Edison Electric Institute
Power by Association

AGA American Gas Association

November 16, 2015

Technical Director
File Reference: 2015-320
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference: 2015-320 – Proposed Accounting Standards Update
Revenue from Contracts with Customers (Topic 606)
Narrow Scope Improvements and Practical Expedients

Dear Ms. Cosper:

The Edison Electric Institute (EEI) and the American Gas Association (AGA) appreciate the opportunity to comment on the Financial Accounting Standards Board's (FASB or Board) Exposure Draft on the Proposed Accounting Standard Update (ASU) on Narrow Scope Improvements and Practical Expedients (hereafter the "Exposure Draft").

EEI is the association that represents all U.S. investor-owned electric companies. EEI members provide electricity for 220 million Americans, operate in all 50 states, and directly employ more than a 500,000 workers. With more than $90 billion in annual capital expenditures, the electric power industry is responsible for millions of additional jobs. EEI has 70 international electric companies as Affiliate Members and 250 industry suppliers and related organizations as associate Members. Organized in 1933, EEI provides public policy leadership, strategic business intelligence, and essential conferences and forums.

The AGA, founded in 1918, represents 202 local energy companies that deliver clean natural gas throughout the United States. There are more than 70 million residential, commercial and industrial natural gas customers in the U.S., of which almost 93 percent – more than 65 million customers – receive their gas from AGA members. AGA is an advocate for natural gas utility companies and their customers and provides a broad range of programs and services for member natural gas pipelines, marketers, gatherers, international gas companies and industry associates. Today, natural gas meets almost one-fourth of the United States' energy needs.

EEI and AGA regularly work together on projects of mutual interest and impact to the energy utility sector broadly, and the comments expressed herein represent the majority view of each organization's member companies and respond only to certain questions that are most relevant to our members.

We are generally supportive of the relevant portions of the Exposure Draft. As noted in our detailed comments below, we believe there are certain aspects of the proposal that could be clarified.

We provide our comments on certain specific questions in the Exposure Draft below.

Question 1: Does the proposed addition of paragraphs 606-10-55-3A through 55-3C, as well as the addition of new examples, clarify the objective of the collectibility threshold? If not, why?

We believe that the additional paragraphs and new examples generally help clarify the objective of the collectibility threshold. We discuss three aspects of the proposal below that we believe are important and may warrant additional emphasis in the final standard.

Objective of the Collectibility Criterion

We believe it is particularly helpful to state explicitly that "the objective of this assessment is to *evaluate whether there is a substantive transaction between the entity and the customer*." (Emphasis added.) Understanding this objective will assist in applying paragraph 606-10-25-1(e) within the unique regulatory construct in which many of our members operate, which we describe below.

Regulated utilities operate in a monopoly-like construct where we are required to serve all customers requesting service in our territory. In consideration of this requirement, the regulatory construct provides a number of mechanisms for collection of revenues for goods and services provided to lower-credit quality customers. These mechanisms include:

- Up-front deposits collected from certain low credit quality customers
- Inclusion of expected uncollectible amounts as an incurred cost in base rates
- Rate riders that allow specific identification and recovery of bad debts
- Government grants and other assistance payments

In all such cases, these alternative payment sources relate directly to the portion of revenue from contracts with low credit quality customers that is not expected to be paid directly by those same customers but nevertheless will be collected. Therefore, we believe that those contracts are substantive because of the regulatory mandate to provide service under specific conditions and the corresponding ability to collect these amounts from sources such as those cited above.

The factors discussed above are applicable only to regulated utilities. Therefore, it is important to note that such recovery mechanisms are not available for unregulated businesses. In other words, by virtue of regulation, regulated operations are able to recover bad debt expense from other sources not available to unregulated businesses which do not have the ability to pass through this expense in contract prices that are constrained by a competitive price environment.

However, unregulated businesses across a variety of industries may obtain contractual credit support from parent entities or related parties of the contracting customer when necessary. Similarly, in these circumstances we believe the collectibility criteria would be met despite the fact that the party receiving the goods or services would not meet the collectibility requirements since the third party providing credit support is contractually bound to pay in circumstances where the customer does not meet its obligations.

Customary Business Practices and the Ability to Discontinue Service
The proposal's clarification that an entity is able to factor in its ability to stop transferring goods and services in the future or limit its exposure to credit risk in some way should enable an entity to more easily conclude that collectibility is probable. This clarification also prevents the unintended consequence of more contracts than the Board intended not meeting the collectibility criterion due to narrow interpretations of the guidance. Consistent with Mr. Kroeker's alternative view, we believe that collectibility should be an issue of measurement rather than recognition.

Customary business practices imposed by regulators often provide for grace periods (such as in the winter heating season) during which we are temporarily required to continue service to poor credit quality customers (special needs customers, extreme temperatures, etc.), but this is only for a defined length of time. It is our intent to stop serving these customers due to non-payment and we will do so following the grace period required by regulators. Thus, although the length of such grace periods reflects the particular circumstances applicable to our industry, we believe it nevertheless is consistent with the proposed changes to Topic 606.

Taken together, we believe that these considerations allow us to meet the "substantially all" collectibility criterion. Our understanding is that this relates to the goods/services that we intend to transfer to the customer, which takes into consideration our ability to stop service and our ability to recover any related bad debt through our rate recovery mechanisms. Absent this application of the criterion, we would have a potentially significant amount of arrangements that would not meet the definition of a contract for which we would nevertheless provide service and receive payment. We believe this would be an inappropriate consequence of a narrow application of the guidance and would not faithfully represent the economics of our businesses.

We believe our ability to ultimately recover bad debt through these other mechanisms, combined with the predefined and limited business practice required by regulators to continue service, enables us to collect a large portion of such revenue. Therefore, we recommend that the final ASU include explicit language that would confirm that payments (including but not limited to those described above) from sources other than the customer but on behalf of that customer may appropriately be included in the collectibility assessment. This would also clarify a situation where credit support from a third party is obtained as part of a customer agreement across a variety of industries and unregulated businesses.

Level of Application
While not directly addressed by Question 1, we believe that the standard would benefit from an explicit practical expedient which would allow for the application of the collectibility guidance at a portfolio level (i.e., a homogenous group of similar contracts with customers of similar credit quality). For instance, if an entity groups its customers by credit rating (Bucket A: 90-100% collection rate, Bucket B: 80-90% collection rate, etc.) and further breaks these groups down into type of customer (e.g., commercial, residential, etc.), these groupings would allow companies a cost-effective means of accurately applying the guidance. We believe that this issue is pervasive and that many industries that have large numbers of customers with contracts that are immaterial individually would benefit from such an expedient.

Question 2: Paragraph 606-10-25-7(c) was proposed to provide clarity about when revenue should be recognized for a contract that does not meet the criteria in paragraph 606-10-25-1. Does this proposed amendment improve the clarity of applying the guidance? If not, why?

We believe that the added guidance is overly restrictive and directly conflicts with the core principle of Topic 606, which is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The proposed addition to the guidance requires three criteria to be met in order to recognize revenue under ASC 606-10-25-7c: (1) the entity has transferred goods or services to which the consideration that has been received relates, (2) the entity has stopped transferring goods and services and has no obligation to transfer additional goods or services, and (3) the consideration received is nonrefundable.

We believe that criteria (1) and (3) are sufficient for an entity to be able to recognize revenue, as the entity would have received nonrefundable consideration for transferred goods or services. The inclusion of criterion (2), that the entity has stopped transferring goods or services and has no obligation to transfer additional goods or services, could result in entities being precluded from recognizing revenue in an amount that reflects the consideration to which the entity is entitled to in exchange for goods/services that have already been transferred. This criterion does not appear relevant for point-of-service contracts where there is an instantaneous transfer of goods/services. For example, in the case of utility contracts where the contract term is considered one day, there are no future obligations since fulfillment is achieved immediately. We believe that Mr. Schroeder's alternative view regarding transactions where no revenue is recognized despite the entity transferring a good/service to the customer and receiving non-refundable consideration is warranted. This outcome would be a clear departure from the general principle of recognizing revenue as goods/services are transferred to a customer.

For example, if a utility has a contract with a customer with a low credit rating, and that contract does not meet the criteria in paragraph 606-10-25-1 because it is not probable that the utility will

collect substantially all of the consideration, the utility should be able to recognize revenue for services provided to the extent it collects nonrefundable cash related to those services from the customer or other sources. Whether the utility is obligated to continue to provide service to that customer should not impact its ability to recognize revenue in the amount of nonrefundable cash received related to services already provided. For the reasons described above, we do not believe that the inclusion of the requirement to have stopped transferring goods/services and have no obligation to transfer additional goods/services would be appropriate.

Question 3: The collectibility criterion in paragraph 606-10-25-1(e) refers to collectibility being probable, which is defined in Topic 606 as "likely to occur." If the Board were, instead, to refer to collectibility being "more likely than not," which would result in a converged collectibility criterion with IFRS, would the amendment improve the collectibility guidance in Topic 606? Explain your response.

We strongly support the "more likely than not" threshold for collectibility. We believe this would help achieve the objective of having more arrangements meet the definition of a contract and prevent narrow interpretations of the guidance that would cause some to exclude substantive contracts. For example, this lower collectibility threshold would scope in more utility contracts with lower credit quality customers that we believe still have substance but may be scoped out under the "probable" provision since that is a higher threshold. We believe that "probable" may be too high a threshold precluding the recognition of substantive contracts, especially when that term is linked to the "substantially all" threshold. Furthermore, this change would have the stated benefit of increased convergence with IFRS.

Question 4: Paragraph 606-10-32-2A provides a policy election that would permit an entity to elect to exclude all sales (and other similar) taxes collected from customers from the transaction price. Does this proposed amendment reduce the cost and complexity of applying Topic 606? If not, why?

We support the FASB's proposal to provide an accounting policy election that permits presentation of all sales (and other similar) taxes imposed on and concurrent with a specific revenue-producing transaction and collected from customers on a net basis (excluded from both revenues and costs). Although today a majority of our companies exclude from revenue sales (and other similar) taxes imposed on and collected from the customer, a policy election will eliminate the cost and complexity of an agent vs. principal analysis for any future changes to sales (and other similar) taxes in each of our jurisdictions.

Question 7: Paragraph 606-10-65-1(f)(4) provides a practical expedient for contract modifications at transition. Would the proposed amendment reduce the cost and complexity of applying Topic 606? If not, why?

We appreciate the Board providing a practical expedient for contract modifications upon transition. We read the practical expedient to say that in lieu of applying the contract modification guidance in paragraphs 606-10-25-10 through 25-13, an entity may consider the resulting contract as one contract that includes the modified terms and pricing from inception. Further, in applying the guidance we assume that distinct goods and services that meet the criterion in paragraph 606-10-25-14(b) (i.e., series guidance) would continue to be looked to in identifying performance obligations and allocating the transaction price. In other words, we expect to be able to apply the invoice price practical expedient in many cases and would therefore recognize revenue as goods/services are transferred based upon the current (post-modification) contract price.

Finally, in order to ensure accurate and consistent application of the guidance, we believe it would also be helpful if the Board could provide an example on how to apply the practical expedient.

Question 8: Revisions to paragraph 606-10-65-1(c)(2) clarify that a completed contract is a contract for which all (or substantially all) of the revenue was recognized under revenue guidance in effect before the date of initial application. Does this proposed amendment clarify the transition guidance? If not, why and what alternative would you suggest?

We agree that the proposed amendment clarifies the transition guidance. By removing the definition that a "completed contract is a contract for which the entity has transferred all of the goods or services identified" and providing a revised definition that a completed contract is a contract "for which all (or substantially all) of the revenue was recognized in accordance with guidance that is in effect before the date of initial application", the Board has more appropriately grounded the guidance in existing GAAP for revenue recognition as opposed to a "transfer" concept that does not appear to be explicitly defined in the ASC. Additionally, by adding the language "substantially all", the Board has clarified that it did not intend to preclude an entity from applying the practical expedient in all circumstances in which less than 100 percent of the revenue from a contract was recognized under legacy GAAP as noted in BC45 related to a sales returns reserve.

Our industry at times can have very long term contracts that span decades. Should one of these contracts have a termination date shortly after the effective date of the standard, these revisions provide appropriate guidance for applying the modified retrospective approach at the date of initial application to perhaps a more limited number of open contracts. We do acknowledge that judgment will need to be applied to determine and defend "substantially all", and the materiality of the remaining term and value of each contract along with qualitative factors may be important

in considering and driving comparability across our industry absent bright lines to define "substantially all" (such as a % of revenue already recognized under legacy GAAP). We believe the benefits provided by this revised guidance will outweigh the costs associated with developing and defending such judgments provided accounting firms support the industry interpretation of the updated ASU.

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EEI and AGA appreciate the opportunity to provide our input on this Exposure Draft. We would be pleased to discuss our comments and to provide any additional information that you may find helpful.

Very truly yours,

/s/ Richard F. McMahon, Jr.

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/s/ William R. Ford

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