

FEDERAL ENERGY REGULATORY COMMISSION
Washington, D.C. 20426

In Reply Refer To:
Office of Enforcement
Docket No. AI20-3-000
June 23, 2020

TO ALL JURISDICTIONAL NATURAL GAS COMPANIES

Subject: Accounting for Pipeline Testing Costs Incurred to Comply with New
Federal Safety Standards

The Pipeline and Hazardous Materials Safety Administration (PHMSA) under the Department of Transportation, has issued its final rule (PHMSA Final Rule) that addressed, among other items, safety of gas transmission pipelines, including actions an operator must take to reconfirm the maximum allowable operating pressure (MAOP) of natural gas pipelines not yet tested using the new federal safety regulations.¹ The effective date of the PHMSA Final Rule is July 1, 2020.

In March 1969, the Chief Accountant issued Accounting Release No. 8 (AR-8), *Hydrostatic Testing of Gas Main and Pipelines*, to specifically address costs incurred in performing hydrostatic testing of gas mains and pipelines to comply with the requirements under USAS B31.8 (1968 ed.)², which became federal standards under the Natural Gas Pipeline Safety Act passed by Congress in 1968.³ In AR-8, the Chief Accountant provided accounting guidance to allow capitalization of certain pipeline retesting costs necessary to comply with the specific 1968 federal safety standards and utilize the full capacities of the pipeline. More recently, Commission staff received inquiries from the natural gas industry regarding the application of AR-8 to the new PHMSA Final Rule and federal safety regulations taking effect on July 1, 2020. Specifically, jurisdictional entities seek clarification that it is appropriate to capitalize certain costs incurred in testing pipelines for compliance with new federal safety

¹ *Safety of Gas Transmission Pipelines: Maximum Allowable Operating Pressure Reconfirmation, Expansion of Assessment Requirements, and Other Related Amendments*, 84 Fed. Reg. 52180 (Oct. 1, 2019) (to be codified at 49 C.F.R. Part 192).

² See USA Standard Code for Pressure Piping – Gas Transmission and Distribution Piping Systems, USAS B31.8 (1968 ed.).

³ Natural Gas Pipeline Safety Act of 1968, Public Law 90-481, 82 Stat. 720, codified, as subsequently amended, at 49 U.S.C. 60101 *et seq.* (2018).

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standards, including the costs to reconfirm a pipeline's MAOP in compliance with new federal pipeline standards promulgated in the PHMSA Final Rule.

This accounting guidance clarifies that when a jurisdictional entity has previously constructed a pipeline and its initial or subsequent tests do not meet the requirements of a subsequently issued federal safety standard, making it necessary to retest the pipeline so that its full capacities can be utilized, such first-time and one-time retesting costs can be capitalized. When such retesting costs are capitalized, all prior testing costs related to the specific property should be retired in accordance with the Uniform System of Accounts Gas Plant Instruction No. 10, Additions and Retirements of Gas Plant.⁴ Testing costs on future construction projects should be capitalized, consistent with the Commission's accounting regulations and precedent. Additionally, pipeline testing costs incurred under a planned maintenance program should be recorded as maintenance expense in the period incurred, consistent with the Commission's accounting regulations and precedents.⁵ This guidance is applicable to the PHMSA Final Rule and may be applied to future regulatory pipeline safety standards.

This guidance is for Commission accounting and reporting purposes only and is without prejudice to the ratemaking practice or treatment that should be afforded the items addressed herein.

⁴ See 18 C.F.R. Part 201, Gas Plant Instruction No. 10, Additions and Retirements of Gas Plant (2019).

⁵ See Docket No. AI05-1-000, Order on Accounting for Pipeline Assessment Costs (June 30, 2005); see also 18 C.F.R. Part 201, Gas Operating Expense Instruction No. 2, Maintenance (2019).

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The Commission delegated authority to act on this matter to the Director of the Office of Enforcement or his designee under 18 C.F.R. § 375.311 (2019). The Director has designated this authority to the Chief Accountant. This letter constitutes final agency action. Your company may file a request for rehearing with the Commission within 30 days of the date of this order under 18 C.F.R. § 385.713 (2019).

Sincerely,

Steven D. Hunt
Chief Accountant and Director
Division of Audits and Accounting
Office of Enforcement

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