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Eskom unbundling: Risky… but the biggest risk is not unbundling

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Please join us on 13 November for a discussion with Dr Greubel about this note.

WE HAVE AN UPCOMING WEBINAR ABOUT THIS RESEARCH NOTE!

Join the Impumelelo Economic Growth Lab for a webinar with Dr Garth Greubel on **Friday, 13 November**, as he discusses the risks arising from the restructuring process and how they should be understood in the South African context. You can register **here.** The recording will be made available to registered delegates afterwards.

Please refer to the glossary on the BER's **website** for explanations of technical terms.

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Executive summary

The unbundling of Eskom forms part of a wider restructuring of South Africa's electricity sector. The objective is to improve transparency, accountability, efficiency and competition by separating functions that were historically integrated within a single state-owned utility. What risks arise from the restructuring process, and how should those risks be understood in the South African context?

Unbundling creates specific risks around creditor consent, the allocation of assets and liabilities, and the replacement of internal coordination with contractual arrangements.

Market liberalisation raises separate questions about market design, price volatility and exposure to increased competition. Declining Eskom sales, municipal debt and weak revenue collection, and the transition away from coal are broader structural challenges that require attention regardless of unbundling, although separation can redistribute or intensify their effects

This analysis highlights that the biggest risk is not unbundling. Maintaining the status quo preserves coordination benefits but also entrenches Eskom's dominance, weak competitive pressure and reliance on administrative regulation. For at least the last 19 years, Eskom tariffs have risen far faster than inflation, while sales have declined as customers have adopted rooftop solar, batteries, wheeling and private procurement. This creates a utility-death-spiral risk: declining sales place upward pressure on tariffs, higher tariffs accelerate customer defection, and the remaining customer base becomes less able to pay and more dependent on subsidies. This dynamic affects both Eskom and municipalities. While there are risks to unbundling, these can be managed.

Moreover, the major risks are not primarily technical. They arise at the interface between finance, regulation, institutions, politics and implementation. A vertically integrated utility does more than own generation, transmission and distribution assets. It also allocates capital internally, shares working capital, absorbs payment delays, coordinates maintenance, manages common debt, cross-subsidises functions and customers, and resolves operational issues through internal hierarchy. Unbundling converts many of these internal arrangements into contracts, regulated transactions and institutional interfaces. If these functions are not identified, valued and replaced, separation can create new financial and operational vulnerabilities.

The first major risk is financial. Eskom's debt instruments may be affected by the transfer of major assets from Eskom Holdings into separate subsidiary entities. The key risk is not that restructuring constitutes a contractually triggering material adverse event. The more credible risk is that asset transfers may require lender consent or may breach instrument-specific covenants relating to disposals, reorganisations, representations or creditor protections. If such a breach is not cured or waived, it could become a default event and potentially trigger cross-default or cross-acceleration consequences in other parts of Eskom's debt portfolio.

Municipal debt and revenue collection represent a second major risk. Historic municipal arrears, estimated at approximately R119 billion (FY2026), arise from electricity supplied through Eskom Distribution. Once distribution is legally separated, this receivable must be dealt with explicitly. Transferring the full amount to National Electricity Distribution Company of South Africa (NEDCSA) could impair the new distribution entity from inception. Leaving it in Eskom Holdings would strand a large, impaired receivable in the residual group. While there is no rationale for allocating it to The National Transmission Company of South Africa (NTCSA), it would contaminate the transmission business with distribution credit risk. The historic arrear debt is therefore not merely an accounting allocation issue; it is an intergovernmental fiscal problem requiring a central solution.

The forward-looking municipal risk is equally important. The South African Wholesale Electricity Market (SAWEM) may reduce the accumulation of unsecured wholesale arrears by requiring market participants to maintain credit cover and meet settlement obligations. However, many municipalities are unlikely to participate directly in SAWEM and are more likely to continue purchasing electricity from Eskom Distribution (or in time NEDCSA). This means the credit risk does not disappear; it becomes concentrated in the distribution business. Weak metering, billing, revenue collection, credit control and infrastructure maintenance will continue to affect municipal payment discipline. Unless these problems are addressed, unbundling may simply move the municipal non-payment risk from Eskom Holdings into the future distribution business.

A third risk concerns institutional capacity. The implementation of SAWEM and the revised Electricity Pricing Policy will require a regulator with the skills, resources and authority to oversee an increasingly complex electricity market. The regulator's mandate is expanding from tariff and licence approval toward market oversight and continuous regulation of a competitive wholesale electricity market. Given past litigation, Eskom's sixth Multi-Year Price Determination (MYPD6) error, and earlier National Energy Regulator of South Africa (Nersa) risk-register concerns about skills and capacity, there is no clear evidence that the regulator's capabilities have expanded commensurately with its mandate.

Political economy risks are also central. Electricity-sector restructuring affects labour, coal communities, municipalities, lenders, investors and consumers. Organised labour may perceive unbundling as the first step toward privatisation. Management and staff may slow or frustrate implementation if they perceive the process as threatening. Coal-dependent regions face risks to employment and municipal revenue as the energy transition progresses. Policy continuity is also uncertain because electricity reform spans elections, ministers, boards and executive management teams. Fiscal constraints further complicate reform because the government may need to simultaneously support Eskom, capitalise successor entities, expand the grid, assist municipalities, fund the Just Energy Transition and protect affordability.

Eskom's own public framing reinforces the paper's argument. Eskom states that it supports sector reform and an independent Transmission System Operator (TSO), but it emphasises sequencing, lender consent, balance-sheet protection and the financial viability of successor entities. Its reluctance to transfer transmission assets immediately should therefore be understood as a concern about creditor approval, cross-default consequences and the ability of NTCSA to fund grid expansion. Similar issues arise for Generation and Distribution. Generation may inherit an ageing coal-dominated fleet while sales decline and competition increases. Distribution faces the clearest immediate risk: weaker municipalities are likely to remain

purchasers from Eskom Distribution, leaving the risk of non-payment concentrated in the distribution business.

Table 1: Risk identified and mitigation

Risk	Possible mitigation	Residual concern
Risk of not restructuring	Continue with reform, but sequence and coordinate it carefully. Establish non-discriminatory transmission access, SAWEM/trading rules, market governance and transparent tariff structures.	Delay preserves Eskom's dominance, weak competition, rising tariffs and customer defection.
Eskom debt and asset-transfer risk	Early and structured engagement with creditors; obtain waivers or consents where required; preserve creditor protections; use restructuring carve-outs where available. The mitigation is in sequencing and consent.	Full loan documentation is not public. Asset transfers may require wider creditor consent.
Historic municipal arrear debt	Treat it as an intergovernmental fiscal problem. Do not simply transfer the full debt to NEDCSA or contaminate NTCSA with distribution credit risk.	Requires a central government solution and fiscal space.
Future municipal non-payment	Prepayment, ring-fenced electricity revenue accounts, direct-collection mechanisms, enforceable payment plans, guarantees, smart/prepaid metering, Distribution Agency Agreements, third-party operators, and Metro Trading Services Reform for metros.	Risk remains concentrated in Distribution/NEDCSA if municipalities continue buying from Distribution.
Weak municipal electricity departments	Operational rehabilitation through Eskom agency agreements, third-party service contracts, trader/Balance Responsible Party (BRP) support, concession-type models where appropriate, and Metro Trading Services Reform programme in metros.	May trigger political concerns about privatisation or loss of municipal control.
Nersa capacity	Dedicated market-regulation capability, ring-fenced funding, specialist recruitment, technical assistance, external review panels, market-monitoring systems and planned SAWEM implementation.	Capability constraints may persist unless institutional strengthening is explicit and funded.
Political economy risks	Active change-management programme, early labour engagement, transparent communication, coal-belt transition planning and strong government leadership. Communicate that reform is intended to improve reliability, investment, efficiency and transparency, not necessarily to deliver immediate tariff reductions	Opposition may persist if reforms are perceived as privatisation or job destruction. Actual loss of jobs. Public support may weaken if prices continue rising in the medium term.

The overall conclusion is that unbundling can improve transparency, accountability and competition, but only if the transition is carefully sequenced and actively managed. The success of the reform will depend less on the legal act of separating entities than on whether the financial, institutional and political functions previously internalised within Eskom are adequately replaced. A credible restructuring programme must therefore address lender consent, municipal arrears, distribution, revenue security, regulatory capability, market design, public expectations, labour concerns and the financial sustainability of each successor entity.

This is the first of a three-part series examining the challenges currently facing South Africa's electricity sector. The other two consider transmission congestion and the measures required to address it, and the gas-supply cliff and its implications for the provision of flexible electricity supply

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Introduction

The South African electricity sector has been going through a period of fundamental restructuring, evolving over several years and includes the unbundling of the state-owned vertically integrated electricity utility, Eskom[1]. There is discussion within the electricity sector about the associated risks and the speed and extent of the unbundling. The risks that the South African industry faces have not been articulated in the literature.

This paper seeks to identify and contextualise the principal risks associated with Eskom's restructuring, distinguishing between risks that are inherent to utility restructuring generally and those that arise from South Africa's particular legal, financial, institutional and market circumstances. The principal risks of the restructuring are not primarily technical; they arise at the interface between finance, regulation, institutions, politics and implementation.

The broad global trend has been for electricity supply to initially be vertically integrated, mostly as a state-owned monopoly, providing both a utility and social function as countries electrified (Csereklyei and Kallies 2024). Over time, market reform has been introduced in many countries. This has taken many forms, including privatisation, unbundling and/or hybrid models. There is extensive international literature examining electricity-sector restructuring, market liberalisation and utility unbundling. The literature provides a useful conceptual framework by identifying the institutional, regulatory and market mechanisms that influence successful reform. In Japan, for instance, where the utilities were privately owned, the 'unbundling' was initially functional, as opposed to requiring a change in ownership, in contrast to Europe where the unbundling was achieved with a change in the ownership of the operating functions (Takahashi 2024). Within Southern Africa there has similarly been a range of structural outcomes (Twesigye 2022).

Many reasons have been advanced to motivate sector reform, however, at the core is a functional difference in the sub-sectors: generation is potentially a competitive segment, whilst transmission, a natural monopoly, is a regulated segment (Joskow 2022). The Japanese approach viewed distribution as a regulated monopoly along with transmission (Takahashi 2024). In the German market liberalisation, two of the country's four electricity suppliers elected to retain the transmission function within the ownership structure, but to operate it as an Independent Transmission Operator (ITO), while the other two suppliers legally separated the transmission function from generation (Takahashi 2024). There are many forms that market reform can take,

1 Eskom Holdings (SOC) Ltd, comprising generation, transmission and distribution functions. References to 'Eskom' or 'Eskom Holdings' in this paper will mean the corporate entity Eskom Holdings (SOC) Ltd, or when it is clear from the context, the whole Eskom Group. Similarly, 'Distribution' refers to the distribution division or function, as the context dictates.

but the core issue seems to be managing the tension between the competitive elements and the regulated monopoly elements of the utility. The choice of market structure informs the risk.

Importantly, research has demonstrated that in a transitioning electricity system, it is difficult to achieve all objectives simultaneously, and that there is often a tension between a regulatory framework that is dealing with a changing environment (and objectives) and private-sector funding that requires regulatory stability and certainty (Csereklyei and Kallies 2024).

The interaction between the legal and regulatory framework and economic market design in an unbundling process is more nuanced and complex than a mere corporate restructuring exercise.

The purpose of this note is not to revisit the broader debate on whether South Africa should unbundle Eskom, nor to advocate for or against the current policy direction. Rather, it proceeds from the premise that electricity-sector restructuring is underway and seeks to identify, analyse and contextualise the principal financial, operational, institutional and market risks.

We distinguish unbundling - the organisational and legal separation of Eskom's functions - from electricity-market liberalisation, which introduces competitive arrangements for generation and trading. It also examines structural challenges that require attention regardless of unbundling, because these shape the viability of the successor entities and the wider reform process. Municipal arrears, for example, predate separation; unbundling creates the additional question of which entity carries the receivable and the associated credit risk. The contribution of this paper, therefore, lies not in reviewing the merits of unbundling, but in discussing certain significant risks arising from the restructuring process and in arguing that the transition to a new electricity market should be understood and managed within a South African context.

Background

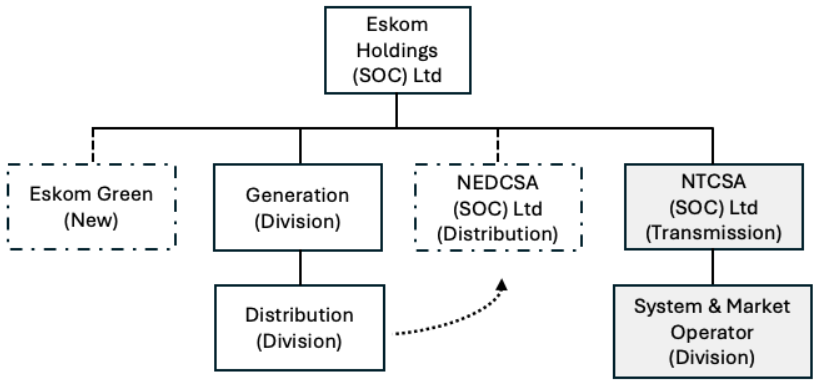
Eskom was configured as a vertically integrated utility with the generation, transmission and distribution functions operating as divisions,[2] the sector is governed by the Electricity Regulation Act[3] (ERA) and now, more recently, by an amendment to ERA[4] (amended ERA).

The amended ERA creates the legislative framework for the unbundling of the transmission function from Eskom to a wholly owned subsidiary, the National Transmission Company of South Africa[5] (NTCSA). Eskom has formed a subsidiary company to similarly transfer the distribution function into NEDCSA, but this step has not yet occurred[6]. Over time, both the transmission and distribution companies will be unbundled from Eskom and owned independently by the state. Eskom has announced that it will form an additional generation company, Eskom Green, which

[2] The Eskom Conversion Act (13 of 2001) converted the Electricity Supply Commission into a state-owned corporate entity.
[3] Act 4 of 2006
[4] Electricity Regulation Amendment Act 38 of 2024
[5] National Transmission Company of South Africa (SOC) Ltd.
[6] The legal entity has been formed: National Electricity Distribution Company of South Africa SOC Ltd (NEDCSA), and Ministerial permission has been granted in terms of the Public Finance Management Act (PFMA).

will own renewable generation assets[7]. The current and proposed future structure are illustrated in Figure 1.

Figure 1: Proposed Eskom corporate structure



The electricity supply sector has come out of a prolonged period of under-supply with rotational load-shedding a regular feature of the system between 2008 and 2024. Eskom's coal-dominated electricity supply was supplemented by renewable energy resources (RER) procured in terms of the Renewable Energy Independent Power Producer Program (REIPPP[8]), with the first project reaching commercial operation in 2013. In addition, load-shedding accelerated the adoption of roof-top solar PV (with batteries[9]) at both firm and household level. The current estimate is that these small-scale generators produce approximately 9.2GW of power (NTCSA 2026).

Load-shedding was caused primarily by operational problems in Eskom's generation fleet resulting in under-supply. At times, the electricity availability factor (EAF)[10] fell below 50%[11] meaning that less than half of the generation fleet was available to produce electricity. Eskom's current management has focused on plant maintenance and reducing unplanned outages. Over time, this has contributed to an improved EAF, with higher planned maintenance and lower unplanned outage levels. As plant performance has improved, the supply-demand balance has also changed. Increased REIPPP renewable generation, together with significant growth in rooftop solar PV, has reduced the demand that Eskom needed to meet from its own generation fleet.

The renewable-energy capacity currently delivered through the system is approximately 7.9GW[12] (shown in the Table 2 below) (NTCSA 2026). This figure excludes rooftop solar and other behind-the-meter generation because those resources reduce demand seen by the system rather than being dispatched through the grid. Notwithstanding the growth in renewable generation, the overall supply mix remains dominated by coal and nuclear, which together account for approximately 88% of supply (NTCSA 2025). Current peak demand is approximately 30GW, meaning that system-supplied renewable energy is equivalent to 25%-26% of peak demand

[7] The company has been formed and Eskom has received Ministerial permission in terms of the PFMA.
[8] The government procurement program for renewable energy which resulted in Eskom signing long term off-take agreements with the IPPs. The program rolled out through six rounds of bidding.
[9] Generally referred to as BESS - battery energy storage systems.
[10] EAF measures the proportion of the generation fleet available to produce electricity. The balance is either unavailable due to planned maintenance, measured as PCLF, or unavailable due to unplanned outages, measured as UCLF. %.
11 In a well-performing system, EAF would typically be materially higher, with a smaller proportion of the fleet unavailable due to planned maintenance or unplanned outages.
12 Roof-top solar and other behind the meter generation is not 'delivered through the system' and is therefore excluded from this calculation.

(NTCSA 2025). In addition, rooftop solar is estimated to reduce system demand by approximately 9.2GW.

Table 2: Renewable energy generation mix (delivered through the system)

Renewable energy technology	Installed capacity
Concentrated solar power	0.6 GW
Solar PV	2.78 GW
Wind	4.14 GW
Hybrid	0.33 GW
Total (including Other)	**7.90 GW**

The supply dynamics have therefore changed from the past where there was an under-supply of electricity (hence load-shedding) to one where there is now an over-supply of electricity at a system level, but with a temporal mismatch: significant over-supply during the middle of the day when the load is reduced due to the explosion in rooftop solar coupled with the solar power being generated by the REIPP. However, in both the morning and evening peaks the existing generation resources are stretched to match supply. In particular, coal technology is not suited to the quick ramp-up from the low demand in the middle of the day to the higher demand in the peaks. There is therefore an increasing need for what is known as flexible generation – generators that can quickly be ramped up and down to match the variability of renewable resources. Battery Energy Storage Systems (BESS) and gas are critical in this regard. A significant proportion of South Africa's gas supply is via pipeline from Mozambique. However, this supply will drop off significantly from 2028 – when South Africa is set to hit the so-called gas cliff. It is therefore essential that an alternate source of flexibility be identified before then, otherwise there will be a significant risk of load-shedding again.

The transmission system, in common with legacy transmission systems globally, was designed on the assumption that there would be a unidirectional flow of power, from the area where power is generated (the Highveld coal fields) to the load centres in Gauteng, KwaZulu-Natal and the Western Cape. Contemporary power systems have generation that is more widely distributed (due to increasing renewable generation), and often in areas where there is not an extensive transmission network (the northern Cape: solar PV, and in the Eastern Cape and West Coast: wind). The contemporary systems are also characterised by a bi-directional flow of power. As a result, the grid needs to be strengthened and expanded. Until this takes place, there will be instances of grid congestion – much like limited bandwidth in an internet connection – with the result that the System Operator will need to curtail generation in congested areas. The consequence is that even though there may be sufficient installed generation capacity to meet demand, the congestion may result in the load not being met. The South African grid requires approximately R440bn for strengthening and expansion (Eskom 2025).

As load-shedding persisted so customers sought alternate solutions to secure electricity supply. These included Behind-the-Meter (BTM) BESS and co-generation, rooftop solar, and independently purchased and wheeled electricity. This defection from the grid has negatively impacted both Eskom and municipal revenues.

Although the South African electricity sector has a few unique characteristics, including Eskom's historic structure, municipal electricity distribution and the legacy of prolonged loadshedding, many of the challenges currently confronting the industry are not unique to South Africa. Electricity sectors across the world are simultaneously adapting to increasing penetration of

renewable generation, decentralised customer-owned generation, changing demand profiles, transmission congestion and evolving market structures. Consequently, while the South African restructuring programme must ultimately respond to local institutional and political realities, the international experience provides a useful framework for understanding the opportunities, risks and implementation challenges associated with electricity-sector reform.

The international literature also demonstrates that electricity-market reform is rarely implemented as a single event or according to a single model. Countries have adopted differing ownership structures, market arrangements and regulatory approaches depending on their historical, institutional and policy contexts. While many jurisdictions have pursued some form of unbundling or market liberalisation, the literature consistently concludes that successful reform depends not only on separating potentially competitive activities from regulated monopoly functions, but also on establishing effective regulatory institutions, appropriate market design and clear governance arrangements.

Mature electricity markets continue to adapt their market rules in response to challenges such as renewable-energy integration, transmission congestion, investment incentives, affordability and security of supply. The evidence further shows that unbundling does not eliminate the need for coordination within the electricity sector. Rather, it transfers much of that coordination from within a vertically integrated utility to contracts, market rules and regulatory institutions. These experiences suggest that the principal challenge is not whether restructuring should occur, but how it should be sequenced and implemented within the institutional and economic realities of the country concerned. These themes are drawn from the international literature which is reviewed in greater detail in Appendix A**.**

It is against this changing system with more discerning customers that the risks of unbundling Eskom should be interpreted.

Risks and Discussion

A vertically integrated utility does more than own generation, network assets and customers. It also performs many coordinating functions internally. It allocates capital, shares working capital, manages common debt and provides credit support between functions. It coordinates generation and network maintenance, provides shared corporate services, allocates overheads and manages customer billing and collections. It also cross-subsidises customers and activities, allocates network and system costs, and provides ancillary services that are not always separately priced. Unbundling converts many of these internal relationships into external or regulated transactions. This can significantly improve transparency and efficiency.

Appendix B contains a more comprehensive list of the restructuring risks identified in this note. It also indicates whether these risks have been observed in other electricity-market reforms or whether they are particularly relevant to the South African context.

Liberalisation does not remove the need for coordination. It replaces coordination within a vertically integrated utility with coordination through markets, contracts, regulatory rules and institutional interfaces. Experience also shows that some coordination often has to be recreated through long-term contracts, capacity mechanisms and planning (Joskow 2022). The risk in unbundling is therefore not separation *per se.* The risk is that the financial, operational and coordinating functions previously managed inside Eskom are not properly identified, valued, or replaced when the businesses are separated.

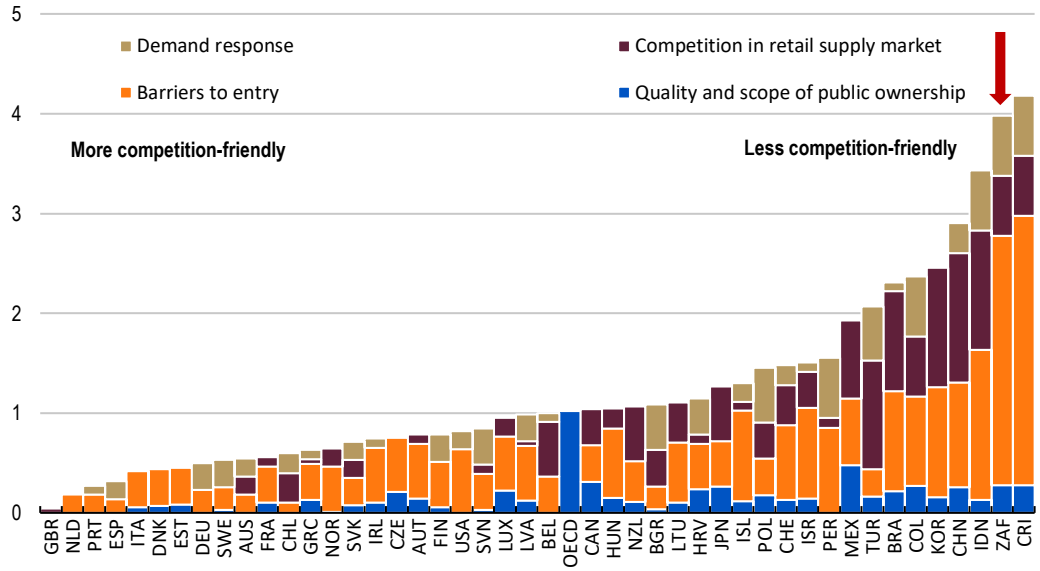
Some of the risks identified above are common to corporate restructuring generally. Others are specific to electricity-sector reform. This note does not seek to analyse every possible risk. It focuses on the risks most relevant to Eskom's restructuring: debt and creditor consent, municipal revenue collection, regulatory capacity, the risk of not restructuring, political economy constraints, and the risks identified by Eskom itself.

MAINTAINING THE STATUS QUO: THE RISK OF NOT RESTRUCTURING

A vertically integrated monopoly has advantages of coordination, but it also concentrates market power and limits competitive pressures. The OECD considers that South Africa's electricity sector remains significantly more regulated and less competitive than many comparator countries, with Eskom continuing to dominate generation, control transmission and remaining active in distribution. The OECD concludes that the current market structure limits the entry of new participants and recommends accelerating the unbundling of generation and distribution from Eskom to support a competitive electricity market (OECD 2025). An analysis performed by the OECD, presented Figure 2, illustrates that South Africa has one of the least competition-friendly electricity sectors (OECD 2025).

The OECD analysis is important because it identifies the structural characteristics of the South African electricity sector that motivated subsequent reform. However, its assessment should be read in the context of its effective date of 1 January 2023. Since that time, the legislative and institutional framework has evolved materially through the Amended ERA (2024) and, more recently, the new Electricity Pricing Policy (2026). Whilst these reforms are welcomed, the delays in implementation reinforce the structural concerns about Eskom's conflict of interest as a vertically owned utility and the concerns about non-discriminatory third-party access to the grid. Notwithstanding what appeared to be initial resistance to the transfer of the transmission assets to NTCSA, there have been positive statements from government regarding the direction and timetable of the reforms. The remaining challenge is therefore less one of legislative design than of implementing these reforms effectively.

Figure 2: Barriers to competition in the electricity sector



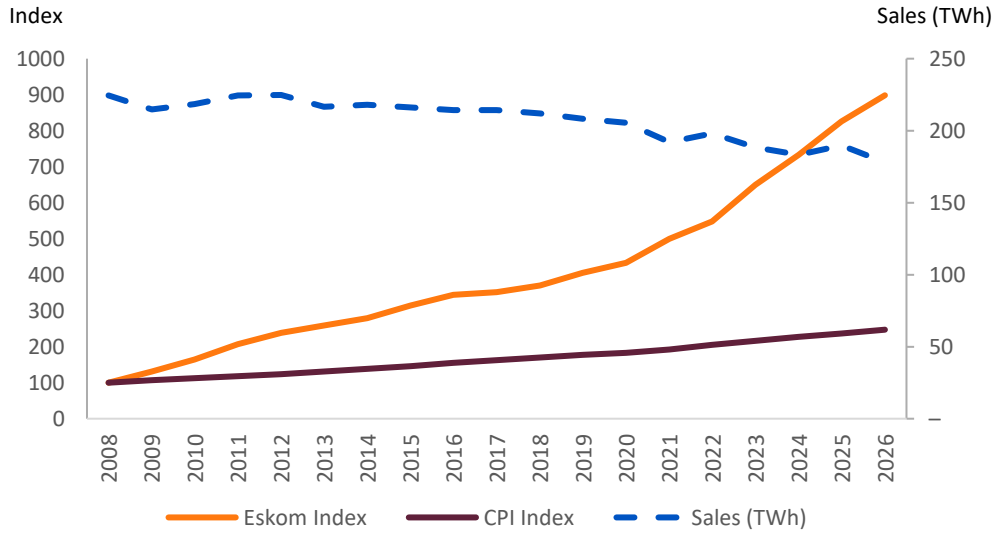
Source: (OECD 2025)

From a financial perspective, maintaining the status quo means that poor operational or financial performance cannot easily be disciplined through competition. Consumers and the regulator have limited alternatives to annual tariff applications, while investors face uncertainty regarding market access and pricing. Consequently, the absence of restructuring perpetuates reliance on administrative regulation rather than competitive market signals.

Electricity tariffs have increased almost tenfold since 2000 and far exceeded consumer price inflation (CPI) (see

Figure 3). Rising tariffs may have limited effect on Eskom's financial recovery as higher prices encourage customers to reduce consumption or seek alternatives thereby reducing revenue.

Figure 3: Eskom tariff increase Vs Inflation and Eskom Sales

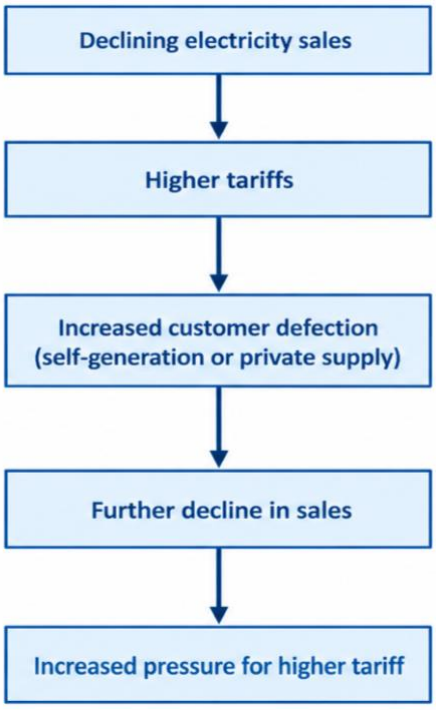


Source: Eskom, Stats SA, own analysis
*2026 figures are forecast

Figure 3 illustrates the indexed increase of Eskom tariffs over CPI [13]. The index is contrasted against Eskom sales expressed in TWh (right hand side), which reflects the sustained drop in sales over the last 19 years. The OECD explicitly identifies increasing self-generation by businesses and households as one factor contributing to Eskom's declining electricity sales and its rising financial pressures. It also notes that recent tariff increases may further accelerate movement towards off-grid and alternative electricity solutions.[14] (OECD 2025)

Eskom is therefore at risk of entering a vicious cycle in which declining electricity sales lead to higher tariffs, which in turn lead to increased customer defection (self-generation or private supply), as illustrated in Figure 4. This cycle is often referred to as a utility death spiral. Unlike in some countries, South African customers increasingly possess economically viable alternatives through rooftop solar PV, battery storage, and private wheeling arrangements with independent power producers. Consequently, above-inflation tariff increases are increasingly accelerating demand destruction rather than restoring Eskom's long-term financial sustainability.

Figure 4: Utility death spiral



Higher-income residential customers, mines, commercial customers and large industrial users generally possess both the financial ability to invest in self-generation, and sufficient electricity demand to justify long-term power purchasing arrangements (PPAs). These are often Eskom's and municipal distributors' most profitable customers, so this presents a serious financial risk to the Eskom distribution business and to municipalities.

[13] Base: 2008 = 100 for CPI and tariff, and $I_t = I_{t-1}(1 + r_t)$, where r_t=annual Eskom increase or CPI

[14] An example of a recent grid defection: https://mybroadband.co.za/news/industrynews/669191-sigenergy-in-action-how-northwest-crushers-broke-free-from-the-grid.html

As these customers progressively reduce purchases from the grid, the remaining customer base becomes increasingly concentrated among:

- lower-income residential customers;
- customers requiring subsidies;
- customers with lower load factors; and
- customers with weaker payment histories.

The consequence is that the costs of maintaining the transmission and distribution networks are recovered from a progressively smaller and less profitable customer base, creating pressure for further tariff increases and thereby reinforcing Eskom's downward spiral.

The same dynamic applies to municipalities. Many municipalities rely heavily on electricity surpluses to subsidise other municipal services. The growth in roof-top solar reduces electricity-based revenues and compresses municipal margins, while overdue payments from end-users contribute to municipal financial pressure and ultimately to the municipal arrears owed to Eskom. The OECD recommends revising municipal funding arrangements to reduce reliance on electricity revenues (OECD 2025).

Declining revenues ultimately translate into declining infrastructure investment. As discussed earlier, both the Auditor-General and the OECD identify significant underinvestment in municipal electricity infrastructure and inadequate maintenance expenditure. If electricity sales continue to decline while network costs remain largely fixed, distributors may defer maintenance and refurbishment, further accelerating the deterioration of substations, transformers and distribution networks. The consequence will be declining reliability, increasing technical losses and higher future replacement costs.

Eskom's declining sales mean that, even though its technical performance has improved over the last year, the utility faces a structural problem:

- costs remain dominated by fixed generation, transmission and debt-service costs;
- electricity sales continue to decline and
- tariff increases become increasingly difficult to manage politically and economically.

Maintaining the present structure, therefore, risks preserving a business model dependent upon repeated tariff increases rather than efficiency improvements or competitive market development.

The risks associated with maintaining the existing vertically integrated industry structure may ultimately exceed many of the transition risks associated with restructuring. Continued reliance on a dominant vertically integrated utility perpetuates above-inflation tariff increases, weak competitive pressures and increasing customer migration to self-generation and private power procurement. As higher-value customers progressively leave the regulated supply base, both Eskom and municipal distributors face declining electricity sales while continuing to recover largely fixed network and generation costs. The resulting deterioration in both municipalities' and Eskom's financial sustainability, and the likely knock-on effect of inadequate maintenance of energy infrastructure, represents a significant counterfactual risk that should be considered along with the other direct risks associated with Eskom's unbundling.

ESKOM DEBT

The restructuring of Eskom's divisions into separate corporate entities and the transfer of assets to those entities may have consequences under Eskom's debt instruments. The principal risk is not that restructuring automatically constitutes a Material Adverse Event (MAE) or immediately defaults the entire Eskom debt portfolio. The more credible risk is that a particular asset transfer, reorganisation, or change in corporate structure may require lender consent under a specific instrument. If that consent is not obtained, the transaction may breach an instrument-specific covenant, the consequences of which may trigger a cross-default clause.

This analysis is based on publicly available debt documentation, Eskom's financial statements and public statements by Eskom and government. It is therefore not a complete review of every Eskom loan agreement, bond instrument or development-finance facility. **A comprehensive analysis can only be performed from a review of all the financing documents.** However, the available information is sufficient to identify the main risk pathway and the likely route through it. A more detailed analysis is provided in Appendix C: Analysis of Eskom Debt, which identifies both guaranteed and non-guaranteed debt, analyses the potential effects of a MAE occurrence, waterfall effects and cross-default provisions.

Some Eskom debt instruments appear to have carve-out provisions that contemplate electricity-sector restructuring. If properly drafted and applicable, such provisions may permit restructuring steps taken in accordance with the broader industry-reform process without triggering adverse contractual consequences. The difficulty is that these clauses are not publicly available across all instruments. It is therefore not possible to determine how far that protection extends or whether it applies uniformly across Eskom's debt.

A MAE is a contractual concept. Its consequences depend on the wording of the relevant agreement. It may operate as a drawdown condition, qualify a representation, trigger a consent requirement, constitute an Event of Default, or have no immediate default consequence at all. It should therefore not be assumed that a restructuring, even if financially material, automatically constitutes a MAE or an Event of Default. A more detailed discussion of MAEs can be found in Appendix C.

The greater systemic risk is contagion. A restructuring step may breach a consent, disposal, reorganisation, representation or other covenant in one financing instrument. If not waived or cured, that breach may become an Event of Default. Once an Event of Default occurs, the relevant lender may be entitled to cancel undrawn commitments, require mandatory prepayment or accelerate the debt. It is that acceleration, or a failure to pay accelerated debt, that may then trigger cross-default or cross-acceleration provisions in other Eskom instruments. Eskom's 2026 AFS confirms that cross-default to other loans may be triggered in certain circumstances.

The unbundling also raises a creditor-protection issue even where no Event of Default occurs. Moving valuable revenue-producing transmission or distribution assets out of Eskom Holdings changes the asset and cash-flow base supporting legacy Eskom creditors. It may also create structural subordination if creditors of the new subsidiaries have claims against assets or revenues that were previously part of the Eskom group asset pool. This explains the importance of lender consent, intercompany arrangements, the NTCSA upstream guarantee, S7 creditor

protection under the Eskom Conversion Act, and the requirement that Eskom should not be left in a worse financial position after restructuring.

These risks are material, but they appear manageable. Eskom has already obtained creditor support for the legal separation of the transmission business into NTCSA and has engaged lenders in relation to the separation of the distribution business. That demonstrates that creditor engagement is a practical route through the restructuring risk. It is reasonable to assume that Eskom and government have explained the broader reform strategy to at least some creditors during these engagements. Further asset transfers may require engagement with a broader creditor group, but the existence of prior creditor consent indicates that this is a manageable risk rather than an absolute barrier to restructuring.

The appropriate conclusion is therefore not that Eskom's debt prevents unbundling. Rather, debt creates a sequencing and consent risk. The restructuring must be implemented through a managed process of creditor engagement, waivers or approvals where required, appropriate protection of legacy creditors, and careful allocation of assets, liabilities and guarantees among the successor entities. If this is done properly, the debt risk has a credible pathway to resolution.

MUNICIPAL REVENUE COLLECTION AND MARKET-PARTICIPATION CAPABILITY

A related unbundling risk arises from the financial and institutional capability of municipalities themselves. Many municipalities have historically experienced weaknesses in metering, billing, credit control, revenue collection, infrastructure maintenance and electricity-loss management. These deficiencies contribute directly to their inability to settle amounts owing to Eskom and will not be corrected merely by changing the wholesale-market structure. If municipal billing and collection performance does not improve, the requirement to fund wholesale electricity purchases in advance under SAWEM or from Eskom Distribution could intensify municipal liquidity pressures rather than resolve them.

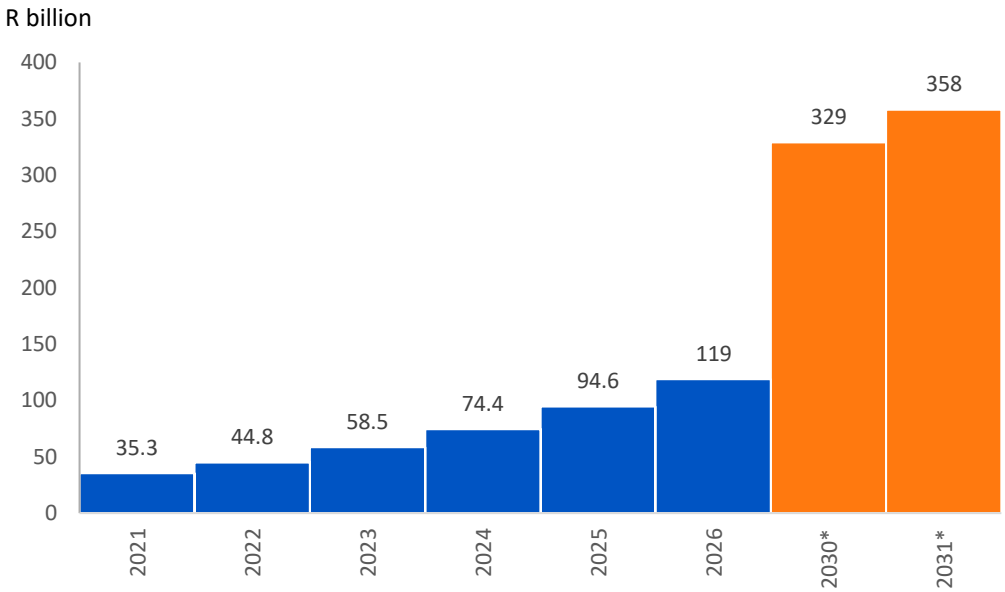
The municipal debt problem has both a historic and a forward-looking dimension. The historic arrear debt, which had reached approximately R119 billion[15] by FY2026 (Eskom 2026), arises from electricity supplied to municipalities through Eskom Distribution. However, Eskom Distribution is presently a division rather than a separate legal entity with its own balance sheet. Once Distribution is legally separated (presumably as NEDCSA), the arrear municipal receivable will need to be dealt with explicitly. The historic municipal debt does not extinguish upon unbundling, and it appears that Eskom plans to transfer this debt to NEDCSA[16] (Eskom 2025).

Notwithstanding the arrear municipal debt, it is being managed. Intervention by National Treasury will result in Eskom writing off R7.8bn by the end of the 2026 financial year[17], with another R4bn to be written off in the 2027 financial year (Eskom 2026). In addition, some municipalities and metros have made arrear payments; for instance, City Power paid Eskom R5.25bn in August 2026[18]. While these amounts are significant, the direction of travel does not

[15] Eskom does not recognise the full R119bn of municipal arrears, and R91bn was excluded as it did not mee the collectability requirement, R3.71bn was impaired and R17.1bn was recognised: Arrear municipal receivables at 31 March 2026 R111bn + R8bn net increase = R119bn. Not recognised R91.6bn +R3.71bn impairment +R17.1bn carrying value = R112.47bn (Eskom 2026) (Eskom 2026).
[16] At page 41
[17] (Eskom 2026) pg. 94 R4.2bn by 31 March 2026 and a further R3.6bn by the end of FY 2026.
[18] https://www.eskom.co.za/city-of-johannesburg-settles-in-full-r5-25-billion-overdue-electricity-debt/

seem to have altered (Figure 5). The historic municipal debt does not extinguish upon unbundling, and it appears that Eskom plans to transfer this debt to NEDCSA[19] (Eskom 2025).

Figure 5: Arrear Municipal Debt



Source: (Eskom 2025) (Eskom 2026)
* Eskom projection

Alternatively, it could remain in Eskom Holdings or be allocated in some other manner. Each option creates a material risk. Allocating the full arrear debt to a newly separated NEDCSA would risk making that entity financially unviable from inception. Leaving the receivable in Eskom Holdings would strand a large, impaired asset, with limited ability to generate sufficient future earnings to offset the balance-sheet effect. Allocating any part of it to NTCSA would be inappropriate, as it would contaminate the transmission business with distribution credit risk and could undermine the bankability of the transmission entity.

The municipal arrear debt should therefore not be treated simply as an accounting allocation exercise between Eskom entities. Eskom Holdings, Eskom Distribution/NEDCSA, NTCSA, and the municipalities are all part of the broader public sector. The arrear debt is therefore an intergovernmental fiscal problem. A sustainable restructuring cannot merely move the receivable from one public-sector balance sheet to another. It requires a central government solution that deals with the historic arrear debt while preventing the same problem from being recreated under the new market structure.

The forward-looking risk is different. SAWEM may materially reduce the risk of wholesale arrears by requiring market participants to maintain credit cover, comply with settlement rules and meet collateral or prepayment requirements. The Market Code (NTCSA 2026) provides that a licensed Distributor may apply to be a Market Participant, but this is permissive rather than mandatory. In reality, one expects many municipalities to continue purchasing electricity from Eskom Distribution, rather than procuring directly through SAWEM. The primary reason therefor

[19] At page 41

is the lack of internal capabilities and capacity to operate in SAWEM directly. The risk is therefore that municipal credit risk remains concentrated in Eskom Distribution/NEDCSA.

Municipal participation directly in SAWEM will require capabilities that extend well beyond many municipalities. Direct participants will need load forecasting, energy procurement, bidding, trading and cash-management systems. In addition, they will need adequate metering and settlement systems, and systems capable of interfacing with the Market Operator.

Broadly speaking, the South African municipal electricity departments are under-capacitated, poorly maintained, constrained by capital for upgrades and expansion (OECD 2025). The Auditor General has similarly identified weaknesses in municipal institutional capability, revenue management and infrastructure maintenance (AGSA 2024). As a result, the municipalities, with the exception of one or two metros, will likely not be fully able to participate directly in SAWEM.

The Market Code distinguishes between direct market participation and balance responsibility. Rule 4 provides that a licensed Distributor qualifies as a Balance Responsible Party (BRP) where it does not purchase energy from another Distributor that is itself a BRP. A qualifying Distributor must then either register as a BRP with the Market Operator or designate another willing BRP to act on its behalf. This means that a municipality does not necessarily need to develop the full capability to trade directly in SAWEM if it continues to purchase from another Distributor, such as Eskom Distribution/NEDCSA, or if it procures the relevant trading and balance-responsibility services from a capable intermediary.

Accordingly, the revenue risk associated with unbundling can be summarised as three distinct exposures. First, the historic municipal debt must be allocated or otherwise resolved without undermining the financial viability of Eskom Holdings, NTCSA or Distribution/NEDCSA. Second, SAWEM's credit-cover and prepayment mechanisms should reduce future wholesale credit exposure for direct market transactions, but it does not resolve the underlying risk of municipal financial distress. Third, because many municipalities are likely to continue purchasing from Distribution/NEDCSA rather than participating directly in SAWEM, the future risk may be the concentration of municipal credit risk in the Distribution/NEDCSA or another entity.

Accordingly, the lack of municipal capability to participate directly in SAWEM is a lesser risk than initially appears, because municipalities can continue to procure through Distribution or appoint another BRP. The more material risk is that weak municipalities continue to purchase from Eskom Distribution/NEDCSA without resolving the underlying revenue-collection and payment problem. In that scenario, SAWEM may protect the wholesale market from the accumulation of unsecured municipal arrears, while Distribution remains exposed to the same non-payment risk that historically accumulated within Eskom.

This has important implications for the financial viability of the future Distribution entity. If Eskom Distribution/NEDCSA becomes the default supplier to the municipalities that do not participate in SAWEM, it will require robust revenue-security mechanisms. These may include prepayment, ring-fenced municipal electricity revenue accounts, direct collection arrangements, enforceable payment agreements, guarantees, interruption or restriction rights where legally permissible, or government-backed support. Without such mechanisms, unbundling may simply move municipal non-payment risk from Eskom Holdings into the separated Distribution business.

National Treasury's Metro Trading Services Reform Programme[20](MTSR) may provide risk mitigation for metros**.** The programme is aimed at reversing the long-term decline in municipal trading services, including electricity, and other infrastructure management. It is a voluntary, performance-based incentive for the eight metros to improve the financial and operational performance of their services. The programme addresses some of the underlying causes of municipal non-payment: weak accountability, poor financial transparency, underinvestment, inadequate operational performance and insufficient revenue collection.

However, the programme is a mitigant rather than a complete solution. It does not extinguish historic arrear debt, and it is directed at metros rather than all municipalities. It therefore assists with the forward-looking payment and service-performance problem in metros, but it does not by itself resolve the broader municipal arrears problem or the position of weaker local municipalities outside the programme. For those municipalities, Distribution Agency Agreements, third-party service contracts, concession-type arrangements, prepaid or ring-fenced revenue mechanisms and enforceable payment arrangements remain necessary.

The operational condition of municipal electricity departments remains a separate but related risk. A municipality may avoid direct SAWEM participation by purchasing from Distribution, but that does not remedy poor metering, inaccurate billing, weak collections, high technical and non-technical losses, or inadequate maintenance of local networks. These failures affect the municipality's ability to pay for electricity, regardless of whether it buys through SAWEM or from Distribution. They also affect service quality to end-users and may undermine the revenue base of both municipalities and the future NEDCSA. In this regard, the World Bank notes that the financial health and operational strength of distribution utilities is a key driver of overall power-sector performance(Foster and Rana 2020). A financially weak distribution utility can undermine the entire payment chain, while local network weaknesses can prevent power from reaching customers even where bulk electricity is available.

Private-sector participation may have a role in addressing distribution weakness, but it should not be treated as a general solution. The World Bank finds that private-sector participation in distribution has delivered good outcomes in favourable settings but has also been susceptible to reversal where enabling conditions were absent (Foster and Rana 2020). In Sub-Saharan Africa, management contracts have had a mixed record, including difficulties with labour relations, recruitment and retention of qualified managers, and inadequate transfer of skills. Reversals have also been associated with poor operational data, underestimation of losses, failure to apply tariff regulation, stakeholder opposition and tariff increases not matched by immediate improvements in service quality.

The World Bank therefore recommends that private-sector participation in distribution should be considered only where enabling conditions are present (Foster and Rana 2020). These include reasonably accurate operational and asset data, tariffs close to cost recovery, enforceable disconnection for non-payment, and a competent regulator with the power and technical ability to adjust tariffs and monitor service quality. It also emphasises political preconditions, including stakeholder support and a clear value proposition for private-sector involvement.

For South Africa, the better formulation is therefore not that municipal distribution should simply be privatised, but that weak municipal distribution functions may require structured

[20]**https://www.treasury.gov.za/comm_media/speeches/2025/2025%20%20Metro%20Trading%20Services%20Reform%20Engagement%20FAQ.pdf**.

operational intervention. Depending on the municipality, that intervention could take the form of Eskom Distribution acting under a distribution agency agreement, a third-party service contract, a licensed trader or BRP arrangement or, in more commercially viable areas, a concession-type model. The appropriate model should depend on the municipality's financial position, quality of operational data, technical capacity, tariff path, labour implications, political support and ability to meet either direct or indirect SAWEM participation requirements.

The municipal risk can therefore be viewed as follows: if the municipal debt in arrears is resolved at the governmental level, the immediate market-participation risk is manageable because not all municipalities need to participate directly in SAWEM. The deeper risk is that most municipalities may continue to rely on Eskom Distribution/NEDCSA, leaving the future Distribution entity exposed to municipal non-payment. SAWEM may change the contractual and settlement architecture, but it does not, by itself, solve the municipal revenue problem.

INSTITUTIONAL CAPACITY AND READINESS OF THE REGULATOR

The successful implementation of SAWEM depends not only on the legislative framework but also on the regulator's ability to administer an increasingly sophisticated electricity sector. The revised Electricity Pricing Policy (DEE 2026) substantially expands the scope and complexity of Nersa's responsibilities in addition to the enhanced scope of regulation from the amended ERA that now incorporates SAWEM. Nersa is required not merely to approve tariffs, but to design, implement and continuously oversee the regulatory framework of a competitive electricity market. This raises a legitimate question as to whether the institution's resources, specialist expertise and organisational capacity have expanded commensurately with its significantly enlarged mandate.

There have been multiple instances where Eskom has litigated with Nersa regarding tariff calculations and adjustments thereto. This tends to demonstrate a lack of confidence in the decisions made by Nersa. For example, Nersa recently made a material (R54bn) error in assessing the sixth Multi-Year Price Determination (MYPD 6), which determination grants Eskom tariff increases. Nersa was called to account before the Energy and Electricity Parliamentary sub-committee, and during the hearing conceded that the root causes of the error included a breakdown in controls, a failure to review of verify information and a lack of efficient communication (Parliament 2025).

In prior years as part of its annual reporting, Nersa produced a strategic risk register. One of the risks it identified was attracting and retaining critical skills. According to Nersa's analysis, its ability to perform mandated functions has been impaired by inadequate internal knowledge of energy sector regulation[21]. In recent years, Nersa ceased publishing the register. The absence of such reporting should not be interpreted as evidence that the underlying risks have been eliminated, however. Given the substantially expanded regulatory mandate associated with Eskom's unbundling and the implementation of SAWEM, together with the increasing technical complexity of wholesale electricity market regulation, there is no clear evidence that Nersa's capacity challenges have materially improved.

[21] Nersa Annual Performance Plan 2015/16-2017/18, Strategic Plan 2015/16-2019/20

Nersa will require a dedicated electricity-market regulation capability that is properly resourced and ring-fenced from ordinary tariff-administration functions. This should include specialist capacity in market monitoring, settlement systems, congestion management, tariff design, balancing and ancillary services, trading rules, competition issues and financial-risk monitoring. A properly planned and coordinated implementation of SAWEM would also reduce risk. In addition, Nersa should consider restoring a transparent strategic-risk reporting process, supported by external expert review of major market and tariff determinations. Technical assistance, specialist training, secondments and peer-review arrangements with experienced electricity regulators and market operators could also help build capability during the transition. Without such measures, the regulator may become a bottleneck in the reform process even if the legislative framework is sound.

POLITICAL ECONOMY CONSIDERATIONS: REALITIES WITHIN THE COUNTRY

Electricity-sector restructuring is often analysed as a legal, financial or engineering exercise. In practice, however, the implementation of reform is equally influenced by political, institutional and organisational considerations. International experience demonstrates that technically sound reform programmes may be delayed, modified or fail altogether where insufficient attention is paid to stakeholder incentives, institutional capability and political-economy considerations (Joskow 2022) (Csereklyei and Kallies 2024) (Valenzuela and Rhys 2022) (Twesigye 2022). The following issues should therefore not be viewed as arguments against restructuring itself, but rather as implementation risks that require active management if the reform programme is to succeed.

Privatisation concerns

The proposed restructuring has been characterised by some stakeholders as the first step towards privatisation of the electricity sector. Although government has repeatedly stated that NTCSA and the future distribution entity will initially remain wholly state owned, organised labour and political stakeholders have expressed concern that legal separation facilitates future private ownership or the partial disposal of state assets. Whether or not that concern ultimately proves justified is less important than the practical consequence that it influences stakeholder behaviour and acceptance of the restructuring programme. Within South Africa, organised labour has historically opposed the privatisation state-owned enterprises and, in so far as the governing alliance includes Cosatu and the South African Communist Party (SACP), these concerns represent a material implementation risk that requires direct engagement rather than dismissal.

Management and organisational resistance

Successful restructuring depends not only upon legislative change but also upon implementation by the existing management and workforce. Corporate restructurings frequently fail because employees and management perceive the proposed changes as threatening established authority, organisational identity or future employment. In a technically complex organisation such as Eskom, implementation depends upon the cooperation of individuals possessing both institutional and technical knowledge that cannot easily be replaced. Passive resistance, delays in decision-making, slow implementation of organisational changes or reluctance to transfer responsibilities may materially delay the reform programme even where the legislative

framework is complete. Recent public reporting surrounding the transfer of transmission assets illustrates that implementation should not be assumed to be automatic once legal authority has been established. This is a serious change-management issue which should be addressed.

Employment

Historically, Eskom has served not only as an electricity utility but also as an important source of formal employment within South Africa. As the successor companies become subject to greater commercial discipline and, ultimately, increased competitive pressure, questions regarding workforce size and productivity are likely to arise. Previous benchmarking exercises have suggested that Eskom's staffing levels exceed those of comparable utilities (Trimble, et al. 2016), although Eskom and others have disputed both the methodology and conclusions of those studies. Irrespective of the precise level of overstaffing, there is a widely held expectation that restructuring and increased competition may ultimately lead to workforce rationalisation. Given South Africa's exceptionally high unemployment rate, any perception that restructuring is going to be associated with significant job losses is likely to generate substantial political and labour resistance.

Regional economic and social considerations should not be ignored

The restructuring of Eskom cannot occur in isolation from South Africa's broader energy transition. Coal-fired generation remains geographically concentrated in Mpumalanga, where the electricity industry supports a substantial regional economy extending well beyond Eskom itself. Mining companies, transport and logistics providers, maintenance contractors, engineering firms, municipalities and local businesses are all closely integrated with the coal value chain. The gradual retirement of ageing coal-fired power stations, together with the increasing penetration of renewable generation, therefore, has implications that extend beyond electricity supply to regional employment, municipal revenues and local economic activity.

These regional impacts create a significant political-economy consideration for electricity-sector reform. Communities that perceive themselves as bearing the economic costs of restructuring are likely to resist the pace or direction of reform, irrespective of the longer-term national benefits. Government has recognised this challenge through the Just Energy Transition (JET) framework, which seeks to manage the social and economic consequences of decarbonisation (JET-IP 2026).

The success of Eskom's restructuring should therefore not be assessed solely by the establishment of new corporate entities or market institutions, but also by the extent to which the transition is accompanied by credible programmes for worker reskilling, regional economic diversification, infrastructure investment and support for affected municipalities. Failure to address these issues risks creating political resistance that could delay or undermine the broader restructuring programme.

Policy continuity and implementation certainty

Electricity-sector reform is a long-term undertaking that typically spans a decade or more, whereas political and institutional leadership often changes on a much shorter cycle. South Africa's restructuring journey has already extended across multiple administrations, Eskom boards and successive executive management teams. Each leadership transition introduces the possibility of changing priorities, revised implementation timetables or different interpretations

of the reform programme. The risk is not necessarily that reform will be abandoned, but that inconsistent policy direction and implementation uncertainty may erode stakeholder confidence.

This risk is particularly important because the restructuring requires substantial long-term commitments by lenders, investors, municipalities and market participants. President Ramaphosa has firmly backed the sector reforms, and the Office of the Presidency has been actively driving the reform process. However, Ramaphosa's second term of office will end in 2029, and it is not certain who will replace him or whether his successor will support the reform effort. This creates uncertainty[22]. Transmission expansion, market-system development, institutional capacity building and private-sector investment all depend upon confidence that the policy direction will remain broadly stable over many years. Frequent changes in leadership or implementation priorities may delay investment decisions and increase perceptions of regulatory risk. Maintaining broad political consensus and institutional continuity throughout the restructuring process is therefore as important as the legal framework itself. Electricity-sector reform should be viewed as a long-term national programme rather than one associated with a particular administration or political office bearer.

Fiscal constraints and competing public priorities

The restructuring of Eskom takes place within a fiscally constrained environment in which government faces numerous competing expenditure priorities. Public resources may simultaneously be required to support Eskom's financial sustainability, capitalise the successor entities, expand and modernise the transmission network, assist financially distressed municipalities, facilitate the Just Energy Transition and maintain affordability for electricity consumers. These objectives are individually significant and, in many instances, complementary. Collectively, however, they compete for limited fiscal capacity.

Fiscal constraints therefore represent an implementation risk rather than simply a financing issue. Delays in transmission expansion, inadequate capitalisation of successor entities, insufficient municipal support or reduced funding for transition programmes may each impede the successful implementation of the broader restructuring programme. Similarly, attempts to minimise fiscal expenditure in one area may increase costs elsewhere. For example, inadequate investment in transmission infrastructure may delay renewable-energy integration, while insufficient support for municipalities may weaken distribution performance and revenue collection. A credible restructuring programme should therefore recognise the interdependence of these objectives and be accompanied by a transparent financing strategy that clearly identifies the allocation of responsibilities between government, Eskom, regulated tariffs and private capital.

Public expectation and reform credibility

Electricity-sector restructuring is frequently accompanied by public expectations that increased competition will lead to lower electricity prices. While improved market efficiency may reduce costs over the longer term, the short-term outcomes are likely to be considerably more nuanced. South Africa's electricity sector continues to carry substantial legacy costs, including Eskom's debt burden, significant transmission investment requirements, ageing generation assets, and

[22] While President Ramaphosa's term as Head of State (President) ends in 2029, his term as ANC President ends in 2027. We evidenced with then President Mbeki, a newly elected ANC President recalled him from his role as Head of State. There is therefore precedent in South Africa for an early recall.

the costs associated with maintaining security of supply and implementing the energy transition. Restructuring changes the institutional and market arrangements through which electricity is produced, transported and traded, but it does not immediately remove these underlying costs. Consequently, the benefits of reform are more likely to emerge gradually through improved efficiency, better investment signals, increased competition and enhanced operational performance than through an immediate reduction in end-user tariffs.

If restructuring is presented or perceived as a mechanism that will rapidly reduce electricity prices, a failure to meet those expectations may undermine public confidence in the broader reform programme. Public support may diminish even where the restructuring is successfully delivering other important objectives, such as improved transparency, greater competition, increased private investment, enhanced system reliability or more efficient market operation. It is therefore essential that government and sector institutions communicate clearly that the primary objectives of restructuring are to improve the long-term sustainability, resilience and efficiency of the electricity sector, rather than to provide an immediate reduction in electricity tariffs. Managing expectations is an integral component of successfully implementing the reform programme.

Political economy conclusions

Unlike many of the financial and contractual risks discussed elsewhere in this paper, these political-economy considerations cannot be eliminated through legislation, contractual drafting or market design alone. They require sustained political commitment, stakeholder engagement and institutional leadership throughout the implementation period. International experience suggests that the success of electricity-sector reform depends as much on managing these broader political and societal realities as it does on the technical design of the market or the legal separation of the successor entities. Pollitt points out that the process emerges over time, and Joskow cautions that the nature of the coordination similarly changes, rather than disappears (Pollitt 2008) (Joskow 2022). In the South African context, where electricity affordability is both an economic and a social imperative, public expectations regarding prices should be managed alongside realistic communication regarding reliability, investment requirements and the long-term benefits of a competitive electricity market.

Successful electricity-sector reform requires considerably more than legislative amendments or corporate restructuring. The technical design of the market, the financial structure of the successor entities and the legal framework may all be appropriate, yet the reform programme may nevertheless falter if insufficient attention is paid to stakeholder incentives, institutional capability, labour relations and broader political realities. International experience suggests that these issues are best managed through early engagement, transparent communication and careful sequencing rather than being treated as secondary considerations.

THE RISKS AS ESKOM SEES THEM

Eskom’s public position is that it supports electricity-sector reform and the establishment of an independent Transmission System Operator (TSO). Its concern appears to be with sequencing, its financial sustainability and the reform consequences for its debt obligations. Eskom is therefore not publicly opposing unbundling; rather, it is warning that the reforms must be implemented in a way that preserves lender confidence, protects the balance sheet and leaves the successor entities financially viable.

Eskom's board recently stated that it now shares President Ramaphosa's vision of an independent TSO that will own the transmission assets "at the appropriate point in the future", while also emphasising its fiduciary duty to keep Eskom financially sustainable[23].

Eskom raises the risk of transferring the transmission assets outside Eskom Holdings, even though it will be to a 100% subsidiary company (the NTCSA). The concern is discussed earlier in this paper. If implemented incorrectly, disposing of assets may affect creditor protections and have possible cross-default consequences. The first phase of separating transmission into the NTCSA, required creditor consent but had limited impact on Eskom's broader capital structure. One would assume that if creditor approval had been obtained for the separation of transmission and distribution from Eskom (Eskom 2025), then permission could also be obtained for the asset transfer as it is part of the broader unbundling strategy. However, Eskom has stated that the asset transfer would require the consent of a broader group of creditors[24]. This explains Eskom's reluctance to transfer the transmission assets immediately, notwithstanding its more recent public support for the overall reform direction. The issue is not simply ownership preference and even if the asset transfer is not itself a MAE, it may still require lender consent and could create default or cross-default consequences if implemented without the necessary approvals. On the other hand, R440bn is required for the extension and strengthening of the grid, and without a balance sheet supported by significant assets, it may be difficult for the NTCSA to raise the funding.

The transmission issue raises a policy tension identified in the literature. Pollitt argues that non-discriminatory access and transmission investment are central reasons for separating transmission (Pollitt 2008). South Africa therefore faces a sequencing and independence problem. It must create a transmission function capable of supporting non-discriminatory grid access and SAWEM in an independent manner, while avoiding a transfer structure that leaves Eskom financially weakened or the NTCSA under-capitalised. The concern is not only legal separation. It is whether the separated entity has the assets, regulated revenue and balance-sheet strength to fund the required grid expansion while simultaneously becoming truly independent.

Risk to the generation business (which will remain in Eskom Holdings) is less directly stated in Eskom's public comments, but it follows from the same financial logic. A separated generation company would inherit a large, ageing and coal-dominated fleet, including expensive assets such as Medupi and Kusile. It would do so at a time when Eskom-supplied electricity sales are declining and competition from embedded generation, wheeling and private procurement is increasing. As discussed earlier, Eskom already faces a structural problem: fixed generation, transmission and debt-service costs remain high, while sales volumes are falling and tariff increases are becoming more difficult, politically and economically.

Generation therefore raises a stranded-cost and transition-risk problem. Older coal stations will retire over time, but Generation must still fund maintenance, environmental compliance and decommissioning. The Generation business may therefore be commercially exposed at precisely the point at which it must maintain reliability, compete with new entrants and support South Africa's energy transition. While the old coal stations produce relatively cheap power, they cause significant emissions and may incur environmental fines. The new coal stations produce

[23] Eskom media statement 31 August 2026. https://www.eskom.co.za/eskom-reports-second-consecutive-profitable-year-as-turnaround-strategy-execution-strengthens-operational-recovery-energy-security-and-financial-sustainability/
[24] Eskom Group CEO Dan Morokane, 30 January 2026: https://www.businessday.co.za/opinion/2026-01-30-dan-marokane-eskom-on-a-mission-to-lower-electricity-costs-amid-reform/

expensive power and are therefore non-competitive even though Eskom will be protected in SAWEM via 'legacy contracts'.

Distribution carries the most immediate risk from Eskom's perspective. Eskom has expressly linked the timing and viability of NEDCSA to municipal debt. This is consistent with the analysis earlier in this note. The historic municipal arrear debt cannot simply be moved to NEDCSA without potentially impairing the new distribution company from inception. Leaving it in Eskom Holdings creates a different problem: the residual group would retain a large, impaired receivable without necessarily retaining the future revenue stream associated with municipal supply.

The ongoing municipal non-payment risk is even more important. As discussed earlier, many municipalities are unlikely to participate directly in SAWEM. They are more likely to continue purchasing from Eskom Distribution/NEDCSA. That means SAWEM may protect the wholesale market from accumulating unsecured municipal arrears, but the risk does not disappear. It remains concentrated in Distribution, and will require significant controls, which could include distribution agency agreements, which essentially outsource the function to Distribution (as the agent for the municipality). The non-payment risk has persisted for many years, it has grown, and municipal debt is now expected to reach almost R358bn by 2031[25]. The mere unbundling of Distribution does not resolve the issue; it requires a definitive solution.

Eskom is concerned that the commencement of SAWEM creates a risk that some customers may avoid shared system costs, public-interest obligations or legacy costs by moving away from Eskom supply. This links directly to the utility-death-spiral risk discussed earlier. If higher-value customers leave the regulated supply base while fixed costs remain unchanged, the burden shifts to the remaining customers, municipalities and the fiscus. Eskom's concern is therefore not only competition itself, but an uneconomic bypass that facilitates an unfair allocation of common system costs.

From Eskom's point of view, the major risks are not simply technical questions of corporate separation. They include asset transfers, lender consent, market design, municipal payment discipline, tariff structures and institutional sequencing. The reform must create entities capable of operating in a more competitive electricity sector, while ensuring that legacy debt, municipal arrears, coal-fleet obligations and shared system costs are not left unresolved.

The mitigation measures differ by risk type. Debt risk is mitigated through creditor engagement, waivers, consents and careful allocation of assets and liabilities. Municipal non-payment is mitigated through intergovernmental resolution of historic arrears, revenue-security mechanisms, operational rehabilitation of weak municipal electricity departments and, in metros, the National Treasury's MTSR programme. Regulatory-capacity risk requires deliberate institutional strengthening of Nersa and coordinated market implementation. Political-economy risks require active change management, open communication and firm government leadership. The common feature is that none of these risks is self-correcting. Each requires an explicit mitigation strategy and an accountable institution responsible for implementation.

[25] Minister Ramokgopa 22 September 2026: https://mybroadband.co.za/news/energy/668522-r358-billion-threat-to-eskom.html

Conclusions

The risks associated with Eskom's restructuring are material, but they are not insurmountable. The central finding of this note is that the major risks arise less from the legal act of separation itself than from the financial, institutional and political arrangements that must replace the coordination previously internalised within Eskom. Unbundling moves relationships that were once managed within a single vertically integrated utility into contracts, regulated interfaces and separate balance sheets. The success of the reform therefore depends on whether these interfaces are properly identified, funded, governed and sequenced.

The greater risk is not unbundling. The risk of maintaining the status quo should also not be understated. The current structure preserves some coordination benefits, but it also preserves Eskom's dominant position, weak competitive pressure, reliance on repeated tariff increases and exposure to customer defection. Eskom tariffs have risen substantially faster than inflation while sales have declined. If higher-value customers continue to reduce purchases from the grid through self-generation, wheeling and private procurement, Eskom and municipalities may be left recovering largely fixed system costs from a shrinking and less-profitable customer base. The status quo is therefore not risk-free; it may itself deepen the financial pressures that restructuring seeks to address.

The debt and creditor-consent risks are significant, but they appear manageable. The analysis in this note is based on publicly available documentation and public statements and is therefore not a complete review of all Eskom loan agreements or bond documentation. Subject to that caveat, the available evidence does not support the conclusion that restructuring automatically creates a material adverse event or immediate default across Eskom's debt portfolio. The more credible risk is that asset transfers may require lender consent or may trigger instrument-specific covenants. That risk has a pathway through it. Eskom has already obtained creditor support for the establishment of the NTCSA and has engaged lenders in relation to the legal separation of the distribution business. One would expect that this engagement included an explanation of the broader electricity-sector reform path. With properly sequenced engagement, waivers, consents and appropriate creditor protections, it should be possible to manage the debt risk.

The municipal debt issue is more difficult because it is not merely a contractual problem. Historic municipal arrears require an intergovernmental solution. They cannot simply be allocated to NEDCSA without risking the financial viability of the future distribution entity, nor can they be left indefinitely in Eskom Holdings without impairing the residual balance sheet. The forward-looking risk is different but equally important. Many municipalities are unlikely to participate directly in SAWEM and will probably continue purchasing electricity from Eskom Distribution or NEDCSA. The risk of future municipal non-payment is therefore likely to be concentrated in Distribution. This requires active management through revenue-security mechanisms, improved metering and billing, ring-fenced revenue flows, enforceable payment arrangements and, where appropriate, Eskom agency agreements or outsourced municipal electricity-management arrangements.

Agency or outsourcing models provide a realistic tool for dealing with weak municipal electricity departments. They may take several forms, including Distribution Agency Agreements, third-party service contracts, trader or BRP arrangements, or concession-type structures in appropriate cases. They should not be presented as a universal remedy or as

disguised privatisation. Rather, they should be framed as operational-rehabilitation mechanisms aimed at restoring billing, collection, maintenance and service quality. That distinction matters because these arrangements may aggravate political concerns that unbundling is a route to privatisation. The implementation strategy must therefore address the operational need and the political perception at the same time.

The review also identifies a clear institutional-capacity risk in relation to the regulator. SAWEM, the amended legislative framework and the revised Electricity Pricing Policy significantly expand the complexity of Nersa's task. The regulator will be required not only to approve tariffs, but to oversee an increasingly complex electricity market. Past litigation, the recent MYPD6 error, and earlier Nersa risk-register concerns about skills and capacity indicate that this risk should not be dismissed. Successful reform will require a regulator with sufficient technical, legal, economic and market-monitoring capability to administer the new market credibly.

The political economy risks are real, but manageable. Organised labour, coal-belt communities, Eskom management and staff, municipalities and electricity consumers all have legitimate interests in the outcome of the reform process. These risks cannot be solved by legislation alone. They require active engagement, credible transition arrangements and firm leadership from government. The reform will need to be explained not as an immediate price-reduction mechanism, nor as privatisation by another name, but as a long-term restructuring intended to improve transparency, competition, reliability and investment. Public expectations must be managed honestly.

Eskom's own framing is consistent with this conclusion. Its principal concerns relate to debt, lender consent, asset transfers, municipal non-payment, shared system costs and the financial viability of the successor entities. These are not arguments against restructuring. They are implementation risks that must be managed if the restructuring is to succeed. The same is true for the concerns raised in this note. None of the identified risks requires reform to be abandoned. Each points to a condition that must be satisfied for the reform to be durable.

The overall conclusion is therefore cautiously positive. Eskom's restructuring can proceed, but it must be sequenced and coordinated carefully. The debt risk has a pathway through creditor engagement. Municipal arrears require an intergovernmental solution. Future municipal non-payment must be managed through distribution-focused revenue security and operational intervention. Nersa's capability must be strengthened. Political-economy risks require active leadership and engagement.

International experience shows that reform is rarely a single event and seldom follows a perfect model. South Africa can learn from that experience. The reform path is not going to be easy, but the major risks are identifiable, capable of management and should be addressed directly rather than used as a reason to preserve an increasingly unsustainable status quo.

Appendix A: Review of select literature

Although Pollitt's analysis is now almost 20 years old, it remains useful. It weighs the benefits of transmission unbundling against the costs and considers counter arguments and alternate structures (Pollitt 2008). Pollitt questions whether vertically integrated ownership can provide non-discriminatory access to transmission and whether alternate ownership structures are more likely to deliver timely and efficient network investment.

Pollitt also argues that non-discriminatory access is essential for extending and deepening competition. He links successful reform experiences to the separation of transmission ownership, including a transfer of assets. He emphasises the importance of transmission investment where renewable-energy penetration is increasing. These issues remain directly relevant to South Africa, where non-discriminatory grid access, transmission expansion and renewable-energy integration are now central policy concerns.

Bushnell's analysis of the California energy crisis of 2000-2001 is instructive for market design. He argues that the crisis was not caused only by supply scarcity, but also by flawed market design and excessive reliance on short-term power purchases with too little long-term contracting (Bushnell 2004). A similar lesson can be seen in the European response to the fuel-price shock following Russia's invasion of Ukraine[26]. European reforms sought to reduce exposure to short-run electricity price volatility by encouraging long-term power purchase agreements and hedging instruments, including contracts for difference (CfDs) (Fabra 2023).

Joskow argues that a vertically integrated utility coordinates generation, transmission, systems operation, and distribution internally. Unbundling does not eliminate the need for coordination. It shifts that coordination to new interfaces between the unbundled entities, regulators, market institutions, and private and public participants (Joskow 2022). As a result, new mechanisms are needed to secure capacity, provide adequate investment incentives and security of supply. A liberalised market such as SAWEM may also introduce greater exposure to market-price volatility. In periods of supply stress, this may create pressure for political intervention.

The legal structure, regulatory framework, and market design must work together. Csereklyei *et al* identify several risks that arise during the transition to an unbundled entity (Csereklyei and Kallies 2024). These risks include an incomplete institutional separation, discriminatory network access, poorly articulated market rules, conflict between the regulator and market participants and a failure to properly allocate rights and responsibilities (described by Joskow as the coordination risks). Valenzuela and Rhys show that a liberalised market with unbundled transmission, such as in the United Kingdom, does necessarily lead to less state involvement (Valenzuela and Rhys 2022). In the context of managing decarbonisation, they identify a renewed coordination role for the state. They also show that separating the entities faster than regulatory and coordinating institutions can adapt may create institutional coordination risk.

Biggar and Hesamzadeh study recent crises in two mature energy-only electricity markets: Texas and Australia (Biggar and Hesamzadeh 2024). The central risk identified in both markets was that

[26] The fuel-price shock was driven largely by the surge in European gas prices following Russia's invasion of Ukraine.

an energy-only market may fail to produce sufficient reliable capacity and resilience when the system faces extreme conditions. This risk is also relevant to South Africa.

RER penetration is increasing, NTCSA has identified emerging mid-day excess energy, older coal stations are scheduled for retirement, and BESS deployment remains insufficient to compliment RER variability. Danielian considers the Texas crisis from a regulatory perspective. He focuses on the conflict between scarcity-driven prices and the financial and political consequences (Danielian 2025). Fabra considers a related risk in the European context: the rapid impact of fuel-price shock on the marginal cost of electricity (Fabra 2023). The European *ex-post* policy response sought to protect both investors and consumers from short-run market volatility. If prices are driven by market forces and rise to a level to incentivise investment, they may become politically unacceptable. This risk is a particularly acute in South Africa, given poverty, unemployment and the policy commitment to free basic electricity. On the other hand, non-market-influenced prices may distort investment signals.

Power systems across the world are expanding transmission grids, integrating RER, adopting BESS and responding to decarbonisation pressure. In many cases, however, these changes are taking place in liberalised or mature electricity sectors. Several East African markets have recently undergone reform and may provide more relevant comparisons for South Africa. Like South Africa, they have had to balance reliable electricity supply, cost-reflective tariffs, economic growth and the welfare role of electricity. Twesigye analyses market reforms in Tanzania, Uganda and Kenya. These ranged from a substantially vertically integrated system in Tanzania to an extensively unbundled model with private-sector participation in Uganda (Twesigye 2022). Twesigye concludes that private sector participation can attract investment, particularly in generation and distribution. He also finds that restructuring can reduce conflicts of interest, improve transparency and accountability and improve utility performance.

However, consistent regulatory decisions for cost-reflective tariffs and indexation are necessary for financial viability and sustainability - all factors being debated in South Africa. The Ugandan experience was one of extensive unbundling in conjunction with significant private sector inclusion (Twesigye 2023) and, in common with South Africa, the president played a leadership role in driving the reform. The reform raised issues of tariff adequacy, regulatory credibility, affordability, political resistance and contractual complexity. These issues are also present in South Africa. India has similarly gone through a reform process and now has developed day-ahead and derivative power markets. The Indian experience also shows the difficulty of balancing affordability, security of supply and sustainability. Improving one objective may require trade-offs against another (Malhotra 2022). These tensions are apparent in South Africa. For example, the increased RER supply will gradually displace coal-fired generation, with consequences for employment and local economies within the coal belt.

The World Bank's *Rethinking Power Sector Reform in the Developing World* provides a useful policy synthesis for South Africa because it cautions against treating the 1990s reform model as a universal blueprint. The report argues that reform design should be shaped by each country's political and economic context and should be driven by desired sector outcomes rather than by a predetermined sequence of unbundling, privatisation and market liberalisation (Foster and Rana 2020). This has direct South African relevance. The establishment of NTCSA, SAWEM and the restructuring of Distribution should therefore be understood as instruments to improve sector performance, rather than as ends in themselves. The policy implication is that reform should be sequenced around enabling conditions: financial viability, credible regulation, reliable

operational data, municipal payment discipline, transmission-planning capability and stakeholder support.

Even mature markets grapple with these issues and conflicting objectives. In the United Kingdom, for example, the liberalised market exposed vulnerable customers to adverse outcomes and revealed weaknesses in supplier financial resilience (Department for Energy Security & Net Zero 2023). Once a utility is unbundled, one firm's financial distress can become another firm's credit risk. This risk is already contemplated in South Africa's emerging market arrangements. Similar risks have been identified in the European Union. The response has been to modify the liberalised market design, rather than abandon the reform process (Fabra 2023) (European Commission 2024).

Suggested additional reading list: More detailed information on electricity markets, market structure, examples of other countries and the economics of electricity markets can be found in the following texts:

- (Sioshansi (ed.), Future of Utilities Utilities of the Future 2016),
- (Sioshansi (ed.), Evolution of Global Electricity Markets 2013),
- (Sioshansi (ed.), Competitive Electricity Markets: Design Implementation, Performance 2008),
- (Harris 2006), Electricity Markets: Pricing, Structures & Economics).

Appendix B: Major unbundling/restructuring risks

Table 3: Major Unbundling Risks

Risk category	Mechanism following unbundling	International reference
Coordination risk	Activities previously coordinated internally become contractual/institutional interfaces	Joskow; EU reforms
Institutional/regulatory risk	Regulator/market operator lacks independence, competence or authority	Developing-country reforms
Market-design risk	Rules produce unintended incentives or gaming	California; Texas
Resource-adequacy risk	Energy prices fail to induce sufficient capacity	Texas; Australia; capacity markets
Price-volatility risk	Wholesale price shocks are transmitted rapidly to counterparties/consumers	EU 2021–23
Market-power risk	Concentrated generators exploit scarcity/network constraints	California and other concentrated markets
Transmission/congestion risk	Market schedule diverges from physically feasible dispatch	EU zonal markets
Investment risk	Uncertain future prices discourage generation/network investment	EU; Joskow
Stranded-asset risk	Legacy generation/debt allocated incorrectly among successor firms	especially relevant to Eskom
Financial/counterparty risk	Previously internal transactions become externally settled obligations	UK supplier failures
Tariff/affordability risk	Cost-reflective prices conflict with social affordability objectives	UK/EU/developing countries
Distributional risk	Gains/losses are unevenly distributed among customer classes/regions	OECD/EU
Transition/sequencing risk	Structural separation occurs before market/regulatory institutions are ready	developing-country cases
Labour/social risk	Restructuring changes employment, skills and collective bargaining arrangements	SOE reforms generally
Political/regulatory-intervention risk	Governments override price signals when market outcomes become unacceptable	Texas/EU
Information/data-interface risk	Separating organisations destroys informal information-sharing and creates new data interfaces	inherent in functional separation
System-operation risk	Market incentives and physical security requirements diverge	Texas/EU
Cyber/operational-interface risk	More institutions and digital interfaces expand operational dependencies	increasingly relevant modern risk
Municipal/revenue risk	Reform interacts with financially weak distribution entities	particularly South African
Legacy-debt allocation risk	Debt burden prevents successor businesses becoming financially viable	particularly Eskom

Appendix C: Analysis of Eskom Debt

Eskom's debt has several categories (Table 4), and some, but not all instruments, have a government guarantee (Eskom 2026):

- Eskom has issues domestic bonds under a Domestic Medium-Term Note (DMTN) program, which are broadly guaranteed.
- Euro/Rand zero-coupon bonds ('Zeros'), which are not guaranteed, but have a statutory first charge against Eskom's assets in the event of default.
- Foreign currency denominated bonds (GMTN or stand-alone), which are mostly guaranteed.
- Developmental finance institution (DFI) debt, which is multi-currency, the bulk of which is guaranteed
- Export-credit facilities (ECF): certain of these instruments are guaranteed
- Bank loans which are not guaranteed.

Table 4: Eskom Debt

Instrument	Amount at March 2026	Principal current instruments / nominal amount	Government guarantee position
Domestic Multi-Term Note ("DMTN") bonds	R174.895bn at 31 March 2026, including ES26 subsequently redeemed	Remaining listed series: EL28 R6.278bn; EL29 R5.370bn; EL30 R5.136bn; EL31 R5.699bn; ECN32 R5.000bn; ES33 R34.542bn; EL36 R5.594bn; EL37 R23.725bn; ES42 R21.437bn. **Remaining nominal: R112.781bn**	FY2026 AFS identifies all of these except ECN32 as government guaranteed. Eskom's general DMTN webpage describes the domestic programme as government guaranteed.
Euro/Rand zero-coupon bonds	**R10.242bn**	R8.0bn nominal due Aug-2027; R7.5bn nominal due Dec-2032	First charge against Eskom's revenue and assets under S7 of the Eskom Conversion Act 13 of 2001.
Foreign bonds	**R36.789bn**	USD500m Jul-2027; USD500m Aug-2028; USD1bn Aug-2028; ZAR2.753bn Mar-2031	Jul-2027 USD500m, Aug-2028 USD1bn and Mar-2031 ZAR2.753bn are identified as government guaranteed. The Aug-2028 USD500m bond is not mixed
DFI debt	**R117.249bn**	Multiple ZAR, USD, EUR and CNY facilities with maturities extending to 2062	The AFS marks most DFI positions as government guaranteed; approximately R105bn of the carrying amount is associated with rows identified as guaranteed, while a R12.158bn ZAR facility due 2031 is not marked as guaranteed. The AFS does not map every balance to a named lender.
Export-credit facilities	**R15.997bn**	Five EUR/ZAR/USD facilities, mainly maturing 2027–2031	Mixed. The USD750m facility due March 2029 is identified as government guaranteed; the other rows are not so marked.
Other debt	**R0.543bn**	R500m bank loan due Feb-2027	Not identified as government guaranteed in the AFS.

MATERIAL ADVERSE EFFECT AND MATERIAL ADVERSE EVENT

A Material Adverse Effect (MAE) or Material Adverse Change (MAC) is a contractual concept used to capture a sufficiently serious deterioration in a borrower's circumstances that materially affects, or could reasonably be expected to affect, matters such as its financial condition, business, assets or its capacity to perform obligations under the financing agreement. The exact definition is contractual: an event is not an MAE simply because it is commercially serious, and one financing agreement's MAE definition cannot automatically be imported into another. Table 5 has a detailed breakdown of the MAE/MAC consequences.

A MAE or MAC should not be treated as synonymous with an Event of Default. The consequence depends entirely on the relevant contract. A MAE may prevent further disbursement, qualify a representation, trigger a lender consent requirement, constitute an Event of Default, or have no immediate contractual consequence. The label itself is therefore less important than the operative clause in which it appears.

The African Development Bank documentation for the Eskom Transmission Improvement Project is an example of a MAE/MAC concept being used as a disbursement condition. Before first disbursement, Eskom was required to confirm that no material adverse change had occurred which would affect its ability to perform the loan agreement. That does not mean that every MAE automatically causes a default. It means that, in that instrument, the absence of a material adverse change was a condition to drawing funds. No comparable free-standing MAE Event of Default has been identified in the publicly available Eskom DMTN terms.

Where a MAE does result in an Event of Default, the usual sequence is not necessarily immediate repayment. A cure period, waiver or lender determination may intervene. Eskom states that uncured Events of Default under its loan facilities can result in acceleration of outstanding amounts, amounts becoming immediately due and payable upon notice, cancellation of undisbursed commitments, possible calls under government guarantees, and cross-default into other loans.

DMTN AND THE CONSEQUENCES OF DEFAULT

The Eskom DMTN programme does not appear to make a general deterioration in Eskom's financial or business position a standalone MAE Event of Default. This is important because a restructuring that is averse to creditors cannot simply be labelled an MAE and thereby assumed to default the domestic bonds. The contractual Events of Default must instead be tested.

The publicly available conditions provide, among other things, that an Event of Default occurs where Eskom fails to pay principal or interest and the failure continues for 10 business days after written demand, or fails to perform another obligation under the Notes and the failure continues for 30 calendar days after notice. Clause 15.1.3 also addresses default by Eskom or a Material Group Company in payment or obligations relating to Material Indebtedness and therefore creates a mechanism by which problems in other debt can propagate into the DMTN programme.

However, the position becomes more serious if another Eskom loan first defaults. A DFI restructuring covenant, for example, could be breached, setting in motion a cascade of events: after any applicable cure or waiver process, this could become an Event of Default; the DFI

lender may then accelerate the loan; and the resulting matured or unpaid Material Indebtedness may then engage DMTN clause 15.1.3. The potential waterfall is therefore:

This does not mean that all Eskom notes automatically accelerate at the instant another lender declares a default. The requirements of the DMTN Conditions, including notice, applicable grace periods and the nature of the Material Indebtedness default, remain relevant. Eskom itself describes its approach as obtaining extensions or waivers before potential breaches mature into Events of Default.

Government guarantees provide an additional layer of protection on the guaranteed DMTN instruments. Eskom's published bond material confirms the government support structure for its domestic programme[27]. However, a guarantee does not eliminate the underlying covenant issue; rather, it affects who ultimately meets the payment obligation and may prevent or cure a payment failure before it develops further.

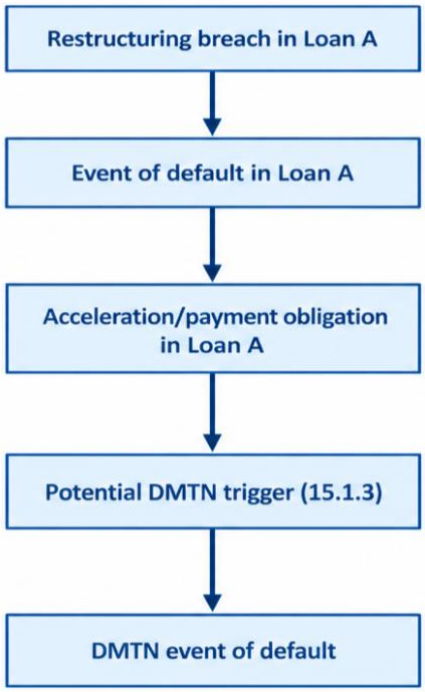
Table 5: MAE/MAC treatment

Instrument	MAE/MAC Defined	Mechanism	Potential consequence	Knock-on effect
DMTN programme	No standalone MAE/MAC Event of Default identified in the publicly available programme Conditions reviewed	DMTN defaults are based on specified contractual events rather than a broad MAE test	No default merely because an event is economically "materially adverse"	Another instrument's default can become relevant through DMTN clause 15.1.3 if the specified conditions relating to Material Indebtedness are met
Euro/Rand zero-coupon bonds	No publicly verifiable standalone MAE definition located	Complete historic operative documentation is not readily publicly available	Cannot conclude that a MAE alone triggers default	Cross-default/acceleration consequences must be established from original terms; no automatic portfolio-wide effect should be assumed
Foreign bonds	No standalone MAE Event of Default identified in the public bond material reviewed	Conventional bond Event of Default architecture appears more relevant: payment, covenant, insolvency and cross-default-type triggers	MAE alone is not established as a default trigger	An Event of Default/acceleration elsewhere may be caught if the particular bond's cross-default/cross-acceleration conditions are satisfied
World Bank IBRD-9450 JET facility	No Eskom-specific free-standing MAE definition located in the executed Loan Agreement	World Bank General Conditions and specified project/borrower events govern remedies	No basis for treating an MAE label by itself as an Event of Default	A World Bank acceleration or payment default could potentially become relevant under another instrument's cross-default provision
AfDB Transmission Improvement Project	Yes, MAC concept expressly appears	Absence of a material adverse change affecting ability to perform is a condition preceding first disbursement	Can prevent or disrupt disbursement; exact current Event of Default consequences depend on executed Loan	Potential cross-effects only if the event matures into default/acceleration caught by another instrument

[27] https://www.eskom.co.za/investors/eskom-bonds/

Instrument	MAE/MAC Defined	Mechanism	Potential consequence	Knock-on effect
			Agreement and incorporated conditions	
Other DFI/ECA facilities	Likely instrument-specific; full operative agreements are not publicly available for all facilities	Public Eskom disclosure confirms multiple representations, covenants, prepayment, suspension and Event of Default provisions	Depends on facility; may include draw stop, suspension, prepayment or acceleration	Eskom expressly states cross-default to other loans may be triggered "in most instances"

Figure 6: Potential waterfall impacting the DMTN



EURO/RAND ZEROS AND FOREIGN BONDS

Euro/Rand zeros: Eskom has two Euro/Rand zero-coupon bonds outstanding, with nominal values of R8.0bn due August 2027 and R7.5bn due December 2032, with aggregate carrying value of R10.242bn as at end March 2026. Importantly, the 2026 AFS states that their holders have a first charge against Eskom's revenue and assets in terms of S7 of the Eskom Conversion Act.

We could not determine a MAE/MAC that constitutes an Event of Default from the publicly available documentation related to these bonds. The prudent conclusion is therefore that no standalone MAE trigger should be assumed. Their S7[28] creditor rights are nevertheless particularly relevant to unbundling because removing material revenue-producing assets from

[28] S7 Eskom Conversion Act.

Eskom potentially changes the asset and revenue pool against which those statutory creditor rights operate. Eskom expressly identifies S7 lender protection as an issue requiring consideration when transmission assets are transferred.

At the end of March 2026, the foreign bond carrying value was R36.789bn, comprising USD500m due July 2027, USD500m due August 2028, USD1bn due August 2028 and ZAR2.753bn due March 2031. The first, third and fourth are identified as government guaranteed, while the USD500m August 2028 issue is not.

No general standalone MAE Event of Default has been identified in the public foreign-bond material reviewed. As with the DMTN programme, the greater restructuring risk is therefore likely to arise through specific covenant breaches and cross-default/cross-acceleration provisions, rather than simply because the restructuring could objectively be regarded as materially adverse.

MAES, EVENTS OF DEFAULT AND DFI FUNDING

The DFI debt is potentially the most sensitive part of the debt portfolio to the legal restructuring of Eskom because DFI agreements generally contain more extensive borrower undertakings, information covenants, project conditions, representations, environmental requirements and lender-consent provisions than public bonds.

Eskom reported R117.249bn of DFI debt on 31 March 2026, much of which is government guaranteed. The publicly disclosed lenders and funding programmes include the World Bank, African Development Bank, Clean Technology Fund, New Development Bank, KfW and China Development Bank, although Eskom's AFS does not map every individual balance in note 25 to its lender.

The most important evidence is Eskom's own 2026 AFS covenant disclosure. Eskom states that its loan facilities contain various financial and non-financial Events of Default, including that uncured defaults may lead to acceleration, immediate payment upon notice, cancellation of undisbursed facilities, calls on government guarantees and cross-default into other loans.

That disclosure is more significant to the proposed asset transfers than trying to identify a generic MAE clause. It means that, for at least relevant facilities, legal separation itself is a consent matter. Undertaking the transaction without the necessary approval could therefore produce a contractual breach independently of whether a MAE has occurred.

The DFI documentation also demonstrates the range of potential consequences short of immediate acceleration. Certain events can suspend or cancel undrawn commitments; prepayment events may require outstanding balances to be repaid, commonly within approximately 30 days after notice; and false or misleading representations and warranties are stated by Eskom to constitute an Event of Default under its loan agreements.

The publicly available African Development Bank Transmission Improvement Project documentation specifically requires confirmation that no material adverse change has occurred since the latest financial information that would affect Eskom's ability to perform the Loan Agreement[29]. The complete executed agreements for all DFI and ECA facilities are, however, not

[29] **South Africa - Eskom transmission improvement project**

publicly available. It is therefore not possible from public information to determine a uniform MAE definition or restructuring carve-out across the full R117.2bn DFI portfolio.

The World Bank's more recent IBRD-9450 Eskom Just Energy Transition facility illustrates this point: the executed Loan Agreement is public but does not contain a bespoke free-standing Eskom MAE definition of the kind commonly seen in commercial loan agreements. The incorporated World Bank General Conditions and transaction-specific events instead govern the Bank's remedies.

CROSS-DEFAULT AND CROSS-ACCELERATION WATERFALL

The most important systemic risk is not the mere occurrence of a MAE. It is the possibility of a default cascade.

Four concepts should be distinguished:

- **MAE/MAC** is a defined material deterioration test.
- **Event of Default** is a contractual status arising when a specified default event has occurred and any applicable cure requirements are satisfied.
- **Acceleration** is the lender or noteholder remedy by which debt that was due in the future becomes immediately due (which may constitute a MAE in another debt instrument).
- **Cross-default/cross-acceleration** is the mechanism through which problems in one financing agreement can trigger consequences in another.

The four principal scenarios can therefore be summarised as follows.

Scenario 1 - **Adverse event but no contractual Event of Default:** There is ordinarily no cross-default consequence merely because an event is serious or materially adverse in an economic sense.

Scenario 2 - **MAE or other breach becomes an Event of Default in Loan A:** Loan A is in default, but this still does not establish an automatic default of every other Eskom instrument. Another instrument must contain language capable of catching that default.

Scenario 3 - **Loan A's repayment is accelerated:** The contagion risk increases substantially because cross-acceleration provisions commonly capture financial indebtedness becoming prematurely due because of an Event of Default.

Scenario 4 - **Accelerated Loan A is not paid:** This is generally the highest contagion risk because the circumstance is now both an acceleration and a payment default. It can potentially satisfy several other instruments' default tests simultaneously.

Eskom confirms at portfolio level that an uncured Event of Default can lead to acceleration and that "cross-default to other loans may be triggered in most instances".[30] (Eskom 2026) This

[30] Note 5.3 page 68.

wording is important: Eskom does not state that one default automatically defaults the entire debt portfolio. Table 6 contains a potential cross-default waterfall analysis.

Table 6 Cross-default potential waterfall matrix

Instrument	MAE/MAC	Default but no acceleration	Acceleration of debt	Failure to pay accelerated debt
DMTN programme	No standalone MAE consequence identified	Instrument-specific effects elsewhere	Significant cross-effect where another instrument captures accelerated debt	Potential contagion, subject to clauses, notice and materiality requirements
Euro/Rand zero-coupon bonds	No standalone MAE consequence publicly verified	Detail not publicly available	Potential cross default – verification required	Potentially significant
Foreign bonds	No MAE identified	Detail not publicly available	Potential cross default – verification required	Potentially significant where threshold breached
DFI	Depends on facility	Detail not publicly available	Eskom states that there is high risk of cross-default, although not specific data available	Potentially significant
ECA	Depends on facility	Detail not publicly available	Potential	Potential
Guaranteed debt		Government may intervene prior to payment default	G'tee may be called following acceleration event	G'tee payment may cure cross-default

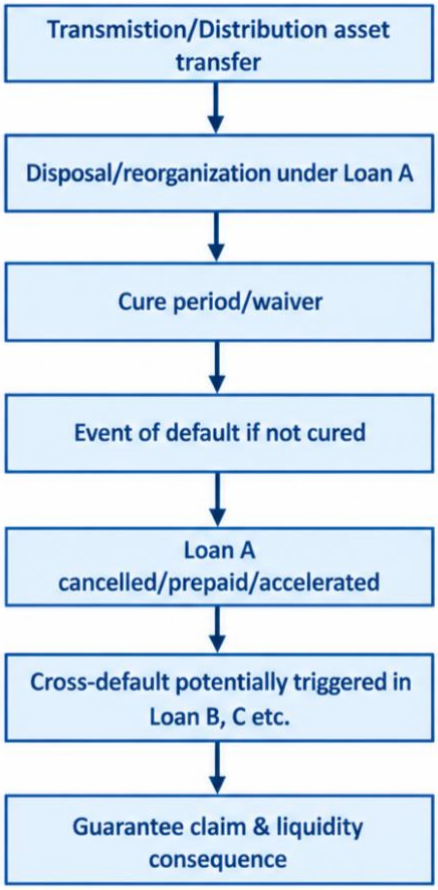
IMPLICATIONS FOR ESKOM RESTRUCTURING

The proposed transfer of Transmission assets from Eskom to the NTCSA and, subsequently, Distribution assets from Eskom to NEDCSA or another separated distribution entity, should not be analysed simply as a MAE question. At least four separate debt issues arise:

- Does the asset transfer itself require lender consent or breach an asset-disposal/reorganisation covenant?
- Does the transaction cause or contribute to a MAE/MAC event under a financing agreement?
- Does it adversely affect guarantees, creditor security or statutory creditor rights?

If a breach becomes an Event of Default and is accelerated, can it cascade through cross-default provisions into other Eskom debt?

Figure 7: Potential unapproved asset transfer waterfall



Eskom's FY2026 AFS provide unusually direct confirmation that these are real rather than theoretical concerns. Eskom states that implementation of an independent transmission system operator must address lender requirements, avoid defaults, protect shareholder rights and ensure that Eskom is not placed in a worse financial position. It also identifies the need to consider creditor protection under S7 of the Eskom Conversion Act and the effect of the proposed industry structure on lenders' willingness to continue financing the Eskom group.

The same accounts state expressly that: legal separation of Eskom divisions requires advance lender approval, and engagement is continuing with lenders over Distribution, Generation and the transmission-system-operator restructuring. Even if a proposed asset transfer is not a MAE, it may still require lender consent and could constitute a breach if implemented without it. The potential debt-risk waterfall created by an unapproved asset transfer is illustrated in Figure 7: Potential unapproved asset transfer waterfall.

Eskom's Group CEO stated that avoiding a breach of Eskom's financings and of the government's Guarantee Framework Agreement has been a core consideration in the separation process, given the complexity of Eskom's syndicated, bilateral and bond debt[31]. This was reinforced by the Group CFO in the 2026 AFS (Eskom 2026)[32] in which he referenced the engagement with lenders on the legal separation of both transmission and distribution.

[31] Business Day January 2026. https://www.businessday.co.za/opinion/2026-01-30-dan-marokane-eskom-on-a-mission-to-lower-electricity-costs-amid-reform/?utm_source=chatgpt.com
[32] Note 5, page 68.

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