

SOUTH AFRICA'S ENERGY OUTLOOK:

KEY DEVELOPMENTS FROM 2025 AND
WHAT THEY SIGNAL FOR 2026



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2025 highlighted key trends signalling a fundamental reset in South Africa's electricity sector, with 2026 expected to be the year in which many of these reforms begin to take practical effect.

With market rules nearing finalisation, infrastructure procurement advancing and new technologies gaining prominence, 2026 will test how well the sector can move from preparation to implementation.



1 ERAA COMMENCES: SOUTH AFRICA'S MOVE TOWARDS A COMPETITIVE ELECTRICITY MARKET

The Electricity Regulation Amendment Act 38 of 2024 (ERAA) came into force on 1 January 2025, marking the formal start of South Africa's shift from a vertically integrated monopoly to a competitive, multi-market electricity sector. The Act establishes the Transmission System Operator (TSO), responsible for system operation, market operation and transmission operation, and be the central purchasing authority. This is the most significant structural reform since Eskom's inception.

The ERAA expands NERSA's regulatory mandate, introduces broader ministerial discretion on new capacity determinations, and opens a pathway for willing-buyer-willing-seller arrangements through competitive trading. However, some ambiguities around tariff approvals and the definition of "direct supply agreements" create early interpretive challenges. In 2025, institutional tensions around municipal roles, tariff oversight, and ministerial discretion, with SALGA's concerns leading to delayed commencement of certain ERAA definitions, while potential litigation remains on the horizon.



2 MARKET CODE UNLOCKS COMPETITIVE ELECTRICITY TRADING

The latest draft of the Market Code, published in July 2025, contains draft operational rules for the South African Wholesale Electricity Market (SAWEM), to be administered by the Market Operator within the TSO. It defines the roles of Parties, Balance Responsible Parties, and Market Participants, and establishes the framework for Day-Ahead, Intraday, Reserve, and Balancing markets. A five-year transition is envisaged, targeting a market start in April 2026 and full operation by 2031. Final approval of the Market Code is expected early in 2026, enabling SAWEM's planned April 2026 launch and allowing participants to begin formal market registration and onboarding. There is a possibility that this launch date may be delayed, and private sector participants are likely only to be admitted as functional market participants in years to come.

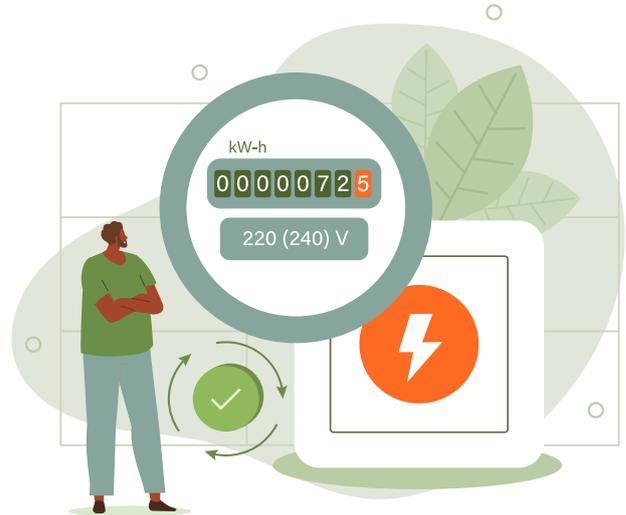




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TRANSMISSION REGULATIONS AND NEW INFRASTRUCTURE PIPELINE

A major breakthrough in 2025 was the publication of the Transmission Regulations on 31 October, providing long-awaited clarity on how new transmission capacity will be procured under ministerial determinations. The Regulations formalise a build-operate-transfer model, introduce value-for-money transmission service agreements and provide a clear methodology for how private transmission infrastructure developers will recover their costs. This regulatory step is critical to breaking state monopoly on grid infrastructure and enabling private sector investment in grid expansion, a necessity given the 14,500 kilometres of new high voltage lines identified as needed under the Transmission Development Plan in the next 10 years and the 1164 kilometres of new lines already determined for procurement through the first phase of the Independent Transmission Infrastructure Procurement Programme, under which an RFP is expected in the third quarter of 2026.



4

THE GAS INDEPENDENT POWER PRODUCER PROCUREMENT PROGRAMME (GAS IPP PP)

After many delays and what seemed to be a false start, the Gas IPP PP appears to have been resuscitated and is set to be one of the more significant events in the energy market in 2026. The Gas IPP was initially launched by the government in December 2023 and has been largely stalled over the past two years. The Department of Electricity and Energy has made key revisions to the Request for Proposals and relaunched the procurement process in October 2025, with a submission deadline of 29 May 2026. The revisions address some of the key issues identified by the market as hurdles to the likely bankability of the project and significantly increased the likelihood of a viable anchor for the entry of imported LNG into the South African market. Interestingly, while it is widely accepted that this procurement is a key enabler for the import of gas and the construction of the required infrastructure, the participation of domestic gas resources is not excluded and this could enable some commercialisation of domestic gas opportunities over time.





5 ESKOM CHALLENGES NERSA'S NEW WAVE OF TRADING LICENCES

The private electricity trading landscape shifted significantly in 2025 as the National Energy Regulator of South Africa (NERSA) granted a new wave of trading and import/export licences, signalling rapid liberalisation in the sector. Eskom responded by launching a judicial review to set aside five of these licences, arguing that NERSA was reshaping national energy policy without clear trading rules or adequate consultation. Although Eskom had raised no objections to similar licences issued over the past decade, it insisted that the absence of defined rules created regulatory uncertainty and risked “upending” the existing distribution framework. Following ministerial pressure and NERSA’s decision to accelerate the publication of trading rules, Eskom has stayed its court action while participating in the rule-making process. The dispute has highlighted deep tensions around market reform, Eskom’s future role, and fears of customer “cherry-picking” by electricity traders. The draft Trading Rules published by NERSA on 27 October 2025 for comment were formally withdrawn on 29 October 2025 and they remain withdrawn pending further consultation.



6 BATTERY ENERGY STORAGE SYSTEMS

Within the transformed electricity regulatory landscape introduced by the coming into force of the ERAA, Battery Energy Storage Systems (BESS) have emerged as essential strategic assets for market participants, offering both critical risk mitigation and diversified revenue generation capabilities. The Market Code will impose significant financial penalties on Balance Responsible Parties for deviations between forecasted and actual energy production and consumption. BESS can smooth the output of intermittent renewable energy generation, ensuring compliance and effectively converting a potential penalty liability into a predictable operational cost. BESS also enables power producers to sell dispatchable renewable energy, transforming intermittent generation into baseload supply and to deliver energy according to offtaker demand profiles rather than renewable resource availability patterns, commanding premium pricing in power purchase agreements. The Government of South Africa is on its third bid window under its Battery Energy Storage IPP Procurement Programme. As South Africa progresses toward May 2031, market participants must recognise BESS not as future technology but as present necessity for competitive success in the transformed electricity sector.





7 PROJECTS TO LOOK OUT FOR - OFFSHORE WIND

In 2025, South Africa's offshore wind sector has been characterised by foundational work and preparatory initiatives, even as formal regulatory guidance remains pending. The DEE has indicated its intention to publish an offshore wind guideline to cover key areas, but the release has been delayed. Looking ahead to 2026, the government's focus is expected to shift from preparatory activities to the formalisation and implementation of offshore wind projects. Key developments to monitor include the expected launch of the DEE's offshore wind guideline, strategic investor interest, and pioneering project announcements. South Africa's vast offshore wind resources present significant growth potential.



8 M&A AND STRATEGIC PARTNERSHIPS

As South Africa's electricity market shifts into competitive mode, 2026 may be a year of deal making and portfolio realignment across the energy value chain. We expect to see increased activity in mergers, acquisitions and strategic joint ventures, as both international investors and regional platforms look for scalable entry points. At the same time, established players are reassessing their portfolios, rebalancing asset mix, reallocating capital, and recalibrating exposure to new market risks.

The centre of gravity is likely to be cross border transactions, the consolidation of operating renewable portfolios, and restructuring to accommodate competitive trading and market price exposure. Sophisticated empowerment and governance structures will remain integral to deal execution, reflecting South Africa's transformation agenda. For market participants, success will depend on navigating multi-jurisdictional complexity, aligning regulatory risk with transaction structures, and deploying capital efficiently in a rapidly liberalising electricity sector.



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