Edison Electric INSTITUTE

American Gas Association

December 13, 2016

Technical Director
File Reference No. 2016-200
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Request for Limited-Scope Deferral of Effective Date
File Reference: 2016-200: Compensation – Retirement Benefits (Topic 715) – Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

Dear Ms. Cosper:

The Edison Electric Institute ("EEI") and the American Gas Association ("AGA") respectfully request the Board to grant a limited-scope deferral of the effective date for the above referenced proposed Accounting Standards Update ("ASU") for regulated operations of entities that must apply ASC Topic 980 (Accounting for the Effects of Rate Regulation). We believe a deferral is necessary because of the significantly higher difficulty in applying the proposal to regulated operations while continuing to satisfy regulator-mandated accounting requirements for utility rate setting purposes.

We previously submitted comments on the Exposure Draft on April 25, 2016, which focused primarily on the economics of rate regulation and accounting for benefit costs consistent with those economics. Because of that focus, we are concerned that we may not have clearly conveyed the expected complexity, time, and cost of implementing the proposal as it relates to the capitalization of benefit costs by regulated entities. Consequently, in adopting the effective date, we are concerned that the Board may not have been fully aware of the significant impact of implementing the proposed changes on regulated utilities, which will be substantially greater than that for public entities that do not apply ASC Topic 980.

While we plan to explore potential alternatives to mitigate the implementation effort, we believe a delay in the effective date is necessary in order for utilities to determine how to implement these provisions in the event such mitigation is not possible including developing the appropriate property accounting systems necessary to comply with the new ASU for Generally Accepted Accounting Principles ("GAAP") purposes while continuing to satisfy the existing regulatory accounting requirements mandated by utility rate-regulators.

ASU Summary
On November 2, 2016, the Board tentatively decided to affirm the changes proposed in the exposure draft regarding the presentation of pension and postretirement benefit costs (collectively, "net benefit costs") as described below:

- Separate net benefit costs into the service cost component and other components;
- Present the service cost component in the same line item (or items) as other compensation costs arising from services rendered by the pertinent employees during the period;
- Service cost would be the only component eligible for capitalization, if appropriate, as part of an asset such as inventory or property, plant, and equipment; and
- Report in the income statement the non-service cost components separately from the service cost component and outside a subtotal of income from operations, if one is presented.

In addition, the Board tentatively decided that the final ASU will be effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. For entities other than public business entities, the amended presentation will be effective for annual reporting periods beginning after December 15, 2018.

Requirements of Utility Rate Regulation
Utility accounting requirements for net benefit costs are mandated by utility regulators for purposes of setting the prices that utilities are permitted to charge customers for utility service. Regardless of the requirements of GAAP, utility recordkeeping requirements may, and often do, mandate specific accounting approaches, practices, and levels of detail not required by GAAP.

Regulatory requirements presently mandate electric and gas utilities to record all of the components of net benefit costs as an operating expense. Therefore, all of the components of net benefit costs are subject to capitalization on qualifying construction projects, typically as a labor cost overhead, such that each construction project bears its equitable portion of the net benefit costs. Similar to other operating expenses, net benefit costs are included in determining the prices the utility is allowed to charge customers.

EEI and AGA expect that the regulatory treatment of all the components of net benefit costs will continue as described above[1] following the effective date of the Board's proposed change for GAAP reporting purposes. Assuming the regulatory accounting treatment remains unchanged, our members will be required to continue keeping the regulator-mandated detailed records necessary to support the treatment of all components of net benefit costs as an operating expense with all the components being subject to capitalization for construction projects.

Significant Complexity in Accounting for Utility Plant
The most significant potential area of accounting complexity is due to the likely divergence in treatment of capitalized benefit costs for regulatory versus GAAP reporting. The impact of this record-keeping burden on utility plant records is the primary reason for our request for a limited, targeted deferral of the effective date.

Regulators require utilities to keep very detailed records supporting the investment in utility plant. Utility plant is by far the most significant investment by regulated electric and gas utilities. Utilities are allowed by their regulator to recover their investment in utility plant as well as earn a return on such investment through rates charged to customers.

Because of its impact on utility rates, the investment in utility plant must be well documented and supported to ensure that the amount charged to customers complies with the regulator's requirements. To that end, regulators have developed a sophisticated set of detailed recordkeeping requirements that electric and gas utilities must follow to identify and track the cost of each and every item of property included in utility plant from the date the item is placed in-service to the date the item is retired (i.e., removed from utility plant because the item is no longer being used to serve utility customers).

In addition, utility plant assets are depreciated over varying lives based on the different classifications of the various assets. For example, a metal transmission tower may have a significantly longer depreciable life than a wood distribution pole. As a result, the depreciation records for utility plant are also relatively detailed reflecting the various asset classifications used to depreciate utility plant.

Under the proposal's requirement permitting capitalization of only service cost for GAAP reporting purposes, electric and gas utilities likely will face the challenge of having to maintain duplicate utility plant and accumulated depreciation records for millions of individual utility plant assets. Such record keeping will be necessary in order to continue to capitalize all of the components of benefit costs for regulatory purposes while accurately identifying and reporting the non-service cost amounts separately for GAAP financial

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[1] See the comment letter of Bryan Craig, Director and Chief Accountant, Federal Energy Regulatory Commission.

statements. Further, if utilities were to determine that the amount of allowance for funds used during construction ("AFUDC") might have to be computed differently for regulatory versus GAAP purposes, any such differences would lead to additional complexity.

For those portions of our operations subject to ASC 980, reflecting a different basis of capitalization for the non-service cost components of net benefit cost will be a difficult and challenging task because of the detailed nature of the utility plant and depreciation records required by regulators. This complexity will grow as utility plant assets are continuously added and retired over decades-long service lives typical of many utility assets. Further, utilities that have nonregulated operations will not realize any synergies or cost savings from applying the proposal to those portions of their business because the segregated accounting records for nonregulated property are not constrained by regulatory record-keeping requirements.

We expect that a software system solution may be the only practical way for utilities to appropriately track separate capitalized balances for GAAP and regulatory reporting purposes, including potential differences in capitalized AFUDC amounts, and establish the necessary internal controls for entities that must comply with these varying reporting requirements. At this time, we are not aware of a software solution that is available, and we are not confident that one can be developed in time for an implementation date for annual reporting periods after December 15, 2017. We anticipate the cost of developing and implementing such a software solution will be significant.

Conclusion
We respectfully request that the Board provide limited implementation relief for regulated operations of entities that apply ASC Topic 980 by deferring the effective date of the final standard to annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. For electric and gas utilities that also have unregulated operations, this request only applies to the portion of their business that applies ASC Topic 980. We note that this delay would align implementation with the proposed effective date for non-public entities.

Electric and gas utilities plan to explore what alternatives, if any, we could pursue that could mitigate the cost and complexity for regulated utilities to implement the proposed standard. Regardless of whether duplicate utility plant and accumulated depreciation records are required or some other alternative can be identified, it will take regulated utilities a significant amount of time to determine a solution to implement the proposed standard.

We would welcome the opportunity to discuss our request with you in order to assure that we have clearly communicated the extent of the impact of this change on our accounting for utility plant and the importance of adequate time for regulated entities to implement a solution. We will be in touch shortly to coordinate a convenient time when we can discuss this topic with you in person at your offices.

Very truly yours,

/s/ Richard F. McMahon, Jr.

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

/s/ Patrick J. Migliaccio

Patrick J. Migliaccio
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