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Technical Director
Financial Accounting Standards Board
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RE: File Reference No. 2015-320, Proposed Accounting Standards Update, Revenue from Contracts with Customers (Topic 606), Narrow-Scope Improvements and Practical Expedients

The Williams Companies, Inc. (Williams) appreciates the opportunity to provide our comments to the Financial Accounting Standards Board (Board) on the proposed narrow-scope improvements and practical expedients regarding revenue from contracts with customers. Williams is a public company which, through its subsidiaries, gathers, processes and transports natural gas.

We are supportive of the proposed changes, except for the proposal regarding noncash consideration and changes to the alternative recognition criteria when a contract does not meet the criteria in paragraph 606-10-25-1. We are also supportive of the technical correction to the transition guidance clarifying that an entity using the full retrospective approach need not disclose the effect of the accounting change on affected line items in the period of adoption.

We have concerns about the proposal requiring measurement of the fair value of noncash consideration at contract inception when determining the transaction price and the resulting subsequent reporting of changes in the fair value of noncash consideration due to its form. Before providing our specific comments on questions 5 and 6, the following is background information regarding several of our contracts that involve the receipt of noncash consideration. We provide gathering and processing services for our customers engaged in the exploration and production of natural gas. Processing consists of separating the raw natural gas stream produced by our customers into its components: natural gas liquids (NGLs) and natural gas. Some of our contracts for providing gas processing services involve the receipt of NGLs (noncash consideration) for performing these services. Under these processing contracts, the noncash consideration is closely related to the service being performed – as differentiated from the common stock for services example in the proposed guidance. Examples of such contracts include keep whole and percent of liquids gas processing contracts where we process natural gas produced by our customers and retain some or all of the extracted NGLs as compensation for our services. Generally these contracts are long term, with many agreements extending over a period of

fifteen to twenty years. We have commodity price exposure to NGL price movements from the NGLs that we retain under both of these contracts.

Also, under these contracts, if we are providing processing services during a period of low ethane prices, we are likely operating our facility in an ethane rejection mode where the processing plant is run at temperatures that leave the ethane in the natural gas stream. Ethane is the most plentiful and typically the least expensive component of the NGL stream, and its characteristics are such that it is possible to leave the ethane in a gaseous form when necessary or when there is no processing margin. If ethane prices increase, we will run our plant at lower temperatures (and will incur higher operating costs) such that the ethane will also be extracted from the natural gas stream. As a result, the volume of NGLs recovered and that we will receive as compensation increases – all due to increasing prices. In other words, changes in the fair value of the consideration associated with its form (price) and other than its form (quantity) may both be due only to the form of the consideration (price). They are very interrelated and associated with the service being provided.

Some of our other processing contracts are structured such that the cash consideration varies based on commodity prices. We are providing the same gas processing service and the value of the cash consideration received is generally the same as the noncash consideration received in the form of NGLs pursuant to a keep whole or percent of liquids processing contract. However, this proposal would result in different revenue accounting treatment for the consideration received under these processing contracts depending on whether cash or noncash consideration is received. Under all of these contracts, commodity prices and gas processing services are very interrelated as Williams and its customer have structured and negotiated these contracts to reflect commodity price exposure sharing and the associated value to the customer over the long term period of providing processing services.

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?

This revision may simplify the initial measurement of the transaction price at contract inception; however, it may (a) diminish the usefulness of information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers and (b) may not result in recognition of revenue in accordance with the core principle of recognizing 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. These unintended consequences will be prevalent in the midstream sector of the energy industry.

Commodity price exposure on revenues is a significant factor for many midstream energy companies. The nature and uncertainty of their revenues can be significantly impacted by these changing commodity prices. As noted in the examples presented below, measuring fair value at contract inception for keep whole and percentage of liquids agreements removes commodity price volatility from revenue recognition, which inadvertently changes the nature of midstream energy companies' revenues and diminishes the usefulness of reported revenue for users of the financial statements. When midstream energy companies execute contracts with customers that contain commodity price exposure both parties realize that, as services are provided, the consideration to which the service provider expects to be entitled will vary based on the commodity price environment. By removing commodity price volatility from revenues, the core revenue recognition principle to depict the transfer of services to

customers in an amount that reflects the consideration to which the entity expects to be entitled may not be met.

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?

In the case of certain of our midstream contracts, these proposed amendments would not improve the clarity of applying the guidance. This revision has the unintended consequences discussed above by changing how the requirements of ASC 606 are applied and introduces confusion related to the accounting for changes in the fair value of noncash consideration associated with the form of the consideration. In applying the guidance issued under ASC 606 to the keep whole and percent of liquids contracts discussed above, the service provider receives NGLs as consideration and records revenue for the service provided and a corresponding commodity inventory for the NGLs received. The following examples serve to illustrate our view of the change in revenue recognition under this proposal. Assume at contract inception the current market price (fair value) of NGLs is $.33 per gallon and when the services are subsequently provided, the market price for NGLs has changed to:

- Scenario 1: $.25 per gallon and
- Scenario 2: $.40 per gallon.

Under our interpretation of the guidance initially issued under ASC 606, revenue and NGL commodity inventory would be recognized at the market price of NGLs when the services are provided, $.25 per gallon for Scenario 1 and $.40 per gallon for Scenario 2. Disregarding the subsequent sale of the NGLs received, the current period income statement impact would also be $.25 per gallon for Scenario 1 and $.40 per gallon for Scenario 2.

Below is our interpretation of the proposed revised guidance for each pricing scenario. Under both scenarios, revenue would be recognized at $.33 per gallon; however, initial and subsequent accounting would differ depending on the pricing environment when the services are provided.

Scenario 1. With a subsequent market price of $.25 per gallon (a decrease in NGL prices since contract inception), revenue and NGL inventory would be recognized at $.33 per gallon followed by an immediate lower of cost or market write down of inventory to expense of $.08 per gallon, reflecting the difference in the subsequent market price and the market price measured at contract inception. Currently, such a charge to expense is generally associated with the commodity exposure related to holding commodity inventories, not with their initial recognition. Disregarding the subsequent sale of the NGLs received, the current period income statement impact would be $.25 per gallon, segregated between revenue of $.33 per gallon and product cost of $.08 per gallon.

Scenario 2. With a subsequent market price of $.40 per gallon (an increase in NGL prices since contract inception), revenue and NGL inventory would be recognized at $.33 per gallon. The NGL inventory would initially be recognized below the fair value of $.40 per gallon. Disregarding the subsequent sale of the NGLs received, the current period income statement impact would be $.33 per gallon reflected in revenue. This is a different accounting treatment compared to Scenario 1, all driven by differing commodity price changes since contract inception. When the inventory is subsequently sold, the impact of the higher commodity prices would be realized by a $.07 margin per gallon (revenue of $.40 per

gallon and product cost of $.33 per gallon). This $.07 net margin is not associated with changes in commodity prices subsequent to the processing services being provided nor to the marketing effort (as would be depicted in this example); it is associated with the previously provided processing service.

In summary, in situations such as the example in the proposal of receiving stock for services when the consideration received is unrelated to the services provided, the inception date valuation of the noncash consideration may result in a meaningful and informative result. However, this may not be the case when the noncash consideration is closely related to the service being performed and in some cases actually influences the level of service provided such as in the ethane rejection scenario discussed above.

We believe the original guidance and example was reasonable and such a principles based approach should be considered for recognizing revenues to accommodate the potentially large number of contracts in practice that contain noncash consideration. In our gas processing contract examples, which are common in the midstream energy industry, we believe a principles based revenue recognition treatment that allocates the fair value of the closely related noncash consideration to the period that performance is completed is more meaningful and informative as reported revenues will represent the value of the services provided during that period. As noted in the examples above, measuring revenues that will be recognized well into the future based on commodity prices at contract inception may have unintended consequences. This impact of this approach is amplified by the long term nature of these agreements, resulting in potentially significant mismatching between the fair value at inception versus a market value several years in the future.

In the basis for conclusions regarding noncash consideration, the Board indicated the proposed approach would typically be less costly and complex to apply than a requirement to periodically re-measure noncash consideration until the noncash consideration is received. While perhaps more unique to our contract circumstances, we believe the benefit in reporting revenues from measuring noncash consideration when the service is provided exceeds any benefits from being less costly and complex.

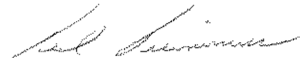
Question 2: Paragraph 606-10-25-7(c) was proposed to provide clarity about when revenue should be recognized for a contract that does not meet the criteria in paragraph 606-10-25-1. Does this proposed amendment improve the clarity of applying the guidance? If not, why?

We agree with the Board's intent to broaden the alternative recognition criteria in paragraph 606-10-25-7 when an entity receives consideration from a customer absent a non-substantive contract between the parties. However, we believe even with the additional criteria in paragraph 25-7(c) the alternative recognition model continues to be restrictive in recognizing revenue by requiring that the entity must have stopped transferring goods or services to the customer. We understand the Board is concerned if there is not a substantive contract between the parties then there can be no assurance that the payments received from the customer are solely for past performance. We believe if there is no obligation to transfer additional goods or services by virtue of no substantive contract this sufficiently demonstrates that consideration received related to goods or services already transferred is for past performance and there is no need to preclude revenue recognition for these goods or services assuming the other criteria (control transferred and consideration received is nonrefundable) in proposed paragraph 25-7(c) are met. Thus, revenue recognition should not be precluded for goods or services

already transferred when an entity continues to provide goods or services to a customer absent a non-substantive contract.

We appreciate the opportunity to comment on these matters and would be happy to provide any additional information you may require or discuss our comments further.

Sincerely,



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