models, however, will correctly show that a gain or loss has been realized by the pipeline on the difference between the cash-out price and the actual cost of replacement gas (if such gain or loss is not passed along to customers).

Second, the fixed asset model better matches cost (expenses) with services. To the extent that accounting gains and losses on system gas transactions are required to be passed along to transportation customers, the fixed cost model would achieve a closer matching of current gas cost with current service than would the inventory model. For instance, if a company uses a FIFO inventory pricing method, the effect of gas costs incurred in prior years will enter into the determination of the revenue requirements for current service. This distortion does not occur under the fixed asset model.

Third, the fixed asset model for assigning costs to unbundled services permits a clearer separation of costs deemed to be transmission from costs related to other functions.

And fourth, the fixed asset model, once adopted, should make the Commission's ratemaking and compliance activities an easier task since the investment included in rate base would be fixed. Any cash flow requirements/benefits related to the proposed "Gas owed to system gas" account and the companion account receivable could be included in cash working capital consideration.

## 2. Revenues and Expenses Associated With Compressor Fuel

Some transportation tariffs provide for the shippers to furnish gas for compressor fuel and other pipeline system use. In other instances, the pipeline is required to purchase gas for such purposes from a third party. It is the Commission's understanding that, at least in the majority of instances, no accounting recognition is currently being given to the compensation in the form of gas that is received for the transportation service when the pipeline reports transportation revenues. However, in any instances where it is the pipeline's responsibility to purchase the gas, gas cost reimbursements would be included in reported revenues. Similarly, the pipeline that does not report the furnished gas as compensation would not show an expense for fuel burned, whereas the pipeline that purchases the gas would.

This diversity in accounting treatment is not warranted. The Commission believes that all consideration received for services should be reported as revenues, whether paid in cash or otherwise. If the consideration is other

than cash, then the non-cash consideration should be measured on a cash basis. In the case of gas furnished by a customer for compressor fuel, the Commission believes that an appropriate measure of the revenues received by the transportation pipeline is the cost that would have been incurred had the pipeline been required to purchase the gas itself. The same assigned value should be used when costing the gas actually used for compressor fuel. It is only through such accounting that uniformity can be achieved and valid financial comparisons made. The Commission invites comments from the industry about whether a price index should be used to account for the value of gas furnished by customers; if so, what would be the appropriate price index, and how should that price index be applied?

. The Commission is not proposing changes to its Uniform System of Accounts for these items since it believes that the current system already adequately provides for such recognition. However, it should be made clear that the expense account to be charged with the gas provided by shippers is the same purchased gas account that would have been charged if the gas was separately purchased in a cash transaction. Further, the records supporting the purchased gas accounts for retained gas must be so maintained that there will be readily available for each shipper and point of receipt, the quantity of gas tendered and the values assigned.

## ssigned.

## 3. The Proposed Rule

The Commission is proposing to revise its accounting regulations to provide for uniform accounting for all pipeline investment in the volumes of gas needed to operate the transportation system. The Commission is not proposing changes to the accounting requirements for initial line pack, LNG heel, and non-recoverable base gas. The cost of this gas will continue to be recorded in the utility plant accounts. The proposed rule will require, however, that Account 117, Gas Stored Underground-Noncurrent, be replaced by new accounts Account 117.1, Gas stored-Base Gas, Account 117.2, System balancing gas, Account 117.3, Gas stored in reservoirs and pipelinesnoncurrent, and Account 117.4, Gas owed to system gas.

Account 117. I is to include the cost of recoverable gas volumes that are necessary, in addition to those volumes for which costs are properly includable in Account 352.3, Nonrecoverable Natural Gas, to maintain pressure and

deliverability requirements for the storage facility. Account 117.2 is to be used to record a pipeline's investment in any additional system gas volumes, including line pack not capitalized in Account 101, Gas Plant in Service, designated as maximum system gas needed for load balancing, no-notice transportation, and other operational purposes. Account 117.3 is to include the cost of noncurrent company-owned stored gas not includable in Accounts 117.1 or 117.2. Account 117.4 is to include encroachments upon system gas which result from transportation imbalances, no-notice transportation, and other operational needs.

The initial investment cost to be recorded in Account 117.1 and 117.2 is to be determined from the book balances on the date of adoption of the new accounts. If there is no Commission approved method to the contrary, volumes in Account 117.1 are to be priced consistent with the inventory method previously in use. Volumes includable in Account 117.2 are to be priced at the inventory price that would be applicable to the last volumes that would be withdrawn from storage before encroachment upon base gas. If there are insufficient volumes in gas storage to fully provide for the volumes designated as system gas as of the adoption date, the deficient volumes are to be priced at the current market price with an equal amount being credited to Account 117.4. Future encroachments upon system gas are to be credited to Account 117.4 at the then current market price of gas with a corresponding charge to Account 808.1, Gas Withdrawn From Storage-Debit. Account 806, Exchange Gas, would be credited and Account 174, Miscellaneous Current and Accrued Assets, would be debited simultaneously with the entries to system gas.

If a customer responsible for an owedto-system gas balance meets his responsibility for repayment by delivering gas in kind, Account 806 would be debited and Account 174 credited at the market price originally used to establish the Account 174 balance. The next volumes injected into system gas would likewise be priced at this same price by crediting 808.2 Gas Delivered to Storage-Credit and debiting Account 117.4. If the owed to system gas balance (Account 117.4) is due to more than one transaction, the above accounting would follow a queue with the earliest transaction first. Such accounting would be followed until the credit balance in Account 117.4 was eliminated.

If the customer responsible for an owed-to-system gas balance meets his