

[Code of Federal Regulations]
[Title 18, Volume 1, Parts 1 to 399]
[Revised as of April 1, 2001]
From the U.S. Government Printing Office via GPO Access
[CITE: 18CFR]

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CHAPTER I--FEDERAL ENERGY REGULATORY COMMISSION,
DEPARTMENT OF ENERGY

Instructions for Carrier Property Accounts

3-1 *Property acquired.* (a) In general the carrier property accounts shall be charged with the cost of property purchased or constructed and with the cost of additions and improvements. However, the acquisition of properties comprising a distinct operating system, or an integral portion thereof, when the purchase price exceeds \$250,000, shall be accounted for in accordance with the provisions set forth in instruction 3-11.

(b) The cost of purchased property is the net price paid on a cash basis, or if other than money is given, the current value of that consideration. Cost includes the purchase price; sales, use, and excise taxes, and ad valorem taxes during periods of construction; transportation charges; insurance in transit; installation charges; and expenditures

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for testing and final preparation for use.

(c) Property acquired from an affiliated company through purchase or transfer shall be recorded together with the related accrued depreciation and liabilities assumed, if any, in the appropriate property accounts at the same amount that it was recorded on the books of the affiliate. When the purchase price exceeds the net book value of the property acquired, the difference shall be charged to retained income. When the purchase price is less than the net book value, the difference shall be credited to account 73, Additional Paid-in Capital. This does not apply to small miscellaneous purchases or transfers.

(d) The purchase of a proportionate share of a pipeline system or facility owned in undivided interests shall be recorded at the amount that the percentage of interest acquired bears to the whole. Any excess

of deficiency of purchase price over the amount so recorded shall be debited to account 44, Other Deferred Charges, or credited to account 63, Other Noncurrent Liabilities, as appropriate, and amortized in equal periodic amounts over the remaining service life of the system or facility through income.

3-2 [Reserved]

3-3 *Cost of property constructed.* The cost of constructing property chargeable to the carrier property accounts shall include direct and other costs as described hereunder:

(1) Cost of labor includes the amount paid for labor performed by the carrier's own employees and officers. This includes payroll taxes, vacation pay, pensions, holiday pay and traveling and other incidental expenses of employees. No charge shall be made to these accounts for pay and expenses of officers and employees who merely render services incidentally in connection with extensions, additions or replacements.

(2) Cost of material and supplies includes the purchase price (less purchase and trade discounts) of material and supplies, including small tools, at the point of free delivery; costs of inspection and loading borne by the carrier; transportation charges; sales, use and excise taxes; and when applicable a proportionate share of stores expenses. In calculating the cost of material and supplies used, proper allowance shall be made for the value of unused portions and other salvage, for the value of the material recovered from temporary scaffolding, cofferdams and other temporary structures used in construction: and for the value of small tools recovered and used for other purposes.

(3)(i) Cost of special machine service includes the cost of labor expended and of materials and supplies consumed in maintaining and operating vehicles, equipment, and other machines used in construction work; and rents paid for the use of such machines.

(ii) When machines are purchased primarily for a construction project, their cost shall be charged to account 187, Construction Work in Progress. Upon completion of the construction project, account 187 shall be credited with amounts received for machines sold or the book cost (less a fair allowance for depreciation during the construction period) of machines retained for use in carrier service. The net book cost shall be included in the appropriate carrier property accounts.

(iii) The cost of repairs to vehicles and other work equipment and of machine tools and machinery which are used both in construction and maintenance work shall be apportioned equitably to the work in connection with which the equipment is used.

(4) Cost of transportation includes the amounts paid to other companies or individuals for the transportation of employees, material and supplies, special machine outfits, appliances, and tools in connection with construction and also the cost of hauling performed by the carrier's own forces and facilities. The cost of the transportation of construction material to the point where material is received by the carrier shall be included, so far as practicable, as a part of the cost of such material.

(5) Cost of contract work includes amounts paid for construction work performed under contract by other companies, firms, or individuals, and cost incident to the award of the contract.

(6) Cost of protection includes expenditures for protection in connection

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with construction. This includes the cost of protection against fires, cost of detecting and prosecuting incendiaries, amounts paid to municipal corporations and others for fire protection, cost of protecting property of others from damages, and analogous items.

(7) Cost of injuries and damages includes expenditures for injuries to persons or damage to property when incident to construction projects, and shall be included in the cost of the related construction work. It also includes that portion of premiums paid for insuring property prior to the completion or coming into service of the property insured. Insurance recovered for compensation paid for injuries to persons incident to construction shall be credited to the accounts to which such compensation is charged. Any insurance recovered for damages to property incident to construction shall be credited to the accounts chargeable with the expenditures necessary for restoring the damaged property. The cost of injuries and damages in connection with the removal of old structures which are encumbrances on newly acquired lands shall be included in the cost of land, or rights of way.

(8) Cost of privileges and permits includes compensation for temporary privileges, such as the use of private or public property or of streets, in connection with construction work.

(9) Taxes include taxes on property during construction and before the facilities are completed and ready for service. This includes taxes on land held under a definite plan for its use in pipeline service for the period prior to the completion of pipeline facilities thereon and other taxes separately assessed on property during construction, or assessed under conditions which permit separate identification or

allocation of the amount chargeable to construction.

(10) Rent includes payments for use of facilities, such as motor vehicles, special tools or machines, and quarters used for construction work.

(11)(i) Interest during construction includes interest expense on bonds, notes and other interest bearing debt incurred in the construction of carrier property (less interest, if any, earned on funds temporarily invested) after such funds become available for use and before the receipt or the completion or coming into service of the property. The interest shall be included in the accounts charged with the cost of the property to which related.

(ii) There shall be deducted from such interest charges a proportion of premium on securities sold. There shall be added a proportion of discount and expense on funded debt issued for the acquisition or construction of carrier property. The amount of premium and discount and expense thus related shall be determined by the ratio which the period between the date the proceeds from the securities issued become available and the receipt, completion, or coming into service of the property bears to the entire life of the securities issued.

(12) Cost of disposing of excavated material shall be included in the cost of construction except that when such material is used for filling, the cost of loading, hauling, and dumping shall be equitably apportioned between the work for which removal is made and the work for which the material is used.

3-4 *Additions.* Each carrier shall maintain a written property units listing for use in accounting for additions and retirements of carrier plant and apply the listing consistently. When property units are added to Carrier plant, the cost thereof shall be added to the appropriate carrier plant account as set forth in the policy.

3-5 *Improvements.* Costs of improvements, shall be accounted for as follows:

(a) The cost of items replaced shall be retired and the cost of the improvement shall be charged to the appropriate property account.

(b) If the improvement does not involve a replacement, the cost of the improvement shall be charged to the appropriate property account.

3-6 *Replacements.* Replacements are substitutions of a part or of a complete unit of property with a new part or unit. Costs of replacements shall be accounted for as follows:

(a) In replacing a complete unit of property, the old unit shall be retired and the cost of the replacement recorded in the appropriate primary property account.

(b) In replacing a minor item without improvement, the cost of such replacement shall be charged to the maintenance expense account.

3-7 Retirements. When property units are retired from carrier plant, with or without replacement, the cost thereof and the cost of minor items of property retired and not replaced shall be credited to the carrier plant account in which it is included. The retirement of carrier property shall be accounted for as follows:

(a) Land. The book cost of land retired shall be removed from the property accounts. Gain or loss on the sale of land shall be recorded in account 640, Miscellaneous Income, or account 660, Miscellaneous Income Charges.

(b) Property. (1) The book cost, as set forth in paragraph c below, of units of property retired and of minor items of property retired and not replaced shall be written out of the property account as of date of retirement, and the service value shall be charged to account 31, Accrued Depreciation--Carrier Property.

(2) In case of casualty loss, insurance proceeds recovered shall be credited to account 31, Accrued Depreciation--Carrier Property, in an amount not to exceed the book cost of the property involved. Any excess amount shall be credited to account 640, Miscellaneous Income.

(3) Carrier property no longer used nor held for carrier operations but used or intended for use in noncarrier operations shall be transferred, along with the amount of past accrued depreciation, estimated if necessary, to noncarrier property.

(c) The book cost of carrier property retired shall be determined from the carrier's records and if this cannot be done it shall be estimated. When it is impracticable to determine the book cost of each unit, due to the relatively large number or small cost thereof, an appropriate average book cost of the units, with due allowance for any differences in size and character, shall be used as the book cost of the units retired. Oil pipelines must furnish the particulars of such estimates to the Commission, if requested.

3-8 *Salvage.* (a) When retired property is salvaged for material or parts which are to be reused by the carrier, the salvage shall be priced at current second-hand value, not to exceed original cost, and charged to account 17, Material and Supplies, or other appropriate account.

(b) When retired property is held without being dismantled, the estimated value of the salvage less the estimated cost of salvaging shall be included in account 19, Other Current Assets, if to be recovered within a year, otherwise, in account 43, Miscellaneous Other Assets.

3-9 *Relocation of line.* (a) If a line is relocated in the same gathering field serving the same lease or purpose, all of the relocating expenses whether or not a unit of property is involved shall be charged to maintenance expense, provided that the same size pipe is used in such relocation. Resulting increases or decreases in the length of the line shall be accounted for as additions or retirements of property.

(b) In accounting for relocation of trunk lines involving units of property, the replaced property shall be retired and the cost of the new property included in the appropriate primary property accounts. When public improvement projects are involved, the cost of the new property shall be (1) the book cost less depreciation or amortization of the replaced property, less the net salvage value recovered, plus (2) costs incurred by the carrier, less any amounts contributed by governmental agencies or others.

3-10 *Property contributed.* (a) The value of contributions or property received from others including governmental agencies shall not be recorded in the property accounts; however, memorandum entries should be made in the records of the carrier describing the property received, the value thereof, and all other pertinent information related thereto.

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(b) Property contributed by an affiliate shall be recorded in the property accounts together with the related accrued depreciation at the same amounts that were recorded on the books of the affiliate provided, however, that the amount of contribution made by non-carrier affiliates shall not exceed the fair value of the property received.

3-11 *Acquisition by merger, consolidation or purchase.* Accounting for property acquired by business combination of two or more

corporations, or the acquisition of properties comprising a distinct operating system, or integral portion thereof as specified in section 3-1, shall depend on whether there has been (1) a merger or consolidation in a "pooling of interests" or (2) a "purchase." A "pooling of interests" may exist when holders of all or substantially all of the ownership interests, usually common stock, in the constituent corporations or entities become the owners of a surviving corporation or a new corporation which owns the assets and business of the constituent corporations or entities directly or through one or more subsidiaries. However, when the stockholders of one of the constituent corporations obtain 90 percent or more of the voting interest in the combined enterprise; or when there is a plan or firm intention and understanding to retire a substantial part of the capital stock issued to the owners of one or more of the constituent corporations or substantial changes in ownership which occurred shortly before or planned to occur shortly after the combination, the combination may be considered a "purchase."

(a) *Accounting under a "pooling in interest."* (1) In accounting for a "pooling of interests," no new basis of accountability arises. The assets and liabilities of the constituent companies or entities and the related accrued depreciation and amortization accounts along with the retained income or deficit accounts shall be carried forward, adjusted, if necessary, to conform with the accounting rules of the Commission.

(2) When the total par value or stated value of no-par capital stock of the succeeding corporation is greater than that of the constituent corporations, the excess shall be charged first to the amount in account 73, Additional Paid-in Capital, that is not otherwise restricted, and the Balance to account 75, Unappropriated Retained Income.

(3) When the par value or stated value of no-par capital stock of the succeeding corporation is less than that of the constituent corporations, the difference shall be credited to account 73, Additional Paid-in Capital.

(b) *Accounting under a "purchase."* In accounting for a "purchase," the assets shall be recorded on the books of the acquiring carrier at cost as of the date of acquisition or, if other than money is given, at the fair value of such consideration. Liabilities assumed shall be recorded in the appropriate accounts according to the accounting rules of the Commission.

(c) *Approval of accounting.* (1) Tentative journal entries recording the acquisition of pipeline properties shall be submitted to the Commission for consideration and approval. The entries shall give a complete description of the property purchased and the basis upon which

the amounts of the entries have been determined. Any portion of the purchase price attributable to intangible property shall be separately recorded as hereinafter provided in account 40, Organization Costs and Other Intangibles.

(2) When the costs of individual or groups of transportation property are not specified in the agreement or in supporting documents, or when separate costs are not provided for the physical property and the intangible property, the total purchase price shall be equitably apportioned among the appropriate property or other accounts, based on the percentage relationship between the purchase price and the original cost of property shown in the valuation records of the Commission or the fair market value of the properties. The portion of the total price assignable to the physical property shall be supported by independent appraisal or such other information as the Commission may consider appropriate. In no event shall amounts recorded for physical properties and other assets acquired exceed the total purchase price.

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(3)(a) Where the purchase price is in excess of amounts recorded for the net assets acquired, such excess shall be included in account 40, Organization Costs and Other Intangibles.

(b) The excess of the purchase price over amounts includable in the primary carrier property accounts shall be amortized through account 660, "Miscellaneous income charges," or otherwise disposed of, as the Commission may approve or direct.

[32 FR 20241, Dec. 20, 1967, as amended by 35 FR 13992, Sept. 3, 1970; 37 FR 17713, Aug. 31, 1972. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981]

3-12 *Reorganizations.* When a carrier is involved in receivership or bankruptcy so as to effect a reorganization, all accounting relating to the plan of reorganization shall be submitted to this Commission for consideration and approval.

3-13 *Disposition of former Account 193, Acquisition Adjustment.* Amounts included in former account 193, Acquisition Adjustment, attributable to mergers, consolidations, reorganizations, and purchases of property shall be cleared from that account as the Commission may authorize or direct upon submission of proposal for distribution of the amounts therein.

[32 FR 20241, Dec. 20, 1967. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981 and amended by Order 598, 63 FR 6852, Feb. 11, 1998]