THE ENERGY LAW SERIES

(Bridging the gap between the Law and the People)

Volume II

NIGERIA'S POWER SECTOR AND THE GAS SUPPLY CHALLENGES OF POWER GENERATION COMPANIES; IS THERE LIGHT AT THE END OF THE TUNNEL?

Introduction

Gas-fired plants dominate Nigeria's installed generation capacity, making steady gas supply essential for grid stability. Yet, despite Nigeria's vast gas reserves and status as a gas rich economy, Nigeria's power sector faces persistent disruptions from pipeline vandalism, supply shortages, rising debts to gas producers, and poor coordination, eventually leading to unstable electricity generation. These issues among others have stifled the ability of Generation Companies to operate optimally.

In Q1 2026, gas producers announced their decision to halt supply to thermal power plants over an estimated ₦3.3 trillion debt owed by power generation companies.[1] This resulted in blackouts in many parts of the country. However, in April 2026, the Federal Government announced the implementation of a ₦3.3 trillion payment plan designed to clear longstanding liabilities in the power sector and stabilise electricity supply nationwide. The ₦3.3 trillion payment plan is tantamount to applying a cushioning balm to an age-long malady. This is because, as commendable as it is, it fails to address the other glaring issues bedevilling Nigeria's power sector.

In this volume of the Energy Law Series, we examine Nigeria's power sector through the lens of the gas supply constraints faced by the power Generation Companies in Nigeria. We also examine the reasons for the gas supply challenges vis-à-vis the provisions of the Petroleum Industry Act 2021 (PIA) and other regulations.

The gas supply challenges of the power generation companies in Nigeria

The Nigerian Electricity Supply Industry (NESI) operates through a network of key institutions responsible for electricity generation, transmission, distribution, and regulation. The Nigerian Electricity Regulatory Commission (NERC) oversees and regulates the sector, while Generation Companies (GenCos) produce electricity, primarily from gas-fired and hydroelectric sources. The Transmission Company of Nigeria (TCN) transmits this electricity nationwide via high-voltage infrastructure to minimise losses, and Distribution Companies (DisCos) deliver it to end-users across different regions.

[1] A similar situation occurred in Q1 2024, as gas suppliers halted gas supply to power generation companies due to mounting debts, plunging the country into weeks of darkness. The Federal Government intervened with promises which were not fulfilled, according to gas producers

The challenge of gas supply continues to be one of the most significant problems in the NESI. The reasons for the gas supply challenges include the following:

a. uncompetitive gas pricing regime within the power sector;
b. the accumulation of long-standing debts owed by key stakeholders in the electricity value chain to gas producers;
c. persistent liquidity constraints faced by distribution companies, thereby preventing GenCos from fulfilling their financial obligations to gas producers; and
d. gas flaring.

Having listed these reasons, it is important to examine them through the lens of the law.

Uncompetitive gas pricing regime within the power sector

Historically, domestic gas prices were regulated below international market levels, discouraging supply to Nigeria's power sector. Consequently, some gas producers preferred to flare gas and pay the applicable penalties rather than commercialise natural gas, as the gap between international prices and the Domestic Base Price (DBP) constituted a material disincentive to domestic supply. The Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA), acting within its powers under the PIA,[2] introduced the Gas Pricing and Domestic Demand Regulations 2023 to align gas prices with global economic realities and set the DBP for natural gas. In 2024, the DBP was fixed at $2.42/MMBTU for the power sector and $2.92/MMBTU for commercial users. This was revised downward in 2025 to $2.13/MMBTU (power sector) and $2.63/MMBTU (commercial users), before being slightly increased in 2026 (effective April 1st 2026) to $2.18/MMBTU and $2.68/MMBTU respectively. These pricing adjustments, particularly the 2026 increase, arrive amidst ongoing gas supply challenges and mounting debts in the power sector. The price increase will inevitably lead to higher electricity tariffs which will be passed on to the end consumers.

Despite the intervention of the NMDPRA, the gas pricing regime remains uncompetitive. By the provision of the PIA,[4] gas producers have a Domestic Gas Delivery Obligation. This mandates them to sell a portion of gas produced, based on an allocation system determined by the Nigerian Upstream Petroleum Regulatory Commission (NUPRC) and the NMDPRA, to strategic sectors[5] at the DBP regardless of their cost of production and business assumptions. However, the rising cost of infrastructure and global market changes have made this price unattractive and uncompetitive. Although experts have called for an end to this price control, the Federal Government has maintained it. The price control will continue until the NMDPRA determines that the domestic gas market is fully developed and competitive.[6]

2 Section 167 of the PIA

3 One million British Thermal Units

4 Section 110 of the PIA
5 the power sector, commercial sector, and gas-based industries
6 Section 110 (11) and 167 of the PIA

The accumulation of long-standing debts owed by key stakeholders in the electricity value chain to gas producers

In Q1 2026, gas producers threatened to halt supply to thermal power plants over an estimated ₦3.3 trillion debt owed by GenCos, echoing a similar crisis in Q1 2024 when gas supply disruptions, which are linked to debts dating back to 2015, triggered widespread blackouts across the country.

In October 2025, Nairametrics reported that the Federal Government had concluded implementation frameworks for a N4 trillion government-backed bond aimed at settling verified arrears owed to power generation companies and gas suppliers.[7] According to a statement issued by the special Adviser to the President on Energy, Mrs. Olu Verheijen, the intervention of the Federal Government "*is the largest in over a decade, (as it) addresses a legacy debt overhang that has constrained investment, weakened utility balance sheets, and hindered reliable power delivery across the country.*"[8]

Despite the commitment of the Federal Government in 2025, the decision of gas producers to halt supply to thermal power plants in 2026 over debt owed by GenCos shows that the debts were outstanding. According to a statement issued by Bayo Onanuga, Special Adviser to the President on Information and Strategy, "*following verification, ₦3.3tn has been agreed upon as a full and final settlement.*"[9] However, the Chief Executive Officer of the Association of Power Generation Companies, Joy Ogaji, has stated that the debt owed to the GenCos was more than that, especially because the Federal Government approved ₦4 trillion in July 2025.[10]

Persistent liquidity constraints faced by distribution companies

In 2025, it was reported by BusinessDay that DisCos were nearing insolvency due to rising operating costs, increasing debt burdens, and declining revenue collections.[11]

A central issue is their inability to accurately meter and bill customers; millions of customers are still subject to estimated billing.

According to the Energy Report issued by the NERC in Q4 2025, the total revenue collected by all DisCos in the quarter was ₦630.93 billion out of the ₦795.06 billion that was billed to customers. This significant revenue gap undermines the entire electricity value chain, as DisCos struggle to maintain infrastructure, invest in network improvements, and meet payment obligations to GenCos. The NERC attributes this under-recovery to several factors, including poor service delivery, inadequate metering, and widespread unwillingness of customers to settle bills promptly. Collectively, these issues weaken the financial viability of the power sector and compromise the reliability of electricity supply.

Gas flaring

Despite the persistent efforts to curb gas flaring, significant volumes of associated gas which can be utilised to produce electricity thereby tackling persistent energy shortfall, are still flared rather than utilised. The volume of gas being flared in Nigeria over the years is worrisome and egregious. Available data[12] shows that in 2020, the amount of gas flared in Nigeria was 349.3 million standard cubic feet (scf). In 2021, the amount of gas flared declined to 264.6 million scf and 230.1 scf in 2022 before rising to 278.3 million scf in 2023 and 301.3 million scf in 2024. In 2025, about 323.2 million scf of gas was flared. The menace of gas flaring persists largely because oil producers consider it cheaper to flare gas and pay penalties than reinject the gas.

The PIA criminalises gas flaring but simultaneously permits it under certain conditions.[13] While both the NUPRC and the NMDPRA can authorize flaring for specific periods, such as during facility start-ups or for strategic operational reasons[14], the NUPRC may also grant exemptions for flaring in emergencies or as part of accepted safety practices.

7 Olalekan Adigun; FG, GenCos seal agreement on N4 trillion power sector debt payment Available at https://nairametrics.com/2025/10/14/fg-gencos-seal-agreement-on-n4-trillion-power-sector-debt-payment/Accessed on 21 st April 2026

8 ibid

9 Dare Olawin and Damilola Aina; GenCos question fresh N3.3tn debt settlement approval. Available at https://punchng.com/gencos-question-fresh-n3-3tn-debt-settlement-approval/#google_vignette Accessed on 21 st April 2026

10 ibid

11 Cynthia Egboboh; More DisCos risk takeover over liquidity crisis. Available at https://businessday.ng/energy/article/more-discos-risk-takeover-over-liquidity-crisis/ accessed on 21st April 2026

12 Titilayo Olamide; Gas Flaring Penalties Hit $646m in 2025 as NGO warns Policy "Not Working". Available at https://nigeriaupdates.com/gas-flaring-penalties-hit-646m-in-2025-as-ngo-warns-policy-not-working/ Accessed 23rd April 2026

13 Section 104 of the PIA

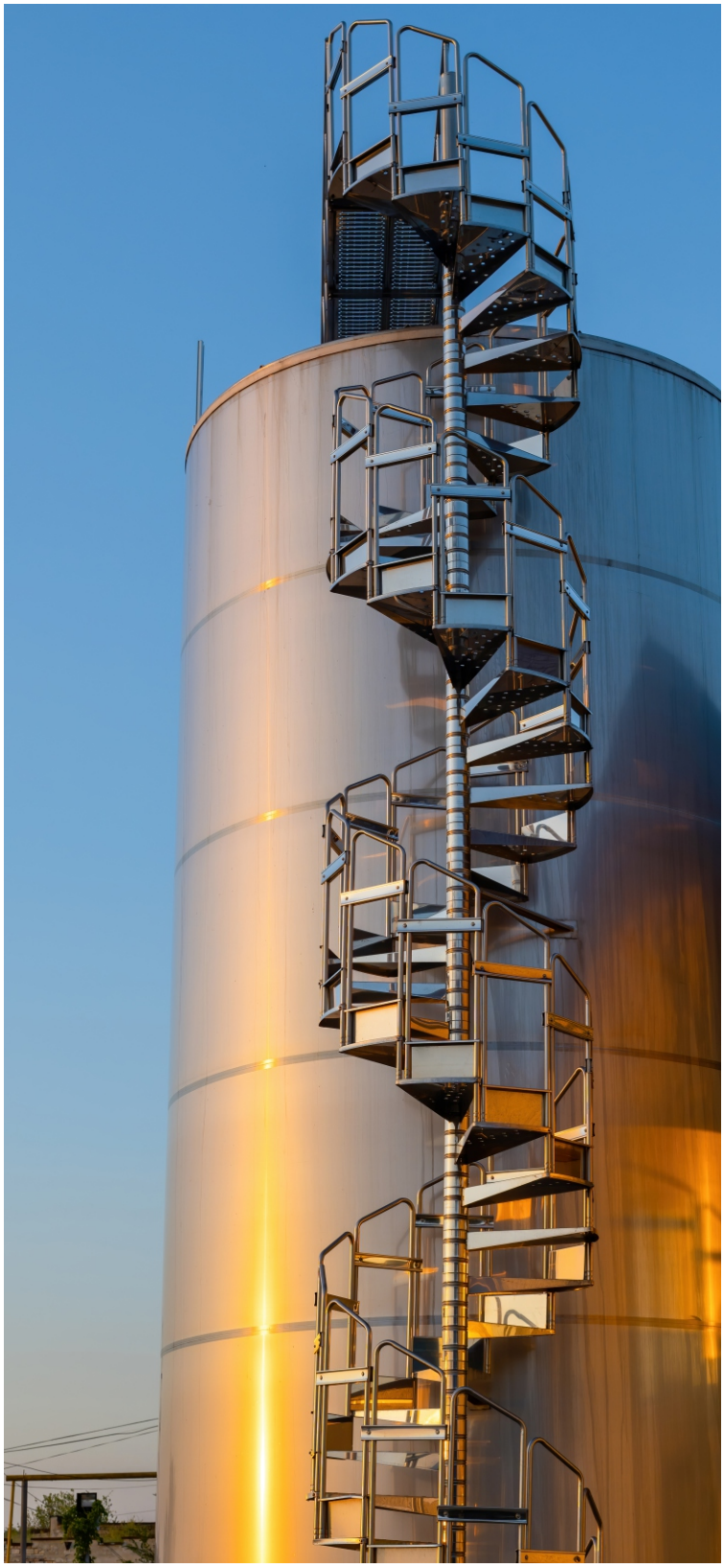
14 Section 107 of the PIA .

These exceptions create gaping regulatory loopholes that allow gas flaring to persist, resulting in the continued waste of associated gas that could otherwise be utilised for power generation.

A Business Day report of 21st April 2026 shows that oil companies paid $646 million in gas flaring penalties in 2025—the highest in five years. While this has generated revenue for the Federal Government, it underscores the persistence of gas flaring despite longstanding regulatory efforts and initiatives such as the Nigerian Gas Flare Commercialisation Programme, which is intended to channel flared gas into productive uses such as power generation and industrial applications.

Conclusion

The gas supply challenges in the Nigeria power sector are due to interconnected issues. The liquidity issues faced by DisCos have negatively affected the revenue that the GenCos are supposed to receive, thereby affecting the payment due to gas producers, ultimately. Similarly, gas flaring by gas producers has robbed GenCos of the gas they are supposed to utilise for the thermal plants. Eventually, the entire NESI industry and its consumers are victims of the lapses of the participants in the NESI. The long term well-being of the GenCos, DisCos, gas producers, Nigerians and the Federal Government depends on the cooperation and dedication of all the parties/stakeholders in the NESI. The craftiness of one party will undo or undermine the positive efforts of the other parties. Hence, the hands of all the stakeholders in the NESI must be on deck, otherwise the darkness at the end of the tunnel will be palpable.



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Did you Know?

1. According to the Energy Report issued by the NERC in Q4 2025, 28 (twenty-eight) power plants - 5 (five) hydro, 2 (two) steam, 19 (nineteen) open cycle Gas Turbines and 2 (two) combined cycle gas turbine plants supplied electricity to the National Grid.

2. The TCN previously operated under two licences—as a Transmission Service Provider (TSP) and System Operator until the Nigerian Independent System Operator (NISO) was established in April 2024 pursuant to the provisions of the Electricity Act 2023. NISO has assumed full responsibility for market and system operations, while TCN continues to retain its role as the TSP.

3. Vietnam ranks among the top 20 electricity producers worldwide and has become one of the fastest- growing electricity producers globally, recording annual generation growth of over 8% in recent years. Its solar sector has expanded dramatically, from almost no capacity in 2018 to more than 19 GW by 2024. This is largely driven by favourable feed-in tariffs and strong solar potential.

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