March 25, 2011

Technical Director
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116
Electronic Address: director@fasp.org

File Reference No. 1850-100

RE: Exposure Draft - Proposed Accounting Standards Update, Leases (Topic 840)

We continue to follow the FASB/IASB redeliberation of their proposed standard on Leases noting that a significant amount of time is being devoted to issues around the definition of a lease. We understand the boards continue to believe a lease is a contract in which the right to use a specified asset or assets is conveyed, for a period of time, in exchange for consideration. However, we also understand the boards are considering several different alternatives to clarify the key criteria in the definition of a lease (i.e., specified asset and right to control). We have several comments regarding these two key criteria.

**Specified Asset**

**Asset of a particular specification**

We believe for a contract to convey the right to use a specified asset, the specified asset needs to be uniquely identified or identifiable, as opposed to an asset of a particular specification. This definition is most consistent with the premise that a lease conveys the right to use property, plant and equipment, as property, plant and equipment is comprised of individual assets specifically meeting the operational requirements of an entity in conducting their business.

In this context, we believe that a lease should be applied at an individual asset level as a lease should convey the right to use a specific asset; not convey the right to use an asset of a particular specification, that is, not just any asset of the same specification. If a contract provides that assets of the same specification can be utilized and in essence substituted in fulfilling that contract, we believe this indicates the contract is more appropriately viewed as providing a service rather than a right to use a specified asset.

We believe current practice regarding lease accounting is to define a specified asset as being uniquely identified or identifiable and we do not support a broader interpretation of ‘specified asset’ than is applied in current practice. We note that in considering a specified asset to be an
asset of a particular specification, the alternative definition, the contract must specify the asset both from a quantitative perspective (e.g. size, capacity) and a qualitative perspective (e.g. design, functionality, location). We believe this level of detail in identifying a specified asset highlights the complexity of this alternative and increases the complexity in applying a lease standard. The lease proposal is already sufficiently complex and increasing its scope and complexity would not provide additional benefit to users of the financial statements.

Physical portions of an asset

In regard to the issue of whether a specified asset can be a portion of larger asset, we believe clarity should be provided about whether physically distinct portions of a larger asset can be the subject of a lease. We believe guidance should be provided to determine when a physically distinguishable component part of property, plant or equipment is itself considered property, plant or equipment and, therefore, within the scope of the lease guidance. For example, consider a scenario where a pipeline lateral connecting to the main pipeline system is dedicated to a single shipper, the mainline system has numerous shippers, the shipper on the lateral continues to transport the product from the lateral onto the mainline system, the shipper transports on the mainline and the lateral under a single contract and the lateral represents a very small portion of the total capacity of the mainline system. How should the right to transport on the lateral be assessed as to whether this portion of the transportation represents a lease? We believe the assessment of whether the physically distinguishable component part is itself considered property, plant or equipment should consider the functional interdependence of the component part to the entirety of the property, plant or equipment that is the underlying asset in the arrangement.

Non-physical portions of an asset

Williams’ businesses include gas pipelines involving interstate natural gas transportation, which is regulated by the Federal Energy Regulatory Commission (FERC). A significant portion of our gas pipeline’s transportation services are provided pursuant to long-term firm transportation agreements that obligate our customers to pay us a demand charge that is owed for reserving an agreed upon monthly amount of pipeline capacity regardless of the pipeline capacity actually utilized by a customer during the month. When a customer utilizes the capacity it has reserved under a firm transportation agreement, we also collect a commodity charge based on the volume of natural gas transported. Transportation services are provided at rates specified in our FERC approved tariffs that are applicable to all customers. Our gas pipelines also provide transportation services under interruptible transportation contracts where if a customer is not using their reserved capacity under their firm transportation contract, other customers can contract for that capacity on a short-term interruptible basis.

Our customers’ natural gas that we transport is comingled in the sense that we cannot specifically identify their product during the transportation process and the molecules they deliver into our pipelines are not the same molecules they receive. In addition, our customers may receive their product earlier than the time it takes to actually move the product from the point on our system where the product was delivered by the customer to the point where it is received by our customer. Also, in the course of providing transportation services, we may receive different quantities of natural gas from shippers than the quantities delivered on behalf of those shippers, resulting in
imbalances with our customers that are settled pursuant to terms included in our FERC approved tariffs. While we do not take title or ownership to our customer’s gas, we are responsible for the loss of our customer’s gas while it is in our possession.

We are concerned about an approach where a non-physical portion of a larger asset (e.g., 20% capacity of a pipeline) could be a specified asset. We believe this approach could inappropriately result in many service contracts being characterized as a lease because the customer receiving the service is obtaining output from a portion of the capacity of the asset used by the provider of the service. In situations where the service is being provided to multiple customers, in many situations, it is not possible to discern which portion of the larger asset is specifically providing the service to a particular customer. Also, the service provider makes decisions regarding the operation of their asset considering the asset in its entirety and does not manage the asset on a segmented basis considering the output of each individual customer. While a physically distinct portion of a larger asset may be uniquely identified or identifiable and could be the subject of a lease, to conclude on conceptual grounds that commingled use of an asset by different users is the same as use of a physical portion of a larger asset broadens the scope of the lease standard for which there appears to be no perceived benefit to the users of the financial statements. We believe that current practice generally is not to consider contracts that convey the right to use a non-physical portion of a larger asset to be a specified asset. Given the significance of this potential change from the Exposure Draft, we believe that if the boards make such a change the proposal should be re-exposed as targeted outreach may not provide sufficiently diverse feedback to assess users and preparers views on this matter.

We view our gas pipeline transportation business as providing a service to our customers utilizing our assets that we control and operate under our sole decision making authority. This business has numerous and a broad mix of customers, including public utilities, municipalities, intrastate pipelines, direct industrial users, electrical generators, gas marketers and producers. To view these transportation contracts as specified assets that could be the subject of a lease is contrary to the way we operate our assets and the contractual relationship we have with our customers. Also, to view these contracts as a lease under the proposed standard would place a significant burden on both the numerous shippers and the pipeline owners. Examples of such would include the following:

- Significant systems revisions would be required to capture and measure activity associated with each shipper in the context of lease accounting.
- Understand the interaction of this accounting with that of ASC 980, “Regulated Operations” for this industry.
- The potential creation of significant differences between GAAP accounting and that permitted by the FERC for rate making purposes.
- Understand the potential risk of creating a substantial amount of lease income for businesses that are operated in the form of a Master Limited Partnership under which rental income could be rendered as unqualified pursuant to current US income tax regulations.

The accounting for these transportation contracts as executory contracts is well understood by the users of our financial statements and we question the benefit of potentially considering these
service contracts to be leases and the associated complexities of applying lessor accounting and explaining the reporting to shareholders, analysts, credit rating agencies and other users of our financial statements.

If the boards were to conclude that a non-physical portion of a larger asset could be a specified asset, we believe this significant change in practice should only be made in conjunction with a review of the definition of the right to control the use of a specified asset. Specifically, a definition of control consistent with the proposed revenue recognition standard where control in a leasing context would be defined as the ability to direct the use of an asset and the ability to receive the benefits from the use of an asset. Considering this approach, it may be less likely that a customer could control a non-physical portion of a larger asset, which we believe is the appropriate conclusion.

Right to Control

We believe the right to control the use of a specified asset should be defined consistent with the proposed revenue recognition standard. We believe control should be defined to include both a “power” element (the ability to direct the use of an asset) and a “benefit” element (the ability to receive the benefits from use of an asset). We believe, in addition to the factors listed in paragraph B9(a) of Appendix B to the IASB/FASB Staff Paper (IASB Reference 5E), a critical factor to consider in assessing the ability to direct the use of an asset is which party to the contract controls the physical operation of the asset and which party has the substantive decision making authority regarding such operation. We want to make sure that any element of “deemed control” as contemplated in paragraph B9(b) of Appendix B to IASB Reference 5E would only be appropriate when operation of the asset does not require any substantive decision making or other direction of the asset by the owner of the asset. We believe situations where application of paragraph B9(b) would result in control to be extremely limited.

We appreciate the opportunity to comment on this matter and voice our concerns. We would be happy to provide any additional information you may require or discuss our comments further.

Sincerely,

Ted Timmermans
Vice President, Controller and Chief Accounting Officer
Williams