



Unleashing Nigeria's Economic Potential: The Need for More Opportunities for Upstream Oil and Gas Operators and Gencos in the Power Sector

Description

Nigeria's economic development has been significantly hindered by persistent challenges in both the oil and gas and power sectors. Despite being rich in natural resources, the country struggles with inadequate electricity supply and an inefficient petroleum value chain. A critical examination reveals that these issues are largely due to misplaced priorities, where more emphasis is placed on distribution, leaving the upstream and generation phases underfunded and underdeveloped. To unlock Nigeria's full economic potential, the government must create more opportunities for upstream operators in the oil and gas industry and generation companies (Gencos) in the power sector.

Power Sector: Distribution Dominates While Generation Lags

One of the core reasons Nigeria's power problem persists is that the masses, along with private investors, have put more resources into the distribution segment of the electricity value chain than the actual Distribution Companies (Discos) themselves. These investments include the purchase of transformers, electrical poles, and wires to extend the distribution network, but the returns primarily benefit the Discos.

The Discos, responsible for distributing electricity to end consumers, have been reaping immense profits—largely due to the unresolved issue of unmetered billing. In many areas across Nigeria, consumers are billed on estimated usage rather than actual consumption

through prepaid meters. This unmetered billing system allows the Discos to overcharge consumers, leading to excessive profits. As a result, there is little incentive for Discos to push for increased electricity generation or to address the root cause of Nigeria's power supply problems.

However, the true bottleneck lies in electricity generation, where Gencos struggle with limited capacity. The government must prioritise investments in Gencos, as they play a pivotal role in ensuring that there is enough electricity to meet the country's growing demand. Encouraging public-private partnerships, reducing gas supply constraints, and promoting renewable energy projects are essential steps in boosting the capacity of Gencos. Without a reliable and abundant power supply, no amount of investment in distribution will solve Nigeria's electricity woes.

The Oil and Gas Sector: Stopping Crude Export and Encouraging Modular Refineries

Nigeria's oil and gas sector faces a similar issue, where the focus has been skewed toward the downstream segment, leaving the upstream sector, particularly crude oil production and refining, underdeveloped. Currently, Nigeria exports the majority of its crude oil only to import refined petroleum products at a higher cost, leading to economic inefficiencies and losses.

The need for more **modular refineries** to come online cannot be overstated. Modular refineries, which are smaller and more scalable than traditional refineries, can be built in various regions across Nigeria. They can significantly reduce Nigeria's dependence on imported refined products, increase local refining capacity, and create jobs. More modular refineries would help close the gap between crude production and local refining, ensuring that the country becomes self-sufficient in meeting its petroleum needs.

Moreover, the government must take decisive action to stop crude oil exportation altogether. A significant portion of Nigeria's political elite has been accused of siphoning the nation's wealth to establish refineries abroad. These politicians exploit Nigeria's crude oil by refining it overseas and selling the refined products back to the country at inflated prices. This practice drains Nigeria's foreign exchange reserves and perpetuates the inefficiency in the petroleum sector.

By halting crude oil exportation and fostering local refining, Nigeria can not only save on foreign exchange but also channel the profits back into the domestic economy. In turn,

this will enhance energy security, reduce fuel scarcity, and stabilise the prices of petroleum products. The government should also create favourable policies to attract investments into the upstream sector, including tax incentives for companies willing to build and operate modular refineries.

The Way Forward: A Holistic Approach

Addressing Nigeria's power and petroleum challenges requires a holistic approach that prioritises the sectors responsible for production—upstream oil and gas operations and power generation. By doing so, the government can ensure a steady supply of products and services for the downstream and distribution segments. Here are key areas for reform:

1. **Investing in Upstream Oil and Gas:** Nigeria must incentivise oil exploration and the development of more modular refineries. Ending crude oil exports and focusing on refining locally will cut costs, create jobs, and increase the country's foreign exchange earnings
2. **Prioritising Power Generation:** The government should channel more resources into increasing the capacity of Gencos. Public-private partnerships, reliable gas supply, and renewable energy initiatives should be encouraged to boost electricity generation and ensure a stable supply for Discos to distribute.
3. **Solving the Metering Problem:** The government should enforce policies to end estimated billing by making prepaid meters widely available to all consumers. This will curb the excessive profits made by Discos at the expense of consumers, making the distribution system more efficient and transparent.
4. **Enhancing Regulatory Frameworks:** Stronger regulatory oversight is needed to ensure that both the oil and gas and power sectors operate efficiently and transparently. The Nigerian government must hold companies accountable and create a favourable investment climate to attract local and international investors.

Conclusion

Nigeria's economy stands at a crossroads. While the country has the potential to be a global energy powerhouse, its full potential will remain untapped unless the government prioritises the hard work of production in the upstream oil and gas sector and power generation. More opportunities must be created for upstream operators and Gencos, while stopping crude oil exports and investing in local refineries will ensure that the benefits of Nigeria's resources remain within the country. Addressing these critical areas will not only enhance economic growth but also improve the quality of life for all Nigerians.

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