



ELECTRICITY  
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# **SIMPLIFIED LEGAL *And* REGULATORY GUIDE:**

Nigerian Electricity Regulatory Commission  
- Uniform System of Accounts for Nigeria  
Electricity Supply Industry, 2014





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# OVERVIEW

**Nigerian Electricity Regulatory Commission  
- Uniform System of Accounts for Nigeria  
Electricity Supply Industry, 2014**



The purpose to the promulgation of the Uniform System of Accounts (USOA) Regulation is the provision of guidelines and directives to stakeholders regarding licence conditions stipulated in licences issued by the Nigerian Electricity Regulatory Commission (NERC); these conditions including but not limited to the maintenance of records, the provision of information, and the separation of financial records between regulated and non-regulated activities. The USOA notably provides directives regarding the format and set of accounting records licencees are required to keep.

It should be noted that the USOA supersedes the financial reporting framework prescribed for licensees under Regulation No. NERC-R-02-09, 2009 and is applicable to all licensees subject to the Commission's accounting requirements under the Electric Power Sector Reform Act (2005).

The Glossary of Terms referenced in this guide can be found in the main Regulation<sup>1</sup> and in our [Glossary of Industry Terms](#).



The Electric Power Sector Reform Act<sup>2</sup> which vests the Nigerian Electricity Regulatory Commission (NERC) with the power to make regulations, is the enabling law for the Uniform System of Accounts for Nigeria Electricity Supply Industry, 2014.<sup>3</sup> EPSRA empowers the Commission to make regulations that guarantee “the information that will be required from licensees and the manner and form it shall be provided”.<sup>4</sup> [Please refer to EL’s guide on the Electricity Act.](#)





# OBJECTIVE

Nigerian Electricity Regulatory Commission - Uniform  
System of Accounts for Nigeria Electricity Supply  
Industry, 2014



The objectives behind the promulgation of the USOA include the following:

- The establishment of a uniform format and set of accounting records that licensees are required to submit for regulatory purposes; and
- The creation of a regulatory framework showcasing the information that will be required from licensees in the execution of their powers and duties, and the manner and form it shall be provided. Such records provided by licensees will assist in providing an adequate information base for establishing tariffs and monitoring licensees performance by NERC. Such accounting information will enhance the efficiency and transparency of the regulatory process.



# KEY PROVISIONS

**Nigerian Electricity Regulatory Commission - Uniform  
System of Accounts for Nigeria Electricity Supply  
Industry, 2014**



# KEY PROVISIONS



## ***Books of Account***

Licensed utilities are required to keep books of account, and all other documents or books that support the entries in such books of account, to be able to readily furnish full information on any item included in any account.<sup>5</sup> Such records are to be maintained monthly to allow for the applicable transactions to be entered into the books of the utility. The utility will close its books at the end of the calendar year unless otherwise directed by the Commission.<sup>6</sup>

It must be noted that to maintain uniformity of accounting, utilities will be required to submit questions of doubtful interpretation to the Commission for consideration and decision.<sup>7</sup> Also, transactions to be recorded include those between the utility and subsidiaries, associate companies, shareholders, and other related parties.<sup>8</sup> Also, in cases where financial data is required by the Commission, it must be noted that if it is known that a transaction has occurred which affects the accounts, but the amount involved in the transaction and its effect upon the accounts cannot be determined with absolute accuracy, the amount will be estimated and such estimated amount included in the accounts.<sup>9</sup>

Furthermore, underlying accounting data must be maintained so that the distribution of the cost of labour charged direct to the various accounts will be readily available for the Commission.<sup>10</sup>

Utilities are required to maintain their accounts on an accrual basis and if necessary, amounts can be estimated, and appropriate adjustments made when costs and revenues are determined.<sup>11</sup>

## ***Separate records and accounts***

Separate records are also to be maintained by licensed utilities for each plant owned (each generation station and transmission line or an appropriate group of transmission and distribution lines). These records must also contain information regarding plants leased from other licensed utilities, and the cost of maintaining and operating each plant owned or operated.<sup>12</sup> If the utility also operates non-electric services, such as gas, water, etc., accounts of such must be kept as is necessary to reflect the results of operating such services.<sup>13</sup>



It must be noted that regarding leases, all leases are to be classified as either capital or operating leases in accordance with the requirements of International Financial Reporting Standards (IFRS).<sup>14</sup>

Separate records must be kept for each licensed project under the license of a licensee. Such records must reflect revenues, original costs (or fair value), cost of additions, retirements, operation and maintenance costs, and depreciation or amortisation.<sup>15</sup> Separate records must also be maintained for each asset retirement obligation.<sup>16</sup>

Utilities are also required to maintain records of other income by category of income<sup>17</sup> and maintain separate accounts for its asset retirement obligations which represent a liability for the legal obligation associated with the retirement of a tangible long-lived asset.<sup>18</sup>

### **Numbering System**

The USOA establishes an account numbering plan to be used by licensed utilities. The plan consists of a system of seven-digit whole numbers based on cognizance given to the following principles:<sup>19</sup>

- Specific sector of operation of the licensee in the Electricity Supply Industry.

- Classification of account groups in line with Financial Reporting Format.
- Sub-Grouping of related items/activities accounts for ease of reference; and
- Listing of accounts serially in the applicable sub-groups.

### **Contingent Assets and Liabilities**

The USOA defines Contingent Assets as items representing a possible source of value to the utility contingent upon the fulfilment of conditions regarded as uncertain while Contingent Liabilities include items which may under certain conditions become obligations of the utility, but which are neither direct nor assumed liabilities at the date of the balance sheet. Utilities are required to give reports of such contingent assets and liabilities in its annual reports and at any other period as directed by the Commission.<sup>20</sup>

### **Deferred Taxation**

The USOA provides that where there are timing differences between the periods in which transactions affect taxable income and the periods in which they affect pre-tax accounting income, the income tax effects of such transactions are to be recognized using the deferred tax method.<sup>21</sup>



## Depreciation

Licensed utilities are required to use a method of depreciation that allocates in a systematic and rational manner the cost or value of depreciable property over the service life of the property.<sup>22</sup>

## Handling of Fixed Assets

The following are to be noted regarding the handling of accounts for fixed assets:<sup>23</sup>

- All amounts included in the accounts for fixed assets acquired are to be recorded.
- Property acquired by lease which qualifies as capital lease property, as defined by International Financial Reporting Standards (IFRS), must be recorded in the account Equipment under Capital Leases.
- When consideration is other than cash, the value of such consideration shall be determined on a cash basis.
- When assets are purchased under a plan involving deferred payments, no charge shall be made to the fixed asset accounts for interest, insurance, or other expenditures occasioned solely by such form of payment; and
- Contributions made in the form of money or its equivalent toward the construction of plants shall be accounted for in accordance with IFRS.

Also, the different components of construction cost must be accounted for; these components include costs associated with:

- contract work,
- labor,
- materials and supplies,
- transportation,
- special machine service,
- shop service, protection,
- injuries and damages,
- privileges and permits,
- rents,
- engineering and supervision,
- general administration capitalized,
- engineering services,
- insurance,
- legal expenses,
- taxes,
- earnings and expenses during construction,



- training costs,
- studies, and
- asset retirement costs.<sup>24</sup>

Separate records should also be kept for electric plants purchased,<sup>25</sup> expenditures on leased assets,<sup>26</sup> land and land rights,<sup>27</sup> cost of equipment,<sup>28</sup> all construction and retirements of electric service fixed assets by means of work orders or job orders,<sup>29</sup> and transfers of property.<sup>30</sup>

### ***Handling of Operating Expenses***

Licensees are required to maintain accounts on operating expenses incurred in the execution of its projects. These expenses would cut across:<sup>31</sup>

- The pay and expenses of supervisors, engineers, clerks, other employees, and consultants engaged in supervising and directing the operation and maintenance of each utility function;<sup>32</sup>
- Labor, materials, overheads, and other expenses incurred in maintenance work;<sup>33</sup>
- All rents, for property used in utility operations;<sup>34</sup> and
- Costs incurred in ensuring employees are trained to operate or maintain plant facilities that are being constructed and are not conventional in nature or are new to the company's operations.<sup>35</sup>





# KEY STAKEHOLDERS

Nigerian Electricity Regulatory Commission - Uniform  
System of Accounts for Nigeria Electricity Supply  
Industry, 2014





### **Nigerian Electricity Regulatory Commission (NERC)**

NERC promulgated the USOA and is thus responsible for its proper implementation. The Commission demands accounting records from licensed utilities as a means of monitoring and ensuring that electrical supply activities undertaken by licensees are done in accordance with the Electric Power Sector Reform Act, and other relevant regulations. NERC also utilizes such records in enhancing the efficiency and transparency of its regulatory processes.

The background of the slide features a dark, monochromatic image of a high-voltage power transmission tower and its associated power lines, stretching across the frame.

# **PRICING** **AND TARIFFS**

**Nigerian Electricity Regulatory Commission - Uniform  
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# PRICING AND TARIFFS

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The USOA attaches significance to the accounting records by stating that such records assist in providing an adequate information base for establishing tariffs and monitoring licensees' performance.<sup>36</sup>

# INCENTIVES AND INVESTMENT OPPORTUNITIES

Nigerian Electricity Regulatory Commission - Uniform  
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# OPPORTUNITIES FOR INVESTMENT IN THE REGULATIONS



Given the nature of the Regulations, it does not provide specified opportunity for investment.





# **SANCTIONS AND PENALTIES**

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Industry, 2014**

# SANCTIONS AND PENALTIES

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The USOA Regulations does not provide sanctions and penalties.

## Referenced Statutory Instruments

- Electric Power Sector Reform Act, 2005

### Endnotes

- 1 NERC, Uniform System of Accounts (USoA) Guidelines 2014. Available at [https://nerc.gov.ng/index.php/component/remository/NERC-Reports/Uniform-System-of-Accounts-\(USoA\)/Uniform-System-of-Accounts-\(USoA\)-Guidelines-2014/?Itemid=591](https://nerc.gov.ng/index.php/component/remository/NERC-Reports/Uniform-System-of-Accounts-(USoA)/Uniform-System-of-Accounts-(USoA)-Guidelines-2014/?Itemid=591)
- 2 NERC, Electric Power Sector Reform Act (EPSR), 2005. Available at [https://nerc.gov.ng/index.php/library/documents/Regulations/Electric-Power-Sector-Reform-Act-\(EPSR\)-2005/](https://nerc.gov.ng/index.php/library/documents/Regulations/Electric-Power-Sector-Reform-Act-(EPSR)-2005/)
- 3 Section 96(2)(f), EPSRA
- 4 Ibid
- 5 Section 1(a), General Instructions
- 6 Section 3, General Instructions
- 7 Section 4, General Instructions
- 8 Section 10, General Instructions
- 9 Section 5, General Instructions
- 10 Section 6, General Instructions
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# DISCLAIMER

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