



Powering Nigeria:

Capital, Reform, and the Next Phase

A perspective on Nigeria's power sector at the inflection point between intervention-led stabilisation and a more investable market.

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Foreword

Nigeria's power sector is entering a more defined phase of reform, one that is increasingly characterised by structured intervention, clearer policy direction, and a measured return of capital.

At Iron Capital, our involvement in the N501.02bn Series 1 bond issuance under the Power Sector Multi-Instrument Issuance Programme reflects our commitment to supporting solutions that address systemic challenges at scale. This transaction, executed under the Presidential Power Sector Debt Reduction Programme, represents more than a financing milestone. It signals a shift in how the sector's long-standing liquidity constraints are being approached, from fragmented responses toward coordinated, market-based solutions.

The broader significance of this moment lies in what it makes possible. Structured instruments, when designed with clarity of purpose and alignment across stakeholders, can restore confidence, improve liquidity pathways, and reintroduce institutional capital into sectors that have historically struggled to sustain participation.

However, the re-opening of financing channels does not, on its own, resolve the underlying structural challenges within the sector. The durability of progress will depend on execution discipline, operational improvement, and continued alignment between policy, pricing, and market behaviour.

This report reflects our perspective on the sector at this stage. It brings together insights across market structure, financing dynamics, investor behaviour, and the broader energy context within which the power sector operates. It is intended to provide a grounded view of where the market stands today, and where opportunities are emerging for those prepared to engage with both its progress and its constraints.

At Iron Capital, we believe that meaningful participation in this sector requires more than capital. It requires structure, discipline, and a clear understanding of how risk and opportunity are evolving.

This report is a contribution to that conversation.

Jubril Enakele

Managing Director / Chief Executive Officer
Iron Capital

Executive Note

This report examines Nigeria's power sector at a point where direction is clearer, but outcomes remain contingent. The sector is no longer defined solely by constraint. Developments across policy direction, liquidity intervention, tariff administration, and capital market engagement indicate a shift toward a more structured approach to addressing long-standing imbalances. This shift is important, not because it signals resolution, but because it changes how the sector can be understood and engaged.

At the same time, the underlying conditions that have historically shaped sector performance have not been fully resolved. Tariff adequacy remains partial. Collection efficiency is uneven. Transmission continues to limit system capacity. Foreign exchange dynamics introduce additional pressure on both operators and investors. These elements define the boundaries within which progress must be interpreted.

The purpose of this report is to provide a clear, structured view of these dynamics. It distinguishes between areas where stabilisation is taking hold and areas where fragility remains. It also situates the power sector within a broader energy reality, recognising that grid supply operates alongside self-generation, distributed solutions, and externally influenced fuel pricing.

For capital providers and market participants, the opportunity is not in assuming a fully resolved system. It lies in understanding where risk can be structured, where cash flows are becoming more credible, and where financing can support the transition from intervention-led stabilisation to a more investable market.

This report is intended to support that understanding.

Chinwe Egwim

Independent Executive Advisor

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02

Reset in Progress

What Has Actually Changed



2. Reset in Progress: What Has Actually Changed

Nigeria's power sector remains one of the most consequential constraints on economic productivity. The sector is not yet structurally resolved; however, it is no longer operating within the same reform environment that defined the previous decade. Recent developments point to a gradual reset across policy direction, liquidity intervention, tariff administration, and capital market participation. The shift is important because Nigeria's electricity market has historically suffered from a reinforcing cycle of underpriced tariffs, weak collections, delayed payments to operators, gas supply constraints, limited reinvestment, and recurring fiscal intervention. Recent measures have not eliminated these weaknesses, but they have introduced a more structured response to the sector's financial imbalance. The appropriate interpretation is therefore not that the sector has recovered. It is that the sector is moving from persistent disorder toward managed stabilisation.

2.1 Policy Direction: Stronger Reform Intent, Still Dependent on Execution

The policy environment has become more active and interventionist. The Federal Government has moved more deliberately to address legacy obligations, tariff shortfalls, and investor confidence gaps within the Nigerian Electricity Supply Industry. The most important signal is the Presidential Power Sector Debt Reduction Programme, which authorises up to N4trn in government-backed instruments to address legacy sector debts. The Federal Ministry of Finance described the programme as a coordinated intervention designed to resolve debt overhangs that have constrained new investment, weakened utility balance sheets, and hindered reliable power delivery. The programme is being implemented by the Federal Ministry of Finance, Federal Ministry of Power, and the Office of the Special Adviser to the President on Energy, working with NBET and other stakeholders.

Policy Area	Emerging Direction	Remaining Constraint
Legacy debt resolution	Government-backed programme to address accumulated sector obligations	Execution pace and verification discipline remain critical
Tariff reform	Movement toward more targeted tariff adjustments	Cost reflectivity remains politically and socially sensitive
Sector confidence	Increased use of structured instruments to restore market confidence	Confidence will depend on consistency, not announcement effect
Institutional coordination	More visible coordination among fiscal, power, and energy reform authorities	Coordination must translate into durable payment discipline

Federal Ministry of Finance; Office of the Special Adviser to the President on Energy; NERC Industry Reports; Iron Capital Analysis.

Assessment: Policy direction has improved, but the credibility of the reset will be determined by delivery. The sector is entering a more structured reform phase, but implementation risk remains central.

2.2 Liquidity Conditions: From Unfunded Obligations to Structured Intervention

Liquidity remains the core weakness of the power sector. The issue is not simply that the sector requires funding; it is that liquidity stress flows through the entire value chain. When DisCos under-collect or tariffs do not fully cover costs, NBET’s payment capacity is weakened. That affects GenCos. GenCos then struggle to meet obligations to gas suppliers and lenders. The result is lower generation availability, constrained gas supply, and weaker system reliability. The government-backed bond programme directly targets this liquidity problem. The State House confirmed that the N501.02bn Series 1 bond issuance under the Presidential Power Sector Debt Reduction Programme (PPSDRP) recorded 100% subscription from pension funds, banks, asset managers, and other investors, positioning it as a step toward resolving legacy debts and strengthening confidence in the power market. Market disclosures also indicate that Nigeria approved a N4trn electricity sector debt refinancing plan to stabilise the power industry, with debts primarily owed to generation companies for unpaid invoices from 2015 to 2023.

Key Highlights

100%
subscription achieved for the N501.02bn Series 1 bond under PSDRP

N4trn
approved for electricity sector debt refinancing to stabilise the industry

2015–2023
period covering unpaid invoices owed to GenCos driving sector debt

Liquidity Channel	Previous Market Condition	Current Reset Signal	Credibility Test
GenCo payments	Persistent unpaid invoices and delayed settlement	Government-backed refinancing programme	Actual payment flow to verified creditors
Gas supply	Debt exposure weakened gas-to-power reliability	Dedicated interventions to settle gas-related arrears	Whether gas supply availability improves materially
Investor confidence	Weak confidence due to accumulated arrears	Bond subscription shows appetite for structured risk	Whether subsequent issuances sustain demand
Sector cash flow	Liquidity gaps repeatedly absorbed by government	More programmatic intervention framework	Whether intervention reduces future arrears

State House; Federal Ministry of Finance; Office of the Special Adviser to the President on Energy; Reuters; Iron Capital Analysis

Assessment: The sector is not yet liquid on its own terms. What has changed is the emergence of a more formal funding mechanism to convert accumulated obligations into structured capital market instruments.

2.3 Tariff Administration: Partial Realignment, Not Full Cost Recovery

Tariff reform is central to the power sector's long-term investability. Without tariffs that better reflect cost, the sector remains dependent on government support and vulnerable to recurring shortfalls. The most visible adjustment was the targeted tariff increase for Band A customers. According to market data, the tariff adjustment affected the just under 15% of the customer population and helped generate additional revenue, reducing government tariff shortfall pressure. However, the reform remains partial. NERC's own reporting has repeatedly shown that subsidy obligations persist because tariffs are not fully cost-reflective across all DisCos. For example, NERC reported a N418.79bn government subsidy obligation in Q4 2025, representing 52.30% of the total GenCo invoice for that quarter. This indicates that, despite recent tariff adjustments, a substantial portion of sector costs continues to be absorbed through fiscal support rather than fully recovered through end-user pricing.

Tariff Issue	Direction of Travel	Implication
Band A tariff adjustment	More cost-reflective pricing for selected customers	Positive revenue signal, but limited to a defined customer class
Subsidy exposure	Reduced in some periods but still material	Fiscal burden remains embedded in sector economics
Service-linked pricing	Tariff increases tied to higher service expectations	Execution depends on actual supply reliability
Social sensitivity	Tariff reform remains politically sensitive	Full reform will likely remain gradual

NERC; Reuters; Iron Capital Analysis

Assessment: Tariff reform has moved, but the economics of the sector have not been fully reset. The market remains partly commercial and partly fiscal, which means investor confidence will continue to depend on the reliability of subsidy funding and payment mechanisms.

2.4 Capital Market Re-Engagement: A Material Signal, Not Yet a Broad Market Reopening

The N501.02bn Series 1 bond issuance is one of the clearest signals that the sector is becoming financeable under the right structure. Public information indicates that the issuance was the first tranche under the broader N4trn PPSDRP and was designed to address legacy liabilities across the Nigerian Electricity Supply Industry. The significance is not only the size of the issuance. It is the fact that institutional investors were willing to participate in a power-sector-linked instrument when the structure carried defined government support and clear policy intent.

Capital Market Indicator	Relevance	Interpretation
100% subscription	Shows investor appetite for structured, sovereign-supported exposure	Confidence exists, but within clear risk boundaries
Pension fund and asset manager participation	Signals institutional demand	Long-tenor capital can engage where structure is credible
Programme-based issuance	Moves beyond one-off intervention	Creates a pathway for phased liquidity restoration
Power-sector linkage	Reintroduces the sector into capital market conversations	Sector remains investable only with strong safeguards

State House; Office of the Special Adviser to the President on Energy; transaction/public market disclosures; Iron Capital Analysis

Assessment: Capital market re-engagement has begun, but it is selective. Investors are not necessarily taking direct power-sector operating risk; they are engaging with structured, government-backed instruments designed to address sector liabilities.

2.5 Operational Reality: Financial Intervention Has Not Eliminated System Constraints

The reset must be evaluated against operational realities. Nigeria's power sector continues to face gas supply limitations, transmission constraints, distribution inefficiencies, collection gaps, and grid reliability challenges. Industry sources reported in February 2026 that gas-fired plants were receiving significantly less gas than required, reducing national power generation and contributing to load shedding. The report linked the supply constraints to debt stress across the power value chain, despite the initiation of refinancing measures. This distinction matters, a financial intervention can improve liquidity and confidence, but it does not automatically resolve operational performance. Sustained improvement will require better collections, stronger distribution performance, improved gas supply reliability, transmission investment, and credible tariff administration.

Operational Constraint	Why It Matters	Status of Reset
Gas supply	Gas-fired plants remain central to grid electricity	Debt resolution may help, but supply reliability remains vulnerable
Transmission capacity	Limits the ability to move generated power efficiently	Still a binding infrastructure constraint
Distribution performance	Determines collections, revenue assurance, and customer confidence	Improvement remains uneven
Grid stability	Affects service reliability and willingness to pay	Still a major confidence issue
Metering and billing	Critical for revenue assurance	Progress remains important but incomplete

NERC Industry Reports; Nigerian Independent System Operator disclosures; Reuters; BusinessDay; Iron Capital Analysis.

Assessment: The financial reset is necessary, but not sufficient. It can create breathing space, but operational reforms will determine whether the sector becomes sustainably investable.

2.6 Reform Distinction: Enduring Shifts Versus Transitional Relief

Reform Dimension	Enduring Shift Emerging	Transitional / Unresolved Condition
Policy direction	More coordinated fiscal and sector-level intervention	Execution credibility still being tested
Liquidity	Use of structured instruments to address legacy debts	Sector remains dependent on government support
Tariffs	Selective movement toward cost-reflective pricing	Full cost recovery remains incomplete
Capital markets	Institutional participation in structured sector-linked instruments	Direct operating-risk appetite remains limited
Gas-to-power	Recognition of gas debt as a power supply constraint	Gas availability still vulnerable to payment discipline
Investor confidence	Improved appetite where sovereign support is clear	Broader confidence depends on sustained reform delivery
Sector performance	Financial stabilisation may improve operating conditions	Grid, transmission, and distribution constraints persist

NERC Industry Reports; Federal Government PPSPDRP disclosures; Reuters; State House; Iron Capital Analysis.

2.7 Concluding Perspective: Managed Stabilisation, Not Full Market Normalisation

Nigeria's power sector is entering a more credible phase of financial stabilisation. The combination of targeted tariff adjustments, structured debt refinancing, and renewed capital market participation suggests that the sector is no longer being treated only as a fiscal burden. It is increasingly being approached as a market that can be repaired through coordinated policy, disciplined financing, and phased risk reallocation. That distinction is important, the sector has not become self-sustaining. It remains exposed to tariff gaps, subsidy dependence, gas supply constraints, weak distribution performance, and infrastructure limitations. However, the emergence of programme-based financing and institutional investor participation indicates that the market is becoming more financeable where risks are clearly structured and payment pathways are credible.

For capital providers, the opportunity is not in assuming that the power sector has turned a corner permanently. The opportunity lies in understanding where the reset is real, where it is still fragile, and where properly structured capital can support the transition from intervention-led stabilisation to a more investable electricity market.

“The combination of targeted tariff adjustments, structured debt refinancing, and renewed capital market participation suggests that the sector is being approached as a market that can be repaired

03

Market Structure:

How the Power Sector Operates Today

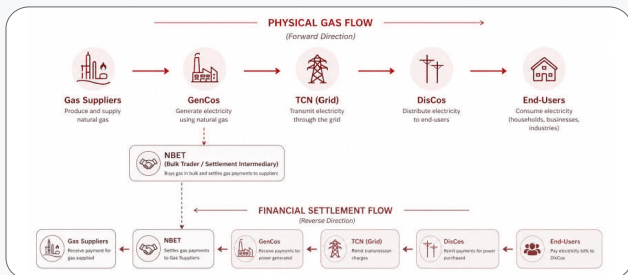


3. Market Structure: How the Power Sector Operates Today

Nigeria's power sector operates as a centrally coordinated but commercially fragmented system. Electricity flows through a linear value chain, while cash flows move imperfectly in the opposite direction. The disconnect between these two flows defines the sector's operational and financial reality. At its core, the Nigerian Electricity Supply Industry (NESI) is structured around five interdependent layers: generation, transmission, distribution, bulk trading and settlement, and regulation. Each performs a distinct function, but system performance is ultimately determined by how effectively they interact.

3.1 System Flow: Physical Delivery and Financial Settlement

Electricity is generated, transmitted through a single national grid, and delivered to end-users via distribution networks. Financial flows move in reverse, originating from customer payments and cascading upstream through the system. This dual-flow structure introduces a fundamental dependency - where revenue collection weakens, upstream settlement capacity deteriorates.



3.2 Generation: Output Defined by Fuel and Commercial Viability

Electricity generation in Nigeria is predominantly thermal, with gas-fired plants accounting for the majority of available grid supply. Hydropower provides a secondary contribution, supporting base load and system balance, while grid-connected renewables remain limited.

Despite installed capacity exceeding 12,000MW, available generation is materially lower due to:



1

Constraints in gas supply and pricing

2

Plant outages and maintenance limitations

3

Payment uncertainty affecting operational sustainability

3.3 Transmission: Centralised Grid with Throughput Limitations

The Transmission Company of Nigeria (TCN) operates the national grid, serving as the sole conduit for bulk electricity movement across the country.

Transmission remains a structural constraint:



1

Wheeling capacity is below installed generation capacity

2

Grid instability contributes to periodic system disruptions

3

Limited redundancy reduces resilience and flexibility

As a non-revenue-generating segment, transmission relies on central funding and investment to expand capacity. Any constraint at this level results in stranded generation and unmet demand, regardless of upstream capacity.

3.4 Distribution: Commercial Interface and Revenue Anchor

Distribution companies (DisCos) represent the point at which electricity is monetised. Their responsibilities include delivery to end-users, billing, metering, and revenue collection. This segment anchors the financial viability of the sector.

Persistent challenges include:



1

High Aggregate Technical, Commercial, and Collection (ATC&C) losses

2

Metering gaps leading to estimated billing practices

3

Weak enforcement of payment discipline

4

Infrastructure limitations affecting service quality

Revenue underperformance at this level directly transmits liquidity pressure upstream, constraining settlement across the value chain.

3.5 Bulk Trading and Settlement: Intermediation and Payment Flows

The Nigerian Bulk Electricity Trading Plc (NBET) functions as an intermediary within the market, positioned between generation and distribution.

Its core roles include:



1

Contracting power from GenCos through Power Purchase Agreements

2

Aggregating electricity supply

3

Managing settlement flows across the market

NBET was designed to provide credit support and reduce counterparty risk during the sector's transition phase. However, its effectiveness is fundamentally linked to the remittance performance of DisCos.

Settlement Flow

Stage	Description
1	DisCos collect revenue from end-users
2	A portion of collections is remitted into the market
3	NBET aggregates inflows and settles GenCos
4	GenCos meet obligations to gas suppliers and financiers

Source: NERC Market Rules; NERC Industry Reports; Nigerian Bulk Electricity Trading Plc (NBET)

In practice, remittances are often below invoice levels, resulting in partial settlements and the accumulation of arrears across the system.

3.6 Regulatory Oversight: Pricing, Compliance, and Market Discipline

The Nigerian Electricity Regulatory Commission (NERC) provides regulatory oversight across the sector. Its mandate includes tariff determination under the Multi-Year Tariff Order framework, licensing, enforcement of market rules, and monitoring of service delivery standards.

Regulation operates across two competing imperatives:



1

Enabling cost recovery and sector sustainability

2

Preserving affordability and social stability

Balancing these objectives has direct implications for tariff adequacy, investor confidence, and long-term sector viability.

3.7 System Interdependencies: Transmission of Risk Across the Value Chain

The structure of the sector creates tight interdependencies, where weaknesses in one segment propagate across the system.

Segment	Primary Dependency	System Impact of Weakness
Generation	Gas supply and payment certainty	Reduced output and capacity underutilisation
Transmission	Grid capacity and investment	Evacuation constraints and system instability
Distribution	Metering and collection efficiency	Revenue shortfall across the sector
NBET	DisCo remittances	Settlement gaps to GenCos
Regulation	Tariff alignment and enforcement	Distorted pricing and investment signals

Source: NERC Market Rules; NERC Industry Reports; Nigerian Electricity Supply Industry (NESI) Framework; Iron Capital Analysis

The system does not absorb shocks locally. Disruptions are transmitted across the entire value chain.

3.8 System Characterisation: Centralised Operations, Fragmented Commercial Outcomes

The Nigerian power sector is characterised by:

- ❑ A centrally managed transmission backbone
- ❑ Decentralised and uneven commercial performance across operators
- ❑ Strong financial interdependence across the value chain

This creates a system where:

- ❑ Physical infrastructure exists but is not fully optimised
- ❑ Revenue is generated but not fully captured
- ❑ Obligations are recognised but not consistently settled

Key Highlights

5
layers

define the NESI structure -
generation, transmission,
distribution, bulk trading, regulation

12000
MW+

installed generation
capacity, with actual output
significantly lower

1
central
grid

operated by TCN, limiting
throughput and system
flexibility

Where System Performance Is Won or Lost

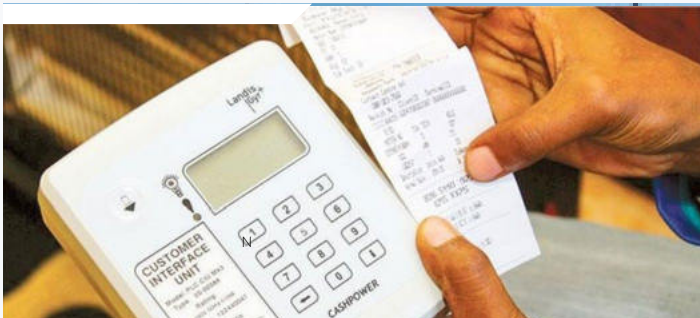
Nigeria's power sector does not fail for lack of installed capacity. It underperforms because the system does not consistently convert capacity into delivered, monetised, and fully settled electricity. Generation output is constrained by fuel availability and payment certainty. Transmission limits how much of that output can be evacuated. Distribution determines how much of what is delivered is actually paid for. Settlement structures then determine whether that value is transmitted back through the system in a predictable and timely manner.

The result is a sector where physical supply, commercial recovery, and financial settlement remain misaligned. Until these flows move with greater consistency and discipline, incremental gains in capacity or policy will continue to yield limited system-wide impact. What emerges is a clear threshold for performance: not the scale of infrastructure in place, but the reliability with which power is delivered, revenue is captured, and obligations are honoured across the value chain.

04

The Core Constraint:

Liquidity, Pricing, and Payment Discipline



4. The Core Constraint: Liquidity, Pricing, and Payment Discipline

The central financial constraint in Nigeria's power sector is the persistent gap between the economic cost of electricity supplied and the cash ultimately recovered and settled across the value chain. This is not a single-point weakness. It is a connected financial problem shaped by tariff adequacy, distribution-level revenue recovery, market remittance, and accumulated obligations. The latest NERC reporting confirms that the sector continues to depend materially on subsidy support. In Q4 2025, the Federal Government incurred a subsidy obligation of **N418.79bn**, reflecting the absence of fully cost-reflective tariffs across all DisCos. Although this was lower than **N458.75bn** in **Q3 2025**, it remained significant and represented about **52% of total generation cost** for the quarter. NERC also noted that the NBET invoice payable by DisCos was **N386.13bn** because the Federal Government had taken responsibility for roughly **N418.79bn** of generation costs through subsidies arising from the freeze of end-user tariffs at July 2024 rates.

4.1 Tariff Adequacy: The Revenue Envelope Remains Incomplete

Tariffs remain the first-order determinant of sector liquidity. Where end-user tariffs do not fully reflect generation, transmission, distribution, inflation, exchange rate, and gas-price realities, the sector produces a funding gap before collection performance is even considered. NERC's Q4 2025 report makes this clear. In the absence of cost-reflective tariffs, government covers the gap between cost-reflective and allowed tariffs through subsidies. NERC also recorded that end-user tariffs for November and December 2025 were frozen at July 2024 rates, despite the tariff framework normally accounting for pass-through variables such as inflation, exchange rate, available generation capacity, and gas price.

Tariff Issue	Current Evidence	Sector Implication
End-user tariffs	Frozen at July 2024 rates for Nov–Dec 2025	Cost movements are not fully passed through
Q4 2025 subsidy obligation	N418.79bn	Fiscal support remains embedded in sector economics
Q3 2025 subsidy obligation	N458.75bn	Subsidy burden remains structurally elevated
Q4 2025 subsidy share	Roughly 52% of generation cost	Market revenues remain insufficient without government support

Source: NERC, Iron Capital Analysis

The tariff issue is therefore not only about price levels. It is about the credibility of the revenue framework. Investors and operators require confidence that tariffs, subsidies, and payment mechanisms can cover actual costs in a timely and predictable manner.

4.2 Collection Efficiency: The Commercial Leakage Point

Even where tariffs are set, revenue recovery depends on how effectively DisCos bill and collect from end-users. This remains a major pressure point. In Q4 2025, NERC reported that DisCos received **3,619.21MWh/h** of energy, billed **6,614.57GWh** to customers, and collected **N630.93bn** in revenue. However, cumulative billing efficiency stood at **82.03%**, collection efficiency at **79.36%**, and Aggregate Technical, Commercial and Collection losses at **34.90%**, worse than the **33.27%** recorded in Q3 2025.

Performance Indicator	Q3 2025	Q4 2025	Reading
Billing efficiency	82.69%	82.03%	Slight deterioration
Collection efficiency	80.70%	79.36%	Weaker recovery from billed customers
ATC&C losses	33.27%	34.90%	Commercial and technical losses worsened
DisCo revenue collected	N570.25bn	N630.93bn	Higher nominal collections, but weaker efficiency

Source: NERC, Iron Capital Analysis

Revenue collected increased in absolute terms, but efficiency weakened. That means higher nominal collections should not be misread as a full commercial recovery. The system still loses value between energy received, energy billed, bills collected, and market obligations settled.

4.3 Settlement Discipline: Stronger Remittance, But Not Uniform

The market remittance framework is designed to push collections upstream to NBET and the Market Operator. NERC explains that DisCo collections are escrowed, with deductions made through a payment waterfall intended to prioritise upstream obligations, including payments for generation, transmission charges, and administrative market costs. In Q4 2025, DisCos remitted **N437.27bn** to NBET and TCN/Market Operator against a combined invoice of **N471.66bn**, implying overall remittance performance of **92.71%**. This was lower than **95.21%** in Q3 2025.

Settlement Indicator	Q3 2025	Q4 2025	Interpretation
Combined invoice to DisCos	N400.48bn	N471.66bn	Higher upstream obligation
Amount remitted	N381.29bn	N437.27bn	Higher nominal remittance
Overall remittance performance	95.21%	92.71%	Lower percentage performance
NBET-specific remittance	95.23%	93.04%	Still high, but weaker than previous quarter

Source: NERC; Iron Capital Analysis

The aggregate numbers are encouraging but must be read carefully. Several DisCos achieved 100% remittance to NBET in Q4 2025, but others underperformed materially, including Kaduna, Jos, and Kano. NERC reported that all DisCos except Yola, Benin, Ibadan, Kano, Jos, and Kaduna achieved 100% NBET remittance in Q4 2025. The issue is therefore not only aggregate sector remittance. It is unevenness across operators. Strong performers improve market stability, while weaker performers continue to transmit financial pressure upstream.

4.4 Legacy Obligations: The Overhang Behind the Reset

The liquidity constraint is not only current-period performance. It is also the accumulated stock of unpaid obligations built up over prior years. These obligations sit across GenCos, gas suppliers, service providers, lenders, and government balance sheets.

This is why the Presidential Power Sector Debt Reduction Programme is central to the current reset. The programme's relevance lies in addressing the accumulated debt overhang that has weakened balance sheets, constrained liquidity, and reduced confidence in the sector's payment chain.

Legacy Pressure Point	Affected Parties	Why It Matters
Unpaid GenCo invoices	GenCos, NBET, government	Weakens generation liquidity
Gas-related arrears	Gas suppliers, GenCos	Can reduce fuel availability
Distribution under-remittance	NBET, TCN/MO, upstream operators	Creates settlement gaps
Subsidy obligations	Federal Government, market participants	Adds fiscal exposure and timing risk
Lender exposure	Banks and financiers	Raises credit risk around power-sector lending

Source: NERC Industry Reports; Federal Government disclosures on power sector debt restructuring; market reporting and Iron Capital Analysis

Legacy obligations matter because they are not passive historical numbers. They affect current market behaviour. Operators with strained balance sheets have limited capacity to maintain assets, invest in reliability, or absorb further payment delays.

4.5 The Financial Transmission Mechanism

The sector's liquidity challenge is best understood as a transmission problem. The financial stress does not remain at one point in the chain.

Stage	Mechanism	Resulting Pressure
Tariff gap	Allowed tariffs below cost-reflective level	Subsidy obligation emerges
Billing gap	Not all received energy is billed	Revenue potential is reduced
Collection gap	Not all billed revenue is collected	Cash available for remittance declines
Remittance gap	DisCos remit below total market invoices	NBET and MO settlement capacity weakens
Upstream gap	GenCos receive less predictable cash flow	Gas supply, maintenance, and debt service are affected
Legacy gap	Accumulated arrears remain unresolved	New capital requires stronger safeguards

NERC Industry Reports; Federal Government PPSDRP disclosures; Reuters; State House; Iron Capital Analysis.

This sequence explains why single-point interventions rarely produce durable improvement. Raising tariffs without improving collection leaves cash leakage unresolved. Improving collections without

credible tariff adjustment does not eliminate the subsidy burden. Refinancing legacy obligations without current payment discipline risks rebuilding arrears.

4.6 What the Latest Data Actually Shows

Area	Latest Evidence	Implication
Subsidy burden	N418.79bn in Q4 2025	Government support remains material
Tariff setting	End-user tariffs frozen at July 2024 rates for Nov–Dec 2025	Cost pass-through remains constrained
Collection efficiency	79.36% in Q4 2025	Revenue recovery remains below required level
ATC&C losses	34.90% in Q4 2025	More than one-third of value is lost across technical, commercial, and collection channels
Remittance performance	92.71% in Q4 2025	Settlement discipline is improving but uneven
Metering additions	323,864 new meters in Q4 2025	Positive progress, but the metering gap remains a structural issue

NERC Industry Reports; Federal Government PPSDRP disclosures; Reuters; State House; Iron Capital Analysis.

Where the Constraint Binds

The sector's financial constraint sits at the point where policy, pricing, collections, and settlement meet. Nigeria's power market is generating electricity, billing customers, collecting revenue, and remitting upstream payments, but these flows remain misaligned in scale, timing, and reliability. The latest regulatory data points to a market that is improving in selected areas but still requires fiscal support and stronger commercial discipline. Q4 2025 showed higher nominal collections and remittances, but weaker collection efficiency, higher ATC&C losses, and a still-material subsidy burden. For capital providers, the core issue is not whether the sector needs financing. It does. The more important question is where cash flows are sufficiently protected, where payment obligations are credible, and where structures can reduce exposure to tariff, collection, and settlement risk. That is where the investable opportunity begins.

 Key Highlights

N418.79bn
government subsidy obligation in Q4 2025, covering 52% of generation cost

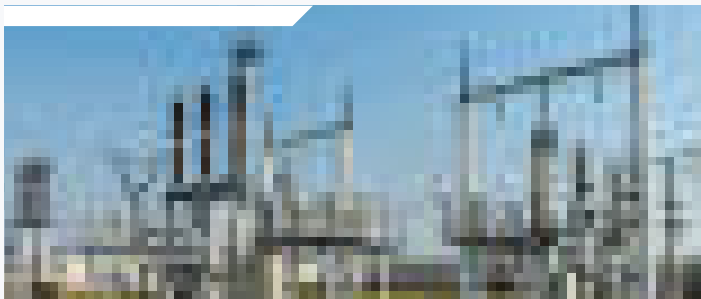
79.36%
collection efficiency in Q4 2025, reflecting continued revenue leakage

92.71%
market remittance performance, improving but uneven across DisCos

05

Policy Direction:

Reform Signals and Execution Realities



5. Policy Direction: Reform Signals and Execution Realities

Policy direction in Nigeria's power sector has become clearer, more deliberate, and increasingly structured. Recent actions reflect a shift toward restoring financial balance, strengthening regulatory oversight, and re-engaging capital. The direction is no longer ambiguous. What remains uncertain is whether execution will be sustained, coordinated, and disciplined enough to translate policy intent into durable outcomes.

5.1 Tariff Adjustments: Targeted Gains, Limited System Impact

Recent tariff actions reflect a shift toward differentiated pricing, anchored on service delivery. The most prominent adjustment has been the upward revision of tariffs for Band A customers.

Tariff Element	Policy Signal	Observed Limitation
Service-based pricing	Tariffs aligned to service levels	Effectiveness depends on consistent supply delivery
Band A adjustment	Higher tariffs for top-tier customers	Revenue improvement is not system-wide
Tariff progression	Gradual movement toward higher pricing	Adjustment pace remains controlled
Subsidy moderation	Reduced exposure at the margin	Fiscal support remains embedded

Source: Nigerian Electricity Regulatory Commission (MYTO framework; tariff orders); international market reporting (Band A customer segmentation and impact).

5.2 Regulatory Posture: Greater Visibility, Selective Enforcement

The **Nigerian Electricity Regulatory Commission (NERC)** has become more assertive in its oversight role, with increased transparency, more frequent reporting, and stronger emphasis on performance monitoring.

Regulatory Area	Direction of Change	Execution Constraint
Market transparency	More frequent and detailed reporting	Data consistency and timeliness remain important
Performance oversight	Stronger focus on DisCo metrics	Enforcement uneven across operators
Tariff governance	Continued use of MYTO framework	Adjustment lag relative to cost movements
Service accountability	Alignment of tariffs with service levels	Measurement and verification challenges

Source: Nigerian Electricity Regulatory Commission (Electric Power Sector Reform Act, 2005; MYTO methodology; Industry Reports).

5.3 Government Interventions: Scale Achieved, Discipline Required

Government interventions have evolved from reactive support to structured, programme-based solutions, anchored by the **Presidential Power Sector Debt Reduction Programme (PPSDRP)**.

Intervention Type	Policy Objective	Execution Risk
Debt refinancing	Restore balance sheets and clear arrears	Validation and sequencing of obligations
Subsidy support	Maintain sector stability	Fiscal sustainability over time
Market stabilisation	Reinforce payment confidence	Dependence on continued intervention
Institutional alignment	Improve coordination across agencies	Translation into measurable outcomes

Source: Federal Government of Nigeria (State House releases; Federal Ministry of Finance); Office of the Special Adviser to the President on Energy; Nigerian Electricity Regulatory Commission; international market reporting; Iron Capital Analysis.

5.4 Implementation Credibility: The Binding Constraint

The success of the current reform cycle will be determined by execution consistency.

Credibility Driver	Indicator to Monitor	Implication
Tariff trajectory	Continuity and breadth of adjustments	Determines revenue adequacy
Enforcement consistency	Alignment across DisCo performance	Signals strength of regulatory authority
Programme execution	Transparent deployment of interventions	Supports confidence in sector restructuring
Policy coordination	Alignment across government institutions	Reduces uncertainty for capital providers

Source: Nigerian Electricity Regulatory Commission (Industry Reports; tariff framework); Federal Government policy disclosures (PPSDRP); Iron Capital Analysis.

Where Policy Stands

Policy direction is now more coherent and more deliberate. Targeted tariff adjustments, stronger regulatory oversight, and structured government interventions indicate a shift toward restoring sector balance. However, the system has not yet transitioned to a self-sustaining state. The current phase should be understood as a policy-led stabilisation process, where outcomes remain contingent on execution discipline.

06

The PPSDRP Framework:

Addressing Legacy Liabilities at Scale

6. The PPSDRP Framework: Addressing Legacy Liabilities at Scale

The **Presidential Power Sector Debt Reduction Programme (PPSDRP)** is one of the most consequential financial interventions in Nigeria's power sector reform cycle. Its core purpose is to address accumulated legacy obligations that have weakened liquidity, constrained operator balance sheets, and reduced confidence across the Nigerian Electricity Supply Industry. The programme is not simply a debt payment exercise. It is a balance sheet repair mechanism designed to convert a large stock of unpaid sector obligations into a structured financing programme, backed by the Federal Government and executed through capital market instruments. Public disclosures indicate that the broader programme is sized at up to **N4trn**, with the inaugural **N501bn bond issuance** recording **100% subscription** from pension funds, banks, asset managers, and other investors.

6.1 Why the Programme Exists: The Cost of Accumulated Obligations

Legacy liabilities have been one of the most persistent constraints in the power sector. These obligations are largely linked to unpaid invoices owed to generation companies and related gas-to-power obligations accumulated over prior years. Reuters reported that the approved refinancing plan covered about **N4trn** in electricity sector debt, primarily owed to generation companies for unpaid invoices between **2015** and **2023**. The effect of these obligations extends beyond accounting. They weaken the financial position of GenCos, undermine payment confidence, affect gas supply reliability, and limit the willingness of lenders and investors to take exposure to the sector.

Legacy Liability Channel	Primary Pressure Created	System-Level Effect
Unpaid GenCo invoices	Weakens generation company liquidity	Limits operational flexibility and reinvestment capacity
Gas-to-power arrears	Strains fuel supply relationships	Raises risk to generation availability
Delayed settlement cycles	Reduces confidence in payment reliability	Increases perceived sector risk
Accumulated receivables	Weakens operator balance sheets	Constrains new financing
Government tariff shortfalls	Creates fiscal and timing risk	Sustains dependence on public intervention

Source: Reuters; NERC Industry Reports; Federal Government PPSDRP disclosures; Iron Capital Analysis.

6.2 Programme Design: Phased Verification, Settlement and Financing

The PPSDRP is structured as a phased intervention, not a one-off liquidity injection. Public information from the power sector financial reforms portal states that the programme involves reconciliation and audit of outstanding debts, formal debt-settlement agreements after verification, and financing raised through NBET's settlement SPV. The SPV is expected to issue sovereign-backed bonds to attract investors. This sequence is important because the credibility of the programme depends on verifying obligations before settlement. A debt reduction programme that pays unverified claims would weaken confidence. A programme that reconciles claims, converts them into formal settlement arrangements, and funds them through recognised instruments has a stronger chance of improving market confidence.

Programme Stage	Purpose	Credibility Requirement
Debt reconciliation and audit	Establish the stock of valid obligations	Transparent verification process
Debt-settlement agreements	Convert verified obligations into formal claims	Clear creditor recognition and documentation
SPV-based financing	Create a dedicated financing channel	Ring-fenced structure and clear repayment framework
Sovereign-backed bond issuance	Mobilise institutional capital	Investor confidence in government support
Phased settlement	Reduce arrears over time	Predictable payment flow to verified creditors

Source: Office of the Special Adviser to the President on Energy / Power Sector Financial Reforms Programme; State House; Reuters; Iron Capital Analysis.

6.3 The NBET Finance Company Role: A Dedicated Issuance Vehicle

The bond issuance was executed through **NBET Finance Company Plc**, a special purpose vehicle sponsored by Nigerian Bulk Electricity Trading Plc. The structure is significant because it separates the financing vehicle from routine market settlement flows, allowing the programme to raise capital for legacy debt reduction through a dedicated instrument. The first completed tranche was the **N501.02bn 7-year Fixed Rate Series 1 Bond Issuance**, executed under the broader **N4trn Power Sector Multi-Instrument Issuance Programme**. Public reporting confirms that the inaugural issuance formed part of the first phase of the PPSDRP and was aimed at addressing verified arrears owed to generation companies and gas suppliers.

Feature	Programme Relevance
NBET Finance Company Plc	Dedicated SPV for the issuance programme
N4trn programme size	Scale of intended debt reduction framework
N501.02bn Series 1 issuance	First completed capital market tranche
7-year fixed rate bond	Creates defined tenor and repayment profile
Investor participation	Signals appetite for structured, sovereign-supported exposure

Source: State House; NBET public disclosures as reported by Voice of Nigeria; Office of the Special Adviser to the President on Energy; BusinessDay.

6.4 Market Significance: From Fiscal Burden to Capital Market Instrument

The PPSDRP changes the form of the problem. Legacy debts that previously sat as unpaid obligations across the sector are being converted into structured capital market instruments. That does not eliminate the fiscal burden, but it improves the sequencing, visibility, and bankability of the obligation. The 100% subscription of the inaugural bond is therefore significant. It indicates that institutional investors are willing to participate in power-sector-linked financing when the exposure is structured, government-supported, and clearly connected to a formal settlement programme. The State House confirmed participation from pension funds, banks, asset managers, and other investors.

Before PPSDRP	Under PPSDRP Framework	Implication
Accumulated unpaid obligations	Verified claims converted into structured instruments	Improves transparency of liabilities
Payment uncertainty	Formal settlement pathway	Strengthens creditor visibility
Direct pressure on sector operators	Programme-based financing support	Provides liquidity relief
Limited investor appetite for sector risk	Sovereign-supported instrument	Re-opens institutional participation
Fragmented arrears problem	Phased debt reduction programme	Creates a clearer reform pathway

Source: State House; Office of the Special Adviser to the President on Energy; Reuters; Iron Capital Analysis.

6.5 Role in Restoring Sector Balance Sheets

The programme's balance sheet impact depends on the actual flow of proceeds to verified creditors. If executed properly, the PPSDRP can reduce receivables owed to GenCos, improve their liquidity positions, support payments to gas suppliers, and reduce the debt overhang that has weakened investor confidence. This is especially important because the sector's financial weakness is not only a current-period cash flow issue. Accumulated arrears affect the ability of operators to maintain plants, negotiate fuel supply, service debts, and attract new capital. Reuters noted that unpaid invoices had constrained investment and contributed to persistent power supply challenges.

Balance Sheet Area	Expected Programme Effect	What Must Be Verified
GenCo receivables	Reduction in unpaid invoices	Claims are reconciled and settled accurately
Gas supplier exposure	Improved payment chain	Proceeds reach relevant settlement channels
Operator liquidity	Better working capital position	Payments are timely and predictable
Lender confidence	Lower arrears-related credit risk	Debt reduction is not reversed by new arrears
Investor perception	Stronger confidence in sector payment discipline	Programme execution remains transparent

Source: Reuters; NERC Industry Reports; PPSDRP public disclosures; Iron Capital Analysis.

6.6 What the Programme Can Achieve — and What It Cannot Do Alone

The PPSDRP can address a major stock problem: accumulated legacy debt. It can also improve confidence by demonstrating that the Federal Government is willing to recognise and restructure sector obligations through a formal financing framework. However, it cannot, by itself, resolve the flow problem. New arrears can still emerge if tariffs remain misaligned, collection efficiency weakens, remittance discipline deteriorates, or subsidy payments are delayed. NERC's Q4 2025 report showed that the Federal Government still incurred a subsidy obligation of **N418.79bn** in the quarter, while DisCos remitted **N437.27bn** against combined NBET and Market Operator invoices of **N471.66bn**.

Can Support	Cannot Replace
Settlement of verified legacy obligations	Cost-reflective and credible tariff progression
Balance sheet repair for affected operators	Stronger billing and collection performance
Improved investor confidence	Consistent market discipline
Liquidity relief across the value chain	Distribution-level operational reform
Capital market participation	Long-term fiscal and subsidy discipline

Source: Reuters; NERC Industry Reports; PPSDRP public disclosures; Iron Capital Analysis.

6.7 Execution Risks: The Programme's Credibility Tests

The PPSDRP will be judged by delivery, not scale alone. A large programme can improve confidence only if it is transparent, disciplined, and linked to measurable settlement outcomes.

The key risks are:

Execution Risk	Why It Matters	Market Implication
Verification risk	Invalid or disputed claims could weaken credibility	Investors may question programme discipline
Sequencing risk	Delayed settlement could reduce confidence among creditors	Balance sheet relief may be slower than expected
Fiscal risk	Government support must remain credible across tranches	Investor appetite may weaken if repayment confidence falls
Re-accumulation risk	New arrears could emerge after legacy debts are refinanced	Programme impact could be diluted
Transparency risk	Limited disclosure could reduce market confidence	Future issuances may require higher risk premium

Source: PPSDRP public disclosures; NERC Industry Reports; Reuters; Iron Capital Analysis.

6.8 Reading the PPSDRP Correctly

The PPSDRP should be read as a major financial stabilisation instrument, not as proof that the power sector has been structurally repaired. Its importance lies in acknowledging the scale of legacy obligations and creating a structured route to reduce them through verified settlement and capital market financing. The programme can materially improve confidence if it delivers three outcomes: credible verification of claims, timely settlement to affected market participants, and prevention of new arrears. The first bond issuance has already demonstrated investor appetite for structured, government-supported exposure. The larger test is continuity across subsequent phases and the extent to which debt reduction is matched by stronger market discipline. For capital providers, the PPSDRP improves the investability narrative around the sector, but it does not remove the need for rigorous risk assessment. The programme creates a clearer financing pathway; sustainable market confidence will depend on the quality of execution that follows.

07

Market Signal:

The NBET-Linked Bond Issuance



7. Market Signal: The NBET-Linked Bond Issuance

The issuance of the **N501.02bn Series 1 bond** under the Power Sector Multi-Instrument Issuance Programme marks a clear shift in how Nigeria's power sector is being financed. It represents a transition from fragmented, balance-sheet-driven funding toward structured, capital market-based solutions backed by sovereign support. The transaction is significant not only for its size, but for what it demonstrates: that under defined conditions, credible policy backing, structured risk allocation, and clear use of proceeds, capital can be mobilised at scale for a sector that has historically struggled to attract sustained institutional participation.

7.1 Structure and Purpose: Converting Arrears into Investable Instruments

The bond was issued through **NBET Finance Company Plc**, a special purpose vehicle established to raise financing for the settlement of verified legacy obligations within the Nigerian Electricity Supply Industry.

The structure reflects a deliberate design:

- **Use of proceeds:** settlement of verified arrears owed primarily to generation companies and gas suppliers
- **Issuance vehicle:** ring-fenced SPV, separate from routine market settlement flows
- **Programme framework:** part of a broader **N4trn issuance programme** under the PPSDRP
- **Tenor and format:** 7-year fixed-rate bond, providing visibility on repayment profile

Public disclosures from the State House confirm that the issuance forms part of a coordinated effort to address long-standing sector liabilities and restore financial stability. The objective is not simply to inject liquidity, but to convert accumulated obligations into structured, serviceable instruments.

7.2 Investor Response: Selective Confidence Under Defined Conditions

The transaction recorded **100% subscription**, with participation from pension funds, banks, asset managers, and other institutional investors.

This outcome provides a clear signal on investor behaviour:

- Capital is available for the sector
- Participation is contingent on **structure, credit support, and clarity of repayment**
- Investors are not necessarily taking direct operating risk, they are engaging with **structured exposure backed by sovereign credibility**

The composition of investors is particularly relevant. Pension funds and asset managers typically require:

- predictable cash flows
- defined credit frameworks
- regulatory clarity

Their participation suggests that the transaction met these thresholds.

7.3 What the Transaction Signals to the Market

The issuance carries several implications for how the power sector is now being perceived and financed.



Re-entry of Institutional Capital:

The transaction demonstrates that institutional capital can be mobilised for power-sector exposure when risks are structured appropriately. This is a departure from earlier periods where funding was largely constrained to bank balance sheets or government intervention.



Emergence of Programme-Based Financing:

The bond is not a standalone transaction. It sits within a multi-tranche programme, indicating a shift toward **sequenced capital market engagement**, rather than episodic interventions.



Recognition of the Debt Overhang as a Market Issue

By formalising legacy obligations into a structured programme, the government has effectively repositioned the debt overhang as a **financeable problem**, rather than an unresolved liability.



Reinforcement of Sovereign Role in Risk Allocation:

The structure confirms that, at this stage, sovereign backing remains central to unlocking capital. The market is responding to government-supported instruments, not yet to standalone sector risk.

7.4 Implications for Future Issuances

The success of the inaugural issuance establishes a reference point, but it does not automatically guarantee continuity.

Future issuances under the programme will be assessed against a more demanding set of expectations:

- ❑ Execution continuity: whether subsequent tranches are delivered on schedule
- ❑ Use-of-proceeds integrity: whether funds reach verified creditors in a transparent manner
- ❑ Market discipline: whether new arrears are prevented from accumulating
- ❑ Pricing evolution: whether future tranches price efficiently relative to risk

A single successful issuance signals access. A consistent issuance programme establishes credibility.

7.5 Limits of the Signal

The transaction should be interpreted carefully.

It demonstrates that:

- ❑ capital can be raised
- ❑ investors will participate under structured conditions
- ❑ government-backed instruments can re-open market access

It does not demonstrate that:

- ❑ the sector is self-sustaining
- ❑ operating risk has been resolved
- ❑ tariffs and collections fully support cost recovery

The bond improves liquidity and confidence, but it does not, on its own, resolve the underlying operational and commercial constraints within the sector.

Reading the Signal

The NBET-linked bond issuance marks a shift in financing approach, from implicit fiscal support to explicit, structured capital market solutions. It provides evidence that the sector can attract institutional capital when risk is clearly defined and appropriately allocated. The durability of this signal will depend on what follows. Sustained investor engagement will require consistent programme execution, credible settlement outcomes, and alignment between financial interventions and underlying market discipline. At this stage, the signal is clear: the sector has become **financeable under structure**. The next phase will determine whether it becomes **consistently investable**.

08

Capital Markets and the Re-Opening of Power Sector Finance



8. Capital Markets and the Re-Opening of Power Sector Finance

The re-emergence of capital markets in Nigeria's power sector marks a shift from episodic funding support to a more structured pathway for capital formation. The significance of this transition lies not in the availability of capital alone, but in the conditions under which that capital is now willing to engage. The current financing model demonstrates that capital will participate where exposure is clearly defined, repayment is structured, and policy alignment is credible. This has effectively narrowed the investable universe within the sector to areas where these conditions can be met.

Rather than a broad reopening, what is emerging is a **selective re-engagement**, where capital is concentrated in instruments that isolate and manage risk, rather than absorb it at the system level. This distinction is critical for understanding how financing will evolve. The re-entry of institutional investors is not a signal that sector-wide risk has been re-rated. It is an indication that **risk has been sufficiently segmented** to allow participation in specific layers of the value chain. Capital is not flowing indiscriminately across the sector; it is flowing to structures where cash flows are more predictable, credit support is visible, and exposure to operational volatility is limited.

As a result, financing pathways are becoming more defined. Capital is increasingly channeled through programme-based instruments and structured vehicles that provide clarity on use of proceeds and repayment mechanisms. This improves liquidity transmission within targeted segments of the market, particularly where legacy obligations are being addressed or where payment flows can be anchored to stronger counterparties. It also introduces a level of sequencing into capital deployment, where funding can be aligned with specific reform milestones or settlement priorities. However, the boundaries of this re-opening remain clear. Direct exposure to underlying operational risk, particularly within distribution, continues to attract limited institutional participation. The variability of collections, the sensitivity of tariffs, and the unevenness of performance across

operators constrain the ability to structure bankable instruments at that level. As a result, capital is currently positioned around the sector, rather than fully within it, supporting stabilisation mechanisms, but not yet underwriting core operational risk.

This creates a two-speed financing environment. On one side, structured, sovereign-supported instruments are able to attract institutional capital at scale. On the other, segments of the sector that depend on internally generated cash flows remain constrained in their ability to access long-tenor financing. Bridging this gap will require not only continued innovation in instrument design, but also measurable improvements in revenue certainty and settlement discipline. The evolution of pricing and risk allocation will be a key determinant of how this gap narrows. As financing structures mature and execution track records develop, subsequent issuances will begin to reflect more granular risk differentiation.

Instruments linked to stronger payment performance or more predictable cash flows may price more efficiently, while those exposed to higher variability will continue to require credit enhancement or government support. Over time, this could lead to a more tiered market, where capital allocation reflects underlying performance rather than uniform sector perception. The sustainability of this financing model will depend on whether improvements in structure are matched by improvements in underlying market behaviour. Structured instruments can facilitate liquidity and restore confidence, but they cannot independently sustain it. If cash flow generation and settlement reliability strengthen, capital market participation can expand beyond sovereign-supported frameworks. If they do not, capital will remain selective, and the scope of financing will remain bounded.

What is evident at this stage is that the sector has moved beyond a position of complete financing constraint. It has established that, under defined conditions, it can access institutional capital through structured mechanisms. The next phase will determine whether those conditions can broaden, allowing capital to move deeper into the sector, or whether access remains concentrated around stabilisation structures that sit above the core operational layer.

09

Investor Perspective: Risk, Return, and Structural Realities



9. Investor Perspective: Risk, Return, and Structural Realities

Investor engagement with Nigeria's power sector is shaped by a combination of structural opportunity and layered risk. The sector presents a clear case for capital deployment given the scale of unmet demand, the need for infrastructure investment, and the increasing use of structured financing mechanisms. However, participation is not determined by opportunity alone. It is determined by the extent to which underlying risks can be identified, isolated, and priced with sufficient confidence. As a result, the investment case is less about sector potential in the abstract and more about the credibility of cash flows that ultimately support repayment.

Credit risk within the sector has historically been characterised by its interconnected nature. Exposure to a single counterparty often implied indirect exposure to the performance of multiple actors across the value chain. Weak collections at the distribution level translated into constrained remittance, which in turn affected generation payments and upstream obligations. This created a system where credit quality was difficult to isolate and even more difficult to price. Recent developments have begun to change how this risk is approached. Financing structures are increasingly designed to define credit exposure at the level of the instrument rather than the system, incorporating features such as escrow arrangements, prioritised payment waterfalls, and, in some cases, sovereign backing. These features do not eliminate underlying risk, but they change its distribution and improve its visibility. Investors are therefore able to engage selectively, focusing on exposures where repayment pathways are clearer and less dependent on the full performance of the system.

Regulatory exposure remains one of the most influential variables in shaping investor outcomes. The

role of the Nigerian Electricity Regulatory Commission extends beyond rule-setting into the practical determination of revenue viability across the sector. Tariffs, performance benchmarks, and enforcement mechanisms all sit within the regulatory domain, and each has a direct bearing on the predictability of cash flows. While recent regulatory actions have improved transparency and strengthened oversight, the framework continues to operate within a context where affordability considerations are significant. This creates a tension between economic pricing and social acceptability. For investors, the key issue is not the presence of this tension, but how consistently it is managed. A regulatory environment that demonstrates continuity and predictability can support investment even where tariffs are not fully cost-reflective. Conversely, inconsistency in tariff adjustments or enforcement introduces uncertainty that is difficult to hedge, particularly for long-tenor capital.

Foreign exchange dynamics introduce an additional structural layer that affects both domestic and international investors. The sector exhibits a mismatch between the currency profile of costs and revenues, with elements of the cost base, particularly within generation linked to foreign currency, while revenues are predominantly naira denominated. This creates an inherent exposure to currency movements, particularly in periods of volatility. Even where nominal returns appear adequate, currency depreciation can erode real value, affecting both investor returns and the financial position of sector participants. Recent reforms in the foreign exchange market have improved transparency and reduced distortions, but they have not eliminated volatility. As a result, currency risk remains embedded in the investment case. Instruments that provide some form of protection, whether through pricing, structural buffers, or implicit support are better positioned to attract participation. Where such features are absent, foreign exchange exposure becomes a central constraint, particularly for international capital.

The political economy context within which the sector operates further shapes the investment landscape. Electricity pricing and supply are not purely commercial considerations; they carry significant social and economic implications. Tariff adjustments, subsidy policies, and enforcement actions are therefore often calibrated within a broader policy framework that seeks to balance sustainability with affordability. This introduces a layer of uncertainty that sits outside traditional financial modelling. Policy direction may be clear, but its implementation can be influenced by external considerations, particularly in periods of economic or social sensitivity. For investors, this means that risk assessment must extend beyond financial metrics to include an understanding of policy dynamics and institutional alignment. Capital is more likely to be deployed where exposure is either aligned with policy objectives or sufficiently insulated from areas of political sensitivity. Return expectations in the sector are shaped by the interaction of these factors. Yield is not the primary driver of participation; it is a function of how risk is structured and mitigated. Current patterns of

investment indicate that capital is willing to accept moderate returns where repayment certainty is stronger and where exposure is supported by credible structures. This reflects a shift away from opportunistic, high-yield positioning toward more measured, risk-adjusted participation.



**The investment case is less about sector potential
in the abstract and more about the credibility of
cash flows that ultimately support repayment**

The implication is that the sector is not being re-priced uniformly. Instead, pricing is becoming more differentiated, reflecting the specific characteristics of each instrument and the extent to which it is protected from underlying volatility. Over time, the evolution of these dynamics will determine whether investor participation broadens or remains concentrated within a limited set of structures. If improvements in tariff alignment, collection efficiency, and settlement discipline begin to translate into more predictable cash flows, the scope for investment could expand beyond sovereign-supported instruments into areas of direct operational exposure. This would allow capital to move deeper into the sector, supporting not only balance sheet repair but also capacity expansion and infrastructure development. If, however, these underlying conditions remain uneven, participation is likely to remain selective, with capital continuing to flow toward structures that sit above the core operational layer. At its current stage, investor positioning in Nigeria's power sector can be described as conditional, structured, and increasingly disciplined. Capital is available, but it is not indiscriminate. It is deployed where risk can be clearly defined, where repayment pathways are credible, and where policy alignment supports stability.

The sector has demonstrated that it can attract institutional capital under these conditions. The extent to which this participation evolves into a broader financing ecosystem will depend on whether structural risks continue to be addressed and whether the improvements observed at the level of financing structures are matched by sustained progress in underlying market performance.

10

Structural Reset vs Residual Fragility

10. Structural Reset vs Residual Fragility

The Nigerian power sector is no longer in a static state of constraint. Recent developments across policy, financing, and market structure point to a meaningful shift in how key challenges are being addressed. However, these shifts are not uniform. Some elements of the sector are undergoing structural reset, while others remain exposed to longstanding fragilities that continue to shape performance and investment outcomes. The distinction between these two realities is central to understanding the sector at its current inflection point. Progress has been made, but it is uneven in depth and durability.

10.1 Structural Reset: Where Change Is Taking Hold

A number of developments point to a clear shift in how the sector is being stabilised and repositioned. At the financial level, the introduction of structured programmes such as the **Presidential Power Sector Debt Reduction Programme (PPSDRP)** marks a departure from fragmented interventions toward coordinated balance sheet repair. The conversion of legacy obligations into structured, capital market instruments introduces a level of clarity and sequencing that was previously absent. This is reinforced by the successful execution of the inaugural bond issuance, which demonstrates that institutional capital can be mobilised under defined conditions. Regulatory posture has also evolved. The **Nigerian Electricity Regulatory Commission (NERC)** has increased transparency through more consistent reporting and has strengthened the linkage between service delivery and tariff frameworks. While not fully resolved, the direction of travel reflects a more deliberate approach to aligning pricing, performance, and accountability. Financing pathways are becoming more structured. The emergence of programme-based issuance frameworks introduces predictability into capital mobilisation, allowing liquidity to be deployed in a phased and targeted manner. This improves visibility for market participants and creates a basis for sustained engagement with institutional investors. These developments point to a sector that is moving toward **greater financial organisation, clearer policy signalling, and improved access to capital under structured conditions**. These are not incremental adjustments; they represent a shift in how systemic challenges are being addressed.

10.2 Residual Fragility: Where Constraints Remain Binding

Despite these advances, several core constraints remain unresolved and continue to define the limits of sector performance.

Revenue generation at the distribution level remains uneven, with collection efficiency and metering gaps constraining the full monetisation of electricity supplied. This weakens the reliability of cash flows that ultimately support the entire value chain. As long as revenue recovery remains inconsistent, upstream payment discipline will remain exposed. Tariff structures, while evolving, do

not yet fully establish system-wide cost recovery. Adjustments have been targeted and selective, leaving a significant portion of the market operating within a framework that still depends on fiscal support. This creates ongoing exposure to subsidy dynamics and the timing of government payments. Operational constraints continue to shape system outcomes. Gas supply reliability, transmission capacity, and grid stability remain binding factors that limit the conversion of installed capacity into delivered electricity. Financial interventions can ease liquidity pressure, but they do not directly resolve these underlying operational challenges. Currency dynamics introduce an additional layer of vulnerability. The mismatch between foreign currency-linked costs and naira-denominated revenues continues to expose the sector to exchange rate movements, affecting both operator viability and investor returns. These elements collectively represent **residual fragility**, areas where the sector has not yet transitioned to a stable and self-sustaining footing.

10.3 The Divide: Stabilisation Has Begun, Transformation Is Not Yet Complete

The current state of the sector can therefore be understood as a coexistence of progress and constraint. Financial structures are improving, policy direction is clearer, and capital is beginning to re-engage. At the same time, core drivers of performance such as revenue recovery, tariff alignment, operational efficiency, and currency stability, remain in transition. This divide has direct implications for how the sector is interpreted by capital providers. Improvements at the level of structure and policy create entry points for investment, particularly where exposure can be defined and insulated. However, unresolved fragilities limit the extent to which capital can move deeper into the sector without additional safeguards. What is emerging is not a fully reset market, but a **partially stabilised system**, where progress in financial and policy frameworks is advancing ahead of improvements in underlying operational and commercial performance.

10.4 What This Means Going Forward

The trajectory of the sector will depend on whether the elements of structural reset begin to translate into measurable improvements in the areas that remain fragile. If balance sheet repair is sustained, tariff adjustments continue in a predictable manner, and revenue recovery strengthens, the conditions for broader capital participation will improve. Over time, this would allow financing to move beyond structured, sovereign-supported instruments into areas of direct operational exposure. If, however, these underlying conditions remain uneven, the sector is likely to remain in a state where capital is available but selectively deployed. Financing will continue to concentrate around structures that mitigate risk, rather than expanding across the full value chain. At this stage, the most accurate reading is that the sector has entered a phase of **stabilisation with conditional forward momentum**. The foundations of a reset are visible. The durability of that reset will be determined by how effectively the remaining constraints are addressed.



The Role of Concessionary and Blended Capital



11. The Role of Concessionary and Blended Capital

The re-emergence of capital in Nigeria's power sector has been driven primarily by structured, sovereign-supported instruments. However, this model alone is not sufficient to support the full scale of financing required across the value chain. Beyond these instruments, concessionary and blended capital remain essential in bridging the gap between what the market can currently absorb and what the sector requires. In the current phase, the sector operates within a layered financing environment. At one end, sovereign-backed programmes such as the PPSDRP have demonstrated the ability to mobilise institutional capital for the resolution of legacy obligations. At the other, underlying operational segments, particularly distribution and parts of generation, continue to exhibit risk characteristics that are not yet fully aligned with the requirements of commercial capital. It is within this gap that concessionary and blended capital operate most effectively.

Institutions such as the World Bank Group, the International Finance Corporation, the African Development Bank, and the Multilateral Investment Guarantee Agency have historically played a central role in supporting Nigeria's power sector. Their involvement is not simply financial; it is structural. Through guarantees, subordinated capital, and risk-sharing mechanisms, they enable transactions that would otherwise fail to reach financial close. What distinguishes their role in the current context is the way in which they interact with emerging market structures. Concessionary capital is no longer operating in isolation or as a substitute for private capital. It is increasingly positioned as a **catalytic layer**, sitting alongside structured instruments to extend the range of investable opportunities. Where sovereign-backed bonds address legacy obligations, blended capital can support forward-looking investments by absorbing specific risks that remain difficult to price.

This is particularly relevant in segments where cash flow visibility is still evolving. Distribution companies, for example, remain constrained by variability in collections and operational

performance, limiting their ability to access long-tenor financing on purely commercial terms. Similarly, investments linked to gas supply infrastructure or grid expansion may require extended payback periods and face coordination risks across multiple stakeholders. In such cases, concessional capital can provide the risk buffers needed to align project profiles with investor expectations. The impact of these structures is most evident in three areas. They improve the quality of credit exposure by introducing guarantees or subordinated tranches that absorb initial losses. They extend the tenor of financing, allowing capital to be deployed over time horizons that match the lifecycle of power assets. They also enable scale by crowding in private capital that would otherwise remain on the sidelines due to perceived risk.

At the same time, their presence highlights the boundaries of the current market. The continued reliance on concessionary and blended capital signals that the sector has not yet reached a point where it can fully intermediate risk through commercial structures alone. Rather than indicating weakness, this reflects the transitional nature of the market. The sector is moving from a position of constrained financing toward a more diversified capital structure, but the transition is not yet complete. The trajectory of this transition will determine how the role of concessionary capital evolves. If improvements in tariff alignment, revenue recovery, and settlement discipline translate into more predictable cash flows, the need for external risk absorption will gradually decline. In that scenario, concessionary capital will shift from a primary enabler of transactions to a more targeted instrument, used selectively to unlock specific segments or accelerate new areas of investment. If these improvements remain uneven, its role is likely to remain embedded, supporting a broader range of transactions and acting as a stabilising force within the financing ecosystem.



Concessionary and blended capital serve as a bridge between structured, sovereign-supported financing and a more mature, fully commercial market that has yet to be realised

In its current form, concessionary and blended capital serve as a bridge between two states of the market. On one side is structured, sovereign-supported financing that has reopened access to capital. On the other is a more mature, fully commercial market that has yet to be realised. The effectiveness of this bridge will be measured by how quickly the sector can move across it, and by whether the underlying conditions evolve in a way that reduces the need for continuous external support.

12

Energy Transition:

Commercial Pathways vs Policy Ambition



12. Energy Transition: Commercial Pathways vs Policy Ambition

Nigeria's energy transition is increasingly defined by the gap between policy ambition and commercially viable deployment pathways. While policy direction supports diversification into renewables and cleaner energy sources, capital allocation continues to favour solutions that deliver immediate reliability and bankable returns under current market conditions. The transition is therefore unfolding in a way that prioritises **practical deployability over theoretical alignment**. Gas remains the dominant anchor within this framework, not as a transitional placeholder in the conventional sense, but as the only scalable source currently capable of supporting grid stability at meaningful capacity levels. Its continued centrality reflects system realities rather than policy preference. For investors and operators, gas-backed generation provides a clearer pathway to predictable output and revenue, particularly where structures exist to support payment flows. The transition dynamic is therefore not one of rapid displacement, but of **managed coexistence**, where gas continues to underpin the system while alternative sources scale in parallel.

Renewable energy deployment is progressing along a different trajectory, one that is increasingly **decoupled from the central grid**. Utility-scale integration remains constrained by system readiness, but this is no longer the sole determinant of growth. Instead, capital is moving toward configurations where generation can be matched more directly to demand, reducing reliance on grid evacuation and centralised dispatch. This shift reflects a broader recalibration of investment strategy: projects are being designed around **bankability under current conditions**, rather than future system assumptions.

The implication is that energy transition in Nigeria is not constrained by a lack of interest in renewables, but by the conditions required to deploy them at scale within the existing system. Where

those conditions are absent, capital adapts by seeking alternative pathways. This has led to a bifurcated transition model, where grid-based expansion remains incremental, while off-grid and embedded solutions absorb a growing share of renewable investment. For capital providers, the transition question is therefore less about technology and more about **deployment viability**. Investments will continue to concentrate in areas where revenue frameworks are clear, execution risk is contained, and reliance on system-wide coordination is limited. Until these conditions broaden across the sector, the pace of transition will be determined by where commercial pathways exist, rather than by the scale of policy ambition.

13

The Energy Reality:

Beyond the Grid



13. The Energy Reality: Beyond the Grid

Nigeria's power sector does not operate within a single-source electricity system. It exists within a broader energy landscape where grid supply is only one component of how power is generated, consumed, and financed. Any assessment of sector performance or investment viability must therefore account for the reality that electricity demand is already being met through a combination of grid supply, self-generation, and emerging distributed solutions. Self-generation remains one of the most defining features of this system. Across commercial, industrial, and residential segments, diesel and petrol generators continue to serve as primary or supplementary sources of power. This is not a marginal phenomenon. It represents a parallel energy market that operates alongside the grid, often at a higher unit cost but with greater reliability. For many users, the decision is not between cheap and expensive power, but between unreliable and dependable supply.

This dynamic has important implications for how demand behaves. Consumers have adapted to a system where continuity of power is prioritised over price efficiency. As a result, willingness to pay for grid electricity is influenced not only by tariff levels, but by the relative reliability of alternative sources. Where grid supply improves, substitution becomes possible. Where it does not, self-generation remains entrenched. This creates a demand environment that is more flexible than it appears, but also more difficult to capture through conventional utility pricing models. The broader energy mix reinforces this complexity. Gas underpins grid-based generation, while diesel and petrol dominate self-generation. Solar and hybrid systems are increasingly entering the mix, particularly in segments where fuel costs are high and supply volatility is a constraint. These sources are interconnected through pricing, availability, and macroeconomic conditions, particularly foreign exchange dynamics.

Recent geopolitical developments reinforce how exposed this system is to external shocks. Disruptions linked to tensions in the Middle East, particularly around the Strait of Hormuz, have

introduced renewed volatility into global oil and gas markets. This corridor accounts for a significant share of global energy flows, and any instability affects pricing benchmarks that feed directly into domestic fuel costs. For Nigeria, the transmission is immediate. Diesel, petrol, and gas pricing are all influenced by global benchmarks, even when consumed locally. As a result, external shocks translate into higher and more volatile energy costs across both grid and off-grid supply, affecting generation economics, operating costs, and ultimately the affordability of power.

From a financing perspective, this multi-source environment reshapes how opportunities are evaluated. Investment decisions are no longer based solely on the performance of the grid, but on how grid-based power compares with alternative energy solutions available to end-users. A generation asset does not compete in isolation. It competes with the cost and reliability of diesel generation, embedded power solutions, and increasingly, solar-based systems. This introduces a competitive dimension that is often understated in traditional sector analysis.

The implication is that the power sector cannot be assessed as a closed system. It is part of a broader energy economy where supply gaps are continuously filled through private adaptation. This affects revenue capture, pricing power, and long-term demand growth for grid electricity. It also explains why certain segments, particularly distributed energy, are able to scale more rapidly, as they align more closely with how energy is actually consumed. At the same time, this structure highlights the opportunity embedded within the system. The widespread use of self-generation indicates the presence of latent demand for reliable power, even at higher effective cost. The challenge is not demand creation, but demand capture.



The power sector cannot be assessed as a closed system; it operates within a broader energy economy where supply gaps are continuously filled through private adaptation

Unlocking this requires improvements in reliability, alignment between pricing and service delivery, and financing structures that support scalable solutions within the realities of the market. What emerges is a power sector that is deeply integrated into a fragmented energy system. Grid electricity remains central, but it is not dominant in practice. Any forward-looking view on investment, reform, or sector performance must therefore be grounded in this reality. The transition toward a more efficient and investable market will depend not only on strengthening the grid, but on how effectively it competes with, integrates, or displaces the alternative energy solutions that currently sustain demand.

14

Distributed Energy:

Where Growth Is Actually Occurring



14. Distributed Energy: Where Growth Is Actually Occurring

The energy reality outlined above is already shaping how capacity is being added across the sector. A significant share of incremental power, reliability, and access is now being delivered through distributed energy solutions that operate outside the centralised grid. This segment has moved beyond early-stage deployment into a material channel for capacity expansion, particularly in areas where grid supply remains inconsistent or commercially insufficient. The defining feature of distributed energy is its ability to align directly with demand. These solutions operate at or near the point of consumption, reducing exposure to the inefficiencies and uncertainties that characterise grid-based delivery. This positioning has made them particularly relevant for commercial and industrial users, as well as underserved residential segments, where reliability carries a higher premium than nominal tariff levels.

What is driving growth in this segment is not only technology, but the evolution of business models that translate demand into predictable revenue streams. Operators have developed structures that balance affordability with cash flow visibility, allowing them to scale within constrained environments. In parallel, embedded generation and captive power solutions have gained traction among larger users seeking control over energy supply, effectively creating a parallel layer of electricity provision within the economy. Financing in this segment reflects its operating model. Capital is typically deployed at smaller unit sizes but across a larger number of projects, often supported by blended structures that accommodate longer payback periods and higher perceived risk. Over time, as performance data accumulates and portfolios scale, these assets are becoming more legible to a broader pool of investors. This is gradually shifting the segment from primarily impact-oriented capital toward more commercially oriented participation, particularly where aggregation enables scale and diversification.

However, growth remains uneven in its ability to scale into a system-wide solution. Fragmentation, currency exposure on imported components, and evolving regulatory frameworks continue to shape the pace of expansion. The segment is therefore growing within constraints rather than beyond them. Its strength lies in its adaptability and responsiveness to demand, but its long-term trajectory will depend on how effectively it integrates with broader market structures. What distinguishes distributed energy within the context of the broader report is that it represents real-time evidence of where the market is clearing. While large-scale reforms continue to address systemic issues, distributed solutions are already delivering capacity, reliability, and revenue under current conditions. This makes the segment a leading indicator of how capital behaves in the presence of constraint.



A significant share of incremental power, reliability, and access is now being delivered through distributed energy solutions operating outside the centralised grid

Capital flows to where deployment is feasible, revenue is observable, and execution risk is manageable. The continued expansion of distributed energy will therefore play a dual role. It will address immediate gaps in supply and reliability, while also shaping expectations around how energy can be delivered and financed in a more decentralised model. The extent to which this growth remains complementary, or becomes structurally independent, will depend on the pace at which the centralised system evolves and the degree to which integration pathways are developed.

15

Transmission as a Binding Constraint



15. Transmission as a Binding Constraint

Transmission remains the most under-addressed constraint in Nigeria's power sector, with implications that extend beyond infrastructure into the core economics of generation, system efficiency, and capital deployment. While recent reforms have focused on liquidity, tariffs, and balance sheet repair, the physical capacity of the grid continues to define the upper limit of what the system can deliver. Transmission capacity does not yet align with installed generation potential. This creates a structural imbalance where available generation cannot always be evacuated efficiently, leading to underutilisation of assets that have already been financed and deployed. The implication is not only technical inefficiency, but a distortion in the economics of generation, where capacity additions do not translate proportionately into revenue.

This constraint introduces an embedded layer of risk into generation financing. Even where payment structures are improving and liquidity conditions are stabilising, the inability to move power reliably across the grid reduces the predictability of dispatch and, by extension, revenue realisation. The result is a disconnect between installed capacity and monetisable output, complicating both project evaluation and long-term investment planning. Grid fragility further amplifies this challenge. System disturbances and limited redundancy affect the reliability of power delivery, with knock-on effects across the value chain. These disruptions influence customer behaviour, reduce confidence in grid-supplied electricity, and weaken the incentive to rely fully on centralised supply. Transmission therefore shapes not only physical delivery, but also the commercial viability of the system.

From a capital allocation perspective, the constraint is decisive. Investments that depend on grid evacuation, particularly large-scale generation, must incorporate the risk that infrastructure limitations may restrict output. This reinforces a more cautious approach to grid-dependent

financing and contributes to the increasing attractiveness of solutions that can operate with reduced reliance on centralised transmission.

Addressing this constraint requires more than incremental upgrades. It demands sustained investment, alignment between generation expansion and grid capacity, and coordinated execution across institutions. Without this, improvements in liquidity, policy direction, and capital mobilisation risk being partially absorbed by a system that cannot fully transmit their benefits. Transmission sets the effective ceiling for system performance. Until that ceiling is expanded in a sustained and coordinated manner, the full impact of ongoing reforms will remain constrained by the physical limits of the grid.

16

FX and Macroeconomic Pressures:

Implications for Sector Stability



16. FX and Macroeconomic Pressures: Implications for Sector Stability

Macroeconomic conditions, particularly foreign exchange dynamics, exert a significant influence on the stability and investability of Nigeria's power sector. The sector operates within a structure where costs and revenues are not fully aligned in currency terms, creating a persistent exposure that affects both operators and investors. A portion of the cost base, especially within generation, retains linkage to foreign currency through fuel pricing benchmarks, equipment procurement, and debt servicing obligations. Revenues, however, are predominantly denominated in naira. This mismatch introduces structural pressure, where currency depreciation increases operating and financing costs without a corresponding and immediate adjustment in revenue.

The impact of this dynamic is cumulative. Exchange rate movements can compress margins, weaken operator balance sheets, and increase the burden of servicing foreign-denominated obligations. For investors, particularly those deploying capital in hard currency, this raises concerns around the real value of returns and the stability of cash flow translation over time.

Recent foreign exchange reforms have improved transparency and price discovery, but variability remains a defining feature of the market. A more flexible exchange rate framework introduces realism into pricing, but also increases uncertainty in forecasting and valuation. Currency dynamics therefore remain central to risk assessment rather than peripheral considerations. Tariff sustainability is directly linked to these pressures. For the sector to maintain financial balance, tariffs must be capable of absorbing movements in key cost drivers, including exchange rates. Where adjustments lag or remain partial, the gap between cost and recovery widens, reinforcing reliance on fiscal support or structured interventions. Debt servicing dynamics are similarly affected. Instruments with foreign currency exposure, or implicit linkage to external benchmarks, become

more sensitive to exchange rate movements. This influences both the pricing of new financing and the risk profile of existing obligations, requiring investors to incorporate currency considerations into credit assessment more explicitly.

Investor appetite reflects how effectively these pressures are managed. Capital is more likely to engage where mechanisms exist to absorb or mitigate currency risk, whether through pricing structures, policy support, or instrument design. In the absence of such mechanisms, foreign exchange exposure becomes a limiting factor, particularly for long-tenor investments where cumulative effects are more pronounced. The power sector remains closely exposed to macroeconomic conditions. The durability of recent improvements in financing structures and policy direction will depend on how effectively exchange rate volatility, inflation, and fiscal pressures are managed alongside sector-specific reforms.

17

Forward View:

Scenarios for the Next 3–5 Years



17. Forward View: Scenarios for the Next 3–5 Years

The outlook for Nigeria's power sector over the next three to five years will be determined less by the availability of reform frameworks and more by the consistency with which those frameworks are executed. The sector has moved into a phase where direction is clearer, capital has begun to re-engage, and structural interventions are underway. What remains uncertain is how these elements will interact over time, particularly in an environment shaped by macroeconomic pressures and operational constraints.

Under a base case, the sector continues along its current trajectory of gradual stabilisation. Liquidity conditions improve incrementally as structured financing programmes are implemented in phases, supporting the reduction of legacy obligations and improving payment visibility. Generation capacity expands, but within the limits imposed by existing infrastructure, with transmission continuing to cap system-wide efficiency. Capital flows remain disciplined and selective, largely concentrated in structured instruments where repayment pathways are clearly defined. Policy direction remains broadly aligned, with ongoing oversight from the Nigerian Electricity Regulatory Commission and periodic adjustments that seek to balance commercial sustainability with broader economic considerations.

A more accelerated outcome emerges where execution improves across multiple fronts simultaneously. In this scenario, liquidity conditions strengthen more rapidly as financing programmes are implemented efficiently and supported by improved settlement discipline. Generation capacity begins to expand more meaningfully, supported by parallel progress in transmission and infrastructure coordination. Capital flows broaden beyond structured, sovereign-supported instruments as investors gain confidence in underlying cash flow dynamics and

begin to take more direct exposure to sector operations. Policy consistency reinforces this trajectory, with clearer tariff progression, stronger enforcement, and improved institutional alignment.

The downside scenario reflects a loss of momentum in execution. Liquidity improvements stall as financing programmes face delays or incomplete implementation, allowing new arrears to emerge alongside existing obligations. Generation expansion remains constrained, with limited investor appetite for projects that depend on long-tenor capital under uncertain conditions. Capital flows narrow, concentrating only in the most secure structures, while pricing reflects heightened risk perception. Policy direction becomes less predictable, with delays in tariff adjustments and uneven enforcement weakening the link between cost and recovery.

To synthesise these pathways, the table below captures how key sector variables evolve across scenarios:

Dimension	Base Case: Gradual Stabilisation	Upside: Accelerated Reform	Downside: Reform Slippage
Liquidity Evolution	Incremental improvement through phased programmes	Faster improvement with stronger settlement discipline	Stalled progress; re-emergence of arrears
Generation Capacity	Modest growth constrained by transmission	Stronger expansion with improved evacuation capacity	Limited growth; delayed or deferred projects
Capital Flows	Concentrated in structured, sovereign-supported instruments	Broader participation including direct sector exposure	Narrowed to highly secured instruments only
Policy Consistency	Generally stable with measured adjustments	High consistency with clear reform trajectory	Unpredictable with delays and reversals

Source: Federal Government of Nigeria (State House; Federal Ministry of Finance - PPSDRP disclosures); Nigerian Electricity Regulatory Commission Industry Reports; NBET Power Sector Bond Programme disclosures; Africa Finance Corporation; Iron Capital Analysis.

Across these scenarios, the defining variable is execution discipline. The framework for reform has been established, and capital has demonstrated a willingness to engage under defined conditions. The next phase will determine whether these conditions can be sustained and broadened. The trajectory that ultimately emerges will shape not only the stability of the sector, but also the depth and diversity of capital that it is able to attract.

18

Implications for Capital Providers and Market Participants



18. Implications for Capital Providers and Market Participants

The evolving structure of Nigeria's power sector is creating a more defined and segmented opportunity landscape. Participation is no longer driven by broad sector exposure, but by the ability to identify where risk can be structured, where cash flows are more predictable, and where policy alignment supports stability. For capital providers and market participants, this requires a shift from general engagement to targeted positioning. Debt capital markets are becoming an increasingly important channel for large-scale financing, particularly in the context of programme-based issuance frameworks. These structures provide a pathway for phased capital mobilisation, allowing investors to engage through instruments that offer defined repayment profiles and credit support. As execution track records develop, there is potential for greater pricing efficiency and expanded participation, particularly where confidence in underlying structures strengthens.

Structured finance is emerging as a core mechanism for unlocking capital in an environment where system-wide risk remains difficult to absorb. The ability to segment risk, align repayment with identifiable cash flows, and incorporate appropriate credit enhancement is becoming central to transaction design. This approach allows capital to engage in a measured way, even where underlying sector conditions remain uneven. Over time, the sophistication of these structures will play a key role in determining how far capital can move beyond stabilisation into broader participation. Advisory activity is also increasing in importance as the sector becomes more active and complex. The need to align stakeholders, structure transactions, and navigate regulatory frameworks is creating demand for insight-led advisory capabilities. This includes support for programme design, capital raising, transaction structuring, and strategic positioning. As financing activity expands, the role of advisory will become more central in translating sector developments into executable opportunities.

Public-private partnerships represent a critical pathway for addressing infrastructure constraints, particularly in areas such as transmission and distribution. These structures provide a framework for mobilising private capital while maintaining alignment with public policy objectives. Their effectiveness will depend on the clarity of risk-sharing arrangements and the ability to structure projects in a way that supports long-term returns. Where these conditions are met, PPPs can play a meaningful role in expanding system capacity and improving efficiency.

Energy transition financing is developing along pragmatic lines, with capital flowing toward areas where deployment is feasible under current conditions. This includes distributed energy solutions, embedded generation, and targeted renewable investments. Blended capital structures continue to play a role in enabling these transactions, particularly where risks are not yet fully aligned with commercial expectations. As underlying conditions improve, there is potential for greater participation from purely commercial capital, particularly in segments where performance data supports risk assessment. What defines the opportunity set is not uniform expansion, but precision. Capital is moving toward areas where structure, policy alignment, and cash flow visibility intersect. For market participants, the ability to operate within these parameters will determine success. The sector is becoming more accessible, but access remains conditional. Those who can structure effectively, align with policy direction, and position within segments where capital is already beginning to clear will be best placed to capture emerging opportunities.

19

Navigating the Next Phase of Power Sector Finance



19. Navigating the Next Phase of Power Sector Finance

The next phase of Nigeria's power sector will be defined less by access to capital and more by the ability to structure it effectively. The market has demonstrated that funding can be mobilised under the right conditions. What now matters is how consistently those conditions can be created, replicated, and scaled across different segments of the sector. Successful participation will require a shift in approach. Broad sector exposure is no longer sufficient. Capital providers must operate with precision, focusing on transactions where cash flows can be clearly identified, risks can be segmented, and repayment pathways are credible. This places a premium on structuring discipline. Transactions must be designed to align with the realities of the sector, not assumptions of how it should function. Where this alignment is achieved, capital can engage. Where it is not, participation will remain limited regardless of headline opportunity.

Risk assessment will also need to become more granular. The sector no longer presents a single risk profile. Differences across generation, transmission, distribution, and distributed energy are becoming more pronounced, and these differences must be reflected in how exposure is evaluated. Credit quality will depend not only on counterparties, but on the strength of underlying structures, the reliability of cash flow channels, and the degree of insulation from policy and macroeconomic volatility. This requires a more layered approach to analysis, where financial, operational, and regulatory factors are assessed in combination rather than in isolation. The role of structuring will therefore become more central. The ability to isolate risk, align incentives across stakeholders, and embed appropriate safeguards within transactions will determine where capital can be deployed. This includes the use of credit enhancement, payment waterfalls, escrow mechanisms, and currency risk mitigation where applicable. As the market evolves, differentiation will emerge between participants who can design such structures effectively and those who cannot. Execution capability

will be equally important. The sector has entered a phase where opportunities are increasingly tied to specific programmes, transactions, and partnerships. Participating effectively will require the ability to move within these frameworks, engage with multiple stakeholders, and deliver transactions that meet both commercial and policy requirements. This is not a passive investment environment. It rewards active engagement, technical depth, and the ability to translate market developments into executable opportunities. What lies ahead is not a broad opening of the sector, but a more defined and structured market environment. Access to opportunity will be shaped by capability as much as capital. Those able to combine rigorous risk assessment with sophisticated structuring will be best positioned to participate in the next phase of the sector's evolution.

20

Conclusion:

From Intervention to a More Investable Market

20. Conclusion: From Intervention to a More Investable Market

Nigeria's power sector is moving through a period of transition that is both substantive and incomplete. Recent developments have introduced a more structured approach to addressing long-standing challenges, particularly in relation to liquidity, balance sheet pressures, and access to capital. These changes have begun to shift how the sector is perceived, moving it closer to a framework that can support sustained investment. Progress is evident in the emergence of coordinated financing programmes, improved regulatory visibility, and the re-engagement of institutional capital through structured instruments. These developments indicate that the sector is no longer defined solely by constraint. It has begun to establish the foundations of a more organised and financeable system.

At the same time, key gaps remain. Revenue recovery is still uneven, tariff alignment is not yet system-wide, and operational constraints continue to affect performance and reliability. Macroeconomic pressures, particularly those linked to foreign exchange dynamics, add a layer of complexity that influences both operator viability and investor returns. These factors limit the extent to which recent progress can be interpreted as a full structural reset.

The path forward will depend on how effectively these gaps are addressed. Sustained capital inflows will require more than periodic intervention. They will depend on the consistency of policy execution, the reliability of payment flows, and the continued alignment between financial structures and underlying market performance. Where these elements reinforce one another, the sector will move toward a more stable and investable state. Where they do not, participation will remain selective and contingent on structure. The direction of travel is therefore clear, but the outcome is not predetermined. The sector has demonstrated that it can attract capital under defined conditions. The next phase will determine whether those conditions can be broadened and sustained. A transition from intervention to investability is underway. Its durability will be measured by the extent to which recent gains are consolidated into a system that can support long-term, self-sustaining growth.

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