

Trading electricity

Is SA ready for the next financial market?

October 2026

So-called electricity traders are emerging from all walks of life: banks, telecoms firms and even a consumer goods company. However, none of the 25 licensees trade electricity as a financial product, and most are IPP-linked aggregators focused on bilateral contracts.

Things are set to change. The SA wholesale electricity market (Sawem) will introduce the sector to the financial exposures associated with electricity trading, including capture price risk for generators and volume and price risk for retailers. Key issues need to be addressed, such as the need to settle imbalances against a non-existent price. Key regulations, rules and frameworks are being developed against the clock to address these issues. Creating a reference price will transform bilateral deals into hedgeable positions for generators and off-takers.

This will mean generators can secure revenue and customers can minimise risk. Banks can develop new business in credit cover, hedging and intermediation. The government will not need to create investment signals through procurement. This role will shift to the market, which will attract private capital and expose inefficient costs.



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Prepare for electricity market reform

Krutham's Just Energy Transition (JET) & Infrastructure team specialises in research and advice to help support banks, investors, energy companies and off-takers in the transition.

Contact Matthew to discuss what electricity market reform means for your business.

Headline recommendations

- **Fix vesting contracts before April 2027.** Publish a transparent fixed/variable cost split, require cost-reflective day-ahead bidding and end vesting at capacity milestones or a fixed date, whichever comes first.
- **Clarify how derivative rules apply.** Nersa, the FSCA and the Prudential Authority should issue guidance on how Financial Markets Act OTC derivatives rules apply to electricity contracts.
- **Set a reference price quality standard.** Nersa should define the minimum spot market maturity required before standardised instruments are set.
- **Ensure settlement readiness.** The NTCSA must operationalise the balance responsible party (BRP) framework at go-live in 2027. The CPA should publish its bidding, forecasting and hedging policy.
- **Begin JSE engagement now.** Electricity futures will likely launch between 2031 and 2033.
- **Build bank trading capability now.** Banks should offer BRP credit lines and capture price hedges from 2027 and build trading desks now, backed by DFI or Credit Guarantee Vehicle guarantees, to make markets by 2029–2031.
- **Structure C&I portfolios before buying.** Value flexible demand and review maximum demand and fixed distribution charges, which apply whoever supplies the energy, to avoid paying twice.
- **Get ready now.** Aggregators, traders and generators should complete BRP readiness and build imbalance and capture price risk into new power purchase agreements.

The introduction of the Sawem

The Sawem will open in stages. In the first phase, Eskom Generation sells to Eskom Distribution through DAM and intraday trading, with the CPA also participating. This sandbox has run since Q2 2026, testing pricing, dispatch and participant processes before real money changes hands. Vesting prices for these trades are due by Q1 2027, providing the sector's first transparent wholesale price signal. A balancing simulation follows, with indicative prices but no financial risk.



Source: Energy Council SA (2026)

Commercial launch is targeted for Q2 2027, when generators join as BRPs. Initial exposure is limited: balancing stays within 5% either side of the DAM SMP, with penalties only for schedule deviations above 5%. Full balancing takes effect in Q1 2028; capacity and ancillary services markets follow in 2030. Each stage must meet systems, rules and participant readiness criteria, protecting credibility but making the timeline a target rather than a commitment. Whether traders and private generators enter at full market opening or the 2030 expansion remains debated. We expect an Eskom-dominated market with little external price discovery until the early 2030s.

Why trading matters

Sawem moves price-setting from the regulator to the market. Once the day-ahead market (DAM) clears, every participant sees an accurate price for that moment in time (ie, sun and wind conditions change from morning to afternoon to evening).

Prices start doing the planning. A time-varying price rewards batteries, peakers and flexible demand. It tells investors what to build, without the need for public procurement.

Risk becomes tradable. Aggregators bundle IPP supply into bilateral contracts and absorb imbalances in-house. A reference price lets generators hedge, buyers secure costs, and banks mediate. That is the transition from aggregation to trading.

Competition strengthens. A transparent clearing price exposes inefficient costs, including from Eskom. New entrants can compete on risk management and service. The first thing participants will feel is the financial obligations. This includes balance responsibility, imbalance settlement and credit cover. This will be introduced well before derivative trades.

From aggregators to traders

Since 2024, the Electricity Regulation Amendment (ERA) Act has been promulgated, licensed traders have grown from about 10 to 25, and Nersa is finalising the Market Code, trading rules, wholesale pricing methodology, and vesting contracts framework. The Sawem has run internally since April 2026 and will go live externally in April 2027. The renewables market has moved from REIPPPP to C&I wheeling to aggregation. Trading is the next step, and a harder one. Removing licensing barriers was enough for embedded generation, wheeling and aggregation to scale. Trading also needs a credible spot price, clear rules for financial products and new business models at banks and traders – and the investment in skills, systems and capital has to start now if the Sawem is to work as intended.

Aggregation combines physical supply and demand across multiple off-takers, which improves credit risk and makes projects more bankable. However, none of the current traders holds a real-time position in a spot market, which comes with the Sawem. Currently, aggregators enter into bilateral PPAs, aggregation and portfolio optimisation between generators and off-takers. Although this worked as an interim measure while the MO was being set up, the investment case does not work for BESS, flexible demand and new

generation technologies contracted to fixed tariffs locked into long-term PPAs. This impacts the quality of capital allocation. Trading will create a price through competition and will transfer the risk through financial instruments. It will build a reference point for other markets like forwards, futures and options. The launch of the Sawem will enable the start of trading, but much more is required to develop the other markets. It requires price discovery through a liquid spot market that creates a credible reference price. Transferable risk will then be created through derivative instruments priced against that reference. Financial positions are then held, hedged or liquidated without physical delivery.

The Sawem's first job is to produce a usable price. That needs Eskom to bid at short-run marginal cost (SRMC) and enough of its output to face the market, which makes the vesting framework a key near-term lever. Vesting will transform the Sawem's price into a reference price to support the instruments. Regulation here is critical. Cash-settled electricity contracts already fall within the FMA's rules for OTC derivatives, supervised by the FSCA, and the PA will decide how much capital banks must hold to cover potential losses. The question is how those rules apply, like where physical settlement ends and whether a Nersa licence can substitute for authorisation under the FMA. A classification will differ depending on whether electricity is a financially traded instrument. Capital is also a constraint as SA banks apply the full Basel III package, meaning a 12-year hedge with a BB-rated IPP will be costly. DFI and CGV guarantees can reduce that cost. Nersa's draft trading platform framework highlights this issue. Published on 28 September, the framework sets detailed rules for platform conduct but does not mention the FSCA, the FMA or derivatives.

SA banks must draw on their IPP project finance relationships to develop Sawem hedging products. Aggregators, which manage portfolio risk and have shorter PPAs, can trade market exposure from launch. Banks also need to play a market-making role, quoting prices and setting the conventions others can trade on. Global commodity houses normally drive this process and should enter from about 2029 as liquidity builds. Banks can compete if they start building trading desks now. The first product will likely be a capture price hedge that stabilises an IPP's revenue against the Sawem's capture price. It will not close the gap to the IPP's levelised cost of energy on its own. Green premiums, storage and capacity payments will have to do that. The products will start off small and concentrated, focused on the margin, such as new IPPs' uncontracted output. The CPA will be a counterparty to REIPPPP and vesting contracts, so will have the largest position in the market. As such, it could anchor these hedges. Standardised futures will only emerge in 2031-2033.

The following nine priorities set out how policymakers, market institutions and participants can prepare for electricity trading.

Priorities for action



Priority 01

Fix vesting contracts

Publish a transparent fixed/variable cost split: misclassifying variable costs as fixed suppresses the system marginal price. Require short-run marginal cost bidding into the day-ahead market.

Reduce vesting at each capacity milestone or by a fixed date, whichever comes first.

Who Nersa · DEE

When Before April 2027



Priority 02

Clarify financial rules

Issue joint guidance on how the Financial Markets Act's OTC derivative rules apply to cash-settled electricity contracts for difference, including where physical settlement ends and OTC derivative provider authorisation begins.

If the market operator will clear financially settled contracts, begin its clearing house licensing alongside Nersa approval.

Finalise market surveillance before operational deployment, including safeguards against price manipulation and a Nersa-FSCA referral and data-sharing protocol involving the market surveillance unit.

Who Nersa · FSCA · Prudential Authority · National Treasury · Market operator

When Surveillance: before operational deployment
Clearing: before Phase 3



Priority 03

Set reference price standards

Define the vesting volume share, buyer diversity, market depth and price history (including its start date) required before standardised futures settle against the South African spot price.

Provide a public, machine-readable price series and a benchmark administrator for intraday indices such as the battery storage swap. This guards against premature instrument launches.

Who Market operator · Nersa

When Within 12 months of activation



Priority 04

Operationalise the BRP framework

Have the balance responsible party framework operating before Sawem goes live. It provides the first settlement infrastructure and the base for other products.

Participants must validate API integration, forecasting and scheduling, and test settlement and workflows before the first settlement cycle. Forecasting across about 120 REIPPPP power purchase agreements, with full imbalance penalty exposure, will be the CPA's largest test.

Who NTCSA · Market operator · BRPs

When Before April 2027



Priority 05

Enable trader access to wheeling

Finalise trading rules and confirm Eskom will not revive its case against traders. Require Eskom and the NTCSA to admit traders to wheeling and virtual wheeling at medium and low voltage, consistent with the ERA Act.

Set a go-live date for Enerweb automation so virtual wheeling can scale.

Who Nersa

When Within 12 months of activation



Priority 06

Begin JSE engagement

Start multi-year discussions on electricity futures: contract specifications, JSE Clear clearing, FSCA rule approvals and member readiness.

Prepare the product for when spot price history can support it.

Who JSE · FSCA · DEE

When Within 12 months



Priority 07

Build bank capability in stages

From go-live, offer BRP credit lines to help smaller traders and aggregators carry imbalance exposure. Offer capture price hedges to generators and buyers, drawing on IPP project finance expertise.

Build trading desks with quantitative skills, price feeds, risk limits and capital for commodity derivatives. Prepare to make markets once a reliable reference price exists, using DFI or Credit Guarantee Vehicle guarantees to reduce early capital costs.

Who Banks · DFIs · Credit Guarantee Vehicle

When 2027



Priority 08

Structure C&I portfolios before buying

Value load flexibility—shifting demand away from high-priced periods—and review notified maximum demand and other fixed distribution charges before contracting through Sawem.

These charges apply whoever supplies the energy. Buying without reducing them risks paying twice.

Who Commercial and industrial buyers

When 2027



Priority 09

Complete readiness and reprice PPAs

Complete Sawem onboarding and BRP readiness now, rather than at go-live.

Price imbalance and capture price risk into new power purchase agreements: today's contracts will settle against imbalance charges and hourly prices.

Who Aggregators · Traders · Generators

When 2027

Acronyms: BESS: battery energy storage system; BRP: balance responsible party; C&I: commercial and industrial; CfD: contract for difference; CGV: Credit Guarantee Vehicle; CPA: Central Purchasing Agency; DAM: day-ahead market; DEE: Department of Electricity and Energy; DFI: development finance institution; ERA Act: Electricity Regulation Amendment Act; FMA: Financial Markets Act; FSCA: Financial Sector Conduct Authority; IPP: independent power producer; JSE: Johannesburg Stock Exchange; MO: Market Operator; MSF: market surveillance framework; MSU: Market Surveillance Unit; Nersa: National Energy Regulator of South Africa; NT: National Treasury; NTCSA: National Transmission Company South Africa; ODP: OTC derivative provider; OTC: over-the-counter; PA: Prudential Authority; PPA: power purchase agreement; REIPPPP: Renewable Energy Independent Power Producer Procurement Programme; SMP: system marginal price; SRMC: short-run marginal cost.

Source: Krutham (2026)

An evolving trading ecosystem

A key concept centres on contracts for difference (CfD). The first type of CfD will be registered with and settled through the MO and are only permitted from Phase 3 (April 2030 at the earliest). The second type of CfD – bilateral financial swaps between two parties – can start when the Sawem launches and falls under the FMA. These will include the capture price hedge and the BESS revenue swap.

BESS operators will hold a financial trading position through intraday arbitrage, where they buy off-peak and sell at peak. When the Sawem launches, a BESS operator will hold an options position on the daily price spread, making it the first counterparty for any bank building intraday price risk products. A revenue swap is required here, where a BESS operator receives a fixed rand amount per megawatt per year from the bank. The bank then receives the floating index value based on actual intraday battery revenue. The critical prerequisite SA does not yet have is a credible reference index for BESS intraday revenue.

Banks creating a BESS intraday product are building a spot market that produces real-time price signals. A cash-settled revenue swap would be a financial instrument under the FMA. The bank would need FSCA ODP authorisation, which SA banks already hold. The BESS product is the instrument nearest to viability and full commercialisation will still require regulatory clarity.

Banks tend to join once conventions exist and turn their project finance relationships into hedging business.

Exchanges launch standardised futures once bilateral OTC volumes sustain a liquid order book. Banks rarely initiate the financial market. The MO is not planning a renewable energy certificate (REC) market, futures, forwards or other derivatives, so these will come from the private sector.

A bank that begins trading desk development in 2026–2027 will be ready by 2029–2031, when Phase 3 opens, and commodity trading houses are likely to enter. One that waits will arrive in 2031–2034, behind commodity houses with platforms already built. The window to establish a first-mover position in the market-making role is the next 12 months. The asset (project finance relationships, local-currency infrastructure and IPP counterparty trust) depreciates as market development outpaces those relationships.

In our view, the window to establish a first-mover position in the market-making role is the next 12 months, not the next five years.

The draft trading platform framework adds a constraint, as it bans participants' automated systems from submitting bids and offers without manual review for five years from commercial launch, which is about April 2032 if launch happens in April 2027. The framework says Nersa will review the restriction but sets no date, trigger or criteria, so five years is the default.

Expected evolution of electricity trading participants

Participant type	Current SA role	Financial trading role	Likely entry
 REIPPPP IPPs	Physical generators; BRPs	Spot sellers; natural long position to hedge	Sawem go-live
 Large C&I buyers (mining, manufacturing, data centres)	Bilateral PPA off-takers	Natural shorts; buyers of demand-side hedges; portfolio managers combining PPAs, market exposure, grid supply and BESS	Sawem go-live
 BESS operators	Physical dispatch	Intraday arbitrageurs; natural CfD counterparties	Sawem go-live
 Licensed traders (current)	Aggregators	Phase 3: CfD counterparties (subject to Nersa determination)	2029–2031
 International commodity trading houses	No current SA electricity role	Market-makers; bilateral CfD providers; likely to set conventions unless SA bank desks are ready	2029–2032
 SA bank energy trading desks	Project finance only	Relationship hedging from 2027; market-making desks in 2031–2034, or 2029–2031 if built from 2026–2027	2031–2034
 JSE / exchange infrastructure	Agricultural, FX derivatives	Potential electricity futures platform	Policy decision required; 2031–2033

Source: Krutham (2026)

Next steps

South Africa will have a real electricity market when the Sawem sets a market price that buyers and sellers believe, incorporate into their contracts and try to move through their bids. That requires more than the launch of Sawem. It needs:

- **reference price quality**, with vesting volumes calibrated to preserve Eskom's bidding incentive
- **physical market access**, where wheeling is unblocked, and imbalance settlement is calibrated for the IPP fleet
- **regulatory clarity**, with the Nersa/FSCA boundary resolved before Phase 3 before it makes it a live dispute.

We think the policy window is the market code finalisation now under way. It will not stay open after April 2027, although revisions will be made periodically. The NTCSA may republish public Sawem data but keep bid and settlement data confidential to each participant. The problem is that the NTCSA has not developed a data-licensing policy. The draft trading platform framework partly answers this, requiring the MO to publish clearing prices after each trading period and retain market data for five years, but it doesn't require a machine-readable historical series (which futures need) or assign a benchmark administrator (which the BESS index needs).

The NTCSA aims to publish internal clearing prices from January 2027, ideally once vesting agreements are concluded. That gives potential banking desks a data set to model a year before they need it. But prices formed between Eskom Generation and Eskom Distribution before vesting are not a market reference, and the reference price quality standard should state that only post-vesting, post-go-live history counts towards the futures threshold. To speed up this process, Nersa could make the reference-price publication a market code requirement. The CPA also needs a trading mandate. As counterparty to REIPPPP and the vesting CfDs, it will hold the largest position in the market. A published bidding and hedging policy, and the freedom to lay off risk with banks, would make it an anchor client for the first relationship hedges rather than a passive settlement agent.

For institutional planning, the critical point is that a desk-building programme starting in 2026 arrives ready in 2029–2031. One that starts only after the April 2027 delay is confirmed will happen in 2032–2034. The timeline risk does not change the recommendation to begin now, but it determines how much contingency to build into the capital allocation case.

Speak to our team

Krutham's just energy transition (JET) and infrastructure team combines politics, policy and finance to help clients navigate the journey from reform policy to execution. This includes a focus on energy, freight and passenger logistics, water and social buildings. We have the most comprehensive infrastructure pipeline tracker in South Africa, which assesses projects from policy announcement and procurement to financial close.

If you are a developer, lender, investor, offtaker or policymaker who needs to see beyond the headlines, please reach out to us.

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