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Technical Director  
File Reference: 2018-230  
Financial Accounting Standards Board  
401 Merritt 7  
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**File Reference: 2018-230** – Proposed Accounting Standards Update (ASU)  
*Intangibles - Goodwill and Other – Internal-Use Software (Subtopic 350-40):  
Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service  
Contract; Disclosures for Implementation Costs Incurred for Internal-Use Software and Cloud Computing Arrangements*  
Technical Director:

Duke Energy appreciates the opportunity to comment on the Financial Accounting Standards Board’s (the Board) Exposure Draft of the Proposed ASU, *Intangibles - Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract; Disclosures for Implementation Costs Incurred for Internal-Use Software and Cloud Computing Arrangements* (“Exposure Draft”).

Duke Energy is a Fortune 125 company traded on the New York Stock Exchange. Headquartered in Charlotte, N.C., Duke Energy is one of the largest energy holding companies in the United States. Its Electric Utilities and Infrastructure business units serves approximately 7.6 million customers located in six states in the Southeast and Midwest. The company’s Gas Utilities and Infrastructure business unit distributes natural gas to approximately 1.5 million customers in the Carolinas, Ohio, Kentucky and Tennessee. Its Commercial Renewables business unit operates a growing renewable energy portfolio across the United States. Duke Energy is also a member company of the Edison Electric Institute (EEI) and the American Gas Association (AGA).

Duke Energy appreciates the opportunity to provide inputs related to the accounting for implementation costs incurred in cloud computing arrangements that are service contracts. We support the objective of the Exposure Draft to minimize diversity in the accounting for implementation costs, allowing for recognition of these costs over the period under which the entity receives economic value from such costs. We strongly support the Board moving forward with the Exposure Draft.

Additionally, we have identified a few areas in which we believe the Exposure Draft could be further enhanced as discussed below:

First, Duke Energy agrees that eligible implementation costs of a hosting arrangement that is a service contract should be capitalized using the guidance on internal-use software and amortization of such capitalized costs should be recognized in the income statement in a systemic manner over the term of the hosting arrangement, as outlined in the Exposure Draft. However, we believe that the classification of these costs in the income statement should be consistent with the earnings classification of other intangible assets and long-lived assets, including “on premise” software, as depreciation and amortization expense rather than operation and maintenance costs, which is where the hosting arrangement would be classified if it had not been capitalized. Additionally, the functionality of the capitalized

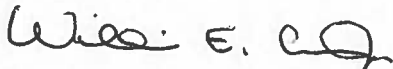
implementation costs for hosting arrangements would be the same as for internally developed or "on premise" software, thus the classification in the income statement for both similar assets should be consistent.

Second, Duke Energy does not agree with Exposure Draft's proposal that would extend disclosures for implementation costs related to a hosting arrangement that is a service contract or to capitalized internal use software. Capitalized implementation costs related to internal use software are presently not subject to separate disclosure requirements. Thus, we do not believe that proposed disclosures should be extended to capitalized internal use software for which disclosure previously has not been considered necessary. Likewise, we also believe it is unnecessary to prescribe additional disclosures related to implementation costs for a hosting arrangement. Expenditures for internal use software, including implementation costs for both internally developed software and the proposed capitalization of implementation costs incurred relating to a hosting arrangement that is a service contract are a small fraction of the \$8-10 billion in capital expenditures Duke Energy makes on an annual basis. Therefore, we believe the cost involved in preparing additional disclosures outweighs the benefit for the users of the financial statements, giving unnecessary focus on this small fraction of the capital expended each year.

Duke Energy encourages the Board to continue to monitor the technological and product delivery evolution and advancement of cloud computing arrangements. These advancements provide economic value to companies that are similar to the benefits of systems and solutions that are purchased rather than contracted. We encourage the Board, as part of a future agenda project, to consider an accounting model that would permit the recognition of the future economic value of hosting arrangements as assets.

Duke Energy appreciates the opportunity to provide input and express our support for this Exposure Draft on the accounting for implementation costs which minimizes diversity in practice and allows for recognition of these costs over the period under which they provide economic value. We strongly support the Board moving forward with the Exposure Draft. We would be pleased to discuss our comments and provide additional information that you may find helpful. If you have questions or would like to discuss this matter further, please contact me at 704-382-1603 (or [bill.currens@duke-energy.com](mailto:bill.currens@duke-energy.com)).

Sincerely,



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