EEI & AGA Executive Accounting News Flash

September 2020

Dear Colleagues:

Welcome to the 2020 third quarter edition of the Executive Accounting News Flash. It's hard to believe that we are a few short weeks away from the start of the fourth quarter. We hope that you all were able to relax over the Labor Day weekend.

This quarter's industry hot topic includes a status of state regulatory actions in response to COVID-19. You may want to read through the Recent Standard Setting Activity section as there were a number of actions taken during the third quarter which are summarized therein, including the SEC's Final Rule Modernizing Regulation S-K Items 101, 103, and 105.

We are in the process of drafting a comment letter in response to the International Accounting Standards Board's General Presentation and Disclosure Exposure Draft, a project which the FASB is monitoring. Refer to the Comment Letters section to learn why this is of interest to our industry.

We updated 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

COVID-19 Industry Related Matters

Revenue Recognition Collectibility Criterion Assessment Paper

As you may recall from the Q2 2020 edition of this news flash, we featured a white paper distributed in early June addressing the impact of COVID-19 events on the assessment of the collectibility criterion for revenue recognition under ASC Topic 606. That paper represented an industry consensus applicable to regulated utility operations subject to ASC Topic 980 to assist those entities in evaluating this criterion in the current environment. The paper was based on known conditions, circumstances, and responses as of the date of issuance and emphasized that each individual company would need to address and document the application of the consensus to its own specific facts and circumstances.

Companies may want to consider whether the matters included in your Q2 company-specific documentation have changed in determining the need to update that documentation in connection with Q3 reporting. The framework discussed in the paper remains applicable, but the changes in facts and circumstances since then are largely company-specific, both as to the local impact of COVID-19 as well as the regulatory response to those local conditions. Accordingly, we do not plan to update the paper at this time.

Status of State Regulatory Actions in Response to COVID-19

Based on recent EEI research, the following is the status of state regulatory actions in response to COVID-19 as of late August 2020 (subject to change based on subsequent activity in individual jurisdictions):

- As of August 27, 2020, 26 states and the District of Columbia have ordered an active moratorium on the suspension of service disconnections due to non-payment.
- The ordered moratorium on disconnections has expired in 12 states.
- Additionally, two states have moratoria set to expire at the end of the August: Tennessee which will not extend the moratorium beyond August 29, and New Mexico which hasn't issued an updated executive order at the time of this publication.
- There are an additional 5 states that are set to expire in early September: DE, MD, NC, PA, and WI.
- On August 24, 2020, two states extended their moratoria: Hawaii until December 31, 2020 and Virginia until September 16, 2020 (awaiting legislation to address disconnections).

Recent Standard Setting Activity

FERC Approves Taxonomy and Protocols for Implementing XBRL

On July 17, 2020 the FERC issued an order in Docket No. RM19-12-000, adopting the Commission's final XBRL taxonomy, protocols, implementation guide, and other supporting documents. Importantly, the Commission approved an implementation schedule delaying the start of required XBRL filings to third quarter 2021 filings as requested by EEI, AGA and others who filed comments with the FERC. The delay in the implementation date will allow the industry sufficient time to adopt the XBRL reporting requirements. The Commission rejected EEI's request to allow block tagging instead of detailed tagging.

FERC Issues Order Approving Allowance for Funds Used During Construction (AFUDC) Calculation Waiver Request

On June 30, 2020 the FERC issued an order in Docket No. AC20-127-000, approving a temporary AFUDC rate calculation waiver. This waiver allows companies the option to modify their AFUDC rate calculation effective March 1, 2020 for a 12-month period to mitigate the impact of short-term debt issued during the COVID-19 pandemic. Companies will be allowed to compute the AFUDC rate for the 12-month period starting March 2020 using the company's simple average of the actual historical short-term debt balances for 2019, instead of current period short-term debt balances; all other aspects of the AFUDC formula remain unchanged. The waiver option is available to all jurisdictional entities subject to the FERC's accounting regulations.

EEI member companies, EEI staff, and Big Four representatives have had various informal discussions related to questions that have arisen in connection with this optional waiver. For example, the FERC has accounting jurisdiction over all companies under the Federal Power Act and the Natural Gas Act. Companies are required to follow the FERC accounting requirements, including the optional waiver, if elected; however, a state could take action to issue an alternative directive for calculating the AFUDC rate for ratemaking purposes for companies to follow in that state. This could potentially result in a "federal versus state" regulatory asset or liability. If a state issues an alternative directive, companies may want to have a discussion with the FERC accounting staff. FERC likely would need to approve a waiver for a company to record AFUDC using a state directed method that departs from the FERC formula.

FERC Issues Guidance on Accounting for Pipeline Testing Safety Costs Incurred to Comply with New Federal Safety Standards

On June 23, 2020, the FERC issued guidance in Docket No. AI20-3-000, Accounting for Pipeline Testing Safety Costs Incurred to Comply with New Federal Safety Standards, in response to a final rule issued by the Pipeline and Hazardous Materials Safety Administration (PHMSA). The accounting guidance clarifies that when a jurisdictional entity has previously constructed a gas transmission pipeline and its initial or subsequent tests do not meet the requirements of a subsequently issued federal safety standard, making it necessary to retest the pipeline so that its full capacities can be utilized, such first-time and one-time retesting costs can be capitalized and that all prior testing costs related to the specific property should be retired when preparing financial statements in accordance with the FERC accounting requirements. Pipeline testing costs incurred under a planned maintenance program should be recorded as maintenance expense in the period incurred, consistent with the Commission's accounting regulations and precedents. The guidance is applicable to the PHMSA Final Rule and may be applied to future regulatory pipeline safety standards.

FASB Votes to Add Day 1 Loss Under Sales-Type Leases to Technical Agenda Lease Roundtable to be Held September 18

In the Q1 2020 edition of this news flash, we featured EEI's agenda request related to Lessor Accounting for Sales-type Leases with Significant Variable Lease Payments that was submitted to FASB in January 2020. As a reminder, a current disconnect exists between the accounting and economics for sales-type leases with wholly or significantly variable lease payments under ASC 842. Sales-type leases that are structured with significant variable lease payments are common in the energy industry (particularly in the renewable sector) and, because variable lease payments that do not depend on an index or rate are excluded from the measurement of a lessor's net investment in the lease, the initial accounting for these arrangements often results in a day 1 loss even though these arrangements are expected to be profitable. The agenda request asked FASB to address this disconnect.

At its July 29, 2020 Board Meeting, the FASB Board voted 7-0 to add this topic to its technical agenda. We will monitor the expected issuance of an Exposure Draft and develop comments.

FASB has rescheduled its Lease Roundtable for September 18. The purpose of the roundtable is to discuss practice issues identified during the public-company implementation of ASC 842 that could be addressed before the effective date for all other companies. While the Day 1 Loss issues has been elevated as noted above, EEI will be represented at the roundtable by a member of the Accounting EAC to provide industry perspective.

SEC Adopts Final Rule Modernizing Regulation S-K Items 101, 103, and 105

On August 27, 2020 the SEC adopted its Final Rule modernizing the description of business, legal proceedings, and risk factor disclosures. EEI and AGA filed a joint comment letter in October 2019. The final rule reflects some of the recommendations contained in the comment letter.

The rule modifies the disclosure threshold for certain governmental environmental proceedings resulting in monetary sanctions that increases the existing quantitative threshold from $100,000 to $300,000, but allows registrants, at its election, to select a different threshold that it determines is reasonably designed to result in disclosure of material environmental proceedings, provided that the threshold does not exceed the lesser of $1 million or one percent of the current assets of the registrant.

The final rule contains modifications permitting registrants to organize disclosure of material risk factors under their own relevant headings with risk factors generally applicable to an investment in securities at the end of the section under a separate "General Risk Factors" caption.

The amendment refocuses the regulatory compliance disclosure requirement by including as a topic all material government regulations, not just environmental laws. The rule does not add any new Environmental, Social, and Governance (ESG) disclosure requirements, but registrants will be required to include, as a disclosure topic, a description of the registrant's human capital resources to the extent such disclosures would be material to an understanding of the registrant's business.

The amendments will be effective 30 days after publication in the Federal Register.

EEI & AGA Comment Letters

IASB General Presentation and Disclosure Exposure Draft

We are in the process of drafting a comment letter in response to the International Accounting Standards Board's General Presentation and Disclosure Exposure Draft related to provisions that may require inclusion of financial key performance indicators and/or non-GAAP measures in the notes to financial statements. The main purpose for commenting is because FASB plans to monitor this IASB project and could consider both the IASB's deliberations as well as any change to IFRS for future GAAP standard-setting. Thus, while few companies in our industry have immediate IFRS reporting obligations, this is our opportunity to identify and address any potential concerns that might arise if FASB took up a similar initiative.

Comments are due by September 30, 2020.

EEI & AGA Trainings and Other Events

EEI-AGA CAO Let's Talk Accounting

EEI and AGA Chief Accounting Officers participated in a virtual "Let's Talk Accounting" roundtable on July 8. As with similar sessions at the annual Accounting Leadership Conference, participants dialogued about various current issues and question related to accounting and reporting matters.

A second Let's Talk Accounting session will be held on September 30. Registration information and a request for questions to be discussed will be communicated in the near future.

AGA Accounting Principles Committee Meeting

The AGA Accounting Principles Committee (APC) meeting was held via two half-day webinars on August 18 and 19. Ryan Ginty, Director of Gas Accounting & Rate Administration and APC Chair, was the MC of the meeting, which included sessions led by representatives from each of the Big Four accounting firms, S&P Global, Black & Veatch, AGA, and a FASB Update led by Nicholas Cappiello, Supervising Project Manager at the FASB. Because the EEI Accounting Standards Committee meeting was not held this year due to the cancellation of the Spring Accounting Conference, ASC representatives joined the APC meeting at AGA's invitation.

AGA-EEI Introduction to Public Utility Accounting Training

AGA and EEI conducted their annual Introduction to Public Utility Accounting via a three-day webinar held August 25-27. The course concentrated on the fundamentals of public utility accounting and provided an understanding of the utility business. The course was taught by expert utility instructors and respected leaders in the field. Over 250 member-company representatives attended.

Standard-Setter Liaison Meetings

Annual liaison meetings between the EEI Accounting EAC/AGA Accounting Advisory Council and representatives of the FASB, FERC, and SEC will occur later in September. Reports summarizing the meetings will be provided in the future.

EEI & AGA Accounting Meetings and Events

Below is a summary of upcoming accounting related events (joint AGA-EEI meetings unless indicated otherwise) scheduled as of the issuance of this news flash. However, given the uncertainty surrounding the COVID-19 pandemic and rapidly changing circumstances, please check EEI's and AGA's websites for the most recent information on scheduled in-person meetings.

Check with Randall Hartman, Joe Martin, or Dave Dougher for more information, and watch for email announcements about future webcasts.

Date	Location	Event
September 15-16, 2020	Virtual	FERC Accounting and Reporting Workshop
September 21-22, 2020	Virtual	Advanced Public Utility Accounting Training Course
September 29, 2020	Virtual	Derivatives and Hedge Accounting: Overview and Update
November 15-18, 2020	Orlando, FL (tentative)	Fall Accounting Conference
November 18-19. 2020	Orlando, FL (tentative)	Property & Depreciation Accounting Training

Inventory of Relevant Standard Setter Activity as of September 10, 2020

Organization	Title	Key Date and Status	Description
SEC	Management's Discussion and Analysis, Selected Financial Data, and Supplementary Financial Information	Comments were due on April 28, 2020 (comment letter filed)	Refer to the Q2 2020 News Flash for a summary of the Comment Letter jointly filed by EEI and AGA.
SEC	Modernizing SEC Regulation S-K Items 101, 103, and 105	Final Rule issued August 26, 2020	Refer above for a summary of the Final Rule.
FASB	FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting – Chapter 4*, Elements of Financial Statements	Exposure Draft issued July 16, 2020 with comments due November 13, 2020	This chapter defines 10 elements of financial statements: assets, liabilities, equity (net assets), revenues, expenses, gains, losses, investments by owners, distributions to owners, and comprehensive income. These elements provide a foundation for information that is relevant to the objective of financial reporting. The proposed chapter defines elements of financial statements to be applied in developing standards for both businesses and not-for-profit organizations. When finalized, these elements will become a basis for the Board when creating requirements in future standards. The industry is evaluating whether to comment on the Exposure Draft.

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.
FASB	Codification Improvements	Comments were due on December 26, 2019 (evaluated, but decided not to comment)	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. The FASB staff plans to discuss stakeholder feedback on the proposed Update at a future Board meeting.
FASB	Derivatives and Hedging	Comments were due on January 13, 2020 (comment letter filed)	Refer to the Q1 2020 EEI & AGA Executive Accounting News Flash for a summary of the Comment Letter jointly filed by EEI and AGA.
FASB	Intangibles and Goodwill	Comments were due on October 7, 2019 (comment letter filed)	Refer to the Q4 2019 EEI & AGA Executive Accounting News Flash for a summary of the comment letter jointly filed by EEI and AGA. At its July 15, 2020 meeting, the Board discussed feedback received from stakeholders and the general directions of the project. The next steps are for the staff to 1) explore adding amortization to the goodwill impairment model, including the amortization method and period, 2) explore other changes to the goodwill impairment model, 3) consider the accounting for identifiable intangible assets and 4) address presentation, disclosure, and transition.

FASB	Balance sheet classification of debt	Comments were due October 28, 2019 (comment letter filed)	Refer to the Q4 2019 EEI & AGA Executive Accounting News Flash for a summary of the comment letter jointly filed by EEI and AGA. The Board is considering comment letter feedback on the revised proposed Update. There are no updates to report in Q2 2020.
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. The Board discussed comment letter feedback at a meeting on February 12, 2020. No Board decisions were made and there are no updates to report in Q2 2020.
FERC	AFUDC	Order issued June 30, 2020	Refer above for a summary of the order in Docket No. AC20-127-000.
FERC	XBRL Project	Order issued July 17, 2020	Refer above for a summary of the order in Docket No. RM19-12-000.

IASB	General Presentation and Disclosures	Comment are due by September 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	Exposure draft expected in October 2020 with a four-month comment period	IASB is developing an accounting model for regulatory assets and liabilities (Agenda Paper 9). The Board met on January 30, 2020 and the oral update provided at the meeting stated that there has been significant progress; however, the exposure draft will not be ready until the second half of 2020. When the IASB issues due process documents, we will evaluate them with you for possible comment.