



ACCOUNTING FOR REGULATORY ACTIVITY

Why Should You Care?

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Objectives

- Discuss and share relationship between Regulatory and Accounting activities within the pipeline organization
- Understand use of accounting data for regulatory purposes
- Discuss impact of data used in ratemaking process

Pipeline Accounting

- Regulated US oil pipeline accounting procedures are governed by:
 - Generally Accepted Accounting Principles (GAAP)
 - Internal Revenue Service
 - Federal Energy Regulatory Commission (FERC)
- Accounting data relied on for regulatory and commercial analysis:
 - Acquisitions / sales
 - Cost of Service – rate filings
 - Cost of Service – Page 700

Pipeline Accounting

Internal vs. External Reporting

Internal	External
Revenue	Revenue
Expense	Expense
Depreciation	Depreciation
Income Taxes	Income Taxes
Accounting Adjustments	Accounting Adjustments
Net Income	Net Income
Non-Financial Metrics	Statistics of Operations

Understand the basis for each presentation

FERC Accounting Guidance

- Uniform System of Accounts (“USoA”) – 18 CFR §352
 - Accounting requirements for oil pipeline companies subject to the provisions of the Interstate Commerce Act
- FERC Reporting Instructions
 - Form 6 and 6Q, Annual & Quarterly Reports for Oil Pipelines
- Oil Pipeline Industry Accounting Guideline

Regulatory Analysis

Tariff Rates - Overview

- Amount Charged for Pipeline Transportation & Services
- Company Operating Revenues
- Interstate Pipelines – Regulated by the FERC
- Intrastate Pipelines– Regulated by Various State Agencies

Regulatory Analysis

Tariff Rates - Overview

- FERC Ratemaking Methodology (18 CFR §342)
 - Index
 - Market-Based Rates
 - Cost of Service
 - Settlement
- State Ratemaking Methodology

Regulatory Analysis

Cost Based Rates

- Cost of Service – FERC & State Agencies
 - Means to justify a change in transportation charges
 - Initial rate filings
 - Rate increases (substantial divergence)
 - Methodology relied on in event of protest
 - Oil Pipeline FERC Form 6, Page 700
- Data must be accurate & defensible
- Testimony

Regulatory Analysis

Cost of Service Elements

- Rate Base
 - Carrier property history
 - Accumulated Depreciation
 - Working Capital

- Operating Expense
 - Operating & Maintenance
 - General & Administrative
 - Depreciation

- Tax Allowance (regulatory)

Regulatory Analysis

Cost Of Service Calculation

High Level Overview:

Computed Rate Base

x Rate of Return

= Return on Rate Base

+ Operating Expenses

= Cost of Service

- Operating Revenue

= Headroom

Regulatory Use of Accounting Data

Cost of Service

- Rate Base

- Carrier property activity (acquisitions, new construction, sales)
- Accumulated Depreciation
- Working Capital

- Operating Expense

- Routine Operating & Maintenance
- Expense Projects
- General & Administrative
- Depreciation

Regulatory Use of Accounting Data

Cost of Service

- Property Construction / Asset Purchases
 - Identification and maintenance of original cost
 - Depreciation rates
- Asset Retirement & Sales
 - Reduction of rate base
 - Gain/Loss on sale

Regulatory Use of Accounting Data

Cost of Service

- Construction Work-in-Progress
 - Capital Projects
 - Timing of expenditures and monthly tracking
 - Asset identification
 - Identify Interest During Construction
 - Basis for Allowance for Funds Used During Construction
 - Close to Property, Plant and Equipment
 - Reimbursable Projects
 - Recovery of expenditures

Regulatory Use of Accounting Data

Cost of Service

- Operating Expense
 - Base Year – 12 months of actual experience by FERC USoA
 - Test Year – *Known and Measurable* changes expected to occur within nine months of the Base Year

Challenge for pipeline accounting is to meet both regulatory requirements and internal / external accounting and reporting requirements

What should you be aware of?

Operating Cost

- 18 CFR §352 1-14
 - Just, reasonable and not to exceed amounts necessary to the honest and efficient operations and management of carrier business
 - Not to exceed the FMV of goods and services acquired in an arms-length transaction
- 18 CFR §352 1-2 (a)
 - Keep supporting detailed information to readily furnish full information to any item in any account.

Operating Cost

- Carrier Property and Depreciation
 - Identification of assets (type and location)
 - Supporting records
 - Approved depreciation rates
 - Cost of Reproduction New (“CRN”) / Valuation report

Operating Cost

- Capitalization Policy
 - Project (AFE) Approval Procedures
 - Units of Property
 - Threshold
 - Review / Approval
 - Project Close Procedures

Operating Cost

- Operations and Maintenance Expense
 - Cost Trends
 - Major maintenance
 - Fuel and power
 - Charges from Affiliates
 - Accruals
 - Prior period adjustments
 - Unusual / Non recurring items

Operating Cost

- Affiliated Charges
 - Direct
 - Specific services provided
 - Fees
 - Supporting documentation / agreements
 - Allocations
 - Affiliate providing services
 - Services provided
 - Methodology / Basis for allocation
 - Supporting documentation / agreements

Operating Cost

- Pipeline Assessment Costs (Integrity Management)
 - Legislation to prevent spills and other incidents
 - FERC Order A105-1-000 (June 30, 2005) provides specific accounting guidance

Operating Cost

- Hurricanes/Natural Disasters
 - Capital expenditures for reconstruction
 - Expense for cleanup and restoration
- ULSD Fuel
 - EPA standard requiring a major reduction in the sulfur content of diesel fuels beginning in 2006
 - Impact of converting pipelines for compliance

Understand the mechanism for recovery of these costs

Recovery of Special Charges

- Settlement Rates
- Surcharges
- Other Fees
- Cost of Service Increases

Operating Cost

- FAS 143
 - Governs Accounting for Asset Retirement Obligations
 - FERC Order 631, April 2003
 - More transparent, complete and consistent accounting and reporting

Must be identified for cost of service calculations



Audience Participation!!
Regulatory Accounting and You

Role of Regulatory Accounting Group

- A regulated pipeline system has been acquired.
- The Regulatory Group has made a request for data to be used in a cost of service rate filing.

Role of Regulatory Accounting Group

- Various regulated pipeline assets have been sold.
- New tariff rates have been protested and the FERC has initiated a formal investigation.

Summary

- Appreciate relationship between Ratemaking / Accounting activities
- Understand Accounting impact on pipeline business
- Accounting and Regulatory groups need to communicate on an on-going basis to best serve the needs of the company and support just and reasonable rates for customers.

***FREQUENT COMMUNICATION AND TEAM WORK
ARE CRITICAL***

