



Road to SAWEM 2026

# The Role of Bilateral Contracts

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## Document Control

<b>Document Title</b>	<b>SAWEM Concept Note Bilateral Contracts</b>
<b>Version</b>	<b>1.0</b>
<b>Date of Latest Update</b>	<b>13 June 2025</b>
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<b>Endorsed by NTCSA</b>	<b>tbc</b>
<b>Distribution</b>	<b>For stakeholder consultation</b>
<b>Document Status</b>	<b>Final</b>

# Driving Efficiency in SAWEM and Bilateral Electricity Contracts

## Streamlining Electricity Market Operations

Bilateral agreements enable flexibility in terms, pricing, and risk allocation but must be carefully aligned with system and market rules to avoid imbalance and operational disruptions.

### **1. Bilateral Contracts**

Eskom bilateral contracts are termed Legacy contracts under section 34 public procurement. These will be hedged to the Power Purchase Agreements (PPAs) pricing and balancing addressed through the Central Purchasing Agency (CPA). Bilateral contracts (PPAs) for IPP's, LPU's and Traders can initially be kept outside of SAWEM, unless one or both of the counterparties qualifies to be a MP and choose to participate in the Market. Migrating private bilaterals into SAWEM may optimise returns and assist the SO in balancing the system.

#### **a. Trading Excess Capacity**

Independent Power Producers (IPPs) and Traders selling capacity or energy directly to customers can trade any excess in SAWEM. This excess capacity could also be used for supplying regulating ancillary services or battery storage services. Large Power Users (LPUs) may participate in demand management programmes.

#### **b. Making Bilateral Contracts and SAWEM Work Together**

Reviewing existing contracts is essential to ensure that bilateral agreements align with SAWEM without creating market or system imbalances. A Balance Responsible Party (BRP) is required for all generators above 10 MW and for all market participants. Offtakers outside the market are not BRPs themselves, but their appointed suppliers will assume BRP responsibility on their behalf when purchasing from the market.

### **2. What Needs to be Done to Make Complementarity of The Two Markets (Bilateral and SAWEM) More Efficient**

#### **a. Review of Existing Contracts**

Independent Power Producers (IPPs) should assess their current bilateral contracts to identify clauses that may limit their ability to participate in SAWEM — particularly regarding the sale of excess energy or provision of ancillary services. Many Power Purchase Agreements (PPAs) include take-or-pay conditions linked to fixed load factors, which may pose operational constraints. For instance, IPPs facing minimum generation challenges could benefit from selling surplus energy into SAWEM, thereby improving plant efficiency, stabilising operations, and accessing additional revenue streams.

Distributors that have entered into Energy Supply Agreements (ESAs) with offtakers should review those contracts to ensure they do not inhibit market participation. Where offtakers wish to buy power through SAWEM, contractual amendments may be needed to allow direct market access. In such cases, offtakers must become Market Participants (MPs) and Balance Responsible Parties (BRPs) or appoint a third-party BRP — including potentially the distributor — to fulfil that role.

PPAs containing "first right of refusal" clauses can restrict the flexibility of IPPs, LPU, and Traders. These clauses require prior negotiation before power can be sold elsewhere, making it harder to shift volumes in response to favourable SAWEM prices. These provisions should be reviewed and possibly removed to allow greater responsiveness to market signals.

Any party wishing to supply into the market must ensure balancing responsibility is appropriately assigned — either by registering as a BRP or contracting BRP services — to support the System Operator (SO) in maintaining grid stability.

#### **b. Wheeling Arrangements**

Wheeling agreements need to be reviewed to be aligned to the SAWEM Market Code requirements such as conformance to the approved wheeling methodology, capacity declaration processes, wheeling pricing, any pertinent congestion management and compensation for losses.

Policy clarity is required to address unresolved challenges related to wheeling power to customers on municipal networks that are not in good financial standing with Eskom. Furthermore, the unbundling of the wholesale tariff will introduce changes to wheeling that are outside the scope of the SAWEM but could materially impact the cost structure of bilateral trades.

### 3. New Market Opportunities

IPPs and their off takers (LPUs and Traders) may agree to find opportunities for optimisation of supply through sourcing power in the market to fulfil their contractual obligations if market liquidity and prices are advantageous. Such arrangements may need risk cover through back-up supply arrangements.

### 4. Market Contractual Agreements

Even where bilateral arrangements remain outside SAWEM, generators above 10 MW must ensure they meet balancing obligations — either directly as Balance Responsible Parties (BRPs) or via an aggregator. This is essential for maintaining system stability and compliance with the Market Code.

Offtakers are only required to assume balancing responsibilities if they actively participate in SAWEM by purchasing directly from the market. Those continuing to procure power through a distributor or bilateral arrangement will not be BRPs.

To enter SAWEM, market-facing entities — including IPPs, Traders, and LPUs opting in — must:

- Sign a Market Participation Agreement and a Balancing Agreement with the Market Operator (MO).
- Establish a trading and collateral reserve account.
- Adhere to the scheduling, dispatch, and settlement processes outlined in the Market Code.

There is currently no defined mechanism for settling imbalances related to bilateral trades outside the market. This gap is not addressed in the Market Code and may require additional clarification through the System Operations Code or regulatory amendments.

#### Actions to support efficient Bilaterals

- Conduct a thorough review of all existing bilateral contracts to identify inefficiencies or opportunities for integration with SAWEM.
- Update IPP and ESA agreements to allow participation in SAWEM, ensuring they align with market rules and operational needs.

- Evaluate and remove restrictive clauses such as first right of refusal in PPAs to enhance flexibility and market adaptability.
- Collaborate with the SO to optimise the balance between supply and demand across bilateral contracts and SAWEM.

## 5. Summary of Risks and Readiness Check List

Category	Risk	Impact	Readiness Check List			
				LPU s	IP P	Trade r
Review of Existing Contracts	Inefficient complementarity of bilateral contracts and SAWEM	Lost opportunities for increasing efficiency/revenues if not participating in SAWEM. Misalignment with SAWEM requirements.	Review PPAs to seek opportunities to offer energy and ancillary services in the market			
			Review ESAs and allow offtakers to be able to directly participate in the market.			
			Sign agreements with MO to become MPs and BRPs or contract BRP services with others			
Wheeling Arrangements	Misalignment of bilateral and SAWEM wheeling provisions	Inefficient or dispute prone trading	Review wheeling agreements to align with Market Code			
			Eskom/Municipality wheeling issue to be resolved	<b>NERSA</b>		
New Market Opportunities	Inefficient trading	Loss of opportunities for optimising trade due to reliance on inflexible contracts	Proactively prepare for optimising supply through displacement of PPA power with market sourced power			
		Loss of trade improvement	Sign the Market Participant			

Market Contractual Agreements	Inability to participate in the market	opportunities and increased revenue	Agreement and a Balancing Agreement with the MO.			
			Open trading and collateral reserve accounts as required by the MO.			