EEI & AGA Executive Accounting News Flash

January 2020

Dear Colleagues:

Happy New Year! This is the 2019 fourth quarter edition of the Executive Accounting News Flash and the first prepared by our new Industry Accounting Fellow. In this quarter's edition we have chosen to feature accounting for cloud computing arrangements as an industry hot topic. We provided a summary of the guidance and highlighted two industry-specific accounting issues.

We summarized the industry-relevant standard setting activity that occurred in the fourth quarter. Our inventory of relevant standard setter activity is maintained in this document for your benefit.

EEI and AGA filed three joint comment letters during the fourth quarter in response to guidance proposed by the FASB and the SEC. We provided links to the letters, which we have summarized in this document.

Thank you to our members who helped us achieve record attendance at this year's Fall Accounting Conference as well as sellout the second annual FERC Accounting and Reporting Workshop. We have included the listing of upcoming EEI and AGA accounting meetings and events for your consideration as you plan for 2020.

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Industry Hot Topics

Accounting for Cloud Computing Arrangements

Adopting ASU 2018-15

The scope of Accounting Standards Update (ASU) 2018-15, effective in 2020 for calendar-year companies, is implementation costs, not on-going hosting fees. The ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with those for capitalizing implementation costs incurred to develop or obtain internal-use software, which are prescribed by ASC 350-40.

Companies must consider the nature of cost to determine whether it is eligible or ineligible for capitalization.

Eligible Costs	Ineligible Costs
Costs of software that allows for access to or conversion of old data by new systems	All other data conversion costs
External direct costs of materials and services	Maintenance
Payroll and payroll-related costs	Training
Interest	

The arrangement's project stage is relevant to determining whether eligible costs should be capitalized or expensed, as follows:

Project Stage	Expense or Capitalize
Preliminary project stage	Expense
Application development stage	Capitalize
Postimplementation-operation stage	Expense

Capitalized implementation costs should be expensed over the term of the hosting arrangement, which may include renewal periods (similar to ASC 842). Subsequent evaluation of impairment is performed at the asset grouping level; however, evaluation of abandonment is performed at the individual module level.

The ASU requires the amortization expense, asset, and cash flows related to the capitalized implementation costs to be presented in the same financial statement line items in the income statement, balance sheet, and statement of cash flows as the related hosting/ service fees.

Financial Statement	Classification
Income statement	Same line item as the expense for fees for the associated hosting arrangement.
Balance sheet	Same line item that a prepayment of the fees for the associated hosting arrangement would be presented.
Statement of cash flows	Same manner as fees for the associated hosting arrangement.

For public business entities, the ASU is effective the fiscal year beginning after December 15, 2019 and, for all other entities, the fiscal year beginning after December 15, 2020. Early adoption is permitted and an entity can apply either the retrospective or prospective transition method.

Industry Accounting Issues

- *FERC Guidance:* the Federal Energy Regulatory Commission (FERC) issued Accounting Guidance (AI20-1-000) prescribing how implementation costs incurred in a cloud computing arrangement that is a service contract should be treated when adhering to FERC accounting and reporting requirements. The accounting guidance was in response to a joint EEI/ AGA whitepaper submitted to FERC in October 2019. The guidance, which was issued on December 20, 2019, directs utilities to: 1) determine capitalized cloud computing implementation costs consistent with ASC 350-40, 2) record capitalized cloud computing implementation costs as a utility plant asset in Account 303 (Miscellaneous Intangible Plant) provided such costs are not specifically provided for in other utility plant accounts and 3) record the related amortization expense consistent with the requirements of the utility plant accounts in which they are recorded (e.g. Account 404 for electric utilities and 404.3 for natural gas utilities).
- *Interaction with Other GAAP (i.e. ASC 350-40 and 842)*: it is common for cloud computing hosting arrangements to have multiple elements. For example, an arrangement may include a "hardware as a service" component, which would require an assessment of whether the contract contains a lease. The arrangement may include a total fee that does not specify a unit level price. Additionally, it is important for companies to carefully assess contracts to determine whether they are truly cloud computing hosting arrangements versus hosting arrangements that include internal-use software licenses.

It is important for companies to evaluate existing internal-use software capitalization policies and make necessary modifications. Existing policies around assessing whether a cost is capitalizable under ASC 350-40 are likely sufficient; however, modifications may need to be made to policies to address the difference in financial statement classification.

Recent Standard Setting Activity

FERC Issues Accounting Guidance on Cloud Computing Implementation Costs

As mentioned above, FERC issued Accounting Guidance on accounting for capitalized cloud computing implementation costs when following FERC accounting and reporting requirements. Please reach out to EEI or AGA if you have questions about the new guidance.

Motion to Delay Comment Deadline for FERC XBRL Draft Taxonomy Code

On December 16, 2019, FERC issued a Notice of Technical Conference scheduled for February 4 – 6, 2020 in Washington, DC to discuss its proposed taxonomy, instructions, and related documents for FERC filings using XBRL. FERC staff also requested comments on the draft taxonomy and XBRL process by January 17, 2020.

On December 20, 2019, the American Public Power Association (APPA), AGA, EEI, and the National Rural Electric Cooperative Association (NRECA) filed a motion to delay the technical and other comments deadline 60 days, from January 17, 2020 to March 17, 2020. The filing also requests that FERC shorten the time period for answers to 5 business days after the filing, which would be December 31, 2019. The filing cited that 1) the 30-day comment period spans the weeks of the Christmas and New Year holidays resulting in staff needed to develop comments being unavailable; 2) technical staff familiar with XBRL will be focusing on SEC Form 10-K filings during January and February; and 3) some of the information FERC is seeking comment is not available until prepared such as “draft definitions, draft validations, draft visual renderings of blank forms, and draft user guides for filing the Commission Forms”.

FERC Grants Duke’s Accounting Request to Treat Cybersecurity Program as a Single Project for Calculating AFUDC

On December 19, 2019, FERC issued an order granting Duke Energy’s accounting request to treat its Cybersecurity Program as a single project for purposes of calculating allowance for funds used during construction (AFUDC). Duke argued that although the constituent parts of the Cybersecurity Program will be deployed over shorter timeframes, the Cybersecurity Program’s intended use and benefits—to optimize cybersecurity protection across all lines of business—cannot be achieved until the entire Cybersecurity Program is complete.

Based on Duke's representations that the component parts of the Cybersecurity Program are interdependent and that the assets will not be ready for service until the completion of the entire Cybersecurity Program, the Commission granted Duke's accounting request. No modifications were made to the Commission's AFUDC instructions contained in the Uniform System of Accounts.

Richard R. Jones Appointed Chair of the FASB

In a Press Release on December 19, 2019 the Board of Trustees of the Financial Accounting Foundation (FAF) announced that it appointed Richard R. Jones, chief accountant and partner at Ernst & Young LLP (EY) as the next chair of the FASB succeeding Russell G. Golden upon the expiration of his term. Mr. Jones' appointment is effective July 1, 2020.

2019 AICPA Conference on Current SEC and PCAOB Developments

The conference was held December 9 – 11, 2019 in Washington, D.C. As summarized in Deloitte's Heads Up, highlights of the conference included a keynote session with SEC Chairman Jay Clayton and SEC Chief Accountant Sagar Teotia and a PCAOB panel discussion that featured PCAOB Chairman William Duhnke III. Other topics of conversation at the conference included implementation and application of the FASB's new standards on revenue recognition, leases, and credit losses; emerging issues, including reference rate reform, digital assets, and cybersecurity; SEC reporting matters; audit quality; auditor independence; and critical audit matters (CAMs).

FERC Order No. 864

On November 21, 2019, FERC issued Order No. 864, *Public Utility Transmission Rate Changes to Address Accumulated Deferred Income Taxes* (Docket No. RM19-5-000). While not expected to have a significant effect on financial accounting for most companies, there are new requirements for formula rate filings and there could be changes required to regulatory liability amortization. A November 26, 2019 article in the National Law Review provides a good summary of the final rule.

FASB Delays Effective Dates for New Standards

The FASB issued ASU 2019-10 on November 15, 2019 which delays the effective dates of CECL (Topic 326) by two years and Derivatives and Hedging (Topic 815) and Leases (Topic 842) by one year for private companies, not-for-profits, and additionally, in the case of CECL, certain smaller reporting companies (SRCs). Deloitte's Heads Up provides a summary of the ASU.

EEI & AGA Comment Letters

Accounting for identifiable intangible assets and goodwill

As mentioned in the last edition of this Executive Accounting News Flash, the FASB issued an Invitation to Comment (ITC) on the accounting for identifiable intangible assets and subsequent accounting for goodwill. EEI and AGA filed a Comment Letter on October 7, 2019. The industry's responses are summarized as follows:

- Opposed changing the subsequent accounting for goodwill to reinstitute amortization because: 1) it would not provide more meaningful information as to the value of goodwill than the current impairment model; 2) amortization could result in the premature recognition of expense and the undervaluation of goodwill; and, 3) it would not alleviate many of the costs and burdens of performing impairment analyses.
- Proposed an alternative for simplifying the existing requirements in some circumstances could be to test impairment at an entity level rather than at a reporting unit level. This option has the potential to meet the FASB's objective to simplify and is a cost-effective solution. Determining reporting units and performing impairment testing at a reporting unit level potentially involves costs and complexities that could be mitigated through an entity-level impairment test.
- Supported not amending the existing guidance on recognition of intangible assets.
- Opposed additional disclosure requirements.
- Opposed providing public business entities options on the subsequent accounting for goodwill in order to improve comparability with non-public entities.

Modernization of SEC Regulation S-K Items 101, 103, and 105

EEI and AGA filed a Comment Letter on October 22, 2019 responding to the SEC's Proposed Rule to modernize the description of business, legal proceedings and risk factor disclosures. The industry strongly supports the overall purpose and objective of the proposed rule. We provided comments on specific aspects of the proposed rule.

The key points of the letter are summarized as follows:

- Item 101(a) – General Development of Business
  - We support revising to be more principles-based and focused on requiring disclosure of information that is material.

  - We support the *option* for registrants to disclose material updates in filings made after the initial filing.
  - We do not agree with the proposal's mandate to use only a single hyperlink reference.
- Item 101(c) – Narrative Description of Business
  - We support the emphasis that the list of matters to be considered for disclosure is intended to be non-exclusive rather than to serve as line-item requirements and that disclosure is applicable only to the extent a topic is material.
  - With respect to the modifications to the list of topics to be considered for disclosure, we support the topic regarding the effects of compliance with material government regulations replacing the more narrow prior approach that was limited to environmental regulations.
  - We support a management-view approach to a discussion of human capital resources, to the extent there are measures or objectives on which management focuses and that are material to the understanding of the business.
  - We emphasized the importance that disclosure is only required if material.
- Item 103 – Legal Proceedings
  - We support the revision to include hyperlinks or cross-references to legal proceeding disclosures located elsewhere in the document to help decrease duplicate disclosures.
  - We support increasing the disclosure threshold and propose using the greater of a registrant-related materiality metric or $1 million.
- Item 105 – Risk Factors
  - We support the objective of improving the risk factors section by focusing on risks pertinent to a registrant, organizing those risks in meaningful categories, and eliminating overly general disclosure.
  - We agree that categorization of risk factors under relevant headings is a useful improvement to risk factor disclosures and support a requirement to do so.
  - We oppose the Proposal's broad requirement to include a "General Risk Factors" section for risk factors that could apply to other companies or securities that are not specifically applicable to a registrant in the current period.
  - We believe that great deference should be provided to registrants to enable them to decide what should, and should not, be included in risk factors and how they are categorized.

Simplifying the Classification of Debt

EEI and AGA filed a Comment Letter on October 28, 2019 responding to questions posed in the FASB's Exposure Draft on simplifying the classification of debt in a classified balance sheet. If the guidance is adopted as proposed, we have identified an industry-specific issue related to the classification of certain tax-exempt variable interest rate debt instruments and whether there will be a resulting impact to AFUDC rates and regulated rates of return.

The industry reached consensus responses for Questions 1 and 6.

Question 1 asks whether precluding an entity from considering an unused long-term financing arrangement in determining the classification of a debt arrangement would simplify the guidance without diminishing the usefulness of the financial statements.

— We believe this proposed requirement would diminish the usefulness of the financial statements of companies in the utility industry and disagree with this aspect of the Exposure Draft for conceptual, economic, and practical reasons.

— The letter describes the impact the proposed changes will have on the classification of "remarketed" long-term financing arrangements issued in cooperation with local governmental jurisdictions, which are common in our industry. Current practice is to classify these debt arrangements as long-term when they are backstopped by long-term credit facilities even through the facilities typically are not contractually linked to the debt. Refer to ASC 470-10-55-7 Example 2 for illustrative example codified in existing GAAP.

— By requiring current, as opposed to long-term, classification of "remarketed" long-term financing arrangements, there will be an impact on AFUDC rates calculated in accordance with FERC Plant Instruction 3(17) as well as regulated rates of return.

Question 6 reiterates that the objective of the project is to reduce the cost and complexity for preparers and auditors when determining debt classification while providing users with more consistent and transparent information and asks whether the expected benefits of the proposed amendments justify the expected costs.

— We believe the change in debt classification of debt obligations that are associated with master credit facilities and other letters of credit would provide minimal potential benefits that are not justified by the cost.

— With respect to cost, long-term financing arrangements were structured based upon existing rules for determining the classification of debt. Those provisions have been utilized broadly and consistently in the utility industry. Working with FERC and state regulators to modify AFUDC rate or rates of return could be costly for companies in our industry.

— With respect to benefits, we believe the potential is minimal. Determining classification of debt obligations associated with master credit facilities and other letters of credit requires little judgment.

We requested that FASB grandfather debt arrangements that exist as of the date of adoption so companies can avoid having to restructure existing arrangements. Representatives from the industry participated in an outreach call at the request of the FASB Staff to explain in greater detail our concerns about the impact the proposed changes would have on AFUDC rates and rates of return.

EEI & AGA Trainings and Other Events

FERC Accounting and Reporting Workshop

EEI and AGA along with Deloitte held its second annual FERC accounting and reporting workshop in September. The workshop is a unique opportunity for training on FERC accounting and reporting requirements specific to the electric and gas utility industry. The workshop is designed to appeal to both experienced and novice member company employees that need to understand and apply FERC accounting and reporting requirements. The workshop was sold out and attended by over 120 industry professionals.

Fall Accounting Conference

AGA and EEI held their Fall Accounting Conference November 17 – 20, 2019 at the Westin La Paloma Resort and Spa outside of Tucson, Arizona. This conference, attended by 145 employees from 49 member companies, provided a forum for members to discuss current issues in the natural gas and electric utility industries and an opportunity for professional development. The conference featured joint committee presentations followed by two breakout sessions – Corporate Accounting, and Property Accounting & Valuation. The courses and topics were taught by expert utility instructors and various members of the Big 4, FASB and industry professionals. The topics discussed included updates on FASB, SEC and PCAOB guidance, statement of cash flow preparation and industry updates. The Property Accounting & Depreciation Training Seminar was held in conjunction with the conference on November 20 – 21, 2019.

EEI & AGA Accounting Meetings and Events

Below is a summary of upcoming accounting related events (joint AGA-EEI meetings unless indicated otherwise)

Date	Location	Event
May 17-20, 2020	Denver, CO	Spring Accounting Conference
June 14-17, 2020	Santa Ana Pueblo, NM	Accounting Leadership Conference and Chief Audit Executives Conference
August, 17-19, 2020	TBD	AGA Accounting Principles Committee Meeting
August 24-26, 2020	Atlanta, GA	Public Utility Internal Auditor Training Course
August 24-27, 2020	Atlanta, GA	Intro. to Public Utility Accounting Training Course
August 24-27, 2020	Atlanta, GA	Advanced Public Utility Accounting Training Course
September, 2020	TBD	FERC Accounting and Reporting Workshop
November 15-18, 2020	TBD	Fall Accounting Conference
November 18-19. 2020	TBD	Property & Depreciation Accounting Training

Inventory of Relevant Standard Setter Activity as of December 31, 2019

Organization	Title	Key Date and Status	Description
SEC	Modernizing SEC Regulation S-K	Comments were due on October 22, 2019 (comment letter filed)	Refer above for summary of the comment letter jointly filed by EEI and AGA.
FASB	Simplifying Accounting for Income Taxes	Final ASU (2019-12) issued on December 18, 2019	As part of its simplification initiative, the FASB issued a final ASU intended to simplify the accounting for income taxes. For public business entities, the ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted. Most relevant to our industry is that the ASU specifies that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements. However, an entity may elect to do so (on an entity-by entity basis) for a legal entity that is both not subject to tax and disregarded by the taxing authority.

Organization	Title	Key Date and Status	Description
FASB	Codification Improvements	Comments were due on December 26, 2019	The FASB issued an Exposure Draft proposing Codification Improvements that would remove references to various concept statements, improve consistency by including all disclosure guidance in the appropriate Disclosure Section (Section 50), and make other miscellaneous minor improvements. We evaluated the Exposure Draft for potential comment and determined that the proposed amendments are minor and do not have any specific utility industry implications so no comment letter was submitted.
FASB	Derivatives and Hedging	Comments are due on January 13, 2020	The FASB issued an Exposure Draft proposing amendments to certain areas that require clarification to better align those areas with the objectives articulated in ASU 2017-12. EEI and AGA are currently evaluating whether to submit a comment letter.
FASB	Intangibles and Goodwill	Comments were due on October 7, 2019 (comment letter filed)	Refer above for summary of the comment letter jointly filed by EEI and AGA.
FASB	Balance sheet classification of debt	Comments were due October 28, 2019 (comment letter filed)	Refer above for summary of the comment letter jointly filed by EEI and AGA.
FASB	Income Taxes Disclosure	Comments were due May 31, 2019 (comment letter filed)	The revised proposed ASU would (1) remove disclosures that no longer are considered cost beneficial or relevant and (2) add disclosure requirements identified as relevant to financial statement users. EEI and AGA jointly commented in favor of the proposal as a whole on May 31, 2019.

Organization	Title	Key Date and Status	Description
IASB	General Presentation and Disclosures	Comment are due by June 30, 2020	IASB issued an Exposure Draft in December 2019 proposing improvements to the way information is communicated in the financial statements, with a focus on financial performance. Specific proposals would require more comparable information in the statement of profit and loss such as new profit subtotals and would require companies to disclose management-defined performance measures ("non-GAAP") in a single note to the financial statements. EEI and AGA are monitoring this project and are evaluating for comment.
IASB	Accounting for Rate Regulation	Initial Deliberations	IASB is developing an accounting model for regulatory assets and liabilities (Agenda Paper 9). The Board met on September 25, 2019 and the next step will be an exposure draft in the second half of 2020. We periodically touch base with the IASB staff, and we will keep you updated as we learn more information. When the IASB issues due process documents, we will evaluate them with you for possible comment.