

Designing the transition to ensure credible reform



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Foreword by James Mackay CEO, Energy Council of South Africa

The Energy Council of South Africa supports the introduction of SAWEM as a key step in the evolution of the electricity sector. A well-designed and well-implemented wholesale market provides a framework for competition, price discovery and private investment. More importantly, SAWEM acts as the catalyst for broader reform.

Much has already been written about SAWEM's architecture and promise, including recent detailed [analytical work by Prof Anton Eberhard](#) on behalf of the National Business Institute, and [commentary from Chris Yelland](#). There is broad agreement that the design principles are sound and aligned with international experience. There is also recognition that implementation will determine whether those principles translate into durable reform. Building on that discussion, this article adds a perspective on how the transition can be structured in a way that strengthens credibility and manages risk. The focus therefore turns to the mechanics of implementation: how commencement is defined, how instruments are sequenced, how risk is allocated, and how commercial exposure is introduced over time. The calibration of this transition will influence how risk moves through the system, how prices are interpreted and how confidence is built during this period of structural change.

Key messages

- SAWEM introduces competitive electricity trading and transparent pricing
- Implementation will occur in phases to manage risk and build readiness
- Wholesale markets reward flexibility and create new investment opportunities
- Vesting arrangements will play a central role in managing transition risk
- Municipal revenue models will need to adapt as wholesale tariffs become more transparent

1. SAWEM as a structural reform instrument

SAWEM completes an important step in the restructuring of South Africa's electricity sector by establishing clear rules for competitive electricity trading and centralised system operation. This development builds on reforms aimed at separating generation, transmission and trading functions within the electricity value chain.

The introduction of market-based dispatch also redistributes risk across the electricity value chain. Under the previous model, much of the volatility and imbalance exposure was absorbed centrally. This redistribution of risk is central to how competitive markets function. Transitional instruments, including vesting arrangements and regulated legacy recovery mechanisms, are therefore essential to maintain stability while this redistribution occurs.

Over time, both Eskom and municipal distributors will need to adapt to this new commercial environment. Greater transparency in cost allocation and price formation will expose structural inefficiencies but also create opportunities for operational improvement. The purpose of SAWEM is not to weaken incumbent institutions, but to provide a framework within which they can evolve on a sustainable and commercially disciplined basis.

2. Phased implementation: starting early but carefully

There is broad agreement that SAWEM should commence as soon as practicable and that its introduction will occur in phases. Reform of this scale cannot be activated in a single moment. Licensing processes, vesting arrangements, wholesale tariff alignment, system testing and participant readiness are interdependent. These boundary conditions make sequencing a structural reality.

At the same time, reform momentum must be maintained. Delaying operational activation entirely would weaken confidence and defer the institutional learning required for a sustainable transition. The question is therefore not whether SAWEM will be phased, but how that phasing is used.

A sudden "big bang" launch would concentrate settlement exposure, imbalance risk, credit requirements and tariff realignment into a single transition point. Phasing, by contrast, provides us with the opportunity to interrogate how these components interact in practice. By sequencing activation, policymakers and institutions can observe how scheduling outcomes translate into settlement flows, how imbalance pricing affects behaviour, and how tariff design interacts with vesting structures before full financial exposure is triggered.

Several foundational elements are still in development, including vesting design, wholesale tariff unbundling, Market Code completion, licence amendments and participant qualification frameworks. These instruments are all interdependent, and their interaction determines how revenue adequacy is maintained, how risk is redistributed and how incentives are formed across the value chain. A phased approach allows these relationships to be modelled, tested and refined using live system data rather than theoretical assumptions alone.

Starting early therefore has value beyond a signal of intent, but as a mechanism for institutional learning and data generation. An initial operational phase should prioritise system validation, scheduling and settlement testing, and the generation of live operational data before full commercial exposure is introduced. In this way, early commencement strengthens reform credibility through disciplined sequencing and evidence-based refinement.

3. Unlocking opportunities for flexibility and investment

It is widely recognised that wholesale markets reward flexibility. By co-optimising energy and reserves in a day-ahead framework, SAWEM places value on resources that can respond quickly, adjust output, and support balancing requirements. This creates structured opportunity for storage, flexible generation and demand-side participation.

Beyond individual project economics, this has system-level implications. When flexibility is priced transparently, reliance on emergency procurement and short-term interventions can be reduced. Clear balancing signals create sustained incentives for responsiveness rather than ad-hoc corrective measures. Over time, this improves operational efficiency and lowers the structural cost of maintaining reliability.

For renewable developers, wholesale participation introduces an additional revenue layer alongside long-term contracts. Projects can combine contracted positions with managed market exposure, provided risk is appropriately allocated and understood. Storage assets, in particular, benefit from the ability to participate across energy and balancing services, stacking revenue streams while supporting grid stability as renewable penetration increases.

However, these opportunities are investable only when price formation and settlement integrity are credible. Flexibility markets reward responsiveness, but they also impose accountability through imbalance pricing and balance responsibility. Investors therefore assess not only price volatility, but the clarity of risk allocation, the enforceability of obligations and the coherence of the regulatory architecture. In this respect, disciplined sequencing is not separate from opportunity but viewed as opportunity's precondition.

4. Safeguarding credibility during early market activation

Opportunity, however, depends on credibility. As operational phases begin, price outcomes will naturally emerge from scheduling and optimisation processes. Transparency is a core principle of market reform. However, the interpretation of early price signals requires context. An early System Marginal Price formed under Eskom's current internal arrangements may reflect today's cost allocation, rather than the commercial structure intended for the full market.

This distinction matters because wholesale price signals influence investment models, bilateral negotiations and financial risk assessments. Aligning price publication with the activation of vesting, tariff and prudential frameworks supports coherent decision-

making and avoids transitional outcomes being misinterpreted as long-term structural signals.

Credibility also depends on the integrity of balancing arrangements and the visibility of system-wide trading positions. The introduction of Balance Responsible Parties is another foundational component of credibility. The BRP framework addresses a core system risk in decentralised electricity markets: the risk that aggregate trading positions and forecasting errors remain invisible to the System Operator until real time. By assigning clear responsibility for forecasting accuracy and imbalance exposure, BRPs ensure that deviations between scheduled and actual generation or consumption are both visible and financially accountable.

This improves system visibility and operational discipline. In a decentralised trading environment, bilateral contracts and portfolio imbalances can otherwise remain opaque to the System Operator. A clearly defined BRP structure ensures that aggregate trading positions and imbalance risk are visible ahead of real-time operation, allowing the System Operator to manage system balance and maintain grid stability as participation expands.

Because balancing obligations introduce enforceable financial liabilities and must apply across all participants to function effectively, they require a clear and robust legal foundation. These obligations must rest on statutory authority and licence conditions that align with the Electricity Regulation Amendment Act and the Grid Code framework.

If balancing or financial reconciliation obligations are introduced without clear regulatory authority or outside the scope of licence conditions, their enforceability may be questioned. This uncertainty can weaken settlement integrity and complicate financing and contracting decisions. Legal clarity therefore supports credible settlement, system stability and investor confidence. A clearly defined regulatory basis for balancing responsibilities is essential to credible reform.

5. Managing transition risk: vesting and legacy costs

Investment depends on credibility, and credibility depends on sound risk management. In South Africa's case, much of that risk management will be exercised through the design of vesting arrangements and the role of the Central Purchasing Agency (CPA).

During the initial phases of SAWEM, Eskom's generation fleet will sell energy under vesting contracts, while existing Section 34 independent power producer agreements are administered through the CPA. The differences between contracted positions and market outcomes are managed through regulated legacy recovery mechanisms. These structures are designed to stabilise revenues, prevent sudden cost shifts and maintain liquidity while the market develops.

Vesting is therefore instrumental to bridge the gap between a regulated past and a competitive future. Properly structured, vesting can support revenue adequacy, cap transitional exposure for distributors and customers, and ensure that energy

associated with regulated capacity is traded transparently through the market platform.

However, vesting must be carefully designed and clearly time bound. If it locks in inefficient cost structures, weakens competitive discipline or obscures true system costs, it risks distorting price formation and delaying market maturation.

In particular, the interaction between vesting volumes, capacity purchase arrangements and wholesale tariff components requires careful calibration. If these elements are misaligned, volume and price risk do not disappear, they are simply shifted between Eskom, the CPA, distributors and customers. Poorly structured vesting can therefore move exposure rather than manage it, while weakening the link between market prices and underlying system costs.

6. Municipalities: risk and opportunity

For most South Africans, the electricity market is experienced through municipal distributors. Municipal sustainability is therefore central to the credibility of SAWEM.

Wholesale reform should not create municipal financial stress, but it will make existing structural weaknesses more visible. Many municipalities rely heavily on energy mark-ups to support broader revenue requirements. As wholesale tariff components are unbundled and energy prices become market-based, this cross-subsidisation becomes increasingly transparent and less stable.

Vesting and capacity arrangements play a critical role in managing this transition. If vesting volumes, capacity recovery and wholesale tariff design are misaligned, volume and price risk may shift downstream to distributors that are not operationally or financially prepared to absorb it. In such a scenario, exposure is reallocated rather than reduced. This could increase liquidity pressure in municipalities already facing constrained revenue recovery and governance challenges.

A disciplined transition therefore requires that vesting arrangements, legacy recovery mechanisms and municipal tariff reform evolve coherently. As wholesale components are unbundled, reliance on energy mark-ups as a primary revenue source becomes increasingly fragile. Municipal sustainability will depend more on the transparent recovery of network costs, the provision of wheeling services and the effective management of local aggregation and trading functions.

Market reform also creates new revenue opportunities, including service-based charges, balancing participation and distributed generation facilitation. Municipalities that modernise metering, billing and governance systems can position themselves to capture these streams. Those that do not adapt risk revenue erosion as energy margins narrow and customer behaviour shifts.

7. Risk, readiness and institutional coordination

The risks associated with SAWEM have been clearly articulated in recent analysis. Early-phase price volatility, liquidity constraints, imbalance exposure and institutional readiness are widely recognised features of market transition. These concerns reflect

the structural redistribution of financial and operational responsibility that reform entails.

The Energy Council agrees that these risks are real. However, the critical task is to translate them into structured readiness measures embedded within the phasing of implementation.

Reform of this scale requires a shared understanding of where exposure sits, who carries it and what institutional capability is required to manage it. If risks are treated as background conditions, rather than structured inputs into implementation design, the transition may fragment. Some participants may move ahead with greater capacity, while others fall behind.

Developing this shared understanding requires clear institutional coordination and regulatory clarity. Regulatory clarity will become a central enabler of reform. Market participants, investors and institutions require visibility on the sequencing of approvals, licence amendments, tariff determinations and rule finalisation. A transparent roadmap from the NTCSA and the Department, developed with regulatory input, provides the coordination signal that allows readiness planning to occur in parallel rather than reactively. Without that visibility, institutions are forced to respond to developments as they arise, which can slow alignment and increase uncertainty during transition.

Phasing therefore cannot be defined only by dates or technical milestones. It must incorporate readiness gates tied to demonstrated capability, including settlement robustness, governance alignment and regulatory clarity. Participation in successive phases should reflect preparedness, supported by targeted capacity-building initiatives across the sector.

8. A disciplined path forward

SAWEM will not by itself resolve transmission constraints, municipal weaknesses or legacy cost from the system. What it does provide is a structured framework for competition, price discovery and clearer risk allocation.

The Energy Council's position is that the success of this framework will depend less on the speed of activation than on the discipline of implementation. Phasing must be deliberate. Risk must be translated into readiness measures, informed by analysis and live data. Institutional mandates must be clear. Participation should expand in line with demonstrated capability.

South Africa is shifting from short-term crisis management to long-term structural reform. That transition will take time. With careful sequencing, legal clarity and institutional alignment, SAWEM will anchor a more resilient and sustainable electricity sector.



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