

*FAI's Public Utility Finance and Accounting Seminars
Seminars for Professionals Concerned with Electric, Gas and Water Companies*

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Glossary of Utility Finance and Accounting Terms used in our Seminars

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above-the-line

Revenue or expenses, at a utility, that are included in the ratepayers' rates.

accelerated depreciation

A method of calculating depreciation expense where the expense becomes progressively smaller each period. Examples are declining-balance and sum-of-the-years'-digits methods.

accounts receivable

Claims against a customer for an uncollected amount, generally from a completed transaction of sales or services rendered.

accounting

Accounting is primarily a system of measurement and reporting of economic events based upon the accounting equation for the purpose of decision making.

accounting period

The time period for which financial statements that measure flows, such as the income statement and the statement of cash flows, are prepared. Could be a month, a quarter of the year or a year.

Accounting Standards Codification (ASC)

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) In 2009, the FASB ASC replaced all previously existing financial accounting standards, (other than U.S. Securities and Exchange Commission pronouncements), to become the single source of authoritative nongovernmental U.S. generally accepted accounting principles (GAAP).

accrual accounting

A method of recognizing revenues and expenses. As goods are sold (or delivered) and as services are rendered, independent of the time when cash is received. Expenses are recognized in the period when the related revenue is recognized, independent of the time when cash is paid out. Contrast with the cash basis of accounting.

accumulated other comprehensive income

Part of equity which is the sum of GAAP. Income items that bypass the income statement.

acquisition adjustment

Is created when one rate regulated utility buys plant from another regulated utility. This is the difference between the cost of plant and the original cost less the accumulated depreciation on the books of the utility that sold the plant.

additional paid in capital (APIC)

Excess received from stockholders when selling new stock over par value, or stated value, of the stock issued: also called contributed capital in excess of par.

adjustment clause

Provision in a rate schedule that provides for an adjustment to the customer's bill if the cost of some item varies from the amount included in the tariffed rate. This is done without a rate case, but usually with a limited reasonableness review by the regulator. These adjustment clauses are also called trackers, riders, flow through items, or balancing accounts.

adverse opinion

An auditor's report stating that the financial statements are not fair or are not in accord with GAAP.

AFUDC

Allowance For Funds Used During Construction A noncash income statement item representing the interest costs of debt and the required return on preferred and equity funds used to finance construction. When CWIP is not in the rate base, the allowance is included in the CWIP accounts and income. This is included in a utility company's rate base and is recovered through depreciation in rates when the CWIP is online and included in rates.

AFUDC rate

The rate of return used to determine the amount of additional cost to be added to CWIP when CWIP is not included in the Rate Base.

allowed rate of return or allowed return

The rate of return, (to be applied to rate base), which the regulatory commission sets in determining rates. This is the cost of capital (debt, preferred and equity) as determined when setting rates.

amortization

The general process of allocating acquisition cost of assets to either the periods of benefit as expenses or to other asset accounts. Called depreciation for plant assets, depletion for natural resources and amortization for intangibles. The term is also used for the reduction of some liabilities i.e., amortization of a loan.

APIC

See: additional paid in capital

ARO

See: asset retirement obligations

ASC

See: Accounting Standards Codification

asset**asset retirement obligations (ARO)**

Asset Retirement Obligations are liabilities shown under GAAP, when removal of plant is required by law or contract and an estimate of the timing and cost of the removal can be made.

attrition adjustments

A ratemaking term for yearly base rate adjustments when rates are set for more than one year.

auditor's report

The auditor's statement of work done and an opinion on the financial statements. Opinions are usually unqualified ("clean"), but may be qualified, or the auditor may disclaim an opinion in the report.

Authorized (allowed) return on equity

The return on equity included in the return on rate base in the revenue requirement.

balance sheet

Statement of financial position that shows total assets = total liabilities + owners' equity.

balancing accounts

Regulatory Assets or Regulatory Liabilities which reflect amounts due from, or due to, customers through adjustment clauses.

base rates

Utility rates that result from a rate case and may be changed by adjustment clauses.

below-the-line

Revenue of expenses not included in ratepayers' rates.

bond ratings

Ratings of corporate and municipal bond made by Moody's Investors Service, Fitch and Standard & Poor's Corporation, or other such bond rating agencies.

bonus depreciation

A tax incentive that allows a business to immediately deduct a large percentage of the purchase price of eligible assets, such as plant, rather than expense them over the life of that asset. Bonus depreciation is sometimes called the additional first year depreciation deduction.

book value

The amount shown in the books (or in the accounts) for an asset, liability, or owners' equity item. Generally used to refer to the net amount of an asset or group of assets shown in the account, which records the asset and reductions, such as for depreciation or amortization, in its cost. For a company as a whole, the book value is the common stockholders' equity usually expressed on a per share basis.

budget and control report

An internal report for managers, showing budgets versus actual costs.

business risk profile

A concept used by S&P in rating bonds.

CAC

See: customer advances for construction

capacity costs**capital lease**

See: finance lease.

capital budget

Plan of proposed acquisitions and replacements of long-term assets and their financing.

capital budgeting

Process of making long-term planning decisions for capital investments. Companies use present value analysis for these capital expenditures. This process is sometimes called capital budgeting analysis.

capital expenditure

expenditures for plant or other assets

capital markets

Financial markets

capitalization

Long-term debt, preferred stock, and equity when added together.

capitalization ratio

Percentage of Long-Term Debt, Preferred Stock, Preference Stock, and Common Stock Equity to Total Capitalization.

cash flow

Has many definitions. The cash flow on the financial statements is the Cash from Operating Activities.

cash flow analysis

Usually refers to a present value of future cash flows analysis.

cash from financing activities

Cash obtained from transactions including the distribution, acquisition, movement and management of money.

cash from investing activities

Cash obtained from purchases and sales of plant or other long term investments. The title of one section of the statement of cash flows in the financial statements.

cash from operations (cash from operating activities)

Cash arising from the operations (cash revenues minus cash expenses) of the business for the accounting period. The title of one section of the statement of cash flows in the financial statements.

CIAC

See: contributions in aid of construction

common stock

Stock representing the class of owners who have residual claims on the assets and earnings of a corporation after all debt and preferred stockholders' claims have been met.

construction work in progress (CWIP)

Plant under construction at a regulated utility. Also refers to a method of ratemaking where the CWIP is in rate base.

contributions in aid of construction (CIAC)

Nonrefundable donations or contributions in cash or properties from individuals, governmental agencies or others for construction or property-addition purposes, usually the associated plant does not become part of the rate base.

cost

Value of what is given up to obtain something. Usually the amount paid. All costs are either assets or expenses.

cost based regulation

Another name for cost of service regulation.

cost of capital

The composite rate of cost for debt interest, preferred stock dividends and common stockholder return requirements. It is the composite of the cost of the various capital sources used to finance the assets utilized in supplying utility service.

cost of equity

The required rate of return for the equity holder, appropriate for the risk of this investment.

cost of preferred capital

The required rate of return for the preferred stockholder.

cost of service (also called revenue requirement)

Expenses plus an allowed return (usually computed by applying a rate of return to the rate base) which the regulatory includes in customers' rates.

cost of service study

An analysis used as the basis for designing rate schedules. This concept attempts to correlate utility costs and revenues with the service provided to each of the various customer classes in the rate design or rate structure phase of a rate case.

cost of service regulation

The traditional utility regulation under which a utility's rates are set based on the cost of providing service to customers. Also called rate of return regulation or rate base regulation.

cost recovery rates

Costs that are recovered from ratepayers through adjustment clauses.

cost structure

The expenses that a firm must take into account when operating a company. Types of cost structures include transaction costs, sunk costs, marginal costs, variable costs and fixed costs. The cost structure of the firm could also refer to the ratio of fixed costs to variable costs.

cost-plus (cost plus pricing)

A contract to provide goods or services where the price is the cost plus profit.

CPI (Consumer Price Index)

Measure of price level computed by the Bureau of Labor Statistics on a monthly basis. The ratio of the cost of specific consumer items, in any one year, to the cost of those items in the base year.

creative accounting

Management's attempt to manipulate its accounting in order to overstate net income, understate liabilities or manipulate some other financial figures.

credit ratings

Rating of companies done by Bond Rating firms like S&P and Moody's.

current assets**current cost of capital**

Today's cost of debt and preferred as distinguished from the embedded cost.

current liabilities**current maturities**

(E*) Securities that will be due and payable within one year from the balance sheet date. For balance sheet presentation, they are usually included in Current Liabilities.

customer advances for construction (CAC)

(E*) A liability representing cash advances paid to the utility by customers, requiring the construction of facilities in their behalf. These advances are refundable. The time or extent of refund is dependent on the contract provisions of the advance (usually dependent on whether or not, during a specified period, the revenue from the installation warrants the refund).

CWIP

See: *construction work in progress*

DCF

See: discounted cash flow

debt

Amounts owed which interest due as well

debits and credits

Accounting terminology for the recording of transactions under double entry bookkeeping.

debt ratio

Percentage of total capital (or capitalization) that is borrowed.

debt service

Cash outlay needed to meet principal and interest payments on debt.

declining balance depreciation

The method of calculating the depreciation expense by multiplying the book value at the start of the period by a constant percentage.

decommissioning

Removal of a generating facility from service.

decouple (decoupling)

A ratemaking technique that separates the amount of a commodity sold from the revenues expected from those sales. This technique is often recommended at utilities by conservationists since it provides a means of removing the incentive that utilities have to sell more energy to increase earnings.

default

Failure to fulfill a contract; specifically, failure to make timely payment of interest or principal on a bond or otherwise comply with any provision of the indenture.

deferred cost

Expenditure not recognized as an expense of the period when made but carried forward as an asset to be written off in future periods, such as for advance rent payments or insurance premiums.

deferred tax asset

An asset created by temporary differences between GAAP and Tax Methods or estimates. *See: deferred tax liability*

deferred tax liability (deferred income tax liability) (deferred taxes)

A liability on the balance sheet representing the additional income taxes that would have been due if a utility had not been allowed to compute tax expenses differently for income tax reporting purposes than for financial statement purposes. Results from temporary tax book differences.

demand side management (DSM)

Planning, implementation, and monitoring of utility activities designed to influence customer use of electricity in ways that will produce desired changes in a utility's load shape (i.e., changes in the time pattern and magnitude of a utility's load). DSM includes only those activities that involve a deliberate intervention by the utility to alter the load shape.

depreciation

Fixed assets, plant assets, plant, equipment, etc. are assets that will not last indefinitely. During each accounting period (year, quarter, month, etc.) a portion of the cost of these assets is being "used up". The portion being used up is reported as depreciation. In effect, depreciation is the transfer of a portion of the asset's cost from the balance sheet to the income statement during each year of the asset's life.

depreciation life

Life estimate used to determine depreciation expense.

deregulation

Process of removing a utility's activities or a portion of its activities from rate regulation. Occurs when changing conditions, such as competition, make cost-based regulation no longer feasible.

derivatives

Financial contract whose value is derived from publicly traded securities, commodity costs, interest rates, currency exchange rates, or market indexes or some other underlying price.

disallowance of costs

When incurred costs are not considered necessary to providing utility service, or are not prudently incurred or are not of any benefit to the ratepayers and are therefore not recoverable in rates.

discount rate

Interest rate used to convert future cash flows to present values.

discounted cash flow (DCF)

A method of estimating the cost of equity capital. The formula is $K=(d/p)+g$. Also, a finance technique for estimating the present value of future cash flows.

dividend

A distribution of earnings to owners of a corporation; it is usually paid in cash.

dividend yield

Dividends per share for the year, divided by market price of the stock as of a given time of the year.

double declining balance depreciation

Declining balance depreciation, where the constant percentage is used to multiply by book value in determining the depreciation expense for the year is $2/n$ and n is the depreciation on life in periods.

DSM

See: demand side management

DTA

See: deferred tax asset

EAC (Energy Adjustment Clause)

See: energy adjustment clause and adjustment clause

earnings

Income, or profit. Also called Net Income, Net Earnings or Net Profit

earnings before tax

Commonly used expression for earnings before income taxes but after other taxes are subtracted.

earnings per share of common

Net earnings of the firm, divided by the average number of common shares outstanding during the period.

EBITDA (Earnings Before Interest X Expense, Income Taxes, Depreciation and Amortization)

Earnings before interest expense, income taxes, depreciation and amortization are subtracted out.

earnings attrition

Decline in earnings over time as expenses increase but revenue does not.

earnings per share of common

Net earnings of the firm, after income taxes and preferred dividend requirements, divided by the average number of common shares outstanding.

econometrics

Economic modeling technique that seeks to explain in mathematical terms the relationships between key economic variables such as capital spending, wages, bank interest rates, population trends, and also government fiscal and monetary policies.

embedded cost

The actual cost of debt capital (as opposed to current cost)

energy adjustment clause (EAC)

An adjustment in rates for energy costs (e.g., Fuel, purchased power, gas) without a rate case. Also, see adjustment clause.

ERTA

See: Economic Recovery Tax Act of 1981

equity return requirement

Cost of equity capital.

essential service

One criterion for the need to regulate rates. The utilities are generally assumed to be providing an essential service.

excess deferred taxes

Deferred taxes, which have been collected from ratepayers through the normalization method, for which the tax rate is now lower. Usually the commission has taken action to return these amounts to ratepayers.

expense

A cost needed to get revenue during the accounting period.

FAIPS

Our simple example utility company -- "Financial Accounting Institute Public Service"

fair value

Market value.

FASB

See: Financial Accounting Standards Board

Federal Power Commission

Agency empowered to regulate the interstate energy industry; became the FERC in 1977.

FERC (Federal Energy Regulatory Commission)

Independent agency within the Department of Energy. FERC is vested with broad regulatory authority. Virtually every facet of electric and natural gas production, transmission, and sales conducted by private investor-owned utilities, corporations or public marketing agencies is placed under the commission's purview through either direct or indirect jurisdiction, if any aspect of their operations are conducted in interstate commerce.

FERC accounting

Accounting methods required for FERC reporting which most states PUC's require as well.

FERC USOA (Federal Energy Regulatory Commission) (Uniform System of Accounts)

FERC list of accounts for the purpose of classifying accounting information associated with a utility's operations. The USOA specifies a number for each account, together with a title and a description of content, and prescribes the rules and regulations governing the use of such accounts.

fuel and purchased power adjustment clause

Another name for an Energy Adjustment clause which most electric utilities have as part of their ratemaking.

FFO (Funds From Operations)

One of many measures of Cash Flow where funds are defined as working capital.

FIFO

First-in, first-out; an inventory flow assumption by which ending inventory cost is determined from most recent purchases, and cost of goods sold is determined from oldest purchases including beginning inventory.

finance

The management of money. To finance something is to provide funding.

finance lease

A lease treated by the lessee as both the borrowing of funds and the acquisition of an asset to be amortized. Both the liability and the asset are recognized on the balance sheet. Expenses consist of interest on the debt and amortization of the asset.

Financial Accounting Standards Board (FASB)

Financial Accounting Standards Board. An independent board responsible, since 1973, for establishing generally accepted accounting principles in the U.S.

financial statements

Presentation of financial data including Balance Sheets, Income Statements and Statements of Cash Flow.

fixed costs

Costs which do not vary with revenue changes.

flow through

A method of measuring income tax expense for ratemaking which measures the income tax expense as the tax due for the year.

Also: To pass through to ratepayers some item covered by an adjustment mechanism.

flow through costs

Costs passed through to ratepayers through adjustment clauses.

See: cost recovery rates.

formula ratemaking

A ratemaking methodology used by the FERC to change rates each year without a rate case. Concept is used by some states as well.

forecasted test year

Also called a projected or forward test year.

four sets of books

The four major uses of accounting data. The four major places where we use accounting data: GAAP; Tax; Rates, and Managerial.

free capital

In ratemaking, liabilities which have no interest associated with them. Examples are accounts payable and deferred taxes due to the normalization method.

free cash flow

Cash from operations less preferred dividends and capital expenditures. Other definitions are possible.

free financing

See: free capital.

fundamental accounting equation

Assets = Liabilities + Owners' Equity

funds from operations

Working capital from operating activities.

fuel adjustment clause

Mechanism that passes the actual cost of fuel through to the ratepayer without a rate case.

future value

Value in the future of a dollar amount which is earning a return.

GAAP

Generally Accepted Accounting Principles. Principles, rules, procedures, and conventions of accounting practice, used for preparing financial statements.

gas adjustment clause

An Energy Adjustment Clause for gas distribution companies. Also called a gas cost adjustment or purchased gas adjustment.

GASB GAAP

GAAP for government entities in the US.

Goodwill

The excess of cost of buying another company, over the current or fair-market value of net assets of the acquired firm.

gross up

In ratemaking, a concept illustrated by the idea that for a regulated utility to get enough extra revenue to cover higher expenses these expenses must be increased by dividing these expenses by 1 minus the tax rate.

historic test year

The use of a year when it is in the past in measuring the cost of service in a rate case.

IFRS

See: International Financial Reporting Standards

GAAP used in most countries in the world. The US and most Canadian utilities do not use this GAAP.

impaired asset

Asset which is reduced on the balance sheet according to GAAP rules.

impairment

The process of reducing an asset on the balance sheet according to GAAP rules.

Imprudent

A cost which the regulators disallow in rates because of decisions a utility made that were not reasonable.

incentive ratemaking or incentive regulation

Any type of ratemaking which gives the company an incentive to operate differently. *See: PBR.*

income for non-controlling interests

Income which was earned for other owners of consolidated subsidiaries.

income from continuing operations

As defined under GAAP all revenues less all expenses except for the following: results of operations, including income tax effects, that have been or will be discontinued; gains or losses, including income tax effects, on disposal of segments of the business; gains or losses.

income statement

The statement of revenues, expenses, gains, and losses for the period ending with net income for the period.

income tax accounting

Accounting on the tax "set of books".

income taxes

Government levy on the taxable income of an individual, corporation, or other taxable unit.

incremental analysis

Form of analysis; which considers all the incremental cash flow impacts of a proposed action.

incremental cash flow

More or less cash flow due to a decision.

incremental cost

Increase in cost above some previously determined base amount.

inelastic demand

Of, or relating to, the demand for a good or service when quantity purchased varies little in response to price changes in the good or service.

intercompany profits

Income from goods or services sold to a related company when consolidated financial statements are being prepared. Only earnings applicable to the sales outside of the consolidated entity are recognized.

interest capitalization

Interest included in plant cost.

interest expense

Interest on borrowed amounts that has not been capitalized.

intergenerational equity

Concept used in ratemaking, referring to the fairness of costs included in rates over a period of years.

International Financial Reporting Standards (IFRS)

Standards, Interpretations and the Framework adopted by the International Accounting Standards Board (IASB). Most countries use this GAAP. The US does not use IFRS.

interperiod tax allocation

Accounting procedures that account for temporary differences between GAAP and tax.

intervenors

All parties to a rate case except the company and the regulator.

intraperiod tax allocation

Associating income taxes with different categories of income within the same accounting period. For example, discontinued operations have their tax effect shown along with the gain or loss.

investment grade

Description of a high-quality corporate or municipal bond, assigned a rating of AAA to BBB by Standard & Poor's and Fitch's Investors Service (Moody's Investors Service assigns ratings of Aaa and Baa, respectively.)

investment tax credit (ITC)

A reduction in income tax liability granted by the federal government to firms that buy or build certain types of new equipment. This item is a credit, in that it is deducted from the tax bill, not from taxable income. The tax credit has been a given percentage of the purchase price of certain assets purchased. The actual rules and rates have changed over the years.

Investor owned utility (IOU)

Utility organized as a tax-paying business usually financed by the sale of securities. Usually a corporation or partnership.

investors

Party who puts money at risk; may be an individual or an institutional investor.

IOU

See: investor owned utility

ITC (Investment Tax Credit)

See: investment tax credit

journals and ledgers

Accounting records of a company.

lessee

Entity that is leasing the property and paying the rent.

lessee accounting

Accounting by the lessee for leased assets.

lessor

Entity that is the owner of leased property (tenant for a real estate lease).

liability

Amounts owed for benefits already received.

liability method

The GAAP method of accounting for temporary tax book differences. Also called the asset and liability method.

LIFO

An inventory flow assumption where the cost of goods sold is the cost of the most recently acquired units and the ending inventory cost is determined from costs of the oldest units; contrast with FIFO.

load

A word used in the electric and gas business for demand.

load factor

Ratio of the average load in kilowatts supplied during a designated period to the peak or maximum load in kilowatts occurring in that period.

long term debt (LTD)

Includes outstanding mortgage bonds, debentures, advances from associated companies, and notes that are due one year or more from date of issuance.

long-lived asset

An asset whose benefits are expected to be received over several years. A non-current asset, usually includes investments, plant assets, and intangibles.

LTD

See: long term debt

MACRS

See: modified accelerated cost recovery system

maintenance costs (maintenance expenses)

An Operating Expense. Labor, materials, and other direct and indirect expenses incurred for preserving the operating efficiency or physical condition of plant.

managerial accounting

Process of identification, measurement, accumulation, analysis, preparation, interpretation, and communication of financial information that is used by management to plan, evaluate and control within an organization. It is concerned with providing information to internal managers, who are charged with directing, planning, and controlling operations and making a variety of management decisions.

marginal cost of capital

The cost of an additional dollar of new funds.

market price

Price determined in competitive markets.

market value

Current or prevailing price of a security or asset as indicated by current market conditions.

mass property accounting

Also call group depreciation. A method of depreciation which does not account for each component piece of plant but averages groups of plant together. Usually no gains or losses are show for retirement of plant.

materials & supplies

Inventories to be used in a business.

metrics

Measures

modified accelerated cost recovery system (MACRS)

In the United States, the method tax depreciation on plant placed in service after 1985, using specified depreciation methods over statutory life estimates.

monopoly

Exclusive control of a commodity or service in a given market, or control that makes possible the fixing of prices and the virtual elimination of free trade.

Moody's (Moody's Investor's Service)

One of the principal bond rating agencies.

NASDAQ

Acronym for National Association of Securities Dealers Automated Quotations. A stock market.

National Energy Board (NEB)

The National Energy Board (NEB or Board) is an independent federal agency established in 1959 by the Parliament of Canada to regulate international and interprovincial aspects of the oil, gas and electric utility industries.

net book value

Recorded cost of an asset or group of assets minus the accumulated provision for depreciation of these assets.

net income (net earnings)

The excess of all revenues and gains, for a period, over all expenses and losses of the period.

net present value

Discounted or present value of all cash inflows and outflows of a project or from an investment at a given discount rate.

net profit (net income)

See: net income.

non-controllable factors

Events beyond the control of managers at a company.

non-discounted cash flows

Nominal amounts of cash flows in the future.

non-investment grade

A bond which has a bond rating lower than BBB from S&P or Baa from Moody's.

non-regulated utilities

Utilities which are not rate regulated.

normalization

Name used at regulated utility companies for the asset and liability method of accounting for tax- book temporary differences.

nuclear decommissioning**OE**

See: owner's equity

off balance sheet debt

Usually refers to legal obligations not shown as liabilities on the Balance Sheet.

off balance sheet financing

Financing that is not shown as a liability in a company's balance sheet..

O&M

See: Operations & Maintenance Expense

on account

Delivery of goods and services to the company where the payment is due later.

OPEB (Other Postemployment Benefits)

GAAP phrase for Post-retirement Benefits Other Than Pensions; these are mostly medical benefits after retirement.

operating income

Revenue less operating expenses.

operating expenses

A group of expenses applicable to utility operations composed of: Energy Costs, Operations Expense and Maintenance Expense, Depreciation and Amortization, Taxes Other Than Income Taxes and Income Taxes. This definition differs from other industries where Income Taxes would never be called an operating expense.

operating lease

A GAAP term for a lease where the risks and rewards of the asset being leased remain with the lessor. Under GAAP, there are 5 tests to determine if a lease is an operating or a finance lease. A lease accounted for by the lessee without showing an asset for the lease rights (leasehold) or a liability for the lease payment obligations. Rental payments of the lessee are merely shown as expenses of the period. .

operating taxes

Taxes other than Income Taxes.

operations and maintenance

At a utility, usually refers to Operating Expenses other than commodity costs, depreciation, Income Taxes and other taxes.

Other Comprehensive Income

Income items that by pass the Income Statement.

overearning

A concept at regulated utilities of earning a higher return on equity than the regulator thinks is appropriate.

overhead allocation

The process of spreading overhead equitably over the volume of goods or services.

owners' equity (OE)

Common Stock, Paid-in Capital, Retained Earnings, Accumulated Other Comprehensive Income less Treasury Stock of a corporation. Interest of the owners in the assets of the business represented mostly by capital contributions and retained earnings.

pass-through costs

See: flow through costs.

Performance Based Ratemaking (PBR)

See: Incentive ratemaking.

periodic rate case

Rate cases required by a jurisdiction on a regular basis, e.g., every 1, 2, or 3 years.

permanent differences

A GAAP term for tax-book differences which do not turn around.

phantom taxes

Term used by consumer groups for deferred taxes which result from the normalization method of accounting for temporary differences.

phase-in plan

Plan to gradually add percentages of a newly completed plant to rate base over a period of years, thus, avoiding the "rate shock" that would result from inclusion of the entire cost of the plant in rate base and in depreciation expense at the time it is initially completed.

PPA

See: purchase power agreement

pre-approval

Approval by the Public Utility Commission of the cost to be charged ratepayers prior to the company making capital expenditures.

preferred dividends

Dividends on preferred stock. They are deducted from Net Income in arriving at the Earnings for Common Stock for any given period of time.

preferred stock

Corporate income securities carrying a certain pre-specified dividend, usually stated in dollar terms or as a percentage of the preferred's original issue price. They have no maturity but may be subject to mandatory redemption and are junior to all debt instruments but senior to Common Stock.

premium in excess of par value or premium on capital stock

Excess of the amount received by a company from the sale of an issue of its capital stock over the par or stated value of the stock.

present value

Value today of an amount or amounts to be paid or received later, discounted at some interest or discount rate.

present value analysis

Using discounted cash flows to make decisions.

present value of revenue requirements

Present value of amounts ratepayers would pay due to a decision by the company.

present worth

See: present value.

pretax income (pretax earnings or profits)

Net Income (earnings or profits) before income taxes.

price cap mechanism

An alternative form of rate regulation where rates cannot go over the price cap.

productivity adjustment or productivity gain

An alternative form of rate regulation which adjusts rates down without a rate case, based on an assumed productivity savings.

profit

Excess of revenues over expenses for a transaction; used synonymously with net income or earnings for the period.

prudence (prudency test)

This is occasionally an actual test, but it usually refers to a set of criteria used to measure a decision against specific standards.

prudent investment

Investment which was reasonable at the time the decision to make the investment was made.

PUC (Public Utility Commission)

A generic name for the price regulator of utilities.

purchase power agreement (PPA)

A contract to buy power.

R & D

See: research and development

rate base

Assets used and useful in providing utility service which are financed with the capitalization of the firm.

rate case

Process in which a utility appears before its regulatory authority to determine the rates that are charged to customers.

rate freeze

An agreement not to change rates for a number of years.

rate of return

Return earned or allowed on rate base or return earned on an investment.

rate of return regulation or rate regulation

See: cost of service regulation.

rate plan

Typically a settlement in a rate case for multiple years of rate changes. This plan may include adjustment clauses.

ratepayer

Name used by regulated utilities for their customers, especially in rate cases.

reasonableness review (reasonableness test)

Procedure to examine the appropriateness of accounting information. For example, expenses for a company can be compared to those of prior years of the same company or other companies, or to industry norms.

receivable

Any collectible, whether or not it is currently due.

reconciliation of retained earnings

A required part of the financial statements.

recovery life

Depreciation life used in ratemaking.

regulated operations (regulated utilities)

Utilities are distinguished as being a class of business "affected with a deep public interest" and therefore subject to regulation. Public utilities are further distinguished in that in most jurisdictions it is considered desirable for them to operate as controlled monopolies. As such, they are obligated to charge fair, non-discriminatory rates and to render safe, reliable service to the public on demand. In return, they are generally free from substantial direct competition and are permitted, although not assured of, a fair return on investment.

regulatory assets

Assets recorded on a utility's financial statements, which deviate from normal GAAP because the regulator is expected to allow the cost to be recouped through rates.

These regulatory assets would have been expenses under normal GAAP.

regulatory books

The ratemaking "set of books".

regulatory lag

The result of the delay that is inherent in rate making in adjusting rates to reflect cost-of-service changes.

regulatory liabilities

Liabilities recorded on a utility's financial statements resulting from a requirement by the regulator that certain amounts are to be paid by the utility in the future. These regulatory liabilities are created by a deviation from normal GAAP by the regulator.

relevant return

Appropriate return for the level of risk.

removal cost

Cost of disposing of plant, whether by demolishing, dismantling, abandoning, sale or other.

replacement cost

An estimate of the cost to replace the existing facilities (either as currently structured or as redesigned to embrace new technology) with facilities that will perform the same functions.

research and development (R & D)

Basic and applied research in the sciences and engineering and the design and development of prototypes and processes.

reserve deficiency

Not enough accumulated depreciation on the utility's books due to mass property accounting procedures.

residual value

The actual or estimated value (i.e., proceeds minus disposal costs) of an asset, also called salvage value or scrap value.

retained earnings

Net income over the life of a corporation less all dividends. Also called reinvested earnings.

retirement units or retirement units of property

Individual assets at a utility.

retroactive ratemaking

Changing rates in the future because of higher or lower revenues or expenses in the past. Generally not allowed, except for adjustment clauses or settlements in rate cases.

return on assets (ROA)

Net income divided by total assets. Return on assets is a key ratio of profitability, indicating how efficiently a company's assets are employed.

return on equity (ROE)

Net income available to common stockholders divided by the average common equity.

return to common

Total investment return to the common stockholder, made up of price changes and dividends.

revenue

The monetary measure of a service rendered. Sales of products, merchandise, and services.

revenue requirement

A ratemaking term for the revenue needed to cover all allowable expenses plus a return for Debt and Equity. Also called cost of service.

riders

See: adjustment clause.

risk premium

Extra return over some baseline for the extra risk.

ROE

See: return on equity

S&P (Standard & Poor's)

One of the principal bond rating agencies.

salvage value

Actual or estimated selling price, net of removal or disposal costs, for a plant asset to be sold or otherwise retired.

SEC (Securities and Exchange Commission)

US Federal agency responsible for establishing accounting standards and regulating securities markets.

Securities and Exchange Commission

See: SEC

sets of books

A phrase used to describe different accounting methods and estimates used for different purposes at companies.

settlement

In general, a resolution of differences among various parties, e.g., settlement of a rate case.

shareholder (stockholder)

Individual or business that owns shares in a corporation.

shareholder return (stockholder return)

The dividends and appreciation of the stock in the market price.

shareholder value

Price of the common stock.

short term debt

Notes, drafts, acceptances, commercial paper, or other similar evidences of indebtedness payable on demand or which by their terms are payable within one year from the date of issuance.

show cause order

A concept that the Public Utility Commission can start a rate case.

smooth earnings

Manipulate GAAP earnings.

See: *creative accounting*

stakeholder

Having some vested interest in a company.

Statement of Cash Flows

Part of GAAP Financial Statements showing from what sources cash has come into the business and on what the cash was spent.

stockholder (shareholder)

Individual or business that owns shares in a corporation.

stockholder return (shareholder return)

The dividends and appreciation of the stock in the market price.

straight line depreciation

If the depreciable life is n periods, then the periodic depreciation charge is $1/n$ of the depreciable cost.

stranded cost

Cost incurred by a utility, which may not be recoverable under competition. Examples include plant, regulatory assets and long-term contract costs.

strategic decision (strategic planning)

Implementing an organization's objectives.

system of accounts

Accounts in the accounting system of the organization. Utilities follow a uniform system of accounts.

tax accounting

Accounting for the Income Tax Return.

tax basis of an asset

Original cost of an asset, less accumulated depreciation, that goes into the calculation of a gain or loss for tax purposes when sold or retired.

tax code

Income tax law.

tax exempt interest (tax exempt interest)

Free from tax liability. In the U.S. this status is granted to most municipal bonds, which pay interest that is totally free from federal income tax.

tax-book permanent differences

Differences between GAAP and tax accounting, which will not turn around.

tax-book temporary differences

Differences between GAAP and tax accounting, which will turn around.

temporary difference (interperiod income tax allocation)

See: tax-book temporary differences

term structure of interest rates

A graph showing returns on debt securities for varying maturities.

test year

The twelve-month period selected to determine the cost of service in a rate case. Sometimes the term "test period" is used.

TIER

See: times interest earned ratio

time series data (time series)

A set of variables with values related to the respective times the variables are measured. Thus, a weekly record of a stock's price throughout a period of years is a time series.

times interest earned ratio (TIER)

Ratio that equals income before interest and taxes, divided by interest. The ratio shows the number of times interest is covered by earnings.

timing difference

A difference between taxable income and income before tax, under GAAP, that will be reversed in subsequent period. For example, the use of accelerated depreciation for tax and straight-line depreciation for financial reporting. One of the major temporary differences.

total shareholder return

See: shareholder return

trackers

See: adjustment clause

treasury stock

Capital stock issued and then reacquired by the corporation. Such reacquisitions result in a reduction of stockholders' equity, and are usually shown on the balance sheet as contra to stockholders' equity.

treasury yield curve

See: term structure of interest rates

trued-up (true-up mechanism)

A ratemaking practice that uses adjustments to rates to insure that customers are not over or under billed for service.

uniform system of accounts (USOA)

A chart of accounts with detailed instructions prescribed by a regulatory agency. The FERC USOA is used by the states for electric and gas utilities. The NARUC USOA is used by water companies.

units of property

Assemblage of equipment consisting of individual items usually considered as a whole, for determining the accounting treatment for replacement of that equipment.

US Tax Code

US Tax law.

utility format for the financials

Showing non-current assets and non-current liabilities first on the Balance Sheet and showing income tax expense as an operating expense.

variance

Difference between budgeted and actual costs. The word has a completely different meaning in statistics, where it is a measure of dispersion of a distribution.

WACC

See: weighted average cost of capital

weather normalization

An adjustment clause that changes rates to eliminate gain or loss due to the weather.

weighted average cost of capital (WACC) or weighted cost of capital

A weighted average of the component costs of debt, preferred stock, and common equity. Also called the "composite cost of capital."

working capital

Used broadly, the term refers to those rate base amounts other than the utility plant in service and may include material, fuels, supplies, etc. In the narrower use, commonly referred to as cash working capital, it relates to the investor-supplied funds necessary to meet operating expense or going-concern requirements of the business.

write down

Lowering of an asset's carrying amount on the balance sheet due to impairment.