SOUTH AFRICA'S ELECTRICITY REVOLUTION

Competition, legacy liabilities and the financing risks of reform | 15 October 2026

Executive perspective

South Africa is opening its electricity market to competition as Eskom's operational performance recovers but the financial structure of the existing system remains under pressure. Private generation and bilateral power purchase agreements have broadened supply options. The proposed South African Wholesale Electricity Market (SAWEM) offers the prospect of more efficient dispatch, wider participation and better price discovery.

I support this direction. The unresolved questions concern the allocation of existing debt, municipal arrears, network costs and the financing capacity of the transmission business. These obligations will influence the price of new private capital even if competitive generation reduces the cost of producing electricity.

Eskom reported FY2026 profit after tax of R30.3 billion and an EBITDA margin of approximately 30.6%, while electricity sales fell 6.2% to around 178 TWh. Gross debt securities and borrowings were approximately R356 billion at 31 March 2026, against reported net debt of R313.3 billion. Municipal arrears reached R111.6 billion. Eskom's R124.9 billion year-end cash balance included an R80 billion government debt-relief payment; accounting movements also supported reported earnings. The improvement in generating performance is meaningful, but the headline profit does not measure recurring cash generation on its own.

The financing market will distinguish between a private PPA supported by a strong corporate purchaser and a similar project dependent on a weaker offtaker, uncertain wheeling charges or unreliable settlement. The differences appear in margins, leverage, security and the cost of hedging.

1. Financial close and the cost of institutional uncertainty

In August 2016, I was engaged to advise on hedging for seven renewable energy projects awarded under Bid Window 4 of South Africa's renewable energy procurement programme, representing more than 500 MW of combined generating capacity. I originated and negotiated the advisory engagements and led the work covering foreign exchange, nominal interest rates and inflation-linked real rates.

The original financing programmes anticipated financial close between late 2016 and early 2017. Instead, the projects became caught in the prolonged dispute over Eskom's signing of power purchase agreements.

The government eventually signed agreements covering 27 projects from Bid Windows 3.5 and 4 on 4 April 2018, representing approximately 2,300 MW and R55.92 billion of investment. The projects on which I advised subsequently reached financial close at different times during 2018. For the principal

six-project portfolio, the delay was approximately 16 to 21 months, measured from the original target window to financial close.

The 16–21-month estimate compares the six-project portfolio's original October 2016–March 2017 financial-close targets with publicly reported July 2018 financial close. The original targets are based on contemporaneous advisory correspondence; no confidential terms are reproduced.

From August 2016 to early 2018, the rand strengthened against the US dollar, although the improvement was interrupted by sharp reversals, including those associated with South Africa's sovereign credit downgrades in April 2017.

Interest-rate markets followed a different path. Nominal government bond yields rose during the latter part of 2017 before falling into early 2018, while real yields were comparatively stable over part of that period. The financing exposures I was advising on were linked to nominal and real swap markets, whose movements could differ from those of government bonds.

The uncertain execution dates created a genuine hedging dilemma. Hedging early risked locking in terms that could subsequently become less attractive. Waiting left the projects exposed to further movements in exchange rates, nominal swap curves and real yields, with no certainty over when the transactions could be completed.

I no longer have access to the original hedge records and cannot reliably quantify the costs attributable to these delays. That would require the executed rates, notionals, maturities and transaction dates.

The projects reached financial close in a different market from the one in which their financing had originally been structured. The timing was shaped by institutional decisions outside the sponsors' control. As South Africa develops SAWEM, investors will have to assess whether the new market arrangements provide greater certainty over contractual execution and settlement.

2. The financing arithmetic

Consider a hypothetical renewable energy portfolio financed with R7 billion of senior debt. A 25-basis-point increase in the lender margin adds approximately R17.5 million to annual interest expense while the full principal remains outstanding. At 50 basis points the increase is R35 million. A 100-basis-point rise in the floating benchmark represents R70 million before amortisation and hedging. These are illustrations, not estimates of historical project losses.

Imported equipment creates foreign-exchange exposure during construction. An adverse rand move between bid submission and financial close can change the rand cost of procurement and the required equity contribution. Inflation-linked debt adds real-rate exposure, which cannot be treated as equivalent to nominal swap exposure.

The JIBAR-to-ZARONIA transition also affects current debt and swap documentation. Refinancings need consistent benchmark definitions, compounding conventions, transition adjustments and treatment of existing hedges. A modelled forward curve is not necessarily an executable hedge rate.

For an illustrative contracted project, a lender might test debt-service coverage around 1.20x to 1.35x, with separately negotiated distribution locks and debt-service reserves. These are examples rather than asserted South African market norms. Credit risk may be priced through lower leverage, shorter tenor, additional security or wider margins as well as the benchmark interest rate.

3. Eskom's operational recovery and financial dependence

Eskom's stronger generating performance has improved the supply outlook and reduced dependence on emergency generation. The financial improvement, however, sits alongside extraordinary public support and a shrinking sales base. The government's 2023 debt-relief programme originally provided for R254 billion of support, intended to ease debt-servicing pressure and free resources for maintenance and investment.

The distinction between gross borrowings, net debt and available cash matters. A large debt-relief receipt within the year-end cash balance does not represent operating cash earned through electricity sales. Subsequent repayment of approximately R38 billion of maturing bonds reduced reported gross borrowings to around R320 billion by June 2026.

Capital expenditure is expected to increase materially, from approximately R45 billion in FY2026 to more than R70 billion from FY2029. Transmission investment is necessary to connect new capacity, particularly where generation resources are distant from existing demand centres.

Municipal arrears stood at R111.6 billion in March 2026. Eskom also reported R15.8 billion in amounts not recognised as revenue because of collection risk, compared with R11.9 billion in the preceding year. These are distinct accounting measures. Generation recovery has not resolved distribution-sector credit weakness.

4. Municipalities, wheeling and network costs

Statistics South Africa reported that electricity sales represented approximately 27% of aggregate municipal revenue in the 2025 financial census. This is a revenue share, not a 27% electricity trading surplus. Bulk purchases, maintenance, depreciation and bad debts all affect the net contribution. Treasury's December 2025 reporting showed municipal creditors of R160.8 billion, including R87.9 billion relating to bulk electricity. Those balances are measured differently from Eskom's municipal arrears and cannot be added together.

Private PPAs and wheeling allow large customers to buy energy from independent generators while continuing to use transmission and distribution networks. Municipalities can lose energy sales without shedding a proportional share of network costs.

Suppose a distribution network has annual fixed costs of R500 million and one billion kWh of billed consumption. Fixed-cost recovery is R0.50/kWh. If billed volume falls 30% with costs unchanged, the requirement becomes about R0.71/kWh, an increase of roughly 43%. Real tariffs include demand, customer and energy charges; the calculation isolates the fixed-cost problem.

Network users should pay for efficient infrastructure costs. The difficulty arises when wheeling tariffs are also used to replace unrelated municipal income or recover historical financial weaknesses without transparency. Reform must distinguish the cost of delivering electricity from the fiscal consequences of losing a municipal trading surplus.

5. Lessons from Europe

European liberalisation separated competitive generation and supply from regulated transmission and distribution. Wholesale markets improved dispatch and price discovery, but the 2021–2023 energy crisis exposed the vulnerability of consumers and businesses to volatile wholesale prices, particularly where gas-fired generation set marginal prices.

The EU's 2024 market reforms gave greater prominence to long-term PPAs and two-way contracts for difference. Capital-intensive renewable generation requires revenue certainty if it is to attract long-term debt at competitive prices. Wholesale prices alone may not provide that certainty. My experience of delayed financial close reinforces the value of a bankable long-term revenue contract: the contractual timetable must also be dependable if debt and hedges are to be executed as modelled.

South Africa should not confuse the marginal cost of renewable generation with the delivered cost of a reliable system. Transmission, balancing, storage, reserve capacity and network congestion all have financial consequences. SAWEM's success will depend on credible dispatch, settlement and access arrangements as much as on the prices appearing on its trading platform.

6. Political durability and the coal economy

The earlier PPA delays demonstrated that institutional resistance can obstruct investment even after projects have passed through an established procurement process. South Africa's political parties continue to propose materially different approaches to unbundling, independent power producers and the future role of coal. Manifesto positions are political proposals, not enacted policy, but long-dated infrastructure lenders cannot ignore the possibility of changes in procurement and contracting rules.

Mpumalanga illustrates the regional challenge. Historical Oxford Martin research identified 65 of 78 operating coal mines and 11 of 14 Eskom coal stations under its then-current classification, with approximately 80% of national coal production concentrated in the province. Fleet classifications change, so the older station count should not be presented as today's operating fleet. The dependence extends beyond mines and power stations to contractors, freight, engineering services, municipal finances and local consumption.

Coal retirement must take account of security of supply, employment, rehabilitation and the cost of replacing local economic activity. The province is also a centre of carbon-intensive generation and industry; a precise provincial share of national greenhouse gas emissions cannot be inferred from its coal-production share.

Gauteng's e-toll experience offers a limited comparison. Electronic tolling ended in April 2024, and Cabinet subsequently approved a decision concerning historical unpaid debt recovery in June 2026. Electricity networks differ from roads, but the episode illustrates how politically unsustainable charging arrangements can leave underlying infrastructure obligations unresolved.

7. What changes for lenders and developers

Private PPAs introduce more variation in offtaker quality than the standardised sovereign-linked procurement framework. Lenders will examine purchaser credit, termination compensation, replacement offtake rights and payment security before agreeing debt sizing and tenor. Strong contracts with weak counterparties are not equivalent to strong contracts with creditworthy purchasers.

Network access is another financing issue. Connection delays, curtailment, wheeling tariffs, congestion and metering arrangements influence the volume and price of delivered electricity. Contractual protections need to be tested against the actual obligations of network and market operators.

SAWEM's collateral, settlement and default-management rules will shape the credit exposures of generators, traders and purchasers. Consultation on the trading-platform framework is due to close on

27 October 2026. Wider external participation from April 2027 has been discussed as an indicative milestone, not a guaranteed commencement date.

Hedging arrangements must be coordinated with financial close, debt drawdown and construction procurement. Floating-rate benchmark assumptions, lender margins, FX forwards, real-rate hedges and hedge break costs belong in the same financing analysis. A competitive PPA tariff is of limited value if execution risks make the associated debt or hedge structure unaffordable.

8. Outlook

South Africa can attract substantial private investment and improve the efficiency of electricity supply. Eskom's operational recovery has created a more stable foundation, but it has not removed the financial liabilities inherited by the electricity system.

I expect financing terms to differentiate increasingly between projects with strong offtakers and reliable network arrangements and those exposed to weaker counterparties, uncertain charges or immature settlement systems. That differentiation will be visible in lender margins, leverage, security and the ability to execute hedges on the terms assumed at bid stage.

Municipal distribution reform and transparent network pricing are now among the principal financial tests of liberalisation. The market cannot be judged solely by the number of new generators or the lowest contracted energy tariff. It must also demonstrate that the infrastructure used to deliver electricity can be maintained, expanded and paid for.

Selected sources and verification notes

Eskom — audited financial statements

Eskom — FY2026 results announcement

National Treasury — Budget Review 2023

Statistics South Africa — Municipalities 2025

National Treasury — Local government finances

Department of Energy — 4 April 2018 PPA signing

AIIM — Round 4 portfolio

SARB — March 2018 Quarterly Bulletin (PDF)

NTCSA — SAWEM, March 2026

Oxford Martin — Just transition

European Commission — Electricity market design

Cabinet — 3 June 2026 statement

Roggeveld — Fourth-round financing

Energy Council — SAWEM consultation

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