May 27, 2016

Mr. David R. Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
Project 3-24E
401 Merritt 7
Norwalk, CT 06856-5116

Dear Mr. Bean,

CPS Energy appreciates the opportunity to provide comments on the exposure draft related to leases. Historical reporting requirements for leases have resulted in financial statements that lack comparability for financial statement users. The proposed guidance in the exposure draft provide improvements in comparability and transparency of government financial statements, and CPS Energy is supportive of this effort.

There are, however, certain areas of the proposed guidance in response to which CPS Energy would like to provide comments.

**Scope and Applicability**

The proposed guidance could significantly affect public power utilities with regards to the perceived applicability to contracts including purchased power agreements (PPAs) and other similar commodity purchase contracts. CPS Energy has been monitoring discussion related to impact of FASB’s lease guidance on the accounting and reporting requirements for PPAs and similar commodity purchase agreements. We are concerned that without language in GASB’s lease guidance to specifically exclude such contracts, there will result a lack of clarity regarding the applicability of the proposed guidance and/or the promulgation of reporting practices that will not accurately reflect the true economic nature of the impact of PPA and similar transactions in a utility enterprise. We request that the Board add language to the proposed lease guidance to make clear that PPAs and similar commodity purchase contracts are not included in the scope of the standard.

**Lease Term**

We are concerned about short term leases with evergreen clauses and the significant discretion that may be required by governments to appropriately interpret lease term for purposes of applying the guidance, as proposed. The inclusion in determination of lease term of renewal periods may also be problematic in that the financial terms for renewal periods are not always defined as part of the lease agreements prepared for the initial term. The uncertainty or absence of these terms will require use of estimates that will need to be re-analyzed and potentially re-measured on a lease-by-lease basis at each reporting period.
The consequence will be significant added complexity and burden to manage reporting according to the proposed requirements in this exposure draft.

In consideration of these observations, we request that the inclusion of "reasonably certain" extensions after the noncancelable period be reconsidered by the Board.

**Contracts with Multiple Components**

We are concerned about the practicability of identifying each component within a multi-component lease, the separate accounting and reporting of each underlying lease asset or liability, and the extensive related disclosure requirements. Many lease agreements do not break out the multiple components and in many cases it will not be practical to measure the lease component and the service component separately. This requirement of the proposed guidance will result in a potentially material increase in resources needed by governments to meet the GASB lease reporting requirements. We request that the Board consider permitting a government to choose an alternative and more expedient method of accounting for multi-component leases, such as was offered by FASB in ASC 842.10.15.37.

**Impact on Financial Statements**

As a municipally owned utility that operates in the competitive ERCOT market, CPS Energy is concerned that some of the reporting requirements for individual leases could result in a compromise to the Company's ability to protect agreements, maintain competitive bargaining advantage in negotiating future lease agreements and provide the best value to our customers.

We are also concerned that the potential significant adjustment to affected balances on our Statement of Net Position resulting from the retroactive implementation of these proposed requirements may have an adverse effect on debt covenant calculations, liquidity metrics and other key financial statement measures. We request that the implementation date for this new standard be established to permit governments adequate time to measure these impacts and address their concerns with debt rating agencies, regulators, etc.

**Conclusion**

CPS Energy would like to see clarity on these issues and others presented by the GASB community before this exposure draft is finalized. Again, we would like to express our gratitude to GASB for allowing the GASB community to provide feedback on this very important exposure draft prior to its implementation.

We appreciate GASB's efforts in preparing the exposure draft and express our gratitude for the opportunity to respond. Should you require additional information, please feel free to phone me at 210.353.2523, or contact me by email at gwgold@cpsenergy.com.

Sincerely,

Gary Gold
Interim Vice President Financial Services