

# IPU RESEARCH NOTE

MICHIGAN STATE UNIVERSITY ■ INSTITUTE OF PUBLIC UTILITIES REGULATORY RESEARCH AND EDUCATION

## GLOSSARY OF TERMS USED IN WATER UTILITY REGULATION<sup>1</sup>

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### A

**abandonment.** Retirement of a utility plant on the books without its physical removal from its installed location. NARUC(a)

**ABMs.** Aggregators, brokers, and marketers.

**above the line.** Expenses incurred in operating a utility that are charged to the ratepayer. They are written above a line drawn on the income statement, separating them from costs paid by investors. See also **below the line**. NARUC(a)

**absorption costing.** See **full costing**.

**accelerated depreciation.** An accounting method allowing a company to write off asset more quickly in early years, with progressively smaller increments in later years. NAWC(b) The three principal methods of accelerated depreciation are sum of the year's digits, double declining balance, and units of production. AWWA(c)

**access.** Ability of user to enter a given network. NAWC(c)

**access charge.** Charge levied on interexchange carriers and local subscribers to compensate local exchange carriers for use of local exchange facilities. Funds collected from access charges are used to offset fixed (non-traffic-sensitive) costs incurred by local telephone companies. There are three major categories of access charges: special access, subscriber line charges, and switched access. NAWC(c)

**account payable.** A liability representing an amount owned to a creditor, usually arising from purchase of merchandise or materials and supplies. NAWC(b)

**account receivable.** A claim against a debtor usually arising from sales or services rendered. NAWC(b)

**accounts.** Accounts prescribed in the NARUC Uniform System of Accounts for Water Utilities. NARUC(b)

**account water.** All water for which an account exists, the water is metered, and the account is billed. This concept is preferable to "accounted-for water." See also, **authorized water uses** and **non-account water**. AWWA(e)

**accrual.** A recording on the books of expenses incurred or of income earned for a period, to reflect the matching of income and expenses to the fullest extent possible, independent of the dates on which cash settlements of such items are made. NAWC(b)

**accrual basis.** The basis of accounting under which revenues are recorded when earned and expenditures are recorded when they become liabilities for benefits received, notwithstanding that receipt of the revenue or payments of the expenditures may take place, in whole or in part, in another accounting period. See also **cash basis**. AWWA(b)

**accrued deprecation.** The monetary difference between the original cost of an article and its remaining value. NARUC(a)

**accumulated deferred income tax.** Balance sheet accounts representing the net balances arising from charges to income. Deferred income taxes are those reductions in income taxes resulting from the use of

<sup>1</sup> This glossary was originally published as part of the *Sourcebook of Regulatory Techniques for Water Utilities*, prepared by Janice A. Beecher (NAWC, 2006).

deductions which will not be fully reflected in the determination of book net income until subsequent periods. Most commonly, they arise from accelerated depreciation for tax purposes instead of straight-line or other non-liberalized depreciation methods used for book purposes (i. e., normalization for ratemaking purposes). Accumulated deferred income taxes are those deferred income taxes that accumulate period to period from these postponements. NAWC(b)

**accumulated deferred investment tax credit.** The net unamortized balance of investment tax credits spread over the average useful life of the related property, or some other shorter period. This balance sheet account is built up by charges against income in the years in which such credits are realized and is reduced subsequently through credits to income. NAWC(b)

**accumulated depreciation.** See **depreciation reserve.** NAWC(b)

**acquisition adjustment.** The difference between the price paid to acquire a facility or a system and the depreciated original cost of the facility or system. Contributions included in the transfer will affect the recorded adjustment. See also **plant acquisition adjustment.** DHS

**actually issued.** As applied to securities issued or assumed by the utility, those which have been sold to bona fide purchasers for a valuable consideration, those issued as dividends on stock, and those which have been issued in accordance with contractual requirements direct to trustees of sinking funds. NARUC(b)

**actually outstanding.** As applied to securities issued or assumed by the utility, means those that have been actually issued and are neither retired nor held by or for the utility provided, however, that securities held by trustees shall be considered as actually outstanding. NARUC(b)

**advocate, consumer.** A state-appointed office that represents consumer interests (usually residential interests) in public utility and related judicial proceedings.

**ad valorem tax.** A state or local tax based on the assessed value of the real or personal property. AWWA(b)

**advance for construction.** Advance made by or on behalf of customers or others for the purpose of construction, which is to be refunded either wholly or in part. When applicants are refunded the entire amount to which they are entitled according to the agreement or rule under which the advance was made, the balance, if any, remaining in this account shall be credited to contribution in aid of construction AWWA(b)

**aggregation.** Consolidation of the demand needs of a group of customers in order to exercise purchasing power on utility markets. NAWC(c)

**aggregators.** For electricity, brokers for sales of bulk power from generators to a group of electricity customers. NAWC(c)

**allowance for funds used during construction (AFUDC).** A percentage amount added to **construction work in progress (CWIP)** to compensate the utility for funds used to finance new plant under construction prior to its inclusion in rate base. NARUC(a) NAWC(b)

**amortization.** The gradual extinguishment of an amount in an account by distributing such amount over a fixed period, over the life of the asset or liability to which it applies, or over the period during which it is anticipated the benefit will be realized. NARUC(b)

**ancillary charge.** A separate charge for an ancillary service that is not included in costs for general water service. These ancillary services often must be performed by the utility and benefit only the individual customer using them and have no system-wide benefit. AWWA(b)

**annualization.** The process of adjusting a utility company's annual historical information to reflect a full 12-month period for known changes reasonably expected to continue into the future. Annualization adjustments are routinely made in the development of a utility company's total cost of service. NAWC(a)

**annual report to shareholders.** A report for stockholders and other interested parties prepared once a year, includes a balance sheet, an income statement, a statement of cash flows, a reconciliation of changes in owners' equity accounts, a summary of significant accounting principles, other explanatory notes, the auditor's report, and perhaps comments from management about the year's events. NAWC(b)

**assets.** Items of value owned by or owed to a business. Represents either a property right or value acquired, or an expenditure made which has created a property right or is properly applicable to the future. NAWC(b)

**associated companies.** Companies or persons that, directly or indirectly, through one or more intermediaries, control, are controlled by, or are under common control with, the accounting company. NARUC(b)

**attributable costing.** A cost accounting method in which the cost of providing any service is the costs that could be escaped over time if that service were eliminated and capacity was adjusted accordingly. The assignment of

some indirect fixed overhead is required to implement this costing method and it is a longer-run concept than direct costing.

**audit, financial.** A methodical examination and review of a utility company's books with intent to verify the appropriateness of the company's revenues and expenses.

**audit, water.** A thorough accounting of all water into and out of a utility as well as an in-depth record and field examination of the distribution system that carries the water, with the intent to determine the operational efficiency of the system and identify sources of water loss and revenue loss. AWWA(e)

**authorized water uses.** All water uses known and approved or authorized by the utility. These uses include all metered uses and reliable estimates of all other approved uses such as public, fire, system, operation, and paid-for uses. AWWA(e)

**automatic adjustment clause.** Allows a utility to increase or decrease its rates to cover costs of specific items without a formal hearing before a commission. The utility can automatically change its rates only when the price it pays for those specified items goes up or down. Fuel adjustment clauses are an example. NARUC(a)

**automatic adjustments.** Rate adjustments allowed automatically without a formal rate proceeding but subject to a reconciliation proceeding. Commissions have permitted automatic adjustments for such items as purchased power, purchased water, taxes, and SDWA-compliance related laboratory expenses. Also known as pass throughs.

**availability charge.** A limited-use dedicated-capacity charge made by a water utility to a property owner between the time when water service is made available to the property and the time when the property connects to the utility's facilities and starts using the service. See also **demand-contract charge.** AWWA(b)

**average-and-excess method.** A method for allocating demand costs by which total demand costs are multiplied by the stern's load factor to arrive at a cost and can be attributed to average use and allocated to each customer class in proportion to their annual consumption. The remaining costs are generally allocated to each class on the basis of the noncoincident-demand method. See also **base-extra capacity method** and **commodity-demand method.** NRR1

**average demand.** The demand on, or output of, a utility system over any interval of time. NARUC(a)

**average incremental cost.** For a specified time period, the addition to total cost resulting from an increase in capacity divided by the incremental output provided. See also **incremental cost** and **marginal cost.** NRR1

**average load.** The total production for the period divided by the hours in the period. DM5

**average service life.** Used in determining depreciation, the average expected life of all the units in a group of assets. NARUC(a)

**average variable pricing.** A pricing structure in which the price per unit varies according to actual expenditures during the billing period. It does not affect use and should be used only where costs vary significantly between billing periods. AWWA(d)

**avoided cost.** The cost an electric utility would otherwise incur to generate power if it did not purchase electricity from another source. Also the basis of the rate that must be paid to qualifying facilities (QFs) for purchased power under PURPA. NAWC(c)

## B

**balance sheet.** Statement of financial position that shows total assets equaling total liabilities plus owners' equity. NAWC(b)

**base costs.** Costs that tend to vary with the total quantity of water used plus those operation and maintenance expenses and capital costs associated with service to customers under average load conditions, without the elements of cost incurred to meet water use variations and resulting peaks in demand. AWWA(a)

**base-extra capacity method.** An average-and-excess method by which costs of service are separated into four primary cost components: (1) base costs, (2) extra capacity costs, (3) customer costs, and (4) direct fire-protection costs. AWWA(a)

**base load.** The minimum quantity of utility product delivered over a given period of time. NARUC(a)

**base rate.** A fixed amount charged each month for any of the classes of utility services provided to a customer.

**base year.** The actual or test data year on which a financial model is based (that is, the first year of data entry in the model). AWWA(f)

**below the line.** Expenses incurred in operating a utility that are charged to the investor, not the ratepayers; that is,

all income statement items of revenue and expense not included in determining net operating income. If the item falls below the net operating income line of the income statement, it is labeled a below-the-line item. Net operating income is the "line" referred to. See also **above the line**. NARUC(a) and DHS

**beneficiality.** A service is said to benefit from a cost if that cost is necessary to render that service. NRR1

**benefit-to-cost ratio.** The value derived from dividing the sum of all benefits from an activity by the sum of all costs associated with that activity. A benefit-to-cost ratio having a value of 1.0 or better would indicate that the program is economically worthwhile. AWWA(e) Better analytical tools include the assessment of net benefits or the comparison of cost effectiveness.

**bilateral contract.** A contract between a producer and a consumer. NAWC(c)

**bill tabulation.** A method that shows the number of customer bills rendered at various levels of water usage during a specified period of time for each customer class served by the utility. The tabulation of bills for an historical period provides the basis for identifying typical customer-class usage patterns and aids in the development of rates recognizing such usage patterns. AWWA(a)

**bonds (debenture).** A form of long-term loan, included in debt capital, which is secured by the general audit worthiness of the utility. NAWC(a).

**bonds (mortgage).** Certificates of indebtedness representing long-term borrowing of capital funds, the terms of which contain an indenture pledging the property as security for the loan. NAWC(b)

**book cost.** The amount at which property is recorded in these accounts without deduction of related provisions for accrued depreciation, amortization, or for other purposes. NARUC(b)

**book value.** The accounting value of an asset. The book value of a capital asset equals its original cost minus accumulated depreciation. The book value of a share of common stock equals the net worth of the company divided by the number of shares of stock outstanding. NARUC(a)

**budget.** An estimate of proposed expenditures for a given period or purpose and a statement of the means of financing them. AWWA(c)

**bundled rate.** Several services combined into one tariff offering for single charge. NAWC(c)

**buyback rates.** Rates paid to electric utility customers who produce their own electricity in excess of their needs. NAWC(c)

**bypass.** Self-supply or supply through arrangements from suppliers other than the local utility provider, the latter of which might require use of the utility's transmission and/or distribution facilities. NAWC(c)

## C

**call premium.** The amount in excess of par value that a company must pay when it calls a security. See **call protection provision**. NAWC(b)

**call privilege.** A provision incorporated into a bond or a share of preferred stock that gives the issuer the right to redeem (call) the security at a specified price. NAWC(b)

**call protection provision.** Protection given to the holder of stocks or bonds against the possibility of the issuer of the stock or bond desiring to call (or buy back) the security. The protection may take the form of a minimum amount of notice given to the security holder and/or payment of an additional amount of money. See also **call premium**. NAWC(b)

**capacity.** The ability of the water utility to have the resources available to meet the water-service needs of its customers. It is the combination of plant- and service-related activities required to provide the amount of service required by the customer. The plant facilities required are a composite of all types of facilities needed to provide service. It represents the ability of the water utility to meet the quantity, quality, peak loads, and other service needs of customers or classes of customers served by the utility. See also **dedicated capacity** and **future capacity**. AWWA(b)

**capacity (demand) costs.** As used in the **commodity-demand method**, costs associated with providing facilities to meet the peak rates of use, or demands, placed on the system by the customers, including capital-related costs on plant designed to meet peak requirements plus the associated operation and maintenance expenses. This cost component may be broken down into costs associated with meeting specific demands, such as maximum-day, maximum-hour, or other periods of time that may be appropriate to the utility. AWWA(a)

**capacity required.** Capacity that is essential to the performance of a service; if associated costs are not incurred, the service could not be rendered. NRR1

**capital.** The money a utility has invested in its facilities. NAWC(a)

**capital intensive.** A term used to designate a condition in which a relatively large dollar investment is required to produce a dollar of revenue. DHS

**capital program.** A plan for capital expenditures to be incurred each year over a fixed period of years to meet capital needs arising from a long-term work program or otherwise. It sets forth each project or other contemplated expenditures in which the entity is to have a part and specifies the full resources estimated to be available to finance the projected expenditures. AWWA(c)

**capital structure.** The permanent long-term financing of the firm represented by long-term debt, preferred stock, and net worth. NARUC(a)

**capitalization.** Long-term debt, preferred stock, and owners' equity. NAWC(b)

**capitalized costs.** Costs are capitalized when they are expected to provide benefits over a period longer than one year. Capitalized costs are considered investments and are included in rate base to be recovered from customers over a number of years. NARUC(a)

**cash basis.** The basis of accounting under which revenues are recorded when cash is received and expenditures are recorded when cash is disbursed. See also **accrual basis.** AWWA(c)

**cash basis for rates.** Rates based on cash requirements for operating expenses, capital, and debt service. Most publicly owned utilities use this basis. AWWA(f)

**cash flow statement.** Statement that explains the change in cash and cash equivalents from one period to the next. NAWC(b)

**cash working capital.** See **working capital, cash.**

**ccf.** One hundred cubic feet.

**certificate of convenience and necessity.** An order issued by the Commission to permit the formation of a new utility, the expansion of an existing franchise area, or approval of a major capital investment to expand the ability of a utility to serve future customers. NAWC(a)

**city-gate.** The point at which natural gas is transferred from a long-distance pipeline to a local gas distribution company (LDC). NAWC(c)

**class A utilities.** Utilities having annual water operating revenues of \$750,000 or more. NARUC(b)

**class B utilities.** Utilities having annual water operating revenues of \$150,000 or more but less than \$750,000. NARUC(b)

**class C utilities.** Utilities having annual water operating revenues of less than \$150,000. NARUC(b)

**classes of customers.** The different types of customers that a utility serves, usually four in number—residential, commercial, industrial, and others. Rate structures are based on the allocation of costs among customers. NAWC(a)

**cogeneration.** Production of electricity from steam, heat, or other forms of energy produced as a byproduct of another process. NAWC(c)

**coincident-demand method.** A method for allocating demand costs according to the proportion of customer class demand at the time of system peak. See also **noncoincident-demand method.** NRRI

**coincident peak.** Any demand that occurs simultaneously with any other demand on the same utility system. See also **noncoincident peak.** NARUC(a)

**collection-related charges.** Service fees pertaining principally to the collection and billing functions of the water utility, including delinquency (late) fees and short-check (returned check) charges. AWWA(b)

**commercial customers.** A class of utility customers that includes commercial businesses other than industries. NAWC(a)

**combination utility.** A utility that provides more than one product, such as electricity and natural gas. NAWC(c)

**commodity (operating) costs.** Costs that tend to vary with the quantity of water produced, including costs of chemicals, a large part of power costs, and other elements that increase or decrease almost directly with the amount of water supplied. AWWA(a)

**commodity-demand method.** A **non-coincident demand method** by which costs of service are separated into our primary cost components: (1) **commodity costs**, (2) **demand costs**, (3) **customer costs**, and (4) **direct fire-protection costs.** AWWA(a)

**common plant.** Utility plant used by a utility company which renders more than one utility service, such as water and gas, to such an extent and in such a manner as to render segregation impractical, as would be the case of a garage housing water and gas utility trucks. NAWC(b)

**common stock dividends.** Dividends declared on common stock and charged to “Unappropriated Retained Earnings” during a stated period whether or not they were paid during such period. NAWC(b) Such dividends only include those payable in cash unless otherwise specified (that is, payable in stock). NAWC(b)

**common stock.** Capital stock, other than preferred, which is bought by utility shareholders and becomes part of a utility's equity. Its value is determined in the marketplace and its return is not a contracted rate as with preferred stock. NAWC(a)

**common stock equity.** The funds invested in the business by the residual owners whose claims to income and assets are subordinate to all other claims. This includes common capital stock, other paid-in capital, and retained earnings. NAWC(b)

**comparably efficient connection.** Requirement that allows non-telephone companies to have an equal opportunity to utilize the network for a specific service. NAWC(c)

**comparably efficient interconnection.** Requirement that allows companies not affiliated with a local exchange carrier telephone company to have an equal opportunity to utilize the network for a specific service. NAWC(c)

**competition transition charge.** A mechanism used to collect uneconomic utility costs. It is a “non-bypassable” obligation placed on ratepayers through legislation. NAWC(c) (Kenneth Rose, NRR)

**competitive access provider (CAP).** Telecommunications companies that provide access to interexchange carriers from large end-users, bypassing the local exchange carriers. NAWC(c)

**competitive local exchange carrier (CLEC).** One of the new breed of telecommunications companies who are beginning to be authorized by state regulatory agencies to offer switched local exchange service in competition with the incumbent local exchange carrier (LEC). NAWC(c)

**competitive rider.** A tariff provision allowing companies to negotiate rates with large-volume customers who have service alternatives.

**composite depreciation rate.** A percentage based on the weighted average service life of a number of units of plant, each of which may have a different individual life expectancy. Composite depreciation rates may be determined for (a) a single depreciable plant account, (b) a single rate for several depreciable accounts, or (c) a single

composite rate for all depreciable plants of the utility. NARUC(b)

**connection charge.** The charge made by the utility to recover the cost of connecting the customer's service line to the utility's facilities. This charge often is treated as a contribution of capital by the customer or other agency applying for service. AWWA(b)

**consolidated financial statements.** Statements issued by legally separate companies that show financial position and income as they would appear if the companies were one legal entity. Such statements reflect an economic, rather than a legal, concept of the entity. NAWC(b)

**consolidated rates.** A method of pricing that consolidates rates across multiple service territories owned and operated by a multi-system utility that may or may not be contiguous or physically interconnected. Also known as **single-tariff pricing.**

**constant dollar accounting.** The Financial Accounting Standards Board's term for financial statements where the attribute measured is historical cost and the measuring unit is constant dollars, that is, dollars of constant purchasing power. The dollars of constant purchasing power are constructed from the Consumer Price Index. NAWC(b)

**construction-cost incentives.** Regulatory incentives, such as bonuses, provided to encourage efficiency in utility construction projects.

**construction work in progress (CWIP).** A subaccount in the utility plant section of the balance sheet representing the costs of utility plant under construction but not yet placed in service. NARUC(a) The utility's investment in facilities under construction but not yet dedicated to service. The inclusion of CWIP in rate base varies from one regulatory agency to another. AWWA(c)

**contestable market.** Markets that have characteristics of monopoly or oligopoly but relative freedom of exit or entry (especially in terms of legal and regulatory institutions) so that potential competition provides a reasonably effective check on economic behavior. NAWC(c)

**contract carriage.** Transportation of natural gas by a pipeline that does not own the gas. Gas pipelines traditionally have acted as wholesalers, buying gas from producers and reselling it to local utilities or industrial users. Under contract carriage, a gas user can buy gas directly from a producer and contract with a pipeline to ship it. NAWC(c)

**contract carrier.** A transport company that offers services to other parties under contract. NAWC(c)

**contract demand.** Relates to an agreement between the water utility and a large-use customer who requires a significant amount of the total capacity of the utility. The agreement would fix the terms and conditions under which the water utility would provide service to the customer. Such an agreement has been called contract capacity. AWWA(b)

**contribution in aid of construction.** Any amount of money, services, or property received by a water utility from any person or governmental agency that is provided at no cost to the utility. It represents an addition or transfer to the capital of the utility, and is utilized to offset the acquisition, improvement, or construction costs of the utility's property, facilities, or equipment used to provide utility services to the public. It includes amounts transferred from advances for construction representing any unrefunded balances of expired refund contracts or discounts resulting from termination of refund contracts. Contributions received from governmental agencies and others for relocation of water mains or other plant facilities are also included. See also **allowance for funds used during construction (AFUDC)**. AWWA(b)

**control.** The possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a company, whether such power is exercised through one or more intermediary companies, or alone, or in conjunction with, or pursuant to an agreement, and whether such power is established through a majority or minority ownership or voting of securities, common directors, officers, or stockholders, voting trusts, holding trusts, **associated companies**, contract, or any other direct or indirect means. NARUC(b)

**core customers.** Customers that are captive to a single utility supplier because they have no competitive options. NAWC(c)

**cost.** The amount of money actually paid for property or service. When the consideration given is other than cash, the value of such consideration shall be determined on a cash basis. NARUC(b)

**cost causation.** Reflects the idea that costs should be assigned to the revenue-producing objects that cause those costs to be incurred. NRR1

**cost of capital.** A utility's cost of capital is the weighted sum of the costs of component parts of the capital structure (that is, debt, preferred equity, and common equity) weighted by their respective proportions in the capital structure. AWWA(c)

**cost of removal.** The cost of demolishing, dismantling, tearing down, or otherwise removing utility plant, including the cost of transportation and handling incidental thereto. NARUC(b)

**cost of service.** The total cost of providing utility service to the system or to a group therein (the latter is commonly referred to as an allocated cost of service). The cost components include operating expenses, depreciation, taxes, and **rate of return** adequate to service investment capital. Cost of service is synonymous with the **revenue requirements** of the system (or segment thereof). DHS

**cost-of-service pricing.** A method of pricing service strictly in accordance with the costs (expenses and allowable profit) that are attributable to it. Customers paying above the cost of service subsidize customer paying below the cost of service. NARUC(a)

**cost-of-service study.** Detailed analysis of how a utility allocates the cost of serving different classes of customers. NAWC(a)

**cramming.** Services or enhancements provided without the recipient's permission. NAWC(c)

**cross-subsidization.** The practice of using revenues generated from one (often regulated) product or service to support another (often unregulated) one. NAWC(c) A cause of concern for regulators.

**curb stop.** A shut-off valve attached to a water-service line from a water main to a customer's premises, which may be operated by a valve key to start or Stop flow in the water-supply lines of a building. Also called a curb cock. AWWA(b)

**curtailment rate.** A tariff provision allowing utilities to curtail usage by large-volume customers under specified conditions.

**customer advances for construction.** A deferred credit account representing cash advances paid to the utility by customers requiring the construction of facilities on their behalf. These advances are refundable; the time or extent of refund depends on revenues from the facilities. Contrast with **contributions in aid of construction (CIAC)**. NARUC(a)

**customer classification.** The homogeneous grouping of customers into classes. Typically, water utility customers may be classified as residential, commercial, and industrial for ratemaking and other purposes. For specific utilities, there may be a breakdown of these general classes into more specific groups. For example, the industrial class may be subdivided into small industry, large industry, and special. Some water systems have individual customers

(large users) with individual water-use characteristics, service requirements, or other reasons that set them apart from other general customer classes and who may require a separate class designation. This may include large hospitals, universities, military establishments, and other such categories. AWWA(b)

**customer costs.** Those costs associated with serving customers, irrespective of the amount or rate of water use, including meter reading, billing, and customer accounting and collecting expense, as well as maintenance and capital costs related to meters and services. AWWA(a)

**cycle billing.** The process of reading a segment of the system's customers each day of a billing period. By the end of the cycle, the complete system is read and billed, and a new cycle begins. The customer reading on each day of the cycle will reflect the use for a full period so that the only customers up to date at the end of the accounting period are those read and billed as of the last day of the cycle. All other customers will have unread and unbilled consumption for one to thirty days, assuming a one-month cycle. This produces **unbilled revenue** at the end of each accounting period. DHS

## D

**daily-peak-load pricing.** A pricing structure in which prices are higher during hours of peak usage. It can be used for reducing peak use and is expensive to implement since a sophisticated meter reading system would be necessary. AWWA(d)

**debentures.** Certificates of indebtedness issued under an indenture agreement representing long-term borrowings of capital funds, secured only by the general credit of the issuing corporation. NAWC(b)

**debt.** An obligation resulting from the borrowing of money or from the purchase of goods and services. AWWA(c)

**debt/equity ratio.** A comparison of the amount of debt to the amount of equity invested in a utility. When the debt is much greater than equity it is referred to as a "highly leveraged" situation. NAWC(b).

**debt expense.** All expenses in connection with the issuance and initial sale of evidences of debt, such as fees for drafting mortgages and trust deeds; fees and taxes for issuing or recording evidences of debt; cost of engraving and printing bonds and certificates of indebtedness; fees paid trustees; specified costs of obtaining governmental authority; fees for legal services; fees and commissions paid underwriters, brokers, and salesmen or marketing

such evidences of debt; fees and expenses of listing on exchanges; and other like costs. NARUC(b)

**debt service.** Expenditures for interest and principal on debt instruments. AWWA(f)

**debt-service coverage.** The ratio of net revenues to debt service requirements. AWWA(f)

**declining balance method of depreciation.** Greater depreciation expense is charged during the early years of an asset's service life, reducing this charge as the asset ages. NAWC(b)

**declining-block pricing.** A pricing structure, also known as decreasing-block pricing, in which both the average and marginal price per unit decreases as consumption increases. It can be used to retain large-volume customers, who prefer this structure. When there is sufficient supply, the cost of supplying water will probably decrease as consumption increases. NRRI and AWWA(d)

**decreasing-block pricing.** See **declining-block pricing.**

**dedicated capacity.** The portion of the water utility's total capacity that is set aside or "dedicated" for use by an individual large-use customer or group (class) of customers whose total use is a significant part of the utility's total capacity requirement. AWWA(b)

**dedicated-capacity charge.** A charge to ensure that the utility will recover, from those for whom a significant portion of the total capacity has been dedicated, the ongoing costs associated with this capacity. Two types of dedicated capacity charges are the availability charge and the demand contract-charge. AWWA(b)

**deferred charge.** 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. NAWC(b)

**demand.** The maximum rate at which a utility product is delivered to a specific point at any given moment. See also **average demand.** NARUC(a)

**demand contract charge.** The use of a dedicated-capacity charge incorporated into a contract whereby the water customer agrees to pay the fixed costs associated with a specific share of the investment in utility capacity. AWWA(b) See also **availability charge.**

**demand costs.** See **capacity costs.** The ratio of the maximum demand over a specified time period to the total connected load on any defined system. NARUC(a)



**demand rate.** A method of pricing under which prices vary according to differences in usage or costs. NARUC(a)

**depletion.** The loss in service value incurred in connection with the exhaustion of the natural resource in the course of service. NARUC(a)

**depreciable life.** For an asset, the time period or units of activity (such as miles driven for a truck) over which depreciable cost is to be allocated. For tax returns, depreciable life may be shorter than estimated service life. NAWC(b)

**depreciable plant.** Usually tangible plant in service which is subject to depreciation, depletion, or amortization. NAWC(b)

**depreciation.** Accounting procedure used to set aside the difference between the first cost of an item of plant (capital) and its estimated net salvage at the end of its expected life. This "amount to be depreciated" is treated as an expense to offset revenues for tax purposes over the years of expected life. NAWC(b) As applied to depreciable utility plant, the loss in service value not restored by current maintenance, incurred in connection with the consumption or prospective retirement of utility plant in the course of providing service from causes which are known to be in current operation and against which the utility is not protected by insurance. Among the causes to be given consideration are wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand, and requirements of public authorities. NARUC(b)

**depreciation study.** An analysis of the service characteristics of the depreciable utility plant in service. Using these characteristics, annual accrual percentages are recommended for each depreciable account of utility plant in service for approval by regulators. NAWC(a)

**depreciation reserve.** The net accumulated credit balance arising from provisions for depreciation and/or amortization (both defined herein) of assets, usually utility plant and non-utility property. The net balance reflects current and prior credits less charges but is not a measure of actual depreciation. NAWC(b)

**direct access.** Ability of consumers to directly arrange service from producers. NAWC(c)

**direct costing.** A cost accounting method that assigns only those costs that vary with short-run changes in the rate of output. The costs assigned under this method are not only the direct costs but the indirect variable overhead costs as well. It is sometimes referred to as variable costing. NRRI

**disaggregation.** Separation of vertically integrated utility functions (that is, generation, transmission, and distribution) or separation of formerly bundled utility services. NAWC(c)

**discount.** As applied to the securities issue or assumed by the utility, the excess of the par (stated value of no-par stocks) or face value of the securities plus interest or dividends accrued at the date of the sale over the cash value of the consideration received from their sale. NARUC(b)

**discounted cash-flow (DCF) model.** The DCF model is often used in ratemaking for estimating the investor required rate of return on common equity. By definition, the DCF model contends that the market price of a common stock is equal to the cumulative present value of all future cash flows to investors produced by said common stock. AWWA(c)

**distributed resources.** Small increments of energy or other resources (including conservation), that are not centrally produced and considered attractive for cost, ancillary services, and load management purposes. NAWC(c)

**distribution system improvement charge (DSIC).** A surcharge mechanism designed to pay for system improvements and enhance revenue recovery between rate cases.

**district (or zone) measurement.** A measurement of all water flow into an isolated portion (district or zone) of a distribution system to be used to determine the leakage potential for the isolated zone. Annual district measurements can be compared and used to determine changes in the level of water consumption and leakage potential. AWWA(e)

**diversity factor.** The sum of noncoincident demands of a group divided by the group coincident demand. See also **load factor** and **utilization factor**. DHS

**dividend.** See **common stock dividends**. NAWC(b)

**divestiture.** U.S. District Judge Harold Greene's order that divided the assets of AT&T into the seven regional holding companies and twenty-two local telephone operating companies, with AT&T retaining control over long-distance, manufacturing, and research capabilities. The modified final judgment governs activities of the operating companies and one of its primary directives is nondiscrimination. NAWC(c)

## E

**economic development rate.** Special discount rates offered to attract new businesses to the area or to entice existing businesses to expand. NAWC(c)

**economies of scale.** Exist when the unit or average cost of general water service decreases with the expansion of water system capacity. Economies of scale (or size) can be defined either in the context of changes in total system capacity or changes in a single component of the water system (such as treatment). See also **economies of scope**. NRRI

**economies of scope.** Exist when the average cost of combined general water service and fire protection service is less than the cost of providing each service separately; that is, the unit cost of providing multiple services is less than if they were provided by separate utilities. See also **economies of scale**. NRRI

**elasticity.** The responsiveness of one variable in relation to a change in another variable. For example, the price elasticity of demand indicates the change in demand associated with a change in price.

**embedded costs.** Money already spent for investment in plant and in operating expenses. NARUC(a) Those costs that are in existence at any point in time regardless of the date originally incurred and that affect current operations on a continuing basis. DHS

**emerging issues task force (EITE).** A standing task force established by the Financial Accounting Standards Board to consider accounting principles that have not been formally addressed. NAWC(b)

**eminent domain.** Right of the government and other entities to take private property for public use. NAWC(c)

**Energy Policy Act of 1992.** Federal legislation that removed restrictions on ownership of wholesale electric generating facilities and limitations on access to transmission of wholesale electric power. NAWC(c)

**end use.** Use of a utility product for a particular purpose by its ultimate customer. NAWC(c)

**enhanced telephone services.** More technologically advanced telephone service, including voice messaging, protocol conversion, data base services, etc. NAWC(c)

**energy services provider.** A company that provides energy and related services, including demand-management services and aggregation services, to consumers. NAWC(c)

**EPA.** Environmental Protection Agency. Established in 1970 by the National Environmental Policy Act of 1969. NAWC(c)

**equal access.** Generally, the principle that all legitimate interests must have the same opportunity to access a given network (for example, local exchange company networks). NAWC(c)

**equal life group method or depreciation.** Utility plant items with the same life expectancy are depreciated under a common formula. NAWC(b)

**equity (a).** The net worth of a business, consisting of capital stock, capital (or paid in) surplus, earned surplus (or retained earnings), and, occasionally, certain net worth reserves. AWWA(c) The utility investment supplied by the sale of common stock. There is no fixed interest on these common stocks. NAWC(b)

**equity (b).** The fairness of a rate structure or other ratemaking determination based on legal, economic, policy or other types of reasoning. Generally assessed from a ratepayer or societal perspective.

**equivalent customer.** The means of relating large-use customers to a single family unit or other small-use customer unit, such as a 5/8-inch meter customer. It would represent a composite of all elements of cost differences between the unitary customers and the large-use customers to be served. Normally, it is expressed as a ratio of the small-use customer unit. AWWA(b)

**equivalent meters.** The number of 5/8-inch meters equivalent in flow to a larger meter. Used to calculate monthly service charges. AWWA(f)

**estimated water quantity.** The quantity derived from the process of making reliable and pertinent calculations of water volumes using an appropriate method or formula to draw reasonable conclusions about an actual quantity of water. The reliability of the estimate is enhanced whenever actual times of flow, rates of flow, or partial flow volumes are measured and recorded. AWWA(e)

**excess deferred taxes.** When a utility collects from its ratepayers some portion of the income taxes it will owe in the future, the difference between the amount collected (including future tax obligation) and the amount of its current tax liability. See also **normalization** and **flow-through tax treatment**. NAWC(b)

**excess-use pricing.** A pricing structure in which the price level is significantly higher for all water used above average, usually determined by winter use. It can be used

to reduce peak use, and large volume users consider its use equitable. AWWA(d)

**exempt telecommunications company (ETC).** A wholly owned subsidiary of an electric or gas holding company that offers telecommunications services. Formation of an ETC usually involves a merger, joint venture, or strategic alliance with a telecommunications company. The 1996 Telecommunications Act removed federal barriers to entry for such entities. (NRRI) NAWC(c)

**exclusivity.** The opportunity to be the sole service provider within an enfranchised service territory. See **certificate of convenience and necessity** and **bypass**.

**expedited proceeding.** A regulatory proceeding for which issues are narrowed or time frames are accelerated so that a decision can be reached sooner than in a traditional proceeding.

**expenditures.** Amounts paid or incurred for all purposes, including expenses, provisions for retirement of debt, and capital outlays. AWWA(c)

**expenses, utility.** The money spent by a utility during its test year for rates and benefits for its employees, for maintenance, for customer service, for materials and supplies, for fuel for administration of the company, taxes, etc. NAWC(a)

**extended area service.** The result of broadening the telephone service area in which no long distance charges are assessed. Usually applied to a geographic area within a "community of interest." NAWC(c)

**extension, service.** Addition of services or service territories beyond original terms or boundaries.

**extra-capacity costs.** As used in the **base-extra capacity** method, those costs associated with meeting rate of use requirements in excess of average, including operation and maintenance expenses and capital costs for system capacity beyond those required for average rate of use. These costs may be subdivided into costs necessary to meet maximum-day extra demand, maximum-hour extra demand, or other extra-demand criteria appropriate to the utility. AWWA(a)

**extraordinary item.** A material expense or revenue item characterized both by its unusual nature and infrequency of occurrence that is shown along with its income tax effects separately from ordinary income and income from discontinued operations on the income statement. A loss from an earthquake would probably be classified as an extraordinary item. NAWC(b)

**extraordinary property losses.** An amortizable account that includes the depreciated value of property abandoned or damaged by circumstances that could not reasonably have been anticipated and which is not covered by insurance. NAWC(b)

## F

**facilities-based carrier.** Telephone utility that owns its own transmission facilities. NAWC(c)

**fair market value.** Generally the term applies to the amount that a willing buyer will pay a willing seller in an arm's-length transaction. Because of the predominant use of **original cost** in the **rate base** and the constraints that original-cost factors place on the rates that may be charged, the depreciated book cost of utility plant may be a prominent factor in establishing fair market value for a utility system. DHS

**fair value.** A term normally used in those jurisdictions that, by statute or regulatory precedent, allow the rate base to be expressed at a level other than the recorded original cost amounts. The most common measure of fair value is reflected in a composite of original cost and trended original-cost factors. In practice the fair value has often been closer to the original cost level than the trended original cost level. DHS

**FCC.** Federal Communications Commission. Established in 1934 by the Federal Communications Act.

**FERC.** Federal Energy Regulatory Commission. Established in 1977.

**FERC Order 436.** Issued October 1985 to encourage freer movement of natural gas through pipelines. Pipeline companies must offer the same contract carriage terms to all customers in order to take advantage of special FERC blanket certificates of automatic approval. NAWC(c)

**FERC Order 636.** Issued in 1992 to open the natural gas pipeline industry to competition by requiring open access to transportation. NAWC(c)

**FERC Order 888.** Rule implementing the 1992 Energy Policy Act provisions for open access to electricity transmission lines. Addresses equal access to the transmission grid for all wholesale buyers and sellers, transmission pricing, and the recovery of stranded costs. (Energy Information Administration)

**FERC Order 889.** Rule implementing the 1992 Energy Policy Act provisions for open access to electricity transmission lines. Requires jurisdictional utilities that own

or operate transmission facilities to establish electronic systems to share information about their available transmission facilities. (Energy Information Administration)

**financial accounting standards board (FASB).** The designated organization in the private sector for establishing standards of financial accounting and reporting. NAWC(b)

**financial statements.** The balance sheet, income statement, statement of retained earnings, statement of cash flows, statement of changes in owners' equity accounts, and notes thereto. NAWC(b)

**firm power.** Delivery of utility service on a non-interruptible, always available basis. A utility must supply its firm power customers whenever they demand it, despite conditions. NAWC(c)

**firm wheeling.** Transmission of electricity for another party that is not subject to interruption except for circumstances beyond the transmitting utility's control. NAWC(c)

**field-service charges.** Charges related to activities including water turn on (or turn off), meter setting or removal, special meter readings, meter testing, and temporary hydrant meter settings. AWWA(b)

**fire main.** Any main forming part of an integrated system used exclusively for fire protection purposes. NARUC(b)

**fire-protection charge.** A charge made to recover the cost of providing both public and private fire-protection service to the communities served by the utility. AWWA(b)

**fixed charges.** Periodic charges to customers that do not vary with water use, unlike variable charges. NRRI

**fixed cost (expense).** An expenditure or expense that does not vary with volume of activity, at least in the short run. See also **variable costs**. NAWC(b)

**fixture rate.** A pricing structure in which prices for a given time period are set for each water using fixture (that is, faucets, toilets, etc.) at the location where service is provided. Although very imprecise, it is more usage oriented than a **flat fee**. NRRI

**flat fee.** A periodic fixed charge for water service that is unrelated to the amount of water consumed, typically used when customers are unmetered. It is not the same as a **uniform rate** (which is sometimes known as a flat commodity rate). NRRI

**flat rate.** See **flat fee**.

**flow-through tax treatment.** Only actual taxes to be paid for the period are included in the income statement and collected from ratepayers. See also **excess deferred taxes** and **normalization**. NAWC(b)

**forecast test year.** See **future test year**.

**franchise.** A privilege to do business that may be limited to specified period of time and/or geographical area and may or may not be exclusive. NAWC(c)

**fully distributed costing.** A cost accounting method in which each job or service absorbs a share of each of the costs of rendering service. It requires the allocation of indirect fixed overhead costs in their entirety, which in turn requires the calculation of predetermined overhead rates. The method uses five cost assignment criteria: (1) **cost causation**, (2) **traceability**, (3) **variability**, (4) **capacity required**, and (5) **beneficiality**. Also known as full costing, fully allocated costing, and absorption costing. NRRI

**functional accounts.** Groupings of plant and expense accounts prescribed by regulatory authorities according to the specified function or part they play in the rendition of utility service. NAWC(b)

**functional-cost method.** A method by which **costs of service** are separated into four functions that describe the activities of a water utility: (1) production and transmission, (2) distribution, (3) **customer costs**, and (4) hydrants and connections. This method has not had wide acceptance in recent years because it requires much judgment and fails to recognize that major portions of costs are capacity or demand related. AWWA(a)

**future capacity.** The capacity for services somewhat in excess of immediate requirements that is built into a utility in anticipation of increased demands for service resulting from higher uses by existing customers or from growth in the service area. AWWA(b)

**future test year.** Use of future 12-month-period projected utility financial data to evaluate a proposed tariff revision. See also **historic test year** and **test year**. Also known as a forecast test year. NARUC(a)

## G

**gas inventory charge.** Charge assessed by a pipeline for standing ready to serve customers. Designed to cover all take-or-pay liabilities and other costs of gas supply not recovered through the commodity charge. NAWC(c)

**generally accepted accounting principles (GAAP).** The conventions, rules, and procedures necessary to define accepted accounting practice at a particular time; includes both broad guidelines and relatively detailed practices and procedures. NAWC(b)

**grid.** A transmission system for interconnecting producers. NAWC(c)

## H

**hearing.** The official proceeding before a Commission or hearing examiner for the purpose of examining evidence and hearing testimony from staff and intervenors. NAWC(a)

**hearing examiner.** The individual appointed by the commission to conduct hearings and take evidence in a rate case. An administrative law judge also assumes this role. NAWC(a)

**hedging.** The difference between a prearranged price and the sum of (a) the cash-market city-gate price as quoted by a commodity price index, (b) a previously agreed upon retail wheeling markup, and (c) distribution company transportation charges relevant to the particular consumer. (IURC)

**historic cost.** The initial cost to the person who holds the property. **Original cost** and historic cost are the same when property has not changed ownership. When utility property of an **operating unit or system** nature changes ownership, the original cost carries forward and is maintained by the new owner, although the purchase price (that is, historic cost to the new owner) may be something different. DHS Original cost minus any expenditures deemed by a Commission to be fraudulent, unwise, or extravagant. NAWC(b)

**historic test year.** Use of a past 12-month period (usually the immediately preceding period) utility financial data to evaluate a proposed tariff revision. See also **future test year** and **test year**. NARUC(a)

**holding company.** A corporation that usually owns a controlling interest in the stock of at least one other corporation. Generally, a utility holding company will have investment objectives for a specific kind of utility (water, gas, electric, etc.). NAWC(a)

**hook-up fee.** A charge at the time of connection. It can be used to discourage new connections and is usually used to recover connection costs, or, if a system is nearing capacity, to discourage new hook-ups. AWWA(d)

**imminence.** A test to determine how soon a capital asset will be put into actual use in providing utility service; that is, how soon it will be **used and useful**. NARUC(a)

**incentive rates.** Rates used to induce desirable usage (for example, economic development rates) or timing of usage (for example, time-of-day rates). NAWC(c)

**incentive regulation.** Methods of economic regulation, including but not limited to the use of **price caps**, designed to provide utilities with incentives for efficiency, cost control, and/or other desirable activities. NAWC(c)

**inclining-block pricing.** See **increasing-block pricing**.

**Income, net.** Profit (or funds available after a utility pays its expenses, taxes and interest on long-term debt), which is available to pay dividends to stockholders who have invested in the utility and/or to reinvest in new utility property. NAWC(a)

**income statement.** The statement of revenues, expenses, gains, and losses for the period ending with net income for the period. NAWC(b)

**income, utility operating.** The revenue available to pay for the use of the capital invested in the utility after the subtraction of operating expenses, depreciation, and taxes. NAWC(a)

**increasing-block pricing.** A pricing structure, also known as inverted block pricing, in which the average and marginal price per block of use increases as consumption increases. It can be used for reducing average (and sometimes peak) use, and large volume users consider its use inequitable. AWWA(d)

**incremental cost.** The change in total cost resulting from a change in capacity, output, or services provided. See also **average incremental cost** and **marginal cost**. NRRI

**incremental-cost-pricing method** (for determining **system-development charges**). A method in which new customers would be responsible for their share of the cost of the last increment of defined **system-development charge facilities** and/or the increment of planned future additions to meet their needs. See also **system buy-in method**. AWWA(b)

**independent power producer (IPP).** As defined by FERC under PURPA, a generating entity, other than a qualifying facility (QF) and not a utility, that is: (1) unaffiliated with the

utility purchaser and (2) lacks significant market power. The facility must not be in the utility's rate base. NAWC(c)

**independent system operators (ISO).** Proposed entities to operate the electricity transmission grid on a nondiscriminatory basis. (Energy Information Administration)

**indexing, rate.** A method for adjusting rates based on an index reflecting general or industry-specific inflation.

**industrial consumer.** A class of utility customers; customers who usually manufacture a product.

**integrated utility.** A utility providing more than one service or function, such as transmission and distribution. NAWC(c)

**interconnection.** The connection of two or more systems. It has more precise meaning for different industries (depending on the nature of network). NAWC(c)

**intergenerational equity.** The idea that one generation of customers should not incur costs to pay for facilities that benefit another generation of customers.

**interim rates.** Rates that are allowed to go into effect, subject to refund and sometimes under bond, until the Commission issues its final order. NAWC(b)

**interrogatories.** Requests from the Commission or others, in the context of a proceeding, for clarification or supplementary information. NAWC(a)

**interruptible rates.** Special rates for energy consumers who are willing to have their energy delivery service interrupted by the utility when necessary. This is a low-priority service with generally lower unit rates. NAWC(c)

**intervenor.** Representatives of consumer groups and others who wish to question the validity or necessity of all or part of a rate case. Intervenors may present evidence and question witnesses. NAWC(a)

**interruptible service.** Service with special rates for customers who are willing to have their utility service interrupted by the utility when necessary. This is a low-priority service with generally lower unit rates. NARUC(a)

**inverted-block pricing.** See **increasing-block pricing.**

**investment.** An expenditure to acquire property or other assets in order to produce revenue; the asset so acquired; hence, a current expenditure made in anticipation of future income. NAWC(b)

**investment advances.** Advances, represented by notes or by book accounts only, with respect to which it is mutually agreed or intended between the creditor and debtor that they shall be settled by the issuance of securities or shall not be subject to current settlement. NARUC(b)

**investment base.** The amount of money a utility has invested over the years in facilities (net of depreciation) used to serve customers, plus the amount of working capital required to maintain operations. NAWC(a)

**investment tax credit.** A reduction in income tax liability granted by the federal government to firms that buy new equipment. This item is a credit, in that it is deducted from the tax bill, not from pretax income. The tax credit is a percentage of the purchase price of certain assets purchased. The actual rules and rates have changed over the years. See **tax deduction.** NAWC(b)

**investor-owned utility (IOU).** A utility owned by and responsible to its shareholders (investors). NAWC(b)

**investors.** Individuals or corporations who buy debt securities or stock in the utility. NAWC(a)

## J

**joint use.** More than one entity uses an entity's property or facilities, such as utility poles used for telephone lines, usually for compensation to the owner. NAWC(c)

## L

**leakage.** See **system leakage, unavoidable leakage, and recoverable leakage.**

**life expectancy.** The time period during which an article is expected to render efficient service. See also **remaining life.** NARUC(a)

**lifeline rate.** A pricing structure in which the price for "necessary" use is kept low. It can be used to reduce average use and is usually used to ensure that low-income users are not unduly burdened by high prices. AWWA(d)

**liquid.** Said of a business with a substantial amount of working capital, especially quick assets. NAWC(b)

**liquidity.** Refers to the availability of cash, or near cash resources, for meeting a firm's obligations. NAWC(b)

**load.** The amount of utility product delivered at any specified point or points on a system. NARUC(a)

**load factor.** The ratio of average demand to peak demand, defined with reference to a specific time period or

type of peak load, such as maximum-hour or maximum-day. The load factor is operationalized as the ratio of actual consumption over a period, to the maximum (peak) demand multiplied by the length of a period (the period can be hourly, daily, monthly or annual). See also diversity factor and utilization factor. NRRI

**load management.** Techniques designed to reduce demand at peak times. NARUC(a)

**local access and transport area (LATA).** Contiguous local exchange areas that include every point served by a local exchange telephone company within an existing community of interest and that serve as the dividing line for the allocation of assets and liabilities between long-distance companies and local exchange companies (LECs). NAWC(c)

**local distribution company.** A natural gas utility that generally buys gas from a pipeline company to sell to end-users. NAWC(c)

**local exchange carrier (LEC).** Company that offers local telephone service; it also provides access to its network to long-distance companies and other legitimate parties. NAWC(c)

**long-term debt.** Indebtedness (notes, drafts, bonds, etc.) payable over a period of time longer than one year. See also short-term debt and capital structure. NAWC(b)

**losses.** See **system water losses** and **meter losses**.

## M

**maintenance expenses.** Part of **operating expenses**, including labor, materials, and other expenses, incurred for preserving the operating efficiency and/or physical condition of **utility plant**. NARUC(a)

**marginal cost.** The change in total cost resulting from producing (or not producing) a single incremental unit of a product or service. It is composed of: (1) the change in operating cost caused by changing the rate of utilization of existing capacity, and (2) the cost of expanding capacity, including the operating costs associated with increased capacity. See also **average incremental cost** and **incremental cost**. NRRI

**market-based carrier.** Prices fixed in the free market under conditions of pure competition. NAWC(c)

**market center.** According to FERC, an area where pipelines interconnect and there exists a reasonable

potential for developing a market institution that facilitates the free interchange of gas. (IURC)

**market power.** The presence of a competitor in a marketplace, often measured by share of sales revenues. NAWC(c)

**market retention rates.** Special discount rates offered to large users to keep them from leaving the system. NAWC(c)

**master metering.** The use of one bulk meter for multiple tenants. NARUC(a)

**meter error.** The water passing through the meters of a distribution system that is not properly measured by the meter. Master meter error is the meter error for all unmeasured water passing through these source or master meters, and customer meter error is all unmeasured water passing through customer meters. These errors are discovered when meters are calibrated and the quantity of error is derived from the mathematical adjustment of recorded flows to the calibrated corrections. AWWA(e)

**meter losses.** Water from the total of all losses resulting from meter inaccuracies. Where meters are repaired and recalibrated, meter losses can be calculated from a ratio of meter rates before and after calibration. For meters that are stopped, meter losses can be estimated from previous records from that meter during similar times and seasons. AWWA(e)

**metered ratio.** The ratio of *all* corrected water use, whether sold or not, to corrected metered water production. AWWA(e)

**metered service.** Meters record actual use in order to bill a utility customer accurately. See also **unmetered service**. NARUC(a)

**MGD.** Million gallons per day.

**minor items of property.** The associated parts or items of which retirement units are composed. NARUC(b)

**mixed test year.** A combination of the **historic test year** and **future test year** approaches also known as a partial future test year. See also **test year**. NRRI

**monopoly (natural).** A public utility that operate most efficiently when it is the only seller in the market. A natural monopoly is sanctioned to achieve efficient production and distribution. Utility monopolies are controlled through regulation instead of competition. NAWC(a)

**mortgage.** A claim given by the borrower (mortgagor) to the lender (mortgagee) against the borrower's property in return for a loan. NAWC(b)

**mortgage bonds.** Form of long-term loan, included in debt capital, which is secured by the utility's property. NAWC(a)

**multiple-family dwelling.** A residential structure or group of structures which is capable of separately housing more than one family unit. NARUC(b)

## N

**National Association of Regulatory Utility Commissioners (NARUC).** A national organization of utility commissioners and staff formed to study and address complex issues of utility regulation. NAWC(a)

**Natural Gas Policy Act of 1938.** Provides for the regulation of interstate sales for resale and transportation of gas. In 1954, the Supreme Court interpreted the NGA to cover interstate wellhead sales of gas. NAWC(c)

**net operating income.** The amount of revenues from utility operations that remains after the deduction of the operating and maintenance expenses, depreciation expenses, and taxes (income, property, etc.) attributable to the utility operation. The revenues and expenses that are measured to produce net operating revenue are commonly referred to as "above-the-line" items. The revenues and expenses measured apart from net operating income are referred to as "below-the-line" items. The net operating income line on the income statement is the dividing point. See also **below the line**. DHS

**net original cost.** The **original cost** of utility property minus any accumulated depreciation. NAWC(b)

**net salvage value.** The value of property retired less the cost of removal. NARUC(b)

**network industry.** An industry in which providers are highly interconnected across expansive geographic areas. NAWC(c)

**net worth.** Capital plus capital surplus plus retained earnings. NAWC(b)

**nominally issued.** As applied to securities issued or assumed by the utility, those which have been signed, certified, or otherwise executed, and placed with the proper officer for sale and delivery, or pledged, or otherwise placed in some special fund of the utility, but which have not been sold, or issued direct to trustees of sinking funds in accordance with contractual requirements. NARUC(b)

**nominally outstanding.** As applied to securities issued or assumed by the utility, those which, after being actually issued, have been reacquired by or for the utility under circumstances which require them to be considered as held alive and not retired; provided, however, that securities held by trustees shall be considered as actually outstanding. NARUC(b)

**nonaccount water.** The sum of all water produced or purchased by a water utility that is not covered by **account water**. The term is preferred to the term unaccounted-for water. AWWA(e)

**noncoincident-demand method.** A method for allocating demand costs to each customer class on the basis of its own peak, regardless of whether it occurs at system peak demand. NRRI

**noncoincident peak.** The sum of peak demands for all customer classes. This peak may or may not coincide with the peak for the total system. NRRI

**nondiscrimination.** In general usage, reasonably equal treatment for all. NAWC(c)

**nondominant carrier.** Service provider that does not dominate its particular market. In many states, a nondominant carrier is subject to less stringent regulation than the dominant carrier. NAWC(c)

**nonfirm service.** See **interruptible service**.

**nonoperating items.** Although sometimes used interchangeably with **nonutility items**, this term may more properly be used to describe items such as construction work in progress that is not currently used in providing utility service. It has also been applied traditionally to financial items (for example, interest expense). DHS

**non-recurring.** Said of an event that is not expected to happen often for a given firm. NAWC(b)

**nonutility items.** All items of revenue, expense, and investment not associated, either by direct assignment or by allocation, with providing service to the utility customer. DHS

**normalization.** An accounting method that allows a utility to evenly recover over its years of operation, revenues from customers to pay income taxes. See also **flow-through tax treatment**. NAWC(b)

## O



**obligation to serve.** The legal obligation to provide service on a nondiscriminatory basis within a service territory. NAWC(c)

**off-peak.** A period of relatively low system demands. See also **on-peak**. NARUC(a)

**off-peak rates.** The use of separate rates or rates lower than average for water delivered during off-peak periods. AWWA(a)

**on-peak.** A period of relatively high system demands. See also **off-peak**. NARUC(a)

**onsystem sales.** Natural gas sales to customers where the delivery point is a point on, or directly interconnected with, a transmission, storage, and/or distribution system operating by a reporting company. (Energy Information Administration)

**open access same-time information systems (OASIS).** Proposed system for informing all competitors of the available capacity of electricity transmission lines. (Energy Information Administration)

**open network architecture.** Telecommunications network design allowing more freedom of access. NAWC(c)

**open access transporter.** In the natural gas industry, an interstate pipeline that has agreed to transport for others on a nondiscriminatory basis. NAWC(c)

**operating expenses.** Expenses related to maintaining day-to-day utility functions, including operation and maintenance expenses, taxes and depreciation and amortization costs, but not interest payments or dividends. Operating costs are recovered from customers on a current basis, as opposed to capitalized costs. NARUC(a)

**operating income.** Operating revenue less operating expenses. NAWC(b)

**operating ratio.** The ratio, generally expressed as a percentage, of operating expenses to operating revenues. NARUC(a)

**operating revenues.** The amounts billed by the utility for utility services rendered and for other services incidental thereto. NAWC(b)

**operating unit or system.** Although not clearly defined by the Uniform System of Accounts, this term generally relates to a complete and self-sustaining facility or to a group of facilities acquired and operated intact as a segment of a complete system. DHS

**original cost.** As applied to utility plant, the cost of such property to the person first devoting it to public service. NARUC(b)

**original cost depreciated.** See **net original cost**. NAWC(b)

**original cost method of valuation.** The cost of the property to the person first devoting it to public service. NAWC(b)

**other public authority.** A class of utility customers consisting of municipalities or other local government agencies. NAWC(a)

**outage.** The period during which a generating unit, transmission line, or other facility is out of service. NARUC(a)

## P

**par value.** The face value of a stock or bond. NAWC(b)

**peak demand.** The maximum level of operating requirements (that is, production) placed upon the system by customer usage during a specified period of time (instantaneous peak, thirty-minute peak, one-hour peak and one-day peak outputs are common points of reference). It may be measured by an operating segment of the company, such as a customer class, or for the entire company, depending on intended use of the data. See also **off-peak** and **on-peak**. DHS

**peaking factor.** A measure of the additional system capacity needed to deliver peak water volumes. The ratio of peak consumption to average consumption. AWWA(f)

**peak-load pricing.** A pricing structure in which charges are based on both the quantity of water used and the maximum rate at which it is used. It also recognizes two types of demand (customer's demand that is coincidental with the system peak demand and customer's non-coincidental demands) and prices each separately. AWWA(a)

**peak-responsibility method.** A cost of service method proposed for application to telephone utilities that allocates costs according to how and when service is used and how this use contributes to congestion on plant and equipment required to provide service. NRR1

**per books.** An expression used to refer to the book value of an item at a specific time. NAWC(b)

**performance-based regulation.** An alternative to traditional ratebase/rate-of-return regulation that focuses on meeting performance objectives rather than covering the cost of service; includes price caps, yardsticks, and profit-sharing. NAWC(c)

**petition.** A utility's request to the Commission to increase rates, to obtain approval of a certificate of convenience and necessity, or for changes in the Commission's rules and regulations. NAWC(a)

**phase-in.** A plan for making rate changes in steps over time, used to mitigate rate shock to customers.

**plant acquisition adjustment.** The difference between the cost to the utility of acquired plant and the original cost of the plant less the amount credited at the time of acquisition for depreciation and amortization and **contributions in aid of construction.** See also **acquisitions adjustment.** NARUC(a)

**plant held for future use.** Cost of land or other property acquired by a utility but not yet used for generation, transmission, or distribution purposes. See also **utility plant in service.** NARUC(a)

**pool capacity.** Capacity provided by a power pool member in order for the member to meet installed or reserve capacity obligations. NAWC(c)

**pooling.** Different utilities share their physical plants or resources to increase their efficiency and conservation energy. NAWC(c)

**post-test year addition.** Additions to utility plants that are placed in service after the test year used in a rate case. NAWC(a)

**power brokers.** Participants in emerging energy markets who do not take ownership of electricity and are not regulated by FERC. (Energy Information Administration)

**power exchange.** A market for trading power. NAWC(c)

**power marketers.** Participants in emerging energy markets who buy and sell wholesale electricity and are regulated by FERC. They generally do not possess generation or transmission facilities or sell to retail customers. (Energy Information Administration)

**power pool.** Two or more interconnected electric systems planned and operated to supply power in the most reliable and economical manner for their combined load requirements and maintenance programs. NAWC(c)

**preferential tariffs or rates.** A tariff or rate by which a specified class of customers is given special treatment, for

example a "lifeline" rate to provide very basic service to low-income customers

**preferred stock or preferred capital stock.** Capital stock to which preferences or special rights attach particularly as to dividends and/or proceeds in liquidation. NAWC(b)

**premium.** As applied to the securities issued or assumed by the utility, the excess of the cash value of the consideration received from their sale over the sum of their par (stated value of no-par stocks) or face value and interest or dividends accrued at the date of sale. NARUC(b)

**premium returns.** Bonus returns (profits) awarded by regulators to utilities for exceptional performance.

**price caps.** Relatively recently devised means of regulating utility rates as an alternative to rate of return regulation. The prices the utility charges are capped at a certain level, allowing the utility to earn a larger rate of return if it cuts expenses, increases productivity, etc. NAWC(c)

**profit, utility.** The return on investment earned by utility investors. NAWC(a)

**pro forma statements.** Hypothetical statements. Financial statements as they would appear if some event, such as a merger or increased production and sales, had occurred or were to occur. Pro forma is often spelled as one word. NAWC(b)

**property retired.** As applied to utility plant, property that has been removed, sold, abandoned, destroyed, or which for any cause has been permanently withdrawn from service. NARUC(b)

**provision.** Often the exact amount of an expense is uncertain, but must be recognized currently anyway. For example, "Provision for Income Taxes" is used to mean the estimate of income tax expense. NAWC(b)

**prudence.** A consideration of whether investments are dishonest or obviously wasteful. NARUC(a)

**public utility.** An organization designed to provide a service, such as water, electricity, natural gas, or telecommunications, affected with a public interest. When organized as monopolies, public utilities are regulated.

**Public Utilities Holding Company Act of 1935.** Prevented electric and gas utilities from using complex corporate structures to evade regulatory oversight. NAWC(c)

**Public Utility Regulatory Policies Act.** Part of the National Energy Act of 1978, it requires State regulatory agencies to consider a variety of issues affecting electric and gas utility customers. The intent was to establish standards and policies that promote energy conservation, encourage efficient use of facilities and resources, and provide equitable rates for consumers. NAWC(c)

## Q

**qualifying facility.** Cogenerator who satisfies section 201 of PURPA. Among other things, the majority equity owner must not be primarily engaged in generation or sale of electric power, the facility also must meet certain size, fuel-use, and fuel-efficiency requirements. NAWC(c)

## R

**rate base.** The value of a water utility's property used in computing an authorized return under the applicable laws and/or regulatory policies of the agency setting rates for the utility. AWWA(b)

**rate base regulation.** A method of regulation in which a public utility is limited in operations to revenue at a level which will recover no more than its expenses plus an allowed rate of return on its rate base. NARUC(a)

**rate design.** See **rate structure**.

**rate equalization.** See **single-tariff pricing** or **consolidated rates**.

**rate indexing.** See **indexing, rate**.

**rate of return.** The *realized* rate of return is the percentage factor obtained by dividing the **net operating income** from utility operations by the **rate base**. An *adequate* rate of return is the percentage factor that, when multiplied by the rate base, produces earnings that will meet the interest and equity requirements of the capital used to support the rate base. The measure of the adequacy of the rate-of-return factor is usually based upon cost-of-capital measurements. DHS

**rate order.** The decision of a public utility commission regarding the dispensation of a utility rate case. NAWC(a)

**rate structure.** The design and organization of billing charges by customer class to distribute the revenue requirement among customer classes and rating periods. NARUC(a)

**receivable.** Any collectible whether or not it is currently due. NAWC(b)

**recoverable leakage.** All water from breaks and leaks that are repaired or are considered to be economical to repair. AWWA(e)

**regulation.** A rule or order issued by a public utility commission and having the force of law. NAWC(a)

**regulatory compact.** The implied long-term societal agreement by which utilities are granted the right to provide service in exchange for meeting regulatory standards and requirements for rates and services. NAWC(c)

**reimbursement costing.** A cost accounting method used to develop cost-based prices that recover the total cost of production. It employs concepts governing the measurement of costs that are negotiated by customers or their representatives. NRRI

**remaining life.** The expected future service life of an asset at any given age. See also **life expectancy**. NARUC(a)

**replacement (or replacing).** The construction or installation of utility plant in place of property retired, together with the removal of the property retired. NARUC(b)

**removal costs.** The costs of disposing of plant, whether by demolishing, dismantling, abandoning, sale, or other. Removal costs increase the amount to be recovered as depreciation expense. NAWC(b)

**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. This method recognizes the benefits of presently available technology in replacing the system. For example, a number of small generating units may be replaced with a single large unit at lower unit costs and greater efficiency. DHS

**reproduction cost.** The estimated cost to reproduce existing properties in their current form and capability at current cost levels. The mechanics may involve trending the original cost dollars to reflect current costs or conducting a property appraisal with cost estimates for reconstructing the facilities. DHS

**research and development.** Expenditures incurred by public utilities that represent research and development costs in the experimental or laboratory sense. The term includes generally all such costs incident to the development of an experimental or pilot model, a plant process, a product, a formula, an invention, or similar

property, and the improvement of already existing property of the type mentioned. NARUC(b)

**reseller.** In general, any entity that purchases goods or services to in turn sell the same goods or services to a third party. NAWC(c)

**reserve.** The net accumulated balance reflecting reservations of income or retained earnings to provide for a reduction in the value of an asset, for a contingent liability or loss, or for other special purposes. NAWC(b)

**residential customer.** One of four classes of utility customers, composed primarily of private housing dwellers. NAWC(a)

**residual value.** Value of property after its useful life is over. See **salvage**. NAWC(b)

**retained earnings.** Corporate earnings that are not paid out in dividends. NAWC(b)

**restructuring.** Fundamental changes in the way utility services are provided in terms of the number of providers, market conditions, and regulatory frameworks. NAWC(c)

**retail wheeling.** Transmission of electricity to a customer who has purchased the electricity from another utility outside the transmitting utility's territory. NAWC(c)

**retained earnings.** The accumulated net income of the utility less distributions to stockholders and transfers to other capital accounts, and other adjustments. NARUC(b)

**retention rates.** Rates used to induce customers to stay on the utility system. NAWC(c)

**retirement units.** Those items of utility plant which, when retired, with or without replacement, are accounted for by crediting the original cost.

**revenue requirements.** The amount of return (rate base times rate of return) plus operating expenses. NARUC(a)  
The sum total of the revenues required to pay all operating and capital costs of providing service. DHS

**return on equity.** The return to shareholders, that is, the utility's net income expressed as a percentage of that portion of a utility's total investment provided by the common shareholders through the purchase of stock and retained earnings. NAWC(a)

## S

**sales for resale.** A customer, sales, and revenue classification covering water supplied to other utilities or to public authorities for resale or distribution. NAWC(b)

**salvage.** The value realized from plant removed or otherwise disposed. This may be in the form of cash, debits to the materials and supplies accounts, trade-in allowance, or other consideration. Salvage reduces the amount of plant costs required to be recovered as depreciation expense. NAWC(b)

**salvage value.** The amount received for property retired, less any expenses incurred in connection with the sale or in preparing the property for sale, or, if retained, the amount at which the material recoverable is chargeable to materials and supplies, or other appropriate account. NARUC(b)

**scarcity pricing.** A pricing structure in which the cost of developing new supplies is attached to existing use. It can be used to reduce average use and where supplies are diminishing (that is, a finite supply) so that costs for developing new supplies are paid for by current users.

**Securities and Exchange Commission (SEC).** An agency authorized by the U. S. Congress to regulate, among other things, the financial reporting practices of most public corporations. The SEC has indicated it will usually allow the FASB (Financial Accounting Standards Board) to set accounting principles, but it reserves the right to require more disclosure than required by the FASB. NAWC(b)

**securitization.** Creation of a financial instrument that is backed by a revenue stream pledged to pay the principal and interest of that security. For electric utilities, the main purpose for this device by is to reduce uneconomical costs with an up-front, lump-sum payment from the sale of a security or bond. Securitization requires legislation to create a transferable property right to collect the utility's uneconomical cost from ratepayers through a **competition transition charge**. (NRR)

**seasonal pricing.** A pricing structure in which the price level during the season of peak use (summer) is higher than the level during the winter. It can be used to reduce peak use, and large volume users consider its use equitable. It can be effective for summer tourist communities. AWWA(d)

**senior securities.** Bonds as opposed to preferred stock; preferred stock as opposed to common stock. The senior security has a claim against earnings or assets that must be met before the claim of less senior securities. NAWC(b)

**separation.** Process by which a utility's expenses and investment in plant are divided between interstate operations and intrastate operations. NAWC(c)

**service connection.** That portion of the service line from the utility's water main to and including the curb stop at or adjacent to the street line or the customer's property line. It includes other valves, fittings, and so on, that the utility may require at or between the main and the curb stop, but does not include the curb box. AWWA(b)

**service life.** The time between the date utility plant can be included in **utility plant in service**, or utility plant leased to others, and the date of its retirement. If depreciation is accounted for on a production basis rather than on a time basis, then service life should be measured in terms of the appropriate unit of production. NARUC(b) Average service life is the weighted average of the lives for all units within a plant account or group. NAWC(b)

**service line.** The pipe and all appurtenances that run between the utility's water main and the customer's place of use and includes fire lines. AWWA(b)

**service value.** The difference between the original cost and the net **salvage value** of an utility plant. NARUC(b)

**short-term debt.** Notes, drafts, acceptances, commercial paper, or other similar evidences of indebtedness payable on demand on which by their terms are payable within one year from the date of issuance. NAWC(b)

**single-issue rate case.** A rate case narrowed to a single issue in order to expedite the process.

**single-tariff pricing.** A method of pricing that consolidates rates across multiple service territories owned and operated by a multi-system utility that may or may not be contiguous or physically interconnected. Also known as **consolidated rates**.

**slamming.** Changing a service from one provider to another without the recipient's permission. NAWC(c)

**sliding-scale pricing.** A pricing structure in which the price Level per unit for all water used increases based on average daily consumption. It can be used for reducing average (and sometimes peak) use and large volume users consider its use inequitable. AWWA(d)

**small-power producer.** One that has production capacity of no more than 80 megawatts and uses biomass, waste, or renewable resources (such as wind, water, or solar energy) to produce electric power. NAWC(c)

**spatial pricing.** A pricing structure, also known as zonal pricing, in which users pay for the actual costs of supplying water to their establishment. Costs (and hence prices) will tend to vary regionally within the service sector. Spatial pricing can be used to discourage new or difficult to serve connections and is used in areas where the distribution system is being expanded rapidly and being expanded in difficult to serve areas (long mains, pumps, and so on). AWWA(d)

**special-purpose surcharges.** A surcharge added to customer bills for a specific period of time, the revenues from which are used to fund a specific project or purpose. An example is the **distribution system improvement charge**.

**standby service.** A class of service wherein the utility does not serve the customer on a regular basis, but only when called upon to do so by the customer. NAWC(c)

**stipulation.** A signed, written agreement presented to the Commission which eliminates, either total or partial, differences between the parties involved in a proceeding before the Commission. The procedure expedites the regulatory process. NAWC(a)

**stock, common.** Capital stock, other than preferred, which is bought by utility shareholders and becomes part of a utility's equity. Its value is determined in the marketplace, and its return is not a contractual rate. NAWC(a)

**stockholders.** Shareholders. The individuals or holding companies who invest their money into the utility by buying stocks. NAWC(a)

**stockholder's equity.** See **common stock equity**. NAWC(b)

**straight line average service life.** Principal objective is the determination for each year of the expenses of depreciation attributable to that year's operation. NAWC(b)

**straight-line method.** As applied to **depreciation** accounting, the plan under which the service value of property is charged to operating expenses (and to clearing accounts if used), and credited to the accumulated depreciation account through equal annual charges over its service life. Estimates of the service life and salvage will be reexamined periodically and depreciation rates will be corrected to reflect any changes in these estimates. NARUC(b)

**straight-line remaining-life method.** As applied to **depreciation** accounting, the plan under which the service value of property is charged to operating expenses (and to clearing accounts if used), and credited to the accumulated

depreciation account through equal annual charges during its service life. "Remaining life" implies that estimates of future life and **salvage** will be reexamined periodically and that depreciation rates will be corrected to reflect any changes in these estimates. NARUC(b)

**stranded investment (or costs).** Investments or expenditures made by utilities that become unrecoverable during the shift from regulated to based-services. Also called stranded assets or **sunk costs**. NAWC(c)

**sunk cost.** Costs incurred in the past that are not affected by, and hence irrelevant for, current decisions, aside from income tax effects; contrast with incremental costs and imputed costs. For example, the acquisition cost of machinery. The current exit value of the machine is irrelevant to a decision of whether or not to scrap the machinery. NAWC(b)

**supply main.** Any main, pipe, aqueduct or canal, the primary purpose of which is to convey water from one unit to another unit in the source of supply, water treatment or pumping plant and generally providing no service connections with customers. See also **transmission and distribution main**. NARUC(b)

**switching.** The process by which entities connect with and disconnect from each other. Specific definitions vary by industry. NAWC(c)

**system buy-in method.** A method of determining a **system-development charge** from new customers (or developers who represent them) based on the premise that new customers are entitled to water service at the same prices charged to existing customers. The fee to new customers is related to the embedded average-equity investment in the reserve capacity or new capacity used to serve them. See also **incremental-cost pricing method**. AWWA(b)

**system-capacity charge.** See **system-development charge**.

**system-development charge.** A contribution of capital toward recently completed or planned future backup plant facilities necessary to meet the service needs of new customers to which such fees apply. Two methods used to determine the amount of these charges are the **system buy-in method** and **incremental-cost pricing method**. Various terms have been used to describe these charges in the industry, but regardless of the term used, these charges have the purpose of providing funds to be used to finance all or part of capital improvements necessary to serve new customers and are raised outside of capital to be served from general water-use rates. Also known as a system-capacity charge. AWWA(b)

**system-development charge facilities.** Those facilities, or a portion of those facilities, that have been identified as being required for new customer growth. The cost of the facilities will be recovered in total or in part through a **system-development charge**. AWWA(b)

**system leakage.** All water that is lost from the system through leaks and breaks and includes all **unavoidable leaks**, and all **recoverable leaks** and breaks. AWWA(e)

**system water losses.** Water from all losses such as theft, illegal connections, unauthorized uses, malfunctioning controls, differences in use quantities caused by meter error and any other loss which is not a result of a leak or a break. AWWA(e)

## T

**take-and-pay contract.** Energy sales contract that requires payment only for energy actually delivered. NAWC(c)

**take-or-pay contract.** Energy sales contract that requires payment for a given amount of energy whether the customer takes it or not. NAWC(c)

**tariff.** The authorized list of charges for a utility's services. NRRI

**tax.** A nonpenal, but compulsory, charge levied by the government on income, consumption, wealth, or other bases for the benefit of all those governed. The term does not include fines or specific charges for benefits accruing only to those paying the charges, such as licenses, permits, special assessments, admission fees, and tolls. NAWC(b)

**tax credit.** A subtraction from taxes otherwise payable, contrast with **tax deduction**. NAWC(b)

**tax deduction.** A subtraction from revenues and gains to arrive at taxable income. Tax deductions are technically different from tax exemptions, but the effect of both is to reduce gross income in computing taxable income. Both are different from tax credits, which are subtracted from the computed tax itself in determining taxes payable. NAWC(b)

**tax incentive.** Tax credits or reductions provided to water users who have installed conservation devices. They can be used to reduce either peak or average use and allow for voluntary user choice to use conservation devices. AWWA(d)

**tax treatment.** See **flow-through tax treatment** and **normalization**. NAWC(b)

**temporary difference.** A difference between taxable income and income before tax under GAAP that will be reversed in a subsequent period. For example, the use of a cost recovery allowance for tax returns and straight-line depreciation for financial reporting. NAWC(b)

**test year.** The annualized period for which costs are to be analyzed and rates established. AWWA(c) The twelve-month operating period selected to evaluate the **cost of service** and the adequacy of rates in effect or being sought. Frequently, the term "test period" is used, and may refer simply to the test year or expressly to the *adjusted* test year. See also, **historic test year**, **future test year**, and **mixed test year**. DHS

**traceability.** An attribute of costs that permits the resources represented by the costs to be identified in their entirety with a revenue-producing unit. NRR1

**transmission.** The transportation of utility product in bulk from generation (source) to distribution facilities.

**transmission, electricity.** The movement or transfer of electric energy in bulk. Ordinarily, transmission ends when the energy is transformed for distribution to the ultimate customer. NAWC(c)

**transmission and distribution main.** Any main the primary purpose of which is to convey water, requiring no further processing except incidental chlorination or pressure boosting, from a unit in the source of supply, water treatment or pumping plant and generally providing no service connections with customers. See also **supply main**. NARUC(b)

**trended original cost.** The result of isolating original-cost plant additions by year of placement and factoring the original amounts upward to recognize subsequent changes in the cost of constructing plant facilities. The object is usually to restate installed cost of facilities at current levels. DRS

## U

**ultimate customer.** The end user of the utility product. NAWC(c)

**unaccounted-for water.** **Nonaccount** water for which the utility literally cannot account. See **account water**.

**unavoidable leakage.** All water from underground leaks that, due to the small amount of actual water lost, would cost more to locate and repair than the value of the water

saved over a reasonable amount of time. See also **recoverable leakage** and **system leakage**. AWWA(e)

**unbilled revenues.** The amount of service rendered but not recorded or billed at the end of an accounting period. Cycle meter reading practices result in unrecorded consumption between the date of last meter reading and the end of the period. If these amounts are not estimated and recorded, they reflect "unbilled" amounts. DHS

**unbundling.** Separation of individual utility services (including generation, transmission, distribution, and metering and billing) and corresponding prices. NAWC(c)

**uniform pricing.** See **single-tariff pricing**.

**uniform rate.** A pricing structure in which the price per unit is constant as consumption increases. It may be somewhat effective in reducing average use, and large-volume users consider its use equitable. It is also known as a flat rate or a uniform block rate, but is not the same as a **flat fee**. AWWA(d)

**uniform system of accounts (USOA).** A list of accounts for the purpose of classifying all plant and expenses 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. Federal and/or state regulatory authorities may prescribe a system of accounts. NARUC(a)

**unit cost.** The cost of producing a unit of a produce or service. An example would be the cost of treating a thousand gallons potable water for use by the water utility's customers. AWWA(b)

**unit or production method of depreciation.** The cost of the property is distributed over the number of units produced. NAWC(b)

**universal service.** The concerted effort to extend utility service to all inhabitants of a service territory who desire the service.

**universal service fund.** Fund designed to offset high operating costs of smaller telephone companies servicing customers in low traffic, low density areas. Generally funded by a small surcharge. NAWC(c)

**unmetered service.** Utility service and billed without being recorded by a meter. See also **metered service**. NARUC(a)

**used and useful.** A test for determining the admissibility of utility plant as a component of rate base. Plant must be in use (not under construction or standing idle awaiting

abandonment) and useful (actively helping the utility provide efficient service ). See also **imminence**. NARUC(a)

**user charges**. The monthly, bimonthly, quarterly, or other periodic charges made to the users of water service through the general water-rate structures of the water utility. AWWA(b)

**user fees**. Amounts paid by consumers of a service that cover all or part of the cost of providing the service. In contrast, some governmental services are paid for or subsidized by taxes. NRRI

**utility**. See **public utility**.

**utility expenses**. See **expenses, utility**.

**utility holding company**. See **holding company**.

**utility plant**. All equipment used for the production and distribution of utility service. NAWC(b)

**utility plant acquisition adjustment**. The difference between the price paid to acquire an operating unit or system of a utility and the rate base of the acquired property. NAWC(b)

**utility plant held for future use**. Costs of land or other property acquired by a utility but not yet used for serving customers. NAWC(b)

**utility plant in service**. The land, facilities, and equipment used to generate, transmit, and/or distribute utility service. See also **plant held for future use** and **used and useful**. NARUC(a)

**utility water use**. That water which is removed from the distribution system by the utility for the purpose of maintaining and operating the system. This should include both metered and unmetered water removed with those unmetered uses being reliably estimated. AWWA(e)

**utilization factor**. The ratio of the maximum demand of a system to the installed capacity of the system. See also **diversity factor** and **load factor**. DHS

## V

**value-of-service pricing**. Method of pricing that considers the perceived value of the service and not simply the cost of the service. NAWC(c)

**variability**. An attribute of costs not traceable to a revenue-producing object based on whether it varies in

total with variations in some measure of the volume of activity that is associated with the revenue-producing object. These costs can be assigned to revenue-producing objects according to an estimated rate of variability. NRRI

**variable charges**. Periodic charges to customers that vary with water use, unlike **fixed charges**. NRRI

**variable costs**. Costs that vary with the level of production or usage. In the long term, all costs are variable. See also **fixed costs**.

**vertical integration**. The utility company performs all major utility services for its customers, including production, transforming, transmittal, and distribution. Monopoly utilities in the past frequently provided vertical service; with increasing competition, rates for component parts of services are being **disaggregated** (or **unbundled**) and offered separately. NAWC(c)

**vintage rates**. A program in which customers are classified and customer rates are based on the date or period in which a customer connects to and first obtains service from the utility system. Such rates and charges can include user rates, customer contributions of capital for system development, main extension and connection fees, or charges for ancillary services rendered. The concept has been used during periods of rising average costs to reflect the higher costs associated with serving new customers. AWWA(b)

## W

**water audit**. See **audit, water**.

**wellhead price**. The price received by the producer of oil or gas for sales taking effect at the oil or gas well (that is, the source of supply). NAWC(c)

**wheeling**. Movement of a utility product on the transmission system of one utility for someone other than that utility; transmission for others. NAWC(c)

**wheeling charge**. The charge made by a utility for transmission of a utility product to another party through its system. AWWA(c)

**wholesale service**. A situation in which water is sold to a customer at one or more major points of delivery for resale to individual retail customers within the wholesale customer's service area. AWWA(a)

**wholesale wheeling**. Movement of a utility product on the transmission system from a producer to a reseller. NAWC(c)



**working capital, cash.** The amount of cash or other liquid assets (including materials and supplies) that a company must have on hand to meet the current cost of operations until it is reimbursed by its customers. NAWC(b)

**write off.** Charge an asset to expense or loss; that is, debit expense (or loss) and credit asset. NAWC(b)

## Z

**zonal pricing.** See **spatial pricing**.

**zone measurement.** See **district measurement**.

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Sources used in the development of this glossary include:

- AWWA(a) American Water Works Association, *Water Rates, M1* (1983).
- AWWA(b) American Water Works Association, *Water Rates and Related Charges, M26* (1983).
- AWWA(c) American Water Works Association, *Revenue Requirements, M35* (1983).
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- AWWA(e) American Water Works Association, *Water and Revenue Losses* (1987).
- AWWA(f) American Water Works Association, *Reference Manual: A Financial Planning Model for Small Water Utilities* (1990).
- DHS Deloitte, Haskins & Sells, *Public Utilities Manual* (1984).
- IURC Indiana Utility Regulatory Commission, *Regflex Report*.
- NARUC(a) National Association of Regulatory Utility Commissioners, *NARUC Compilation of Utility Regulatory Policy, 1994-1995* (1996).
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- NAWC(a) National Association of Water Companies, *Utility Regulation: A Glossary of Definitions*.
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- NRRI National Regulatory Research Institute, *Cost Allocation and Rate Design for Water Utilities*. A Report Prepared by Janice A. Beecher and Patrick C. Mann (December 1990).