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October 22, 2010

Financial Accounting Standards Board
Technical Director, director@fasb.org

File Reference No. 1820-100

Exposure Draft: *Revenue from Contracts with Customers*: comments on electric utility issues

Dear Technical Director:

The proposed guidance on revenue recognition relative to electric utility accounting raises the following issues:

If a reporting entity has only one product or service, and one contract for all customers (e.g. regulatory rates) aren't all the assets "contract assets" and all the liabilities "contract liabilities"? If that is the case, aren't the financial statements themselves the reconciliation?

Unbilled revenues for continuously provided services would be a "contract asset" under the proposed guidance. Unbilled revenues are estimated and reported at the reporting date for incomplete billing cycles when systems do not provide continuous measurement and instead only measured services transferred up to the billing date. Reconciliation would involve a time-consuming process of incorporating short-term estimates of volume that become known at the end of each billing cycle. Is such a reconciliation worth performing if "going concern" is not an issue? This work would use scarce accounting resources to what benefit?

"Onerous performance obligations" point to the lack of comparability in United States financial reporting among reporting entities operating in the electric utility industry. Regulated rates for retail sales of electricity by government utilities do not include all performance obligations and significant performance obligations are absent from U.S. GAAP compliant balance sheets.

Government entities have elected to comply only with governmental accounting standards or both governmental and secondarily FASB. Comparability in financial reporting is needed within this industry. This issue needs to be raised to provide governmental electric utilities timely opportunity to incorporate changes into costly accounting system, subsidiary system and human capital budgets over the next 5 to 10 years.

For an approach to comparability of financial reporting within the industry, refer to comments from Frank Walker, CFE.

Sincerely,



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Appendix: References and suggested edits

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The following paragraphs were extracted from *Revenue from Contracts with Customers*, File Reference No. 1820-100, issued June 24, 2010, with **suggested additions emphasized**:

“Contract asset: an entity’s right to consideration from a customer in exchange for goods or services transferred to the customer.” [Glossary, page 146]

“Contract liability: an entity’s obligation to transfer goods or services to a customer for which the entity has received consideration from the customer.” [Glossary, page 146]

“Performance obligation: an enforceable promise (whether explicit or implicit) in a contract with a customer to transfer a good or service to the customer.” [Glossary, page 146]

“66. An entity shall present an unconditional right to consideration as a receivable (not as a contract asset)...” [Page 25]

“Contracts with customers. 73. An entity shall disclose information about its contracts with customers to help users understand the amount, timing, and uncertainty of revenue and cash flows from those contracts, including **as cost effective**: (a) a disaggregation of revenue for the period (paragraph 74) **(for example, if there are contract assets or contract liabilities or if cash flows are not disaggregated in the Statements of Cash Flows)**; and/or (b) a reconciliation from the opening to the closing aggregate balance of contract assets and contract liabilities (paragraphs 75 and 76); and (c) information about the entity’s performance obligations (paragraphs 77 and 78), including additional information about its onerous performance obligations (paragraphs 79 and 80).” [Page 26]

“*Onerous performance obligations* 54. An entity shall recognize a liability and a corresponding expense if a performance obligation is onerous. 55. A performance obligation is onerous if the present value of the probability-weighted costs that relate directly to satisfying that performance obligation (as described in paragraph 58) exceeds the amount of the transaction price allocated to that performance obligation.” [Page 23]

“81. An entity shall disclose the judgments, and changes in judgments, made in applying the proposed guidance that significantly affect the determination of the amount and timing of revenue **and contract balances** from contracts with customers. That disclosure shall explain the judgments used in”: **(c) determining the time value of money.** [Page 28]