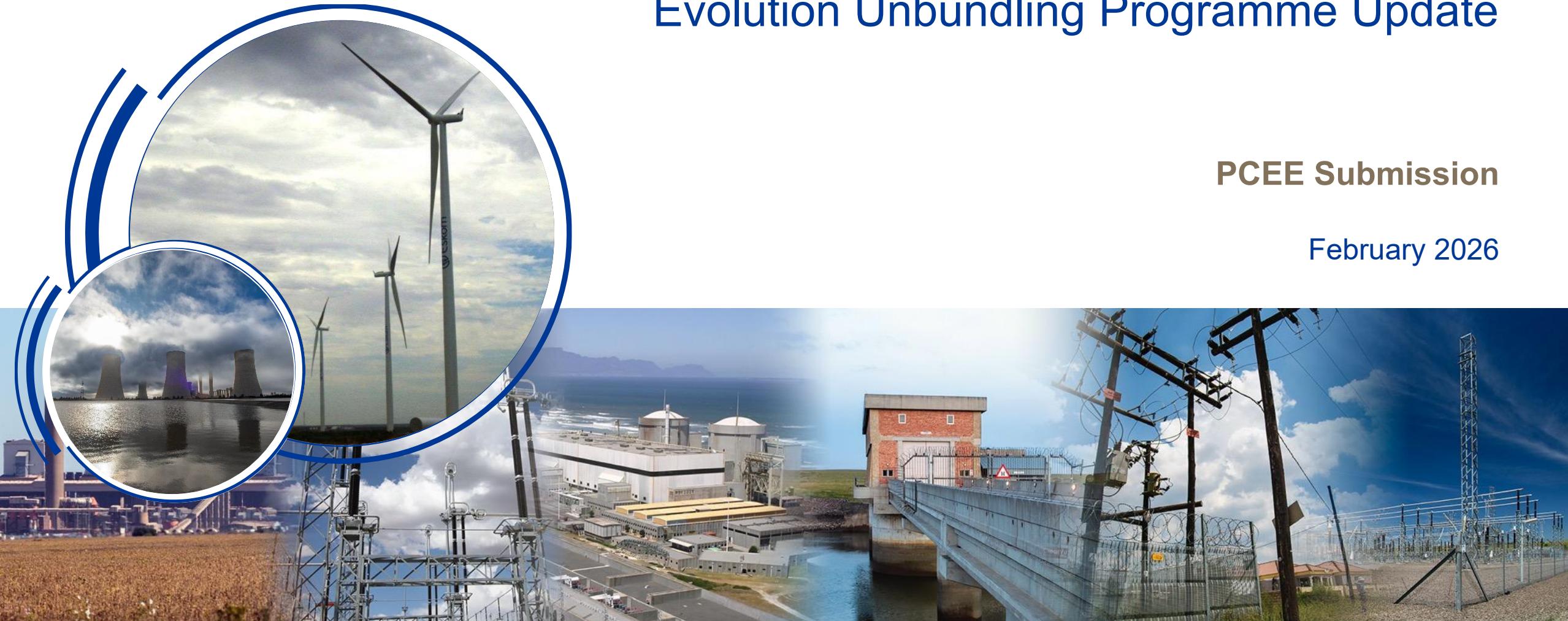


# Evolution Unbundling Programme Update

PCEE Submission

February 2026



Today's discussion will centre on the strategy for Eskom Unbundling and the overarching plan for its execution to enable competition, improve security of supply and attract investment



## Unbundling Context

- **Unbundling Strategy**
- **Integrated Unbundling Plan and Shareholder Support Required**



Eskom has advanced in the unbundling journey but a changing context, emerging risks and challenges have necessitated a need to refine the strategy



## Eskom's unbundling journey



Promulgation of the **ERA** providing more **clarity** on the intended **role & structure** of the **TSO<sup>4</sup>**

**Financial sustainability challenges** (especially for Dx) driven by **tariff outcomes**, **declining volumes**, and **growing Municipal debt**

**Clarification of the NewCo pathway**, including need for **new legislation** resulting in **extended implementation timelines** for Gx

**Presidency & National Treasury** issued **Operation Vulindlela Phase II**, to provide guidance to **transform the electricity sector and achieve energy security**

As we assessed options it was critical to ensure fulfilment of core unbundling objectives in support of the DEE<sup>1</sup> priorities, DPE<sup>2</sup> roadmap, and Eskom's strategy



## Unbundling Principles

### DEE Strategic Priorities

*Enable energy security & affordability*

*More effective, reliable, and resilient energy supply*

*Enable single digit tariffs*

### DPE Roadmap Unbundling Objectives for Eskom

### Eskom's Unbundling Objectives

*Enhance Eskom's operational and financial performance*

*Optimise efficiency and reduce cost structure*

*Improve customer experience*

*Enhance performance transparency and strengthened controls*

*Enhance digitalisation and high-performance culture*

*Drive market liberalisation and broader participation*

*Enable a more open, competitive electricity market*

*Foster conducive environment for investment*

*Enhance regulatory oversight to ensure fair market access*

*Promote economic growth through liberalised market*

**... The chosen way forward should balance all unbundling objectives without negatively impacting energy security and Eskom ...**

Today's discussion will centre on the strategy for Eskom Unbundling and the overarching plan for its execution to enable competition, improve security of supply and attract investment



- **Unbundling Context**

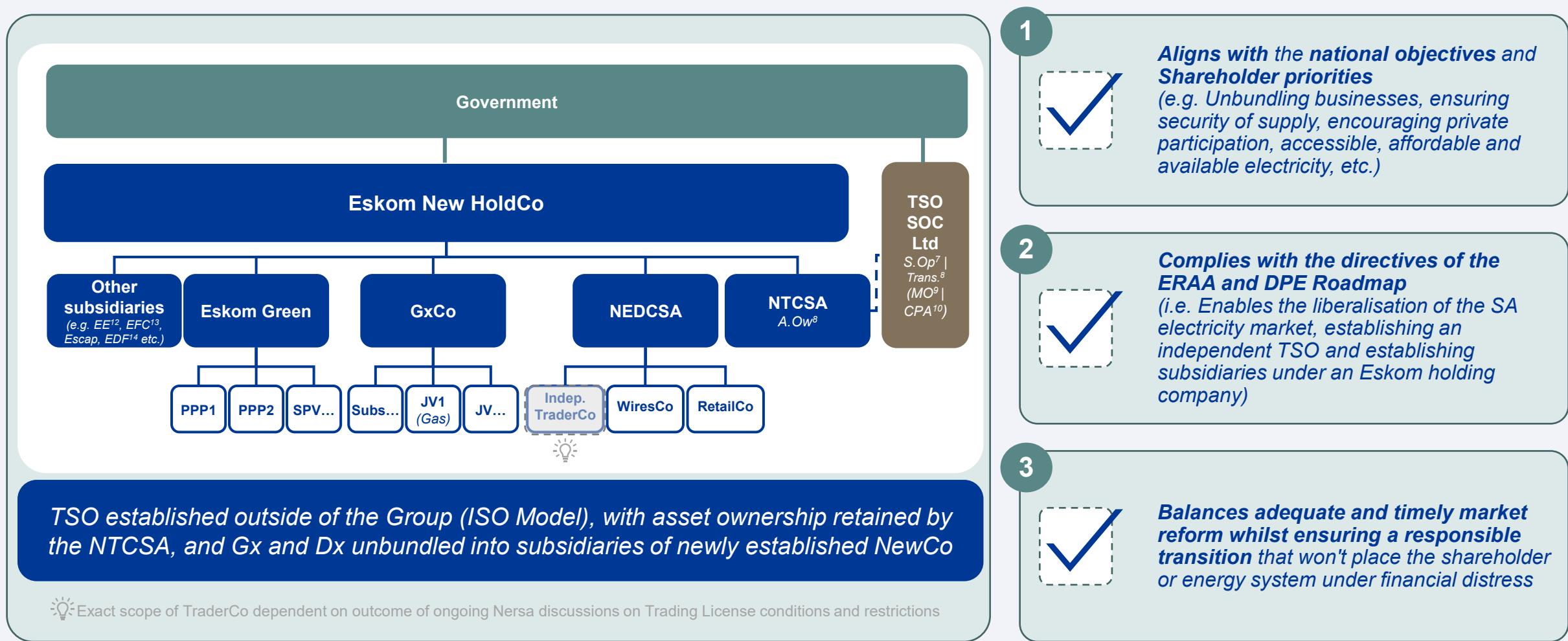
## **Unbundling Strategy**

- **Integrated Unbundling Plan and Shareholder Support Required**



## Unbundling Target State

— — — Right of use for Tx assets



## Options and pathways



### NTCSA

*Critically review options for establishing the TSO against the assessment criteria*



### Generation

*Explore potential pathway given existing constraints & considerations*



### Distribution

*Assess the pathway in line with the constraints and Dx submission*

## Assessment criteria



### Alignment to the national directives

*DPE<sup>1</sup>, ERAA<sup>2</sup> & Operation Vulindlela intended to achieve energy security and market liberalisation*



### Enabling requirements

*Identify regulatory, legislative and procedural prerequisites necessary for implementation*



### Timelines

*Estimate time to implementation, factoring in enabling requirements & dependencies*



### Consequences

*Evaluate potential risks and knock-on effects, including financial, strategic or operational implications*

**Assessment considered both international benchmarks and South Africa's unique context to determine the best way forward to enable market reform whilst balancing energy system integrity**

# NTCSA / TSO Unbundling Strategy



## Key directives

### 1 DPE Roadmap (2019)

Outlines an independent transmission company as a subsidiary of Eskom

### 2 ERAA (2024)

Mandates establishment of a TSO SOC Ltd by the Minister within 5 years

### 3 Operation Vulindlela II (2025)

Calls for the establishment of the TSO as an independent entity

The directives call for a fully independent TSO to be established to achieve ...



#### Investment attraction

Attract & enable new players to enter market, increasing generation capacity



#### Energy security

Drive security of supply through expanded capacity



#### Improved efficiencies

Enhance efficiencies as the open market will allow for competitive pricing

## The ERAA calls for



Establish an independent TSO Ltd SOC enabling a competitive electricity market, with the TSO's roles clearly defined:

*The ERAA does not explicitly detail ownership of the TSO assets*



#### Transmitter

Grid planning, maintenance, operations, providing non-discriminatory access and use of system charges



#### System Operator

Real-time operations, forecasting, dispatching and generation capacity planning



#### Market Operator

Non-discriminatory trading platform, market rules and governance



#### Central Purchasing Agency (CPA)

Power procurement, balancing, managing transition to competitive market and long-term international trading

The ERAA makes provision for NTCSA to fulfil the roles for a 5-year transitional period

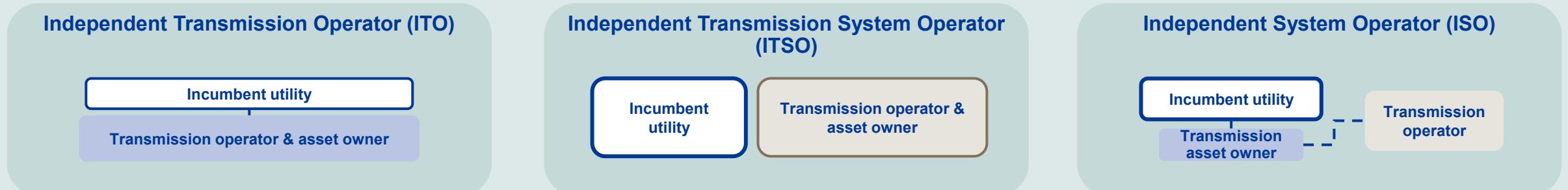
## Establishing an Independent TSO<sup>1</sup>

### Key Independent TSO<sup>1</sup> Roles



To enable this, globally three models exist that provide sufficient independence

— — — Operational agreements



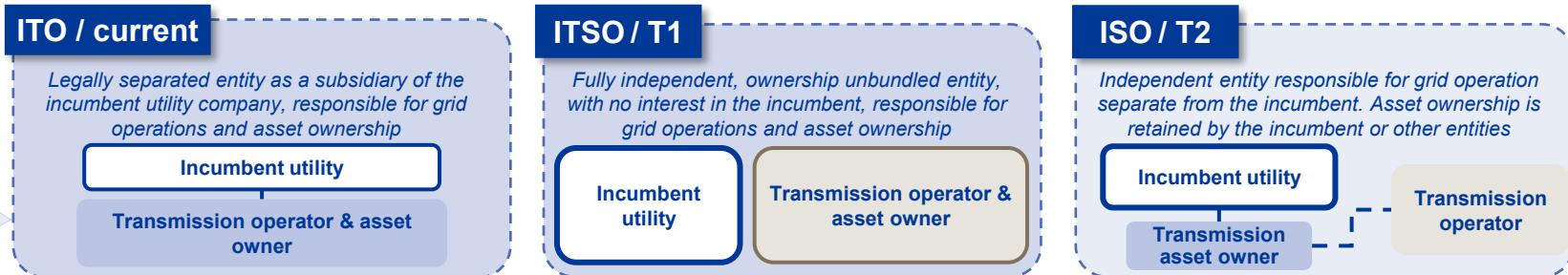
Impartial access to and growth of the transmission network are critical enablers to attract investment and private sector participation in the electricity value chain

Benchmarks have revealed no single approach in how the TSO evolves with the TSO model often informed by market context, maturity and legislative direction



## Employed TSO models

It is clear from the ERAA and the Shareholder that T0 is a transitional state. As such, this has not been assessed as a potential option



Region	Liberalisation timeframe <sup>1</sup>	Country	Similarity across assessed Eskom models					
			ITO (current)		ITSO (T1)		ISO (T2)	
			Employed	Employed	Privatisation	Employed	Asset Ownership Privatisation	System Operator Privatisation
<b>Africa</b>	1990 – ongoing	South Africa	☒	✓				
<b>Asia</b>	1990 – ongoing	Philippines	☒			✓		
		India	☒			✓		
<b>Americas</b>	~20 years	USA	☒			✓		
		Chile	☒			✓		
		Mexico	☒			✓		
		UK	☒	✓		✓		
		Estonia	☒	✓		✓		
		Finland	☒	✓		✓		
		Czech Republic	☒	✓		✓		
<b>Europe</b>	~ 10 years	Italy	☒	✓		✓		
		Portugal	☒	✓		✓		
		Germany	☒	✓		✓		
		France	☒	✓				
		Romania	☒	✓				

In October 2024, the System Operator and the Asset Owner were split into two different entities to ensure transparency and fair access to the grid

1. Directional timeline based on average liberalisation timeline per region;

Sources: Federal Energy Regulatory Commission; Council of European Energy Regulators; National Grid Corporation of the Philippines; International Atomic Energy Agency; National Grid; Terna; Elering; National Electricity Coordinator (CEN); Fingrid; 50Hertz; RTE-France; Transelectric; Evolution Unbundling Programme Working Team

The NTCSA options had been assessed to determine an appropriate course of action with T2 being the approved option for Eskom as it meets all required criteria



## Transmission unbundling options

✓ pros ✗ Cons

		T1	T2	Approved option
		Ownership unbundling of the NTCSA	NTCSA retains asset ownership, TSO operates the grid	
		 Eskom	 TSO SOC Ltd (NTCSA) A.Ow <sup>1</sup>   S.Op <sup>2</sup>   Trans. <sup>5</sup> (MO <sup>3</sup>   CPA <sup>4</sup> )	 Eskom   NTCSA A.Ow
Strategic		 <ul style="list-style-type: none"> <li>Establishes an <b>independent TSO</b> that will fulfil <b>all roles</b> as envisioned in ERAA and responsible for Grid code and TDP<sup>6</sup></li> </ul>	 <ul style="list-style-type: none"> <li>Also establishes an <b>independent TSO</b> with all roles envisioned in the ERAA, transparency &amp; governance critical in managing <b>market perception</b> around independence</li> </ul>	
Financial		 <ul style="list-style-type: none"> <li><b>High risk</b> driven by <b>significant capitalisation requirements</b> for the transfer of grid infrastructure and the <b>need to settle debt</b> linked to Tx assets</li> </ul>	 <ul style="list-style-type: none"> <li><b>Substantially reduced risk</b> due to <b>material reduction in capitalisation requirements</b> and <b>no need for the settlement of intercompany loan</b> thus limiting risk exposure to lenders</li> </ul>	
Operational		 <ul style="list-style-type: none"> <li><b>Higher disruption</b> in “big bang” implementation with <b>longer time to implementation of 5 years</b> estimated due to <b>transaction complexity</b> (debt repayment, lender engagement, servitude transfer)</li> </ul>	 <ul style="list-style-type: none"> <li><b>Limits disruption</b> and allows for a more <b>staged transition</b> of the business and a <b>shorter time to implementation, expected of 4 years</b>. However, requires clear roles and responsibilities and commercial agreements to manage the relationship and operations between the TSO and NTCSA</li> </ul>	

1. A. Ow - Asset Owner; 2. S. Op - System Operator; 3. MO – Market Operator; 4. CPA - Central Purchasing Agency; 5. Trans. - Transmitter; 6. TDP - Transmission Development Plan; 7. EH - Eskom Holdings; Sources: Evolution Unbundling Programme Working Team

## Option T2 strategic benefits

	<b>Financial &amp; Structural</b>	<b>1</b> <ul style="list-style-type: none"><li>– Does not require a significant capital injection from Govt. to enable the transaction transferring assets out of Eskom</li><li>– Supports the sustainability of the remaining Eskom entities</li><li>– Retaining assets in the group can assist in seeking funding for future projects</li></ul>
	<b>Implementation &amp; Operational</b>	<b>2</b> <ul style="list-style-type: none"><li>– Shorter time to establish and capacitate the TSO<sup>1</sup></li><li>– Targeted transfer of selected skills and capabilities reduces implementation risks and allows both organisations to remain targeted during the transition</li><li>– Minimises risk of losing institutional knowledge through the employee transfer process</li><li>– Complexity around transferring servitudes is avoided</li></ul>
	<b>Grid Development</b>	<b>3</b> <ul style="list-style-type: none"><li>– Allows Eskom to play continued role in infrastructure development</li><li>– Sets the precedent for decentralised transmission network development, promoting competition and investment</li></ul>
	<b>Governance &amp; Mgmt. Focus</b>	<b>4</b> <ul style="list-style-type: none"><li>– Allows TSO to focus on developing, operating the market and managing the grid without the added responsibility of funding the development of the network</li><li>– Creates flexible framework for TSO to manage and integrate new networks developed through the ITP<sup>2</sup></li></ul>

# Distribution Unbundling Strategy



## Dx focus areas to achieve national and business objectives

Non-Exhaustive

### National objectives



**Enable distribution mandate**



**Create a sustainable, reformed EDI<sup>1</sup>**



**Liberalisation of the wholesale market**

### What this means for Dx and where they should focus...

1

#### Ensure affordability and reliability of supply

*Continue to develop and maintain a sustainable Distribution network and business*

*Obtain clarity on supplier of last resort role and compensation for serving vulnerable customers to ensure a sustainable Dx business*

2

#### Deliver on Distribution's social mandate of accessible electricity

*Ensure access to electricity for all citizens in a sustainable way*

3

#### Ensure a financially sustainable Dx business

*Drive revenue growth and cost optimisation (e.g. improved collection mechanisms, reduction of non-technical losses) initiatives to ensure financial sustainability of the distribution business*

4

#### Position Eskom to accelerate participation and competition in a liberalised wholesale market and industry

*Participate in and promote a cost-efficient & agile trading business, encouraging competition within the market and readying the industry*

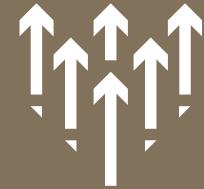
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#### Enable and participate in a reformed retail market

*Clear and strong customer value proposition*

*Drive implementation of the DAA<sup>2</sup> programme to create a sustainable EDI*

*Ensure non-discriminatory access to the distribution grid through the separation of wires and retail*

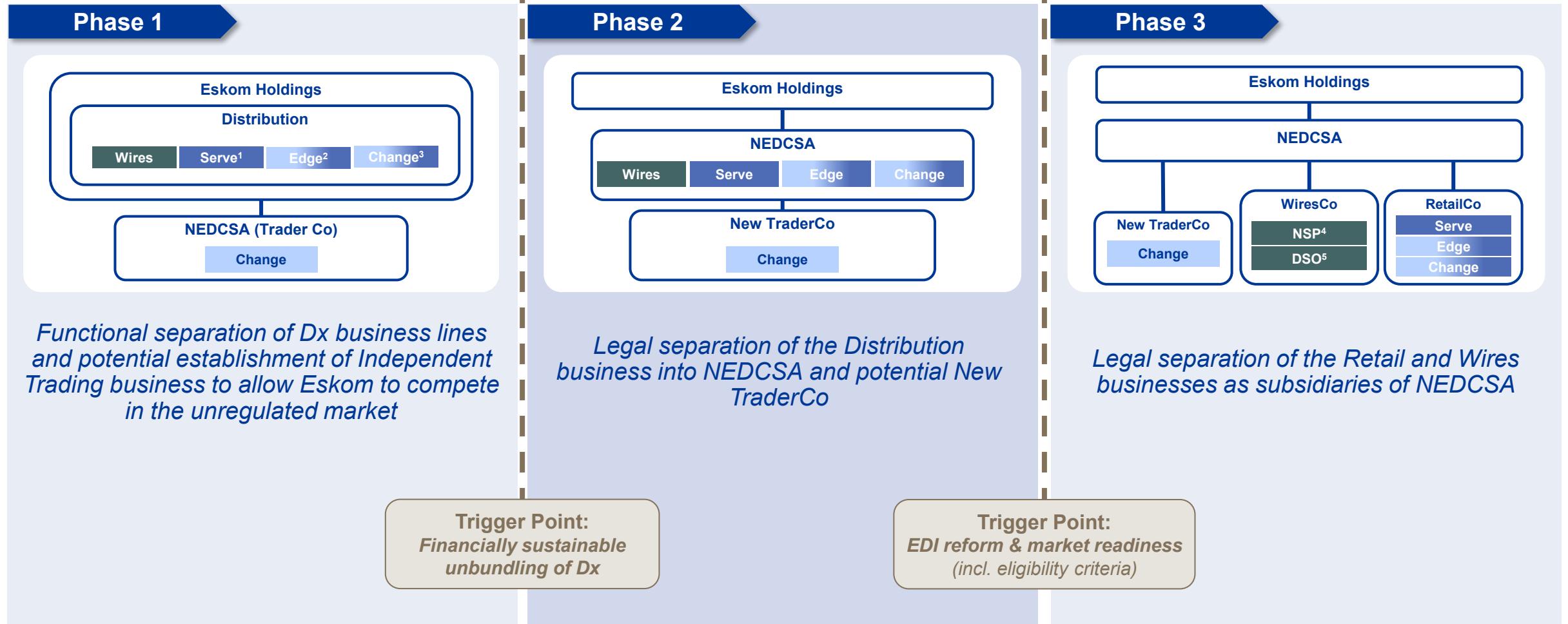


**The Dx pathway must enable the business to achieve these objectives and set it up to compete effectively in a competitive market**

The Dx business will also undergo a phased-approach journey for unbundling which will be informed by market requirements and readiness



## Distribution unbundling



# Generation / NewCo Unbundling Strategy



## Eskom Generation and Renewables focus areas to achieve national and business objectives

Non-Exhaustive

### National objectives



### *What this means for Gx and Renewables and where they should focus...*

#### **Ensure baseload generation & reliability and expand ancillary services capabilities**

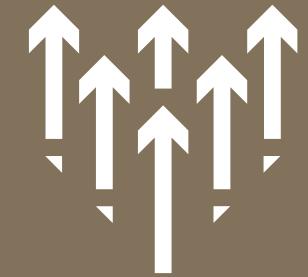
- 1 *Prioritising a reliable foundation by repurposing and repowering legacy plants investing in new capacity to meet demand*  
*Strengthen offering to support the reserve and ancillary market and ensure fair compensation for role*

#### **Drive Just Transition & build new generation capacity and manufacturing capabilities\***

*Drive energy transition by investing in green industries and low-carbon technologies*

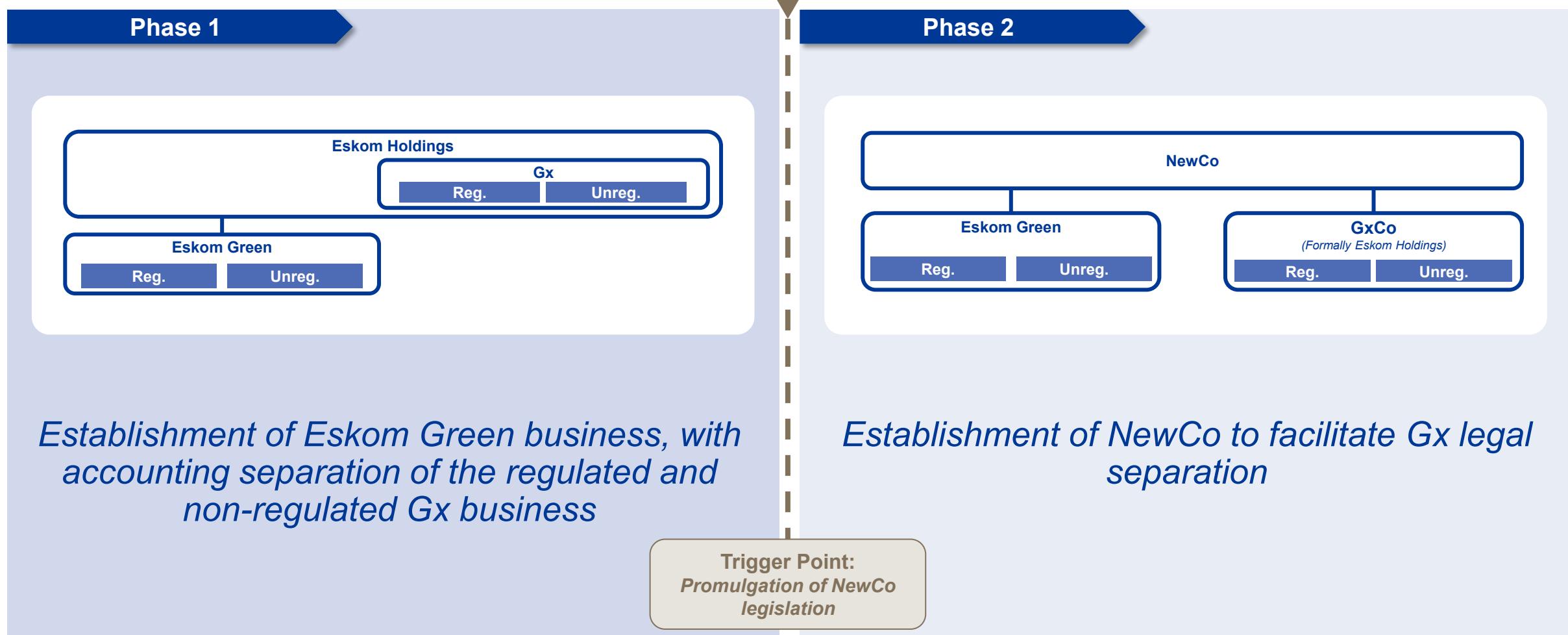
#### **Drive competitiveness**

*Drive efficiency and effective investments to ensure competitiveness in a liberalised generation market*



Gx/ NewCo pathway must enable the ability to **achieve objectives** and **effectively maintain prevalence in the market**

## Generation/ NewCo unbundling pathway



*Financial and legal transaction refinement in progress*

Today's discussion will centre on the strategy for Eskom Unbundling and the overarching plan for its execution to enable competition, improve security of supply and attract investment



- **Unbundling Context**

- **Unbundling Strategy**

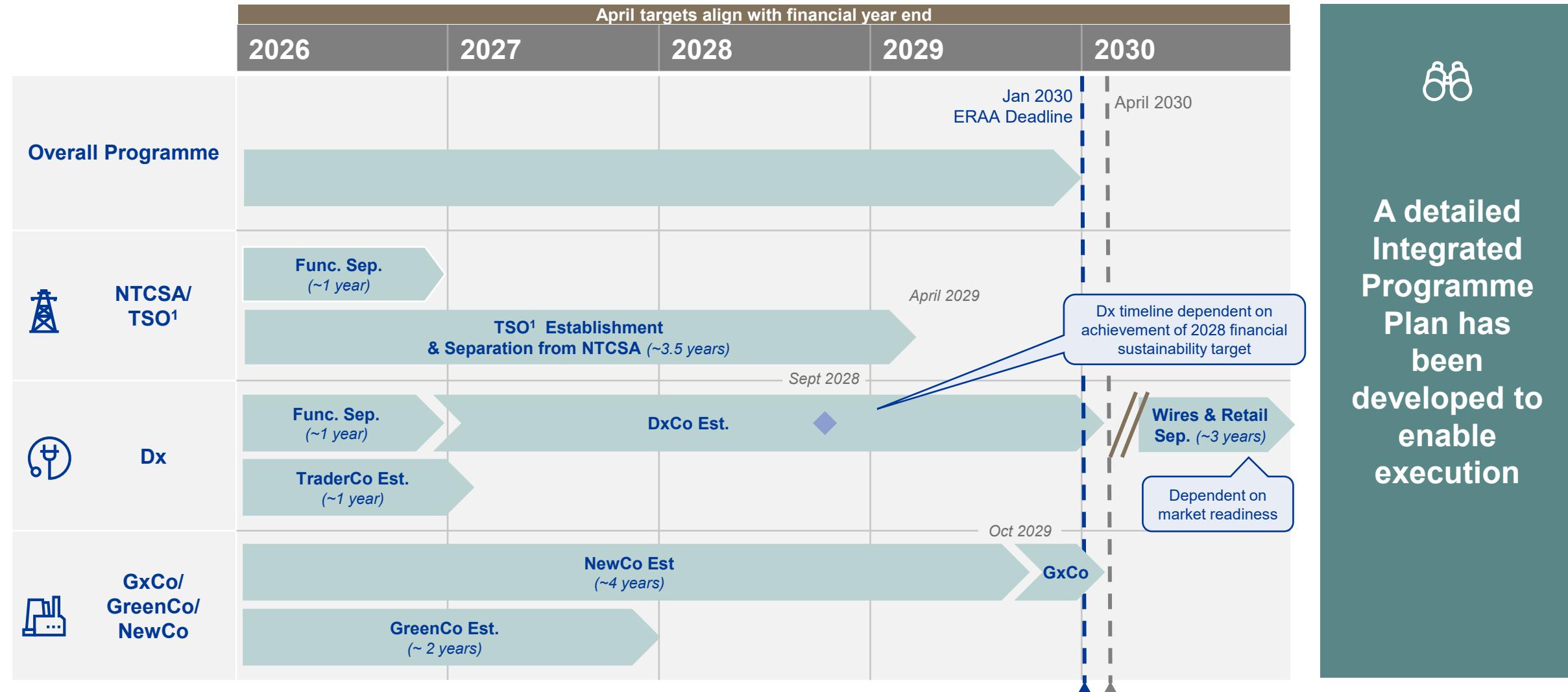
**Integrated Unbundling Plan and Shareholder Support Required**



## High-level Unbundling Timeline

Planned

Preliminary & Illustrative



A detailed Integrated Programme Plan has been developed to enable execution

**Ministry support in championing the unbundling will be critical to ensure momentum is maintained over Eskom's unbundling journey**

Area of Support	Description				
 <b>Regulatory</b>	Capacitation of the Regulator to fulfil the oversight role required by the future market	Clarity on cost reflective tariff structure for both existing and emerging market roles	Clear policy and licensing conditions for new market environment <i>(incl. Retail Code)</i>		
 <b>Legislative</b>	New legislation required / inclusion in Energy Security Bill for the establishment of new entities <i>(incl. NewCo, TSO, etc)</i>	Legislation to enable function and split between TSO and NTCSA and provide clarity on the transition period between NTCSA and TSO as TSO becomes operationally ready and role of the NTCSA after the transition (outline role as Asset owner)	New legislation to support in facilitating NTCSA/ TSO transfer or people through S197 process or similar, transfer of contracts and sharing of rights between NTCSA and TSO	New legislation to support in facilitating NewCo transfer or people through S197 process or similar, transfer of contracts and outline transfer of shareholding of Eskom Subsidiaries	Streamlined processes for PFMA and S34 approvals required
 <b>Financial</b>	Support in closing shortfall of Dx Financial sustainability resulting from non-payment from municipalities and support in collection initiatives (e.g. DAA)		Govt. support may be required to initially establish the TSO, providing direct financial support for working capital requirements for developing and operating the market		
 <b>Stakeholder management</b>	Presidential and ministerial support is required to ensure reform narrative is consistently communicated and supported to give comfort to the market on reform		Reform phasing and sequencing – establishing markets incrementally, ensuring the evolution of the market and changes to policy and regulation are done sustainably		



Thank You