

Oil Pipeline Industry Accounting Guideline

Revised October 2008

Introduction

1. This Guideline provides an industry-sponsored interpretation of regulatory accounting standards for common carrier oil pipelines insofar as they are subject to regulation by the Federal Energy Regulatory Commission (“FERC” or “Commission”). Oil pipeline regulatory accounting standards are established and maintained by the Commission and set forth in the Uniform System of Accounts for Oil Pipeline Companies (“USoA”) in the federal regulatory code, at 18 CFR 352.¹ Those standards govern the presentation of financial information that oil pipeline companies include in reports to the Commission. The primary report that oil pipeline companies file with the Commission is the FERC Form No. 6: Annual Report of Oil Pipeline Companies (“Form 6” or “Form 6 Annual Report”).² This Guideline clarifies and standardizes application of the USoA.

Historical Background

2. In 2007, the Accounting Committee (“Committee” or “Accounting Committee”) of the Association of Oil Pipe Lines (“AOPL”) organized a task force “to undertake and lead an industry effort to clarify and standardize certain accounting practices for application of [USoA].” Rulemaking Comment of Association of Oil Pipe Lines under RM07-9, p. 4.

¹ References hereinafter to the Commission’s account definitions refer to those set forth at 18 CFR 352.10–750.

² USoA also governs quarterly reporting on FERC Form No. 6-Q, Quarterly Report of Oil Pipeline Companies. References herein to the annual report generally apply the same to the quarterly report. Companies subject to FERC regulation are referred to hereafter as filers regardless of whether they actually file reports with the Commission.

3. During Accounting Committee meetings, at AOPL annual business conferences, and at Form 6 training conferences oil pipeline industry representatives expressed a need for greater clarity in accounting standards. When the Commission issued an inquiry regarding improvement to the Form 6 Annual Report (RM07-9), AOPL responded with a proposal that industry, coordinated by AOPL, conduct a comprehensive review of current accounting standards and establish an industry guideline that would resolve any areas that it identifies as lacking in clarity. This Guideline is the product of that industry effort.

Objectives and Conceptual Framework

4. Through this Guideline, the Accounting Committee sets forth a singular interpretation and standard implementation approach for the areas of USoA that the industry has identified as lacking in clarity. No provision of this Guideline is intended to run counter to Commission standards set forth in orders and regulations. This Guideline does not offer general guidance to USoA implementation; it only addresses specific areas identified as lacking in clarity. It is comparable to a procedures manual that any corporate accounting department might adopt. It offers guidance to complement authoritative standards, which if followed, will lead to consistent implementation of authoritative accounting standards. It offers a mechanism to standardize industry accounting practices.

5. The Accounting Committee believes that Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Concepts (“SFAC”) No. 2 provides a useful framework for assessing the quality and usefulness of financial information. This framework establishes a pervasive constraint that the benefits of a standard must exceed its costs for the standard to be commendable. It states that financial information ought to be understandable and useful to relevant decision makers. It further asserts that the primary qualitative characteristics necessary for quality financial information are that it is relevant to the decisions for which it is reported and that it reliably reflects the economic reality of the reporting entity. Secondly, the FASB framework stresses that reported information

should provide for comparison with “similar information about other enterprises and with similar information about the same enterprise for some other period or some other point in time”. SFAC No. 2, P 111.

6. Industry seeks these ideals—decision-usefulness and comparability—in creating this Guideline. Each filer of Form 6 endeavors to produce annual and quarterly reports that follow industry standards and compare consistently with annual reports the filer has submitted in prior periods. Without an industry guideline, each Form 6 filer is on its own to interpret the USoA. To the extent that ambiguities exist in the USoA, consistency across companies necessarily suffers. This Guideline will assist Form 6 preparers, both seasoned and less-experienced professionals, to achieve uniformity in Form 6 reporting.

7. Federal law requires that non-exempt oil pipeline companies file Form 6 in order to facilitate the Commission in its regulatory function. The Commission is the primary user of financial information reported under USoA; its needs should be foremost in considering the ideal of decision-usefulness. However, the Commission explicitly designates the Form 6 Annual Report to be a public-use document in the introductory language of the report. Therefore, the Committee believes that other likely users of Form 6 financial information should be secondary in considering the ideal of decision-usefulness. Such users include the following: other regulatory commissions, shippers on oil pipelines, peer oil pipeline companies, AOPL, and statistics-gathering government agencies. Comparability of financial information—among filers of Form 6 and across periods for individual filers—serves the interest of all likely users of financial information reported under USoA.

8. Adoption of the resolutions offered in this Guideline is voluntary. However, because representatives of participating member companies have consistently met this AOPL initiative with ready cooperation, the Accounting Committee anticipates widespread, if not universal, adoption of this Guideline among AOPL member companies. Indeed, AOPL has received only

positive feedback regarding its effort to produce this Guideline from industry member companies and from informal discussions with Commission staff.

Amending the Guideline

9. The Accounting Committee will amend this Guideline when necessary to reflect the resolution of additional issues and to conform to changes in Commission standards. The Accounting Committee intends to maintain a single industry guideline, incorporating additions and alterations into this document as they are ratified, rather than adding another guideline with each resolution of the Committee.

Transition Approach

10. In general, the Committee recommends that filers treat all changes pursuant to adoption of this Guideline prospectively. We further recommend the use of note disclosures to explain material changes that arise in the presentation of information in company financial reports due to the implementation of this Guideline. The Commission requires that “[c]hanges shall not be made in [USoA] accounts for periods covered by reports that have been filed with the Commission unless the changes have first been authorized by the Commission.” 18 CFR 352.1–3(b).

11. Federal regulations further state, “[a] change in accounting principle ... should be referred to this Commission for approval.” 18 CFR 352.1–6(e). Each filer must determine whether adoption of a Guideline provision constitutes a change in accounting principle in that filer’s particular case.

Current Version: Ratified October 28, 2008

12. The Committee will update this section each time it promulgates an amended version to set forth (1) the structure and content of the document, (2) the repository of the official version of the document, and (3) dates of the planned comment period and ratification.

Structure and Content

13. This initial version of the Guideline resolves three sets of issues: Set 1 pertains to broad account classifications, Set 2 pertains to employment-related issues, and Set 3 pertains to general accounting issues. The Committee expects to add resolved issues within these categories and to add more categories as it develops the Guideline further.

Repository of Official Version

14. The Accounting Committee will post the official version of this Guideline in a public area of the AOPL website. The official version is the one most recently ratified by the Committee.

Comment Period and Ratification

15. The initial draft was submitted for general comment by AOPL member companies from July 18 through August 18, 2008. The Committee received several comments that led to minor substantive changes in the Guideline.

16. The Committee ratified the Guideline on October 28, 2008

Resolved Issues Set 1: Broad Account Classifications

1-01 Carrier versus Noncarrier Property

Issue Definition

17. What constitutes carrier property for USoA and Form 6 purposes? Classification of property accounts, distinguishing assets “used in carrier service” from those “not used in carrier pipeline operations”, may vary among filers. *See* 18 CFR 352.30 and 352.34.

Resolution

18. All property held for the purpose of providing common carrier pipeline service shall be designated Carrier Property regardless of the jurisdictional nature of the related service. Such property includes facilities that comprise an integral part of common carrier pipeline operations. Other tangible assets shall be designated Noncarrier Property.

Rationale

19. The Commission’s instructions in the USoA regarding tangible property and the instructions to page 301 of the Form 6 Annual Report support this resolution. *See* 18 CFR 352.2–3.

Discussion

20. Potential confusion arises for filers classifying property as carrier versus noncarrier property because the Commission’s definition of *carrier* may appear to conflict with guidance in its definition of *tangible property* and with certain instructions to the Form 6.

21. The Commission defines the noun *carrier* within USoA as “a common carrier by pipeline subject to the Interstate Commerce Act.” 18 CFR 352, definition 8. Subsequent uses of *carrier* as an adjective may seem to depend on that definition. For example, the description for account 30, Carrier Property, indicates:

This account shall include the cost of tangible property used in carrier service, or held for such use within a reasonable time under a definite plan for pipeline operations.

18 CFR 352.30. Applying the above definition of *carrier* to this account description would result in excluding from account 30, Carrier Property, assets used in common carrier service that are not subject to the Interstate Commerce Act. In other words, assets used primarily for intrastate service and unregulated assets used in common carrier service would be noncarrier property. We believe that this result is incorrect.

22. The Commission’s instructions in the USoA regarding tangible property supports the inclusion of property used in both inter- and intra-state transportation service and unregulated transportation service as carrier property, as follows:

Tangible property. The cost of property owned that is devoted to transportation service shall be recorded in account 30, Carrier Property, and in account 33,

Operating Oil Supply. This includes carrier's investments in jointly-owned transportation property in which it has an undivided ownership interest.

18 CFR 352.2-3. That instruction goes on to clarify the nature of noncarrier property and property that is held for mixed use, as follows:

The cost of other property not directly associated with pipeline operations shall be included in account 34, Noncarrier Property. Property used in both carrier and noncarrier services shall be classified in account 30 or account 34 according to its dominant use.

Id.

23. The Committee believes that instructions in the Form 6 Annual Report also support inclusion of property used in both inter- and intra-state transportation service as carrier property. Page 335, Income from Noncarrier Property, requires detail of account 620, Income (net) from Noncarrier Property. Page 301, Operating Revenue Accounts, requires detail of accounts 200-260, distinguishing revenue derived from interstate transportation of oil and revenue derived from intrastate transportation of oil. Clearly, the operating revenue accounts include carrier revenue only, since account 620 includes "all noncarrier revenues ... from property carried in account 34, Noncarrier Property." 18 CFR 352.620(a). The distinction required on page 301 therefore implies that carrier revenue includes revenue derived from both inter- and intra-state transportation.

24. In offering the accompanying resolution, the Committee does not challenge the Commission's definition of *carrier*, cited in paragraph 21, above. That definition classifies a company as a carrier if it meets the criteria therein. It does not classify property. Our definition of *carrier property* is consistent with both the Commission's definition of *carrier*, the annual report instructions mentioned above, and the Commission's instruction regarding

tangible property. A company subject to the Interstate Commerce Act—a carrier—can own both carrier and noncarrier property. Therefore, the term *carrier property* is broader than might be inferred from the Commission's definition of the term *carrier*.

1-02 Idle Carrier Property

Issue Definition

25. Filers may use different standards to identify and classify carrier property that is currently out of use. What criteria determine whether idle carrier property should be transferred out or retired?

Resolution

26. Idle carrier property for which a filer foresees no future use in providing common carrier pipeline service should either be transferred at net book value (gross balance less accumulated depreciation) to account 34, Noncarrier Property, or retired from service if it has no useful value. Otherwise, it should be left in carrier property.

Rationale

27. This resolution follows the principles that this Guideline clarifies in Resolution 1-01 and principles set forth in Commission regulations: (1) assets not in use should be retired unless they are held for future use and (2) when the purpose for holding an asset changes from a carrier to a noncarrier purpose, the asset should be transferred to noncarrier property.

Discussion

28. In addition to property used in common carrier transportation service, account 30, Carrier Property, includes property not currently used in transportation service provided that the property is "held for such use within a reasonable time under a definite plan for pipeline operations." This provision is consistent with our resolution regarding classification as carrier property because it points to the purpose for which the asset is held. Assets held for future use need not be retired, although if the nature of the planned future use is other than carrier service, then the asset should be transferred to

noncarrier property. Commission regulations offer the following specific guidance:

Carrier property no longer used nor held for carrier operations but used or intended for use in noncarrier operations shall be transferred ... to noncarrier property.

18 CFR 352.3–7(b)(3).

29. Another possibility for an idle-carrier asset is that the company has no future use planned, but it has not yet disposed of the asset, through either sale or dismantlement. Commission regulations require that the salvage value be carried either in account 19, Other Current Assets, or in account 43, Miscellaneous Other Assets, depending on the expected timing of dismantlement. 18 CFR 352.3–8(b).

1-03 Operating Revenue versus Noncarrier Revenue

Issue Definition

30. What constitutes operating revenue for USoA and Form 6 purposes? Certain revenue items might be treated as operating revenue by some filers and noncarrier revenue by others, such as the following examples:

- 1) Revenue from commodity sales transacted in offices classified as carrier property
- 2) Lab fees for terminal-based laboratories
- 3) Fees collected for sign poles or antennas on carrier land
- 4) Lease payments received for use of carrier land or right-of-way
- 5) Royalties received on mineral rights on carrier land

Resolution

31. In general, any operating revenue generated by assets that are classified as carrier property should be recorded in an appropriate operating revenue account, with revenues generated by noncarrier assets recorded to account 620. However, if the revenue activity can be completely disassociated with the carrier operations and the

activity is not tariff regulated, the revenue should be considered noncarrier in nature.

Rationale

32. Careful examination of USoA revenue account descriptions supports this resolution.

Discussion

33. The Commission includes revenues in accounts 200–240 only if the revenue derives from an activity performed under a tariff. From descriptions of these accounts, the operating versus noncarrier classification of revenue seems to depend upon the nature of the service that generates the revenue. However, inclusion in account 250, Rental Revenue depends on the accounting classification of the cost of the property. *See* account descriptions at 18 CFR 352.200–260.

34. Although these account descriptions taken together may seem to suggest a mixed standard for determining operating versus noncarrier revenue, the Committee believes that they imply a coherent framework. The nature of the property is a dominant factor for most activities in which pipeline companies normally engage. However, some revenue activities are so ancillary to the provision of common carrier transportation of oil that the nature of the activity overrides the fact that carrier assets may be involved. The Commission’s description of account 640, Miscellaneous Income, taken together with its description of account 620, Income (net) from Noncarrier Property, supports our observation that not all revenue follows the nature of the related assets. Even though account 620 specifically includes “all noncarrier revenues ... from property carried in account 34, Noncarrier Property,” the Commission provided another account for income that fits none of the account descriptions cited thus far in our discussion. Revenue from noncarrier *property* belongs in account 620, and revenue other than rental revenue from an *activity* that is not performed under a tariff belongs in account 640, Miscellaneous Income.

35. The Committee notes that filers should match expenses related to an activity in same class—operating versus noncarrier—as related revenues.

1-04 Operations and Maintenance versus General

Issue Definition

36. Filers may currently view the distinction between Operations and Maintenance and General expenses differently from one another.

Resolution

37. Pipeline companies should classify expenses as General versus Operations and Maintenance using either function, physical location, or related property classifications as a basis.

38. Classification based on physical location, for example, would proceed based on three industry-standard cost classifications used for internal reporting—field and local offices, regional offices, and central offices. Expenses related to field and local operations and their employees should be designated as Operations and Maintenance expenses. Those related to Central office personnel and expenses should be classified as General expenses. Regional office expenses may include characteristics of both. In general, regional office expenses should be classified as Operations and Maintenance or General expenses based on the dominant character of the internal cost pool in which they are grouped. Alternatively, regional office expenses can be allocated between Operating and Maintenance versus General using a logical allocation method.

39. In the end, consistency in classification of regional costs as either General or Operations and Maintenance expense is important.

Rationale

40. Classification using cost designations already used in internal reporting offers an approach consistent with the account descriptions of the USoA and yet favors both current practice and the cost-benefit criterion of the Guideline’s conceptual framework.

Discussion

41. Commission regulations segregate Operating Expenses into two broad classifications in the USoA: Operations and Maintenance, comprising the 300-series accounts; and General, comprising the 500-series accounts. Four accounts appear in both of these broad classifications: 300/500, Salaries and Wages; 310/510, Materials and Supplies; 320/520, Outside Services; and 390/590, Other Expenses.

42. Language in the account descriptions of these eight accounts reflects the authoritative distinction between Operations and Maintenance versus General expenses.

43. The Operations and Maintenance class of operating expenses therefore includes expenses that the company incurs in directly providing transportation service as follows:

- “... personnel directly engaged in transportation operations and the maintenance and repair of transportation property”
- “...in the repair and maintenance of transportation property”
- “... supplies consumed and expended in operations and in support of the maintenance activity”
- “... operating and maintenance services”
- “... in support of operations and maintenance activities”

44. The General class of operating expenses, on the other hand, includes expenses that the company incurs in administering support functions to manage and to monitor transportation service as follows:

- “... executives and general officers, general office personnel, and ... other employees whose wages cannot be directly allocated to operations and maintenance”
- “... expended for administration and general services”
- “... management and general and administrative services”

45. These excerpted phrases suggest that job functions play a logical role in classification of personnel expenses. Job functions that equate to management, back office, or commercial operations should be considered General. Conversely, those job functions directly involved in operating and maintaining transportation assets should be considered Operations and Maintenance.

46. Proper and consistent distinction between these two broad classifications of operating expenses can affect the allocation of overhead among pipeline segments and the overall clarity of financial information reported under USoA. For many pipeline companies the Form 6 Annual Report may be the only public information available regarding a pipeline company's financial performance. Therefore, consistent expense classification among filers provides greater clarity for users of Form 6 financial information desiring to compare the financial performance of peer companies.

Resolved Issues Set 2: Employment Related

2-01 Filers without Employees

Issue Definition

47. Some filers have no employees. Job functions normally performed by pipeline company employees may be performed by an affiliated company that provides human resources in exchange for a management fee, direct reimbursement of costs, or another arrangement. To which account should such charges be recorded?

Resolution

48. In general, a pipeline company should charge the cost of services provided by people outside the company to account 320/520 Outside Services. Salaries and wages passed through to a pipeline from a management company under common ownership or common control with the pipeline should be charged to account 300/500, Salaries and Wages, only when the filer determines that the criteria of direct reimbursement and direct assignment also indicate this treatment. If the management company is not under common control with the pipeline then such expenses should be charged to account 320/520, Outside Services.

Rationale

49. The Committee believes that this standard will enhance the comparability of reported expenses for filers with approaches for providing human resources that are different in form only and equivalent in economic substance.

Discussion

50. One reading of the regulations would result in zero reported salaries and wages for all filers without employees. The description of account 300, Salaries and Wages, does not exclude non-company personnel. However, the description of account 320, Outside Services, specifically includes "services provided by other than company forces under contract". 18 CFR 352.320. That description may seem to require that filers without employees present all personnel costs as outside services, although they would be

segregated as services purchased from an affiliate. The resulting contrast between pipeline companies with their own employees and those managed by an affiliate may be more distracting than helpful for users of the Form 6 Annual Report.

51. The Committee's resolution of this issue follows, first, the ideal of representational faithfulness and, second, the ideal of comparability among filers. In other words, our first priority is to recommend an approach that clearly expresses the economic reality of the filers' personnel costs. Our second priority is to recommend a single approach for expressing business activity that may be different in form but the same in economic substance.

52. The best approach might be one which satisfies both ideals completely, that is, one in which the cost of services normally performed by employees appears in the same account for each filer and the cost of services normally performed under contract appears in another. However, such an ideal is only attainable when filers all distribute functions to employees and contractors in the same way. Such an ideal also ignores the apparent intent of the Commission for filers to segregate the cost of externally provided services from those provided by employees of the filer.

53. Costs related to services provided by people outside the company should generally be captured in Outside Service. The Committee recommends the following multi-factor approach for identifying cases in which an exception to that rule may be appropriate. In other words, filers should consider the following factors in determining whether costs paid to another company for human resources that it provides should be recorded in account 300/500, Salaries and Wages, versus account 320/520, Outside Services:

- *Ownership.* All service arrangements in which the pipeline and the management company share 100 percent common ownership should be considered for treatment in account 300/500.
- *Control.* Only affiliate service arrangements in which the pipeline and the management company are under

common control should be considered for treatment in account 300/500.

- *Direct Reimbursement.* The direct reimbursement of actual personnel cost or arrangements structured with the intent of providing only cost-reimbursement suggests that the pipeline should record related costs in account 300/500. In contrast, service arrangements in which personnel costs are not clearly separable from other charges should follow the general rule: costs should be recorded in account 320/520.
- *Direct Assignment.* The direct assignment of management company staff and first-level management personnel to work exclusively or almost exclusively on a particular operating company suggests that the pipeline should record related costs in account 300/500.

Application of these criteria requires judgment to conclude whether the affiliate service arrangement is economically equivalent to paying employees of the management company directly, from the perspective of the pipeline company.

2-02 Employment Benefits of Operations Personnel

Issue Definition

54. To which FERC account should companies record expenses incurred for employee benefits of operations personnel?

Resolution

55. All employee benefit costs should be recorded in account 550, Employee Benefits, regardless of whether they are associated with Operations and Maintenance payroll (account 300) or with General payroll (account 500).

56. Employee benefit costs associated with salaries and wages charged to accounts 320 or 520, Outside Services, should be recorded to the same outside services account as the related salaries and wages expense charges.

Rationale

57. Recording all benefit costs to account 550 is consistent with the recording of payroll taxes where more specific direction is available.

Discussion

58. Although expenses incurred for employee benefits of operations personnel may seem to be attributable to operations and maintenance of the pipeline, the only Operations and Maintenance FERC account defined to include them is account 390, Other Expenses. Pipeline companies may instead classify such expenses as General in nature because that class of accounts includes account 550, Employee Benefits.

59. Employee benefits related to payrolls associated with maintenance and operating activities are clearly related to maintenance and operations activities. However, the Commission does not provide a corresponding Operations and Maintenance account for every type of expense that is directly allocable to operation and maintenance of pipeline assets. The Commission's description of account 390 does not specifically identify benefits as an item to include in account 390. It only makes reference to "travel, lodging, meals, memberships, and *other expenses of operating and maintenance employees.*" 18 CFR 352.390, emphasis added. Since employee benefits are not similar in nature to travel, lodging, meals, and memberships, the Committee does not believe that the other-expenses provision should be understood to include employee benefits expenses.

60. The Commission's description of account 550, Employee Benefits, does not limit charges therein to those associated with General expenses. Taken in isolation, then, this issue has no clear resolution from simply examining USoA account descriptions. However, Issue 2-03, FICA Taxes, examines a similar classification question and concludes that payroll taxes of all employees should be included in the General account 580, Pipeline Taxes. By virtue of the fact that the functional distinction of payroll taxes (O&M or General) is not maintained, this logic can be applied to benefits

resulting in all benefits costs (O&M or General) being captured in account 550.

2-03 FICA Taxes**Issue Definition**

61. The employer portion of FICA tax (Social Security and Medicare) may receive different treatment by some companies than by others. Some may consider the expense a part of Salaries and Wages because it is tied directly to payroll costs; others may consider it an employee benefit; still others may include the expense in Pipeline Taxes since that account includes "taxes of all kinds, excepting income taxes". 18 CFR 352.580.

Resolution

62. The employer portion of FICA taxes for salaries and wages charged to accounts 300 and 500 should be reported in account 580 and so detailed on Page 305 of Form 6.

63. FICA taxes related to salaries and wages of outside services personnel should be charged to account 320 and account 520 as appropriate, and not to account 580.

Rationale

64. Because FERC account 580 includes all taxes other than income taxes, and because Page 305 of the Form 6, Section B specifically on line 61 lists "Old-Age Retirement" as a kind of government tax, the company matched expense portion of FICA taxes should be reported in account 580.

Discussion

65. The Commission's description of account 580, Pipeline Taxes, specifies:

This account shall include accruals for taxes of all kinds, excepting income taxes (*see* definition 30(a)), relating to carrier property, operations, privileges and licenses.

18 CFR 352.580. The annual reporting disclosure page for account 580—page 305 of Form 6—specifically identifies Old-Age Retirement and Unemployment Insurance in the U.S. Government Taxes section. This suggests that the Commission intends to include the payroll burden (FICA taxes and unemployment insurance) for both Operations and Maintenance labor and General labor in account 580.

2-04 Relocation and Recruiting Expenses

Issue Definition

66. Costs incurred for the relocation of employees prior to or during employment may be viewed by management as benefits to employees or as general human resources costs. Such costs may be considered for classification in the following accounts: 550, Employee Benefits; 320/520, Outside Services; or 390/590, Other Expenses. Recruiting expenses present a similar potential for different treatment by different companies.

Resolution

67. Relocation and recruiting expenses should be charged to account 390 or 590, Other Expenses, depending on the employee's classification as either maintenance and operating or general.

Rationale

68. Because a clear case cannot be made for charging the relocation and recruiting expense to either Employee Benefits (550) or Outside Services (320/520), they fall in the category of costs "...not defined or classified in other accounts" and should be charged to Other Expenses (390/590).

Discussion

69. The following discussion addresses each of the common accounts used as listed in the issue definition. It concludes that USoA account descriptions and Form 6 instructions offer no specific direction. The regulations leave to each company to determine in which FERC operating expense account to record and report relocation and recruiting expenses. This Guideline offers a resolution to the ambiguity.

70. *Employee Benefits (550)* – The Commission's account description specifically includes the following types of costs: "annuities, pensions, and benefits ... contributions to health or welfare funds ... [and] life, health, accident, and other beneficial insurance." 18 CFR 352.550. The narrowness of the list makes it difficult to include either relocation or recruiting expenses. The only terms that might include them is *benefits*. However, since the description pairs *benefits* with annuities and pensions the Committee believes that filers should not interpret the term so broadly as to include relocation and recruiting expenses in account 550.

71. *Outside Services (320/520)* – The USoA broadly describes these accounts to include "the cost of operating and maintenance services" (320) and "the cost of management and general and administrative services" (520) "provided by other than company forces". 18 CFR 352.320, 520. Both relocation and recruiting expenses can include costs incurred both outside of the company and within the company. Examples include:

Housing assistance – Companies may utilize an outside firm or provide cash compensation to the employee or a combination of both.

Moving – Companies may arrange for moving services and directly pay the moving company. A company may provide the employee a lump sum moving allowance with the employee being responsible for moving his or her household goods.

Recruitment – Many companies use company employees to recruit on campuses. These same companies may use outside personnel firms as sources for both contract and permanent employee candidates.

72. Companies may provide different levels of assistance depending on the employee job service grade.

Moving assistance example – Some employees may be paid a single lump sum to offset moving costs while other

employees may receive assistance for various items such as house hunting trips, new housing realtor fees, moving costs, deposits, and inconvenience compensation.

Recruitment example – Some employers may pay the outside recruitment agency fee; some employers may pay part of the fee with the employee being responsible for paying the remainder; finally, the employee might be responsible for the entire recruitment agency fee.

73. In most circumstances, these costs are immaterial in comparison to total operating expense. Attempting to categorize the costs based on the part paid directly to the employee and that paid directly to an outside service provider does not seem reasonable.

74. Additionally, the presumption could be made that the outside services category is intended to identify significant costs directly associated with the core activities of pipeline operations.

Resolved Issues Set 3: General Accounting

3-01 Interest Payments

Issue Definition

75. To which FERC account should companies record (1) interest payments that are not clearly comprehended by the phrase “interest expense on all classes of debt”, for example, interest on late payments and back taxes and (2) amortization of debt issuance costs? 18 CFR 352.650.

Resolution

76. All interest payments should be recorded to account 650, Interest Expense, except those specifically excluded in the USoA account description.

77. Other costs of debt such as amortization of issuance costs should be charged to account 660 Miscellaneous Income Charges, which specifically includes “amortization of debt expense” and other “income charges not provided for elsewhere”. 18 CFR 352.660.

Rationale

78. The phrase *all classes* in the description of account 650 suggests a broad account definition except as specifically confined elsewhere in the description.

79. The Commission’s description of account 660 specifically includes “amortization of debt expense”.

Discussion

80. Payments made to service debt clearly belong in account 650, Interest Expense. However, the description of that account limits interest charged there to “interest expense on all classes of debt except [capitalized interest]”, which may or may not be taken to include interest on late payments and back taxes. 18 CFR 352.650. The description also includes “amortization of long-term debt premium and discount.” *Id.* Finally, the description excludes “[c]harges for interest on carrier debt obligations previously issued and now held by or for the carrier”. *Id.*

81. Since the only item specifically excluded from the account description is interest paid internally or to an affiliate *on debt the carrier itself issued*, the Committee believes that the USoA account description is generally inclusive in its tone. We see no reason why interest on late payments and back taxes should be excluded from account 650.

82. To clarify regarding the explicit exclusion mentioned above, we note that while interest a carrier pays on its own issues of debt is excluded from account 650 interest it pays on debt issued by an affiliate (*i.e.* intercompany debt) is not excluded from account 650.

3-02 Fines and Penalties

Issue Definition

83. To which FERC account should companies record fines and penalties?

Resolution

84. Fines and penalties should be charged to account 660, Miscellaneous Income Charges.

Rationale

85. In general, fines and penalties are not incurred for the purpose of providing transportation service.

Discussion

86. Fines and penalties are generally not deductible for income tax purposes. The reason is that they are not seen as expenses incurred for the purpose of generating taxable income. Without commenting on tax policy or the application of tax law, the Committee cites this principle to suggest that fines and penalties should be excluded from operating expenses. Only to the extent that the incurrence of fines or penalties is required for a pipeline company to provide transportation service should classification in an operating expense account be considered.

3-03 Right-of-Way Operations and Maintenance

Issue Definition

87. To which FERC account should companies record non-payroll right-of-way operations and maintenance expenses?

Resolution

88. Contract labor expenses incurred for maintenance of common carrier right-of-way should be charged to account 320, Outside Services. Materials expenses incurred for maintenance of common carrier right-of-way should be charged to account 310, Materials and Supplies. All expenses incurred for the maintenance of *noncarrier* right-of-way should be charged to account 620, Income (net) from Noncarrier Property.

Rationale

89. The Committee's approach results in a more descriptive presentation than the alternative that would classify right-of-way maintenance expenses as Other Expenses without regard to their specific nature.

Discussion

90. Filers may seek to group all costs of right-of-way maintenance expenses together in a single account. Such an approach could lead to classification of all right-of-way maintenance expenses in Other Expenses, considering them to represent "other related operating and maintenance expenses that are not defined or classified in other accounts. The key to correct classification is to consider the detailed nature of the expenses that comprise right-of-way maintenance.

91. Non-payroll expenses for right-of-way operations and maintenance will generally be for either materials or contract labor. Companies should record such expenses in account 310, Materials and Supplies, and account 320, Outside Services, respectively.

92. Although right-of-way is generally carrier property, some right-of-way may be noncarrier property. Therefore, generally right-of-way maintenance expenses should be recorded in accounts 310 and 320, but if the right-of-way is noncarrier in nature then the expenses

should be recorded to account 620, Income (net) from Noncarrier Property. Similarly, right-of-way is generally property used directly in operations. Should a company incur common carrier right-of-way maintenance expenses in connection with central office functions or location it should record such charges to accounts 510 and 520.

3-04 Non-Compressor Fuel

Issue Definition

93. To which FERC account should companies record non-compressor fuel, such as vehicle gasoline and diesel?

Resolution

94. Vehicle fuel should be charged to the same account as the related vehicle: 390 for field vehicles, 590 for central office vehicles. The same principle applies to fuel used in aircraft and work equipment.

Rationale

95. Costs for operation of aircraft, vehicles, and work equipment are specifically identified in the USoA as belonging in accounts 390 and 590. The fuel used in vehicles is a cost of vehicle operation and rightly belongs in these accounts.

Discussion

96. When is fuel not Operating Fuel and Power? When presented with the task of categorizing fuel costs, it is not always clear to which account the fuel should be charged. Correctly assigning these costs requires a determination as to whether the fuel is consumed and expended directly in operations or whether it is used by vehicle, aircraft, and other work equipment merely in support of operations and maintenance activities. Following this guideline will help bring consistency to the reporting of fuel used in vehicles while improving the integrity of expenses reported as fuel and power.

3-05 Station Fuel and Power and Drag Reducing Agent

Issue Definition

97. To which FERC account should companies record (1) station fuel and power and (2) drag reducing agent (DRA)?

Resolution

98. Both station fuel and power and DRA should be recorded to account 330, Fuel and Power.

Rationale

99. One motivation to utilize DRA is to reduce the cost of fuel and power. If DRA were not used, the fuel and power cost would most likely increase. Thus, DRA is one way to manage fuel and power costs and should be categorized as such.

Discussion

100. Station fuel and power, including normal utilities for buildings used in operations, generally meets the account description of account 330, Operating Fuel and Power. Such costs are either for “fuel and power consumed and expended in operations” or they are for “normal utilities ... directly allocable to operations.” 18 CFR 352.330. Indeed, even to the extent that personnel and office equipment may be housed in station facilities but costed to a General cost center, the Committee recommends that filers make no allocation of station fuel and power to the General cost center as long as the dominant use of the facilities is for operations.

101. DRA is a chemical additive that reduces frictional energy loss as fluid flows through the pipeline. The use of DRA allows increased flow using the same amount of energy or decreased pressure for the same flow rate. The use of DRA can improve the efficiency of fuel and power used to operate a pipeline.

102. Since DRA is not actually a fuel or a source of power, filers may consider it “supplies consumed and expended in operations,” suggesting classification in account 310, Materials and Supplies. 18 CFR 352.310. The Committee believes, to the contrary, that classification of DRA costs in account 330, Operating Fuel and Power, better expresses the economic reality of the pipeline’s fuel and power costs. If filers were to record DRA costs in Materials and Supplies then financial statement users would perceive greater reduction in Operating Fuel and Power costs than the pipeline actually achieves vis-à-vis another pipeline or another period.

Recording DRA costs to Materials and Supplies would reflect a relatively drastic reduction in Operating Fuel and Power costs at the expense of increased Materials and Supplies expense.

103. For example, consider two hypothetical pipelines: Dulles and Pine. They are identical except that Dulles uses DRA and Pine does not. Suppose that before any expenditure on DRA (1) fuel and power costs stood at \$10,000 for both pipelines and (2) materials and supplies costs stood at \$2,000. Suppose further that (3) Dulles spent \$1,000 on DRA and (4) Dulles Pipeline's use of DRA decreased its direct expenditures on fuel and power costs by 12 percent.

104. If Dulles Pipeline were to record DRA costs as Materials and Supplies the following contrast would result:

	Dulles Pipeline (DRA)	Pine Pipeline (no DRA)	Difference
Supplies	\$3,000	\$2,000	\$1,000
Power	\$8,800	\$10,000	\$1,200

This presentation suggests that Dulles's supply costs are higher than Pine's by 50 percent and that Dulles's power costs are lower than Pine's by 12 percent.

105. If, on the other hand, Dulles Pipeline were to record its DRA costs as Operating Fuel and Power the following contrast would result:

	Dulles Pipeline (DRA)	Pine Pipeline (no DRA)	Difference
Supplies	\$2,000	\$2,000	—
Power	\$9,800	\$10,000	\$200

This presentation suggests that Dulles's supply costs equal Pine's supply costs and that Dulles's power costs are lower than Pine's by 2 percent. The Committee believes that this second approach better reflects the economic reality resulting from expenditures on DRA. The principle of comparability also holds for comparison of the same pipeline across periods.

3-06 Equity in Earnings

Issue Definition

106. To which FERC income account should companies record equity in earnings of non-consolidated subsidiaries?

Resolution

107. Given the current USoA structure, equity in earnings of non-consolidated subsidiaries should be recorded in account 640, Miscellaneous Income. Form 6 filers should identify equity earnings within account 640 separately from other account activity in order to report these amounts on Page 114, line 12 of the Form 6 Annual Report. Filers should also maintain a reconciliation of the account total to the total presented on Line 6 (Miscellaneous Income) of Page 114 of Form 6. The Committee will consider requesting Commission action to create an additional account (or accounts) for these amounts (e.g. account 642).

Rationale

108. Use of account 640 for equity in earnings of non-consolidated subsidiaries is the only treatment the Committee can sponsor that conforms to current Commission regulations and guidance. Because our recommendation requires additional accounting resources to perform a reconciliation of activity that would otherwise flow directly from clearly mapped accounts, the Committee will consider requesting that the Commission add a new account to the USoA.

Discussion

109. The Form 6 Income Statement provides specific lines for the identification and reporting of "Equity in Earnings (Losses) of Affiliated Companies," (Page 114, Lines 11–13), however the FERC Uniform System of Accounts does not specifically provide an Income Account to separately capture this activity.

110. After review of the USoA chart of accounts, the Committee has determined that equity earnings do not meet the criteria for inclusion in account 630, Interest and Dividend Income. Income indicated in the description of account 630 is in the nature of amounts received from debt and equity investments. The description specifies that

receipt of included amounts must be reasonably assured. 18 CFR 352.630(c). Equity earnings also do not meet the criteria for inclusion in account 645, Unusual or Infrequent Items.

3-07 Committed Throughput Not Met

Issue Definition

111. To which FERC account should a company record tariff charges that it pays to another pipeline to transport barrels that the company has committed to move but lacks the space to do so? This may occur on a capacity-constrained line that operates in a market in which alternative pipeline service is available from a competing pipeline.

Resolution

112. Expenses incurred for committed throughput not met should be recorded in account 610-320, Operations and Maintenance – Outside Services.

Rationale

113. The character of this expense meets the definition of Outside Services. No other account description explicitly includes this expense.

Discussion

114. When a carrier incurs such an expense, it does so in order to complete the pipeline service it has agreed to provide. Clearly, the expense should be accounted for in account 610, Operations and Maintenance. Two sub-accounts present reasonable alternatives within account 610: account 320, Outside Services and account 390, Other Expenses. Although offsetting against a revenue account remains a third alternative, such a treatment would entail an application of Commission regulations that is more complex than necessary.

115. Transportation service that a carrier provides under contract (tariff) of another pipeline meets the definition of outside services in the description for account 320, Outside Services; it is a service “provided by other than company forces under contract, agreement, [or] other arrangement.” 18 CFR 352.320.

116. Conversely, committed-throughput-not-met does not fall into the specific description of account 390, Other Expenses. Account 390, Other Expenses, explicitly includes the cost of (1) “aircraft, vehicles, and work equipment used in support of operations and maintenance activities”, and (2) “travel, lodging, meals, memberships, and other expenses of operating and maintenance employees”. 18 CFR 352.390. Committed-throughput-not-met relates in no way to either vehicles and equipment or employee expenses. Account 390, Other Expenses, also includes “other related operating and maintenance expenses that are not defined or classified in other accounts.” Since this expense is “defined or classified” in account 320, Outside Services, carriers should use account 320—not account 390.