



May 15, 2015

Technical Director  
File Reference: EITF-15A  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

**File Reference: EITF-15A – Proposed Accounting Standards Update  
Derivatives and Hedging (Topic 815) – Application of the  
Normal Purchases and Normal Sales Scope Exception to  
Certain Electricity Contracts within Nodal Energy Markets**

Dear Ms. Cosper:

The Edison Electric Institute (EEI) appreciates the opportunity to comment on the Financial Accounting Standards Board's (FASB or Board) Exposure Draft of the Proposed Accounting Standard Update (ASU) on the application of the normal purchases and normal sales scope exception to certain electricity contracts within nodal energy markets (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 500,000 workers. With \$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.

EEI members and staff have been involved actively with the issue underlying this Exposure Draft because our companies participate and transact extensively in these markets currently, and have done so for decades. We believe the Exposure Draft's provisions will improve financial reporting for contracts within its scope, and we strongly support its provisions. The proposal will increase the relevance and usefulness of our industry's financial reporting by providing information for financial statement users that is consistent with the business purpose and substance of the underlying transactions. Further, it will also resolve uncertainty and diversity in practice for both

Technical Director  
Financial Accounting Standards Board  
May 15, 2015  
File Reference: EITF-15A  
Page 2

financial statement preparers and their auditors regarding the application of Topic 815 to these contracts. Therefore, we strongly urge its adoption.

**Question 1 – Scope**

We believe the scope is clear and appropriate. The description of the contracts included in the proposed update accurately identifies those transactions for which clarification is needed.

**Question 2 – Locational Marginal Pricing is Not Net Settlement**

We agree that the use of locational marginal pricing by an independent system operator to determine the transmission charge is not net settlement of a contract for the purchase or sale of electricity. The function of the independent system operator is to transmit power from where it is generated or imported into the electricity system (the grid) to the locations where it is used, and this physical delivery service function is unchanged regardless of the pricing methodology. In such markets, the electricity grid operated by the independent system operator exists to facilitate the physical movement of electricity – there is no other means by which electricity can be delivered, and the grid has existed for decades for this very purpose.

We have observed the evolution of the pricing model for such transactions over time, and in all cases we strongly believe that such pricing is intended to facilitate the most economically and physically efficient operation of the electricity grid. In no case does the pricing methodology change the underlying physical electricity delivery function of the grid administered by the independent system operator. Although the independent system operator may use terminology or computation methods that calculate pricing separately at the points where the electricity is injected into and withdrawn from the grid, that methodology for computing the cost of transmission is simply a matter of form and has no bearing whatsoever on the underlying physical delivery service activity of the grid.

Our members have also observed changes related to the independent system operator taking title due to recent changes in the regulatory requirements. We note that such changes relate solely to credit protection matters raised by Federal energy regulators in response to the credit crisis of 2008. Nevertheless, nothing about the underlying substance, business purpose, or physical operation of the electricity grid has changed as a result of this response to the credit crisis, as we explain below.

The independent system operator neither generates nor consumes electricity itself, nor does it profit on its operations. Rather, it provides a physical delivery service to transmit electricity between suppliers and consumers, and it distributes the various costs and revenues related to transmitting electricity among its members and the owners of the

Technical Director  
Financial Accounting Standards Board  
May 15, 2015  
File Reference: EITF-15A  
Page 3

system. Those costs include the risk of credit loss if a market participant were to default.

In this role, many operators take legal title during transmission solely for the purpose of reducing the credit risk of other market participants in the event of a defaulting participant's bankruptcy. This relatively recent change in form was implemented in response to Federal regulatory concerns about potential credit risk exposure to those who own and use the transmission system, and it has had no impact on, nor does it change our conclusion regarding, the fact that contracts that are in scope result in physical delivery and that the pricing approach does not constitute net settlement.

**Questions 3 & 4 – Application**

We concur that prospective application is appropriate for the reasons stated in the Basis for Conclusions and that early adoption should be permitted. We believe that application will involve minimal time and effort because (a) the scope exception is elective and (b) those entities with contracts within scope already have the processes and procedures in place to make this election for other contracts.

\* \* \* \* \*

EEI appreciates the opportunity to provide our input on the proposed Exposure Draft, and we strongly support its adoption. 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.

Richard F. McMahon, Jr.  
Vice President, Edison Electric Institute