October 28, 2019

Mr. Shayne Kuhaneck  
Acting Technical Director  

File Reference: 2019-780  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116


Dear Mr. Kuhaneck:

The Edison Electric Institute (EEI) and the American Gas Association (AGA) appreciate the opportunity to comment on the Financial Accounting Standards Board’s (FASB or Board) Exposure Draft, Debt (Topic 470) Simplifying the Classification of Debt in a Classified Balance Sheet (Current versus Noncurrent) (hereafter the “Exposure Draft”).

EEI is the association that represents all U.S. investor-owned electric companies. Our members provide electricity for 220 million Americans and operate in all 50 states and the District of Columbia. As a whole, the electric power industry supports more than 7 million jobs in communities across the United States. In addition to our U.S. members, EEI has more than 60 international electric companies as International Members, and hundreds of industry suppliers and related organizations as Associate Members. Organized in 1933, EEI provides public policy leadership, strategic business intelligence, and essential conferences and forums.

AGA, founded in 1918, represents 202 local energy companies that deliver clean natural gas throughout the United States. There are more than 70 million residential, commercial and industrial natural gas customers in the U.S., of which almost 93 percent – more than 65 million customers – receive their gas from AGA members. AGA is an advocate for natural gas utility companies and their customers and provides a broad range of programs and services for member natural gas pipelines, marketers, gatherers, international gas companies and industry associates. Today, natural gas meets almost one-fourth of the United States’ energy needs.
EEI and AGA regularly work together on projects of mutual interest and impact to the energy utility sector broadly, and the comments expressed herein represent the majority view of each organization’s member companies and respond only to certain questions that are most relevant to our members.

We provide comments addressing selected questions in the Exposure Draft below.

1. **Proposed paragraph 470-10-45-23 would preclude an entity from considering an unused long-term financing arrangement (for example, a letter of credit) in determining the classification of a debt arrangement. Would that proposed requirement simplify the guidance without diminishing the usefulness of the financial statements? Why or why not?**

We believe the proposed requirement would diminish the usefulness of the financial statements of companies in the utility industry. Many companies in the electric power and gas utility industry have debt obligations that are associated with master credit facilities and other letter of credit arrangements with non-cancelable terms in excess of one year. These companies do not expect to use working capital during the next twelve months to cover the payment of these obligations, and we believe they are appropriately classified as long-term in the financial statements.

As an example, utility companies often enter into “remarketed” long-term financing arrangements issued in cooperation with local governmental jurisdictions. The outstanding debt under these arrangements has a maturity beyond one year but typically is “remarketed” by an agent at various dates (e.g., daily or weekly) so as to take advantage of then-current interest rates. Such remarketing may also be required in order to maintain tax-exempt status for the debt. These types of arrangements serve to provide low-cost financing for capital improvements in the jurisdiction served by the utility. Instances in which the agent is unable to remarket the debt are rare, and the issuer maintains long-term credit facilities backing the debt should that occur, although those facilities typically are not contractually linked to the debt.

In consideration of the substantive long-term nature of such financing vehicles in our industry, we do not support the proposal to preclude an entity from considering an unused long-term financing facility in determining the classification of a debt arrangement. We disagree with this aspect of the Exposure Draft for conceptual, economic, and practical reasons.

Conceptually, the proposal’s simplified definition of noncurrent liabilities conflicts with the principle underlying the existing definition of current liabilities. Paragraph BC20 notes that the Master Glossary defines current liabilities as “obligations whose liquidation is reasonably expected to require the use of existing resources properly
classifiable as current assets, or the creation of other current liabilities” (emphasis in original). The remarketed financing arrangements described above rarely, if ever, are settled prior to their contractual term. Further, if such a rare circumstance were to occur, the availability of long-term credit facilities assures that neither existing current assets nor newly created current liabilities would be required for settlement. Therefore, presenting such arrangements as current is not consistent with either the definition of current liabilities or the underlying nature of the arrangements.

Economically, the classification of these obligations as short-term could have a material impact on both current and future rates that regulators authorize our members to charge to our customers for utility service. This could affect both the cost of financing that is capitalized during construction of fixed assets, such as utility plants or gas pipelines, as well as the rate of return provided when such assets are placed in service. In turn, each of these changes would affect the prices our members charge to customers both now and in the future, as explained below.

The significant amount of time it takes to construct utility fixed assets results in utilities incurring carrying costs during construction. As part of the rate-making process, regulators typically require utilities to capitalize such carrying costs through an Allowance for Funds Used During Construction (AFUDC) and to recover such costs only after the fixed assets are used to provide utility service to customers.

This treatment is consistent with GAAP. Accounting Standards Codification (ASC) Topic 835-20, Capitalization of Interest, requires all entities to capitalize debt financing costs as part of the construction cost of fixed assets. For regulated utilities, the capitalization of financing costs is governed by ASC Topic 980-835, Regulated Operations, Interest, which allows a regulated utility to capitalize the cost of construction as if it were financed partially by debt and partially by equity (AFUDC).

The Federal Energy Regulatory Commission (FERC) provides a uniform method to determine the debt and equity components used to calculate the AFUDC rate, and state utility commissions typically follow the basic concepts of the FERC method. Under this method, utilities are required to use a “waterfall” approach, which assumes that the utility’s construction work in process (CWIP) is financed first by short-term debt obligations. After these short-term obligations are exhausted, the calculation of AFUDC assumes that the remaining CWIP is financed with long-term debt and equity in a ratio that is determined by the regulator to be reflective of the utility’s capitalization structure. Thus, the Exposure Draft’s proposed requirement to classify debt obligations associated with master credit facilities and other letters of credit with terms in excess of one year as short-term would impact the AFUDC calculation.
Additionally, this change would affect utility companies’ authorized rate of return on assets that are used to provide service to existing customers. To the extent that debt is classified as “short term” and excluded from the calculation of that rate, existing customers would pay different (higher or lower) costs for utility service than if the classification and resulting components of the AFUDC and cash rates of return had been left unchanged. Changing the split between capitalized versus current returns, in turn, would affect the important regulatory principle of intergenerational equity under which customers pay the cost of assets which are being used to provide them service.

Practically, we believe this proposal would diminish the usefulness of electric and gas utility financial statements. Users of the financial statements would need to evaluate disclosures in order to be able to determine which short-term debt obligations the company would have to meet in the next twelve months through the use of working capital rather than relying on the classification of such obligations on the face of the financial statements. We note that at least one financial statement user on the Small Business Advisory Council (paragraph BC28c) and some members of the Not-for-Profit Advisory Council (paragraph BC28d) expressed similar concerns.

6. The objective of this project is to reduce the cost and complexity for preparers and auditors when determining whether debt should be classified as current or noncurrent in the balance sheet while providing financial statement users with more consistent and transparent information. Given the additional changes in this revised proposed Update, will that objective be achieved? For example, would the expected benefits of the proposed amendments justify the expected costs? Why or why not?

We believe that the change in classification of debt obligations that are associated with master credit facilities and other letters of credit, such as remararked debt described above, would provide minimal potential benefits that are not justified by the cost. Long-term financing arrangements such as those described above were structured based upon existing rules for determining the classification of debt. Those provisions have been utilized broadly and consistently in the utility industry. The conceptual, economic, and practical concerns we have described will unnecessarily impose costs on our industry’s stakeholders if obligations that are substantively long-term in nature must be reclassified as short term under GAAP.

By contrast, we believe the potential benefit from such simplification is minimal. Many areas of accounting and financial statement presentation require professionals to exercise judgment. For debt obligations associated with master credit facilities and other letters of credit with terms in excess of one year, little judgment is required. We do not believe the potential reduction of costs and complexity for preparers and auditors
that might result from changing the classification of remarketed debt justifies the costs that will result from the concerns described above.

If the FASB ultimately adopts the proposals in the Exposure Draft, we disagree with the transition provision in proposed ASC Topic 470-10-65-1c, which would require application to all debt that exists as of the balance sheet date upon adoption. It would be costly (and perhaps not even possible) to restructure those arrangements for this subsequent change in the classification rules upon which issuers and financial statement users have relied. Therefore, if the final standard would require such arrangements to be classified as current, we request that FASB grandfather debt arrangements such as those described above that exist as of the date of adoption, allowing them to continue to be classified as noncurrent.

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EEI and AGA appreciate the opportunity to provide our input on the Exposure Draft. We would be pleased to discuss our comments and to provide any additional information that you may find helpful.

Very truly yours,

/s/ Richard F. McMahon, Jr.

Richard F. McMahon, Jr.
Senior Vice President, Edison Electric Institute

/s/ Matthew Kim

Matthew Kim
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