ASC Roundtable Questions

2018 EEI Accounting Standards Committee Conference
Leases – Practical Expedients

1. This is more of a polling question – are most companies planning to elect the “package of practical expedients” for which you would not reassess classification of historical leases? For those that are not adopting the practical expedient, what does your reassessment of all contracts look like?

2. If companies are applying the package of practical expedients, what level of diligence is being performed to ensure that they are not grandfathering incorrect conclusions?

3. Has your company made the decision to take or not take the practical expedient to adopt ASC 842 on a prospective basis starting 1/1/2019? If so, what is the key driver of this decision?

4. Commingled non-lease component practical expedient – Is there concern that electing this practical expedient/future policy election may result in capital/rate base amounts being accounted for as leases?

5. Are companies establishing a dollar threshold for lease contracts? And if so, what is that threshold and what factors did you consider when setting the threshold?
Leases – Definition

1. How are other utilities assessing PURPA Qualifying Facilities (QFs) for if they contain a lease or not?
2. Have companies considered and concluded on whether an arrangement where the utility charges the customer (facility charges) for utility-owned equipment on the customer’s side of the meter constitutes a lease?
3. Should indefinite/month to month leases be excluded if there isn’t a determinable end date? If not, what is the best means to quantify it?
4. How are companies accounting for leases pertaining to joint operations (with majority/minority ownership interest)?
5. During the revenue recognition process, there appeared to be some last minutes scoping issues that developed, has anyone thought of any unique situations that have potentially developed into a lease that maybe others should consider?
Leases – Asset & Liability

1. Has your company established a policy on how to determine if a renewal is “reasonably certain” to be exercised when determining the ROU asset and liability?
Leases – Discount Rates

1. Any feedback from auditors on approach to determining the appropriate incremental borrowing rate in scenarios where the company does not issued secured debt?

2. Under ASC 840 for capital leases, we have used the following interpretative guidance for applying discount rates – When the lessee’s incremental borrowing rate is used to discount minimum lease payments, it is possible that the present value of minimum lease payments could exceed the fair value of the leased property; in such case, the amount recorded as the asset and the obligation is limited to the fair value of the leased asset, which effectively increases the interest rate to be used in accounting for the lease.

1. Does ASC 842 retain this guidance? If so, is it applicable to both capital and operating leases?
Leases – Asset & Liability

1. How will expected payments per the amortization schedules and actual payments be reconciled from the Accounts Payable ledger to ensure that total lease expense/ROU asset is accurate?

2. When implementing ASC 842, has anyone used a portfolio approach for any leases or easements that will be accounted for as leases? If so, what assumptions were made for variables (i.e. discount rate, term, etc.) that would be applied to the entire group, and how were they determined without evaluating all contracts?
Leases – Asset & Liability

1. ASC 842-20-45-1 states, “A lessee shall either present in the statement of financial position or disclose in the notes all of the following: a. Finance lease right-of-use assets and operating lease right-of-use assets separately from each other and from other assets b. Finance lease liabilities and operating lease liabilities separately from each other and from other liabilities. Right of-use assets and lease liabilities shall be subject to the same considerations as other nonfinancial assets and financial liabilities in classifying them as current and noncurrent in classified statements of financial position.”

1. Are companies classifying their Finance and Operating leases in Utility Plant – or separate lines?
   1. ASC 842-20-45-3 seems to prohibit combining finance and operating right of use assets, “In the statement of financial position, a lessee is prohibited from presenting both of the following: a. Finance lease right-of-use assets in the same line item as operating lease right-of-use assets and b. Finance lease liabilities in the same line item as operating lease liabilities.”

2. Are companies classifying their lease obligation in the same line as long-term debt or a separate line?

3. Are companies breaking out current and noncurrent portions of assets? Is this possible?
Leases – Rate Regulated

1. As stated in ASC 980-842-45-3 – rate-regulated entities may match the timing of expense recognition of financing leases with rate recovery treatment. Is this provision also allowed for operating leases (e.g. 842 would require straight line expense of an operating lease, but maybe rate recovery is not based on straight-line)

2. In the regulated industry accounting for financing leases (previously capital), is your company planning on making a change to the geography of the rent expense? Under the old 980-840 it allowed you to record all the capital lease payment to rent expense, but in the new guidance for 980-842, it doesn’t appear that much has changed. However there are some subtle differences that are a little unclear as to if the payment now needs to be recorded to depreciation and interest.
Leases – FERC vs GAAP

1. Will your company including Operating Lease right of use assets in 101.1 Property Under Capital Leases and respective utility accounts the same as existing capital leases? If your company records your capital leases, using the FERC method (18 CFR CH. 1 General Instruction 20) of charging amounts to expense when payable?

2. How are companies handling the FERC to GAAP differences for financing leases and operating leases with payment amounts that differ from straight-line amounts? If recognizing the difference as some sort of regulatory deferred, what accounts are people using?

3. Are there FERC v. GAAP differences that companies are analyzing that are important to consider?
Leases – Taxes

1. What have been some of the most significant impacts from a tax perspective that have been identified?
Leases – Disclosures

1. Will your company include month-to-month leases in your short-term lease disclosure or will your company exclude these based on the less than a month exception? Will your company track short-term leases in its lease accounting software?
1. Are any companies using spreadsheets to implement ASC 842 rather than an IT system due to low volume of leases? If yes, what are some of the most significant challenges they are experiencing with utilizing a manual approach?
Leases – Controls and Other

1. What controls/processes are companies considering implementing to ensure completeness of lease inventory going forward?
   1. Have you had conversations with your audit teams on how they will be testing the implementation and going forward?

2. What processes are being put in place around land easement contract review after January 1, 2019 for entities with a significant volume of easement activity?

3. What other key controls has your company identified related to leases, and where do those controls sit in your organization?

4. Has your company determined the key business process change that will occur after implementation of ASC 842? Will your property accounting team take a more active role in managing operating lease or will they only record the balance sheet entries? If so, do you have a need for additional resources to accomplish this.

5. Do we have an understanding of how rating agencies are beginning to assess and analyze the new lease standard?
Cloud Computing

1. In light of the recent FASB exposure draft regarding cloud computing, specifically the new requirement to follow the guidance in Subtopic 350-40 to determine which costs to capitalize, companies should now be capitalizing implementation costs incurred in a CCA. In addition to incremental implementation costs, can the monthly subscription fees incurred during the application development stage be capitalized as well?

2. Any thoughts on disclosure of implementation costs relating to on premise software?

3. What criteria do you use to determine whether an infrastructure-as-a-service arrangement meets the definition of ASU 2015-05 Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement?
   • Extent of our control over the use of the infrastructure
   • Length of the arrangement (i.e., using substantially all of the underlying assets’ useful lives)
   • Ability to move the specific items to our premises
   • Risk of loss passes to us
   • Combination of the above criteria
   • Other – please describe
Pension

1. Application of regulatory mechanisms to service vs. non-service pension costs - Regulators are unlikely to distinguish between these types of costs. How do you defer these costs and split that deferral?

2. Trapped amounts in AOCI at service companies – Typically all costs are allocated at our service company (no retained earnings). If we release a trapped AOCI amount, can we then run it through the allocations process?

3. How are companies interpreting and responding to the FERC guidance for the adoption of ASU 2017-07? Are they making these disclosures on a quarterly and annual basis only for 2018, or beyond? For companies that only file informationally, are they are required to make these disclosures?
Financial Instruments

1. How are you applying materiality to the requirement to disclose the measurement category and form of financial instruments?
Restricted Cash

1. Nuclear Decommissioning Trust Fund – If you don’t account for the cash as restricted, what is the accounting/presentation when the cash comes out of the trust?
Revenue – Alternative Revenue Programs

1. What is your company’s practice of classifying reserves related to Regulatory Assets as 606 revenue or ARP? And what is the logic behind that?

2. Alternative revenue programs with subsequent minor true-ups – Does an inconsequential subsequent true-up result in failing to meet the objectively determinable criteria?
Revenue – Classification

1. How do you normally account for demand response credit paid to a third party facilitator? Reduction of revenue or purchase power expense?

2. For energy efficiency programs that benefit residential customers, do you record credit/incentive paid to a contractor reduction of revenue or O/M expense?

3. How do you classify tax reform credits? ASC606 revenues or non ASC606 revenues? Are there any utilities that consider the tax credits as “variable considerations”?

4. Do you have fixed charge established in your utility rate (Every customer is going to share some type of fixed cost regardless of usage) and Do you record this under “Sales of electricity” in FERC (440,442,445,447,448) or Do you record this under FERC 451 or FERC 456? Do you foresee any changes in recognition of those type of revenue for new revenue implementation?
Revenue – Disclosures

• How do you disaggregate your AR on your AR disclosure of 10K/Q? Do you disclose the balances of 606 AR and non-606 AR, or qualitative discloser only, or no disclosure of 606 AR?
Revenue – Lessons Learned

1. Coming out of the adoption of ASC 606, what were your company’s key take-aways and lessons learned? What are some things you would do differently in terms of implementation, documentation or capturing data for your footnotes? Are there any reporting initiatives you plan to implement during 2018 to facilitate future reporting requirements of ASC 606?

2. What are the most significant changes and challenging you are facing to implement new revenue standards?
Collaborative Arrangements

1. Has anyone considered the FASB exposure draft on collaborative arrangement (topic 808) and assessed what impact it will have on current accounting?
Capitalization

1. How are costs treated for renewals of licenses for internally developed software?
   - Capitalize just the cost of the additional/renewed licenses.
   - Capitalize the cost of the additional/renewed licenses, and any costs that would have qualified as implementation under the initial installation of the software (examples: updates to system documentation, contract negotiations).
   - Capitalize the cost of the additional/renewed licenses, and any costs that are necessary to execute.
   - N/A – additional or renewed licenses are expensed – only the initial purchase of software licenses can be capitalized

1. Is the treatment the same or different for licensed hosted software?

2. Are you capitalizing the RPA software licenses and/or labor to develop the automation scripts?

3. Undivided interest – Do you apply an undivided interest model (resulting in allocating and recognizing a portion of an asset on each regulated subsidiary’s books) to software assets? What about physical assets?
Derivatives

1. Does your utility account for forward contract to purchase uranium as derivative?
   1. If you do not account for forward contract to purchase uranium as derivative, is it because you have determined uranium is not readily convertible to cash?
   2. Do you foresee the market changing in the near future?
Other

1. Does your company have accounting standard implementation only control? What is the control?