

UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;  
Nora Mead Brownell, and Suedeen G. Kelly.

Ozark Gas Transmission, L.L.C.

Docket No. AC06-21-001

ORDER ON REHEARING

(Issued July 7, 2006)

1. Ozark Gas Transmission, L.L.C. (Ozark) requests clarification or, alternatively, rehearing of an unpublished letter order issued on April 12, 2006 which approved Ozark's proposed accounting procedures related to the abandonment of certain gathering facilities which were transferred to an affiliate. The acceptance of the proposed accounting was made subject to Ozark crediting certain deferred income taxes to Account 283, Accumulated Deferred Income Taxes-Other, instead of Account 253, Other Deferred Credits. As discussed below, the Commission grants rehearing.

**Background**

2. On December 29, 2005, Ozark filed a request for approval of proposed accounting to clear Account 102, Electric Plant Purchased or Sold, in connection with the abandonment of certain gathering facilities by transferring these assets to an affiliate, Ozark Arkansas Gas Gathering, L.L.C.<sup>1</sup> For accounting purposes, this transfer was made at net book value. Ozark proposed that the transfer of the assets would be cleared through Account 102 and the original cost and related accumulated depreciation would be removed from Ozark's books as required by the Uniform System of Accounts. Additionally, Ozark proposed to debit Account 283 and credit Account 253 for the deferred income taxes related to the transfer.

3. The Chief Accountant issued an unpublished letter order on April 12, 2006, addressing Ozark's proposed accounting. The letter order approved the accounting proposal provided Ozark recorded the deferred income taxes by crediting the deferred taxes to Account 283, as opposed to Account 253. The Chief Accountant stated that the

---

<sup>1</sup> In Docket No. CP05-51-000, the Commission approved Ozark's abandonment by transfer to its affiliate of all lateral gathering pipeline and gathering compressor facilities with appurtenances on Ozark's existing pipeline system in Oklahoma and Arkansas. *See Ozark Gas Transmission, L.L.C.*, 111 FERC ¶ 62,121 (2005).

seller of property in an intercompany transfer is required to recognize the deferred tax liability for the tax gain in Account 283. Because the proposed credit to Account 253 and the debit to Account 283 appeared to be deferred income taxes related to the deferred tax gain that routinely results from transfers of depreciable assets between affiliates who are within the same corporate family and who join in filing a consolidated tax return, the letter order directed Ozark to credit the deferred income taxes to Account 283.

4. On May 11, 2006, Ozark filed a request for clarification, or in the alternative, rehearing of the April 12 letter order. Ozark asserts that its accounting as originally proposed is appropriate because it is a single member limited liability company.

#### **Discussion of Request for Clarification/Rehearing**

5. In its request for clarification or, in the alternative, rehearing Ozark states that its parent company is Noark Pipeline System, L.P., which is owned 25 percent by a corporation and 75 percent by a partnership of equity investors. Generally, according to Ozark, partnerships do not record taxes. However, Ozark explains that, in order to provide information useful for cost-based rate setting regulated partnership, entities who receive an income tax allowance in rates are required to record taxes for “FERC” purposes as though they are a taxable entity. Ozark asserts that it followed this requirement and recorded deferred income taxes in Account 283 and therefore should be permitted to debit this account as originally proposed.

6. In light of Ozark’s explanation and upon further review, the Commission finds that, because Ozark does not join in filing a consolidated tax return and its tax liabilities are passed through to its owners, the April 12 letter order incorrectly concluded that the transfer of the gathering assets resulted in a deferred tax gain. We, therefore, conclude that there is no accounting reason to require Ozark to record the deferred income taxes related to the transfer of these assets on Ozark’s books by crediting Account 283. In addition, since the assets are no longer on Ozark’s books, there also is no ratemaking reason to continue to do so. Accordingly, the Commission grants rehearing and approves Ozark’s proposed accounting without condition.

#### **The Commission orders:**

(A) Ozark’s request for rehearing is granted.

(B) Ozark's December 29, 2005, proposed accounting to clear Account 102 in connection with the abandonment of certain gathering assets is approved without condition.

By the Commission.

( S E A L )

Magalie R. Salas,  
Secretary.