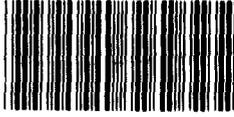


UNITED STATES GENERAL ACCOUNTING OFFICE

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STATEMENT OF  
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RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION  
BEFORE THE  
SUBCOMMITTEE ON FOSSIL AND SYNTHETIC FUELS  
COMMITTEE ON ENERGY AND COMMERCE  
HOUSE OF REPRESENTATIVES  
ON  
GAO'S VIEWS ON SELECTED ASPECTS OF THE  
DEPARTMENT OF TRANSPORTATION'S PIPELINE SAFETY PROGRAM

Mr. Chairman and Members of the Subcommittee:

We welcome the opportunity to be here today to respond to the questions raised in your May 3, 1984, and February 19, 1985, letters regarding various aspects of the Department of Transportation's Pipeline Safety Program. Specifically, you asked us to (1) critique the Department's ideas on the potential realignment of federal-state responsibilities, (2) identify improvements which should be made in the pipeline safety data systems, (3) identify areas which the Department should emphasize in its pipeline safety research, (4) identify ways to more effectively utilize the expertise of the pipeline safety technical advisory committees,

and (5) discuss the feasibility of implementing user fees for the interstate pipeline companies as a way of financing the interstate pipeline safety inspection program, including the right to preempt states from charging user fees.

Our analysis has shown that

- the Department has begun its study of the realignment of federal and state roles and expects to complete it in October 1985,
- the pipeline safety data system contains inaccurate and untimely data,
- the pipeline safety research program appears to be addressing the safety issues warranting attention,
- recent changes in how the advisory committees are used have increased their effectiveness, and
- the Department could, in our opinion, institute an interstate user fee program, but only the Congress can preempt the right of states to charge user fees.

As you requested, Mr. Chairman, during last year's hearings, we have followed up on our recommendations in our July 1984 report.<sup>1</sup> The Department has initiated actions which are discussed in attachment I. The objectives, scope, and methodology used in our current review are discussed in attachment II.

#### BACKGROUND

The Department of Transportation establishes and enforces safety standards for interstate and intrastate pipelines, as

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<sup>1</sup>Need to Assess Federal Role in Regulating and Enforcing Pipeline Safety (GAO/RCED-84-102, July 10, 1984).

authorized in the Natural Gas Pipeline Safety Act of 1968, as amended, and the Hazardous Liquid Pipeline Safety Act of 1979, as amended. Within the Department, these responsibilities are carried out by the Research and Special Programs Administration's (RSPA's) Materials Transportation Bureau (MTB).

Under the pipeline safety program, states may voluntarily assume responsibility for enforcing the safety standards for (that is, inspecting) all or a portion of the intrastate pipelines within their borders. Some states, acting as agents of the Department, also have been inspecting interstate pipelines. Participating states can obtain federal reimbursements for up to 50 percent of the cost incurred in operating their programs.

The Bureau is responsible for (1) enforcing the standards for those pipelines which the states do not inspect and (2) monitoring the participating states to ensure they are adequately enforcing the federal safety standards.

WHAT EFFORTS HAVE THE DEPARTMENT  
MADE TO REALIGN FEDERAL AND  
STATE PIPELINE SAFETY ROLES?

In our July 1984 report, we recommended that the Department develop alternatives for redefining the federal role and responsibilities for intrastate pipelines and present these alternatives to congressional oversight and appropriations committees. Our work showed that the Department did not have adequate inspection coverage of the interstate and intrastate pipeline operators for which it had responsibility. A major reason was that, while the Department had been responsible for a large number of intrastate

pipeline systems, it has not budgeted for the resources needed to inspect these systems. In addition, since state participation in the program is voluntary, the Department cannot require the states to maintain an adequate level of inspection activity, assume responsibility for additional intrastate pipelines, and/or correct deficiencies in their programs.

The Department agreed with this recommendation; it has begun a study of the federal and state pipeline safety roles and anticipates completing it in October 1985. On the basis of our discussion with the Department official responsible for the study, it will

- discuss financial alternatives to maintain or obtain state participation in the program,
- analyze the impact of each alternative on inspection activity and provide information on general staffing and funding needs, including types of funding mechanisms as they apply to each alternative (e.g., user fees), and
- identify any needed legislative changes.

Because the study is still in its formative stages, we are not able to provide specific comments at this time. However, on the basis of our discussions with Department officials, we believe that the study, if carried out as planned, has the potential to identify program alternatives as the Department agreed to do during last year's hearings.

HOW ACCURATE AND TIMELY IS THE  
PIPELINE SAFETY DATA SYSTEM?

As part of its pipeline safety responsibilities the Department collects data from those pipeline operators that are subject to federal regulations. The purpose of the data system is to

provide factual information that will give the Department a sound statistical base with which to define safety problems, determine their underlying causes, and propose regulatory solutions. The major users of the system are Bureau headquarters and regional staff and state inspectors.

#### Accuracy of data

We found that numerous source documents, which are prepared by the pipeline operators, contained obviously inaccurate data that were not corrected before being entered into the system. For example, our review of 3,260 reports submitted by pipeline operators showed that 392 (12 percent) contained obvious errors in adding the total number of miles of pipelines that the operators were reporting. These errors were not corrected when the data were entered into the system.

During our review of portions of the reported data, we identified instances of duplicate data that were entered into the system. On the basis of our analysis of 844 operator reports, we identified 10 that had been entered into the data system more than once. Because of missing data, we did not determine the full extent of such duplication.

Bureau officials responsible for the data system agreed that the system contains errors and duplications. We were unable to determine, however, what effect, if any, inaccurate data have on the pipeline safety program. Bureau officials believe that a new data reporting form that operators have been using since June 1984 has the potential to reduce these types of errors. However, the change in the reporting forms will not preclude the problems

of duplicate reports. To correct this problem, controls are needed at the time data are entered into the system to preclude duplicate entries.

#### Timeliness of data

Data have not been entered into the system in a timely manner. The Department's standards provide that data should be entered into the system within 2 weeks after they are received from the pipeline operators.

We found, however, that as of February 1985, none of the gas annual reports for 1983 (due March 1984) or gas incident reports from June 1984 to February 1985 had been entered into the system. We could not determine all the reasons why they had not been entered into the system. However, according to a Department official responsible for the system, part of the problem may have been caused by changes in the reporting requirements that required a new series of computer programs to edit, store, and retrieve information before data could be entered. Although the Department has a contractor responsible for making system changes, they had not been made at the time of our review, and therefore the data could not be entered into the system.

#### Data integration

Another concern that we have with the pipeline data system is its lack of ability to integrate data from several sources. The overall data system consists of six separate systems that use data from different sources. If the systems were integrated, use of data by the system users would be enhanced.

In a 1978 report,<sup>2</sup> we recommended that operator inspection and compliance data should be combined with data from the operators' annual reports and incident reports in order to provide a rational basis for conducting inspections and assessing penalties. This action, however, has not been implemented by the Bureau because it did not believe significant benefits could be achieved.

However, we discussed with pipeline officials in four states the advantages of integrating data from the various system components. They said that they would like to have annual and incident pipeline safety data integrated as well as enforcement data. Integrating such data, they said, would enable them to compare enforcement actions in other states.

In order to determine the feasibility of integrating the systems and the costs associated with it, we integrated the gas incident systems with two other gas data systems. Putting these four computer files together for 1983 data was fairly straightforward and inexpensive--about \$60 in computer costs. We will provide the results of this effort to the Bureau for its consideration.

ARE THE DEPARTMENT'S PIPELINE SAFETY  
RESEARCH EFFORTS PROPERLY FOCUSED?

The Department's research program provides support for its rulemaking for safety and enforcement and inspection activities such as detecting flaws in pipeline welds and testing liquefied natural gas facilities for release of flammable vapor. The

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<sup>2</sup>Pipeline Safety--Need for a Stronger Federal Effort (CED-78-99, Apr. 26, 1978).

research budget, which for the last few years has remained fairly constant, totalled \$510,000 for fiscal year 1985. On the other hand, industry, mainly through gas and petroleum associations, spends about \$6.4 million annually on pipeline safety research.

Industry officials we met with and most members of the pipeline safety technical advisory committees had no additional ideas on research that the Department should emphasize. Industry officials stated that much of the major pipeline safety standard-setting research has already been accomplished and that most research is now directed toward refining those standards.

According to the state officials we contacted, the Department was generally receptive to research areas they identified. For example, as a result of states' suggestions, the Department has conducted research on the transportation of hydrogen by pipeline and on bacterial corrosion in pipelines.

State officials we talked with suggested that the Department should undertake future research on (1) the transportation of natural gas containing high levels of hydrogen sulfide, (2) plastic pipe, including an evaluation of the long-term life of underground plastic pipes, (3) methods to detect and prevent pipeline leakage, and (4) development of cathodic protection measures (a continuous electric current used to combat corrosion). At the time of our review the Department had not finalized the research projects for fiscal year 1986. Therefore, we do not know if states' suggested projects will be funded.

ARE THE PIPELINE SAFETY TECHNICAL  
ADVISORY COMMITTEES BEING  
EFFECTIVELY USED?

As required by legislation, the Department has established two advisory committees--the Technical Pipeline Safety Standards Committee and the Technical Hazardous Liquids Pipeline Safety Standards Committee. These committees are comprised of government, industry, and public members and are charged with reviewing and commenting on the technical feasibility, reasonableness, and practicability of all proposed gas and liquid pipeline regulations and amendments.

In September 1984 the Administrator, RSPA, broadened the scope of the committees' responsibilities to also address pipeline safety policy issues. Committee members, industry association representatives, and state association officials we talked with supported this initiative. In the past they have addressed narrowly defined regulatory matters.

To address the pipeline policy issues, the Administrator, in October 1984, convened a joint meeting of both committees and established an "ad hoc" working group to discuss the issues, receive input from other committee members, and prepare a report. The working group met in January 1985 and reported to the full committee in February.

All 15 members of the committees we contacted strongly supported the establishment of the working group. They believed it was an effective technique for addressing the issues put forth by the Administrator at the first joint committee meeting.

Overall, committee members, industry association representatives, and state association chairpersons who represent state

pipeline safety officials told us that the committees serve a worthwhile purpose by advising the Department in its promulgation of pipeline safety regulations. However, some improvements were suggested. Bureau program officials could help members by (1) sending out background material sufficiently in advance of committee meetings and (2) providing orientation for new members so that they would be better prepared for initial committee meetings. In addition, two state association officials stated that knowing more about the committees' activities would be beneficial to them and added that the committees should coordinate their activities with state organizations.

IS IT LEGAL AND FEASIBLE FOR THE  
DEPARTMENT TO ESTABLISH USER FEES  
TO FINANCE THE PIPELINE PROGRAM?

In our opinion, establishing user fees for interstate pipeline companies to finance the Department's pipeline safety program is both legal and feasible. We believe that such fees would be equitable as compared with financing such costs by taxes on the general public and that the economic impact on pipeline operators and their customers will be extremely small. In addition, it is our opinion that preemption of existing state user fees would require legislation. A detailed discussion of the basis for our rationale is included as attachment III.

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Mr. Chairman, this concludes my testimony. We will be pleased to answer any questions you might have.

STATUS OF RECOMMENDATIONS, AGENCY COMMENTS  
AND ACTIONS TAKEN FROM OUR PRIOR REPORT

To update actions taken by the Department in response to our July 1984 report<sup>1</sup> we relied on the Department's October 12, 1984, response to the Office of Management and Budget (OMB) as required by OMB Circular A-50 and a March 26, 1985, memorandum to us from the Administrator, RSPA. However, our recommendation on federal/state realignment is covered in the body of the testimony.

RECOMMENDATION

Acknowledging the Department's limited pipeline inspection resources, we believe inspection coverage of the pipeline operators under federal jurisdiction could be enhanced. Thus, we recommended that the Secretary of Transportation direct the Administrator, RSPA, to take the following measures:

- Evaluate and, if the benefits of having pipeline operators establish a quality assurance program outweigh the cost, implement a mandatory quality assurance program for interstate pipeline operators.
- Complete and update its inspection workload inventory by dividing all interstate gas and liquid operators into common inspection units, and include the master meter and liquefied petroleum (LP) gas operators that are under its jurisdiction.

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<sup>1</sup>Need To Assess Federal Role in Regulating and Enforcing Pipeline Safety (GAO/RCED-84-102, July 10, 1984).

--Require MTB's regions to expand and refine the inspection workload and activity data inventory they maintain and report to headquarters for each category of operator, the number of inspection units subject to inspection and the number of units that have been inspected one or more times during the year, and a breakout of the number of inspections performed by type of inspection.

Agency comments and actions taken

In responding to OMB Circular No. A-50, the Department stated that it is evaluating the concept of a mandatory quality assurance program for interstate pipeline operators. In a March 26, 1985, memorandum to us, the Department indicated its regional offices had divided operators into common inspection units as of January 1, 1985. The Department has also asked states to divide operators into common units. The Department informed us that the revised monthly report from the regions to headquarters was instituted January 1985. It includes inspection data. The Department has also stated that master meter and liquefied petroleum (LP) gas operators will be included in its overall review of the program.

RECOMMENDATION

Our report recommended that the Secretary of Transportation direct the Administrator, RSPA, to improve state agency inspection activity reporting and MTB's monitoring of state agency pipeline safety programs by

- using more performance-oriented measures to evaluate state agency actions in enforcing federal pipeline safety standards, which would include revising the monitoring form to eliminate irrelevant questions, redesigning other questions to provide more meaningful data, and developing additional questions to evaluate state program performance;
- providing the regional offices with additional guidance to assure consistent interpretations of the questions on the monitoring form;
- updating criteria used to determine the minimum level of state inspection activity or establishing new criteria for this purpose;
- clarifying instructions provided for data collection and reporting by state agencies, particularly for data on inspection days, operators inspected, noncompliances, and enforcement actions; and
- having the regional offices (1) review and advise headquarters as to the probable accuracy of the program activity data at the time the state agencies submit such data and (2) devote more time to verifying the accuracy of these data during their annual monitoring visits.

Our report also recommended that the Secretary of Transportation direct the Administrator, RSPA, to better define state inspector qualifications and training requirements and assist the states in obtaining the needed inspector training by

- identifying what knowledge and skills are necessary to conduct effective inspections of operators;

- determining what training the states' inspection workforce needs to conduct effective inspections; and
- working with the states to determine the most efficient and effective way for all state inspectors to obtain the identified training needs within a reasonable time period.

Agency comments and actions taken

In responding to OMB Circular No. A-50, and in its March 26, 1985, memorandum the Department stated that MTB (1) has redesigned its state monitoring form and it is being used to monitor calendar year 1984 state programs; (2) has provided regional offices with guidance to assure consistent evaluations of program adequacy during monitoring; (3) reviewed and updated criteria for the minimum level of state inspection activity; (4) issued new instructions to states for data collection relating to inspection days, operators inspected, noncompliances, and enforcement actions; and (5) will have the regional offices verify the accuracy of state program activity data during their state monitoring visits.

The Department stated that the qualifications which a state inspector should possess will be made known to each state agency by MTB staff during annual monitoring visits and during annual meetings with the staff of each state agency on a regional basis.

The Department stated that the MTB will generally require attendance at all pipeline safety courses for each state pipeline safety inspector within a 3-year period from start of employment as an inspector.

RECOMMENDATIONS

Our report recommended that the Secretary instruct the Administrator, RSPA, to

- gather and analyze the data necessary to determine whether there are sufficient hazards, involving personal injury or environmental damage, to warrant regulation of rural gas gathering lines, gas service lines, hazardous liquids storage facilities, and substances transported in liquefied form that are not presently regulated and
- take appropriate actions to amend the regulations and, in the case of rural gas gathering lines and/or gas service lines, propose the legislation needed to provide coverage of those additional pipeline facilities that warrant coverage.

Agency comments and actions taken

In responding to OMB Circular No. A-50, the Department stated that the issues of regulatory coverage and the relative roles of each level of government will be best addressed in its overall review of the program. In addition, the Department stated that it will also initiate a study in fiscal year 1985 on the safety performance of hazardous liquid storage facilities that are associated with pipeline transport.

The Department has initiated a study of the risk of all hazardous liquid pipeline terminal storage. The study is expected to be completed in calendar year 1985. The Department is aware of only one unregulated substance transported an appreciable

distance--liquefied carbon dioxide. The Department will be collecting information on liquefied carbon dioxide and other substances to determine if they should be studied.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives in this review were to answer the House Subcommittee on Fossil and Synthetic Fuels questions on the following five specific aspects of the pipeline safety program: (1) critique the Department's study on potential realignment of federal-state responsibilities, (2) identify improvements which should be made to the pipeline safety data system, (3) identify areas which the Department should emphasize in its pipeline safety research program, (4) identify ways to more effectively utilize the expertise of the Pipeline Safety Technical Advisory Committees, and (5) determine the feasibility of implementing user fees for interstate pipeline companies as a way of financing the pipeline safety inspection program.

To answer the Subcommittee's questions, we met with (1) officials from industry, state, and federal organizations, (2) members of the Department's pipeline safety technical advisory committees, and (3) Department officials. We did this to obtain a broad perspective on these issues. Specifically, from industry we contacted the American Gas Association, the Interstate Natural Gas Association of America, the American Petroleum Institute, and the National LP Gas Association. State associations we contacted are the Staff Subcommittee on Pipeline Safety of the National Association of Regulatory Utility Commissioners and the five regional state chairmen of the National Association of Pipeline Safety

Representatives<sup>1</sup>. (Only four chairmen responded to us.) Both of these are groups of state pipeline inspection and enforcement officials. We spoke with federal officials from the National Transportation Safety Board (NTSB), Environmental Protection Agency (EPA), the Department's Federal Highway Administration, (FHWA), and National Highway Traffic Safety Administration (NHTSA), Nuclear Regulatory Commission (NRC), and Federal Energy Regulatory Commission (FERC).

We contacted 15 of the 29 members of the Department's Technical Pipeline Safety Standards Committee and the Technical Hazardous Liquids Pipeline Standards Committee. Members, including both chairmen, were judgmentally selected to represent (1) a cross-section of government, industry, and public sector views and (2) both committees.

To oversee the Department's study on potential realignment of federal/state responsibilities and actions taken in response to other recommendations in our July 1984 report, we relied on the Department's October 12, 1984, response to OMB as required by OMB Circular A-50 and supplemented the response on the basis of documents provided by the Department, and a March 25, 1985, memorandum from the Administrator, RSPA. Specifically, we reviewed the Department's realignment study outline and input from the pipeline safety advisory committees. However, we did not verify the actions that the Department said it is taking.

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<sup>1</sup>We requested that the chairmen obtain the views of their members so that their responses to us included their individual and state member positions.

To analyze the pipeline data subsystems<sup>2</sup>--part of the Hazardous Materials Information System<sup>3</sup>--we reviewed the operations of five data subsystems--transmission and gathering line annual report data system, gas distribution line annual report data components, two gas incident report data systems, and the liquid incident report data system. We used a statistical sample of reports submitted by operators and compared them against the computerized data available to the user to determine its accuracy. For Gas Transmission and Gathering Line System Annual Report data and Gas Distribution Line Annual System Report data, we reviewed 1982 data, which was the latest available data during February 1985, the time of our review. We used 1983 data and

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<sup>2</sup>The five components included in our review are the Liquid Pipeline Accident Report, Gas Distribution System Individual Leak Report, Gas Transmission and Gathering System Individual Leak Report, Gas Distribution System Annual Report, and Gas Transmission and Gathering System Annual Report. Gathering lines bring the gas from wells to the transmission pipeline. The transmission lines move the gas long distances to a terminal, refinery, or distribution center. Gas distribution systems consist of distribution mains and service lines. The mains carry gas to the service lines which connect the customer's building and the distribution mains.

<sup>3</sup>The Hazardous Materials Information System is composed of six subsystems. One of the six subsystems--the pipeline safety data subsystem--contains data on the operations of gas and liquid pipeline operators and is the subject of our review. One other subsystem--the telephonics subsystem--contains pipeline safety data, we did not review it because unlike the pipeline safety data subsystem, it is a telephone data system and does not contain source documents from pipeline operators. The other four subsystems generally are not related to pipeline safety operations. An additional system which is not part of the Hazardous Materials Information System contains regional inspection and enforcement data which was not reviewed because it was not fully operational at the time of our review.

data from the first half of 1984 for our review of Gas Distribution and Transmission and Gathering Line Individual Leak Reports, and we used 1984 data for our Liquid Pipeline Accident Report review. The gas annual and individual leak report forms changed in June 1984 but the data using the new forms were unavailable for review. We also acquired a copy of the automated computer files as of February 1985 and performed an analysis of the data. In addition, since the Department contracts out for its computer services, we reviewed the 1984 and 1985 contracts.

We discussed the data systems with (1) headquarters enforcement staff, (2) Department data processing staff, (3) the primary automated data processing contractor (Wilson, Hill Associates) responsible for operating the system, (4) four selected Department regional enforcement officers,<sup>4</sup> and (5) five judgmentally selected state enforcement officers from California,<sup>5</sup> Arizona, Wyoming, Nevada, and Michigan--states we believed had access to or experience with the Department's pipeline data system. We also discussed the data system with NTSB officials.

To review MTB's pipeline safety research efforts, we contacted members of the Department's pipeline safety technical advisory committees, NTSB, and industry and state officials.

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<sup>4</sup>We contacted all five Department regional offices but only four responded to us.

<sup>5</sup>California was unable to respond to our questions because it has not used the Department data system.

Specifically, we obtained information from the Gas Research Institute and the American Gas Association's Pipeline Research Committee as well as Department officials.

For information on the pipeline safety technical advisory committees we reviewed operating charters, issued reports, meeting transcripts, operations data for fiscal years 1983 and 1984, and observed four advisory committee meetings. We also met with committee members, industry, and state officials. For perspective on the operations of other advisory committees, we met with officials from FHWA, NHTSA, and EPA's Office of Water Quality. These entities also use advisory committees in a technical and policy advising capacity. They were judgmentally selected based on our belief that they had similar types of advisory committees.

We discussed user fees with 11 states<sup>6</sup> that are now assessing pipeline safety inspection fees. In addition we obtained information from NRC, FERC, and EPA.

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<sup>6</sup>Alabama, Arkansas, California, Kansas, Mississippi, Nebraska, New Hampshire, Oklahoma, South Carolina, Tennessee, and W. Virginia.

BASIS FOR GAO'S POSITION ON USER FEESLEGAL BASIS FOR DEPARTMENT FEES

Ample legal basis exists for the Department to charge interstate pipeline companies for the costs of safety inspections. Case law involving the general "User Charge Statute," 31 U.S.C. section 9701, indicates that the Department may (although it is not required to) charge safety inspection fees to interstate pipeline companies. The Department's authority under the User Charge Statute is contingent upon these inspections providing a special government benefit to specific, identifiable recipients. In our opinion, the Department's safety inspections not only benefit the public but also provide special benefits to pipeline operators by assuring the compliance needed to maintain safety and continue operating.

FEASIBILITY OF USER FEES

Although the federal government has not adopted pipeline safety inspection fees, they are used in 11 states. We contacted these states in order to learn what their experiences have been. The fee systems employed by these states vary in structure, the proportion of costs covered by revenues collected, the length of time the fees have been in effect, and the types of pipeline operators charged.

Alternative fee systems to finance interstate pipeline safety inspections could be based on (1) the carrying capacity of a pipeline, (2) the mileage operated by a pipeline company or (3)

the pipelines company's gross revenues. Each of these user fee alternatives is being used by states. According to the Department, the 11 states collected \$1.89 million in pipeline user fees for 1983. In our discussions with these 11 states, seven states indicated that all of their pipeline safety inspector costs were covered by user fees; one state said the majority of their costs were covered; one state indicated a small portion of its costs were covered and two states were unable to estimate what percentage of the program cost was covered by user fees.

Despite these differences, the state officials that we interviewed generally reported success with their fee systems. In six of the eight states that offered an opinion, state officials reported they encountered no problems in getting the pipeline companies to pay their allocated shares of the state safety inspection programs' costs. Only two states have reported any evidence of opposition to their fee systems on the part of the interstate pipelines that are charged.

#### EQUITY ISSUES OF USER FEES

Equity issues involve who should finance the costs of pipeline safety inspections--the general public in the form of taxes or the interstate pipeline companies and their customers, in the form of safety inspection fees. The salient issues are who benefits from the Department's safety inspections and who should bear the cost of risks created by pipelines operations. We believe that it is equitable for interstate pipeline operators and their

customers to finance Department safety inspections because the risks that these inspections reduce are entirely created by pipeline operations. Furthermore, economists commonly accept that economic efficiency is improved if those for whom a product is produced, such as pipeline customers, bear the costs of providing the product.

#### ECONOMIC CONSEQUENCES OF USER FEES

Our economic analysis shows that the impact of a user fee on interstate pipeline companies and their customers will be extremely small since the safety inspection program is so small relative to industry revenues. Currently, the Department's interstate safety inspection program costs less than \$5 million.<sup>7</sup> The pipeline industry generates about \$100 billion in revenues. Spreading the interstate pipeline program cost over the pipeline industry would increase prices a maximum of 5/1000 of 1 percent. Doubling the current program cost would potentially increase the price by 1/100 of 1 percent. Using the price of gasoline as an example, charging user fees for the current program could potentially increase the price of gasoline 0.005 cents gallon. The price of a therm of natural gas might go up 0.025 cents. These impacts are so small as to be indiscernible.

#### PREEMPTION OF STATE USER FEES

Under the existing gas and liquid pipeline legislation, the Congress has preempted the regulatory authority of the states to

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<sup>7</sup>The exact amount of its safety inspection program was not available and therefore we used a \$5 million estimate.

inspect either interstate or intrastate pipeline facilities. However, the legislation does not preempt the states from assessing fees against either interstate or intrastate facilities. Therefore, the Department has no authority to prohibit states from charging user fees unless Congress amends the legislation. Under the User Charge Statute, however, the Department may charge interstate and intrastate pipeline companies fees--in addition to fees charged by the states--to cover all inspection costs. These fees could also include the cost recovery of the funds given to the states to help defray the cost of state inspections.

If the Congress preempted state user fees and the Department charged the companies the same amount as the states do, there would obviously be no further economic consequences to the companies. While we did not determine the economic impact on the states if such a preemption were enacted, it could result in states dropping out of the program. On the other hand, if the federal government charges a reasonable fee in addition to state user fees, the economic consequences to the companies would still be minimal.