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November 16, 2015

Ms. Susan Cospier  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update - Revenue from Contracts with Customers (Topic 606):  
Narrow-Scope Improvements and Practical Expedients

File Reference No. 2015-320

Dear Ms. Cospier:

FirstEnergy appreciates the opportunity to respond to the Proposed Accounting Standards Update, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*.

FirstEnergy is a diversified energy company in the United States with approximately \$52 billion of assets, \$15 billion in annual revenues, and \$13 billion in market capitalization. Our subsidiaries and affiliates are involved in the generation, transmission and distribution of electricity, as well as energy management and other energy-related services. Our 10 electric utility operating companies comprise one of the nation's largest investor-owned electric systems, serving 6 million customers within 65,000 square miles of Ohio, Pennsylvania, West Virginia, Maryland, New York and New Jersey. Our subsidiaries control approximately 17,000 megawatts of generation capacity, including approximately 13,000 megawatts of competitive generation.

We support the Financial Accounting Standards Board (FASB) in their objective to develop accounting principles that enhance the transparency and relevance of financial statements. We also support the effort to make improvements to the recognition of revenue. We provide our comments on 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 the proposed addition of these paragraphs and new examples help clarify the objective of the collectibility threshold within the standard. The guidance in 606-10-55-3B provides needed clarification on applying the collectibility criterion to the goods or services being transferred as opposed to all goods and services in the contract. Additionally, we believe the proposed addition in 606-10-25-3 regarding the ability to mitigate credit risk by considering the right to cancel future delivery of goods and services should assist with collectibility assessments.

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We also believe the new examples, specifically, Cases B and C, will be helpful for assessing the collectibility criterion for service arrangements. However, we believe Mr. Kroeker's alternate view that "collectibility" should be considered when recognizing revenue under a contract rather than using collectibility as a criterion to redefine whether a contract exists warrants further consideration by the Board. As Mr. Kroeker points out, this concept is broadly understood, works well in practice, and retaining the notion of collectibility in Step 1 of the model may perpetuate the potential for misunderstanding and inconsistencies in the existence of a contract for legal and accounting purposes.

**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 paragraph 606-10-25-7(c) provides clarity of when revenue should be recognized that does not meet the criteria paragraph 606-10-25-1. However, as noted in our response to Question 1, we believe Mr. Kroeker's alternate view that "collectibility" should be considered when recognizing revenue under a contract rather than using collectibility as a criterion to redefine whether a contract exists warrants further consideration by the Board.

**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 believe using a threshold of "more likely than not" would be an improvement to the collectibility guidance in Topic 606 as it would more specifically define the threshold for the collectibility assessment as well as result in consistent threshold considerations between GAAP and IFRS for purposes of revenue recognition.

**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 agree the policy election to allow companies to exclude amounts collected from customers for all sales (and other) taxes from the transaction price has the potential to reduce the cost and complexity of applying Topic 606, as a principal versus agent assessment of each tax could result in varying treatments of taxes by state and jurisdiction, which could result in significant system complexities for the recognition of taxes.

**Question 5: Revisions to paragraph 606-10-32-21 and the related example specify that noncash consideration should be measured at contract inception. Does this proposed amendment improve the clarity of applying the guidance? If not, why?**

While FirstEnergy does not expect to have significant contracts with customers in which the customer promises consideration other than cash, we support the FASB's objective to add clarification to noncash consideration guidance.

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**Question 6: Revisions to paragraph 606-10-32-23 clarify that the guidance on variable consideration applies only to variability in noncash consideration resulting from reasons other than the form of the consideration. Would the proposed amendments improve the clarity of applying the guidance? If not, why?**

While FirstEnergy does not believe paragraph 606-10-32-23 will be applicable to its contracts with customers, we support the FASB's objective to add clarification to the noncash consideration guidance.

**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 agree the proposed practical expedient for contract modifications would reduce the cost and complexity of applying Topic 606. The systems, processes and documentation may not be in place to efficiently and effectively evaluate, in accordance with the new standard, the effects of each contract modification that occurred prior to transition to the new standard. Allowing companies to determine and allocate the transaction price on the basis of all satisfied and unsatisfied performance obligations in a modified contract as of the earliest period presented in accordance with the guidance in Topic 606 would limit the cost and complexity of assessing legacy contracts at transition.

**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 the proposed amendment provides clarifying language to the transition guidance in the standard.

## **Conclusion**

FirstEnergy appreciates the opportunity to comment on the FASB's Proposed Accounting Standards Update, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*. We agree with several of the tentative conclusions outlined in the proposal, but ask the FASB to consider the concerns we expressed above.

FirstEnergy looks forward to continued participation in this important project and appreciates the opportunity to present our views.

Sincerely,

