator and 2026 will see the launch of a national electricity market governed by a market code;
- To emphasise the expected economic benefits of the electricity sector restructuring, including increased investment in electricity infrastructure, growth of manufacturing of inputs for the grid and generation facilities, increased exports due to lower-cost, lower-carbon electricity, a higher rate of job creation, and more competitive electricity prices for households and firms, whilst highlighting the efforts of the skilling system to prepare people with the capabilities needed to fill jobs and sustain livelihoods across the renewable, storage and transmission value chains;
- To signal government's commitment to continue with the restructuring of Eskom to position the entity and its subsidiaries as key facilitators of the new competitive electricity market in South Africa; and
- To reiterate government's commitment to strengthen the capacity of the National Energy Regulator of South Africa (NERSA) so that the regulator can play an effective role in guiding and shaping the electricity sector's restructuring, in the public interest and in the national interest.