

FASB ASC 606: Revenue Recognition Panel Discussion

Track 5 and 6: Gathering & Processing – Session 3

April 5, 2018

Presented by:

John Weems, Quorum

Mark Hobbs, Oneok

Julie Mensing, DCP



Objectives

ASC 606 – What is it?

General overview of the FASB regulations

How does ASC 606 affect the midstream business?

Panel speakers share their perspectives and work to meet the requirements

Discussion

Audience participation required with open questions and discussion

Agenda

- 1** Introduction & Overview: John Weems

- 2** Panel Speaker: Mark Hobbs, Oneok

- 3** Panel Speaker: Julie Mensing, DCP

- 4** Questions/Open Discussion

Introduction & Overview

John Weems, TIPS Product Manager



ASC 606: Introduction & Overview

- May 2014
 - The Financial Accounting Standards Board (FASB) & International Accounting Standards Board (IASB) jointly issued a converged standard on the recognition of revenue from contracts with customers.
- June 2014
 - FASB and IASB announced the formation of the Joint Transition Resource Group for Revenue Recognition (TRG). Their objective is to inform the board about potential implementation issues.
- Amendments to follow
 - ASU No. 2015-14, “Deferral of the Effective Date”
 - ASU No. 2016-08, “Principal versus Agent Considerations (Reporting Revenue Gross Versus Net)”
 - ASU No. 2016-10, “Identifying Performance Obligations and Licensing”
 - ASU No. 2016-12, “Narrow-Scope Improvements and Practical Expedients”

ASC 606: Introduction & Overview

What is it?

“The core principle of Topic 606 is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.”

FASB ASC 606-10-05-3 through 05-4 and 606-10-10-2 through 10-4

What does it mean?

- Meant to clarify & standardize the principles for recognizing revenue for all companies (public and private) across all industries
- Goals:
 - Remove inconsistencies in revenue requirements
 - Provide a more robust framework for revenue issues
 - Improve comparability of revenue practices across all companies, industries, and markets
 - Improve information for users of financial statements with improved disclosure requirements
 - Simplify preparation of financial statements

ASC 606: Introduction & Overview

Scope

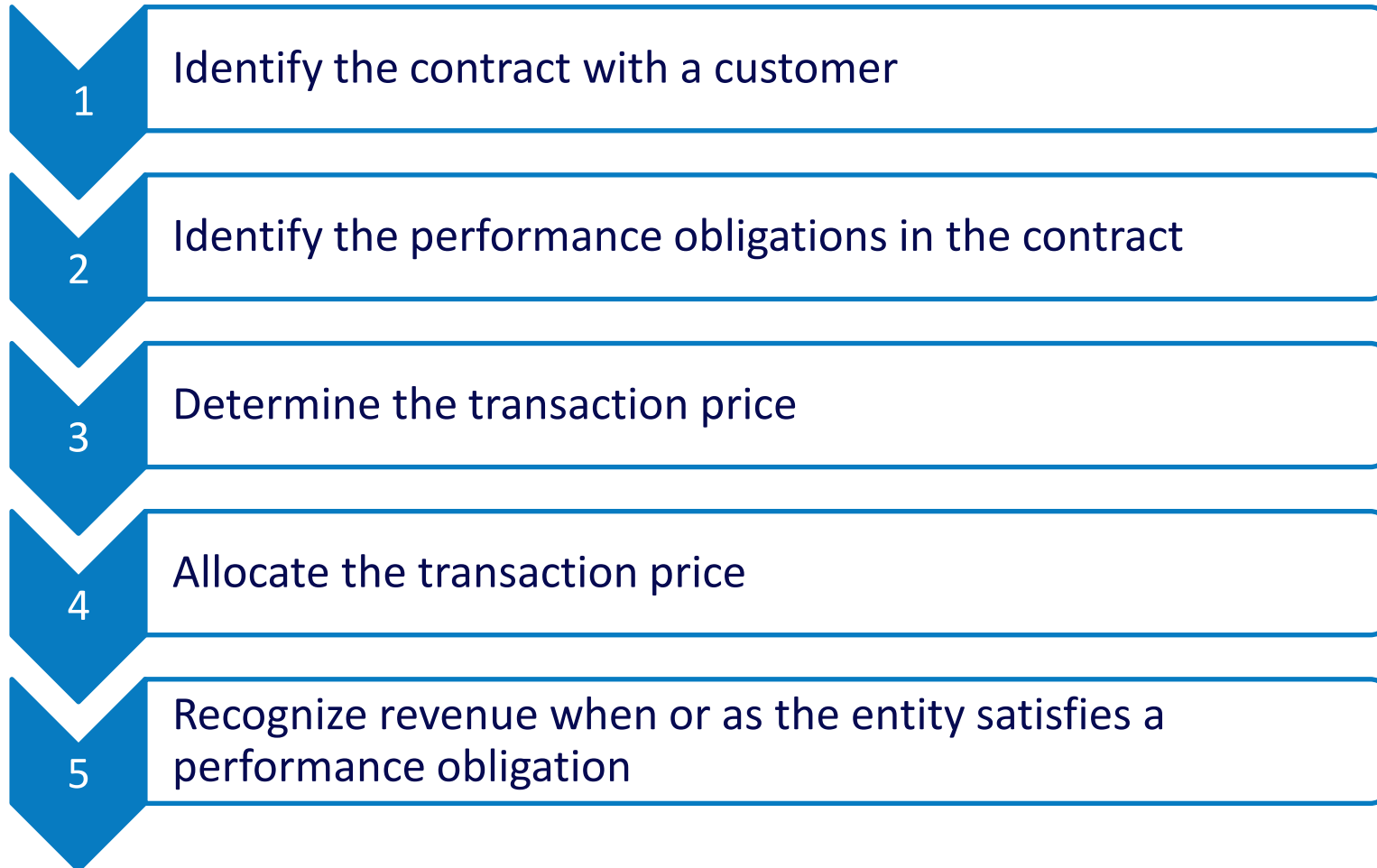
- Companies that enter into contracts with customers to transfer goods or services
- All entities: public, private, and non-profit
- AICPA (American Institute of CPA's) has created several task forces, by industry, to identify unique requirements; however, there is not one for midstream.

“Go Live”

- December 2017
 - Implementation for Public Companies
- December 2018
 - Implementation for Private Companies

ASC 606: Introduction & Overview

Steps to achieve the core principle of Topics 606



ASC 606: TIPS Effects

- ASC 606 affects systems downstream of TIPS (i.e. Financial Accounting Systems)
- All known work done to date pertaining to TIPS:
 - Client Reports
 - Journal Export Process Changes
 - User Custom Fields
 - Journal Entry Control Setup Alteration
- To date, there have been no core enhancements made to TIPS to accommodate ASC 606
- Speculative Areas for Enhancement:
 - Settle: Fee Grouping
 - Journal: Dynamic Account Setup
 - Journal: New Keywords

Oneok

Mark Hobbs

Business System Specialist



Disclaimer

The information included in this presentation represents how ONEOK and our external auditors interpret the new revenue recognition standard. This may or may not be the same interpretation compared with other companies.

Overview of New Revenue Recognition Standard

If ownership exists, i.e. take title to the gas at the wellhead, the fees charged are not considered revenue. Instead, these fees are considered a reduction of purchase price. If title is not taken, i.e. TIK and Service/Gathering contracts, then the fees charged are considered revenue.



New Revenue Recognition Standard

As It Applies to Oneok

1. We identified the types of contracts as Supplier (ONEOK owned) or Customer (TIK, Service/Gathering Agreements).
2. We then generated a report from TIPS that looks at the customer contracts which have the Customer Contract box checked on the Contract Extension screen.
 - **Customer Contract Fees** - reported as normal fee revenue
 - **Supplier Contract Fees** - reported as a cost of goods sold
 - **Service/Gathering Agreement Fees** – no change because those fees already go to revenue when the invoices get booked

TIPS Contract Extension Screen

Customer Contract Indicator

Explorer
Tips [TIPSG.qrmtips - OCC] - [OKE10565] - [TIPS CONTRACT EXTENSION]

System Edit View Facility Meter Contract Monthly Global Reg Reporting Query Imbalance Gathering Maintenance Window Help

Contract Number: 900400 [...] ...

Effective Date: 12/1 /2017 [v] Open Ended [...] Imbalance Gathering Netback Pricing

General | Classifications | Statement | Gathering Attributes | Agents | Imbalance | **User-Defined** | Defaults

	Field	Value	...	Value: (TO if range input, Selector if Multi input)	...	Description
1	LU CAP %					
2	LU ROLLING AVG MONTHS					
3	LU GATHERING SUB CAT (MAX OF 2 BUCKETS)					
4	LU WARNING %					
5	Customer Contract	<input checked="" type="checkbox"/>				IS THIS CONTRACT CONSIDERED A CUSTOMER CONTRACT?
6	USER DEFINED 6					
7	USER DEFINED 7					
8	USER DEFINED 8					
9	USER DEFINED 9					
10	USER DEFINED 10					
11	USER DEFINED 11					
12	USER DEFINED 12					

Query More >>> All Update Help Links Close

For Help, press F1 NUM

Customer Contract Fees Report

Customer Contract Fees

Plant:400

Accounting Date:01/01/2018

Production Date:01/01/2018

Producer Fees

Contract Number	Meter Number	Fee Type	Collection Method	Volume	UOM	Amount
900400	DU11919	CMPR	Producer	1,797.41	1,797.41	448.68
900400	DU11918	CMPR	Producer	8,383.23	8,383.23	2,092.69
Total:					10,180.64	2,541.37

Contract Number	Meter Number	Fee Type	Collection Method	Volume	UOM	Amount
900400	DU11339	COMP	Producer	1,025.35	1,025.35	273.02
900400	DU11348	COMP	Producer	766.07	766.07	203.98
900400	DU11865	COMP	Producer	2,800.67	2,800.67	652.52
900400	DU11890	COMP	Producer	3,283.32	3,283.32	819.61

DCP

Julie Mensing

Senior Director, Accounting



ASC 606 impact – DCP Midstream

- Logistics & Marketing
 - Derivatives
 - Gas & NGL product sales
 - Service arrangements
- Gathering & Processing
 - Consideration of control
 - Purchase-only contracts
 - Mixed services consideration
- Overall topics
 - Reimbursable projects
 - Minimum volume commitments
 - Other issues considered



ASC 606 – DCP's Implementation

Process changes

- Controls –contract set-up/review procedures will include specific review for classification of vendor vs. customer contracts
- Minimum volume commitments – establish quarterly review of contracts with minimum volumes to determine timing of revenue recognition
- Reimbursable projects – PP&E accounting will have additional procedures to ensure appropriate GL mapping for vendor vs. customer contracts
 - Use of additional fixed asset type to record balance sheet and income statement activity separately from PP&E

System changes

- TIPS enhancement – consideration of two different general ledger coding strings based on customer vs. vendor contract type
- QCM - Utilization of existing indicator to capture minimum volume commitment contracts to easily query population

Objectives: Revisited

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