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Electricity market reform in South Africa: The public interest rationale and key risks ahead

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KEY MESSAGES

- Electricity market reform aims to shift the cost of poor investment decisions from captive consumers and taxpayers to those responsible for making investment decisions, with the aim of reducing the cost of electricity.
- Wholesale competition can help keep electricity prices lower than they would be without reform, but targeted subsidies will still be needed to protect low-income households.
- Effective management of Eskom's market power will be critical to the success of the reforms.
- Competition can support decarbonisation, but effective carbon pricing is needed to accelerate the shift away from coal.
- Sustained public engagement is needed to maintain reform momentum and shape a regulatory framework that steers the market towards public-interest outcomes.

1 INTRODUCTION

South Africa's electricity sector faces deep structural challenges. Electricity tariffs have risen sharply over the past two decades and continue to outpace general inflation, placing growing pressure on households and businesses alike. The country also remains heavily dependent on Eskom's ageing coal fleet, which has struggled to provide reliable supply, has required substantial public financial support, imposes significant public-health costs through harmful air pollution, and remains the largest contributor to national greenhouse-gas emissions. Although private generation investment has accelerated rapidly since licensing restrictions were lifted, transmission constraints combined with limited system flexibility [1] continue to limit how quickly new supply can be integrated to reduce coal dependence. Together, these problems have left South Africa with an electricity system that is expensive, emissions-intensive and poorly equipped to deliver the reliable, affordable and progressively cleaner electricity the country requires.

It is against this backdrop that South Africa's electricity sector is undergoing a fundamental transformation, moving from a historically vertically integrated utility model centred on Eskom towards a more open electricity market with multiple generators and buyers. At its core, this reform involves unbundling Eskom into

[1] *System flexibility* refers to the ability of the power system to respond to changes in supply (such as variable output from wind and solar resources) and demand. South Africa's coal fleet is relatively inflexible (see Meridian study here): many coal units are unable to shut down and restart within a day, so they are run continuously in order to be available for the evening peak. This reduces the ability of the system to accommodate renewable generation, resulting in curtailment. More flexible resources such as batteries, peaking plant and demand response can adjust much more rapidly, helping to balance the system and integrate higher shares of wind and solar.

separate generation, transmission, and distribution entities. Alongside this, government is establishing the South African Wholesale Electricity Market (SAWEM), an open platform through which qualifying distributors, generators, traders, and large bulk consumers will be able to buy and sell electricity.

Despite being on the policy agenda since the publication of the 1998 Energy Policy White Paper, it was only during the severe load shedding crisis between 2018 and 2024 that the political imperative for electricity market reform gained real traction. This culminated in the promulgation of the Electricity Regulation Amendment Act which came into effect on 1 January 2025 and provides the legislative foundation for the current reforms.[2] Several critically important regulatory decisions now sit with the National Energy Regulator of South Africa (NERSA), including the approval of the Market Code and Rules, the vesting contracts framework, and the wholesale pricing methodology. Together, these decisions will determine how SAWEM functions, how Eskom's market power is managed and how regulated wholesale electricity charges are determined. This makes the present moment a critical window for broad stakeholder engagement, both to maintain momentum behind the reforms and to ensure that the regulatory mechanisms underpinning the new market are designed to serve the public interest.

While unbundling Eskom and introducing SAWEM have generated extensive technical discussion, far less attention has been given to the principles and rationale underpinning the reforms or to their wider public-interest implications, including their potential effects on electricity affordability and emissions. The lack of accessible information about the reforms and their rationale risks leaving many civil society and other public-interest organisations sidelined or ambivalent as the process advances. Without these voices in the room, critical decisions about the design and implementation of the new market risk being shaped disproportionately by narrow vested interests, rather than by the broader interests of South Africa and its people.

This briefing note seeks to help address this gap by outlining the rationale for reform, explaining at a high level how SAWEM is intended to work, and identifying key risk areas where we believe sustained public-interest pressure is needed.

2 WHY REFORM?

A reliable electricity system needs to match supply and demand every second of every day, while ensuring sufficient investment in the sector over time. Ideally, it should do so at the lowest overall cost while minimising environmental harm.

Historically, electricity systems worldwide met these requirements through large, centralised, vertically integrated utilities responsible for generation, transmission, distribution, and retail. For most of the twentieth century, this centralised utility model enabled the financing of ever larger conventional power stations, exploiting greater economies of scale to enable lower electricity prices. However, by the late 1970s ballooning megaprojects resulted in increasing *diseconomies* of scale. In many cases, escalating technological and project complexity, concentrated financial risk, and growing rent seeking opportunities destroyed the benefits that centralised planning and procurement, and monopoly-based financing could deliver.[3] Many vertically integrated systems faced issues of inefficiency and poor performance by the 1980s. This included large power station cost and time overruns, and ultimately material over-capacity in power

[2] *RSA (2024) Electricity Regulation Amendment Act 38 of 2024. View source.*
[3] *Steyn (2006) Investment and uncertainty: Historical experience with power sector investment in South Africa and its implications for current challenges. View source.*

generation and rising electricity costs.[4] Many state-owned utilities also operated with non-cost-reflective tariffs, high energy losses, and poor revenue collection, creating persistent financial deficits and public debt burdens that placed pressure on state finances while, in some cases, constraining investment in new capacity and contributing to supply shortages.[5]

Responding to these performance issues, most large electricity systems have transitioned away from vertically integrated monopolies towards some degree of liberalisation over the past few decades. In 1989, 215 economies relied on vertically integrated utilities, serving 92% of the world's population; by 2024 that had fallen to 72 economies and 7% of the population.[6]

The first wave of electricity sector liberalisation occurred at the height of the Washington Consensus, when considerable confidence was placed in liberalised markets, privatisation, and competition as solutions to the shortcomings of state-led economic models. These ideas informed a wide range of reforms across the developing world, including the now infamous structural adjustment programmes. Experience subsequently demonstrated the limitations of applying such models without sufficient regard to national political, institutional, and economic circumstances. Outcomes in the electricity sector were mixed: reforms delivered significant benefits in some countries, but proved difficult to implement or produced disappointing outcomes in others (such as those with small power grids and weak regulatory autonomy), contributing to a subsequent shift towards more context-specific approaches to power-sector reform.[7]

2.1 WHAT IS WRONG WITH SOUTH AFRICA'S CURRENT MODEL?

South Africa's experience under Eskom mirrors many of the challenges observed in other vertically integrated electricity systems. The country moved from substantial excess generating capacity in the 1990s (which itself came at huge cost) to a prolonged capacity shortage, as insufficient and delayed investment contributed to the onset of load shedding from 2007. At the same time, electricity tariffs have risen dramatically while Eskom has received almost half a trillion rand in direct government financial support, in part due to cost overruns associated with its Medupi and Kusile coal megaprojects.

South Africa's dependence on coal has also left it with one of the most carbon-intensive electricity systems among the world's major economies. Beyond its contribution to climate change, coal-fired generation imposes a major ongoing public-health burden through air pollution, contributing to thousands of premature deaths and cases of respiratory and cardiovascular illness, particularly in coal-affected communities. [8] Although Minimum Emission Standards were introduced to limit this harm, Eskom's coal fleet has repeatedly failed to comply. Longstanding barriers to private generation, alongside delays in procuring new capacity and expanding the grid, have constrained alternative supply. This dependence has effectively allowed Eskom to hold the country hostage, arguing that enforcing the standards would force plant closures and plunge the country back into load shedding.

[4] *IEA (2005) Lessons from liberalised electricity markets. View source.*
[5] *Akcura & Mutambatsere (2024) Global evolution of power market designs. View source.*
[6] *Akcura & Mutambatsere (2024) Global power market structures database: Summary findings. View source.*
[7] *Foster & Rana (2019) Rethinking power sector reform in the developing world. View source.*
[8] *CREA (2026) Unmasked: The health and economic cost of delaying coal phase-out in South Africa. View source.*

2.2 THE RATIONALE FOR REFORM

While the numerous challenges facing South Africa's electricity sector are complex and multifaceted, a key contributor to these issues concerns how risk is allocated. In a vertically integrated structure, all key investment and operational choices such as technology selection, plant sizing, timing, and fuel procurement are made centrally by utility system planners or state authorities. However, because the utilities operate as regulated or state-owned monopolies, all financial risks, operational costs, and investment failures are passed directly through to captive electricity consumers or taxpayers. Managers making the decisions do not face direct commercial penalties for poor choices, and might actually benefit from them.[9] Due to large information asymmetries associated with monopoly state utilities, the true nature of capital and operational decisions often only becomes visible years later or not at all. As a result, the structural incentive to balance costs, risks, and societal benefits is effectively broken.

Power-market reform seeks to address this problem by transferring investment risks away from consumers and taxpayers to investors and producers making the relevant decisions. Competitive pressure can reward efficient producers and expose poorly performing firms to lower returns, loss of market share or business failure, ensuring that they (rather than consumers or taxpayers) bear the consequences of cost overruns, corruption, inappropriate technology choices, and poor operational performance. The resulting efficiency gains can enable better use of scarce public resources by reducing electricity production costs and the fiscal burden of inefficiencies, freeing up public funds for other pressing developmental and social priorities.

Unbundling is a structural prerequisite for this model because meaningful competition cannot develop while the incumbent generator also controls the transmission network and system and market operations on which its competitors depend. Separating these functions removes this structural conflict of interest and helps ensure that all producers receive non-discriminatory access to the grid and are subject to the same market rules, while preventing the incumbent from using network control, privileged information or cross-subsidisation to favour its own generation fleet.

The introduction of a wholesale market then provides the mechanism through which competition takes place. Producers submit offers to supply electricity, while buyers submit bids to meet their demand requirements. The market coordinates these transactions and enables the System Operator to dispatch available generators broadly in order of cost. Wholesale prices consequently reflect the changing balance between supply and demand, rewarding efficient generators that can produce electricity when and where it is most valuable while exposing less competitive producers to lower sales and revenues. In this way, the market guides short-term operational decisions and provides longer-term signals about when, where, and in which technologies new investment is needed.

It is important to note that SAWEM is a *wholesale* market, facilitating bulk electricity transactions that take place upstream of retail sales to most end consumers (see Figure 1). For households and small businesses, electricity purchasing arrangements will therefore remain largely unchanged, with customers continuing to buy electricity from their distributors at regulated tariffs rather than participating directly in the market and being exposed to hourly price fluctuations.

[9] *Sioshansi & Pfaffenberger (2006) Electricity market reform: An international perspective. View source.*

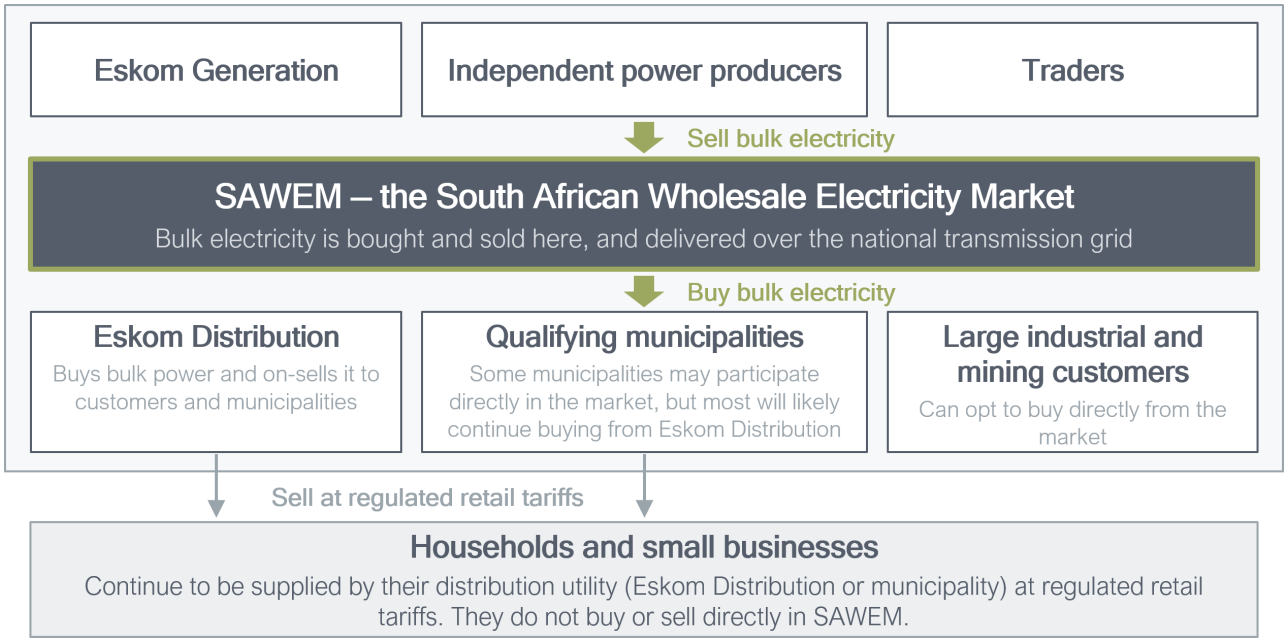

Figure 1: SAWEM provides a market for the bulk buying and selling of wholesale electricity, with households and small businesses remaining customers of their distribution utility rather than directly participating in the market

2.3 AFFORDABILITY AND EMISSIONS IMPACTS

Although wholesale markets can bring improved efficiencies and cost savings, they are not a silver bullet and do not automatically produce socially optimal outcomes on their own. Truly competitive power markets do not arise naturally "by themselves". Left unchecked, electricity markets can become concentrated, allowing individual generation companies (public or private) to dominate and acquire market power[10] that can undermine competition and efficient market outcomes. Addressing market power, the natural monopoly characteristics in networks, environmental externalities, and affordability concerns still require careful market design, continuous monitoring, independent regulation and complementary public policies.

In terms of affordability, well-designed and efficiently functioning wholesale markets tend to reduce overall system costs.[11] However, lower wholesale costs do not automatically translate into lower electricity bills as downstream retail tariffs also reflect distributor markups, network charges, taxes, levies and subsidies, all of which can greatly influence the final cost to end users. Moreover, even where electricity is supplied at least cost, cost-reflective tariffs may remain unaffordable for low-income households. Targeted support, including adequately funded and effectively allocated free basic electricity, will therefore remain essential, even though this is best achieved on the back of least-cost electricity supply from a competitive electricity market.

Wholesale markets can also contribute to the decarbonisation of South Africa's electricity sector by enabling cheaper renewable generation to displace more expensive fossil-fuel generation. However, while falling clean-technology costs can drive decarbonisation on

[10] Market power is the ability of a company to influence market prices in its favour, rather than simply accepting the price produced through competition.
[11] For example, the introduction of wholesale electricity markets in the US between 1999 and 2012 reduced operational costs by $3–5 billion per year. See *Cicala (2022) Imperfect markets versus imperfect regulation in US electricity generation.* View source.

economic grounds alone, market forces are unlikely to deliver emissions reductions at the pace and scale required to meet climate objectives without complementary policy interventions.[12] Previous Meridian Economics modelling illustrates the importance of such policies, showing that stronger carbon pricing can substantially accelerate decarbonisation by increasing the relative cost of coal-fired generation, making it more economical to reduce coal utilisation and, particularly where plants cannot operate flexibly, retire them earlier.[13] Wholesale competition must therefore be complemented by effective environmental policies, such as carbon pricing, to ensure that market outcomes align with South Africa's broader environmental objectives.

3 HOW SAWEM WORKS

SAWEM is based on a hybrid framework where private, direct power-delivery contracts coexist with a centralised wholesale electricity market. Generators and buyers will therefore still be able to contract directly with one another for the delivery of electricity, and these bilateral arrangements will likely account for a substantial portion (potentially even the majority) of private electricity traded. The central market will operate alongside these contracts, providing a common platform for trading, scheduling, balancing and settlement.

Under this framework, the *Market Operator* administers pre-real-time market trading, produces market-clearing schedules, and facilitates post-real-time settlement; the *System Operator* deals with any remaining real-time imbalances between supply and demand, including issuing dispatch instructions to generators; the *Central Purchasing Agency (CPA)* manages publicly procured power and acts as the counterparty for vesting contracts with Eskom generators (discussed below); and *NERSA* provides regulatory oversight.

3.1 CENTRAL MARKET CLEARING AND DISPATCH

Figure 2 provides a high-level outline of how the central market coordinates electricity trading, price-setting, dispatch and settlement for each hourly trading period.

Figure 2: The SAWEM central market process for each hourly trading period, from day-ahead bids and offers through scheduling, price-setting and dispatch to metering and balancing settlement

[12] *IPCC (2022) Climate change 2022: Mitigation of climate change, Chapter 6 – Energy systems. View source.*
[13] *Meridian Economics (2025) Re-thinking the future of South Africa's coal fleet: The value of flexibility. View source.*

3.2 VESTING CONTRACTS

At the start of SAWEM, Eskom will continue to own and operate the overwhelming majority of South Africa's generation capacity. This gives it extreme market power: because the market price (the "system marginal price" or SMP) is set by the marginal generator's offer, Eskom could potentially influence market prices by over/under-bidding or withholding available capacity. In a market with limited competition, prices may therefore reflect Eskom's dominant position rather than effective competitive pressure. A transitional mechanism is therefore needed to reduce the financial incentive to exercise this market power while new generation and Market Participants enter.

Vesting contracts are intended to address this problem by regulating Eskom's participation in the market and how it is remunerated. Each Eskom generator receives a capacity payment (see Box 1) from the CPA to recover costs that are not recovered through energy revenues. In return, it is required to offer its energy into the market at a price that only covers its fuel and other variable operating costs. When transactions are settled, each generator receives the same market price (SMP) for its power, which will in most cases be more than its marginal cost. A financial contract with the CPA adjusts what generators receive so that, despite changes in the market price, they effectively earn an agreed regulated price. This limits the incentive for Eskom generators to use their market power to manipulate market prices.

It is intended that the proportion of electricity covered by vesting contracts progressively declines as competition grows, but not before. This would expose more of Eskom's generation to competitive market prices, with the contracts eventually falling away once Eskom's market power has diminished sufficiently.

BOX 1: WHAT IS CAPACITY?

Generation "capacity" has at least three related meanings:

1. **Physical (or nameplate) capacity**: the most a plant can produce at once, measured in megawatts (MW).
2. **Reliability contribution:** how much of that capacity the system can count on in times of stress. This is usually lower than nameplate capacity because plants may be unavailable or unable to produce their full output.
3. **A market product:** a commitment to be available when needed, rewarded through capacity payments. These payments support sufficient reliable supply and are separate from revenues earned by selling energy.

While dispatchable generators generally make a greater contribution to system reliability, variable renewable generators such as solar PV and wind also provide capacity value, albeit to a lesser extent. These resources should therefore also be eligible for capacity payments, with payments reflecting their contribution to system reliability.

4 KEY REFORM AND IMPLEMENTATION RISKS

Electricity market reform has the potential to reduce system costs by improving operational efficiency, strengthening investment signals and shifting the consequences of poor investment decisions away from captive consumers and taxpayers. But these benefits are not automatic. As seen in other countries, incomplete or poorly designed reform can entrench market power, distort investment and create serious financial and operational risks that ultimately leave consumers worse off.

Figure 3 illustrates four possible outcomes for South Africa's electricity sector with and without reform. Continuing with the current model is unlikely to address the problems that have accumulated over recent decades, while reform creates the possibility of substantially better outcomes, but also the risk of reproducing or worsening existing problems if implementation is weak or shaped by vested interests. The key challenge is therefore not simply to advance reform, but to ensure that its design and implementation serve the public interest. The remainder of this section identifies what we see as some of the key reform and implementation risks that require close scrutiny and sustained engagement if the reforms are to deliver genuine public benefit, rather than narrow gains for a limited few.

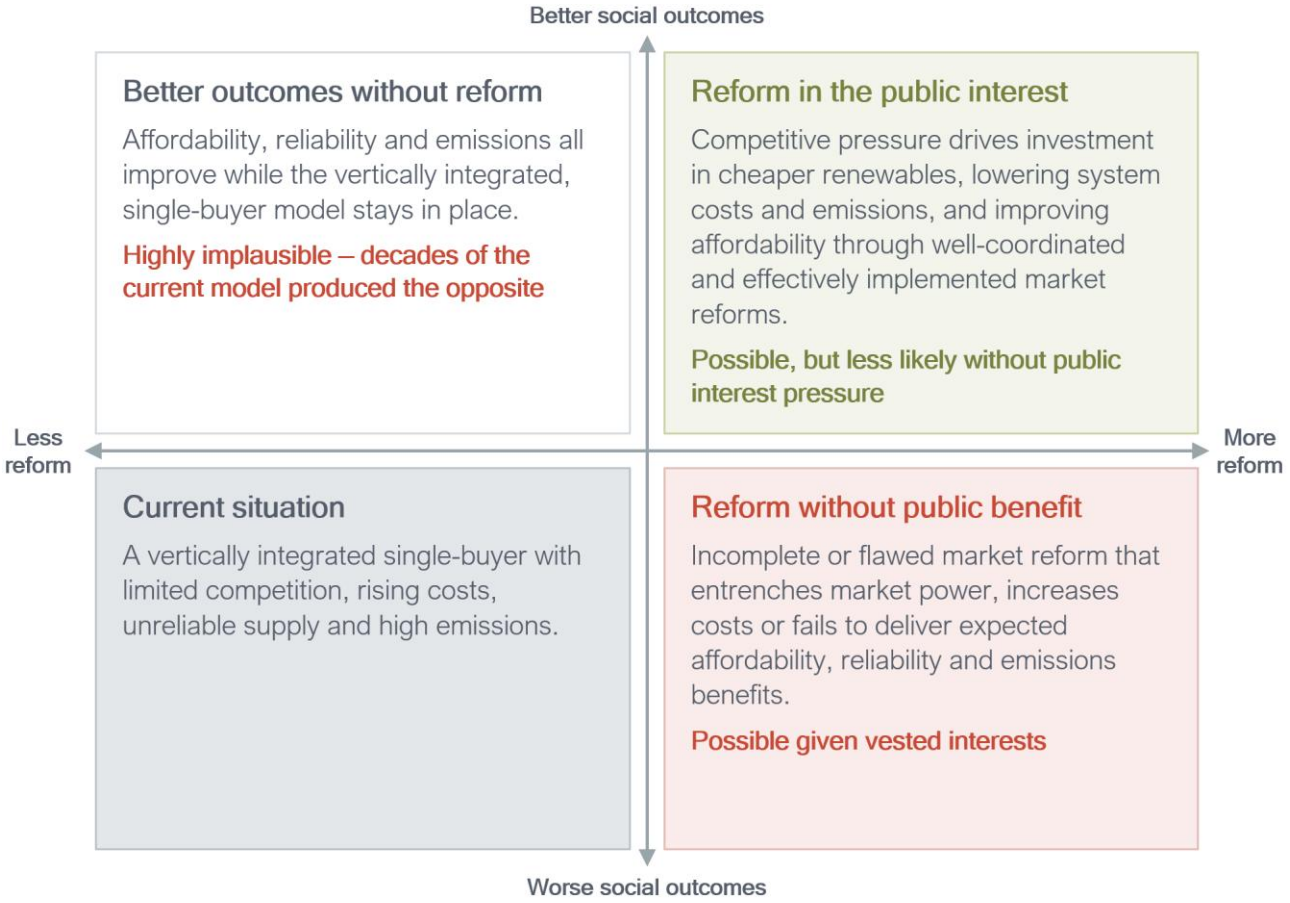

Figure 3: Market reform and social outcomes: four possible futures

4.1 ESKOM RETAINS ITS MARKET POWER

While the vesting contracts are intended to mitigate Eskom's market power during the transition, they should not be relied on as the sole remedy and require careful scrutiny and monitoring to be effective. Vesting contracts are complex to design, requiring carefully calibrated volumes, contract prices, durations, and adjustments in an attempt to mimic what competition would otherwise do. As a result, they are highly sensitive to design choices, with significant impacts on prices, investment and market outcomes. They require strong ongoing monitoring and enforcement to prevent gaming and costly market distortions. Beyond distorting market prices, poor design can weaken operational incentives, including for more coal fleet flexibility and efficient dispatch, with the risk of higher system costs ultimately borne by consumers.

Their effectiveness will also depend heavily on the institutions responsible for administering and regulating the market. NERSA will need

sufficient technical capacity to scrutinise increasingly complex market arrangements, monitor behaviour, and enforce the rules effectively. This applies to Eskom today and equally to any future dominant players, whether public or private.

The independence of the market institutions is equally important. The Market Operator is currently housed within the National Transmission Company of South Africa (NTCSA), which remains a wholly owned subsidiary of Eskom, while government is still working towards establishing a fully independent Transmission System Operator (TSO) outside Eskom. A fully independent TSO (with ownership and control of the transmission assets) that is responsible for system and market operation is a critical safeguard against conflicts of interest and discriminatory treatment of Market Participants.

The deeper problem, however, is that vesting contracts do not alter the structural source of Eskom's market power, i.e. its ownership and control of the overwhelming majority of existing generation. International experience suggests that structural remedies such as horizontal unbundling (splitting up Eskom generation among competing owners) may be necessary to allow for the vesting contracts to be wound down over time.

4.2 CAPACITY IS NOT ADEQUATELY COMPENSATED FOR

As currently drafted, SAWEM only provides a market for energy, not capacity (see Box 1). This creates a "missing money" problem as generators may earn enough to cover their operating costs and fuel but not enough to justify investment in batteries, peakers, or other dispatchable capacity needed to meet infrequent peak-demand periods. Battery investments in particular will have a missing money problem, as revenues from buying and selling energy alone are unlikely to be sufficient to support investment, making additional capacity payments necessary. A capacity market or other capacity remuneration mechanism is therefore needed to provide an additional payment for building and keeping capacity available.

The only capacity payments currently provided for are those in the vesting contracts with Eskom generators, which are not available to other participants. However, as currently laid out in NERSA's vesting contract framework,[14] these come with significant flaws of their own. The primary issue concerns how Eskom Generation's legacy financing obligations will be dealt with. The current framework retains the opaque MYPD-based methodology for calculating Eskom's allowable return based on the cost of new coal station replacements. It is not widely appreciated that this methodology has never been implemented as intended and has instead required large discretionary adjustments by NERSA to avoid unacceptable tariff increases. Crucially, it is also an opaque indirect mechanism for recovering the financing costs associated with the Eskom power stations that would potentially not be recoverable in a competitive market. It is critical that vesting contracts explicitly distinguish between the portion of Eskom's remaining financing obligations associated with efficient generation sunk costs and those associated with stranded costs. This allows for a transparent and reasoned decision to be made on how the latter should be addressed.

4.3 CARBON TAX REMAINS INEFFECTUAL

A competitive wholesale market can support the decarbonisation of South Africa's electricity sector, but will not necessarily reduce emissions

[14] *NERSA (2026) Transitional Generation Pricing and Vesting Contract Framework. View source.*

at the pace required. Left on its own, the market will systematically undervalue the broader societal costs of coal-fired generation and overuse it relative to lower-emissions alternatives. An effective carbon tax helps to correct this distortion by incorporating the cost of emissions into fossil generators' market offers, which can affect the merit order, encouraging lower-emissions plants to be dispatched ahead of more carbon-intensive alternatives. Furthermore, when a fossil plant sets the SMP, as is expected to occur for much of the short to medium term, the price will include the carbon tax value. Renewable generators in the market will thus also earn this price and benefit. Over the longer term, this strengthens the commercial case for investment in renewable energy, storage, flexible demand and other low-carbon resources.

South Africa's existing carbon tax does not yet provide an adequate decarbonisation signal to the electricity sector. Although the headline tax rate has increased, generous allowances substantially reduce the effective rate paid by emitters. More importantly, the commitment to "electricity-price neutrality" to 2030 largely shields electricity generation from the tax.[15] The resulting effective carbon cost is too low to materially alter dispatch or investment decisions.

This weakness is compounded by uncertainty about the tax's future rate, allowances, and treatment of electricity after 2030. Investment in generation assets is inherently long term, and investors will discount a carbon price that they do not expect to be sustained. For the tax to support SAWEM's decarbonisation, government should establish a credible, progressively rising effective carbon-price trajectory; phase down allowances and electricity-price-neutrality provisions; and ensure that generators incorporate their carbon liabilities into market offers.

Any adverse effects of a carbon price on poor households should be addressed through targeted social protection, electricity support, or recycling of carbon-tax revenues, rather than by suppressing the price signal across the entire electricity market.

4.4 WHOLESALE REFORM IS NOT ACCOMPANIED BY DISTRIBUTION REFORM

A key risk is that South Africa successfully reforms the wholesale electricity market while leaving the distribution sector largely unchanged. Lower wholesale energy and capacity costs are important for reducing the overall cost of electricity, improving economic competitiveness and supporting investment and job creation. However, they are only one component of the price ultimately paid by households. For household affordability, the functioning of the electricity distribution industry is likely to be at least as important as (and in many cases more important than) incremental reductions in wholesale electricity costs.

Many municipal distributors face ageing infrastructure, high technical and non-technical losses, weak revenue collection, and rising costs, while municipalities have historically relied on electricity surpluses to help fund other services. These costs and inefficiencies are ultimately recovered from paying customers through municipal tariffs. At the same time, mechanisms intended to protect poor households remain weak. Almost 80% of households eligible for Free Basic Electricity were not receiving it in 2020, largely because of shortcomings in indigent registration and municipal administration. [16]

[15] *Meridian Economics (2025) Exploring the impact of Phase Two of the carbon tax in a transforming power sector. View source.*
[16] *OECD (2025) Economic Surveys: South Africa 2025. View source.*

The financial sustainability of distributors also presents a systemic risk. Municipal arrears to Eskom (now exceeding R120bn) cannot simply be treated as a bilateral problem between Eskom and individual municipalities. [17] Persistent non-payment weakens the electricity value chain and, in a competitive market with multiple generators and suppliers expecting settlement, could have a contagion effect through the wider market.

Wholesale reform therefore needs to be accompanied by a broader programme of distribution reform. Priorities include improving distributor efficiency and financial sustainability, addressing municipal electricity debt and municipalities' dependence on electricity revenues, modernising distribution networks and metering, and strengthening the targeting and adequacy of FBE and other protections for low-income households. Without these measures, a more efficient wholesale market may still leave many South Africans unable to afford adequate electricity.

4.5 INADEQUATE VESTING CONTRACT AND MARKET TRANSPARENCY

The draft Market Code requires vesting-contract templates and the volumes covered by individual contracts to be published. However, it explicitly excludes "project specific information" which could include station-specific energy rates, capacity-payment parameters and other material commercial terms that NERSA will approve for each Eskom power station. Without this information, independent stakeholders will struggle to determine whether individual plants are being overcompensated, whether consumers are paying for unnecessary or uneconomic capacity, or whether the contracts are being reduced appropriately as competition develops.

Transparency over these contracts is therefore essential to prevent transitional protections for Eskom from becoming opaque, long-lived subsidies that weaken competition. At a minimum, NERSA should publish the material terms of each approved vesting contract, the basis for determining energy and capacity payments, contracted volumes and durations, subsequent amendments, and regular information on payments made under the contracts, subject only to narrowly defined legitimate confidentiality requirements.

4.6 REFORMS ARE DELAYED OR REVERSED

A significant risk is that the market reforms are further delayed or ultimately reversed. The introduction of competition into South Africa's electricity sector has been on the policy agenda since the 1998 Energy Policy White Paper, but implementation has repeatedly stalled, in large part because of political-economy resistance. The electricity sector has also historically provided significant opportunities for rent-seeking, particularly through Eskom's coal and other procurement, as extensively documented by the Zondo Commission.[18]

These risks have not disappeared. The abatement of load shedding may reduce the political urgency for structural reform, while the approaching ANC elective conference in 2027 could heighten incentives for factions benefiting from existing institutional arrangements to resist changes that threaten established interests. This occurs in a context where there is no obvious, powerful reform champion within government and Eskom retains considerable political influence. Eskom itself cannot reasonably be expected to drive reforms whose ultimate effect is to reduce its market power and transfer functions, assets, and decision-making

[17] *Mashamaite (2026) Municipalities owe Eskom R120bn as debt threatens viability. View source.*
[18] *Zondo (2022) State Capture Commission Report, Part IV, Vols III-IV. View source.*

authority to independent institutions and competing Market Participants.

Further delay (or reversal) could have profound consequences for the electricity transition. Without credible alternatives to Eskom supply and independent institutions capable of driving investment and system planning, the country risks remaining dependent on Eskom's framing of the available choices: continued exemptions from Minimum Emission Standards, life-extension and intensive utilisation of the existing coal fleet, and potentially substantial investment in gas-fired generation as necessary safeguards against a return to load shedding. Maintaining momentum behind the reforms, and building durable institutional and political support for their implementation, is therefore critical to preventing a return to the conditions that produced South Africa's electricity crisis in the first place.

5 CONCLUSION: PROTECTING THE PUBLIC INTEREST

South Africa's electricity market reforms offer an important opportunity to address the structural weaknesses that have contributed to unreliable supply, rising costs, and continued dependence on coal. By opening investment to more participants and placing greater responsibility for poor decisions on those making them, a well-designed market can support a more efficient and accountable electricity system that drives investment in cleaner and cheaper generation sources. These benefits, however, depend on effective implementation, independent institutions, and sustained action to limit market power.

Affordable electricity and decarbonisation will also require deliberate public policy that establishes the conditions for effective competition and ensures that environmental externalities are priced in at the generation level. Priorities include an effective carbon price, capacity remuneration, full unbundling of the NTCSA (i.e. the grid and market platform), investment in networks, and distribution reforms that improve services and strengthen support for low-income households.

Civil society has a vital role in shaping these measures and holding government, regulators and Market Participants accountable. Engagement should both sustain momentum for reform and ensure that the system as a whole delivers tangible improvements in electricity affordability for low-income households, reduced pollution, and progress towards a low-carbon power system.

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