TRANSITIONAL GENERATION PRICING AND VESTING CONTRACT FRAMEWORK

May 2026

Issued by

The National Energy Regulator of South Africa

526 Madiba Street

Arcadia, Pretoria

0007

Contact Details:

Tel: +27 (0)12 401 4600

Fax: +27 (0)12 401 4700

www.nersa.org.za

Definitions

Ancillary Service	Services necessary to support the reliable and secure operation of the power system in addition to energy supply, including services such as spinning reserve, frequency response, reactive power support, black start capability, and related system support services.
Ancillary Service Payments	Payments associated with the recovery of benchmark-efficient ancillary service costs under Part 2 of the Framework.
Central Purchasing Agency	Means the entity assigned in terms of the Act to fulfil the role of the wholesale buyer to maintain system integrity during, and after, the transition to a competitive electricity market
Cold Reserve	Means the state of a generating unit available for operation, but not synchronised to the grid, and upon instruction can be brought into operation and connected to the grid within 36 hours
Commencement Date	Means the date approved by NERSA for the commencement of the Market Code
Consumer	Means a Real or legal person who uses electricity or a service relating to the supply of electricity
Contestable customers	Customers determined by NERSA to be a Market Participant
Demand	Means the maximum amount of electrical power that is consumed at a given time.
Distribution	Means the conveyance of electricity through a distribution power system excluding trading, and “distribute” and “distributing” have corresponding meanings.

Distribution Power System	Means the network infrastructure is operating at nominal voltages of 132kV and below.
Distribution network service provider	Means the Distributor is licensed to operate and provide Distribution network services.
Distributor	Means a person who distributes electricity.
Downstream	Vesting contract arrangement at distribution/retail sphere of the electricity value chain.
Energy Availability Factor	The proportion of time a generating unit is available to produce electricity.
Energy Charge	Means the charge applied for each unit of active energy consumed by a downstream customer, as measured at delivery points.
Generator Revenue Requirement Benchmark (GRR Benchmark)	The efficient benchmark revenue requirement determined by NERSA for purposes of deriving the strike price under this Framework.
Normative Availability	Referring to the level of plant availability that a prudently operated and efficiently maintained generator is expected to achieve, as determined by the Regulator based on historical performance, technical standards, and benchmarking.
Realised Generator Revenue Outcome	The actual revenue outcome realised by a generator through the combined effect of capacity payments, ancillary service payments, energy market revenues, vesting settlement adjustments, efficiency adjustments, and other approved regulatory adjustments.

Contents

1. STATUTORY FOUNDATION OF NERSA MANDATE

1.1 The Transitional Generation Pricing and Vesting Contracts Framework establishes the cost-reflective benchmark prices referenced in these transitional instruments.

1.2 Section 3 makes NERSA the custodian and enforcer of the regulatory framework as provided for in the ERA. The regulatory framework, as separated from the statutory framework, arises from an administrative process which the Energy Regulator develops, giving effect to the mandate given by the ERA.

1.3 Section 4(a)(ii) empowers NERSA to regulate prices and tariffs and expected to do so through rules and methodologies. We have consistently interpreted this provision as authorising the development of generation tariff methodology, cost recovery models, wholesale pricing structures, and vesting contract pricing oversight.

1.4 Section 15(1) prescribes substantive principles governing tariffs and revenues, including that tariffs must permit efficient licensees to recover full costs plus a reasonable return, avoid undue discrimination, reflect costs reasonably, support efficient electricity use and balance customer and licensee interest. A generation pricing framework or vesting contract framework would be aimed at operationalising these statutory tariff principles in a competitive or partially restructured electricity market.

1.5 Section 15(1B) further expands on the key regulatory distinction, which is linked with what section 7 provides. Section 7 requires licensing to be done in relation to regulated activity rather than ownership; therefore, tariff approval must be commensurate with the licensed activity.

1.6 Section 35(3) further authorises rules relating to ancillary matters necessary for the implementation of the ERA. This provision is crucial because vesting contracts are fundamentally market-structuring instruments, generation pricing methodologies require regulatory rules and pricing codes, and market reform requires subordinate regulatory instruments.

1.7 Accordingly, NERSA may lawfully develop electricity pricing rules, and vesting contract rules. Section 4(a)(iv) of the ERA expressly requires NERSA to issue rules implementing, national electricity policy and the ERA itself. This provision is crucial because vesting contracts are fundamentally market-structuring instruments, generation pricing methodologies require regulatory rules and pricing codes market reform requires subordinate regulatory instruments.

NERSA's authority to develop such a framework therefore flows from its obligation to implement government electricity policy.

1.8 A generation pricing or vesting contract framework must remain within the empowering provisions of the ERA, comply with legality and administrative justice requirements, follow public participation procedures and avoid contradicting existing legislation or licence conditions. NERSA itself recognises that subordinate regulatory instruments may be reviewed by courts if ultra vires or procedurally unfair.

1.9 NERSA's legal mandate to develop a generation pricing and vesting contract framework arises principally from sections 4(a)(ii), 4(a)(iv), 15 and 35 of the ERA, section 4(c) of NERA, the Electricity Pricing Policy, its role as custodian and enforcer of the electricity regulatory framework.

1.10 These provisions collectively empower NERSA to regulate generation pricing, establish tariff methodologies, create wholesale market pricing rules, develop transitional electricity market mechanisms such as vesting contracts, support electricity market restructuring and competition.

2. EXECUTIVE SUMMARY

Introduction and Market Context

2.1 South Africa is in the process of transitioning from a vertically integrated electricity supply industry toward a more competitive and progressively liberalised electricity market structure under the South African Wholesale Electricity Market (SAWEM) reforms. The transition toward competitive electricity markets is intended to support improved efficiency, transparency, investment, competition, and long-term security of supply.

2.2 During the transition period, however, the electricity sector is expected to remain structurally concentrated, particularly where Eskom Generation continues to supply a substantial proportion of national electricity demand. In concentrated electricity markets, dominant generators may possess the ability to influence market prices, market liquidity, and competitive outcomes.

2.3 At the same time, premature exposure to fully competitive market pricing before sufficient market maturity has developed may expose consumers

and market participants to excessive price volatility, financing uncertainty, liquidity constraints, and unstable market outcomes.

Purpose and Scope of the Framework

2.4 The Transitional Generation Pricing and Vesting Contract Framework ("the Framework") is therefore proposed as a transitional regulatory mechanism intended to support the orderly development of competitive electricity markets while mitigating structural and transitional risks during the early stages of market reform.

2.5 The Framework applies specifically to the generation pricing component of the future electricity market structure and does not establish the full wholesale electricity market price.

2.6 The future wholesale electricity market price may ultimately incorporate additional market and network-related components, including transmission charges, system operation charges, balancing costs, market operator charges, and other regulated market costs applicable within the broader SAWEM architecture.

2.7 The purpose of the present Framework is therefore limited to:

- 2.7.1 Establishing transitional arrangements relating to generation pricing benchmarks;
- 2.7.2 generation revenue stabilisation mechanisms;
- 2.7.3 vesting contract arrangements;
- 2.7.4 benchmark efficiency adjustment principles embedded within the capacity and SRMC pricing methodologies;
- 2.7.5 transitional market risk mitigation arrangements; and
- 2.7.6 market monitoring and oversight arrangements applicable to the generation segment during the transition toward competitive electricity markets.

Transitional Market Challenges

2.8 The transition toward competitive electricity markets introduces significant structural, operational, financial, and regulatory challenges during the early stages of market development. These challenges include:

- 2.8.1 market concentration;
- 2.8.2 insufficient liquidity;
- 2.8.3 revenue volatility;
- 2.8.4 financing uncertainty;
- 2.8.5 potential market power; and

2.8.6 the risk of inefficient market outcomes during transition.

2.9 The Framework therefore seeks to balance the need for gradual market development with the preservation of operational efficiency, investment incentives, consumer protection, and market stability.

Objectives of the Framework

2.10 The Framework seeks to establish a generation pricing and contractual structure that supports efficient and transparent generation pricing, preserves incentives for operational efficiency, mitigates excessive market power during transition, supports investor confidence and financing stability, protects consumers from excessive price volatility, supports gradual development of market liquidity and competitive price formation, and facilitates an orderly transition toward competitive electricity markets over time.

Core Components of the Framework

2.11 The Framework is built around a set of interrelated generation pricing, benchmarking, settlement, and market oversight mechanisms. These mechanisms include:

2.11.1 capacity cost recovery arrangements;
2.11.2 ancillary service cost recovery arrangements;
2.11.3 short-run marginal cost (SRMC)-based energy pricing;
2.11.4 strike price benchmarking;
2.11.5 vesting contract settlement arrangements;
2.11.6 integrated revenue recovery and risk allocation principles;
2.11.7 transitional vesting reduction and sunset arrangements; and
2.11.8 market monitoring and market power mitigation mechanisms.

2.12 The Framework introduces a Generator Revenue Requirement Benchmark (GRR Benchmark) which is used to derive a strike price benchmark reflecting efficient generation cost structures. The strike price operates as a cost-reflective benchmark, a financial reference point for vesting contract settlements, and a monitoring tool for assessing market outcomes during the transition period.

Revenue Stabilisation and Market Exposure

2.13 The Framework further introduces vesting contracts as transitional financial balancing mechanisms intended to moderate excessive revenue volatility and mitigate structural market power during early market development.

2.14 Under the proposed arrangements, generators continue to participate in the wholesale energy market through SRMC-based offer prices, dispatch outcomes continue to be determined through market-based principles, vesting settlements operate as financial adjustments relative to the strike price benchmark, and generators remain exposed to market, operational, efficiency, and volume risks.

2.15 The Framework, therefore, does not establish guaranteed revenue recovery under all market conditions. Rather, the Framework establishes transitional arrangements intended to partially anchor realised generator revenue outcomes toward efficient cost-reflective benchmark levels while preserving exposure to market outcomes and operational performance incentives.

2.16 The degree of revenue stabilisation achieved under the Framework depends on vesting volumes, prevailing market prices, operational performance, efficiency outcomes, dispatched volumes, and the phased reduction of transitional vesting arrangements over time.

Transitional Nature of the Framework

2.17 The Framework recognises that transitional arrangements may themselves create risks if maintained for excessive periods or applied inappropriately. In particular, excessive or prolonged vesting arrangements may:
2.17.1 suppress competitive market price signals;
2.17.2 discourage market participation and investment;
2.17.3 reduce market liquidity; or
2.17.4 distort efficient market outcomes.

2.18 Accordingly, the Framework incorporates transitional governance mechanisms including phased vesting reduction pathways, periodic regulatory review, market development indicators, sunset principles, and long-term market monitoring arrangements intended to progressively reduce reliance on transitional regulatory intervention as market competition and liquidity mature over time.

Market Monitoring and Oversight

2.19 The Framework further recognises the importance of effective market monitoring and oversight during transition. The proposed arrangements, therefore, include monitoring mechanisms relating to generator offer price behaviour, plant availability declarations, outage patterns, market concentration, abnormal pricing outcomes, liquidity indicators, and deviations between market prices and strike price benchmarks.

2.20 These monitoring mechanisms are intended to support the identification of potential market manipulation, abuse of market power, inefficient bidding behaviour, operational underperformance, and structural market distortions during the transition period.

Conclusion

2.21 The Framework is not intended to replace competitive wholesale market price formation, establish permanent revenue guarantees for generators, determine transmission or distribution tariffs, prescribe bilateral contracting arrangements between private parties, or replace future market rules, balancing arrangements, or trading mechanisms that may emerge under the broader SAWEM framework.

2.22 Rather, the Transitional Generation Pricing and Vesting Contract Framework establishes a transitional generation pricing and market stabilisation framework intended to facilitate efficient generation pricing, orderly market development, protection of consumers, preservation of operational and investment incentives, and the gradual emergence of a stable, credible, and competitive electricity market in South Africa.

3. HIGH LEVEL FRAMEWORK OVERVIEW

3.1 The proposed Framework consists of a set of interrelated generation pricing, benchmarking, contractual, risk allocation, and market monitoring mechanisms intended to support the orderly transition toward competitive electricity market arrangements under the broader SAWEM reforms.

3.2 The Framework establishes an integrated generation pricing and vesting contract architecture through which benchmark generation costs, SRMC-based market pricing, strike price benchmarking, vesting contract settlements, and transitional market monitoring mechanisms collectively interact during the transition toward competitive electricity market arrangements. The Framework separates:

3.2.1 fixed generation cost recovery;
3.2.2 ancillary service recovery;
3.2.3 and SRMC-based energy pricing,

while simultaneously establishing benchmark pricing references and transitional vesting arrangements intended to moderate excessive market volatility, mitigate structural market power, preserve operational incentives, and support gradual market development during transition.

3.3 Figure 1 below provides a high-level overview of how the various framework components interact within the proposed Eskom Generation Pricing and Vesting Contract Framework.

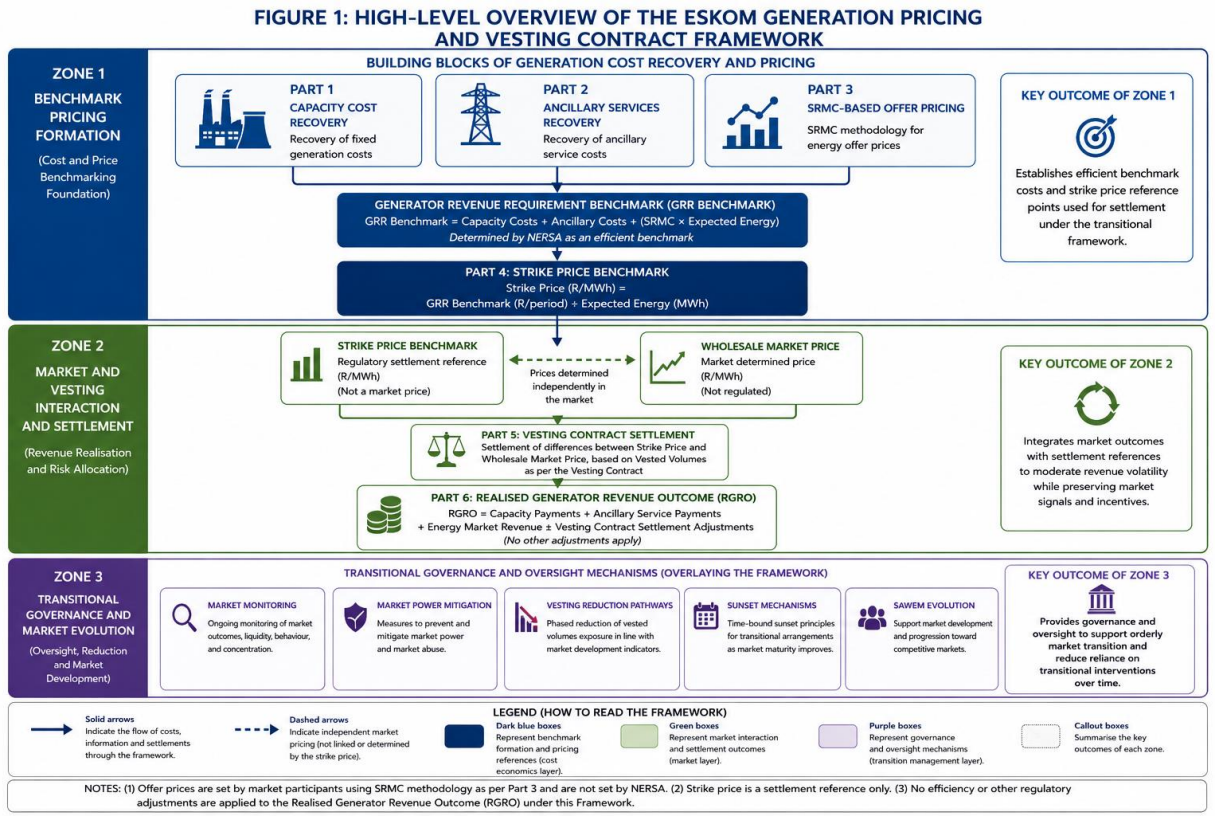

Figure 1: High-Level Overview of the Eskom Generation Pricing and Vesting Contract Framework

Framework Sequencing and Interaction Logic

3.4 The Framework operates as an integrated sequence of generation pricing, benchmarking, settlement, and monitoring mechanisms intended to support efficient market operation and orderly market transition. The Framework first establishes benchmark generation cost structures through:

3.4.1 capacity cost recovery arrangements;

3.4.2 ancillary service recovery arrangements;
3.4.3 and SRMC-based offer pricing principles.

3.5 These benchmark cost components collectively establish the Generator Revenue Requirement Benchmark (GRR Benchmark) and strike price benchmark applicable under the transitional framework.

3.6 The Framework thereafter establishes revenue recovery, risk allocation, and vesting contract settlement mechanisms intended to moderate excessive revenue volatility while preserving market-based dispatch outcomes and competitive price formation principles. Realised generator revenue outcomes therefore remain dependent on prevailing market prices, operational performance, dispatched energy volumes, vesting exposure, and broader market conditions during transition.

3.7 The Framework further incorporates transitional reduction pathways, market monitoring arrangements, and market power mitigation mechanisms intended to support progressive reduction in reliance on transitional regulatory intervention as market competition, liquidity, and institutional maturity improve over time.

3.8 The detailed methodologies applicable to each framework component are addressed in the Parts that follow.

4. PART 1: CAPACITY COST CONTRACTING

Regulatory Objective

4.1 The Capacity Cost Recovery Framework establishes a mechanism for the recovery of prudent and efficient fixed generation costs separately from SRMC-based energy pricing. The separation of fixed cost recovery from energy offer prices is intended to:

4.1.1 preserve efficient dispatch outcomes;

4.1.2 support transparent energy price formation; and

4.1.3 maintain generation availability during the transition toward competitive electricity markets.

Role Within the Integrated Framework

4.2 The Capacity Cost Recovery Framework forms part of the broader Transitional Generation Pricing and Vesting Contract Framework and contributes toward the establishment of benchmark generation pricing and revenue recovery arrangements during transition. The Framework further supports the separation between:

4.2.1 fixed generation cost recovery; and

4.2.2 SRMC-based energy pricing.

4.3 This is in support of efficient market operation and transparent price formation.

Transitional Market Rationale (Risks)

4.4 During the transition toward competitive electricity markets, generators may face increased uncertainty regarding recovery of prudent fixed generation costs through energy market participation alone.

4.5 In the absence of separate capacity recovery arrangements, generators may seek to recover fixed costs through elevated energy offer prices, potentially distorting dispatch outcomes and weakening pricing efficiency.

4.6 The Capacity Cost Recovery Framework therefore mitigates transitional pricing and investment risks by establishing a separate mechanism for recovery of prudent fixed generation costs while preserving SRMC-based energy market pricing principles.

Contracting Entities

4.7 Supplier: Eskom generation units (plant-by-plant).
4.8 Counterparty: Central Purchasing Agency (CPA).

Methodology

4.9 Capacity payment (R/MWh) = (Return + Depreciation + Fixed O&M + Insurance + Fixed Compliance Costs +/- Efficiency Adjustment) / available capacity

Where;

4.9.1 Return = RAB × WACC
4.9.2 Depreciation = Provides NERSA mechanisms under which capital investment costs are recovered on a cost reflective basis over the course of its economic/regulatory economic life
4.9.3 Fixed O&M = Fixed operations and maintenance costs
4.9.4 Insurance = Refers to prudently incurred premiums paid by the generator to ensure generation assets and associated operations against operational, financial, and catastrophic risks.
4.9.5 Fixed Compliance Costs = Refers to non-variable costs incurred by the generator to meet statutory, regulatory, licensing, and environmental obligations required for continued operation of generation facilities
4.9.6 Efficiency Adjustment = Capacity Payment × (Actual Availability / Benchmark Availability). Generators are paid conditional on availability regardless of dispatch. This payment is linked to: EAF (coal), readiness (OCGT), cycle availability (nuclear) and includes penalties for non-performance.

Benchmark efficiency adjustments (ex-ante)

4.10 Efficiency adjustments are applied during determination of the benchmark capacity cost recovery requirement and therefore form part of the benchmark cost structure used in the derivation of the Generator Revenue Requirement Benchmark (GRR Benchmark).

Stakeholder Question 1:
NERSA's objective is to ensure transparent and efficient recovery of prudent fixed generation costs while preserving efficient dispatch outcomes and maintaining security of supply during transition.

Stakeholders are invited to comment on:
whether the proposed capacity cost structure appropriately separates fixed cost recovery from SRMC-based energy pricing;
whether the proposed availability-linked adjustment mechanism appropriately incentivises operational performance;
whether the proposed benchmark availability approach is appropriate across different generation technologies; and
whether any additional safeguards or implementation considerations should be incorporated into the Framework.

5. PART 2: ANCILLARY SERVICES CONTRACTING

Regulatory Objective

5.1 The Ancillary Service Cost Recovery Framework establishes a mechanism for the procurement and recovery of system support services required to maintain power system reliability, stability, security, and operational integrity. These services support:

5.1.1 frequency control;

5.1.2 reserve management;

5.1.3 voltage support;

5.1.4 system restoration capability (black start); and

5.1.5 broader system balancing requirements.

5.2 Because ancillary services are system-driven reliability services rather than energy market transactions, they are recovered separately from SRMC-based energy pricing arrangements.

Role Within the Integrated Framework

5.3 The Ancillary Service Cost Recovery Framework forms part of the broader Transitional Generation Pricing and Vesting Contract Framework and contributes toward the establishment of benchmark generation cost structures and reliable system operation during transition. The Framework further supports the separation between:

5.3.1 system reliability services; and

5.3.2 energy market pricing.

5.4 This is in support of transparent market operation and efficient dispatch outcomes.

Transitional Market Rationale (Risks)

5.5 During the transition toward competitive electricity markets, reliance on market-based energy pricing alone may not adequately incentivise the provision of critical system support services necessary to maintain grid stability and reliability. In the absence of separate ancillary service arrangements:

5.5.1 Generators may underprovide reliability services;

5.5.2 system balancing capability may weaken;

5.5.3 operational risks may increase; and
5.5.4 Power system stability may be compromised.

5.6 The Ancillary Service Cost Recovery Framework therefore mitigates transitional system reliability risks by establishing transparent arrangements for the procurement and recovery of essential system support services during market transition.

Ancillary Service Categories

5.7 Ancillary services are system support services procured by the System Operator to maintain the reliability, stability, security, and operational integrity of the electricity system. Unlike energy market transactions, ancillary services are not primarily intended to produce energy for sale into the market, but rather to ensure that the power system remains capable of responding to operational disturbances, demand fluctuations, frequency deviations, voltage instability, and system restoration requirements.

5.8 The ancillary service categories contemplated under this Framework may include, but are not limited to Spinning Reserve, Frequency Response, Voltage and Reactive Power Support, Black Start Capability, Operating Reserves.

5.9 The specific ancillary services procured under the Framework may evolve over time in accordance with system requirements, market development, technological changes, and future market rules applicable within the broader SAWEM architecture.

Contracting Entities

5.10 Contracted by CPA and System Operator based on the following:
5.10.1 Capability;
5.10.2 Availability; and
5.10.3 response time.

Methodology

5.11 Ancillary Services Costs (R/MWh)[1] = Availability Payment (R/MW reserved) + Utilisation Payment (R/MWh when dispatched)
Where;

5.11.1 Availability payment = Reserved Capacity (MW) × Availability Tariff (R/MW/hour) × Hours Available
5.11.2 Utilisation payment = Utilisation Payment = Energy Delivered (MWh) × Utilisation Tariff (R/MWh)
5.11.3 Reserved Capacity (MW) = Capacity committed for ancillary service (e.g., spinning reserve)
5.11.4 Availability Tariff = Market-based price per MW reserved
5.11.5 Hours Available = Time period during which capacity is available

5.12 Ancillary service payments are not subject to economic efficiency adjustments in the same manner as capacity and energy cost components because ancillary services are procured primarily to maintain system reliability and operational security.

5.13 However, ancillary service providers remain subject to applicable technical performance, availability, and response capability requirements established by the System Operator and relevant market rules.

Stakeholder Question 2
NERSA's objective is to ensure that ancillary services required for system reliability are procured efficiently and transparently without distorting wholesale energy market pricing outcomes.

Stakeholders are invited to comment on:
whether the proposed separation between availability and utilisation payments is appropriate;
whether the proposed ancillary service categories appropriately reflect system reliability requirements;
whether any ancillary services should be subject to additional performance-based incentives or adjustments; and
whether alternative procurement or pricing approaches should be considered.

[1] For purposes of integration into the strike price, ancillary service costs are normalised to a R/MWh equivalent based on expected energy output.

6. PART 3: OFFER PRICE METHODOLOGY

Regulatory Objective

6.1 The Offer Price Framework establishes a short-run marginal cost (SRMC) -based pricing methodology intended to support economically efficient dispatch outcomes and transparent market-based price formation within the wholesale electricity market. The Framework is intended to ensure that generation dispatch decisions reflect the efficient marginal cost of electricity production while preserving competitive market pricing principles during transition.

Role Within the Integrated Framework

6.2 The Offer Price Framework forms part of the broader Transitional Generation Pricing and Vesting Contract Framework and establishes the basis upon which:

6.2.1 generators participate in the wholesale energy market;

6.2.2 dispatch outcomes are determined; and

6.2.3 market prices are formed.

6.3 The Framework further supports the separation between SRMC-based energy pricing; and fixed cost recovery mechanisms in support of efficient market operation and transparent price formation.

Transitional Market Rationale (Risks)

6.4 During the transition toward competitive electricity markets, inefficient or distorted offer price formation may undermine efficient dispatch outcomes, weaken price transparency, and increase the risk of market inefficiencies. Where generators incorporate fixed or non-marginal costs into energy offer prices:

6.4.1 dispatch outcomes may become distorted;

6.4.2 wholesale market prices may become inefficient;

6.4.3 competitive price formation may weaken; and

6.4.4 consumers may be exposed to inefficient energy pricing outcomes.

6.5 The Offer Price Framework therefore mitigates dispatch and pricing distortion risks by establishing SRMC-based offer pricing principles

intended to support efficient dispatch, transparent market price formation, and competitive market development during transition.

Methodology

6.6 Offer Price (R/MWh) = Short-Run Marginal Cost (SRMC) +/- Permitted Flexibility Margin;

Where; SMRC = Fuel Cost + Variable O&M + Emissions + Water

6.6.1 Fuel Cost = Heat rate × fuel price

6.6.2 Variable O&M = Variable Operations and Maintenance (VOM) costs refer to operational and maintenance costs that vary with generation output and plant utilisation. These costs may include consumables; chemicals; lubricants; variable maintenance activities; ash handling; waste disposal; auxiliary operational inputs; and other variable operating costs directly associated with electricity production. Recoverable VOM costs shall remain subject to prudency and efficiency assessment principles to ensure that only efficiently incurred variable operational costs are reflected within SRMC-based offer prices.

6.6.3 Emissions = Carbon + environmental

6.6.4 Water = Water usage costs refer to variable water-related costs associated with electricity generation processes, including cooling, treatment, pumping, and operational water consumption. Water cost recovery shall remain subject to prudent utilisation and efficiency principles, taking into account: technology characteristics; cooling system design; environmental requirements; regional water constraints; and operational necessity.

6.6.5 Permitted Flexibility Margin = Allows generators limited bidding flexibility around efficient SRMCs in order to accommodate operational considerations, technology characteristics, market conditions, and transitional market participation incentives, while mitigating excessive market power during the early stages of market development.

6.7 The offer price reflects only the short-run marginal costs associated with electricity production and excludes fixed generation costs recovered through separate framework mechanisms. Generators submit offer prices into the wholesale market, and dispatch outcomes are determined based on least-cost dispatch principles and prevailing system conditions.

Dispatch and Market Price Formation Principles

6.8 The Framework proposes that dispatch within the transitional market environment should continue to be broadly guided by benchmark-efficient SRMC principles in order to preserve economically efficient dispatch outcomes and support cost-reflective pricing signals.

6.9 Under the Framework, generators may submit offer prices within regulated flexibility margins around benchmark-efficient SRMCs, subject to applicable market rules, market power mitigation measures, and operational considerations.

6.10 The introduction of permitted flexibility margins recognises the need to accommodate legitimate operational and market participation considerations during the transitional market phase while preserving benchmark efficiency principles as the primary economic reference point for dispatch and price formation.

6.11 The permitted flexibility margin is not intended to facilitate the recovery of inefficient operational costs, but rather to support limited bidding flexibility, operational responsiveness, technology-specific operational characteristics, and gradual market transition toward more competitive market participation arrangements.

6.12 NERSA may progressively review and refine flexibility margin methodologies, technology differentiation approaches, and associated market power mitigation measures as market conditions evolve and competition deepens over time

Efficiency Adjustment Principles

6.13 Efficiency adjustments applicable to SRMC-based offer prices are intended to ensure that recoverable energy-related costs reflect prudent and efficient operational performance. Efficiency adjustments are intended to preserve

efficient dispatch outcomes while preventing avoidable or inefficient operational costs from being incorporated into market offer prices.

Stakeholder Question 3

NERSA's objective is to establish an SRMC-anchored offer pricing framework that supports efficient dispatch outcomes, transparent market price formation, limited bidding flexibility, and competitive market development during transition, while mitigating excessive market power during the early stages of market liberalisation.

Stakeholders are invited to comment on:
whether the proposed SRMC-anchored offer pricing methodology appropriately supports efficient dispatch and market price formation;
the appropriateness of introducing permitted flexibility margins around benchmark-efficient SRMCs;
whether bidding flexibility margins should be symmetric or asymmetric relative to benchmark-efficient SRMCs;
whether bidding flexibility margins should differ by technology type, operational characteristics, flexibility capability, or other relevant market considerations;
appropriate safeguards required to mitigate excessive market power during the transitional market phase; and
how permitted flexibility margin mechanisms should evolve as market competition matures over time.

7. PART 4: STRIKE PRICE FRAMEWORK

Regulatory Objective

7.1 The Strike Price Framework establishes a benchmark generation pricing reference used to support vesting contract settlement arrangements and transitional revenue stabilisation during the transition toward competitive electricity markets. The Framework introduces a strike price benchmark derived from the Generator Revenue Requirement Benchmark (GRR Benchmark) and intended to:

- 7.1.1 establish a cost-reflective benchmark pricing reference;
- 7.1.2 support financial settlement under vesting contract arrangements;
- 7.1.3 moderate excessive revenue volatility during transition;
- 7.1.4 support transparent monitoring of market outcomes; and
- 7.1.5 facilitate orderly transition toward competitive electricity market arrangements.

Role Within the Integrated Framework

7.2 The Strike Price Framework forms part of the broader Transitional Generation Pricing and Vesting Contract Framework and establishes the benchmark pricing reference used for vesting contract settlement, transitional revenue benchmarking, and market monitoring arrangements.

7.3 The strike price does not determine wholesale market prices, dispatch outcomes, or generator participation within the wholesale energy market. Market prices and dispatch outcomes continue to arise through SRMC-based offer prices and prevailing system conditions established under Part 3 of this Framework.

7.4 The Strike Price Framework therefore operates as a benchmark settlement and monitoring mechanism within the broader market architecture while preserving market-based dispatch and price formation principles during transition.

Transitional Market Rationale (Risks)

7.5 During the transition toward competitive electricity markets, concentrated market structures and evolving market liquidity conditions may result in:

- 7.5.1 excessive revenue volatility;

7.5.2 unstable pricing outcomes;
7.5.3 investment uncertainty;
7.5.4 inefficient market behaviour; and
7.5.5 material deviations between market outcomes and efficient benchmark cost structures.

7.6 The Strike Price Framework therefore establishes a benchmark pricing reference intended to:
7.6.1 support transitional revenue benchmarking;
7.6.2 facilitate transparent monitoring of market outcomes;
7.6.3 support vesting contract settlement arrangements; and
7.6.4 support transitional vesting settlement arrangements intended to moderate excessive revenue volatility during transition

7.7 The Framework does not administratively determine wholesale market prices but rather establishes a benchmark reference framework applicable during transition.

Generator Revenue Requirement Benchmark

7.8 The Generator Revenue Requirement Benchmark (GRR Benchmark) is derived primarily from approved benchmark generation revenue requirements established under applicable regulatory determinations, including the approved MYPD6 revenue framework, subject to applicable benchmark adjustment, prudency, and efficiency principles established under this Framework.

7.9 The GRR Benchmark establishes the benchmark pricing reference used for strike price determination and transitional vesting contract arrangements. The GRR Benchmark is derived from approved benchmark generation revenues subject to applicable prudency, efficiency, and benchmarking principles established under this Framework, and therefore reflects benchmark-efficient generation costs rather than actual incurred generator costs.

Generator Revenue Requirement Benchmark Methodology

7.10 Generator Revenue Requirement Benchmark (GRR Benchmark) = Capacity Costs + Ancillary Services Costs + Efficient Energy Costs

Where

7.10.1 These benchmark cost components are derived from the methodologies established under:
7.10.2 Part 1: Capacity Cost Recovery;
7.10.3 Part 2: Ancillary Service Cost Recovery; and
7.10.4 Part 3: Offer Price (SRMC-Based Energy Pricing).

7.11 The benchmark cost components established under these Parts already incorporate applicable prudency, efficiency, benchmarking, and operational performance principles established under the Framework. Accordingly, the resulting GRR Benchmark reflects benchmark-efficient generation costs rather than actual incurred generator costs.

Strike Price Methodology

7.12 Strike Price (R/MWh) = GRR Benchmark / Benchmark Energy Quantity
Where;
7.12.1 Benchmark energy quantity = Refers to the benchmark forecast generation output, expressed in MWh, used for purposes of determining the strike price benchmark under the Framework. The Benchmark Energy Quantity reflects expected efficient generation output determined with reference to benchmark plant availability assumptions; expected operational capability; planned maintenance assumptions; system dispatch expectations; forecast market demand conditions; and other relevant benchmark operational assumptions established under the Framework. The Benchmark Energy Quantity is intended to establish a normalised benchmark energy volume for purposes of strike price determination and does not necessarily reflect actual realised generation output.

7.13 The strike price represents a benchmark pricing reference derived from benchmark efficient generation costs and does not constitute an administratively determined wholesale electricity market price.

Strike Price Governance, Review, and Transitional Evolution

7.14 The Strike Price Framework is intended to operate as a transitional benchmark pricing mechanism during the development of competitive electricity market arrangements. During the initial stages of market

implementation, the strike price benchmark will be derived primarily from approved benchmark generation revenues established under prevailing regulatory determinations, including the approved MYPD6 revenue framework, subject to applicable benchmark adjustment, prudency, and efficiency principles established under this Framework.

7.15 This transitional approach is intended to:
7.15.1 maintain continuity with existing regulatory determinations;
7.15.2 support market stability during transition;
7.15.3 facilitate implementation of vesting contract arrangements; and

7.16 provide a credible benchmark pricing reference during early market development.

7.17 The strike price benchmark shall be determined for a defined regulatory control period intended to support benchmark pricing stability; regulatory certainty; predictable vesting settlement arrangements; and transparent transitional market governance.

7.18 During the transitional phase of market implementation, strike price benchmark determinations may be aligned with prevailing regulatory control periods applicable to approved generation revenue determinations, including the approved MYPD6 control period.

7.19 NERSA may review strike price benchmarks periodically during or at the conclusion of applicable control periods, taking into account:
7.20 market development conditions;
7.21 benchmark cost assumptions;
7.22 operational performance trends;
7.23 market liquidity developments;
7.24 entry of new generation capacity; and
7.25 broader SAWEM reform developments.

7.26 NERSA recognises that transitional strike price benchmarks derived from existing regulatory revenue structures may differ from prevailing SRMC-based offer prices and observed market prices during the early stages of market reform.

7.27 As market competition, liquidity, and pricing maturity improve over time, benchmark pricing methodologies may progressively evolve toward more

market-aligned and forward-looking benchmark pricing approaches consistent with future market development and broader SAWEM reforms.

Stakeholder Question 4

NERSA's objective is to establish a benchmark pricing reference that supports vesting contract settlements, market monitoring, and transitional revenue benchmarking without distorting market-based dispatch and price formation principles.

Stakeholders are invited to comment on:
whether the proposed strike price methodology provides a credible and transparent benchmark pricing reference;
whether the separation between strike prices and SRMC-based offer prices appropriately preserves market integrity;
whether the proposed benchmark energy quantity methodology is appropriate; and
whether there are risks of material divergence between benchmark pricing references and realised market outcomes during transition.

8. PART 5: REVENUE RECOVERY PRINCIPLES AND RISK ALLOCATION

Regulatory Objective

8.1 The Revenue Recovery and Risk Allocation Framework establish the principles governing:

- 8.1.1 the relationship between the Generator Revenue Requirement Benchmark (GRR Benchmark), the strike price benchmark, and realised generator revenue outcomes;
- 8.1.2 the allocation of market, operational, efficiency, and volume risks during transition; and
- 8.1.3 the role of vesting contracts as transitional financial stabilisation mechanisms within a competitive wholesale electricity market.

8.2 The Framework further establishes the distinction between benchmark cost-reflective revenue references; and actual realised generator revenue outcomes arising from market participation.

Role Within the Integrated Framework

8.3 The Revenue Recovery and Risk Allocation Framework forms part of the broader Transitional Generation Pricing and Vesting Contract Framework and establishes how:

- 8.3.1 benchmark pricing arrangements;
- 8.3.2 wholesale market participation;
- 8.3.3 vesting contract settlements; and
- 8.3.4 efficiency adjustment mechanisms,

8.4 These collectively interact to determine realised generator revenue outcomes during transition. The Framework further establishes the allocation of market risk; operational risk; efficiency risk; and volume risk, between generators, consumers, and transitional market mechanisms.

Transitional Market Rationale

8.5 During the transition toward competitive electricity markets, generators and consumers may be exposed to excessive revenue volatility arising from:

- 8.5.1 concentrated market structures;
- 8.5.2 immature market liquidity;
- 8.5.3 unstable pricing outcomes;

8.5.4 evolving dispatch conditions; and
8.5.5 uncertainty associated with early-stage market development.

8.6 At the same time, excessive revenue stabilisation may weaken:
8.6.1 operational performance incentives;
8.6.2 market discipline;
8.6.3 investment efficiency; and
8.6.4 competitive market development.

8.7 The Framework therefore seeks to balance:
8.7.1 transitional revenue stabilisation;
8.7.2 efficient market exposure;
8.7.3 operational incentives; and
8.7.4 competitive market development,
through transparent allocation of market and operational risks during transition.

Transitional Market Evolution

8.8 The Revenue Recovery and Risk Allocation Framework is intended to operate as a transitional market mechanism during the development of competitive electricity market arrangements.
The degree of revenue stabilisation and vesting exposure may evolve over time as market liquidity, competition, and pricing maturity improve under broader SAWEM market reforms.

Realised Generator Revenue Outcome

8.9 The Realised Generator Revenue Outcome represents the actual revenue outcome realised by generators through the combined interaction of:
8.9.1 benchmark pricing arrangements;
8.9.2 wholesale market participation;
8.9.3 vesting contract settlements;
8.9.4 operational performance outcomes; and
8.9.5 applicable efficiency adjustments.

8.10 Accordingly, realised generator revenues may differ from the Generator Revenue Requirement Benchmark depending on prevailing market conditions, operational performance, dispatched volumes, and vesting exposure.

Methodology

8.11 Realised Generator Revenue Outcome = Capacity Payments + Ancillary Service Payments + Energy Market Revenue ± Vesting Contract Settlement Adjustments

Where:

8.12 Total generator revenue under the Framework consists of four primary components:

8.12.1 Capacity Payments = Part 1

8.12.2 Ancillary Service Payments = Part 2

8.12.3 Energy market revenues = represents revenue earned through participation in the wholesale electricity market and is determined based on dispatched or cleared energy volumes; and prevailing wholesale market prices. It therefore reflects realised market outcomes arising from SRMC-based market participation; dispatch outcomes; and prevailing system and market conditions; and

8.12.4 Vesting contract settlement adjustments = Part 6.

8.13 The Generator Revenue Requirement Benchmark (GRR Benchmark) represents the efficient benchmark revenue requirement used to derive the strike price under Part 4. The strike price reflects a benchmark derived from the Generator Revenue Requirement Benchmark (GRR Benchmark).

8.14 Vesting contract settlements therefore do not operate as standalone revenue payments. Instead, they operate as financial balancing adjustments applied relative to total generator revenue outcomes and the strike price benchmark.

Regulatory outcomes

8.15 The Framework establishes a transitional revenue stabilisation mechanism intended to moderate excessive revenue volatility during the development of the wholesale electricity market. Where market prices fall below the strike price benchmark, vesting contract settlements may provide upward financial adjustments on vesting volumes. Conversely, where market prices exceed the strike price benchmark, vesting settlements may result in downward financial adjustments that partially offset excessive inframarginal rents during periods of structural market concentration.

8.16 The degree of revenue stabilisation achieved under the Framework depends on:

8.16.1 vesting volumes;

8.16.2 prevailing market prices;

8.16.3 operational performance;

8.16.4 dispatched volumes; and

8.16.5 efficiency adjustment outcomes.

Recovery Residual Market Exposure Principles

8.17 The Framework does not guarantee full recovery of the Generator Revenue Requirement under all market conditions. The strike price operates as a cost-reflective benchmark and financial reference point rather than as a guaranteed revenue entitlement, as a result, Generators remain exposed to:

8.17.1 market price risk through unvesting volumes;

8.17.2 operational performance risk through efficiency adjustments;

8.17.3 volume risk associated with deviations between expected and actual output; and

8.17.4 commercial and contractual risks associated with participation in the wholesale market.

8.18 Accordingly, the Framework supports transitional revenue stabilisation while preserving incentives for:

8.18.1 operational efficiency;

8.18.2 prudent cost management;

8.18.3 efficient dispatch behaviour; and

8.18.4 competitive market participation.

8.19 The strike price operates as:

8.19.1 a benchmark pricing reference;

8.19.2 a vesting settlement reference; and

8.19.3 a transitional revenue stabilisation mechanism, rather than as a guaranteed revenue entitlement.

8.20 Accordingly, generators remain exposed to:

8.20.1 market price risk through unvesting volumes;

8.20.2 operational performance risk through efficiency adjustments;

8.20.3 volume risk associated with deviations between benchmark and actual output;

8.20.4 dispatch risk arising from market participation; and

8.20.5 commercial and contractual risks associated with participation in the wholesale electricity market.

8.21 The Framework therefore supports transitional revenue stabilisation while preserving operational efficiency incentives; prudent cost management; efficient dispatch behaviour; and competitive market participation. Moreover, it does not insulate generators from normal commercial risks associated with participation in a competitive wholesale electricity market.

Transitional Market Evolution

8.22 The Revenue Recovery and Risk Allocation Framework is intended to operate as a transitional mechanism during the development of competitive electricity market arrangements.

8.23 The degree of revenue stabilisation and vesting exposure may evolve over time as market liquidity, competition, and pricing maturity improve under broader SAWEM market reforms

Stakeholder Question 5

NERSA's objective is to establish a transitional framework that balances revenue stabilisation, market exposure, operational incentives, and competitive market development during the transition toward competitive electricity market arrangements.

Stakeholders are invited to comment on:

whether the proposed revenue recovery and vesting settlement principles appropriately balance market exposure and transitional revenue stabilisation;

whether the Framework provides sufficient clarity regarding the distinction between benchmark pricing references and guaranteed revenue recovery;

whether the proposed allocation of market, operational, and volume risks remains appropriate during transition; and

whether the Framework may unintentionally distort market incentives, liquidity development, or investment behaviour.

9. PART 6: VESTING CONTRACTS

Regulatory Objective

9.1 The Vesting Contract Framework establishes transitional financial settlement arrangements intended to moderate excessive revenue volatility and support orderly development of the wholesale electricity market during transition. The Framework introduces vesting contract arrangements based on benchmark strike price references while preserving:

9.1.1 market-based dispatch outcomes;

9.1.2 SRMC-based energy pricing;

9.1.3 and wholesale market price formation principles.

9.2 The Framework further establishes a mechanism through which a defined portion of generation output may be subject to transitional financial settlement arrangements during early-stage market development.

Role Within the Integrated Framework

9.3 The Vesting Contract Framework forms part of the broader Transitional Generation Pricing and Vesting Contract Framework and establishes the financial settlement mechanism through which:

9.3.1 strike price benchmarks;

9.3.2 wholesale market outcomes; and

9.3.3 realised generator revenues; interact during transition.

9.4 The Framework further supports transitional revenue stabilisation; mitigation of excessive market power; improved market liquidity; and orderly market development, while preserving market-based dispatch and pricing principles.

Transitional Market Rationale (Risks)

9.5 During the transition toward competitive electricity markets, concentrated market structures and immature market liquidity conditions may expose market participants and consumers to:

9.5.1 excessive revenue volatility;

9.5.2 unstable pricing outcomes;

9.5.3 inefficient market behaviour;

9.5.4 investment uncertainty; and

9.5.5 heightened structural market power risks.

9.6 In the absence of transitional stabilisation arrangements, early-stage market outcomes may result in:

9.6.1 excessive inframarginal rents during periods of structural concentration;

9.6.2 inefficient pricing behaviour;

9.6.3 limited market participation; and

9.6.4 increased consumer price volatility.

9.7 The Vesting Contract Framework therefore introduces transitional financial settlement arrangements intended to moderate excessive volatility; support market stability; facilitate gradual exposure to competitive market pricing; and support orderly market development during transition.

Vesting Contract Structure

9.8 Vesting contracts established under the Framework operate as financial settlement arrangements linked to benchmark strike price references and realised wholesale market prices. The vesting mechanism does not determine:

9.8.1 wholesale market dispatch;

9.8.2 generator participation;

9.8.3 or market clearing prices.

9.9 Generators continue participating in the wholesale electricity market through SRMC-based offer prices established under Part 3 of this Framework.

Methodology

9.10 Settlement = (Strike Price – Market Price) × Vesting Volume;

Where;

9.10.1 Strike price = Cost-reflective benchmark derived under Part 4

9.10.2 Market Price = Wholesale market clearing price (based on SRMC offers)

9.10.3 Vesting Volume = Refers to the defined portion of generation output subject to vesting contract settlement arrangements under the

Framework. The vesting quantity may be determined with reference to benchmark generation volumes; allocated contract quantities; regulatory vesting parameters; customer allocation arrangements; and transitional market development objectives. The vesting quantity does not necessarily represent total generator output or total market participation volumes.

Settlement Outcomes Below Strike Price

9.11 Where the prevailing market price falls below the strike price benchmark, the vesting settlement mechanism results in an upward financial adjustment on vesting volumes. This adjustment is intended to partially stabilise realised generator revenues relative to benchmark cost-reflective levels during periods of depressed market prices.

Settlement Outcomes Above Strike Price

9.12 Where the prevailing market price exceeds the strike price benchmark, the vesting settlement mechanism results in a downward financial adjustment on vesting volumes. This adjustment is intended to moderate excessive inframarginal rents during periods of structural market concentration or elevated market prices.

Symmetric Settlement Principles

9.13 The vesting settlement mechanism operates symmetrically such that settlement adjustments may increase realised revenues where market prices fall below the strike price benchmark; and settlement adjustments may reduce realised revenues where market prices exceed the strike price benchmark.

9.14 This symmetric structure is intended to moderate excessive revenue volatility; mitigate structural market power risks; and preserve balanced market incentives during transition.

Vesting Volume Design Principles

9.15 The determination of vesting volume is the primary policy lever through which NERSA manages the pace and nature of the transition from a regulated system toward a competitive wholesale electricity market.

9.16 Unlike the offer price and strike price, which establish market pricing and benchmark pricing references respectively, vesting volume determines the extent to which market outcomes influence generator revenues and consumer exposure during transition. Accordingly, vesting volume directly influences:

9.16.1 The degree of revenue stabilisation;

9.16.2 the extent of market exposure;

9.16.3 the mitigation of structural market power;

9.16.4 the development of market liquidity; and the emergence of competitive price discovery.

9.17 Higher vesting volumes provide greater revenue stabilisation and stronger mitigation of structural market power during early market development but reduce exposure to competitive market pricing.

9.18 Conversely, lower vesting volumes increase exposure to competitive market pricing and support market liquidity and price discovery but reduce the degree of revenue stabilisation during transition.

9.19 NERSA therefore recognises the importance of balancing:

9.19.1 system stability and security of supply;

9.19.2 financial sustainability during transition;

9.19.3 market liquidity and price discovery;

9.19.4 investment confidence; and

9.19.5 consumer protection from excessive price volatility.

Illustrative Vesting Design Options

9.20 NERSA proposes a range of illustrative vesting volume approaches intended to demonstrate the trade-offs between:

9.20.1 market stabilisation;

9.20.2 revenue certainty;

9.20.3 market power mitigation;

9.20.4 liquidity development; and

9.20.5 competitive market exposure.

9.21 The options presented below are intended for consultation purposes and do not represent predetermined regulatory outcomes.

Option A – 100% Initial Vesting (Full Stabilisation Approach)

9.22 Under this option, 100% of Eskom's sent-out energy is subject to vesting contracts during the initial phase, resulting in minimal exposure to wholesale market pricing. This option provides maximum revenue stability and the strongest mitigation of structural market power during early market development but significantly delays market liquidity and competitive price discovery.

Option B – 80% Initial Vesting (Conservative Stabilisation Approach)

9.23 Under this option, 80% of Eskom's sent-out energy would be subject to vesting contracts during the initial phase of market reform. This option provides substantial revenue stabilisation and strong mitigation of market power while allowing limited exposure to competitive market pricing and gradual liquidity development.

Option C – 70% Initial Vesting (Balanced Transition Approach)

9.24 Under this option, 70% of Eskom's sent-out energy would be vesting, with the remaining portion exposed to wholesale market pricing. 9.33 This option seeks to balance revenue stabilisation and market power mitigation with gradual exposure to competitive price formation and liquidity development.

Option D – 60% Initial Vesting (Accelerated Market Development Approach)

9.25 Under this option, 60% of Eskom's sent-out energy would be vesting, leaving a larger proportion exposed to wholesale market pricing. This approach accelerates exposure to competitive market pricing and liquidity development but increases exposure to short-term market volatility during transition.

Comparative Assessment of Illustrative Vesting Approaches

9.26 The illustrative vesting approaches presented above involve different trade-offs between:

9.26.1 revenue stabilisation;

9.26.2 market exposure;

9.26.3 market power mitigation;

9.26.4 liquidity development; and

9.26.5 competitive market evolution.

9.27 Table 2 below summarises the principal characteristics, advantages, and potential risks associated with each illustrative vesting approach.

Table 1: Vesting Volumes Comparative Summary

Option	Initial Vesting	Market Exposure	Price Discovery	Revenue Stability
D	100%	None	None	Very High
A	80%	Low	Slow	High
B	70%	Moderate	Balanced	Moderate
C	60%	High	Faster	Lower

Reduction and Sunset Mechanisms

9.28 Vesting contracts are transitional instruments intended to mitigate structural market power and moderate excessive volatility during the early stages of wholesale market development. Vesting arrangements are therefore not intended to constitute permanent market structures or permanent price regulation mechanisms. Vesting volumes may progressively reduce over time as:

9.29 market liquidity improves;

9.30 competition increases;

9.31 market participation broadens; and

9.32 wholesale market pricing matures.

9.33 Vesting volume reductions may be informed by:

9.34 structural market concentration indicators;

9.35 non-Eskom generation participation;

9.36 market liquidity conditions;

9.37 observed market outcomes; and

9.38 broader SAWEM reform developments.

9.39 NERSA may periodically review vesting arrangements and associated reduction pathways taking into account prevailing market conditions and broader market reform developments.

Illustrative Vesting Reduction Pathway

9.40 NERSA recognises that the pace of vesting reduction may materially influence:
- 9.40.1 market stability;
- 9.40.2 price volatility;
- 9.40.3 investment confidence;
- 9.40.4 market liquidity; and
- 9.40.5 competitive market development.

Reduction and Sunset Governance Principles

9.41 NERSA recognises that the pace and sequencing of vesting reduction may materially influence:
- 9.41.1 market stability;
- 9.41.2 investment confidence;
- 9.41.3 market liquidity development;
- 9.41.4 consumer price exposure; and
- 9.41.5 competitive market development.

9.42 Accordingly, vesting reduction and sunset decisions will be guided by periodic regulatory assessment of prevailing market conditions and broader SAWEM market development objectives.

9.43 In undertaking such assessments, NERSA may consider indicators including:
- 9.43.1 the level of structural market concentration;
- 9.43.2 the extent of non-Eskom generation participation;
- 9.43.3 market liquidity and trading activity;
- 9.43.4 observed market price behaviour and volatility;
- 9.43.5 evidence of competitive price formation;
- 9.43.6 system reliability and adequacy conditions;
- 9.43.7 the maturity of market institutions and governance arrangements; and
- 9.43.8 broader electricity market reform developments.

9.44 NERSA may periodically review vesting arrangements and associated reduction pathways at the conclusion of applicable control periods or other defined review intervals established under the Framework.

9.45 The Framework therefore contemplates the progressive reduction and eventual sunset of vesting arrangements as competitive market conditions

mature and reliance on transitional stabilisation mechanisms decreases over time.

9.46 Accordingly, Table 3 below provides an illustrative example of how vesting volumes may progressively reduce over time during the transition toward a competitive wholesale electricity market. The illustrative reduction pathway is intended solely for consultation purposes and does not represent a predetermined regulatory decision.

Table 2: Illustrative Reduction Pathway

Non-Eskom Installed Capacity	**Vesting Volume Adjustment**	**Example Vesting Volume (if initial level = 70%)**	**Market Implication**
Below 30%	No reduction	70%	Strong stabilisation during early market development
30%	Reduce by 10 percentage points	60%	Increased exposure to market pricing
40%	Further reduction of 10 percentage points	50%	Greater price discovery and liquidity
50%	Sunset triggered	0%	Full market pricing

9.47 Figure 2 below provides a high-level illustration of the progressive reduction in vesting exposure and increasing market exposure contemplated under the transitional framework.

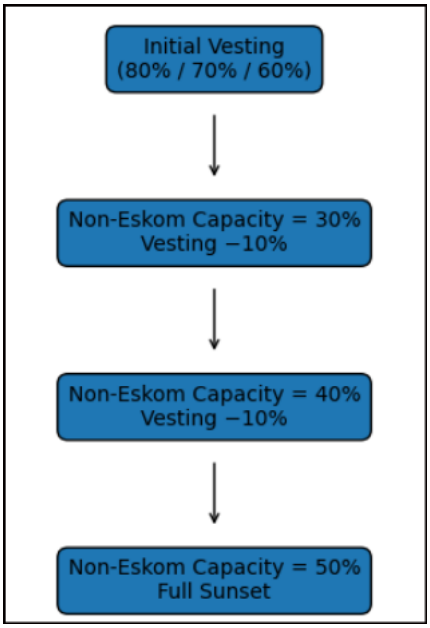

Figure 2: Overview of the Reduction Pathway

Sunset Principles

9.48 Vesting contracts established under the Framework are intended to operate as transitional market mechanisms rather than permanent market structures. Accordingly, vesting arrangements may be subject to:

9.48.1 defined sunset periods;

9.48.2 maximum implementation durations;

9.48.3 periodic regulatory review; and

9.48.4 market development triggers linked to competition, liquidity, and market maturity.

9.49 The pace and timing of sunset mechanisms may take into account:

9.49.1 the level of market concentration;

9.49.2 the extent of non-Eskom generation participation;

9.49.3 market liquidity conditions;

9.49.4 observed market pricing outcomes; and

9.49.5 broader SAWEM reform developments.

9.50 Vesting arrangements are intended to reduce progressively over time and may ultimately be discontinued where market conditions demonstrate sufficient competitive development and reduced reliance on transitional stabilisation mechanisms.

Transitional Market Evolution

9.51 The Vesting Contract Framework is intended to operate as a transitional market mechanism during the development of competitive electricity market arrangements.

9.52 The scale, duration, and structure of vesting arrangements may evolve progressively as competition, liquidity, and market maturity improve under broader SAWEM reforms.

Stakeholder Question 6

NERSA's objective is to establish vesting contract arrangements that support transitional revenue stabilisation, mitigate structural market power, preserve market-based dispatch and pricing principles, and facilitate orderly market development during transition.

Stakeholders are invited to comment on:
whether the proposed vesting settlement structure appropriately balances revenue stabilisation and market exposure;
whether the symmetric settlement mechanism appropriately moderates excessive market volatility and market power risks;
whether the proposed vesting volume approaches and reduction pathways are appropriate for the South African market transition context; and
whether additional safeguards, governance mechanisms, or implementation considerations should be incorporated into the Framework.

9.53 The detailed operationalisation of the proposed framework, and its practical implications for generator revenues, is demonstrated through a comprehensive integrated example in **Part 12**.

10. PART 7: INTEGRATED REGULATORY OUTCOME DEMONSTRATION

Regulatory Objectives

10.1 This Part demonstrates how the various components of the Transitional Generation Pricing and Vesting Contract Framework collectively interact to determine realised market and revenue outcomes during transition. The demonstration is intended to illustrate:

- 10.1.1 the interaction between benchmark pricing and market pricing;
- 10.1.2 the operation of vesting contract settlements;
- 10.1.3 realised generator revenue outcomes under different market conditions; and
- 10.1.4 the preservation of market-based dispatch and pricing principles during transition.

Role Within the Integrated Framework

10.2 This Part integrates the mechanisms established under:

- 10.2.1 Part 1: Capacity Cost Recovery;
- 10.2.2 Part 2: Ancillary Service Cost Recovery;
- 10.2.3 Part 3: Offer Price (SRMC-Based Energy Pricing);
- 10.2.4 Part 4: Strike Price Framework;
- 10.2.5 Part 5: Revenue Recovery Principles and Risk Allocation; and
- 10.2.6 Part 6: Vesting Contract Arrangements,

10.3 This is in order to demonstrate the combined operation of the Framework under illustrative market conditions.

Transitional Market Rationale (Risks)

10.4 During the transition toward competitive electricity markets, stakeholders may observe periods where:

- 10.4.1 benchmark strike prices differ from prevailing market prices;
- 10.4.2 realised generator revenues differ from benchmark revenue references; and
- 10.4.3 vesting settlements interact dynamically with market outcomes.

10.5 Accordingly, this Part provides an integrated demonstration intended to illustrate how the Framework collectively:

- 10.5.1 moderates excessive volatility;
- 10.5.2 preserves market-based price formation;
- 10.5.3 maintains operational incentives; and
- 10.5.4 supports orderly market development during transition.

Integrated Regulatory Outcome Demonstration

10.6 The illustrative example below demonstrates how the Transitional Generation Pricing and Vesting Contract Framework operates under different wholesale market conditions using a representative Eskom baseload coal generation plant. The demonstration is intended to illustrate the interaction between benchmark pricing, market pricing, vesting contract settlements, and realised generator revenue outcomes during the transition toward competitive electricity market arrangements.

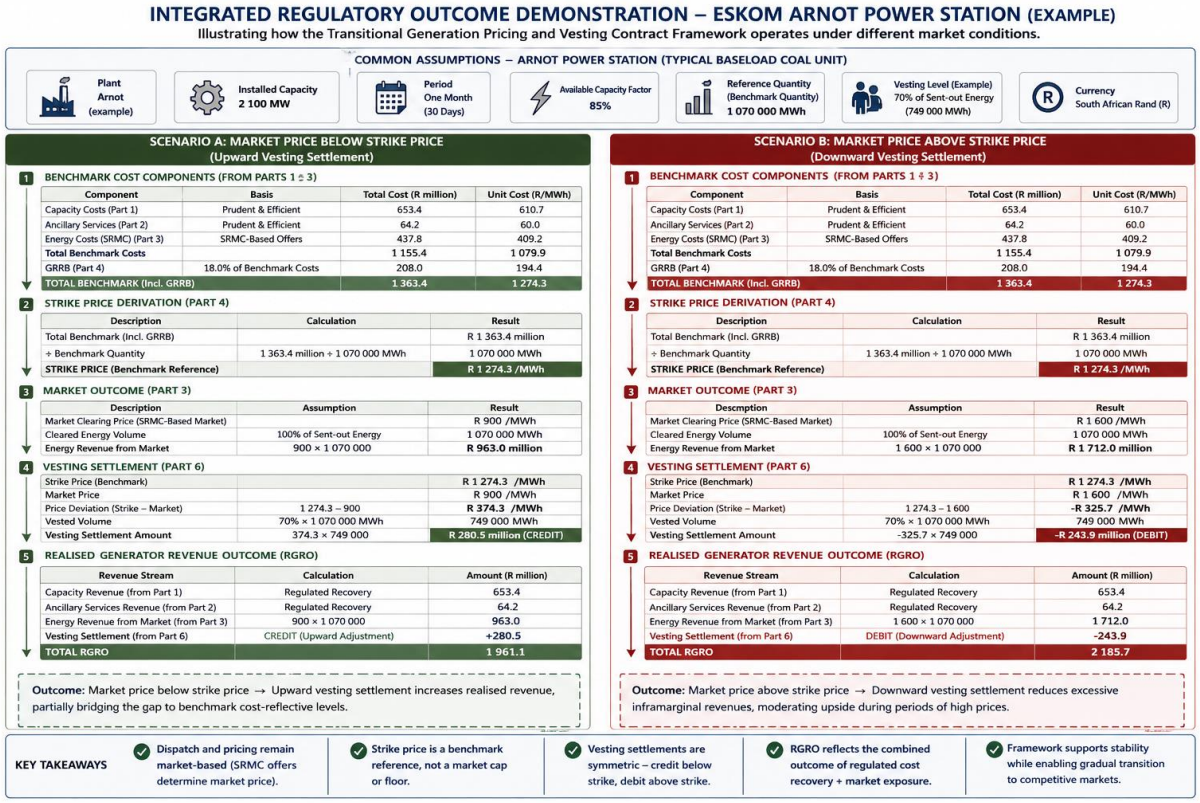

Figure 3: Integrated Regulatory Outcome Demonstration

Interpretation of the Illustrative Example

Benchmark Cost Components and GRR Benchmark

10.7 The example begins by establishing benchmark-efficient cost components derived from Parts 1 to 3 of the Framework. In the illustrative Arnot Power Station example, benchmark capacity costs amount to approximately R653.4 million, ancillary service costs amount to R64.2 million, and benchmark SRMC-based energy costs amount to approximately R437.8 million. These components collectively establish a total benchmark cost structure of

approximately R1.36 billion which forms the basis of the Generator Revenue Requirement Benchmark (GRR Benchmark) under Part 4 of the Framework.

Benchmark-Efficient SRMC Cost Alignment

10.8 The illustrative example further demonstrates how benchmark-efficient SRMC-based energy costs are derived under Part 3 of the Framework. Actual SRMC-related plant operating expenditure of approximately R470 million is adjusted to a benchmark-efficient SRMC allowance of approximately R437.8 million through the application of benchmark efficiency and prudency principles.

ILLUSTRATIVE SRMC BENCHMARK EFFICIENCY ALIGNMENT EXAMPLE (PART 3)

This example demonstrates how actual plant SRMC-related operating costs are adjusted to benchmark-efficient allowances under the Framework. The benchmark-efficient SRMC-based energy cost of **R437.8 million** is used in the GRR Benchmark and strike price determination.

SRMC COMPONENT	ACTUAL COST (PLANT EXPENDITURE) (R million)	BENCHMARK-EFFICIENT ALLOWANCE (R million)	ILLUSTRATIVE ADJUSTMENT (R million)	DESCRIPTION
Fuel Costs (Coal, transport, handling, quality adjustments)	390.0	365.0	(25.0)	Adjusted to benchmark heat rate, fuel quality and fuel price assumptions.
Variable O&M Costs (Maintenance, consumables, labour, materials)	55.0	50.0	(5.0)	Adjusted to benchmark efficiency levels and prudent operational assumptions.
Water Usage Costs (Water abstraction, treatment and distribution)	25.0	22.8	(2.2)	Adjusted to benchmark water usage rates and prudent cost assumptions.
TOTAL SRMC-BASED ENERGY COSTS (Inclusive of components above)	470.0	437.8	(32.2)	**Total illustrative efficiency adjustment applied to align actual costs to benchmark-efficient SRMC allowance.**

In this illustrative example, actual SRMC-related operating expenditure of **R470.0 million** is adjusted to a benchmark-efficient SRMC allowance of **R437.8 million** through the application of benchmark efficiency and prudency principles.

Figure 4: Illustrative SRMC Benchmark Efficiency Alignment Example

10.9 The example illustrates that fuel costs, variable operations and maintenance costs, and water usage costs are all subjected to benchmark efficiency assessment. The benchmark-efficient SRMC allowance rather than actual incurred plant expenditure is therefore incorporated into the GRR Benchmark and strike price determination process.

Strike Price Determination

10.10 Using the benchmark cost structure and benchmark energy quantity of approximately 1 070 000 MWh, the Framework derives an illustrative

benchmark strike price of approximately R1 274/MWh. The strike price itself does not determine wholesale market prices or dispatch outcomes. Instead, it operates as a benchmark settlement reference for vesting contract arrangements established under Part 6 of the Framework.

Illustrative Market and Vesting Settlement Outcomes

10.11 Scenario A demonstrates the operation of the Framework where the prevailing wholesale market price is assumed to be R900/MWh, which is materially below the benchmark strike price of approximately R1 274/MWh. Based on cleared energy volumes of approximately 1 070 000 MWh, the generator earns approximately R963 million in wholesale energy market revenue. Because the market price is below the strike price benchmark, the vesting contract mechanism results in an upward financial adjustment of approximately R280.5 million on vesting volumes, thereby partially stabilising realised generator revenues during periods of depressed market prices.

10.12 Scenario B demonstrates the opposite outcome where the prevailing wholesale market price increases to R1 600/MWh, which exceeds the benchmark strike price. Under this scenario, the generator earns approximately R1.712 billion in wholesale energy market revenue. However, because the market price exceeds the strike price benchmark, the vesting contract mechanism operates symmetrically and results in a downward financial adjustment of approximately R243.9 million on vesting volumes. The example therefore demonstrates how the Framework moderates excessive inframarginal revenues during periods of elevated market prices and structural market concentration.

Integrated Regulatory Outcome

10.13 The illustrative example demonstrates that the Framework preserves market-based dispatch and SRMC-based price formation while simultaneously providing transitional revenue stabilisation through vesting contract settlements. Importantly, the example demonstrates that realised generator revenues remain dependent on prevailing market prices, dispatched energy volumes, vesting exposure, and operational market outcomes.

10.14 The example therefore demonstrates how the Framework collectively seeks to balance transitional revenue stabilisation, mitigation of structural market power, preservation of market-based dispatch and price formation

principles, gradual exposure to competitive market pricing, and orderly development of the wholesale electricity market during transition.

Stakeholder Question 7

NERSA's objective is to demonstrate how the various components of the Framework collectively interact to determine benchmark pricing references, vesting settlement outcomes, and realised generator revenue outcomes during transition.

Stakeholders are invited to comment on:

whether the integrated example appropriately demonstrates the interaction between benchmark pricing, market pricing, and vesting settlements;

whether the illustrative examples provide sufficient clarity regarding realised generator revenue outcomes under different market conditions;

whether the treatment of benchmark-efficient SRMC costs is sufficiently clear and aligned with the proposed Framework methodologies; and

whether additional illustrative scenarios or implementation examples should be considered.

11. PART 8: LONG-TERM MONITORING ROLE AND MARKET POWER MITIGATION

Regulatory Objective

11.1 The Long-Term Monitoring and Market Power Mitigation Framework establishes the governance, oversight, and monitoring mechanisms intended to support orderly transition toward competitive wholesale electricity market arrangements. The Framework further establishes NERSA's role in:

11.1.1 monitoring market outcomes;
11.1.2 assessing transitional risks;
11.1.3 mitigating structural market power;
11.1.4 supporting competitive market development; and
11.1.5 preserving efficient and transparent market operation during transition.

Role Within the Integrated Framework

11.2 The monitoring and market power mitigation framework forms part of the broader Transitional Generation Pricing and Vesting Contract Framework and supports the ongoing assessment of:

11.2.1 benchmark pricing arrangements;
11.2.2 vesting contract outcomes;
11.2.3 market pricing behaviour;
11.2.4 market liquidity development; and
11.2.5 competitive market evolution.

11.3 The Framework further supports coordination between transitional pricing mechanisms; vesting arrangements; market surveillance mechanisms; and broader SAWEM reform developments.

Transitional Market Rationale (Risks)

11.4 During the transition toward competitive electricity markets, concentrated market structures and evolving market conditions may create heightened risks relating to:

11.4.1 excessive market power;
11.4.2 inefficient pricing behaviour;
11.4.3 inadequate market liquidity;
11.4.4 operational inefficiencies;
11.4.5 investment uncertainty; and
11.4.6 market instability.

11.5 In the absence of effective monitoring and oversight arrangements, such risks may undermine:
- 11.5.1 competitive market development;
- 11.5.2 consumer confidence;
- 11.5.3 efficient market operation; and
- 11.5.4 long-term investment signals.

11.6 The Framework therefore establishes integrated monitoring and mitigation mechanisms intended to support transparent, stable, and competitive market development during transition.

Market Monitoring Principles

11.7 NERSA may undertake ongoing monitoring of market pricing behaviour; generator participation patterns; market liquidity conditions; vesting contract outcomes; market concentration indicators; and observed market volatility.

11.8 Monitoring activities may support assessment of market development; identification of emerging market risks; evaluation of vesting reduction pathways; assessment of benchmark pricing credibility; and ongoing refinement of transitional market arrangements.

Market Power Monitoring

11.9 NERSA may monitor market behaviour and market outcomes for evidence of:
- 11.9.1 economic withholding;
- 11.9.2 physical withholding;
- 11.9.3 predatory pricing behaviour;
- 11.9.4 artificial market manipulation;
- 11.9.5 excessive market concentration; and
- 11.9.6 other conduct that may undermine efficient market operation during transition.

11.10 Market monitoring activities may take into account:
- 11.10.1 generator availability declarations;
- 11.10.2 outage behaviour;
- 11.10.3 dispatch outcomes;
- 11.10.4 offer price behaviour;
- 11.10.5 market share concentration; and

11.10.6 market liquidity indicators.

Vesting and Transition Monitoring

11.11 NERSA may periodically review:

11.11.1 vesting exposure levels;

11.11.2 market liquidity development;

11.11.3 competitive market participation;

11.11.4 pricing volatility trends; and

11.11.5 the effectiveness of vesting arrangements in mitigating transitional market risks.

11.12 Such reviews may inform:

11.12.1 future vesting reduction pathways;

11.12.2 sunset arrangements;

11.12.3 benchmark pricing refinement; and

11.12.4 broader SAWEM market reform implementation.

Integrated Transitional Risk Monitoring Framework

11.13 The transitional risks associated with electricity market reform are interconnected market, operational, financial, and structural risks arising during the transition toward competitive wholesale electricity market arrangements.

11.14 Accordingly, the Transitional Generation Pricing and Vesting Contract Framework incorporates:

11.14.1 benchmark pricing mechanisms;

11.14.2 vesting arrangements;

11.14.3 market monitoring mechanisms;

11.14.4 operational performance principles; and

11.14.5 transition governance arrangements,

11.15 These are intended to collectively mitigate transitional market risks while supporting efficient market development.

11.16 Table 3 below summarises the principal transitional risks identified under the Framework, the potential implications associated with those risks, and the primary mitigation mechanisms incorporated within the Framework.

Table 3: Transitional Market Risks section and Risk Allocation Table

Risk Category	Description of Risk	Potential Impact	Primary Mitigation Mechanism
Market Power Risk	Dominant generator influences market prices	Excessive electricity prices	Vesting contracts + market surveillance
Economic Withholding	Generator withholds available capacity	Artificial scarcity and price spikes	Availability-linked payments + monitoring
Physical Withholding	Strategic outage declarations	Reduced supply and higher prices	Benchmark availability requirements
Predatory Pricing Risk	Artificial suppression of prices due to vesting arrangements	Reduced competition and investment deterrence	Transitional sunset pathway + progressive vesting reduction
Liquidity Risk	Insufficient trading participation	Weak price discovery	Gradual exposure to market pricing
Investment Risk	Investors perceive market as distorted or uncertain	Reduced private investment	Transparent transition pathway
Consumer Price Volatility Risk	Sudden exposure to market prices	Tariff instability	Hedging through vesting contracts
Cross-Subsidisation Risk	Regulated revenues support competitive activities	Unfair competition	Ring-fencing and cost allocation rules
Operational Inefficiency Risk	Inefficient generator performance recovered through tariffs	Higher consumer costs	Efficiency adjustments
Financing Risk	Revenue uncertainty for generators during transition	Reduced system reliability	Transitional revenue stabilisation
Regulatory Transition Risk	Misalignment between market instruments	Regulatory uncertainty	Coordinated development of market instruments
Sequencing Risk	Delayed implementation of related instruments	Market implementation delays	Regulatory roadmap and phased implementation

Regulatory Outcomes

11.17 The Long-Term Monitoring and Market Power Mitigation Framework is intended to support:

11.17.1 transparent and efficient market operation;

11.17.2 mitigation of structural market power;

11.17.3 improved market confidence;

11.17.4 orderly transition toward competitive market arrangements; and

11.17.5 preservation of market-based pricing and dispatch principles.

Transitional Market Evolution

11.18 The intensity of regulatory monitoring and transitional market intervention may evolve progressively over time as:

11.18.1 market liquidity improves;

11.18.2 competition increases;

11.18.3 market institutions mature; and

11.18.4 reliance on transitional stabilisation mechanisms decreases.

11.19 Over time, greater reliance may progressively shift toward competitive market discipline and mature market governance arrangements consistent with broader SAWEM reforms.

Stakeholder Question 8

NERSA's objective is to establish appropriate transitional market monitoring and market power mitigation mechanisms that support transparent, stable, and competitive market development during transition.

Stakeholders are invited to comment on:
the adequacy of the proposed market monitoring and oversight mechanisms;
the proposed approach to market power mitigation during transition;
the adequacy of the proposed transitional risk monitoring framework;
the proposed approach to vesting and transition monitoring; and
whether additional governance safeguards or monitoring mechanisms should be incorporated into the Framework.

12. PART 9: DOWNSTREAM VESTING CONTRACT - DISTRIBUTOR/RETAIL

Overview of Retail Vesting Contract

12.1 While the Vesting Contracts Framework primarily addresses hedging arrangements between generators and the market counterparty, transitional market design may also require downstream vesting arrangements. Generators must integrate with downstream retailers to assure access to final demand.

12.2 Downstream vesting contracts enable the Central Purchasing Agency or market counterparty to match generators' volumes to load-serving entities such as distributors, retailers, or traders to mirror production quantity.

12.3 These contracts allow market participants to hedge exposure to wholesale market price volatility during the early stages of market development.

Objectives of the Retail Vesting Contract

12.4 A Distribution/retail Vesting Contract is an agreement used during the transition to a competitive electricity market to allocate electricity volume and determine pricing between the central purchasing agency and distribution licenses.

12.5 Downstream vesting helps to achieve the following objectives

- 12.5.1 transmit the stabilising effect of upstream vesting arrangements to the demand side of the market;
- 12.5.2 support price stability for electricity consumers during the transition; and
- 12.5.3 facilitate the gradual development of competitive wholesale market liquidity.
- 12.5.4 Protect distributors and generators from extreme price volatility.
- 12.5.5 Facilitate transparent electricity trading in the emerging market framework.

Principles of Retail/ Distribution Vesting Contract

12.6 Revenue and Cost Certainty: Vesting contracts provide predictable electricity prices and volumes for distribution licensees, ensuring financial stability during the transition to a competitive market.

12.7 Managed Market Transition: The contracts allow the electricity sector to move gradually from a regulated structure to a competitive wholesale market while avoiding sudden price shocks or supply disruptions.

12.8 Market Liquidity Support: Vesting contracts require some electricity to be traded through market platforms, increasing trading activity and improving price discovery.

12.9 Risk Allocation: Risks such as price volatility and demand fluctuations are shared between the distributors to ensure balanced risk exposure.

12.10 Regulatory Oversight: Vesting contracts must be approved by the energy regulator to ensure fairness, transparency, and compliance with electricity regulations.

12.11 Defined Contract Quantities: The contract specifies the amount of electricity that distributors must hedge with the central purchasing agency.

12.12 Pricing Mechanism: The electricity price under the vesting contract is determined using an agreed pricing formula, which may be linked to wholesale market prices or regulated tariffs.

12.13 Time-Bound Arrangement: Vesting contracts are temporary agreements designed to phase out once the competitive electricity market is fully established.

Role of Central Purchasing Agency (CPA) in Downstream Vesting Contract

12.14 The CPA will enter into a vesting contract with Eskom distribution(retail**)**, with the strike price as an agreed upon wholesale active energy price (i.e., the current energy tariff regulated by NERSA).

12.15 For municipalities there will be two options:

12.15.1 Remain an Eskom distribution customer, buying at a regulated price linked to the wholesale active energy strike price. This will not exclude them from procuring from IPPs on a bilateral basis or doing their own generation.

12.15.2 Become a market participant. The CPA will provide a vesting contract for a 5-year transition period, same as with Eskom distribution, to reduce the price volatility of the electricity bought by the municipality.

12.16 The Vesting Contracts shall be subject to NERSA approval and oversight and shall contain energy hedge payments to manage the price risk for the distributor during the transition; and

12.17 Any Licensed Distributor that applies for market participation during the Transition Period shall conclude a Vesting Contract with the Central Purchasing Agency before market participation. The Wholesale Price for Energy shall inform the price against which the hedge will be based. The hedge shall cover the difference between the system marginal price and the Wholesale Price for Energy, and the shortfall or over-recovery shall be included in the legacy charge.

Stakeholder Question 9

The CPA will sign a five-year vesting contract with Eskom distribution and other retailers, using an agreed-upon wholesale active energy price as the strike price (i.e. the current NERSA-regulated energy tariff).

a) The downstream vesting contract has been proposed for five years. What are the opinions of the stakeholders?

b) What are the risks if the period is extended beyond five years?

c) CPA will be crucial in finalizing the vetting contract; stakeholders must express their opinions both during and after the transition period.

d) Stakeholders are asked to comment on the proposed distribution vesting contracts principles described in paragraphs 14.6 through 14.13.

Elements of the Downstream Vesting Contract

12.18 A vesting contract includes Parties, contracted energy volumes, vesting price, duration, settlement mechanism, allocation methodology, risk allocation, and regulatory oversight are all included in a vesting contract as shown and described in Table 4: Elements of Downstream ContractsTable 4 below. These components facilitate the shift to a competitive electricity market and guarantee price stability.

Table 4: Elements of Downstream Contracts

Component	Descriptions
Contracting Parties	The agreement is typically between the Central Purchasing Agency (CPA) or market counterparty and load-serving entities (LSEs), distributors which are Eskom and municipalities.
Allocated Energy Volume	Specifies the portion of hedged electricity volumes allocated to each LSE. Volumes are usually expressed in MWh and may be defined by time-of-use periods (peak, standard, off-peak).
Vesting Price	The predetermined price at which the allocated electricity is settled between the CPA and the LSE. This price provides cost certainty and protects participants from wholesale market price volatility.
Allocation Methodology	Describes the method used to allocate hedged generation volumes to LSEs. Allocation may be based on historical demand, load share, or forecast consumption.
Settlement Mechanism	Defines how financial settlements occur between the vesting price and the wholesale market price. The difference is settled financially to hedge participants against market price fluctuations.
Contract Duration	Specifies the time period for which the downstream vesting contract is valid. These contracts are usually temporary transitional arrangements during the development of a competitive electricity market.
Risk Management Function	The contract provides a hedging mechanism that reduces exposure to wholesale electricity price volatility for municipalities, distributors, retailers, and traders.
Regulatory Approval and Oversight	Downstream vesting contracts are approved and monitored by the energy regulator to ensure transparency, fairness, and alignment with electricity market reform objectives.

Volume Allocation Method

12.19 The allocation of volumes under upstream Vesting Contracts determines how hedged electricity, aggregated from load-serving entities and held by the Central Purchasing Agency or market counterparty, is distributed among generators in accordance with the merit order. This allocation methodology should be transparent, predictable, and aligned with underlying demand to ensure efficiency, fairness, and operational consistency within the market.

12.20 Volumes are allocated based on each participant's share of total electricity demand in the system. NERSA shall decide on each distribution volume based on the MYPD determination. Volume will be allocated per month per time of use period.

12.21 **Formula:**

Allocated Volume= Load/Total System Load ×Total Vesting Volume

Where:

- Load = Demand of participants (Municipalities or other retailers)
- Total System Load = Total of the demand of participants
- Total Vesting volume = Total hedged generation available for allocation

Table 5: Example:1 Volume Allocation

Distributor	Demand (MWh)	Allocation %	Allocated Volume (MWh)
City X	2952	16%	470
City Y	7312	88%	6457
City Z	8280	45%	3697
Total	18544		
Total Generation Vesting Volume	18542		

12.22 The decision regarding generation hedging will be operationalised through downstream vesting contracts. These contracts allocate hedged generation volumes to load-serving entities, thereby providing price certainty and mitigating exposure to wholesale market volatility during the transition period.

12.23 The example above assumes 100% generation volume of Eskom's sent-out energy is subject to vesting contracts during the initial phase, meaning that there will be no exposure to wholesale market pricing.

Settlement - Example #2

Assume:

- Market Price (MP) = R1 033 /MWh
- Vesting Price (VP) = R1,000/MWh

For City X:

Allocated volume = 470 MWh

- Assuming Actual consumption = 480 MWh

$$EHP = 480 \times (1033 - 1000) = 480 \times 33 = R15{,}840$$

City X pays **R 15,840** to CPA

12.24 Calculations and Examples of downstream vesting contract

12.25 Energy Hedge Payment (EHP) Formula

12.25.1 Energy Hedge Payment (EHP) compensates for the difference between the Wholesale Price and the Market Price.

12.25.1.1 Formula:

EHP_tm = min(AE_tm, CE_tm) × (WP_tm − DAP_tm)

Where:

EHP_tm = Energy Hedge Payment for time-of-use period t in month m

AE_tm = Actual Energy purchased by the distributor in time period t during month m

CE_tm = Contract Energy agreed in the vesting contract

WP_tm = Wholesale active energy price in the contract

DAP_tm = Average day-ahead market price for that time period

min(AE, CE) = The lower value between actual purchased energy and contract energy

Table 6: Example of a downstream possible vesting contract

Time-of-Use Period (t)	Year	Actual Energy AE (MWh)	Contract Energy CE (MWh)	Wholesale Price WP (c/KWh)	Day-Ahead Price(SMP) DAP (c/KWh)	Eligible Energy = MIN(AE,CE)	Price Difference (WP-DAP)	SMP Revenue (R'm)	Energy Hedge Payment (EHP)(R'm)	Net Revenue (R'm)	Net Price (c/KWh)
Peak	2027	35 798	7 160	308	280	7 160	28	10 023	200	10 224	286
Standard	2027	89 865	26 960	140	120	26 960	20	10 784	539	11 323	126
Off Peak	2027	98 335	98 335	84	70	98 335	14	6 883	1 377	8 260	84
Total		223 998	132 454			132 454		27 691	2 116	29 807	

12.26 The table above shows that, based on assumptions made, at off-peak tariff customers will be paid by CPA R 10 224m while making a total revenue of R 10 023m for R 286c/kWh. On standard, customers will pay R 126c/kWh based on an assumed actual energy of 98 335MWh and contracted energy of 98 335MWh at a wholesale price of R85 and a day-ahead price of 70 c/kWh. The contacted volumes are based on 20%, 30 % and 100% vesting as per volume design options under part 6 of the upstream vesting.

12.27 General acceptable principles are as follows in Energy Hedge payment (EHP):

- If **MP > VP** → Distributor pays the counterparty
- If **MP < VP** → Distributor receives compensation
- If market price > contract price → CPA **surplus**
- If market price < contract price → CPA **shortfall**

Stakeholder Question 10
Downstream vesting contracts will be used to operationalise the generation hedging decision. By allocating hedged generation volumes to load-serving organisations, these contracts reduce exposure to wholesale market volatility during the transition period and offer price certainty.

a) Does the stakeholder have an alternative that contradicts the above-mentioned and discussed allocation formula, its components, and the detailed description? If so, please elaborate.

b) What is the stakeholders' view on a proposed principle that Volumes are allocated based on each participant's share of total electricity demand in the system in paragraph 14.20.

13. PART 10: DOWNSTREAM VESTING CONTRACT SUNSETS

13.1 These vesting agreements are designed as temporary transition contracts.
13.2 They are expected to run for about five years, aligning with the phasing in of the upstream vesting contracts, as South Africa moves from a regulated electricity system to a competitive electricity market.
13.3 The broader electricity market reform is scheduled to begin around 1 July 2026, meaning the vesting contracts will phase out gradually during the transition period.
13.4 Coverage under these contracts is expected to step down progressively and be largely reduced by around 2030 as the market becomes competitive.

14. CONCLUSION

14.1 The vesting contract framework provides a critical mechanism for managing the transition to a competitive wholesale electricity market by balancing price stability, risk allocation, and market efficiency. Through the combination of upstream and downstream vesting arrangements, the framework enables the structured flow of hedged electricity volumes between generators and load-serving entities, facilitated by the Central Purchasing Agency (CPA) or designated market counterparty.

14.2 Upstream vesting contracts ensure that generation is allocated in accordance with merit order principles, supporting least-cost dispatch and system efficiency. Downstream vesting contracts, in turn, translate these hedged positions into price certainty for distributors and other load-serving entities, thereby mitigating exposure to wholesale price volatility.

14.3 The framework promotes transparency, predictability, and fairness by applying clear allocation methodologies aligned with demand and operational requirements. It also supports financial sustainability by enabling appropriate cost recovery while limiting undue risk transfer between market participants.

14.4 Overall, the vesting contract framework serves as a transitional instrument that stabilizes the market, protects customers, and creates a credible pathway toward a fully competitive electricity market in South Africa.

15. THE CONSULTATION PROCESS

15.1 Stakeholders are requested to comment in writing on Transitional Generation Pricing and Vesting Contract Framework. Written comments can be forwarded to mypd@nersa.org.za; hand-delivered to Kulawula House, 526 Madiba Street, Arcadia, Pretoria; or posted to PO Box 40343, Arcadia, 0083, Pretoria. The closing date for the submission of comments is **06 July 2026** at **16:00**.

15.2 NERSA will collate all comments received, which will be considered when making a decision. Public hearings will be held via MS Teams, during which interested and affected parties may make presentations.

15.3 NERSA will collate and consider all comments received as part of its decision-making process. Public hearings will be conducted via Microsoft Teams, as indicated in the table below, providing an opportunity for interested and affected parties to make oral submissions.

Table 7: Transitional Generation Pricing and Vesting Contract Framework public hearing indicative dates

Province	Form	Date
National, including all provinces	Virtual public hearing	23 July 2026

*The date of the public hearings might be extended/reviewed depending on the number of presenters registered.

15.4 For more information and queries on the above, please contact:

Physical address:	Kulawula House 526 Madiba Street Arcadia Pretoria
Telephone no.:	012 401 4025/4725
Fax no.:	012 401 4700

End.