

# Glossary

## Utility Finance and Accounting Terms used in our Webinars

### **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**

Created when a 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.

**ADIT (Accumulated Deferred Income Taxes)**

The accumulated balance of deferred income taxes, arising mainly from using accelerated depreciation for tax but straight-line for books. Treated as cost-free capital and deducted from rate base, which lowers the return the utility collects from customers.

**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*

### **ASC 740 (Income Taxes)**

The GAAP standard governing deferred income taxes, including the temporary differences and normalization central to utility ratemaking.

### **ASC 842 (Leases)**

The current lease accounting standard; requires lessees to record most leases — operating and finance — on the balance sheet, replacing the old bright-line tests.

### **ASC 980 (Regulated Operations)**

The GAAP standard (formerly SFAS 71) that lets rate-regulated utilities defer costs and benefits as regulatory assets and liabilities to match regulator-approved rate treatment.

### **asset**

An economic resource expected to provide future economic benefit.

### **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.

### **avoided cost**

The incremental cost a utility avoids by buying power from a qualifying facility instead of generating or otherwise procuring it; the PURPA pricing standard.

### **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 or 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. 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, 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**

Fixed costs a utility incurs to keep enough generation, transmission, and distribution capacity available to meet peak demand — recovered largely through demand charges, as distinct from variable energy (commodity) costs.

**capacity market**

A wholesale market that pays resources for the commitment to be available at peak, separate from energy payments.

**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 with long lives

**capital markets**

Financial markets

**capital structure (ratemaking)**

The mix of long-term debt, preferred, and common equity used to weight the cost of capital when setting the allowed return. Regulators may use the utility's actual capital structure or a hypothetical one.

**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*

**class cost-of-service study (CCOSS)**

An analysis that allocates the total revenue requirement among customer classes based on how each class drives the utility's costs; the basis for class revenue targets and rate design.

**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 regulator 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 mix of fixed versus variable costs a firm incurs to operate.

**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**

Assets a business expects to sell, consume, or convert into cash within one year.

**current cost of capital**

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

**current liabilities**

Obligations due within one year.

**current maturities**

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)**

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, 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, on which interest is also due.

**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 OR 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 response (DR)**

Programs that pay or signal customers to reduce load at peak; the modern successor framing to DSM.

**demand side management (DSM)**

Utility programs that deliberately influence customer usage to reshape demand — shifting or reducing load.

**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.

**distributed energy resources (DER)**

Small customer-side resources — rooftop solar, batteries, EV chargers — connected to the distribution grid.

**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 used to multiply book value in determining the year's depreciation expense is  $2/n$ , and  $n$  is the depreciation 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.

**EBITDA (Earnings Before Interest 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.

**Economic Recovery Tax Act of 1981 (ERTA)**

Federal tax law that introduced accelerated tax depreciation (the Accelerated Cost Recovery System, ACRS), later replaced by MACRS in the Tax Reform Act of 1986. For utilities, it is the origin

of the book-tax timing differences that produce deferred taxes, normalization, and accumulated deferred income taxes (ADIT).

**embedded cost**

The actual or original 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*

**energy storage / battery storage (BESS)**

Plant that stores electricity (usually batteries) for later dispatch; increasingly included in rate base.

**equity return requirement**

Cost of equity capital.

**essential service**

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

**excess deferred taxes**

Deferred taxes collected from customers at tax rates higher than today's. When the rate drops (e.g., the 2017 TCJA's 35%→21% cut), the utility holds more than it owes and refunds the surplus over time — the "protected" part slowly under the IRS's ARAM formula, the "unprotected" part faster as the regulator directs. Also called excess ADIT or EDIT.

**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 as a result of 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.

**Inflation Reduction Act of 2022 (IRA)**

Created and expanded clean-energy tax credits and let utilities and co-ops monetize them through transferability and elective (direct) pay; substantially curtailed by the OBBBA in 2025.

**integrated resource plan (IRP)**

A utility's long-range plan, filed with regulators, for meeting forecast demand across generation, transmission, and demand-side resources.

**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 (Aaa to Baa by Moody's Investors Service).

**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 called group depreciation. A method of depreciation that averages groups of plant together rather than tracking each component; usually no gains or losses are shown on 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 of 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.

**NARUC (National Association of Regulatory Utility Commissioners)**

The association of state utility regulators; author of the water-utility USOA referenced under uniform system of accounts.

**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.

**NERC (North American Electric Reliability Corporation)**

Sets and enforces mandatory bulk-grid reliability standards.

**net book value**

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

**net energy metering (NEM)**

A billing arrangement that credits customers for electricity they export to the grid.

**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 vs book temporary differences. For example, spreading the tax savings from accelerated depreciation over the asset's full life instead of handing it all to customers at once (the alternative is flow-through).

**nuclear decommissioning**

Retirement and dismantling of a nuclear plant usually pre-funded via ratepayer-collected trusts

**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.

**One Big Beautiful Bill Act of 2025 (OBBBA)**

Budget-reconciliation tax law that made most TCJA cuts permanent and accelerated the phase-out of many Inflation Reduction Act clean-energy credits, while largely preserving credit transferability and elective (direct) pay.

**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 lease where the lessee uses an asset but ownership risks and rewards stay with the lessor. Under current GAAP (ASC 842), the lessee records it on the balance sheet but expenses the rent evenly each period — unlike a finance lease, which splits the cost into interest and depreciation. Operating leases tend to be smaller less permanent parts of a utility, unlike larger items, like plant, which tend to be finance leases.

**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 bypass 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.

**production tax credit (PTC)**

A federal tax credit paid per kWh a qualifying plant generates. Unlike the investment tax credit, which rewards what you spend to build, the PTC rewards how much you produce.

**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*

**PURPA (Public Utility Regulatory Policies Act of 1978)**

Federal law that requires utilities to buy power from qualifying facilities at avoided cost; foundational to independent power generation.

**qualifying facility (QF)**

A cogeneration or small renewable facility entitled under PURPA to sell power to a utility at the utility's avoided cost.

**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 components (customer, demand, and energy charges)**

The building blocks of a customer's bill: a fixed customer charge (metering, billing, service drop), a demand charge based on peak kW (capacity-related costs), and a charge per kWh or therm (usage-related costs).

**rate design**

The phase of a rate case that sets the structure of rates — how the approved revenue requirement is recovered across customer classes (e.g. commercial, residential, industrial) through customer, demand, and energy charges.

**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 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.

### **renewable energy certificate (REC)**

A tradable certificate representing the environmental attributes of one MWh of renewable generation.

### **renewable portfolio standard (RPS)**

A state mandate that a set share of a utility's sales come from renewable resources, varies wildly by state.

### **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*

**RTO / ISO (Regional Transmission Organization / Independent System Operator)**

FERC-regulated operators of regional wholesale power markets and the bulk grid (e.g., PJM, MISO).

**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*

### **securitization (recovery / rate-reduction bonds)**

Regulator-authorized financing in which a utility issues low-cost bonds repaid by a dedicated, non-bypassable customer charge to recover large costs such as storm, wildfire, or retired-plant balances.

### **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 Cuts and Jobs Act of 2017 (TCJA)**

Federal tax law that cut the corporate rate from 35% to 21%. For utilities it created large excess deferred income taxes (EDIT) refundable to customers and changed bonus-depreciation and interest-deduction rules.

**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 ensure 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.

**used and useful**

The regulatory principle that only plant actually providing service to customers may be included in rate base and earn a return.

**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.