SUBCHAPTER Q—ACCOUNTS UNDER THE INTERSTATE COMMERCE ACT

PART 351—FINANCIAL STATEMENTS RELEASED BY CARRIERS

AUTHORITY: Department of Energy Organization Act, (42 U.S.C. 7101 *et seq.*) E.O. 12009, 42 FR 46267, Interstate Commerce Act, as amended, (49 U.S.C. 1 *et seq*).

§ 351.1 Financial statements released by carriers.

Carriers desiring to do so may prepare and publish financial statements in reports to stockholders and others, except in reports to this Commission, based on generally accepted accounting principles for which there is authoritative support, provided that any variance from this Commission's prescribed accounting rules contained in such statements is clearly disclosed in footnotes to the statements.

[Order 119, 46 FR 9044, Jan. 28, 1981]

PART 352—UNIFORM SYSTEMS OF ACCOUNTS PRESCRIBED FOR OIL PIPELINE COMPANIES SUBJECT TO THE PROVISIONS OF THE INTERSTATE COMMERCE ACT

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AUTHORITY: 49 U.S.C. 60502; 49 App. U.S.C. 1–85 (1988).

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LIST OF INSTRUCTIONS AND ACCOUNTS

Definitions. Definitions of terms used in this system of accounts:

1. *Accounts* means the accounts prescribed in this system of accounts.

2. *Actually issued,* as applied to securities issued or assumed by the carrier, means those which have been sold to bona fide purchasers or holders for a valuable consideration, those issued in exchange for other securities or other property, and those issued as dividends on stock; and the purchasers or holders secured them free from control by the carrier.

3. *Actually outstanding, as applied to securities issued or assumed by the carrier, means those which have been actually issued and are neither retired nor held by or for the carrier.*

4. *Additions* means facilities, equipment, and structures added to existing property exclusive of replacements.

5. *Affiliated companies* means companies or persons that directly, or indirectly through one or more intermediairies, control, or are controlled by, or are under common control with, the accounting carrier.

6. *Amortization* means 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.

7. *Book cost* means the amount at which assets are recorded in the accounts without deduction of related provisions for accrued depreciation, amortization, or for other purposes.

8. *Carrier* means a common carrier by pipeline subject to the Interstate Commerce Act.

9. *Commission* means the Federal Energy Regulatory Commission.

10. *Control* (including the terms *controlling, controlled by,* and *under common control with*) means 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. When there is doubt about an existence of control in any particular situation, the carrier shall report all pertinent facts to the Commission for determination.

11. *Cost* means the amount of money actually paid for property or services or the current cash value of the consideration given when it is other than money.

12. *Cost of removal* means cost of demolishing, dismantling, tearing down, or otherwise removing property including costs of handling and transportation. It does not include the cost of removal activities associated with asset retirement obligations that are capitalized as part of the tangible long-lived assets that give rise to the obligation. (*See* General Instruction 1–19).

13. *Date of retirement* means the date that property is withdrawn from service.

14. *Debt expense* means all expense in connection with the issuance and sale of evidences of debt, such as fees for drafting mortgages and trusts; fees and taxes for issuing or recording evidences of debt; cost of engraving and printing bonds, certificates of indebtedness, and other evidences of debt; fees paid to trustees; specific costs of obtaining governmental authority; fees for legal services; fees and commissions paid underwriters, brokers, and salesmen for marketing evidences of debt; fees and expenses of listing on exchanges; and other like costs.

15. *Depreciation* means the loss in service value not restored by current maintenance and incurred in connection with the consumption or prospective retirement of property in the course of service from causes against which the carrier is not protected by insurance, and the effect of which can be forecast with a reasonable approach to accuracy.

16. *Discount*, as applied to securities issued or assumed by the carrier, means the excess of the par 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.

17. *Group plan* means the plan under which depreciation charges are computed on the book cost of all property included in each depreciable account by application of a composite rate of depreciation based on the weighted average service lives of such property.

18. *Improvements* means alterations or changes in structural design of property which result in increased service life or efficiency.

19. *Minor items of property* means the associated parts or items of which units of property are composed.

20. *Net salvage value* means salvage value of property retired less the cost of removal.

21. *Nominally issued*, as applied to securities issued or assumed by the carrier, means 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 accounting company.

22. *Nominally outstanding*, as applied to securities issued or assumed by the carrier, means those which, after being actually issued, have been reacquired by or for the accounting company under such circumstances which require them to be considered as held alive and not retired and canceled.

23. *Premium*, as applied to securities issued or assumed by the carrier, means 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.

24. *Property retired* means units of property which have been removed, sold, abandoned, destroyed, or which for any cause have been withdrawn from service; also, minor items of property not replaced.

25. *Replacement* means the substitution of a part or of a complete unit of property with a new part or unit.

26. *Salvage value* means the amount received or estimated to be received for property retired less any expenses incurred in connection with the sale or preparing the property for sale; or, if retained, the value at which the recovered material is chargeable to the material and supplies account or other appropriate account.

27. *Service life* means the period between the date that property is placed in service and the date of its retirement.

28. *Service value* means the book cost less the actual or estimated net salvage value of property.

29. *Straight-line method*, as applied to depreciation and amortization accounting, means the plan under which the service value of property is charged to expense and credited to the related accrued depreciation or amortization account through equal monthly charges during the service life of the property.

30. (a) *Income taxes* means taxes based on income determined under provisions of the United States Internal Revenue Code and foreign, state and other taxes (including franchise taxes) based on income.

(b) *Income tax expense* means the amount of income taxes (whether or not currently payable or refundable) allocable to a period in the determination of net income.

(c) *Pretax accounting income* means income or loss for a period, exclusive of related income tax expense.

(d) *Taxable income* means the excess of revenues over deductions or the excess of deductions over revenues to be reported for income tax purposes for a period.

(e) ''Temporary difference'' means a difference between the tax basis of an asset or liability and its reported amount in the financial statements that will result in taxable or deductible amounts in future years when the reported amount of the asset or liability is recovered or settled, respectively. Some events recognized in financial statements do not have tax consequences. Certain revenues are exempt from taxation and certain expenses are not deductible. Events that do not have tax consequences do not give rise to temporary differences.

(f) ''Deductible temporary difference'' means temporary differences that result in deductible amounts in future years when the related asset or liability is recovered or settled, respectively.

(g) ''Deferred tax asset'' means the deferred tax consequences attributable to deductible temporary differences and carryforwards. A deferred tax asset is measured using the applicable enacted tax rate and provisions of the enacted tax law. A valuation allowance should be recognized if it is more likely than not (a likelihood of more than 50 percent) that some portion or all of the deferred tax asset will not be realized.

(h) ''Deferred tax liability'' means the deferred tax consequences attributable to taxable temporary differences. A deferred tax liability is measured using the applicable enacted tax rate and provisions of the enacted tax law.

(i) *Interperiod tax allocation* means the process of apportioning income taxes among periods.

(j) ''Tax allocation within a period'' means the process of allocating income tax expense applicable to a given period among continuing operations, discontinued operations, extraordinary items, and items charged or credited directly to shareholders' equity.

31. (a) *Investor* means a business entity that holds an investment in voting stock of another company.

(b) *Investee* means a corporation that issued voting stock held by an investor.

(c) *Corporate joint venture* is a company owned and operated by a small group of businesses as a separate and specific business or project for the mutual benefit of the members of the group.

(d) *Dividends*, unless otherwise specified, means dividends paid or payable in cash, other assets, or another class of stock and does not include stock dividends or stock splits.

(e) *Earnings or losses of an investee* and *financial position of an investee* refer to net income (or net loss) and financial position of an investee determined in accordance with generally accepted accounting principles.

(f) *Undistributed earnings of an investee* means net income less dividends declared whether received or not.

(g) *Date of acquisition* is the date on which the investor assumes the rights of ownership. Ordinarily this is the date assets are received and other assets are given or securities issued.

32. (a) *Segment of a business* refers to a component of an entity whose activities represent a separate major line of business or class of customer. A segment may be in the form of a subsidiary, a division, or a department, and in some cases a joint venture or other nonsubsidiary investee, provided that its assets, results of operations, and activities can be clearly distinguished, physically and operationally and for financial reporting purposes, from the other assets, results of operations, and activities of the entity. The fact that the results of operations of the segment being sold or abandoned cannot be separately identified strongly suggests that the transaction should not be classified as a segment of business.

(b) *Measurement date* means the date on which the management having authority to approve the action commits itself to a formal plan to dispose of a segment of the business, whether by abandonment or sale. The measurement date for disposals requiring Commission approval shall be the service date of the Order authorizing the disposal.

(c) *Disposal date* refers to the date of closing the sale if the disposal is by sale or the date that operations cease if the disposal is by abandonment.

33. *Compensating balance* means the portion of any demand deposit (or any time deposit or certificate of deposit) maintained by a carrier (or by any person on behalf of the carrier) which constitutes support for existing borrowing arrangements of the carrier (or any person) with a lending institution.

Such arrangements include both outstanding borrowings and the assurance of future credit availability. (The compensating balance requirement should be adjusted by the amount of float unless such adjustment would cause the compensating balance to be greater than the cash balance per carrier's books. The float adjustment is made by subtracting the float from the compensating balance requirement if the collected bank ledger balance exceeds the cash balance per carrier's books or by adding the float to the compensating balance requirement if the collected bank ledger balance is less than the cash balance per carrier's books.)

34. *Float* means deposits and withdrawals in transit which constitute a difference between the collected bank ledger balance and the cash balance per carrier's books.

35. (a) *Equity security* encompasses any instrument representing ownership shares (e.g., common, preferred, and other capital stock), or the right to acquire (e.g., warrants, rights, and call options) or dispose of (e.g., put options) ownership shares in an enterprise at fixed or determinable prices. The term does not encompass preferred stock that by its terms either must be redeemed by the issuing enterprise or is redeemable at the option of the investor, nor does it include treasury stock or convertible bonds.

(b) *Marketable*, as applied to an equity security, means an equity security as to which sales prices or bid and ask prices are currently available on a national securities exchange (i.e., those registered with the Securities and Exchange Commission) or in the over-the-counter market. In the over-the-counter market, an equity security shall be considered marketable when a quotation is publicly reported by the National Association of Securities Dealers Automatic Quotations System or by the National Quotations Bureau, Inc. (*Provided*, in the later case, That quotations are available from at least three dealers.) Equity securities traded in foreign markets shall be considered marketable when such markets are of a breadth and scope comparable to those referred to above. This definition is not met by restricted stock (securities for which sale is restricted by a governmental or contractual requirement except where such requirement terminates within one year or where the holder has the power to cause the requirement to be met within one year). Any portion of the stock which can reasonably be expected to qualify for sale within one year, such as may be the case under Rule 144 or similar rules of the Securities and Exchange Commission, is not considered restricted.

(c) *Market value* refers to the aggregate of the market price of a single share or unit times the number of shares or units of each marketable equity security in the portfolio. When an entity has taken positions involving short sales, sales of calls, and purchases of puts for marketable equity securities and the same securities are included in the portfolio, those contracts shall be taken into consideration in the determination of market value of the marketable equity securities.

(d) *Cost*, as applied to a marketable equity security, refers to the original cost as adjusted for unrealized holding gains and losses.

[32 FR 20241, Dec. 20, 1967, as amended at 37 FR 17713, Aug. 31, 1972; 39 FR 33343, Sept. 17, 1974; 39 FR 34043, Sept. 23, 1974; 40 FR 53247, Nov. 17, 1975; 41 FR 9158, Mar. 3, 1976; 42 FR 33297, June 30, 1977. Redesignated and amended by Order 119, 46 FR 9044, Jan. 28, 1981; Order 620, 65 FR 81342, Dec. 26, 2000; Order 627, 67 FR 67706, Nov. 6, 2002; Order 631, 68 FR 19625, Apr. 21, 2003]

General Instructions

1–1 *Classification of accounts.* Accounts are prescribed to record the cost of property used in transportation and related operations and for revenues, expenses, taxes, rents, and other items of income for such operations. Separate accounts are prescribed for cost of property not used in transportation operations and for income and expenses pertaining thereto; for other investments and related income; for extraordinary and prior period items, including applicable income taxes; and for assets and liabilities.

In addition, stockholders' equity accounts, designed to segregate directly contributed capital from appropriated and unappropriated retained income, are provided. Retained income accounts form the connecting link between the income account and the equity section of the balance sheet. They are provided to record the transfer of net income or loss for the year; certain capital transactions; and, when authorized by the Commission, other items.

1–2 *Records.* (a) Carriers shall keep their accounts and records in accordance with the prescribed accounts. In addition, clearing accounts, temporary accounts, and subdivisions of any account may be kept provided the integrity of the prescribed accounts is not impaired. Each carrier shall keep its books of account, and all other books, records and memoranda which support the entries in such books of account, so as to be able to furnish readily full information as to any item included in any account. Each entry shall be supported by such detailed information as will permit ready identification, analysis, and verification of all facts relevant thereto.

(b) The books and records referred to herein include not only accounting records in a limited technical sense, but all records, such as minute books, stock books, reports, correspondence, memorandums, etc., which may be useful in developing the history of or facts regarding any transaction.

(c) No carrier shall destroy any books, records, memoranda, etc., which support entries to its accounts unless destruction is permitted by the regulations governing preservation of records, Part 356 of this chapter.

(49 U.S.C. 5b, 304, 320, 904, 913, 917, 1003, 1012)

[32 FR 20241, Dec. 20, 1967, as amended at 40 FR 50384, Oct. 29, 1975. Redesignated and amended by Order 119, 46 FR 9044, Jan. 28, 1981]

1–3 *Accounting period.* (a) Each carrier shall keep its books on a monthly basis so that all transactions, as nearly as may be ascertained, shall be entered in the accounts not later than 60 days after the last day of the period for which the accounts are stated, except that the time within which the final entries for the year ending December 31 shall be made may be extended to such date in the following March as shall not interfere with the preparation and filing of the annual report.

(b) Changes shall not be made in the accounts for periods covered by reports that have been filed with the Commission unless the changes have first been authorized by the Commission.

1–4 *Accounting method.* (a) This system of accounts shall be kept by the accrual method of accounting. The basis used for accruing income and expense items each month shall be consistently applied and any change in such basis or any unusual accruals involving material amounts shall be promptly reported to the Commission.

(b) When the amount of any transaction cannot be accurately determined in time for inclusion in the applicable month's accounts, an estimated amount shall be entered in the proper accounts. Appropriate adjustments shall be made as soon as the actual amounts become known or at the time a substantial change is indicated. Carriers are not required to anticipate minor items which do not appreciably affect the accounts.

1–5 *Delayed items.* Ordinary delayed items and adjustments arising during the current year which are applicable to prior years shall be included in the same account which would have been charged or credited if the item had been taken up or the adjustments made in the year to which it pertained. When the amount of a delayed item or adjustment is relatively so large that its inclusion in net income for a single month would seriously distort the accounts for the month (but not for the year), such amount may be distributed in equal monthly charges or credits, as the case may be, to the remaining months of the calendar year. See instruction 1–6 for instructions covering extraordinary and prior period items of a nonrecurring nature.

1–6 *Extraordinary, unusual or infrequent items, prior period adjustments, discontinued operations and accounting changes.* (a) *Extraordinary Items.* All items of profit and loss recognized during the year are includible in ordinary income unless evidence clearly supports their classification as extraordinary items. Extraordinary items are characterized by both their unusual nature and infrequent occurrence taking into account the environment in which the firm operates; they must also meet the materiality standard.

Unusual means the event or transaction must possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to the ordinary and typical activities of the entity.

Infrequent occurrence means the event or transaction shall be of a type not reasonably expected to recur in the foreseeable future.

(b) *Unusual or Infrequent Items.* Material events unusual in nature or infrequent in occurrence but not both, thus not meeting both criteria for classification as extraordinary, shall be includible in the accounts provided as separate components of income/expense from continuing operations. Such items are not to be reported net of income taxes.

(c) *Discontinued Operations.* The results of continuing operations shall be reported separately from discontinued operations and any gain or loss resulting from disposal of a segment of a business (see definition 32(a)) shall be reported in conjunction with the related results of discontinued operations and not as an extraordinary item. The disposal of a segment of a business shall be distinguished from other disposals of assets incident to the evolution of the entity's business, such as the disposal of part of a line of business, the shifting of production or marketing activities for a particular line of business from one location to another, the phasing out of a product line or class of service, and other changes occasioned by technological improvements. If a loss is expected from the proposed sale or abandonment of a segment, the estimated loss shall be provided for at the measurement date (see definition 32(b)). If a gain is expected, it shall be recognized when realized, which ordinarily is the disposal date (see definition 32(c)).

(d) *Prior Period Adjustments.* The correction of an error in the financial statements of a prior period and adjustments that result from realization of income tax benefits of preacquisition loss carryforwards of purchased subsidiaries shall be accounted for as prior period adjustments and excluded from the determination of net income from the current year. All other revenues, expenses, gains, and losses recognized during a period shall be included in the net income of that period.

(e) *Accounting Changes.* A change in accounting principle or accounting entity should be referred to this Commission for approval. The cumulative effect of a change in accounting principle should ordinarily be reflected in the account provided for in determining net income; in certain cases accounting changes may be reflected as prior period adjustments. Changes in accounting estimates should ordinarily be reflected prospectively.

(f) *Materiality.* As a general standard an item shall be considered material when it exceeds 10 percent of annual income (loss) before extraordinary items. An item may also be considered in relation to the trend of annual earnings before extraordinary items or other appropriate criteria. Items shall be considered individually and not in the aggregate in determining materiality. However, the effects of a series of related transactions arising from a single specific and identifiable event or plan of action shall be aggregated to determine materiality.

(g) *Commission Approval and accountant's letter.* Items shall be included in the accounts provided for extraordinary items, unusual or infrequent items, discontinued operations, prior period adjustments and cumulative effect of changes in accounting principles only upon approval of the Commission. If the carrier retains the service of an independent accountant, a request for using these accounts shall be accompanied by a letter from the independent accountant approving or otherwise commenting on the request.

NOTE: The carrier may refer to generally accepted accounting principles for further guidance in applying instruction 1–6.

[40 FR 53248, Nov. 17, 1975. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981; Order 620, 65 FR 81342, Dec. 26, 2000]

1–7 *Items in texts of accounts.* Items appearing in instructions and in the texts of various accounts are merely representative and are not intended to cover all of the items includible therein.

1–8 *Depreciation accounting—Carrier property*.

(a) *Method*. Monthly depreciation charges shall be made by the straight-line method to operating expenses in conformity with the group plan of accounting applicable to all carrier property except property included in accounts 101, 151, 171, Land, and 187, Construction Work in Progress.

(b) *Rates*. (1) Separate composite annual percentage rates will be prescribed for each depreciable account except that the Commission may authorize the use of component rates upon specific request from a carrier. Carriers becoming subject to this system of accounts and carriers acquiring property for which no rates have been previously prescribed shall file, within six months, composite annual percentage rates applicable to the book cost of each class of depreciable carrier property as will distribute the service value, by the straight-line method, in equal annual charges to operating expenses during the service life of the property. These rates shall be used by the carrier until the rates prescribed by the Commission become effective. Such rates shall, for each primary account comprised of more than one class of property, produce a depreciation charge equal to the sum of the amounts that would otherwise be chargeable for each of the various classes of property included in the account. Carriers shall base these percentage rates on estimated service values and service lives developed from engineering and other studies. The rates filed shall be accompanied by a statement showing the bases and the methods employed in the rate determination.

(2) Carriers shall be prepared at any time upon the direction of the Commission to compute and submit revised percentage rate studies. When a carrier believes that any rate prescribed by the Commission is no longer applicable, it shall submit the rate which it believes should be established supported by full particulars for consideration by the Commission.

(3) A carrier shall keep records of property and property retirements that will reflect the service life of property which has been retired, or will permit the determination of service life indications by mortality, turnover, or other appropriate methods; and also such records as will reflect the percentage of net salvage value for property retired from each class of depreciable carrier property.

(c) *Charges*. In computing monthly charges, the annual percentage rates shall be applied to the depreciation base as of the first of each month and the result divided by twelve.

(d) *Retirements*. Except as provided in paragraph (e) of this section, upon the retirement of depreciable property the service value shall be charged in its entirety to account 31, Accrued Depreciation—Carrier Property. Any amounts of insurance recovered from casualty losses involving depreciable property retired shall be credited thereto.

(e) *Special accounting authority*. (1) When circumstances indicate that newly acquired property should be subject to amortization, or that the prescribed depreciation rates based on the service lives of certain property are no longer applicable, because the source of traffic will be exhausted before the end of the physical service life, the carrier shall submit to the Commission for approval amortization or depreciation rates based on the estimated remaining service life of the property accompanied by full information justifying the request.

(2) A carrier may request, or the Commission may direct, that special accounting be applied in situations causing undue inflation or deflation of depreciation reserves, such as premature or unusual retirements or sales of depreciable property, or related insurance recoveries. A carrier's request for special accounting shall contain full particulars concerning the situation, including the basis for its proposal. Alternative accounting techniques shall be applied to the extent approved or directed by the Commission.

1–9 *Depreciation accounting—Noncarrier property*. Monthly depreciation charges for all depreciable property recorded in account 34, Noncarrier Property, shall be made to account 620, Income from Noncarrier Property, with concurrent credits to account 35, Accrued Depreciation—Noncarrier Property. The depreciation charges shall be such as to distribute the service values equitably over the service life of the property.

1–10 *Amortization of intangibles.* Monthly charges shall be made to account 540, Depreciation and Amortization, to amortize the cost of fixed life intangibles such as permits, patents and franchises which are directly related to pipeline operations. Monthly charges shall be made to account 660, Miscellaneous Income Charges, to amortize the cost of intangibles such as goodwill which are not directly associated with pipeline operations. The amortization charges shall be such as to distribute the cost by the straight-line method in equal annual charges over the life or expected period of benefit.

1–11 *Interpretation of rules.* To maintain uniformity of accounting, carriers shall submit questions of doubtful interpretation to the Commission for consideration and decision.

1–12 *Accounting for income taxes.* (a) The interperiod tax allocation method of accounting shall be applied to all material temporary differences (see definition 30(e)) between the tax basis of an asset or liability and its reported amount in the financial statements that will result in taxable or deductible amounts in future years. Carriers may elect, as provided by the Revenue Act of 1971, to account for the investment tax credit by either the flow through method or the deferred method of accounting. See paragraphs (d) and (e) below. All income taxes (Federal, State, and other) currently accruable for income tax return purposes shall be charged to account 670, Income taxes on income from continuing operations, and account 695, Income taxes on extraordinary items, as applicable.

(b) Under the interperiod tax allocation method of accounting a deferred tax liability or asset is to be recognized for all temporary differences (see definition 30(e)) that result in taxable amounts in future years when the related asset or liability is recovered or settled. Deferred taxes are classified as current or noncurrent based on the classification of the related asset or liability. A carrier shall apply the applicable enacted tax rate in determining the amount of deferred taxes. The carrier shall adjust its deferred tax liabilities and assets for the effect of the change in tax law or rates in the period that the change is enacted. The adjustment shall be recorded in the proper deferred tax balance sheet accounts based on the nature of the temporary difference and the related classification requirements of the account.

(c) An entity shall record the income tax effects of a net operating loss carryforward or a tax credit carryforward as a deferred tax asset in the year the loss occurs. In the event that it is more likely than not (a likelihood of more than 50 percent) that some portion of its deferred tax assets will not be realized, a carrier shall reduce the asset by a valuation allowance. The valuation allowance should be recorded in a separate subaccount of the deferred tax asset account. The carrier shall disclose full particulars as to the nature and amount of each type of operating loss and tax credit carryforward in the notes to its financial statements.

(d) Carriers electing to account for the investment tax credit by the flow through method shall credit account 670, Income taxes on income from continuing operations, or account 695, Income taxes on extraordinary items, as applicable, and charge to account 56, Taxes payable, with the amount of investment tax credit utilized in the current accounting period. When the flow through method is followed for the investment tax credit, account 671, Provision for deferred taxes, shall reflect the difference between the tax payable (after recognition of allowable investment tax credit) based on taxable income and tax expense (with full recognition of investment tax credit that would be allowable based on accounting income) based on accounting income.

(e) Carriers electing to account for the investment tax credit by the deferred method shall concurrently with making the entries prescribed in (d) above charge account 671, ''Provision for deferred taxes'' or account 696, ''Provision for deferred taxes—extraordinary items,'' as applicable, and shall credit account 64, Accumulated Deferred Income Tax Liabilities with the investment tax credit utilized as a reduction of the current year's tax liability but deferred for accounting purposes. The investment tax credit so deferred shall be amortized by credits to account 671, ''Provision for deferred taxes''.

NOTE A: Any change in practice of accounting for the investment tax credit shall be reported promptly to the Commission. Carriers desiring to clear deferred investment tax credits because of a change from the deferral method to the flow through method shall submit the proposed journal entry to the Commission for consideration and advice.

NOTE B: The carrier shall follow generally accepted accounting principles where an interpretation of the accounting rules for income taxes is needed or obtain an interpretation from its public accountant or the Commission.

(Interstate Commerce Act, 49 U.S.C. 20 (1976), Department of Energy Organization Act, 42 U.S.C. 7155, 7172(b), 7295(a) (Supp. I 1977); E. O. 12009, 42 FR 46267 (1977); Federal Energy Regulatory Commission, Order No. 1, 42 FR 55450 (1977))

[39 FR 33344, Sept. 17, 1974, as amended at 40 FR 53247, Nov. 17, 1975; 44 FR 72161, Dec. 13, 1979. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981, as amended by Order 620, 65 FR 81342, Dec. 26, 2000]

1–13 *Transactions with affiliated companies.* (a) The records and supporting data of all transactions with affiliated companies shall be maintained in a separate file. The types of transactions referred to in this paragraph are for management services or any other type of services rendered, sale or use of facilities or any other type of assets or property. The file shall be maintained so as to enable the carrier, to furnish accurate information with supporting documentation about particular transactions within 15 days of the request. We do not intend the file to include data relating to ordinary carrier operations (e.g. lawful tariff charges).

(b) Each bill rendered by an affiliated company shall state specifically the basis used for determining charges, unless the file contains other information to support the specific basis for charges.

(c) Punched cards, magnetic tapes, discs, or other machine-sensible device used for recording, consolidating, and summarizing accounting transactions and records with a carrier's electronic or automatic data processing system may constitute a file within the meaning of this instruction.

(d) The carrier shall record, as the cost of assets or services received from an affiliated supplier, the invoice price (plus any incidental costs related to those transactions) in those cases where the invoice price can be determined from a prevailing price list of the affiliated supplier available to the general public in the normal course of business. If no such price list exists, the charges shall be recorded at the lower of their cost to the originating affiliated supplier (less all applicable valuation reserves in case of asset sales), or their estimated fair market value determined on the basis of a representative study of similar competitive and arm's-length or bargained transactions.

Any difference between actual transaction price and the above, as well as charges that are not transportation related, shall be considered of a financing nature and shall be recorded, accordingly, as nonoperating charges or credits. (See Instruction 1–14).

(e) Nothing contained herein shall be construed as restraining the carrier from subdividing accounts (see Instruction 1–2(a)) for the purpose of recording separately transactions with affiliated companies.

[40 FR 44562, Sept. 29, 1975. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981]

1–14 *Charges to be just and reasonable.* All charges to the accounts prescribed in this system of accounts for carrier property, operating revenues, operating and maintenance expenses, and other carrier expenses, shall be just, reasonable and not exceed amounts necessary to the honest and efficient operations and management of carrier business. Payments shall not exceed the fair market value of goods and services acquired in an arm's-length transaction. Any payments in excess of such just and reasonable charges shall be included in account 660, Miscellaneous Income Charges.

[40 FR 44562, Sept. 29, 1975. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981]

1–15 *Accounting for marketable securities owned.*

(a) Accounts 11 "Temporary investments," 20 "Investments in affiliated companies," and 21 "Other investments" shall be maintained in such a manner as to reflect the marketable equity portion (*see* definition 35) and other securities or investments.

(b) For the purpose of determining net ledger value, the marketable equity securities in account 11 shall be considered the current portfolio and the marketable equity securities in accounts 20 and 21 (combined) shall be considered the noncurrent portfolio.

(c) Carriers will categorize their security investments as held-to-maturity, trading, or available-for-sale. Unrealized holding gains and losses on trading type investment securities will be recorded in accounts 640, miscellaneous income, and 660, miscellaneous income charges, as appropriate. Unrealized holding gains and losses on available-for-sale type investment securities shall be recorded in account 77, accumulated other comprehensive income.

[42 FR 33297, June 30, 1977. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981, and amended by Order 627, 67 FR 67706, Nov. 6, 2002]

1–16 *Accounting for inaccurate reporting of income taxes on income from continuing operations which occurred prior to reporting year 1979*. To the extent that any oil pipeline company, required to file annual reports with the Commission, did not correctly report State or other income taxes on continuing operations for the 1976, 1977, and 1978 reporting years, such company is ordered to disclose the amount of the accounting change in the space for notes and remarks provided in its 1979 Annual Report Form P, Schedule 300–A, of the Commission.

(Interstate Commerce Act, 49 U.S.C. 20 (1976), Department of Energy Organization Act, 42 U.S.C. 7155, 7172(b), 7295(a) (Supp. I 1977); E. O. 12009, 42 FR 46267 (1977); Federal Energy Regulatory Commission, Order No. 1, 42 FR 55450 (1977))

[44 FR 72161, Dec. 13, 1979. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981]

1–17 *Accounting for other comprehensive income.*

(a) Carriers shall record items of other comprehensive income in account 77, accumulated other comprehensive income. Amounts included in this account shall be maintained by each category of other comprehensive income. Examples of categories of other comprehensive income include, foreign currency items, minimum pension liability adjustments, unrealized gains and losses on available-for-sale type securities and cash flow hedge amounts. Supporting records shall be maintained for account 77 so that the company can readily identify the cumulative amount of other comprehensive income for each item included in this account.

(b) When an item of other comprehensive income enters into the determination of net income in the current or subsequent periods, a reclassification adjustment shall be recorded in account 77 to avoid double counting of that amount.

[Order 627, 67 FR 67706, Nov. 6, 2002]

1–18 *Accounting for derivative instruments and hedging activities.*

(a) A carrier shall recognize derivative instruments as either assets or liabilities in the financial statements and measure those instruments at fair value, except those falling within recognized exceptions, the most common of which being the normal purchases and sales scope exception. Normal purchases or sales are contracts that provide for the purchase or sale of goods that will be delivered in quantities expected to be used or sold by the utility over a reasonable period in the normal course of business. A derivative instrument is a financial instrument or other contract with all three of the following characteristics:

(1) It has one or more underlyings and a notional amount or payment provision. Those terms determine the amount of the settlement or settlements, and, in some cases, whether or not a settlement is required.

(2) It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have similar response to changes in market factors.

(3) Its terms require or permit net settlement, can readily be settled net

by a means outside the contract, or provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.

(b) The accounting for the changes in the fair value of derivative instruments depends upon its intended use and designation. Changes in the fair value of derivative instruments not designated as fair value or cash flow hedges shall be recorded in account 46, derivative instrument assets, or account 65, derivative instrument liabilities, as appropriate, with the gains recorded in account 640, miscellaneous income, and losses recorded in account 660, miscellaneous income charges.

(c) A derivative instrument may be specifically designated as a fair value or cash flow hedge. A hedge may be used to manage risk to price, interest rates, or foreign currency transactions. An entity shall maintain documentation of the hedge relationship at the inception of the hedge that details the risk management objective and strategy for undertaking the hedge, the nature of the risk being hedged, and how hedge effectiveness will be determined.

(d) If the carrier designates the derivative instrument as a fair value hedge against exposure to changes in the fair value of a recognized asset, liability, or a firm commitment, it shall record the change in fair value of the derivative instrument designated as a fair value hedge to account 47, derivative instrument assets-hedges, or account 66, derivative instrument liabilities-hedges, as appropriate, with a corresponding adjustment to the subaccount of the item being hedged. The ineffective portion of the hedge transaction shall be reflected in the same income or expense account that will be used when the hedged item enters into the determination of net income. In the case of a fair value hedge of a firm commitment, a new asset or liability is created. As a result of the hedge relationship, the new asset or liability will become part of the carrying amount of the item being hedged.

(e) If the carrier designates the derivative instrument as a cash flow hedge against exposure to variable cash flows of a probable forecasted transaction, it shall record changes in the fair value of the derivative instrument in account 47, derivative instrument assets-hedges, or account 66, derivative instrument liabilities-hedges, as appropriate, with a corresponding amount in account 77, accumulated other comprehensive income, for the effective portion of the hedge. The ineffective portion of the hedge transaction shall be reflected in the same income or expense account that will be used when the hedged item enters into the determination of net income. Amounts recorded in other comprehensive income shall be reclassified into earnings in the same period or periods that the hedged forecasted item enters into the determination of net income.

[Order 627, 67 FR 67706, Nov. 6, 2002]

1–19 *Accounting for asset retirement obligations.*

(a) An *asset retirement obligation* represents a liability for the legal obligation associated with the retirement of a tangible long-lived asset that a utility is required to settle as a result of an existing or enacted law, statute, ordinance, or written or oral contract or by legal construction of a contract under the doctrine of promissory estoppel. An *asset retirement cost* represents the amount capitalized when the liability is recognized for the long-lived asset that gives rise to the legal obligation. The amount recognized for the liability and an associated asset retirement cost shall be stated at the fair value of the asset retirement obligation in the period in which the obligation is incurred.

(b) The carrier shall initially record a liability for an asset retirement obligation in account 67, Asset retirement obligations, and charge the associated asset retirement costs to account 30, Carrier property, and account 34, Noncarrier property, as appropriate, related to the property that gives rise to the legal obligation. The asset retirement cost shall be depreciated over the useful life of the related asset that gives rise to the obligations. For periods subsequent to the initial recording of the asset retirement obligation, a carrier shall recognize the period to period changes of the asset retirement obligation that result from the passage of time due to the accretion of the liability and any subsequent measurement revisions to the initial liability for the legal obligation recorded in account 67, Asset retirement obligations, as follows:

(1) The carrier shall record the accretion of the liability by debiting account 591, Accretion expense, for carrier property, account 620, Income (net) from noncarrier property, for noncarrier property and crediting account 67, Asset retirement obligations; and

(2) The carrier shall recognize any subsequent measurement changes of the liability initially recorded in account 67, Asset retirement obligations, for each specific asset retirement obligation as an adjustment of that liability in account 67 with the corresponding adjustment to carrier property and noncarrier property accounts, as appropriate. The utility shall on a timely basis monitor any measurement changes of the asset retirement obligations.

(c) Gains or losses resulting from the final settlement of asset retirement obligations for carrier plant resulting from the difference between the amount of the liability for the asset retirement obligation in account 67, Asset retirement obligations, and the actual amount to settle the obligation, shall be recorded in account 592, Gains or losses on asset retirement obligations.

(d) Gains or losses resulting from the final settlement of asset retirement obligations for noncarrier plant resulting from the difference between the amount of the liability for the asset retirement obligation in account 67, Asset retirement obligations, and the actual amount to settle the obligation, shall be recorded in account 620, Income (net) from noncarrier property.

(e) Separate subsidiary records shall be maintained for each asset retirement obligation showing the initial liability and associated asset retirement cost, any incremental amounts of the liability incurred in subsequent reporting periods for additional layers of the original liability and related asset retirement cost, the accretion of the liability, the subsequent measurement changes to the asset retirement obligation, the depreciation and amortization of the asset retirement costs and related accumulated depreciation, and the settlement date and actual amount paid to settle the obligation. For purposes of analyses a carrier shall maintain supporting documentation so as to be able to furnish accurately and expeditiously with respect to each asset retirement obligation the full details of the identity and nature of the legal obligation, the year incurred, the identity of the plant giving rise to the obligation, the full particulars relating to each component and supporting computations related to the measurement of the asset retirement obligation.

[Order 631, 68 FR 19625, Apr. 21, 2003]

INSTRUCTIONS FOR BALANCE SHEET ACCOUNTS

2–1 *Current assets.* In the group of accounts designated as current assets shall be included cash and other assets or resources commonly identified as those which are reasonably expected to be realized in cash or sold or consumed within a one-year period. There shall not be included any amount the collection of which is not reasonably assured by the known financial condition of the debtor or otherwise. Items of current character but of doubtful value shall be written down or written off to account 510, Supplies and Expenses, or to account 660, Miscellaneous Income Charges, as appropriate.

2–2 *Investments and special funds.* (a) This group of accounts shall include the cost of long-term investments in securities other than those of the accounting carrier, investment advances, sinking and other funds, cash value of life insurance policies, and other items of similar nature.

(b) Investment in securities shall be recorded at cost at time of acquisition excluding amounts paid for accrued interest and dividends. When securities with a fixed maturity date are purchased at a discount or premium, such discount or premium shall be amortized over the remaining life of the securities by periodical debits or credits to the account in which the cost of the securities is recorded with corresponding credits or debits to interest income. If the amount of the discount or premium is minor, the investment may be maintained at actual cost without adjustment, and the amount of discount or premium recorded in the interest income account at the time the securities mature.

(c)(1) *For financial statement purposes* the carrier shall follow the principles of equity accounting for (1) all investments in corporate joint ventures (see definition 31(c)), and (2) all investments in voting stock of affiliated companies giving the carrier the ability to significantly influence the operating and financial policies of an investee (see definition 31(b)). For purposes of this instruction an investment of 20 percent or more of the outstanding voting stock of an investee will indicate the ability to exercise significant influence over an investee in the absence of evidence to the contrary.

(2) Since the equity method is not to be effected by entries in the books of accounts but is to apply only in financial reports to the Commission, the carrier shall establish worksheet or memorandum accounts. Three basic worksheet or memorandum accounts are needed:

(a) An investment account to include (1) equity in the undistributed earnings or losses of the investee since the date of acquisition (see definition 31(g)); (2) accumulated amortization of the difference between cost and net assets at date of acquisition (see (c)(3) below); and other adjustments for disposition or writedown of investments.

(b) An income account to include (1) the investor's share of the investee's undistributed profits or losses for each reporting period subsequent to acquisition of the investment except that in the year of acquisition such amount shall be determined from the date of acquisition; (2) amortization for the reporting period of the difference between cost and net assets at date of acquisition. This account shall be closed at year-end to the retained income memorandum account discussed in paragraph (c) below.

(c) A retained income account to include (1) equity in the undistributed earnings or losses of the investee since the date of acquisition; (2) accumulated amortization of the difference between cost and net assets acquired at date of acquisition (see (c)(3) below).

(d) Other memorandum accounts will be needed for such adjustments as gains and losses on disposition of investments, recognition of impairments in value, the investor's share of extraordinary and prior period items reported in the investee's financial statements (see instruction 1–6), and provision for deferred taxes where it is reasonable to assume that undistributed earnings of an investee will be transferred to the investor in a taxable distribution. These memorandum accounts shall be closed at year-end to the retained income memorandum account discussed in paragraph (c) above.

(3) The carrier shall retain the following information for each investee in support of the worksheet or memorandum accounts:

(a) Original cost of investment.

(b) Equity in net assets of investee at date of acquisition.

(c) Allocation of difference between cost and equity in net assets, namely, to specific assets of investee or to goodwill.

(d) Accumulated amortization of difference between cost and equity in net assets.

(e) Unamortized balance of difference between cost and equity in net assets.

(f) Equity in undistributed earnings/losses for each year since date of acquisition.

(g) Dividends received since date of acquisition if determinable.

(h) Proceeds from sale of investments.

(4) Any difference between the investor's cost and its share of the net assets of the investee at date of acquisition shall be allocated to specific assets of the investee to the extent the difference is attributable to them. When the difference is allocated to depreciable or amortizable assets, depreciation and amortization (through the investment and income memorandum accounts) should absorb the difference over the remaining life of the related assets. If the difference is not related to specific accounts, it should be considered goodwill and amortized over a reasonable period not to exceed 40 years. For investments made prior to

November 1, 1970, amortization of goodwill is not required in the absence of evidence that the goodwill has a limited term of existence.

(5) The financial statements of the investee that are used for equity accounting should be timely. If the accounting year of the investee differs from that of the investor then the most recent available financial statements may be used. The lag in reporting should be consistent from period to period.

(6) Material profits or losses on transactions between the investor and investee shall be eliminated until realized by either company as if the two were consolidated.

(7) A transaction of the investee of a capital nature that affects the investor's share of the investee's stockholder's equity should be reported in the financial statements as if the two were consolidated.

(8) The investor shall deduct any dividends applicable to outstanding cumulative preferred stock whether or not declared, and any other dividends declared when computing its share of undistributed earnings or losses.

(9) The investor shall suspend application of the equity method when the investment (including the investment memorandum account) together with any net advances made to the investee is reduced to zero. Additional losses shall not be provided for unless the investor has guaranteed obligations of the investee or is otherwise committed to provide further financial support for the investee. If the investee subsequently reports net income the investor shall resume applying the equity method at such time as its share of that net income equals the share of net losses not recognized during the period of suspension.

(10) When the investor's voting stock interest falls below the level of ownership described in paragraph (c)(1) of this instruction, the investment no longer qualifies for the equity method. Should dividends received on the investment in subsequent periods exceed the investor's share of earnings for such periods, the investment memorandum and income memorandum accounts shall be reduced by the excess amount.

(11) When the level of ownership of an investment increases to that described in paragraph (c)(1) of this instruction, the equity method shall be applied. The memorandum accounts for the investment, income (for current year's equity in undistributed earnings less amortization), and retained income (for prior years' equity in undistributed earnings less amortization) shall be adjusted retroactively on a step-by-step basis determining the equity in net assets at date of acquisition, amortization adjustment, and equity in undistributed earnings or losses at each level of ownership. Where small purchases are made over a period of time and then a purchase is made which qualifies the investment for the equity method, the date of latest purchase may be used as date of acquisition. In those situations where the information needed to apply the equity method is not determinable, the date of acquisition may be considered as January 1, 1974.

(12) Information having significance with respect to the investor's ownership in investees shall be disclosed in notes to financial statements of annual reports filed with the Commission in accordance with generally accepted accounting principles.

NOTE A: The carrier shall follow generally accepted accounting principles where an interpretation of the rules for equity accounting is needed or obtain an interpretation from its public accountant or the Commission.

[32 FR 20241, Dec. 20, 1967, as amended at 39 FR 34043, Sept. 23, 1974. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981]

2–3 *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 investment in jointly-owned transportation property in which it has an undivided ownership interest. 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.

2–4 *Other assets and deferred charges*. Account 40, Organization Costs and

Other Intangibles, is prescribed for organization costs and other intangible assets, such as patents and franchises. These intangible assets shall be recorded at cost. Accounts are also prescribed for assets not otherwise provided for and for charges applicable to future periods.

2–5 *Current liabilities.* In this group of accounts shall be included obligations which are payable on demand or mature or become due within one year from the date of the balance sheet.

2–6 *Noncurrent liabilities.* Includible under this category of account are those obligations which are not due to be liquidated within one year from the date of the balance sheet. Estimates of future fire losses or other contingencies shall not be accounted for as current expenses or recorded as liabilities. Such contingencies may be provided for by appropriations of retained income, the losses to be recognized in income when sustained.

2–7 *Contingent assets and liabilities.*

(a) A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to a carrier that will ultimately be resolved when one or more future events occur or fail to occur. Resolution of the uncertainty may confirm the acquisition of an asset or the reduction of a liability or the loss or impairment of an asset or the incurrence of a liability.

(b) An estimated loss from a contingent liability shall be charged to income if it is probable that an asset had been impaired or a liability had been incurred and the amount of the loss can be reasonably estimated. The carrier shall disclose in a footnote in its annual report any accrued contingent liabilities, along with any contingent liabilities not meeting both conditions for accrual if there is a reasonable possibility that a liability may have been incurred.

(c) Contingent assets should not be reflected in the accounts. The carrier shall disclose in a footnote in its annual report any contingencies that might result in an asset.

[32 FR 20241, Dec. 20, 1967. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981, as amended by Order 620, 65 FR 81342, Dec. 26, 2000]

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 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 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.

(iii) Interest during construction shall not be recognized on the asset retirement costs incurred during the construction of carrier and noncarrier property.

(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.

(13) Asset retirement costs that are recognized as a result of asset retirement obligations incurred during construction shall be included in the cost of construction costs.

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.

[32 FR 20241, Dec. 20, 1967. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981, as amended by Order 620, 65 FR 81343, Dec. 26, 2000; Order 631, 68 FR 19625, Apr. 21, 2003]

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.

[32 FR 20241, Dec. 20, 1967, as amended at 40 FR 53248, Nov. 17, 1975. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981; Order 598, 63 FR 6852, Feb. 11, 1998]

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 secondhand 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.

(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.

(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]

INSTRUCTIONS FOR OPERATING REVENUES AND OPERATING EXPENSES

4–1 *Detail of accounts.* The carrier shall keep the prescribed accounts with sufficient particularity to permit the reporting of operating revenues and expenses for crude oil lines and for product lines separately, and to permit the allocation of operating expenses by service functions (see 4–3 Operating Expenses).

4–2 *Operating revenues.* The operating revenue accounts are designed to show the amount of money which the carrier becomes entitled to receive or which accrues to its benefit for transportation and services incidental thereto.

4–3 *Operating expenses.* The operating expense accounts are designed to show the costs of pipeline operations by service functions. The expenses of pipeline operations are to be allocated to the following functions:

(a) *Gathering.* This includes the gathering and collection of oil, oil products and other commodities from oil field, refinery, or other source (other than carrier's own terminal and delivery facilities), and transmission to point of connection to meters, working or storage tanks, or intake side of the manifold at the trunk line receiving site or station, or at a terminal.

(b) *Trunk.* This includes the trunk line transportation of crude oil, oil products and other commodities from origin or receiving station to point of connection with other carriers, consignee facilities at destination, or to the discharge side of the manifold or connection to working or storage tanks at the destination station.

(c) *Delivery.* This includes the receiving, storage, and delivering at terminal and delivery facilities of crude oil, oil products and other commodities from or to railroads, motor carriers, water carriers, and others prior or subsequent to movement by pipeline.

4–4 *Expense classification.* The primary expense accounts are to be reported under the following classifications:

(a) *Operations and maintenance expense.* This group of accounts includes all costs directly associated with the operation, repairs and maintenance of property devoted to pipeline operations including scheduling, dispatching, movement, and delivery of crude oil, oil products and other commodities.

(b) *General expense.* This group of accounts includes general and administrative expense and all other expenses not directly allocable to operations and maintenance expenses.

4–5 *Expense distribution.* The several classes of expenses shall be directly allocated to applicable service functions to the fullest possible extent. Expenses common to two or more functions and system expenses shall be equitably apportioned to the service functions. The basis for apportionment and the underlying records in support thereof shall be readily available for inspection by the Commission's examiners.

[32 FR 20241, Dec. 20, 1967. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981, as amended by Order 620, 65 FR 81343, Dec. 26, 2000]

BALANCE SHEET ACCOUNTS

10 Cash.

This account shall include money, checks, sight drafts and sight bills of exchange, money in banks or in other depositories subject to withdrawal on demand, and other similar items. The amount of checks and sight drafts transmitted to payees which are unpaid at the close of the accounting period shall be credited to this account.

NOTE: Compensating balances (see Definition 33) under an agreement which legally restricts the use of such funds shall not be included in this account. Such balances shall be included in account 10–5 ''Special deposits'' or account 22 ''Sinking and other funds.''

(49 U.S.C. 304, 913, 1012)

[32 FR 20241, Dec. 20, 1967, as amended at 41 FR 9158, Mar. 3, 1976. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981]

10–5 Special deposits.

This account shall include cash deposits, either placed in hands of trustees or under the direct control of the reporting company, which are restricted for specific purposes. Examples are those deposits made for the payment of dividends and interest due within one year, the liquidation of other current liabilities, to guarantee fulfillment of current contract obligations, to meet specific operating requirements, or compensating balances (see Definition 33) under an agreement which legally restricts the use of such funds and which constitute support for short-term borrowing arrangements. Sub-accounts may be set up, if necessary to account for special deposits for specific purposes.

NOTE: Deposits available for general company purposes shall be included in account 10 ''Cash.''

(49 U.S.C. 304, 913, 1012)

[41 FR 9158, Mar. 3, 1976. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981]

11 Temporary investments.

(a) This account shall include the cost of securities and other collectible obligations acquired for the purpose of temporarily investing cash, such as United States Treasury certificates, marketable securities, time drafts receivable, demand loans, time deposits with banks and trust companies, and other similar investments of a temporary character. This account shall also include unrealized holding gains and losses on trading and available-for-sale types of security investments.

(b) This account shall be subdivided to reflect the marketable equity securities' portion and other temporary investments. (*See* Instruction 1–15).

[Order 627, 67 FR 67706, Nov. 6, 2002]

12 Notes receivable.

This account shall include the book cost, not includible elsewhere, of all collectible obligations in the form of notes receivable, contracts receivable, and similar evidences (except interest coupons) of money receivable on demand or within a time not exceeding one year from date of the balance sheet. Notes receivable from affiliates shall be included in account 13, Receivables from Affiliated Companies.

13 Receivables from affiliated companies.

(a) This account shall include amounts receivable due and accrued from affiliated companies subject to settlement within one year from date of the balance sheet. This includes receivables for items such as revenue for services rendered, material furnished, rent, interest and dividends, advances and notes.

(b) An oil pipeline company participating in a cash management program must maintain supporting documentation for all deposits into, borrowings from, interest income from, and interest expense to such program. Cash management programs include all agreements in which funds in excess of the daily needs of the oil pipeline company along with the excess funds of the oil pipeline company's parent, affiliated and subsidiary companies are concentrated, consolidated, or otherwise made available for use by other entities within the corporate group. The written documentation must include the following information:

(1) For deposits with and withdrawals from the cash management program: The date of the deposit or withdrawal, the amount of the deposit or withdrawal, and the maturity date, if any, of the deposit;

(2) For borrowings from a cash management program: The date of the borrowing, the amount of the borrowing, and the maturity date, if any, of the borrowing;

(3) The security, if any, provided by the cash management program for repayment of deposits into the cash management program and the security required, if any, by the cash management program in support of borrowings from the program; and

(4) The monthly balance of the cash management program.

(c) The oil pipeline company must maintain current and up-to-date copies of the documents authorizing the establishment of the cash management program including the following:

(1) The duties and responsibilities of the administrator and the oil pipeline company in the cash management program;

(2) The restrictions on deposits or borrowings by oil pipeline companies in the cash management program;

(3) The interest rate, including the method used to determine the interest earning rates and interest borrowing rates for deposits into and borrowings from the program; and

(4) The method used to allocate interest income and expenses among oil pipeline companies in the program.

[32 FR 20241, Dec. 20, 1967, as amended by Order 634, 68 FR 40509, July 8, 2003; Order 634–A, 68 FR 62004, Oct. 31, 2003]

14 Accounts receivable.

This account shall include amounts receivable due and accrued from other than affiliates which are subject to settlement within one year from date of the balance sheet. This includes items such as revenue for services rendered, material furnished, rent, accounts of officers and employees, miscellaneous accounts with others.

14–5 Accumulated provision for uncollectible accounts.

This account shall be credited with amounts provided for losses on notes and accounts receivable which may become uncollectible, and also with collections on accounts previously charged hereto. This account shall be charged with any amounts which have been found to be impractical of collection.

[Order 620, 65 FR 81343, Dec. 26, 2000]

15 Interest and dividends receivable.

(a) This account shall include the amount of interest due and accrued as of the date of the balance sheet on all interest-bearing obligations held by the carrier. This account shall also include the amount of dividends declared on stocks owned.

(b) Interest and dividends receivable from affiliated companies or on the carrier's own securities shall not be included in this account.

16 Oil inventory.

(a) This account shall include the cost of oil purchased and the value of oil acquired through tariff allowances and operating gains. Amounts paid preceding carriers for transportation, customs duties, or similar charges shall be charged to account 230, Allowance Oil Revenue. Additions to inventory from tariff allowances shall be credited to revenue at current value. Additions resulting from operating gains shall be credited against operating oil losses and shortages.

(b) The cost or value of oil owned by the carrier and used to maintain lines and working tanks in condition for transportation operations shall be included in account 33, Operating Oil Supply.

17 Material and supplies.

(a) This account shall include the cost, including sales, use and excise taxes and transportation costs to point of delivery, less purchase and trade discounts, of all unapplied material and supplies, such as line pipe, line pipe fittings, fuel, tools, and other pipeline supplies. The value of items being manufactured by the carrier and the fair value of salvaged material shall also be included herein.

(b) Carriers shall take annual inventories of material and supplies and shall make the adjustments necessary to reconcile the books to the inventory figures. To the extent practicable, adjustments shall be made directly to the same accounts to which such material and supplies were charged during the period. Differences that cannot be directly allocated shall be equitably apportioned among the accounts to which material was charged since the last inventory.

18 Prepayments.

This account shall include the amount of expenses paid in advance of accrual such as insurance, rent, and taxes, the benefits of which are to be realized in subsequent periods. Monthly transfers shall be made to the appropriate expense or other accounts for the expired portion of the prepayments applicable to that month.

19 Other current assets.

This account shall include such items as estimated tax refunds receivable, legally enforceable, balances due on subscriptions to capital stock, temporary guaranty and other deposits, and all other current assets due within one year which are not includible in the other current asset accounts.

19–5 Deferred income tax assets.

(a) This account shall include the portion of deferred income tax assets and liabilities relating to current assets and liabilities, when the balance is a net debit.

(b) A net credit balance shall be included in Account 59, Deferred income tax liabilities.

[Order 620, 65 FR 81343, Dec. 26, 2000]

20 Investments in affiliated companies.

This account shall include the cost of investments in securities (other than securities held in special funds) and investment advances made to affiliated companies. Separate records shall be maintained to show the securities pledged and the following classes of investments in each affiliated company:

(a) Stocks.
(b) Bonds.
(c) Other secured obligations.
(d) Unsecured notes.
(e) Investment advances.

21 Other investments.

This account shall include the cost of investments in securities of (other than securities held in special funds) and advances made to other than affiliated companies. This account shall also include unrealized holding gains and losses on trading and available-for-sale types of security investments. Separate records shall be maintained to show the securities pledged and the following classes of investments in each nonaffiliated company:

(a) Stocks.
(b) Bonds.
(c) Other secured obligations.
(d) Unsecured notes.
(e) Investment advances.

[Order 627, 67 FR 67706, Nov. 6, 2002]

22 Sinking and other funds.

(a) This account shall include cash and cost of investments in securities and other assets, trusteed or otherwise restricted, that have been segregated in distinct funds for purposes of redeeming outstanding obligations; purchasing or replacing assets; paying pensions, relief, hospitalization, and other similar items. This account shall also include unrealized holding gains and losses on trading and available-for-sale types of security investments. The cash value of life insurance policies on the lives of employees and officers to the extent that the carrier is the beneficiary of such policies shall also be included in this account. Separate subsidiary records shall be maintained for each distinct fund.

(b) Securities issued or assumed by the accounting company shall be recorded at par or stated value.

(c) This account shall include compensating balances (see Definition 34) under an agreement which legally restricts the use of such funds and which constitute support for long-term borrowing arrangements.

(49 U.S.C. 304, 913, 1012)

[32 FR 20241, Dec. 20, 1967, as amended at 41 FR 9158, Mar. 3, 1976. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981, and amended by Order 627, 67 FR 67706, Nov. 6, 2002]

30 Carrier property.

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. Separate primary accounts are prescribed for each class of carrier property.

31 Accrued depreciation—Carrier property.

This account shall be credited with amounts charged to operating expenses or other accounts representing the loss in service value of depreciable carrier property. The service value of depreciable property retired shall be charged to this account. It shall also include other entries as may be authorized by the Commission. Detail of this account shall be maintained by primary property accounts. Separate subsidiary records shall be maintained for the amount of accrued cost of removal other than legal obligations for the retirement of property recorded in account 31, Accrued depreciation—Carrier property.

32 Accrued amortization—Carrier property.

This account shall be credited with amounts charged to operating expenses or other accounts representing the loss in service value of carrier property subject to amortization accounting as authorized by the Commission. Upon the retirement of property subject to amortization this account shall be charged with the amount included herein applicable to the specific property at the time the property is retired. Subsidiary records shall be maintained for each group of property items under a separate amortization authorization.

33 Operating oil supply.

This account shall include the cost of oil purchased and the value of oil added through tariff allowances and operating gains which is used to maintain lines and tanks in working condition. Additions to operating supply from tariff allowances shall be credited to revenue at current value. Additions resulting from operating gains shall be credited against operating oil losses and shortages.

34 Noncarrier property.

This account shall include the cost of tangible property not used in carrier pipeline operations. This account shall also include, amounts recorded for asset retirement costs associated with noncarrier property.

[32 FR 20241, Dec. 20, 1967. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981, and amended by Order 631, 68 FR 19626, Apr. 21, 2003]

35 Accrued depreciation—Noncarrier property.

This account shall be credited with amounts charged to income, representing the loss in service value of depreciable noncarrier property.

40 Organization costs and other intangibles.

This account shall include the cost of intangible assets such as organizing the carrier, patents, permits, franchises, and goodwill. Organization costs include the legal expense, taxes, fees, stationery and printing, original capital stock expense and costs of economic feasibility studies made prior to initial operation of the carrier. Separate subsidiary records shall be maintained for each class of intangible asset.

41 Accrued amortization of intangibles.

This account shall be credited with the amounts charged to operating expenses or income representing the expired cost of intangible property. When the period of benefit of intangible property is fully expired, or assets are retired to which the intangible relates, this account shall be charged with the amount herein applicable to the specific property.

43 Miscellaneous other assets.

This account shall include such items as accounts receivable, utility deposits, guaranty deposits and other similar assets which are not expected to be realized or returned to the carrier within one year from date of the balance sheet. The estimated net salvage value of retired carrier property held without being dismantled shall be included in this account.

44 Other deferred charges.

This account shall include items that cannot be disposed of until further information is received and items of a deferred nature, not provided for elsewhere, to be amortized to expense or other accounts in future periods. This includes such items as engineering surveys and studies and debt expense.

45 Accumulated deferred income tax assets.

This account shall include the amount of deferred taxes determined in accordance with instruction 1–12 and the text of Account 64, Accumulated deferred income tax liabilities, when the balance is a net debit.

[Order 620, 65 FR 81343, Dec. 26, 2000]

46 Derivative instrument assets.

This account shall include the amounts paid for derivative instruments, and the change in the fair value of all derivative instrument assets not designated as cash flow or fair value hedges. Account 640, miscellaneous income, shall be credited or debited as appropriate with the corresponding amount of the change in the fair value of the derivative instrument.

[Order 627, 67 FR 67706, Nov. 6, 2002]

47 Derivative instrument assets-Hedges.

(a) This account shall include the amounts paid for derivative instruments, and the change in the fair value of derivative instrument assets, designated by the utility as cash flow or fair value hedges.

(b) When a carrier designates a derivative instrument asset as a cash flow hedge, it will record the change in the fair value of the derivative instrument in this account with a concurrent charge to account 77, accumulated other comprehensive income, with the effective portion of the derivative gain or loss. The ineffective portion of the cash flow hedge shall be charged to the same income or expense account that will be used when the hedged item enters into the determination of net income.

(c) When a carrier designates a derivative instrument as a fair value hedge, it shall record the change in the fair value of the derivative instrument in this account with a concurrent charge to a subaccount of the asset or liability that carries the item being hedged. The ineffective portion of the fair value hedge shall be charged to the same income or expense account that will be used when the hedged item enters into the determination of net income.

[Order 627, 67 FR 67706, Nov. 6, 2002]

50 Notes payable.

This account shall include outstanding obligations in the form of notes, and other similar evidences of indebtedness payable on demand or within one year from the date of issue except those payable to affiliated companies.

NOTE: This account shall not include obligations due within one year which are intended to be refinanced on a long-term basis. Long-term refinancing of short-term obligations means; (1) replacement with long-term obligations or equity securities, or (2) renewal, extension, or replacement with short-term obligations for an uninterrupted period extending beyond one year from the balance sheet date.

The intention to refinance on a long-term basis shall be supported by the ability to refinance. Evidence of this ability includes either; (1) the actual issuance of a long-term obligation or equity securities for the purpose of refinancing the short-term obligation, after the balance sheet date but before the balance sheet is issued, or (2) before the balance sheet is issued, the existence of a financing agreement which is long-term and based on terms readily determinable with no existing violations of its provisions, and with a lender which is financially capable of honoring the agreement.

(49 U.S.C. 304, 913, 1012)

[32 FR 20241, Dec. 20, 1967, as amended at 41 FR 9163, Mar. 3, 1976. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981]

51 Payables to affiliated companies.

This account shall include amounts payable due and accrued to affiliated companies (except interest and dividends) subject to settlement within one year from date of the balance sheet, and for which arrangements for long-term refinancing have not been made (See Note following account 50, ''Notes Payable''). This includes payables for items such as services and material received, rent, advances and notes.

(49 U.S.C. 304, 913, 1012)

[41 FR 9163, Mar. 3, 1976. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981]

52 Accounts payable.

This account shall include amounts payable due and accrued (except those to affiliated companies) subject to settlement within one year from the date of the balance sheet. This includes payables for items such as joint revenue, material and supplies, services received, rents, claims, taxes collected from employees and others for account of taxing entities, and other similar items.

53 Salaries and wages payable.

This account shall include salaries and wages payable due and accrued including vacation pay and unclaimed salaries and wages as of the balance sheet date. Unclaimed salaries and wages outstanding for more than one year may be written off to income unless the amount unclaimed escheats to the state.

54 Interest payable.

This account shall include interest accrued or payable on all obligations.

55 Dividends payable.

This account shall include the amount of dividends (other than stock dividends) declared but unpaid as of the date of the balance sheet.

56 Taxes payable.

This account shall include all Federal, state, and local taxes (except taxes withheld from employees) accrued and payable, estimated if necessary, as of the balance sheet date. Prepaid taxes shall be shown as current assets in account 18, Prepayments. Subsidiary records shall be maintained to allow analyses of this account by matured and unmatured taxes and by type of tax and taxing entity.

57 Long-term debt payable within one year.

This account shall include the amount of long-term debt which will mature and become payable within one year from date of the balance sheet for which arrangements for long-term refinancing have not been made (See note following account 50, ''Notes Payable'').

(49 U.S.C. 304, 913, 1012)

[41 FR 9163, Mar. 3, 1976. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981]

58 Other current liabilities.

This account shall include all other current liabilities not provided for elsewhere that are payable within one year from date of balance sheet.

59 Deferred income tax liabilities.

(a) This account shall include the portion of deferred income tax assets and liabilities relating to current assets and liabilities, when the balance is a net credit.

(b) A net debit balance shall be included in Account 19–5, Deferred income tax assets.

[Order 620, 65 FR 81343, Dec. 26, 2000]

60 Long-term debt payable after one year.

This account shall include the total par value of the carrier's outstanding obligations maturing more than one year from the date of the balance sheet, including obligations due within one year which are expected to be refinanced on a long-term basis (See note following account 52, ''Accounts payable''). This account shall be divided to show the face value of (1) debt issued and actually outstanding, and (2) debt ''nominally issued'' and ''nominally outstanding''. These accounts shall be further divided by the following classes of debt: mortgage bonds, collateral trusts, income bonds, miscellaneous obligations and nonnegotiable debt to affiliated companies.

(49 U.S.C. 304, 913, 1012)

[41 FR 9163, Mar. 3, 1976. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981]

61 Unamortized premium on long-term debt.

This account shall include the premium received and not yet amortized on the issuance of long-term debt. The amount of premium received on each issue of bonds, mortgages, notes, and other long-term debt shall be amortized over the life of the debt by credit to interest expense.

NOTE: Issue costs related to long-term debt (debt expense) shall be included in account 44. Other deferred charges, and amortized over the life of the debt by charge to account 660, Miscellaneous income charges.

[32 FR 20241, Dec. 20, 1967, as amended at 41 FR 52467, Nov. 30, 1976. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981]

62 Unamortized discount and interest on long-term debt.

This account shall include the amount of discount on long-term debt, and the amount of interest expressly provided for and included in the face amount of obligations issued or assumed and not amortized as of the balance sheet date. The amount of discount or interest applicable to each issue of debt obligation shall be amortized over the life of the respective debt by charge to interest expense.

NOTE: Issue costs related to long-term debt (debt expense) shall be included in account 44, Other deferred charges, and amortized over the life of the debt by charge to account 660, Miscellaneous income charges.

[41 FR 52467, Nov. 30, 1976. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981]

63 Other noncurrent liabilities.

(a) This account shall include such items as deferred revenue from rents or leases that will not be realizable as income within one year, and the liability for amounts contributed by employees or others for pensions, savings, and similar items. This account shall also include the amount accrued for pensions in which the employees have a vested right and which are administered by the carrier.

[32 FR 20241, Dec. 20, 1967, as amended at 39 FR 33344, Sept. 17, 1974. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981]

64 Accumulated deferred income tax liabilities.

(a) This account shall be credited (charged) with amounts concurrently charged (credited) to account 671, Provision for deferred taxes and account 696, Provision for deferred taxes—extraordinary items, representing the net tax effect of changes in material temporary differences (see definition 30(e)) during the current accounting period.

(b) This account shall be credited with the amount of investment tax credit utilized in the current year for income tax purposes but deferred for accounting purposes (see instruction 1–12).

(c) This account shall be concurrently debited with amounts credited to account 671, Provision for deferred taxes representing amortization of amounts for investment tax credits deferred in prior accounting periods.

(d) This account shall be maintained in such a manner as to show separately: (1) The balance of deferred income taxes and deferred investment tax credit separately as of the beginning and as of the end of each year entries are made affecting the account balance, (2) the current years net credit or charges applicable to temporary differences and deferred investment tax credits.

NOTE A: The portion of deferred assets and liabilities relating to current assets and liabilities should likewise be classified as current and included in Account 19–5, Deferred Income Tax Assets, or Account 59, Deferred Income Tax Liabilities, as appropriate.

NOTE B: This account shall include a net credit balance only. A net debit balance shall be recorded in Account 45, Accumulated deferred income tax assets.

[39 FR 33344, Sept. 17, 1974, as amended at 40 FR 53248, Nov. 17, 1975. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981, as amended by Order 620, 65 FR 81343, Dec. 26, 2000]

65 Derivative instrument liabilities.

This account shall include the change in the fair value of all derivative instrument liabilities not designated as cash flow or fair value hedges. Account 660, miscellaneous income charges, shall be debited or credited as appropriate with the corresponding amount of the change in the fair value of the derivative instrument.

[Order 627, 67 FR 67706, Nov. 6, 2002]

66 Derivative instrument liabilities-Hedges.

(a) This account shall include the change in the fair value of derivative instrument liabilities designated by the carrier as cash flow or fair value hedges.

(b) A carrier shall record the change in the fair value of a derivative instrument liability related to a cash flow hedge in this account, with a concurrent charge to account 77, accumulated other comprehensive income, with the effective portion of the derivative gain or loss. The ineffective portion of the cash flow hedge shall be charged to the same income or expense account that will be used when the hedged item enters into the determination of net income.

(c) A carrier shall record the change in the fair of a derivative instrument liability related to a fair value hedge in this account, with a concurrent charge to a subaccount of the asset or liability that carries the item being hedged. The ineffective portion of the fair value hedge shall be charged to the same income or expense account that will be used when the hedged item enters into the determination of net income.

[Order 627, 67 FR 67706, Nov. 6, 2002]

67 Asset retirement obligations.

(a) This account shall include liabilities arising from the recognition of asset retirement obligations. The carrier shall credit account 67, Asset retirement obligations, for the liabilities for asset retirement obligations and charge the appropriate carrier property accounts or noncarrier property accounts to record the related asset retirement costs.

(b) This account shall also include the period to period changes for the accretion of the liabilities in account 67, Asset retirement obligations. The carrier shall charge the accretion expense to account 591, Accretion expense, for carrier property, and account 620, Income (net) from noncarrier property, for noncarrier property, as appropriate, and credit account 67, Asset retirement obligations.

(c) This account shall be debited with amounts paid to settle the asset retirement obligations recorded herein.

(d) The utility shall clear from this account any gains or losses resulting from the settlement of asset retirement obligations in accordance with the instructions prescribed in General Instruction 1–19.

[Order 631, 68 FR 19626, Apr. 21, 2003]

70 Capital stock.

(a) This account shall include the par value of par value stock, stated value of no-par stock, and the amount received for no-par stock without stated value, which have been issued to bona fide purchasers and have not been reacquired and cancelled, also shares of stock nominally issued. When other than cash is received for no-par value stock, the fair market value of the consideration shall be entered in this account.

(b) This account shall be divided so as to show separately each class of stock issued, subdivided between (1) issued and outstanding, and (2) nominally issued and nominally outstanding.

(c) When an issue of capital stock or any part thereof is reacquired, either by purchase or donation, and is retired or cancelled, the par value shall be charged to this account. Any excess of reacquisition cost over par value shall be allocated between account 73, Additional Paid-in-Capital and 720, Other Debits to Retained Income. Any excess of par value over reacquisition cost shall be credited to account 73, Additional Paid-in-Capital.

(d) When an issue of capital stock or any part thereof is reacquired, either by purchase or donation, and is not retired or cancelled, nor properly includible in sinking or other funds, the reacquisition cost shall be charged to account 76, Treasury Stock.

(e) When treasury stock is resold, account 76, Treasury Stock, shall be credited with the cost paid for it. Gains shall be credited to account 73, Additional Paid-in-Capital. Losses shall be charged to account 73, Additional Paid-in-Capital to the extent that previous net gains from sales or retirements of the same class of stock are included therein; otherwise, to account 720, Other Debits to Retained Income.

[40 FR 44562, Sept. 29, 1975. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981]

71 Premiums on capital stock.

This account shall include the excess of the actual cash value of the consideration received at the time of the original sale over the par or stated value of the stock issued.

72 Capital stock subscriptions.

This account shall include the full amount of the par value, stated value, or price agreed upon for no-par stock which has been subscribed under a legally binding purchase agreement. The difference between the par value or stated value, plus any premiums or the amount agreed upon for no-par stock, and the down payment or installments received, shall be recorded as a current asset in account 19, Other Current Assets. Appropriate subaccounts shall be kept to record separately the transactions for each class and series of stock involved.

73 Additional paid-in capital.

This account shall include gains from purchase and resale of reacquired stock. Credits attributable to reductions in the par or stated value of capital stock may be included in this account only when approved by the Commission. Separate subaccounts shall be maintained for each class and series of stock. Also include herein contributions to capital made by stockholders and others.

74 Appropriated retained income.

This account shall include retained income which has been appropriated and set aside under contractual or legal requirements and for other specific purposes, such as the retirement of bonded indebtedness, contingencies, redemption of preferred capital stock; fire losses; plant replacement and additions; miscellaneous employee benefits; and similar items. Appropriations shall be released when their respective purposes have been served. Separate subaccounts shall be maintained for each specific purpose for which retained income is appropriated.

75 Unappropriated retained income.

(a) This account shall include retained income which has not been appropriated or set aside for specific purposes. There shall be no transfers to or from account 73, Additional Paid-in Capital, to this account unless so authorized by the Commission.

(b) The balance of accounts 700 to 750, inclusive, shall be closed to this account at the end of each calendar year.

[32 FR 20241, Dec. 20, 1967, as amended at 34 FR 15483, Oct. 4, 1969; 37 FR 17714, Aug. 31, 1972. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981]

76 Treasury stock.

(a) This account shall include in subdivisions for each class the reacquisition cost of capital stock which has been actually issued or assumed by the carrier, then reacquired, and is neither retired nor cancelled, nor properly includible in sinking or other funds.

(b) This account shall be maintained to reflect separately securities pledged or unpledged.

(c) This account shall be shown on the Balance Sheet as a deduction in arriving at Stockholders' Equity.

NOTE A: The accounting for the reacquisition of capital stock and resale thereof shall be in accordance with balance sheet account 70, paragraphs (c) through (e).

[40 FR 44562, Sept. 29, 1975. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981]

77 Accumulated other comprehensive income.

(a) This account shall include revenues, expenses, gains, and losses that are properly includable in other comprehensive income during the period. Examples of other comprehensive income include foreign currency items, minimum pension liability adjustments, unrealized gains and losses on certain investments in debt and equity securities, and cash flow hedges. Records supporting the entries to this account shall be maintained so that the utility can furnish the amount of other comprehensive income for each item included in this account.

(b) This account shall also be debited or credited, as appropriate, with amounts of accumulated other comprehensive income that have been included in the determination of net income during the period and in accumulated other comprehensive income in prior periods. Separate records for each category of items shall be maintained to identify the amount of the reclassification adjustments from accumulated other comprehensive income to earnings made during the period.

[Order 627, 67 FR 67706, Nov. 6, 2002]

CARRIER PROPERTY ACCOUNTS

The following table lists the prescribed primary property accounts and indicates those accounts which contain similar items of property for which a single text is provided. The accounts are to be kept separately for crude oil lines and for product lines.

Account number			Account Title
Gathering Lines	Trunk Lines	General	
101	151	171	Land.
102	152	....	Right of Way.
103	153	....	Line Pipe.
104	154	....	Line Pipe Fittings.

Account number			Account Title
Gath-ering Lines	Trunk Lines	Gen-eral	
105	155	....	Pipeline Construction.
106	156	176	Buildings.
107	157	....	Boilers.
108	158	....	Pumping Equipment.
109	159	179	Machine Tools and Machinery.
110	160	....	Other Station Equipment.
111	161	....	Oil Tanks.
112	162	....	Delivery Facilities.
113	163	183	Communication Systems.
114	164	184	Office Furniture and Equipment.
115	165	185	Vehicles and Other Work Equipment.
116	166	186	Other Property.
	....	187	Construction Work in Progress.

101, 151, 171 Land.

(a) This account shall include the cost of land held in fee and used in pipeline operations. Land not used in carrier service shall be recorded in account 34, Noncarrier Property. Irregular parcels of land without commercial value acquired with rights of way shall not be transferred to account 34 solely to make right of way boundries regular.

(b) The cost of land and buildings acquired together shall be equitably separated and recorded. When land is acquired with buildings, structures, or other encumbrances that must be removed before the land is usable, demolition cost, less salvage, shall be added to the book cost of the land. Net proceeds from the sale of timber, minerals and improvements which were part of the land cost when purchased by the carrier, shall be credited to this account up to the amount of the purchase price allocated as their cost. Any excess shall be credited to account 640, Miscellaneous Income.

(c) Costs of filing, clearing, grading or leveling land, when such work is not directly associated with construction or a definite plan for construction, shall be charged to this account.

(d) All direct or incidental costs associated with the acquisition of the land and any taxes and public assessments assumed at the time of purchase, shall be included in this account.

(e) Special assessments for public improvements and also costs borne by the carrier for public improvements constructed by it shall be included in this account.

[32 FR 20241, Dec. 20, 1967, as amended at 40 FR 53248, Nov. 17, 1975. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981]

102, 152 Right of way.

This account shall include the cost of obtaining rights of way used in pipeline operations. Periodic rents paid for the use of a right of way shall be charged to operating rents. Costs of filling, clearing, grading or leveling of a right of way when such work is not directly associated with construction or a definite plan for construction, shall be charged to this account.

103, 153 Line pipe.

This account shall include the cost of all line pipe actually laid in pipe lines devoted to transportation service.

104, 154 Line pipe fittings.

This account shall include the cost of the line pipe fittings, including manifolds, used in pipe lines devoted to transportation service.

105, 155 Pipeline construction.

(a) This account shall include all the costs of constructing pipe lines except the cost of line pipe and fittings provided for in accounts 103, 153, Line Pipe, and 104, 154, Line Pipe Fittings.

(b) Includible shall be the cost of labor and materials such as casing and vent pipe, pipe coatings of all kinds, river weights, support structures, sand bags, valve boxes, cathodic protection devices, mile posts, right-of-way markers, excavating and backfilling, pipeline pits, and the cost of damages paid for the destruction of crops, timber, and other property during construction. The cost of reopening the trenches for repairs, or installation of casing, coating or cathodic protection, and the necessary backfilling shall be charged to maintenance expense.

106, 156, 176 Buildings.

This account shall include the cost of all buildings including the foundations, fixtures, and appurtenances thereto. This includes such items as architects' fees, sidewalks, driveways, fences, permanent water rights, grading and preparing grounds before and after construction, utility lines and other service piping. Cost of restoring grounds after repair work shall be charged to maintenance expense.

107, 157 Boilers.

This account shall include the cost of boilers, including accessories and attachments such as injectors, water gages, steam gages and fittings, and the cost of special boiler foundations and installations.

108, 158 Pumping equipment.

This account shall include the cost of engines, motors, pumps, and all other pumping equipment, and the cost of special foundations and installation.

109, 159, 179 Machine tools and machinery.

This account shall include the cost of machine tools and machinery, including the cost of their special foundations and installation.

110, 160 Other station equipment.

This account shall include the cost of all station equipment not provided for elsewhere, such as electric light, gas, and refrigeration equipment, manifolds, and miscellaneous equipment and fittings. It shall also include the carrier's investment in tracks if located at and used in connection with a station.

111, 161 Oil tanks.

This account shall include the cost of oil tanks, including grades, roofs, fire banks, steam coils, swing pipes, inlet valves, and outlet valves.

112, 162 Delivery facilities.

This account shall include the cost of facilities for receiving or delivering oil and oil products from or to water carriers, railroads, motor carriers, and others, such as delivery racks, wharves (including buildings thereon), docks, and slips, including piling, pile protection, cribs, cofferdams, walls, and other necessary devices and apparatus for the operation or protection of such property. It shall also include the cost of engines, pumps, and boilers at loading racks and on wharves, the construction of oil-pipe lines between oil tanks and delivery facilities, and the carrier's investment in tracks if located at and used in connection with delivery facilities.

113, 163, 183 Communication systems.

This account shall include the cost of telegraph, wireless, telephone, and radio equipment.

114, 164, 184 Office furniture and equipment.

This account shall include the cost of all office furniture, equipment and fixtures, including such items as safes, desks, chairs, typewriters, accounting machines, cabinets, file cabinets, floor coverings, portable air conditioners, drinking fountains, and other similar items that are not an integral part of a building.

115, 165, 185 Vehicles and other work equipment.

This account shall include the cost of motor and other vehicles, motor and other portable work equipment, garage equipment, and portable tools and machines such as drills, hoists, jacks, power mowers, stocks and dies, laying tongs, vises, air compressors, welding machines, valve reseating machines, pipe-cleaning machines, and concrete mixers, not specifically provided for in other accounts.

116, 166, 186 Other property.

This account shall include the cost of property used in pipeline operations not provided for elsewhere.

117, 167, 186.1 Asset retirement costs.

This account shall include asset retirement costs on plans included in carrier property.

187 Construction work in progress.

This account shall include the cost of carrier property under construction and the cost of land acquired for such construction as of the date of the balance sheet. It includes interest and taxes during construction, material and supplies delivered to the construction site, and other expenditures that will eventually be part of the cost of the completed property. When construction work is completed, the cost included in this account shall be transferred to the appropriate primary property accounts. Subsidiary records shall be maintained for each construction project. When part of a project under construction is completed and put into service, the costs applicable to that portion shall be transferred to the appropriate property account.

OPERATING REVENUES

200 Gathering revenues.

This account shall include revenues on the basis of tariff charges for the gathering or collection of crude oil, oil products and other commodities.

210 Trunk revenues.

This account shall include revenues on the basis of tariff charges for trunk line transportation of crude oil, oil products or other commodities.

220 Delivery revenues.

This account shall include revenues on the basis of tariff charges for receiving, delivering, unloading and loading fees at carrier terminal and delivery facilities.

230 Allowance oil revenue.

(a) This account shall include the current value of oil acquired through tariff allowances taken into inventory or retained in the line for operating oil supply, and the selling price of such oil sold not previously recorded in inventory or operating oil supply.

(b) Profits and losses on sales of allowance oil from inventory or operating supply shall be included in this account.

240 Storage and demurrage revenue.

This account shall include revenues on the basis of tariff charges for the storage of oil; also demurrage charges incident to failure of consignees to receive shipments promptly.

250 Rental revenue.

This account shall include the revenues from renting or subrenting property, the cost of which is included in the accounts for investment in carrier property.

260 Incidental revenue.

This account shall include revenues incidental to carrier operations and not includible in other revenue accounts.

OPERATING EXPENSES

Operations and Maintenance

300 Salaries and wages.

This account shall include the salaries and wages (including pay for holidays, vacations, sick leave and similar payroll disbursements) of supervisory and other personnel directly engaged in transportation operations and the maintenance and repair of transportation property.

[Order 620, 65 FR 81343, Dec. 26, 2000]

310 Materials and supplies.

This account shall include the cost of materials applied in the repair and maintenance of transportation property. The salvage value of materials recovered in maintenance work shall be credited to this account. This account shall also include the cost of supplies consumed and expended in operations and in support of the maintenance activity.

[Order 620, 65 FR 81343, Dec. 26, 2000]

320 Outside services.

This account shall include the cost of operating and maintenance services provided by other than company forces under contract, agreement, and other arrangement. The cost of service performed by affiliated companies shall be segregated within the account.

[Order 620, 65 FR 81343, Dec. 26, 2000]

330 Operating fuel and power.

This account shall include the cost of fuel and power consumed and expended in operations. The cost of normal utilities services shall be included herein when such costs are directly allocable to operations.

340 Oil losses and shortages.

(a) This account shall include the cost of settlements with shippers for oil lost or undelivered due to operating causes during the course of transportation.

(b) The value of oil gains from operations shall be credited to this account at current value at time of determination of gain and charged to oil inventory or operating supply.

350 Rentals.

This account shall include the cost of renting property used in the operations and maintenance of carrier transportation service, such as complete pipeline or segment thereof, office space, land and buildings, and other equipment and facilities.

[Order 620, 65 FR 81343, Dec. 26, 2000]

390 Other expenses.

This account shall include the expenses of aircraft, vehicles, and work equipment used in support of operations and maintenance activities; travel, lodging, meals, memberships, and other expenses of operating and maintenance employees; and other related operating and maintenance expenses that are not defined or classified in other accounts.

[Order 620, 65 FR 81343, Dec. 26, 2000]

General

500 Salaries and wages.

This account shall include the salaries and wages (including pay for holidays, vacations, sick leave, and similar payroll disbursements) of executives and general officers, general office personnel, and of other employees whose wages cannot be directly allocated to operations or maintenance.

510 Materials and supplies.

This account shall include the cost of materials and supplies consumed and expended for administration and general services.

[Order 620, 65 FR 81343, Dec. 26, 2000]

520 Outside services.

This account shall include the cost of management and general and administrative services provided by other than company forces under contract, agreement or other arrangement. The cost of services performed by affiliated companies shall be segregated within the account.

530 Rentals.

This account shall include the cost of renting property used in the administration and general operations of carrier transportation service, such as complete pipeline or segment thereof, office space, land and buildings, and other equipment and facilities.

[Order 620, 65 FR 81343, Dec. 26, 2000]

540 Depreciation and amortization.

This account shall include charges for the depreciation and amortization of transportation property. Charges for the amortization of fixed term intangibles relating to common carrier operations shall also be included herein.

541 Depreciation expense for asset retirement costs.

This account shall include charges for the depreciation of asset retirement costs related to transportation property.

[Order 631, 68 FR 19626, Apr. 21, 2003]

550 Employee benefits.

This account shall include the cost to the carrier of annuities, pensions, and benefits for active or retired employees, their beneficiaries or designees. Contributions to health or welfare funds or payment for similar benefits to or on behalf of employees shall be included herein. Premiums, to the extent borne by the carrier, for group life, health, accident and other beneficial insurance for employees shall also be included in this account.

[Order 620, 65 FR 81343, Dec. 26, 2000]

560 Insurance.

(a) This account shall include the cost of commercial insurance to protect the carrier against losses and damages in its pipeline operations such as injuries to or deaths of employees and other persons, damages to or destruction of carrier property or the property of others, and other business risks and hazards pertaining to transportation operations.

(b) The carrier shall not accrue amounts for the purpose of estimating risk of loss or damage to its property from fire, theft, or similar loss contingencies not covered by commercial insurance.

NOTE: Insurance or other reimbursement for loss or damage shall be credited to the same account charged with the loss or expense.

(49 U.S.C. 304, 913, 1012)

[32 FR 20241, Dec. 20, 1967, as amended at 41 FR 32597, Aug. 4, 1976. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981]

570 Casualty and other losses.

(a) This account shall include the amount of expense sustained by the carrier on account of loss or damage to oil or other commodity entrusted to it for transportation or storage resulting from fire, flood, or other casualty.

(b) Expenses on account of damage and destruction to property of others from all causes; and the expense of repairing damages to transportation property caused by casualty shall also be included herein.

(c) This account shall also include expenses incurred on account of injury to or death of employees or other persons including related medical, hospital and funeral expenses.

NOTE: The cost of oil lost or undelivered through operating causes shall be charged to account 340, Oil Losses and Shortages.

580 Pipeline taxes.

(a) 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.

(b) The detail of this account shall show separately the amounts levied by the Federal government and by each state.

[32 FR 20241, Dec. 20, 1967, as amended at 39 FR 33345, Sept. 17, 1974. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981]

590 Other expenses.

This account shall include the cost of expenses expended for administrative and general services including, the expenses of aircraft, vehicles, and work equipment used for general purposes; travel, lodging, meals, memberships, and other expenses of general employees and officers; utilities services; and all other incidental general expenses not defined or classified in other accounts.

[Order 620, 65 FR 81344, Dec. 26, 2000]

591 Accretion expense.

This account shall be charged for accretion expense on the liabilities associated with asset retirement obligations included in account 67, Asset retirement obligations. The carrier shall record in this account the settlement amounts for asset retirement obligations related to carrier property in accordance with the accounting prescribed in General Instruction 1–19.

[Order 631, 68 FR 19626, Apr. 21, 2003]

592 Gains or losses on asset retirement obligations.

The carrier shall record in this account gains or losses resulting from the settlement amounts for asset retirement obligations related to carrier property plant. (*See* General Instruction 1–19).

[Order 631, 68 FR 19626, Apr. 21, 2003]

INCOME ACCOUNTS

Ordinary Items

CREDIT

600 Operating revenues.

This account shall include the total revenues included in the operating revenue accounts for the calendar year.

620 Income (net) from noncarrier property.

(a) This account shall include all noncarrier revenues and expenses from property carried in account 34, Noncarrier Property.

(b) All expenses related to noncarrier property, such as operation and maintenance expenses, depreciation, taxes (except Federal income taxes) and similar expenses, are includible herein.

630 Interest and dividend income.

(a) This account shall include interest accruing to the carrier on securities of others, loans, notes and advances, deposits, and all other interest bearing assets. Also include the amount of amortized premium or discount related to such assets.

(b) This account shall also include the amount of dividends declared on stocks of others owned by the carrier.

(c) Income shall not be included in this account unless receipt thereof is reasonably assured.

640 Miscellaneous income.

(a) This account shall include income not provided for elsewhere creditable to income accounts for the current year, such as unclaimed wages written off, profit on sales of land and noncarrier, property, profit on sales of investment securities, profit from company bonds reacquired, and decreases in the valuation allowance (contained within account 11) for the marketable equity securities included in current assets.

(b) Gains from extinguishment of debt shall be aggregated and, if material, credited to account 680, Extraordinary Items, upon approval by the Commission.

[32 FR 20241, Dec. 20, 1967, as amended at 40 FR 53248, Nov. 17, 1975; 42 FR 33298, June 30, 1977. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981]

645 Unusual or infrequent items (credit).

Included in this account shall be material items unusual in nature or infrequent in occurrence, but not both, accounted for in the current year in accordance with the text of instruction 1–6, upon approval by the Commission.

[40 FR 53248, Nov. 17, 1975. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981]

DEBIT

610 Operating expenses.

This account shall include the total expenses included in the operating expense accounts for the calendar year.

650 Interest expense.

This account shall include interest expense on all classes of debt except interest pertaining to construction of property. This account shall also include the amortization of long-term debt premium and discount. Charges for interest on carrier debt obligations previously issued and now held by or for the carrier shall not be recorded in this account.

660 Miscellaneous income charges.

(a) This account shall include income charges not provided for elsewhere chargeable to income accounts for the current year, such as amortization of debt expense, losses on sale or disposition of land and noncarrier property, losses on sales or reductions in value of investment securities (including increases in the valuation allowance within account 11 for the marketable equity securities included in current assets), bad debts, losses on company bonds reacquired, taxes (other than Federal income taxes) on investment securities, trust management expenses, amortization of intangibles which are not restricted to a fixed term, and the difference between the premium and the added cash surrender value of life insurance on officers and employees when the carrier is beneficiary.

(b) Losses from extinguishment of debt shall be aggregated and, if material, charged to account 680, Extraordinary Items, upon approval by the Commission.

[32 FR 20241, Dec. 20, 1967, as amended at 37 FR 17714, Aug. 31, 1972; 40 FR 53248, Nov. 17, 1975; 42 FR 33298, June 30, 1977. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981]

665 Unusual or infrequent items (debit).

Included in this account shall be material items unusual in nature or infrequent in occurrence, but not both, accounted for in the current year in accordance with the text of instruction 1–6, upon approval by the Commission.

[40 FR 53248, Nov. 17, 1975. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981]

670 Income taxes on income from continuing operations.

(a) This account shall be debited with the monthly accruals for all income taxes which are estimated to be payable and which are applicable to ordinary income (see instruction 1–12). See the texts of account 695, Income Taxes on Extraordinary Items, account 710, Other Credits to Retained Income, and account 720, Other Debits to Retained Income, for recording other income tax consequences.

(b) Details pertaining to the tax consequences of other unusual and significant items, and also cases where tax consequences are disproportionate to related amounts included in income accounts, shall be submitted to the Commission for consideration and decision as to proper accounting.

(Interstate Commerce Act, 49 U.S.C. 20 (1976), Department of Energy Organization Act, 42 U.S.C. 7155, 7172(b), 7295(a) (Supp. I 1977); E. O. 12009, 42 FR 46267 (1977); Federal Energy Regulatory Commission, Order No. 1, 42 FR 55450 (1977))

[32 FR 20241, Dec. 20, 1967, as amended at 39 FR 33345, Sept. 17, 1974; 40 FR 53248, Nov. 17, 1975; 44 FR 72161, Dec. 13, 1979. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981]

671 Provision for deferred taxes.

(a) This account shall include the net tax effect of changes in material temporary timing differences (see definition 30(e)) during the current accounting period, and the future tax benefits of loss carryforwards recognized in accordance with instruction 1–12(c).

(b) This account shall include credits for the amortization of the investment tax credit if the carrier elected to use the deferred method of accounting for the investment tax credit. (See instruction 1–12(d)).

[39 FR 33345, Sept. 17, 1974. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981, as amended by Order 620, 65 FR 81344, Dec. 26, 2000]

DISCONTINUED OPERATIONS

675 Income (loss) from operations of discontinued segments.

This account shall include the results of operations of a segment of a business (see definition 32(a)), after giving effect to income tax consequences that has been or will be discontinued in accordance with the text of instruction 1–6, upon approval by the Commission.

[40 FR 53249, Nov. 17, 1975. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981]

676 Gain (loss) on disposal of discontinued segments.

This account shall include the gain or loss from the disposal of a segment of a business, after giving effect to income tax consequences, in accordance with the text of instruction 1–6, upon approval by the Commission.

[40 FR 53249, Nov. 17, 1975. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981]

EXTRAORDINARY ITEMS AND ACCOUNTING CHANGES

680 Extraordinary items (net).

(a) This account shall include extraordinary items accounted for during the current accounting year in accordance with the text of instruction 1–6, upon submission of a letter from the carrier's independent accountants, approving or otherwise commenting on the item and upon approval by the Commission.

(b) This account shall be maintained in a manner sufficient to identify the nature and gross amount of each debit and credit.

(c) Federal income tax consequences of charges and credits to this account shall be recorded in account 695, Income Taxes on Extraordinary Items, or account 696. Provision for Deferred Taxes—Extraordinary Items, as applicable.

[40 FR 53249, Nov. 17, 1975. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981]

695 Income taxes on extraordinary items.

This account shall include the estimated income tax consequences (debit or credit) assignable to the aggregate of items of both taxable income and deductions from taxable income which for accounting purposes are classified extraordinary, and are recorded in account 680, Extraordinary Items (Net). The tax effect of any temporary differences caused by recognizing an item in the account provided for extraordinary items shall be included in acount 696, Provision for Deferred Taxes—Extraordinary Items.

[40 FR 53249, Nov. 17, 1975. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981, as amended by Order 620, 65 FR 81344, Dec. 26, 2000]

696 Provision for deferred taxes—extraordinary items.

This account shall include the deferred tax expense or benefit related to temporary differences applicable to items of revenue or expense included in account 680, Extraordinary Items (Net) (See instruction 1–12).

[40 FR 53249, Nov. 17, 1975. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981, as amended by Order 620, 65 FR 81344, Dec. 26, 2000]

697 Cumulative effect of changes in accounting principles.

This account shall include the cumulative effect of changing to a new accounting principle, after giving effect to income tax consequences, in accordance with instruction 1–6, upon approval by the Commission.

[40 FR 53249, Nov. 17, 1975. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981]

RETAINED INCOME ACCOUNTS

700 Net balance transferred from income.

This account shall include net income (or deficit) for the calendar year.

705 Prior period adjustments to beginning retained income account.

This account shall include adjustments after giving income tax effect, in accordance with the text of instruction 1–6, to the balance in the retained income account at the beginning of the calendar year, upon approval by the Commission.

[40 FR 53249, Nov. 17, 1975. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981]

710 Other credits to retained income.

This account shall include other credit adjustments, net of assigned Federal income taxes, not provided for elsewhere in this system but only after such inclusion has been authorized by the Commission.

720 Other debits to retained income.

This account shall include losses from resale of reacquired capital stock, and charges which reduce or write off discount on capital stock issued by the company, but only to the extent that such charges exceed credit balances in account 73, Additional Paid-In Capital, for shares reacquired. This account shall also include other debit adjustments, net of assigned Federal income taxes, not provided for elsewhere in this system of accounts, but only after such inclusion has been authorized by the Commission.

740 Appropriations of retained income.

This account shall include appropriations made from retained income during the calendar year. Appropriations charged to this account shall be credited to account 74, Appropriated Retained Income.

750 Dividend appropriations of retained income.

This account shall include the amount of dividends declared during the calendar year on all classes of outstanding capital stock. Stock reacquired and owned by the carrier shall not be subject to dividends. Subsidiary records shall be kept to show separately the dividends declared on each type and class of capital stock. When dividends are paid in other than money, complete detail of each transaction shall be maintained.

797 Form of Balance Sheet Statement

ASSETS

CURRENT ASSETS

10 Cash.
10.5 Special deposits.
11 Temporary Investments.
12 Notes Receivable.
13 Receivables from Affiliated Companies.
14 Accounts Receivable.
15 Interest and Dividends Receivable.
16 Oil Inventory.
17 Material and Supplies.
18 Prepayments.
19 Other Current Assets.
19–5 Deferred Income Tax Charges.
Total current assets.

INVESTMENTS AND SPECIAL FUNDS

20 Investments in Affiliated Companies.
21 Other Investments.
22 Sinking and Other Funds.
23 Reductions in Security Values—Credit.
24 Allowance for Net Unrealized Loss on Noncurrent Marketable Equity Securities—Credit.
Total investments and special funds.

TANGIBLE PROPERTY

30 Carrier Property.
31 Accrued Depreciation—Carrier Property.
32 Accrued Amortization—Carrier Property.
33 Operating Oil Supply.
34 Noncarrier Property.

35 Accrued Depreciation—Noncarrier Property.
Total tangible property.

OTHER ASSETS AND DEFERRED CHARGES

40 Organization Costs and Other Intangibles.
41 Accrued Amortization of Intangibles.
43 Miscellaneous Other Assets.
44 Other Deferred Charges.
45 Accumulated deferred income tax charges.
Total other assets and deferred charges.
Total Assets.

Liabilities and Stockholders' Equity

LIABILITIES

CURRENT LIABILITIES

50 Notes Payable.
51 Payables to Affiliated Companies.
52 Accounts Payable.
53 Salaries and Wages Payable.
54 Interest Payable.
55 Dividends Payable.
56 Taxes Payable.
57 Long-Term Debt Payable Within One Year.
58 Other Current Liabilities.
59 Deferred income tax credits.
Total current liabilities.

NONCURRENT LIABILITIES

60 Long-Term Debt Payable After One Year.
61 Unamortized Premium on Long-Term Debt.
62 Unamortized Discount and Interest on Long-term Debt.
63 Other Noncurrent Liabilities.
64 Accumulated deferred income tax credits.
Total noncurrent liabilities.
Total Liabilities.

STOCKHOLDERS' EQUITY

70 Capital Stock.
71 Premiums on Capital Stock.
72 Capital Stock Subscriptions.
73 Additional Paid-In Capital.
74 Appropriated Retained Income.
75 Unappropriated Retained Income.
75–5 Unrealized Loss on Noncarrier Marketable Equity Securities.
Total Stockholders' Equity.
Total Liabilities and Stockholders' Equity.
76 Treasury stock.
Total Stockholders' Equity.

798 Form of Income Statement

INCOME STATEMENT

ORDINARY ITEMS

Carrier Operating Income

600 Operating Revenues.
610 Operating Expenses.
Net carrier operating income.

Other Income and Deductions

620 Income (Net) from Noncarrier Property.
630 Interest and Dividend Income (dividends from other than affiliates).
640 Miscellaneous Income.
645 Unusual or Infrequent Items (Credit).
650 Interest Expense.
660 Miscellaneous Income Charges.
Income from affiliated companies.
Dividends.
Equity in undistributed earnings. (losses)
Total other income and deductions.
665 Unusual or Infrequent Items (Debit).
670 Federal Income Taxes on Income from Continuing Operations.
671 Provision for deferred taxes.

DISCOUNTINUED OPERATIONS

675 Income (Loss) from Operations of Discontinued Segments. (Less Applicable Income Taxes of $____).
676 Gain (Loss) from Disposition of Discontinued Segments (Less Applicable Income Taxes of $____).
Income (Loss) before Extraordinary Items.

EXTRAORDINARY ITEMS AND ACCOUNTING CHANGES

680 Extraordinary items (net).
695 Income Taxes on Extraordinary Items.
696 Provision for Deferred Taxes—Extraordinary Items.

TOTAL EXTRAORDINARY ITEMS

697 Cumulative Effect of Changes in Accounting Principles (Less Applicable Income Taxes of $____).
Net Income (Loss).

799 Form of Unappropriated Retained Income Statement

Unappropriated Retained Income Statement

75 Unappropriated retained income (beginning of year).
700 Net balance transferred from income.
705 Prior Period Adjustments to Beginning Retained Income Account.
710 Other credits to retained income.
720 Other debits to retained income.
740 Appropriations of retained income.
750 Dividend appropriations of retained income.

75 Unappropriated retained income (end of year).

[32 FR 20241, Dec. 20, 1967, as amended at 37 FR 17714, Aug. 31, 1972; 39 FR 33345, Sept. 17, 1974; 39 FR 34044, Sept. 23, 1974; 40 FR 53249, Nov. 17, 1975; 41 FR 52467, Nov. 30, 1976; 42 FR 33298, June 30, 1977. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981]