

compared to DOE's proposed furnace fan test procedure,<sup>12</sup> and drawbacks or advantages associated with harmonizing the requirements.

(2) Any other national or international test procedures that could be considered for this cycle of test procedure amendments.

#### *F. Alternative Methods for Furnace/Boiler Efficiency Determination*

DOE is aware of alternative methods to measure the heating efficiency (AFUE) of residential furnaces and boilers. In particular, DOE seeks input on:

(1) Procedure developed by Brookhaven National Laboratory that uses linear input/output, a relationship between fuel input and heat output that can be used to determine the efficiency of residential boilers.<sup>13</sup>

(2) Any other methods that could be considered for this test procedure update.

#### *G. Scope*

A combination space-heating and water-heating appliance is defined in the applicable industry test standard as a unit that is designed to provide space heating and water heating from a single primary energy source.<sup>14</sup> The two major types of combination appliances are: (1) Boiler/tankless coil or boiler/indirect tank combination units, whose primary function is space heating, and (2) water heater/fan-coil combination units, whose primary function is domestic water heating. Currently, there is no DOE test procedure for determining the combined efficiency of the combination products that can be used to supply domestic hot water in addition to its space-heating function. However, there are DOE test procedures for the individual components (boiler or water heater) of a combined appliance which provides for testing and efficiency ratings for the primary function—space heating or domestic water heating.

DOE's test procedure for residential furnace and boilers, which is set forth at 10 CFR 430.23(n) and 10 CFR part 430, subpart B, appendix N, addresses central gas-fired, electric, and oil-fired furnaces with inputs less than 225,000 Btu/h and gas-fired, electric, and oil-fired boilers with inputs less than 300,000 Btu/h. DOE's test procedure for

residential water heaters, which is set forth at 10 CFR 430.23(e) and 10 CFR part 430, subpart B, appendix E, addresses gas-fired, electric, and oil-fired storage-type water heaters with storage greater than 20 gallons and gas-fired and electric instantaneous-type water heaters with storage volume less than 2 gallons. ASHRAE has an existing test procedure, ANSI/ASHRAE 124–2007 (Methods of Testing for Rating Combination Space-Heating and Water-Heating Appliances), which provides a method of test to rate the performance of a combination space-heating and water-heating appliance.<sup>15</sup> For this rulemaking, DOE is considering an expansion of the scope of the test procedure to include definitions and test methods for these types of combination products. DOE seeks comment on:

(1) What types of combination equipment are there in this market?

(2) How should DOE address the measurement of energy use by such combined products (keeping in mind the potential for active mode, standby mode, and off mode operation)?

#### *H. Standby Mode and Off Mode*

On December 31, 2012, DOE published a test procedure final rule in the **Federal Register** for furnaces and boilers related to standby mode and off mode energy consumption. However, given the broad scope of this 7-year-lookback test procedure rulemaking, comments are also welcome on DOE's test procedure provisions for determining standby mode and off mode energy use.

#### *I. Other Issues*

DOE seeks comments on other relevant issues that would affect the test procedures for residential furnaces and boilers. Although DOE has attempted to identify those portions of the test procedure where it believes amendments may be warranted, interested parties are welcome to provide comments on any aspect of the test procedure, including updates of referenced standards, as part of this comprehensive 7-year-review process.

### **III. Public Participation**

DOE invites all interested parties to submit in writing by February 19, 2013, comments and information on matters addressed in this notice and on other matters relevant to DOE's consideration

of amended test procedures for residential furnaces and boilers.

After the close of the comment period, DOE will begin collecting data, conducting the analyses, and reviewing the public comments. These actions will be taken to aid in the development of a test procedure NOPR for residential furnaces and boilers.

DOE considers public participation to be a very important part of the process for developing test procedures. DOE actively encourages the participation and interaction of the public during the comment period at each stage of the rulemaking process. Interactions with and between members of the public provide a balanced discussion of the issues and assist DOE in the rulemaking process. Anyone who wishes to be added to the DOE mailing list to receive future notices and information about this rulemaking should contact Ms. Brenda Edwards at (202) 586–2945, or via email at

*Brenda.Edwards@ee.doe.gov*.

Issued in Washington, DC, on December 28, 2012.

**Kathleen B. Hogan,**

*Deputy Assistant Secretary for Energy Efficiency, Energy Efficiency and Renewable Energy.*

[FR Doc. 2012–31700 Filed 1–3–13; 8:45 am]

**BILLING CODE 6450–01–P**

## **DEPARTMENT OF ENERGY**

### **Federal Energy Regulatory Commission**

#### **18 CFR Parts 2 and 380**

[Docket No. RM12–11–000]

### **Revisions to the Auxiliary Installations, Replacement Facilities, and Siting and Maintenance Regulations**

**AGENCY:** Federal Energy Regulatory Commission, DOE.

**ACTION:** Notice of Proposed Rulemaking.

**SUMMARY:** The Natural Gas Act (NGA) requires that prior to the construction or extension of any natural gas facilities, the Federal Energy Regulatory Commission (Commission) must issue a certificate that authorizes a natural gas company to undertake the proposed activity. However, under the Commission's regulations, the construction of auxiliary installations or replacement facilities, while subject to the Commission's NGA jurisdiction, are not treated as the construction or extension of facilities, and thus do not require certificate authorization. The Commission proposes to revise its regulations to clarify that all activities

<sup>12</sup> See 77 FR 28674 (May 15, 2012).

<sup>13</sup> Butcher, Thomas, *Technical Note: Performance of Combination Hydronic Systems*, ASHRAE Journal (December 2011).

<sup>14</sup> American Society of Heating Refrigerating and Air Conditioning Engineers, ANSI/ASHRAE 124–2007: *Methods of Testing for Rating Combination Space-Heating and Water-Heating Appliances* (2007).

<sup>15</sup> American Society of Heating Refrigerating and Air Conditioning Engineers, ANSI/ASHRAE 124–2007: *Methods of Testing for Rating Combination Space-Heating and Water-Heating Appliances* (2007).

related to the construction of auxiliary installations and replacement facilities must take place within a company's certificated right-of-way using previously approved work spaces. In addition, the Commission proposes to add landowner notification requirements for auxiliary installations, replacement facilities, and other jurisdictional activities performed within the right-of-way.

**DATES:** Comments are due March 5, 2013.

**ADDRESSES:** Comments, identified by docket number, may be filed in the following ways:

- *Electronic Filing through:* <http://www.ferc.gov>. Documents created electronically using word processing software should be filed in native applications or print-to-PDF format and not in a scanned format.

- *Mail/Hand Delivery:* Those unable to file electronically may mail or hand-deliver comments to: Federal Energy Regulatory Commission, Secretary of the Commission, 888 First Street NE., Washington, DC 20426.

*Instructions:* For detailed instructions on submitting comments and additional information on the rulemaking process, see the Comment Procedures Section of this document.

**FOR FURTHER INFORMATION CONTACT:**

Katherine Liberty, Office of the General Counsel, Federal Energy Regulatory Commission, 888 First Street NE., Washington, DC 20426, (202) 502-6491, [katherine.liberty@ferc.gov](mailto:katherine.liberty@ferc.gov);

Gordon Wagner, Office of the General Counsel, Federal Energy Regulatory Commission, 888 First Street NE., Washington, DC 20426, (202) 502-8947, [gordon.wagner@ferc.gov](mailto:gordon.wagner@ferc.gov);

Douglas Sipe, Office of Energy Projects, Federal Energy Regulatory Commission, 888 First Street NE., Washington, DC 20426, (202) 502-8837, [douglas.sipe@ferc.gov](mailto:douglas.sipe@ferc.gov);

Howard Wheeler, Office of Energy Projects, Federal Energy Regulatory Commission, 888 First Street NE., Washington, DC 20426, (202) 502-8688, [howard.wheeler@ferc.gov](mailto:howard.wheeler@ferc.gov).

**SUPPLEMENTARY INFORMATION:**

**141 FERC ¶ 61,228**

December 20, 2012.

1. On April 2, 2012, the Interstate Natural Gas Association of America (INGAA) requested clarification of section 2.55 of the Commission's regulations,<sup>1</sup> which defines facilities that may be added, altered, or replaced under a company's existing Natural Gas Act (NGA) section 7(c) certificate

authorization, without the need for any additional authorization.<sup>2</sup> INGAA states that in discussions with pipelines and in industry meetings, Commission staff has expressed the position that under section 2.55(a), in undertaking auxiliary installations, companies must stay within their existing rights-of-way, with construction activities limited to the work space that was previously used. INGAA disagrees with this restriction, arguing that in the past, auxiliary installation activities have not been constrained in this way; therefore, to now impose right-of-way and work space constraints would amount to rulemaking without the opportunity for notice and comment, contrary to the requirements of the Administrative Procedure Act (APA).<sup>3</sup> Pursuant to section 385.207(a)(4) of the Commission's Rules of Practice and Procedure, INGAA requests the Commission affirm that no right-of-way or work space limitations apply to auxiliary installations under section 2.55(a).

**I. Background**

2. Section 7(c)(1)(A) of the NGA requires a natural gas company to have certificate authorization for the "construction or extension of any facilities."<sup>4</sup> In order to "avoid the filing and consideration of unnecessary applications for certificates,"<sup>5</sup> section 2.55 of the Commission's regulations establishes that for the purposes of NGA section 7(c), "the word *facilities* as used therein shall be interpreted to exclude" auxiliary installations and replacement facilities.<sup>6</sup> Thus, although auxiliary installations and replacement facilities remain subject to the Commission's NGA jurisdiction, they do not require section 7(c) certificate authorization. Section 2.55 was implemented to reduce the burden that would otherwise be imposed on companies and the Commission by requiring a full, formal case-specific section 7 proceeding for minor, routine modifications to an existing or proposed interstate transportation system.<sup>7</sup>

<sup>2</sup> On May 2, 2012, MidAmerican Energy Pipeline Group (which includes Kern River Gas Transmission Company and Northern Natural Gas Company) filed a motion to intervene and comments in support of INGAA's petition.

<sup>3</sup> 5 U.S.C. 553 (2006).

<sup>4</sup> 15 U.S.C. 717f(c)(1)(A) (2006).

<sup>5</sup> *Filing of Applications for Certificates of Public Convenience and Necessity, Notice of Proposed Rulemaking*, 13 FR 6253, at 6254 (October 23, 1948).

<sup>6</sup> 18 CFR 2.55 (2012).

<sup>7</sup> Section 2.55 went into effect in 1948, prior to (and presaging) the Commission's blanket certificate program, which went into effect in 1982.

3. Section 2.55(a) excludes facilities which are "merely auxiliary or appurtenant to an authorized or proposed pipeline transmission system" and are installed "only for the purpose of obtaining more efficient or more economical operation of the authorized or proposed transmission facilities," such as "[v]alves; drips; pig launchers/receivers; yard and station piping; cathodic protection equipment; gas cleaning, cooling and dehydration equipment; residual refining equipment; water pumping, treatment and cooling equipment; electrical and communication equipment; and buildings."

4. Originally, natural gas companies were not required to notify the Commission in advance of constructing auxiliary installations. However, in 1999 the Commission expressed the concern that adding auxiliary facilities to an authorized, but not yet completed project, without notifying the Commission of the auxiliary facilities, would not afford the Commission the opportunity to assess the auxiliary facilities' environmental impacts, impacts which, when combined with the impacts of the authorized facilities, could potentially alter the Commission's conclusions regarding the overall environmental impact of the pending project. As a result, Order No. 603<sup>8</sup> revised section 2.55(a)(2) to require that any natural gas company constructing auxiliary installations on or at the same time as the construction of a certificated project must provide a description of the auxiliary facility and its location to the Commission 30 days in advance of its installation.<sup>9</sup> Likewise, if any natural gas company plans to construct an auxiliary facility in conjunction with a proposed project, the auxiliary facility must be described in the application's environmental report, as required by section 380.12 of the Commission's regulations, or in a supplemental filing while the application is pending.<sup>10</sup> The Commission explained these advance notification requirements are necessary because certain aboveground auxiliary installations involve substantially different environmental impacts than a

<sup>8</sup> *Revision of Existing Regulations Under Part 157 and Related Sections of the Commission's Regulations Under the Natural Gas Act*, Order No. 603, 64 FR 26572, at 26574 (May 14, 1999), FERC Stats. & Regs., Regulations Preambles July 1996-December 2000 ¶ 31,073 (1999), *order on reh'g*, Order No. 603-A, 64 FR 54522 (October 7, 1999), FERC Stats. & Regs., Regulations Preambles July 1996-December 2000 ¶ 31,081 (1999), *order on reh'g*, Order No. 603-B, 65 FR 11462 (March 3, 2000), FERC Stats. & Regs., Regulations Preambles July 1996-December 2000 ¶ 61,094 (2000).

<sup>9</sup> See 18 CFR 2.55(a)(2)(ii) (2012).

<sup>10</sup> See 18 CFR 2.55(a)(2)(iii) (2012).

<sup>1</sup> 18 CFR 2.55 (2012).

pipeline or storage facility, and these different impacts could be of concern to affected landowners and the Commission.<sup>11</sup>

5. Section 2.55(b) permits natural gas companies to replace physically deteriorated or obsolete facilities, including replacing existing facilities that have or will soon be physically deteriorated or obsolete, so long as the replacement will not result in a reduction or abandonment of service and will have a substantially equivalent designed delivery capacity.<sup>12</sup> Larger replacements require that a description of the project be submitted to the Commission 30 days in advance of initiating construction, while smaller replacements may go forward without any advance notice.<sup>13</sup> Such replacements may go forward without case-specific or blanket certificate authorization.

6. In Order No. 603, the Commission specified that all replacement facilities must be constructed in the certificated right-of-way using the same temporary work space that was used to construct the existing facilities.<sup>14</sup> The Commission reasoned that section 2.55(b) replacements “should only involve basic maintenance or repair to relatively minor facilities,” where it has been determined that no significant impact to the environment would occur.<sup>15</sup> The Commission suggested that if a natural gas company wanted to use land outside of the original right-of-way, it rely on its blanket certificate authority to do so.<sup>16</sup>

## II. Proposed Regulatory Revisions

7. As discussed in more detail below, in response to the concerns expressed by INGAA in its petition, the Commission now proposes to revise section 2.55(a) covering auxiliary installations to clarify that auxiliary facilities must be located within the certificated permanent right-of-way or authorized facility site and must use the same temporary work space that was

used to construct the existing facilities. This is consistent with the Commission’s 2.55(b) provisions (as adopted in Order No. 603), which specify that replacement facilities “will be located in the same right-of-way or on the same site as the facilities being replaced, and will be constructed using the temporary work space used to construct the original facility.”<sup>17</sup> In restricting section 2.55 activities to the right-of-way and work space authorized in conjunction with the existing facilities, we are doing no more than reiterating that the limitations imposed by the Commission in approving the facilities continue to apply to auxiliary and replacement activities associated with those facilities. This ensures that the environmental and landowner impacts attributable to auxiliary and replacement activities conducted under this regulation without prior Commission authorization remain within the scope of impacts studied and addressed in our review and authorization of the underlying facilities.

8. With respect to this section 2.55(b)(1)(ii) requirement, we propose to substitute “existing facility” for “original facility.” We do so in the recognition that over time, the original facility may have undergone modifications, such as auxiliary installations, replacements, or emergency repairs. More significant modifications to an original facility may have been undertaken pursuant to blanket certificate authority, in particular where a company has relied on our Part 157, Subpart F, provisions to establish a new permanent right-of-way and new temporary work spaces. Further, we note that this proposed change will render existing section 2.55(b)(1)(ii) consistent with existing section 2.55(a)(2)(i) and section 2.55(b)(1) and proposed section 2.55(a)(1)(i), all of which refer to “existing” rather than “original” facilities.

9. Commission staff has also received numerous requests from landowners, asking that companies be required to notify landowners prior to entering and undertaking activities on their property. In response, the Commission proposes to add a landowner notification requirement for construction activities conducted under section 2.55 for auxiliary installations and replacement facilities, as well as for any jurisdictional activities undertaken to meet the siting and maintenance requirements of section 380.15 of the Commission’s regulations. To guarantee that landowners are notified in advance of any construction or maintenance activity planned for their property, under proposed sections 2.55(c) and 380.15(c), natural gas companies will have to notify affected landowners at least 10 days prior to commencing any such activity.

### A. Clarifying and Updating Regulations To Conform to Commission Practice and Policy

#### 1. Comments

10. INGAA contends that during discussions with natural gas companies and in industry meetings, Commission staff has stated that under section 2.55(a), auxiliary installations are limited to activities that take place within existing rights-of-way where the original work space is used. INGAA maintains that Commission staff’s position substantially changes the meaning of section 2.55(a), as it would subject auxiliary installations to the same right-of-way and work space requirements that apply to replacement facilities under section 2.55(b)(ii). INGAA stresses that section 2.55(a) does not have similar right-of-way and work space constraints.

11. INGAA argues that, historically, section 2.55(a) auxiliary installations and section 2.55(b) replacement facilities have received different treatment.<sup>18</sup> INGAA states that auxiliary installations traditionally have not been limited to existing rights-of-way or original work spaces. INGAA notes that

<sup>18</sup> INGAA cites to two letters from Commission staff, one stating that replacement facilities outside of the right-of-way must be initiated under a case-specific NGA section 7 certificate proceeding, and the other stating that auxiliary installations constructed outside of the existing right-of-way do not need additional Commission authorization. See INGAA’s April 2, 2012 filing at nn. 18 & 19. While Commission staff appropriately stated that replacement facility construction cannot occur outside of the existing right-of-way or previously used work space, staff was incorrect in stating that auxiliary installations outside of the right-of-way are permissible.

<sup>11</sup> *Revisions to Regulations Governing NGPA Section 311 Construction and the Replacement of Facilities*, Order No. 544, 57 FR 46487 (October 9, 1992), FERC Stats. & Regs., Regulations Preambles January 1991–June 1996 ¶ 31,951 (1992), *order on reh’g*, Order No. 544–A, 58 FR 57730 (October 27, 1993), FERC Stats. & Regs., Regulations Preambles January 1991–June 1996 ¶ 30,983 (1993).

<sup>12</sup> 18 CFR 2.55(b) (2012).

<sup>13</sup> Of course all jurisdictional activities—whether subject to section 2.55 or section 7(c)—are subject to all other applicable federal, state, and local requirements.

<sup>14</sup> Order No. 603, FERC Stats. & Regs. ¶ 31,073, 64 FR 26572 at 26574–76 and 18 CFR 2.55(b) (2012).

<sup>15</sup> Order No. 603–A, FERC Stats. & Regs. ¶ 31,081, 64 FR 54522 at 54524.

<sup>16</sup> Order No. 603, FERC Stats. & Regs. ¶ 31,073, 64 FR 26572 at 26580.

<sup>17</sup> 18 CFR 2.55(b)(1)(ii) (2012). See also *Arkla Energy Resources Company*, 67 FERC ¶ 61,173, at 61,516 (1994) (*Arkla*), in which the Commission, prior to Order No. 603’s revision of the 2.55(b)(1)(ii) regulations to specify that replacement facilities must be in the same right-of-way, explained that although the then-applicable regulations and case law did not explicitly restrict replacement facilities to the existing right-of-way:

[R]eplacement facilities must be constructed within the existing right-of-way. The reason is simple. The authority to replace a facility and to establish a right-of-way should be limited by the terms and locations delineated in the original construction certificate. Thus, a certificate holder that later establishes a new right-of-way for purposes of [a section 2.55(b)] replacement engages in an unauthorized activity which is outside the parameters of the original certificate order.

while Order No. 603<sup>19</sup> specifically stated that replacement facilities must be constructed within the existing right-of-way, the Commission was silent on applying that same requirement to auxiliary installations.

12. INGAA states that under Commission staff's current position, an auxiliary facility, no matter how small and environmentally insignificant, which would extend beyond the existing right-of-way or original work space would require NGA section 7(c) certificate authorization. INGAA contrasts this with a replacement project that no matter how large and environmentally adverse, could proceed under blanket certificate authority, provided it meets the Part 157, Subpart F, regulatory requirements. INGAA characterizes this treatment as nonsensical. By adding a right-of-way or work space limitation to section 2.55(a) auxiliary installations, INGAA contends the Commission would be imposing a substantial burden on companies seeking to maintain their jurisdictional facilities and services.

## 2. Commission Response

13. Section 2.55 permits natural gas companies to make certain routine modifications and additions to their jurisdictional facilities without the need to invoke case-specific or blanket section 7(c) certificate authorization. However, as the Commission has previously stated, "[a]cquiring additional land for construction activities is a section 7 activity and, therefore, does not qualify for the section 2.55 exemption."<sup>20</sup> Consequently, the Commission proposes to amend section 2.55(a) to clarify that auxiliary installations must be constructed within the certificated permanent right-of-way or authorized facility site and must use the same temporary work space used to construct the existing facility.

14. All section 2.55 facilities are fully jurisdictional. Because the originally certificated facilities had undergone an environmental review, the Commission determined there was no need to subject the comparatively minor modifications to these facilities permitted under section 2.55 to the same scrutiny.<sup>21</sup>

<sup>19</sup> Order No. 603, FERC Stats. & Regs. ¶ 31,073, 64 FR 26572 at 26575.

<sup>20</sup> See *Landowner Notification, Expanded Categorical Exclusions, and Other Environmental Filing Requirements*, Notice of Proposed Rulemaking, Order No. 609, 64 FR 27717, at 27722 (May 21, 1999) FERC Stats. & Regs. ¶ 32,540 (1999).

<sup>21</sup> As noted above, the ancillary nature of these secondary facilities is indicated by section 2.55(a), which describes them as "merely auxiliary or appurtenant" and "only for the purpose of obtaining more efficient or more economical

operation of the authorized or proposed transmission facilities," and section 2.55(b) which limits replacement facilities to those that "will have a substantially equivalent designed capacity."

15. In Order No. 603, the Commission added Appendix A to Part 2 to provide guidance for the construction of replacement facilities. Order No. 603 did not discuss auxiliary facilities, as no party raised any issue regarding them. Thus, the Commission saw no need to discuss whether the construction and location of auxiliary facilities must fall within the footprint of the existing facilities. Nothing in Order No. 603 evinced an intent to permit auxiliary facilities outside of previously approved boundaries, i.e., outside of an area that had been previously studied when the Commission considered the environmental impacts of the originally proposed project in fulfillment of its National Environmental Policy Act (NEPA) obligations.<sup>23</sup> We noted that section 2.55(a) auxiliary facilities, like section 2.55(b) replacement facilities, should only include basic maintenance activities and the addition of minor facilities so as to ensure that all section 2.55 activities will have no significant adverse environmental or economic impacts.<sup>24</sup>

16. The authority to replace, construct, or maintain natural gas facilities is limited by the terms and locations delineated in the original certificate. These terms include the project's approved plans and procedures, e.g., the Commission staff's Upland Erosion Control Revegetation and Maintenance Plan and Wetland and Waterbody Construction and Mitigation Procedures, as required by section 380.12 of the Commission's regulations, as well as any conditions relating to construction methods and restoration obligations. So long as an auxiliary or replacement facility will be located within an existing right-of-way, and make use of the previously used work space, and comply with all the conditions of the original certificate, a natural gas company can rely on section 2.55 for its construction activities. However, any activity that would require a new permanent right-of-way or new temporary work space, i.e., any

activity that would require any new property rights, would be beyond the scope of section 2.55, and a company would require an alternative source of authorization.<sup>25</sup> For activities that cannot qualify under section 2.55, a company may seek case-specific certificate authorization or rely on its blanket authority.<sup>26</sup>

operation of the authorized or proposed transmission facilities," and section 2.55(b) which limits replacement facilities to those that "will have a substantially equivalent designed capacity."

## B. Environmental Effects of Auxiliary Installations

### 1. Comments

17. INGAA states that auxiliary installations are smaller by nature and have limited environmental and other impacts when compared to replacement facilities, since replacements can involve the removal and replacement of extensive mainline facilities and significant adverse effects on the environment.

18. INGAA contends that implementing right-of-way and work space limitations for auxiliary installations would eliminate the ability of natural gas companies to install many of the facilities expressly identified in section 2.55(a). INGAA states that cathodic protection, electrical and communication equipment, pig launchers and receivers, and buildings typically extend beyond the existing right-of-way and require additional work space for their installation. INGAA notes that since eminent domain is not available for section 2.55(a) installations, any additional work space can be obtained only through negotiations with landowners.

### 2. Commission Response

19. Implicit in the section 2.55 exemption from case-specific or blanket section 7(c) certificate authorization is the presumption that all auxiliary installations and replacement facilities will have limited adverse environmental

<sup>25</sup> See, e.g., *Arkla Energy Resources*, 67 FERC ¶ 61,173, at 61,516 (1994) (*Arkla*). Note that it is irrelevant whether a company is able to obtain new property rights by negotiation, since absent the opportunity for the Commission to evaluate the potential environmental impacts of construction outside a certificated project's prescribed boundaries, i.e., outside an area the Commission has previously reviewed and approved, the Commission cannot meet its NEPA obligations or ensure the activity is in the public interest.

<sup>26</sup> A natural gas company may rely on blanket certificate authority for the construction of an auxiliary or replacement facility so long as the installation meets the blanket certificate requirements under Part 157 of the Commission's regulations (i.e. that the facility is an eligible facility and satisfies any cost constraints and standard environmental conditions). Note that all activities undertaken pursuant to blanket authority, but for certain limited exceptions, require a company to provide written notice to affected landowners 45 days prior to commencing the activity. See 18 CFR 157.203(d) (2012).

<sup>22</sup> See Order No. 603, FERC Stats. & Regs. ¶ 31,073, 64 FR 26572 at 26575.

<sup>23</sup> 42 U.S.C. 4321-4347 (2006).

<sup>24</sup> See Order No. 603-A, FERC Stats. & Regs. ¶ 31,081, 64 FR 54522 at 54524.

and economic impacts, since it would be inconsistent with the public interest to permit projects with potentially significant adverse impacts to go forward without notice, opportunity for comment, and appropriate review.

20. We acknowledge that certain types of auxiliary installations, such as valves, involve minor facilities that do not merit an in-depth review, as the environmental and economic impacts are minimal. However, this is not the case for auxiliary installations that are more extensive or extend beyond the reviewed and approved boundaries of an existing facility. For example, INGAA noted in its filing that conventional ground bed installations for cathodic protection commonly involve construction outside of the right-of-way. We note that as an alternative to the “conventional” method of installation, deep-well anode bed installations, which may not require disturbance outside of the right-of-way, are also in use and may offer other benefits such as greater reliability of corrosion protection. INGAA also cites communication towers for the monitoring of electrical and communication equipment as auxiliary installations that involve ground-disturbing activity and are commonly located outside of the existing right-of-way.

21. In *Arkla*, the Commission held that the environmental impact of a section 2.55(b) replacement facility is insignificant when the facility is “located within a compressor station or a natural gas pipeline’s right-of-way”<sup>27</sup>—i.e. within the previously studied, specific boundaries of a certificated project. In contrast, construction activities outside of the right-of-way have the potential to impose unknown and unmitigated impacts on the environment, and therefore should be subject to an environmental assessment or an environmental impact statement.<sup>28</sup> The same rationale holds true for section 2.55(a) auxiliary installations. The exclusion of auxiliary installations from NGA section 7(c) certificate requirements was based on the fact that the original facilities were constructed within a previously studied, precisely defined area. Any deviations from the certificate conditions applicable to the

original project require additional scrutiny and additional authorization.

22. A section 2.55 facility located outside of the existing right-of-way or using land outside the previously used work space raises environmental concerns not contemplated in the original section 7(c) certificate proceeding, such as land use, erosion, sediment control, impacts on streams and soils, visual impacts, and threatened and endangered species. Therefore, to ensure the review of, and if need be, the mitigation of adverse environmental impacts caused by activities outside of an existing right-of-way or prior work space, a company cannot rely on section 2.55, but must instead rely on case-specific or blanket section 7(c) authorization. Regardless of whether a facility is constructed pursuant to section 2.55 or NGA section 7(c), a pipeline is required to obtain the necessary environmental approvals and construction permits from federal and state agencies.

23. In addition, a natural gas company cannot assume that merely because land was disturbed within the certificated right-of-way and work spaces, the construction of an auxiliary installation within the authorized boundaries will not disrupt the environment. Thus, as noted above, all environmental or construction conditions (i.e. compliance with the project’s approved plans and procedures, e.g., right-of-way revegetation, monitoring, and maintenance) that were included as conditions attached to the original certificate remain in effect until the certificate is abandoned. These conditions do not expire once the facility goes into service and thus are applicable to all section 2.55 and section 380.15 activities.

24. When, in conformity with the clarified section 2.55(a) requirements, a natural gas company is obliged to file an application for authorization of a relatively minor installation outside of an existing right-of-way or work space, it is most likely that the blanket certificate will apply and the effort necessary to satisfy documentation and information requirements will be relatively minor (particularly so when an installation can qualify for section 157.203(b) automatic authorization). Further, to alleviate any concerns that the right-of-way or work space restriction will interrupt service to customers, a pipeline may use the emergency regulations under Part 284 Subpart I and/or may file, under emergency conditions, an application pursuant to section 157.17 of the regulations for a “temporary certificate authorizing the construction and

operation of extensions of existing facilities \* \* \* that may be required to assure maintenance of adequate service or to service particular customers.”<sup>29</sup>

### C. Compliance With the Administrative Procedure Act

#### 1. Comments

25. INGAA argues that Commission staff’s position that auxiliary installations are limited to the originally certificated right-of-way and work space amounts to an informal rulemaking, without the opportunity for notice and comment, a violation of the requirements of the APA.<sup>30</sup>

#### 2. Commission Response

26. We disagree. Commission staff’s actions are in accord with the requirements of the APA. Staff’s position is merely a clarification of a natural gas company’s existing requirements, requirements imposed as specific conditions to a certificate authorization. This is not a new policy. As stated above, section 2.55 auxiliary and replacement facilities have always been confined by right-of-way and work space limitations, since the certificate authorizing a natural gas project only covers project facilities built within the right-of-way and using the work space authorized in the certificate. Thus, project activities outside the authorized right-of-way or work space would violate conditions applicable to the certificate. Because of these inherent certificate limitations, the Commission saw no need to amend section 2.55 until INGAA’s requested clarification. As a result, we are initiating this Notice of Proposed Rulemaking to clarify that section 2.55(a) auxiliary installations must be constructed within the existing right-of-way or authorized facility site using the same temporary work space used to construct the existing facility.<sup>31</sup>

### D. Landowner Notification for Activities Conducted Under Section 2.55 and Section 380.15

#### 1. Comments

27. Commission staff has received numerous requests from landowners that we require companies to notify landowners in advance of any activity that will take place on their land.

<sup>29</sup> See, e.g., *NorAm Energy Corporation*, 70 FERC ¶ 61,030 at 61,100 (1995) (citing 18 CFR 157.17) (2012).

<sup>30</sup> 5 U.S.C. 553 (2006).

<sup>31</sup> In any event, staff advice is not binding on the Commission—see 18 CFR 388.104 (2012)—thus, such advice is not subject to APA rulemaking procedures. A company seeking a definitive Commission ruling must apply for one, as INGAA has done.

<sup>27</sup> 67 FERC ¶ 61,173, at 61,516–17, n.4 (1994) (citing *Regulations Implementing National Environmental Policy Act of 1969*, Order No. 486, 52 FR 47897 (December 17, 1987), FERC Stats. & Regs., Regulations Preambles 1986–1990 ¶ 30,783, at 30,942 (1987)).

<sup>28</sup> See *id.* at 61,517.

## 2. Commission Response

28. We propose to add landowner notification requirements for both auxiliary installations and replacement facilities under section 2.55 and for siting and maintenance activities under section 380.15. Under proposed sections 2.55(c) and 380.15(b)(1), a natural gas company must notify affected landowners at least 10 days prior to commencing construction. The notification should include: (1) A brief description of the activity to be conducted or facilities to be constructed/replaced and the effects that the activities are expected to have on the landowner's property; (2) the name and phone number of the company representative that is knowledgeable about the project; and (3) a description of the Commission's Dispute Resolution Service Helpline, as explained in section 1b.21(g) of the Commission's regulations, and the Dispute Resolution Service Helpline number.

29. If the landowner has further questions concerning construction or maintenance activities, the landowner can contact the company representative for more details. If the landowner needs further information concerning the Commission's role in these types of projects, the landowner can contact the Commission's Dispute Resolution Service Helpline.

30. We also propose to define "affected landowners" as owners of property interests, as noted in the most recent tax notice, whose property (1) is directly affected (i.e., crossed or used) by the proposed activity, including all rights-of-way, facility sites, access roads, pipe and contractor yards, and temporary workspace, or (2) abuts either side of an existing right-of-way or facility site, or abuts the edge of a proposed right-of-way or facility site which runs along a property line in the area in which the facilities would be constructed, or contains a residence within 50 feet of the proposed construction work area.

### III. Information Collection Statement

31. The Paperwork Reduction Act (PRA)<sup>32</sup> requires each federal agency to seek and obtain Office of Management and Budget (OMB) approval before undertaking a collection of information directed to ten or more persons or contained in a rule of general applicability.<sup>33</sup> The OMB's regulations

implementing the PRA require approval of certain information collection requirements imposed by agency rules.<sup>34</sup> Upon approval of a collection of information, OMB will assign an OMB control number and an expiration date. Respondents subject to the filing requirements of an agency rule will not be penalized for failing to respond to the collection of information unless the collection of information displays a valid OMB control number.

32. The Commission is submitting the proposed reporting requirements to OMB for its review and approval. The Commission solicits comments on the proposed modifications, the accuracy of burden estimates, ways to enhance the quality, utility, and clarity of the information to be collected, and any suggested methods for minimizing respondents' burden.

33. The only entities affected by this rule would be natural gas companies under the Commission's jurisdiction. The information collection requirements in this Final Rule are identified as follows.

34. FERC-577, "Gas Pipeline Certificates: Environmental Impact Statements," identifies the Commission's information collections relating to the requirements set forth in NEPA and Parts 2, 157, 284, and 380 of the Commission's regulations. Applicants have to conduct appropriate studies which are necessary to determine the impact of the construction and operation of proposed jurisdictional facilities on human and natural resources, and the measures which may be necessary to protect the values of the affected area. These information collection requirements are mandatory.

35. Because this proposed rule adds a landowner notification requirement in section 2.55(c) and section 380.15(c) for activities undertaken pursuant to these sections, the overall burden on the industry will increase. However, because natural gas companies subject to our jurisdiction must already notify landowners in conjunction with section 3 projects and section 7 applications and when conducting activities under part 157 of our regulations, no new technology would be needed and no start-up costs would be incurred. Further, even without the notification requirement proposed herein, companies routinely inform landowners prior to coming onto their property, both as a courtesy and to avoid conflicts in landowner and company activities.

Thus, the proposed notification is expected to be consistent with some companies' current practices, and consequently to impose little or no additional obligation on such companies.

36. In 1999, in estimating the landowner notification burden in Order No. 609,<sup>35</sup> we found companies would need four hours to identify affected landowners and prepare and distribute information describing the proposed project. Given advances in database management since then, and given that section 2.55 and section 380.15 activities generally involve activities that are smaller than those that go forward under blanket certificate authority, we anticipate companies will need two hours to meet the proposed landowner notification requirement.

37. While companies are required to file annual reports of replacement facilities under 2.55(b), no such reports are required for ancillary installations under 2.55(a). Thus, we have no data upon which to base an estimate of activities under 2.55(a). In view of this, Commission staff asked for information on activities under 2.55(a) from a small representative sample (less than ten) of jurisdictional companies and we have extrapolated our estimate based on company responses. We estimate that on average, approximately 6,500 auxiliary installation projects are undertaken annually.

38. Companies file an annual report itemizing all section 2.55(b) replacement activities. Our review of the more recent annual reports indicate that companies undertake, in total, approximately 500 section 2.55(b) projects per year.

39. Section 380.15 siting and maintenance activities, like activities under 2.55(a), do not require companies to submit an annual report. These activities are generally minor and planned for well in advance and cover a wide variety of efforts, e.g., physical up-keep of above-ground facilities and right-of-way vegetation maintenance. Further, any particular company's activities on its right-of-way can depend upon changing conditions such as maintenance initiatives, population density, and even weather. Because of this variety of possible activities and their minor nature we have estimated that, for all companies nationwide, there will be a total of approximately three times as many activities as take place under section 2.55(a) which would require a landowner notification, i.e., in the aggregate, 19,500 siting and

<sup>32</sup> 44 U.S.C. 3501-3520 (2006).

<sup>33</sup> OMB's regulations at 5 CFR 1320.3(c)(4)(i) (2012) require that "[a]ny recordkeeping, reporting, or disclosure requirement contained in a rule of

general applicability is deemed to involve ten or more persons."

<sup>34</sup> 5 CFR part 1320 (2012).

<sup>35</sup> See note 20.

maintenance activities that could require a landowner notification.

40. We estimate the proposed additional notification burden that the

proposal would impose in the table below.

Proposed data collection	Annual number of respondents	Annual number of filings per respondent <sup>36</sup>	Number of hours per filing	Total annual hours
FERC-577 (new requirement, proposed in 18 CFR 2.55(a)) .....	165	39.5	2	13,000
FERC-577 (new requirement, proposed in 18 CFR 2.55(b)) .....	165	3	2	1,000
FERC-577 (new requirement, proposed in 18 CFR 380.15) .....	165	118	2	39,000
Total Annual Burden Hours .....				53,000

41. As discussed above, natural gas companies already conduct landowner notifications for larger projects, and some companies also routinely inform affected landowners in advance of undertaking activities on their property as it is considered a “best practice” for facility and right-of-way management. Given that some companies currently comply with the notification requirements proposed herein, we believe that the actual industry-wide increase in burden will be substantially less than what we have estimated here.

*Information Collection Costs:* The Commission seeks comments on the costs to comply with these revised requirements. It has projected the average cost for all respondents to be as follows:<sup>37</sup>

- \$3,180,000.00 per year for all regulated entities;
- \$19,272.00 per year for each regulated entity.

*Title:* FERC-577.

*Action:* Proposed Revision.

*OMB Control Nos.:* 1902-0128.

*Respondents:* Natural gas pipeline companies.

*Frequency of Responses:* On occasion.

*Necessity of Information:* The requirement to notify landowners is necessary for the Commission to carry out its NEPA responsibilities and meet the Commission’s objectives of addressing landowner and environmental concerns fairly. The information provided to landowners is intended to accommodate, to the extent possible, any concerns they may have regarding a natural gas company’s planning, locating, clearing, right-of-way maintenance, and facility construction or replacement activities on their property.

<sup>36</sup> This column reflects a rounded estimate for each jurisdictional natural gas company, averaged over all 165 such companies.

<sup>37</sup> The cost figures are derived by multiplying the total hours to prepare a response by an hourly wage estimate of \$60 (based on average civil engineer wages and benefit information obtained from the Bureau of Labor Statistics’ data at [http://bls.gov/oes/current/naics4\\_221200.htm#17-0000](http://bls.gov/oes/current/naics4_221200.htm#17-0000) and <http://www.bls.gov/news.release/ecec.nr0.htm> rates).

*Internal Review:* The Commission has reviewed the proposed revisions and has determined that they are necessary. These proposed requirements conform to the Commission’s need for efficient information collection, communication, and management within the energy industry. The Commission has assured itself, by means of internal review, that there is specific, objective support for the burden estimates associated with the information collection requirements.

42. Interested persons may obtain information on the proposed reporting requirements or submit comments by contacting the Federal Energy Regulatory Commission, 888 First Street NE., Washington, DC 20426 (Attention: Information Clearance Officer, Office of the Executive Director), by phone 202-502-8663, or by email to [DataClearance@ferc.gov](mailto:DataClearance@ferc.gov). Comments on the proposed requirements may also be sent to the Office of Information and Regulatory Affairs, Office of Management and Budget, Washington, DC 20503 [Attention: Desk Officer for the Federal Energy Regulatory Commission]. For security reasons, comments should be sent by email to OMB at [oir\\_submission@omb.eop.gov](mailto:oir_submission@omb.eop.gov). Please reference OMB Control No. 1902-0128, FERC-577, and Docket No. RM12-11 in your submission.

#### IV. Environmental Analysis

43. The Commission is required to prepare an environmental assessment or an environmental impact statement for any action that may have a significant adverse effect on the human environment. The Commission has categorically excluded certain actions from these requirements as not having a significant effect on the human environment.<sup>38</sup> Generally, the actions proposed to be taken here fall within the categorical exclusions in the Commission’s regulations that are clarifying, corrective, or procedural and for information gathering, analysis, and dissemination.<sup>39</sup> Accordingly, an environmental review is not necessary

<sup>38</sup> 18 CFR 380.4 (2012).

<sup>39</sup> 18 CFR 380.4(a)(1) and (5) (2012).

and has not been prepared in connection with this proposed rulemaking.

#### V. Regulatory Flexibility Act

44. The Regulatory Flexibility Act of 1980 (RFA)<sup>40</sup> generally requires a description and analysis of agency rules that will have a significant economic impact on a substantial number of small entities. The RFA mandates consideration of regulatory alternatives that accomplish the stated objectives of a proposed rule and that minimize any significant economic impact on a substantial number of small entities. The Small Business Administration’s (SBA) Office of Size Standards develops the numerical definition of a small business.<sup>41</sup> The SBA has established a size standard for natural gas pipeline companies transporting natural gas, stating that a firm is small if its annual receipts are less than \$25.5 million.<sup>42</sup>

45. The proposed regulations impose requirements only on natural gas companies subject to the Commission’s jurisdiction, the majority of which are not small businesses. Most companies regulated by the Commission do not fall within the RFA’s definition of a small entity. Approximately 165 companies—nearly all of them large entities—would be potential respondents subject to data collection FERC-577 reporting requirements. For the year 2011 (the most recent year for which information is available), only 15 companies not affiliated with larger companies had annual revenues of less than \$25.5 million. Moreover, the proposed reporting requirements should have no meaningful economic impact on companies—be they large or small—subject to the Commission’s regulatory jurisdiction. The Commission estimates that the cost per small entity is \$19,272 per year. The Commission does not consider the estimated \$19,272 impact

<sup>40</sup> 5 U.S.C. 601-612 (2006).

<sup>41</sup> 13 CFR 121.101 (2012).

<sup>42</sup> 13 CFR 121.201 (2012), Subsector 486; see SBA’s Table of Small Business Size Standards, effective March 26, 2012, available at: [http://www.sba.gov/sites/default/files/files/Size\\_Standards\\_Table.pdf](http://www.sba.gov/sites/default/files/files/Size_Standards_Table.pdf).

per entity to be significant. Accordingly, pursuant to section 605(b) of the RFA, the Commission certifies that this proposed rule should not have a significant economic impact on a substantial number of small entities.

VI. Comment Procedures

46. The Commission invites interested persons to submit comments on the matters and issues proposed in this notice, including any related matters or alternative proposals that commenters may wish to discuss. Comments are due March 5, 2013. Comments must refer to Docket No. RM12-11-000, and must include the commenter's name, the organization represented, if applicable, and the commenter's address in the comments.

47. The Commission encourages comments to be filed electronically via the eFiling link on the Commission's Web site at http://www.ferc.gov. The Commission accepts most standard word processing formats. Documents created electronically using word processing software should be filed in native applications or print-to-PDF format and not in a scanned format. Commenters filing electronically do not need to make a paper filing.

48. Commenters that are not able to file comments electronically must send an original of their comments to: Federal Energy Regulatory Commission, Secretary of the Commission, 888 First Street NE., Washington, DC 20426.

49. All comments will be placed in the Commission's public files and may be viewed, printed, or downloaded remotely as described in the Document Availability section below. Commenters on this proposal are not required to serve copies of their comments on other commenters.

VII. Document Availability

50. In addition to publishing the full text of this document in the Federal Register, the Commission provides all interested persons an opportunity to view and/or print the contents of this document via the Internet through the Commission's Home Page (http://www.ferc.gov) and in the Commission's Public Reference Room during normal business hours (8:30 a.m. to 5:00 p.m. Eastern time) at 888 First Street NE., Room 2A, Washington, DC 20426.

51. From the Commission's Home Page on the Internet, this information is available on eLibrary. The full text of this document is available on eLibrary in PDF and Microsoft Word format for viewing, printing, and/or downloading. To access this document in eLibrary, type the docket number excluding the

last three digits of this document in the docket number field.

52. User assistance is available for eLibrary and the Commission's Web site during normal business hours from the Commission's Online Support at (202) 502-6652 (toll free at 1-866-208-3676) or email at ferconlinesupport@ferc.gov, or the Public Reference Room at (202) 502-8371, TTY (202) 502-8659. Email the Public Reference Room at public.referenceroom@ferc.gov.

List of Subjects

18 CFR Part 2

Administrative practice and procedure, and Reporting and recordkeeping requirements.

18 CFR Part 380

Environmental impact statements, and Reporting and recordkeeping requirements.

By direction of the Commission.

Nathaniel J. Davis, Sr., Deputy Secretary.

In consideration of the foregoing, the Commission proposes to amend Parts 2 and 380, Chapter I, Title 18, Code of Federal Regulations, as follows:

PART 2—GENERAL POLICY AND INTERPRETATIONS

■ 1. The authority citation for Part 2 continues to read as follows:

Authority: 5 U.S.C. 601; 15 U.S.C. 717-717z, 3301-3432; 16 U.S.C. 792-828c, 2601-2645, 42 U.S.C. 4321-4370h, 7101-7352.

■ 2. Amend § 2.55 by adding a sentence after the last sentence in paragraph (a)(1), revising paragraph (b)(1)(ii), and adding paragraph (c) to read as follows:

§ 2.55 Definition of terms used in section 7(c).

\* \* \* \* \*

(a) \* \* \*

(1) \* \* \* The auxiliary installations must be located within the existing, certificated permanent right-of-way or authorized facility site and must be constructed using the temporary work space used to construct the existing facility (See appendix A to this part 2 for guidelines on what is considered to be the appropriate work area in this context).

\* \* \* \* \*

(b) \* \* \*

(1) \* \* \*

(ii) The replacement facilities will have a substantially equivalent designed delivery capacity, will be located in the same right-of-way or on the same site as the facilities being replaced, and will be constructed using the temporary work space used to construct the existing

facility (See appendix A to this part 2 for guidelines on what is considered to be the appropriate work area in this context);

\* \* \* \* \*

(c) Landowner notification. (1) No activity described in paragraphs (a) and (b) of this section is authorized unless the company makes a good faith effort to notify in writing all affected landowners, as defined in paragraph (c)(2) of this section, at least 10 days prior to commencing any activity under this section. A landowner may waive the 10-day prior notice requirement in writing as long as the notice has been provided. The notification shall include at least:

(i) A brief description of the facilities to be constructed or replaced and the effect the activity will have on the landowner's property;

(ii) The name and phone number of a company representative who is knowledgeable about the project; and

(iii) A description of the Commission's Dispute Resolution Service Helpline as explained in § 1b.21(g) of this chapter and the Dispute Resolution Service Helpline number.

(2) All affected landowners includes owners of property interests, as noted in the most recent county/city tax records as receiving the tax notice, whose property:

(i) Is directly affected (i.e., crossed or used) by the proposed activity, including all rights-of-way, facility sites (including compressor stations, well sites, and all above-ground facilities), access roads, pipe and contractor yards, and temporary workspace; or

(ii) Abuts either side of an existing right-of-way or facility site, or abuts the edge of a proposed right-of-way or facility site which runs along a property line in the area that would be affected, or contains a residence within 50 feet of the proposed construction work area.

\* \* \* \* \*

PART 380—REGULATIONS IMPLEMENTING THE NATIONAL ENVIRONMENTAL POLICY ACT

■ 3. The authority citation for Part 380 continues to read as follows:

Authority: 42 U.S.C. 4321-4370h, 7101-7352; E.O. 12009, 3 CFR 1978 Comp., p. 142.

■ 4. In § 380.15, redesignate paragraphs (c), (d), (e), and (f) as paragraphs (d), (e), (f), and (g) and add new paragraph (c) to read as follows:

§ 380.15 Siting and maintenance requirements.

\* \* \* \* \*



(c) *Landowner notification.* (1) No siting, construction, or maintenance activity within the right-of-way is authorized unless the company makes a good faith effort to notify in writing all affected landowners, as defined in paragraph (c)(2) of this section, at least 10 days prior to commencing any such activity. A landowner may waive the 10-day prior notice requirement in writing as long as the notice has been provided. The notification shall include at least:

(i) A brief description of the activity and the effect the activity will have on the landowner's property;

(ii) The name and phone number of a company representative who is knowledgeable about the project; and

(iii) A description of the Commission's Dispute Resolution Service Helpline as explained in § 1b.21(g) of this chapter and the Dispute Resolution Service Helpline number.

(2) All affected landowners includes owners of property interests, as noted in the most recent county/city tax records as receiving the tax notice, whose property:

(i) Is directly affected (i.e., crossed or used) by the proposed activity, including all facility sites (including compressor stations, well sites, and all above-ground facilities), rights-of-way, access roads, pipe and contractor yards, and temporary workspace; or

(ii) Abuts either side of an existing right-of-way or facility site, or abuts the edge of a proposed right-of-way or facility site which runs along a property line in the area that would be affected, or contains a residence within 50 feet of the proposed work area.

\* \* \* \* \*

[FR Doc. 2012-31085 Filed 1-3-13; 8:45 am]

BILLING CODE 6717-01-P

## DEPARTMENT OF THE TREASURY

### Internal Revenue Service

#### 26 CFR Part 1

[REG-140437-12]

RIN 1545-BL28

#### Bond Premium Carryforward

**AGENCY:** Internal Revenue Service (IRS), Treasury.

**ACTION:** Notice of proposed rulemaking by cross-reference to temporary regulations.

**SUMMARY:** In the Rules and Regulations section of this issue of the **Federal**

**Register**, the IRS is issuing temporary regulations that provide guidance on the tax treatment of a debt instrument with a bond premium carryforward in the holder's final accrual period, including a Treasury bill acquired at a premium. The text of those regulations also serves as the text of these proposed regulations.

**DATES:** Written or electronic comments must be received by April 4, 2013.

**ADDRESSES:** Send submissions to: CC:PA:LPD:PR (REG-140437-12), room 5203, Internal Revenue Service, P.O. Box 7604, Ben Franklin Station, Washington, DC 20044. Submissions may be hand-delivered Monday through Friday between the hours of 8 a.m. and 4 p.m. to CC:PA:LPD:PR (REG-140437-12), Courier's Desk, Internal Revenue Service, 1111 Constitution Avenue NW., Washington, DC, or sent electronically via the Federal eRulemaking Portal at [www.regulations.gov](http://www.regulations.gov) (IRS REG-140437-12).

**FOR FURTHER INFORMATION CONTACT:** Concerning the proposed regulations, William E. Blanchard, (202) 622-3900; concerning submissions of comments, Oluwafunmilayo (Funmi) Taylor, (202) 622-7180 (not toll-free numbers).

#### SUPPLEMENTARY INFORMATION:

#### Background and Explanation of Provisions

Temporary regulations in the Rules and Regulations section of this issue of the **Federal Register** amend the Income Tax Regulations (26 CFR part 1) relating to section 171. The temporary regulations provide guidance on the tax treatment of a taxable debt instrument with a bond premium carryforward in the holder's final accrual period, including a Treasury bill acquired at a premium. In general, the temporary regulations provide that, upon the sale, retirement, or other disposition of a taxable bond, the holder treats the amount of any bond premium carryforward determined as of the end of the accrual period under § 1.171-2(a)(4)(i)(B) as a bond premium deduction under section 171(a)(1) for the holder's taxable year in which the sale, retirement, or other disposition occurs. The text of the temporary regulations also serves as the text of these proposed regulations.

#### Special Analyses

It has been determined that this notice of proposed rulemaking is not a significant regulatory action as defined in Executive Order 12866, as supplemented by Executive Order

13563. Therefore, a regulatory assessment is not required. It also has been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) does not apply to these regulations, and because the regulations do not impose a collection of information on small entities, the Regulatory Flexibility Act (5 U.S.C. chapter 6) does not apply. Pursuant to section 7805(f) of the Internal Revenue Code, this notice of proposed rulemaking has been submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small businesses.

#### Comments

Before these proposed regulations are adopted as final regulations, consideration will be given to any written (a signed original and eight (8) copies) or electronic comments that are submitted timely to the IRS as prescribed in the preamble under the "Addresses" heading. The Treasury Department and the IRS welcome comments on the clarity of the proposed rules and how they can be made easier to understand. All comments will be available at [www.regulations.gov](http://www.regulations.gov) for public inspection and copying. A public hearing may be scheduled if requested in writing by any person that timely submits written comments. If a public hearing is scheduled, notice of the date, time, and place for a public hearing will be published in the **Federal Register**.

#### Drafting Information

The principal author of these regulations is William E. Blanchard, Office of Associate Chief Counsel (Financial Institutions and Products). However, other personnel from the IRS and the Treasury Department participated in their development.

#### List of Subjects in 26 CFR Part 1

Income Taxes, Reporting and recordkeeping requirements.

#### Proposed Amendments to the Regulations

Accordingly, 26 CFR part 1 is proposed to be amended as follows:

#### PART 1—INCOME TAXES

■ **Paragraph 1.** The authority citation for part 1 continues to read in part as follows:

**Authority:** 26 U.S.C. 7805 \* \* \*