October 22, 2010

Technical Director
Financial Accounting Standards Board
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RE: File Reference No. 1820-100, Revenue Recognition (Topic 605), Revenue from Contracts with Customers

We appreciate the opportunity to comment on the Exposure Draft, Revenue Recognition (Topic 605), Revenue from Contracts with Customers (ED). This letter contains the comments of both CMS Energy Corporation and Consumers Energy Company.

CMS Energy Corporation, whose common stock is traded on the New York Stock Exchange, is a domestic energy company engaged in electric and natural gas utility services and independent power production, operating through subsidiaries in the United States, primarily in Michigan. CMS Energy Corporation’s consolidated assets are $15 billion and annual operating revenues are $6.2 billion. Consumers Energy Company, the principal subsidiary of CMS Energy Corporation, provides electricity and/or natural gas to 6.5 million of Michigan’s 10 million residents and serves customers in all 68 counties of Michigan’s Lower Peninsula.

We support the overall goal of the Financial Accounting Standards Board and the International Accounting Standards Board in working towards common revenue recognition principles that can be applied across entities, industries, jurisdictions, and capital markets. Our comments will be focused on one particular area of concern relating to the impact of the ED on standard revenue recognition practices within the rate-regulated utility industry.

We note that the proposed Accounting Standards Update (ASU) would supersede the guidance in Accounting Standards Codification (ASC) 980-605-25 pertaining to alternative revenue programs that are commonly used by public utilities as authorized by utility regulators. This guidance was originally issued as Emerging Issues Task Force Issue No. 92-7, Accounting by Rate-Regulated Utilities for the Effects of Certain Alternative Revenue Programs (EITF 92-7). The guidance was issued to address the growing use of alternative revenue programs by utilities, such as decoupling mechanisms, energy efficiency initiatives, and incentive-based revenue plans. These plans typically enable utilities to adjust future rates, usually in the form of a surcharge applied to future billings, in response to past activities or completed events. For example, decoupling programs allow utilities to adjust billings for differences between actual and expected sales volumes that arise from such factors as weather abnormalities or energy efficiency initiatives. EITF 92-7
supported the industry practice of recognizing revenue and recording regulatory assets for the under-collected revenue associated with these programs, as long as certain criteria are met. We believe that the accounting principles in EITF 92-7 concerning the accounting for alternative revenue programs should not be eliminated as proposed in the ED, for the reasons given below.

Utility Industry Economics

The guidance originally provided for in EITF 92-7 accurately reflects the economic reality of the environment in which rate-regulated utilities operate. Utilities provide services that are generally considered to be public necessities and typically operate as a natural monopoly in their service areas. Public utility commissions set rates that are designed to fund the utility’s costs of providing the services plus a fair return. The accounting model for utilities given in ASC Topic 980 recognizes the unique features of the utility industry, including the exclusive rights to operate in a given customer service area and regulator-approved rates designed to cover costs and provide for an equitable return.

In a typical rate-making model, utility revenues and profits are linked to sales volumes, and a loss of sales will lower utility profitability. By implementing decoupling programs, the regulator can ensure that a utility receives the revenue sufficient to cover its costs plus a fair return, independent of shifting sales volumes. Utility regulators have a growing interest in energy efficiency and conservation, and decoupling allows the regulator to promote such initiatives without jeopardizing the utility’s economic performance. Moreover, these decoupling mechanisms can shield the utility’s operations from external factors such as abnormal weather conditions.

EITF 92-7 recognized that the additional billings to customers resulting from alternative revenue programs, such as decoupling, essentially reflect unbilled revenue relating to a performance obligation that has been substantially completed by the utility. In effect, the utility has provided its customers with service for a given period, but additional billings are necessitated to ensure that the utility receives the fixed revenue amount authorized by the regulator for that service. The utility customers are required to pay the difference between the authorized revenue amount and the initially billed amount, even though the customers that receive the additional bills may not be the same customers that received the services, and there may be an administrative process required by the regulator before the utility may bill the difference.

Financial Statement Comparability

The elimination of the existing guidance on alternative revenue programs may lead to increased lack of comparability in the financial statements of public utilities since various utilities may have different interpretations of the broad revenue recognition principles in the ED. The guidance in EITF 92-7 has enhanced consistency amongst the preparers of financial statements in the utility industry by providing for general criteria that are used by all utilities to assess whether revenue recognition is warranted. The criteria for recognizing additional revenue from alternative revenue programs include determining whether a) the rate adjustments are “automatic”, b) the amount of additional revenue is objectively determinable and probable of recovery, and c) the additional revenues will be collected within 24 months of the period in which they are recognized. Without this guidance, varying interpretations of revenue recognition principles may result in inconsistent
application, which may negatively impact the ability of financial statement users to compare the results of different utility companies.

Public Utility Accounting Model

Finally, we note that the guidance given in EITF 92-7 is consistent with the overall accounting principles applicable for rate-regulated utilities located throughout ASC Topic 980. The issuance of EITF 92-7 was necessary since the guidance originally given for regulated utilities in Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation (now included in ASC Topic 980), did not anticipate alternative revenue programs and only referred to incurred costs in providing for the recognition of regulatory assets. We believe, however, that there is no difference between a regulatory asset recorded for incurred costs and a regulatory asset that reflects additional billings from alternative revenue programs. Both types of regulatory assets reflect a probable revenue stream based on rates authorized by a utility regulator, regardless of whether the revenue is designed to compensate for incurred costs or for unbilled revenue deficiencies.

In conclusion, we believe that the existing guidance for alternative revenue programs of utilities in ASC 980-605-25 should be retained. The guidance appropriately reflects the economics of the utility industry, promotes comparability in financial statements throughout the industry, and is consistent with the overall accounting model for public utilities in ASC Topic 980. In retaining this guidance, we recommend that consideration be given to moving the guidance to ASC 980-340, which contains the general criteria for recognizing regulatory assets for incurred costs. Since the nature of regulatory assets is the same, whether recorded for incurred costs or for revenue deficiencies, it may be useful to have the guidance for recognizing these assets contained in one place.

We appreciate the opportunity to provide feedback on the ED and to have input into an issue that may significantly impact our industry.

Sincerely,

Glenn P. Barba
Vice President, Controller and Chief Accounting Officer
CMS Energy Corporation and Consumers Energy Company