



**PRESIDENTIAL
CLIMATE COMMISSION**
TOWARDS A JUST TRANSITION



TRANSITIONAL GENERATION PRICING AND VESTING CONTRACT FRAMEWORK

STAKEHOLDER PERSPECTIVES REPORT
PCC Energy Dialogue: Electricity System Reform

Monday, 3 August 2026 | 11h00-13h00 | Live on Zoom



Executive Summary

South Africa's electricity sector is undergoing a fundamental transformation from a vertically integrated, Eskom-dominated electricity supply industry towards a competitive wholesale electricity market. The Transitional Generation Pricing (TGP) and Vesting Contract Framework proposed by the National Energy Regulator of South Africa (NERSA) forms a critical component of this transition by establishing mechanisms that facilitate Eskom's participation in the future market while ensuring system stability, affordability, and investment certainty.

Presidential Climate Commissioners and stakeholders participating in the Presidential Climate Commission (PCC) Energy Dialogue on System Reform broadly support the objectives of electricity market reform and the creation of a competitive electricity market. However, significant concerns remain regarding affordability, transparent market rules, consumer protection, investment signals, market concentration, and the social implications of this transition.

The discussions highlighted the need to balance several competing objectives: maintaining electricity affordability for consumers; ensuring Eskom's financial sustainability; attracting new investment into generation and transmission infrastructure; transparent policy reform processes and implementation; and advancing South Africa's Just Transition commitments as articulated in South Africa's Just Transition Framework. Stakeholders emphasized that market reform should not be viewed solely as a technical exercise but as a strategic intervention that must contribute to economic growth, industrial development, job creation, energy security, and social equity and the country's climate commitments. Participants raise the following recommendations:

- The establishment of a transparent and credible methodology for determining vesting contract prices
- Affordability and consumer protection remain central considerations during the transition.
- Clear and stable signals that enable transparency, investment in generation, storage and transmission infrastructure to support long-term energy security.
- Decision making and advice that is anchored on scientific evidence and modelled outputs.
- Finally, stakeholders emphasised the need for ongoing stakeholder engagement and transparent decision-making processes as these have implications for the just transition and related concerns.

This report presents a synthesis of key commissioner and stakeholder perspectives, concerns, and recommendations arising from PCCs webinar on the proposed framework.



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1 Introduction and Context

The Presidential Climate Commission (PCC) welcomes the opportunity to make a formal submission to the National Energy Regulator of South Africa (NERSA) on the proposed transitional generation pricing and vesting contract framework. The PCC's interest arises from the recognition that the vesting contracts have significant implications for South Africa's emissions trajectory and the pace of the transition. South Africa's electricity sector has historically been characterized by a vertically integrated utility model dominated by Eskom. While this model enabled widespread electrification over the past decades, structural challenges, including generation capacity and transmission infrastructure constraints, aging infrastructure, rising electricity prices, and prolonged load shedding, have highlighted the need for fundamental reform. This fundamental reform is further pressured by global electricity system modifications as countries pursue their climate commitments and cleaner electricity generation.

The Electricity Regulation Amendment Act 38 of 2024 (ERA) and associated electricity market reforms seek to establish a more competitive electricity market that will:

- Improve energy security.
- Facilitate private sector participation.
- Enhance system efficiency.
- Support investment in new generation technologies.
- Improve governance and transparency.
- Support South Africa's climate and decarbonisation commitments.

The PCC's starting point is that the vesting contracts should be assessed not only from the ability to provide revenue certainty and manage the transition to the wholesale electricity market, but also in terms of their ability to facilitate South Africa's decarbonisation pathway. In addition, stakeholders acknowledged that electricity sector reform is necessary but emphasized that it must be implemented in a manner that supports the country's developmental objectives and delivers a Just Transition.

The PCC's submission focuses on six interrelated issues: the alignment of vesting volumes and phase-out pathways with South Africa's Nationally Determined Contributions (NDCs), the transparent treatment of stranded costs, the design of capacity markets to support system needs, the integration of decommissioning schedules into vesting contracts, transparency and market integrity in determining strike prices and the equitable and transparent allocation of costs arising from the transition.

2 Vesting Contract Framework- A lever for Decarbonisation

2.1 Vesting Volumes and NDC trajectory

The appropriate level and duration of the vesting contracts should be assessed against South Africa's 2030-2035 (NDCs). NERSA should ensure that the vesting volume and phase-out pathways are in line with the evolution of the electricity market, this approach supports a predictable transition by avoiding the creation of economic drivers that encourage the life extension of coal plants beyond decommissioning timelines.

2.2 The transparent treatment of stranded costs

The transition will expose potential stranded costs that are associated with the existing generation assets. These costs ideally should not be hidden in the strike price. It is important to identify stranded costs and treat them transparently so that market prices provide signals for investment, while the distribution of the transition costs are made explicit.

2.3 Capacity mechanisms as opposed to legacy cost recovery

Capacity payments run the risk of becoming an indefinite support to existing coal generation. Where additional capacity is required, the framework must enable competition across technologies. The capacity mechanism needs to respond to the needs of the future electricity system as opposed to simply cost recovery.

2.4 Linking vesting contracts to decommissioning

Vesting contracts should reinforce an orderly and the well managed retirement of coal generation linked to existing decommissioning schedules. Decommissioning schedules should be incorporated into the vesting arrangements so that contractual protections do not create financial incentives to extend the life of assets beyond system reliability. The predictability of retirement is essential for planning the just transition for affected communities and workers.

2.5 Transparency and Integrity

The assumption that underpins the strike price need to be transparent to allow stakeholders, broader than the regulator, to assess the implications for market prices, competition and investment. The Framework should safeguard merit order dispatch and price discovery.

Moreover, while NERSA acts as both a regulator and implementer, stakeholders raised growing concerns on who ultimately keeps the authority accountable.

2.6 Who ultimately pays

The costs of the transition must be made explicit. Protecting the value of legacy assets through a market simply transfers the costs to consumers and industry as

opposed to eliminating them. The framework should ultimately signal how legacy and stranded costs will be treated and ultimately who ends up bearing that cost

3 Stakeholder Perspectives

3.1 Affordability and Consumer Protection

The issue most frequently raised by stakeholders was electricity affordability.

Programme participants and stakeholders noted that electricity tariffs have increased significantly over the past fifteen years, resulting in growing levels of energy poverty among households. Many participants expressed concern that additional market reforms could introduce further upward pressure on electricity prices if not carefully managed. However, fewer participants mentioned that electricity prices will continue to rise to ensure access to electricity.

Thus, some participants stressed that electricity affordability cannot be considered separately from energy security. While lower prices are desirable, an underfunded electricity system risks compromising reliability, supply security, and economic growth. Stakeholders therefore emphasized the importance of balancing cost recovery requirements with affordability objectives.

Several concerns were raised regarding:

- Rising electricity tariffs.
- Household energy poverty.
- The effectiveness of Free Basic Electricity (FBE) programmes.
- Protection of vulnerable consumers.
- Affordability for low-income households and informal settlements.
- Managing electricity access for backyard dwellers and underserved communities.

Stakeholders argued that consumer protection objectives, as contained in the Electricity Regulation Act, should remain central to the design and implementation of the vesting contract framework.

3.2 Market Competition and Price Discovery

Stakeholders generally supported the principle of introducing greater competition into electricity generation and retail markets. Competition was viewed as necessary to improve efficiency, attract investment, drive innovation, and improve governance. Participants noted that transparent price discovery mechanisms would also support investor confidence and market liquidity.

However, concerns regarding Eskom's dominant market position during the transition period. Stakeholders warned that incorrectly structured vesting contracts could potentially:

- Distort price signals.

- Entrench market power.
- Limit new market entrants.
- Discourage investment in renewable energy and storage technologies.
- Reduce market competitiveness.
- Participants therefore emphasised the importance of transparent methodologies, regular review processes, and strong regulatory oversight to ensure that market outcomes remain fair and competitive.

3.3 Investment Signals and Energy Security

Stakeholders acknowledged that South Africa requires substantial investment in generation, transmission, distribution, and storage infrastructure over the coming decades. Reliable electricity supply remains essential for economic growth, industrial development, and social wellbeing. Participants observed that energy security depends heavily on the ability to attract sustained investment into the electricity sector.

Stakeholders highlighted the following priorities:

- Expansion of transmission infrastructure.
- Investment in renewable energy.
- Development of battery energy storage systems.
- Support for flexible generation technologies.
- Creation of clear long-term investment signals.

Several participants expressed concern that inappropriate vesting contract pricing could weaken investment signals by artificially lowering market prices and discouraging new capacity development. Such outcomes could ultimately threaten future reliability and increase the risk of renewed load shedding.

3.4 State Utility Sustainability

Stakeholders recognised Eskom's critical role in maintaining electricity supply and supporting the transition process. The proposed vesting contracts were broadly understood as necessary transitional mechanisms that provide Eskom with revenue stability as competition increases within the market. Participants recognised that an abrupt transition could destabilize Eskom and threaten overall system reliability.

Nevertheless, stakeholders cautioned that the framework should not perpetuate inefficiencies. Key issues identified included:

- Legacy debt obligations.
- Stranded asset risks.
- Coal-related costs.
- Operational inefficiencies.
- Market power concentration.

Stakeholders emphasized that while Eskom should be protected during the transition, market reforms must simultaneously create incentives for greater efficiency, improved performance, and accountability.

3.5 Community and Labour Concerns

Representatives from labour organisations and civil society highlighted several important concerns regarding the social impacts of electricity market reform.

Labour stakeholders stressed that electricity reform must support:

- Job retention and creation of sustainable green jobs.
- Skills development.
- Worker protection.
- Inclusive economic growth.

Civil society representatives identified concerns related to:

- Rising electricity costs.
- Energy inequality.
- Limited community participation.
- Municipal financial sustainability.
- Land-use conflicts associated with renewable energy development.
- Declining economic activity in coal-dependent communities.

Stakeholders argued that success should not be measured solely through market efficiency indicators but should also include outcomes such as reduced poverty, increased social inclusion, community development, and improved quality of life.

4 Just Transition Considerations

A dominant theme throughout the dialogue was the importance of aligning electricity market reform with South Africa's Just Transition objectives. Stakeholders consistently argued that electricity reform should contribute not only to market efficiency but also to broader social, economic, and environmental goals. Thus, emphasising the need for electricity market reform that is assessed through a Just Transition lens.

Stakeholders emphasised that the Transitional Generation Pricing and Vesting Contract Framework should be evaluated not only as a market reform instrument but also through the lens of **social and economic justice**. From a social justice perspective, concerns were raised regarding the affordability of electricity and the potential impact of market reforms on vulnerable households and communities already experiencing energy poverty. Stakeholders stressed that consumer protection measures, targeted subsidies and equitable access to reliable electricity must remain central to the transition process. From an economic justice perspective, participants highlighted the need for electricity market reform to contribute to broader developmental outcomes, including job creation, skills development, green industrialisation, localisation and economic diversification. Attention should be given to supporting workers and communities in coal-dependent regions to ensure that the benefits and opportunities associated with the energy transition are shared equitably across society.

Stakeholders also underscored the importance of **procedural justice** in the implementation of the proposed framework. Given the technical complexity of electricity market reform, participants called for transparent decision-making

processes, accessible information and meaningful stakeholder engagement throughout the transition. There was broad agreement that labour, civil society, communities, industry and consumers should have opportunities to participate in shaping reforms and understanding their implications. Effective stakeholder engagement will be essential to building public trust, strengthening accountability and ensuring that electricity market reforms are responsive to the needs and concerns of those most affected. Ultimately, stakeholders agreed that a successful transition should balance market efficiency and investment objectives with social inclusion, economic opportunity and broad-based participation in decision-making.

5 Key Risks Identified

Stakeholders identified several risks that may affect the successful implementation of the Transitional Generation Pricing and Vesting Contract Framework. While the framework is intended to support a stable transition to a competitive electricity market, concerns were raised regarding its potential impact on affordability, competition, investment and social outcomes.

A key risk relates to the setting of vesting contract prices. If prices are set too high, electricity consumers may face higher costs than necessary. Conversely, if prices are set too low, market signals may be distorted, potentially discouraging investment and hindering fair competition. Stakeholders also highlighted concerns regarding Eskom's dominant position in the market and the need for strong regulatory oversight to prevent market power from undermining competition and the participation of new entrants.

Participants further noted that weak or uncertain investment signals could discourage future investment in generation, storage and grid infrastructure, with implications for long-term energy security and system reliability.

The key risks identified include:

- Inappropriate vesting contract pricing that may affect affordability or market efficiency.
- Market concentration and potential abuse of market power.
- Reduced investment in generation, storage and network infrastructure.
- Rising electricity costs and increased energy poverty.
- Negative impacts on workers and coal-dependent communities.
- Regulatory uncertainty and implementation challenges.
- Limited transparency and stakeholder participation in decision-making processes.

Stakeholders agreed that these risks can be mitigated through transparent regulation, ongoing stakeholder engagement, robust oversight mechanisms and a strong commitment to Just Transition principles.

6 Stakeholder recommendations

Stakeholders generally supported the objectives of the Transitional Generation Pricing and Vesting Contract Framework but emphasised that its successful implementation will depend on transparency, effective regulation and ongoing stakeholder engagement. Participants noted that the framework should balance the goals of affordability, competition, investment certainty and energy security, while also supporting South Africa's broader Just Transition objectives.

A key recommendation was the establishment of a transparent and credible methodology for determining vesting contract prices. Stakeholders stressed the importance of regular reviews and monitoring to ensure that pricing outcomes remain fair, support efficient market operation and do not undermine competition or consumer interests. Strong regulatory oversight was also viewed as essential to prevent the abuse of market power and to promote confidence in the emerging wholesale electricity market.

Stakeholders further recommended that affordability and consumer protection remain central considerations during the transition. This includes strengthening targeted support mechanisms for low-income households, improving the implementation of Free Basic Electricity programmes and ensuring that vulnerable consumers are protected from disproportionate tariff increases.

To support long-term energy security, participants called for clear and stable signals that enable transparency, investment in generation, storage and transmission infrastructure. There was also support for measures that facilitate the integration of renewable energy technologies while maintaining system reliability and attracting private sector investment.

Finally, stakeholders emphasised the need for ongoing stakeholder engagement and transparent decision-making processes. Given the complexity of electricity market reform, there was broad agreement that meaningful participation by labour, communities, civil society, industry and consumers will be critical to building trust, improving accountability and ensuring that the transition delivers equitable outcomes.

The key recommendations can be summarised as follows:

- Implement a transparent methodology for vesting contract pricing.
- Strengthen regulatory oversight and market governance.
- Prioritise affordability and consumer protection measures.
- Provide clear investment signals to support future capacity development.
- Support worker reskilling, localisation and economic diversification.
- Promote meaningful stakeholder participation and transparency throughout implementation.
- Ensure that electricity market reform aligns with South Africa's Just Transition objectives.



7 Conclusion

Stakeholders generally support the objectives of electricity market reform and recognise the need for a transition toward a competitive wholesale electricity market. However, successful implementation of the Transitional Generation Pricing and Vesting Contract Framework will depend on achieving an appropriate balance between transparency, affordability, competition, investment certainty, energy security, and social justice.

The framework should therefore not be viewed solely as a temporary technical market instrument but as a key component of South Africa's broader economic, developmental, and Just Energy Transition objectives. Continued stakeholder engagement, robust regulatory oversight, and a strong commitment to consumer protection will be essential to ensuring a fair and sustainable transition.

8 Stakeholder Registry

The below is a register of organisations that attended PCCs Energy Dialogue on Electricity System Reform.

	Organisation Name	Social Partner Grouping
1.	AOL	Media
2.	Ayandala	Business
3.	Blueprint Group	Other - Uncertain
4.	Centre for Environmental Rights	Civil Society
5.	City of Cape Town	Local Government
6.	City of Tshwane	Local Government
7.	CPI Global	Business
8.	Council for Scientific and Industrial Research (CSIR)	Research - Government
9.	Development Bank of Southern Africa (DBSA)	Business
10.	Department of Transport	National Government
11.	Danish Embassy	International
12.	Earthlife	Civil Society
13.	Energy House	Business
14.	Engie Africa	Business
15.	Eskom	Government
16.	Foreign, Commonwealth & Development Office (FCDO)	International
17.	Genericcore	Business
18.	GOPA	Business
19.	GreenCape	Civil Society
20.	Groundwork	Civil Society
21.	Ikigai Engineering	Business
22.	Jet Africa	Other - Uncertain
23.	Kimbo Energy	Business

24.	Life After Coal	Civil Society
25.	MaxLite	Business
26.	Meida 24	Media
27.	National Energy Regulator of South Africa (NERSA)	National Government
28.	Nelson Mandela Bay Business Chamber	Business
29.	Northwest Business Show	Business
30.	New York University Stern School of Business	Academia
31.	PetroSA	Business
32.	Presidential Climate Commission Secretariat	Commissioners
33.	Presidential Climate Commission Secretariat	Secretariate
34.	Rosa Luxemburg Stiftung – Southern Africa	Civil Society
35.	SA Harvest	Civil Society
36.	South African Municipal Workers' Union (SAMWU)	Labour
37.	South African National Energy Development Institute (SANEDI)	Government
38.	SCATEC	Business
39.	sfs-sa	Other - Uncertain
40.	Sol Plaatje Local Municipality	Local Government
41.	Stellenbosch University	Academia
42.	Sustainable Energy Africa	Civil Society
43.	Technology Innovation Agency	Government
44.	The South Durban Community Environmental Alliance (SDCEA)	Civil Society
45.	Trade and Industrial Policy Strategies (TIPS)	Civil Society
46.	UASA	Labour
47.	United nations Industrial Development Organisation (UNIDO)	Intergovernmental Organization
48.	University of the Johannesburg	Academia
49.	University of the Witwatersrand	Academia
50.	Valterra Platinum	Business
51.	Western Cape Government	Provincial Government
52.	Working for Climate	Civil Society
53.	Worldonline	Civil Society
54.	WWF	Civil Society