Ameren Missouri's
Response to MPSC Data Request
EO-2015-0055
Ameren Missouri's 2nd Filing to Implement Regulatory Changes in Furtherance of Energy Efficiency as Allowed by MEEIA

Data Request No.: MPSC 0008 W Payne

Please provide copies of all documents reviewed by Ms. Barnes or Mr. Hoffman regarding the applicable accounting rules for booking revenues associated with "alternative revenue programs" as part of their preparation for providing surrebuttal testimony in this proceeding. The documents provided may exclude any materials that are part of the record in Case No. EO-2015-0055 (i.e., copies of testimony or attachments to testimony, the Company's 2016-18 EEP, etc.).

RESPONSE: (Do not edit or delete this line or anything above this. Start typing your response right BELOW Date.)
Prepared By: Lynn Barnes/Clifford Hoffman
Title: Vice President Business Planning and Controller, Ameren Missouri/Witness
Date: May 28, 2015

Ms. Barnes reviewed the following:

1. ASC-980-605-25.
2. Rebuttal Testimony of Mark Oligschlaeger and Geoffrey Marke in this docket.
3. Mark Oligschlaeger deposition in EO-2012-0142.
4. Lynn Barnes and Steven Ditman testimony in EO-2012-0142.
5. Excerpts from PwC "Guide to Accounting for Utilities and Power Companies" (attached).

Mr. Hoffman reviewed the following:

1. 2014 Ameren Annual Report on Form 10k for the year ended December 31, 2014.
2. U.S. Securities and Exchange Commission Codification of Staff Accounting Bulletins-Topic 13: Revenue Recognition.
3. Testimony of Lynn Barnes and Steve Ditman in Missouri Public Service Commission File number EO-2012-0142.

Staff Exhibit No. 716
Date 7-21-15 Reporter TL
File No. EO-2015-0055

4. Sarbanes-Oxley Section 302: Disclosure Controls which mandates a set of internal procedures designed to ensure accurate financial disclosure.

5. Sarbanes-Oxley Section 906: Criminal Penalties for CEO/CFO financial statement certification.

6. Testimony of Mark Oligschlaeger and Geoffrey Marke in Missouri Public Service Commission File number EO-2015-0055.

All of these documents are available at the Commission or via the SEC's website, with the exception of the PwC document, which is attached.

the exact determination of a particular element of the rate setting process. Precisely where in this spectrum a regulatory asset may cease to be or become probable of recovery is a matter of facts and circumstances, requiring judgment. Given the uncertain outcome of litigation of final rate orders, it would be rare for costs subject to an unfavorable decision in a rate order, and for which a regulated utility intends to pursue recovery through the courts, to meet the current probable recovery tests necessary for deferral.

17.3.3 Specific Considerations for Certain Types of Regulatory Assets

The recognition and measurement of regulatory assets should be evaluated within the framework described above and by incorporating a regulated utility's facts and circumstances. However, there are specific considerations for certain types of regulatory assets as discussed in the following sections.

17.3.3.1 Alternative Revenue Programs

In addition to traditional billing based on cost-of-service revenue, regulators may also authorize alternative revenue programs. These programs can generally be segregated into two categories:

- Type A—Rate normalization plans that adjust billings for the effects of weather abnormalities, broad external factors, or to compensate the regulated utility for demand-side management initiatives. For example, many states have rate decoupling programs in place that provide the regulated utility with the right to a fixed amount of revenues for the year or a fixed amount per customer, irrespective of usage (or some variation), to address fluctuations in revenue due to weather or consumption.
- Type B—Incentive programs that provide for additional billings (incentive awards) if the regulated utility achieves certain objectives, such as reducing costs, reaching specified milestones, or improving customer service.

Both types of programs enable regulated utilities to adjust rates in the future (usually as a surcharge applied to future billings) in response to past activities or completed events. These programs can reduce volatility in earnings (important to regulated utilities and their investors) and rates (important to ratepayers) and can be tailored to accommodate specific objectives.

ASC 980-605-25-1 through 25-4 address the accounting for these programs and provide for current revenue recognition under certain limited circumstances.

ASC 980-605-25-4

Once the specific events permitting billing of the additional revenues under Type A and Type B programs have been completed, the regulated utility shall recognize the additional revenues if all of the following conditions are met:

a. The program is established by an order from the utility's regulatory commission that allows for automatic adjustment of future rates. Verification of the adjustment to future rates by the regulator would not preclude the adjustment from being considered automatic.

b. The amount of additional revenues for the period is objectively determinable and is probable of recovery.

c. The additional revenues will be collected within 24 months following the end of the annual period in which they are recognized.

These conditions establish a high threshold to recognize revenue prior to billing and collecting amounts from customers. Due to the specificity of the guidance, a program must comply with all of the criteria to permit revenue recognition. For example, we believe recognition by a regulated utility would be precluded if it does not have a specific rate order providing for the alternative revenue program. An assessment that it is probable the regulator will adopt an alternative revenue program based on historical practice would not be sufficient to support recognition.

Similarly, a regulated utility should carefully assess the amount of revenue to be collected under a program as well as the collection period in concluding on the appropriateness of revenue recognition. The condition for recognition indicates that "revenues will be collected." If there is any uncertainty about whether the amounts will be collected, this criterion would not be met.

Question 17-7: What is the impact on recognition of alternative revenue when collections extend beyond 24 months following the end of the annual period?

PwC Interpretive Response

ASC 980-605-25-4(c) requires collection of the additional revenue within 24 months following the end of the annual period in which the revenue is recognized. In some cases, an alternative revenue program may explicitly provide for collection of revenues over a period that extends beyond 24 months after the end of the regulated utility's fiscal year. Other programs may allow for future collection of amounts that were not initially collected within 24 months.

We believe there are alternative ways to account for the revenue under a regulator-approved alternative revenue program that includes collections extending beyond 24 months after the end of the regulated utility's fiscal year, but that otherwise meets the recognition criteria in ASC 980-605-25-4. A summary of potential approaches is included in Figure 17-5 and further described below.

Figure 17-5: Summary of Approaches to Accounting for Alternative Revenue Programs When Revenues Are Collected Over a Period Greater Than 24 Months

Approach	Recognition
All or nothing	• Because all the criteria are not met at inception of the program, revenue is not recognized until billed.
Partial revenue recognition	• Recognize revenue for amounts that will be collected within 24 months of the end of the annual period. • Amounts that will be collected beyond 24 months are recognized when billed or when the criteria for alternative revenue programs are met (i.e., when collection will occur within 24 months of the end of the annual period).
Hybrid approach	• Revenue is recognized as billed until all of the criteria for recognition are met (i.e., recognize as billed until the time when all amounts remaining will be collected within 24 months following the end of the annual period).

Factors to consider in determining the appropriate approach include:

- *All or nothing approach*

  Under this approach, a reporting entity would conclude that the alternative revenue recognition criteria are not met if any amounts will be collected beyond the 24-month permitted period. Supporters of this approach believe that the guidance in ASC 980-605-25 is prescriptive in nature, requiring all of the criteria to be met at the inception of the program. They believe recognition under the alternative revenue guidance is not permitted if any recovery extends beyond the period specified in the guidance. As such, revenue should be recorded as amounts are billed to the customers. This approach may be especially appropriate when there is uncertainty about the timing of collection.

- *Partial recognition*

  Under this approach, the regulated utility recognizes all revenue that qualifies under the guidance. That is, the regulated utility would recognize revenue that will be collected within 24 months of the fiscal year-end. Any amounts that will be collected beyond that period would be recognized when billed or, alternatively, when the amounts qualify under the guidance (i.e., at the time when the amounts will be collected within 24 months of the fiscal year-end). For example, if under the program, amounts will be collected over four years, a reporting entity would initially recognize the revenue that will be collected within two years. Amounts to be collected in the third and fourth year would be recognized as billed or, alternatively, when the amounts qualify.

- *Hybrid approach*

  Similar to the all or nothing approach, supporters of this view focus on the specific requirements under the guidance in ASC 980-605-25. However, under the hybrid approach, revenue would be recognized once all of the criteria are met, even if that occurs partway into the program. For example, if under the program, amounts will be collected over four years, amounts would be recognized when billed during the first two years. Amounts to be collected within the third and fourth year would be recognized once they will be collected within 24 months of the fiscal year-end (i.e., at the beginning of the third year). This approach requires judgment in the timing of recognition and may be difficult to administer.

We believe any of these approaches are acceptable when accounting for revenue from an alternative revenue program. The choice of approach is a policy decision that should be consistently applied and disclosed.

Type A programs are generally intended to compensate a regulated utility for fluctuations in revenue due to changes in consumption; therefore, depending on the program, the amounts to be collected may cover a portion of the regulated utility's cost of service. In such circumstances, a question arises as to whether it is appropriate to recognize a regulatory asset for incurred costs pursuant to the general guidance on regulatory assets under ASC 980.

Given the judgment involved, consultation with the Accounting Services Group in the National Professional Services Group should be considered when evaluating the appropriateness of recognizing a regulatory asset for incurred costs associated with a Type A program. If an engagement team chooses to consult, it should also consider notifying the U.S. Power and Utilities Assurance Leader. Because Type B programs are typically incentive programs not intended to recover cost of service, recognition of a regulatory asset under the general guidance of ASC 980 with respect to this type of program generally would not be appropriate.

Question 17-8: How should a regulated utility consider undercollections or other changes in the timing of collections in determining revenue recognition under an alternative revenue program?

PwC Interpretive Response

As described in the response to Question 17-7, there are different acceptable approaches to accounting for a Type A alternative revenue program when collections are expected to occur beyond 24 months. Unless the "all-or-nothing" approach is applied, regulated utilities should closely monitor the potential for "stacking" of undercollections (due to multiple years of decoupling) or extended periods of undercollections. If collections are delayed beyond the original period, regulated utilities should assess whether amounts continue to qualify for recognition. In addition, an extended period of rollover due to lower than anticipated collections may impact a regulated utility's ability to continue to recognize amounts in the future.

17.3.3.2 Pension and Other Postemployment Benefit Plans

ASC 715, *Compensation—Retirement Benefits* (ASC 715), provides guidance on employers' accounting for defined benefit pension and other postemployment benefit (OPEB) plans, and requires full balance sheet recognition of the funded status of those plans with an offset to accumulated other comprehensive income for any deferred amounts (i.e., unrecognized prior service cost and unrecognized actuarial gains and losses). ASC 715 is applicable to all reporting entities, including regulated utilities. PwC's *Accounting and Reporting Manual* 4270 and ARM 4380 provide information on accounting by employers for defined benefit pension and OPEB plans, respectively.

In accounting for pension and OPEB plans, a regulated utility should consider whether it is appropriate to record a regulatory asset to offset the liability recognized as a result of applying ASC 715 (in lieu of recognizing a charge to other comprehensive income). Figure 17-6 summarizes positive factors that should be considered in making this assessment.