

United States Department of Agriculture Rural Development Washington, DC 20250

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Technical Director – File Reference 1099-001 Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, Connecticut 06856-5116

Director:

The Rural Utilities Service (RUS) appreciates the opportunity to submit written comments regarding the Proposed Interpretation, Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143. RUS is an Agency of the United States Department of Agriculture, empowered by the Rural Electrification Act of 1936 (RE Act), as amended, to provide financing to Rural America for the purpose of furnishing and improving electric, telecommunications, and water and sewer services. RUS provides financing for the construction of plant to approximately 700 electric cooperatives and municipalities and to approximately 800 telecommunications companies and cooperatives.

RUS, as a Federal lender and mortgagee, and in furthering the objectives of the RE Act has a legitimate programmatic interest and a substantial financial interest in requiring adequate records be maintained by entities borrowing from RUS. For this reason RUS requires, through its standard security instrument, borrowers in the electric and telecommunications loan programs maintain their books, records and accounts in accordance with methods and principles of accounting prescribed by RUS in the RUS Uniform System of Accounts (USoA). For electric borrowers, this USoA incorporates the USoA prescribed by the Federal Energy Regulatory Commission with modifications, and for telecommunications borrowers, the USoA incorporates the USoA prescribed by the Federal Communication Commission with modifications. These systems of accounts represent a considerable reliance on Generally Accepted Accounting Principles (GAAP). RUS requires each of our 1500 telecommunications and electric program borrowers to have an annual audit prepared by an independent certified public accountant.

In reviewing this proposed interpretation, we believe it should be revised to clarify the accounting for non-legal costs of removal. The exposure draft provides good examples of determining the timing of legal liabilities under FASB Statement No. 143 (SFAS No. 143). However, the exposure draft brings to the forefront

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problems that GAAP has contradictory accounting for what is essentially a single activity - retirements. Example #2 in the exposure draft related to the retirement of wood poles. This is a very good example for the utility industry and it illustrates the problem that we have with the exposure draft and SFAS No. 143.

The exposure draft and SFAS No. 143 have addressed the accounting for an item when an obligation exists – special disposal of chemically treated wood poles. The exposure draft and SFAS No. 143 rely on FASB Concept Statement 6, Definitions of Liabilities, to address how to account for the costs. The problem lies in expanding the argument which states that if the liability does not exist, then the costs should not be accounted for by an entity. We believe this excludes other accounting principles such as matching and the use of estimates in a systematic and rational allocation of costs.

What is essentially a single activity – a retirement of a pole, now requires a legal analysis and several accounting "rules."

The exposure draft recognizes that the poles will eventually need to be removed and disposed of and that no poles will last forever. Yet, the costs of the legal obligation will be recorded over the life of the plant and the non-legal costs are to be ignored and would only be period costs at retirement.

SFAS No. 143 did address how regulated utilities may establish a regulatory liability to account for the non-legal costs when rates are designed for recovery of such costs over the asset life. But this only adds to the problem of multiple "rules" of accounting for essentially a single activity. Regulated entities are not the only industries that have non-legal retirement costs that should be recovered. In addition, what is regulated in one state may be non-regulated in a neighboring state.

There are many interpretations on this issue. Recently, the AcSEC committee attempted to address non-legal costs of removal in its proposed Statement of Position on Property, Plant and Equipment. This was not adopted by the FASB for a variety of reasons, but it was developed by the committee after SFAS No. 143 was issued and we can look to it for demonstrating the problems the accounting industry is having interpreting the "rules" rather than principles in accounting for costs of removal.

The AcSEC proposal stated that removal costs were the last costs in the life cycle of an asset and should remain associated with the removed asset rather than being capitalized into the cost of the replacement asset. The proposed SOP also stated that the costs of removal could be expensed as incurred or built into salvage value in depreciation calculations (but not to exceed salvage values).

Although, AcSEC attempted to establish a principle, it would have also established a "rule" in that non-legal costs of removal would have been recorded

as part of depreciation rates but only up to a net offset with salvage proceeds. From discussions with the AcSEC project manager; this was done intentionally because they believed under SFAS No. 143 only legal asset retirement obligation liabilities could be recorded on the balance sheet. Therefore, the "rules" for non-legal costs of removal were as follows:

- 1) If a legal retirement obligation exists, SFAS No. 143 should be applied and a liability established, with costs being allocated over the life of the asset
- 2) If no legal liability exists, costs may be period costs or may be used to offset salvage and included in depreciation rates
- 3) If a non-legal liability exists for a regulated utility, #2 above will apply unless the rate regulator provided for recovery of costs in the rates and a regulatory liability would be established

Although the exposure draft on the financial interpretation was intended to address the timing of recording a liability, we believe the interpretation should be expanded so that a clear instruction should be provided using the matching principle in addition to the definition of a liability. This will provide a consistent principle that can be used across all industries. All the costs of providing services for manufacturing a product should be included in the income statement over the useful life of the asset. This would be accomplished by including non-legal costs of removal as a component of depreciation and included in the accumulated depreciation on the balance sheet. If the removal costs of the asset are immaterial they may be a period cost when incurred. By clarifying this, all industries would be accounting for similar costs in a similar way using principles rather than "rules."

We would again like to express our appreciation at the opportunity to submit these written comments regarding your Proposed Interpretation, Accounting for Conditional Asset Retirement Obligations.

Sincerely,

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Assistant Administrator

Program Accounting and Regulatory Analysis