



Letter of Comment No: 19  
File Reference: 1099-001

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Mr. Lawrence Smith  
Director – Technical Application and Implementation Activities  
File Reference No. 1099-001  
Financial Accounting Standards Board  
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**Subject: Comment Letter Regarding Accounting for Conditional Asset Retirement Obligations**

Dear Mr. Smith:

American Electric Power Company, Inc. (AEP) appreciates the opportunity to respond to the Financial Accounting Standards Board's (FASB or the Board) Exposure Draft (ED) of a Proposed Interpretation, *Accounting for Conditional Asset Retirement Obligations*, dated June 17, 2004. AEP, a Columbus, Ohio based global energy company, is one of the largest investor-owned utilities operating in the United States, with revenues of over \$14 billion and more than 22,000 employees. We provide energy to approximately 5 million customers in Arkansas, Indiana, Kentucky, Louisiana, Michigan, Ohio, Oklahoma, Tennessee, Texas, Virginia and West Virginia.

We support the Board's efforts to promote consistent application of accounting principles; however, we do not believe this interpretation is necessary, for several reasons. As discussed in more detail below, we believe the basic guidance in the ED reiterates FASB Statement No. 143, *Accounting for Asset Retirement Obligations* (FAS 143) requirements, and provides examples that are contradictory and cannot be applied consistently. In addition, we believe the examples could lead an entity to record a liability when its legal counsel has determined it does not have a current legal obligation.

*Issue 1:* The Board concluded that the uncertainty surrounding the timing and method of settlement should not affect whether the fair value of a liability for a conditional asset retirement obligation would be recognized but rather, should be factored into the measurement of the liability. Do you agree with the Board's conclusion? If not, please provide your alternative view and the basis for it.

We agree that for those situations where a legal obligation exists, uncertainty in timing and method of settlement should be factored into the measurement of the liability, as already required by FAS 143. FAS 143, paragraph A14, states "Uncertainty about the timing of settlement of the asset retirement obligation does not remove that obligation from the scope of this Statement but will affect the measurement of a liability for that obligation (refer to paragraph A16)." Also, FAS 143, paragraph A17, states that a conditional obligation to perform a retirement activity is within the scope, and uncertainty about whether performance will be required does not defer recognition, but should be factored into the measurement of the fair value. Since the ED reaffirms existing GAAP, its value is questionable. The Board should not determine whether a reporting entity has a legal liability or not.

**Issue 2:** The Board concluded that all retirement obligations within the scope of Statement 143 that meet the definition of a liability in Concepts Statement 6 should be recognized as liabilities. Concepts Statement 6 states that a liability has three essential characteristics. The second characteristic of a liability is that the duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice. The Board decided that the ability to indefinitely defer settlement of an asset retirement obligation or the ability to sell the asset does not provide the entity discretion to avoid the future sacrifice, nor does it relieve the entity of the obligation. Are there instances where a law or regulation obligates an entity to perform retirement activities but allows the entity to permanently avoid settling the obligation? If so, please provide specific examples.

While we do not know of a specific example of a legal retirement obligation that can be permanently avoided, we believe that in many cases if the settlement can be deferred indefinitely it will not be possible to estimate the fair value (as FAS 143, paragraph A16, provides), and the obligation will be disclosed as required by paragraph 22 of FAS 143. We believe the determination whether sufficient information is available to estimate fair value should be made by the reporting entity based on the facts and circumstances of each case.

Impracticality of Examples 2 and 4

We do not believe that Examples 2 and 4 in the ED are differentiated enough to be applied practically. We believe that just as the oil company in Example 4 could not estimate the fair value of its obligation to dismantle and dispose of the refinery because of an indeterminate useful life, the telecommunications entity in Example 2 may not be able to estimate the fair value of its obligation to dispose of wood poles in accordance with special procedures, because the life of its integrated system is also indeterminate with proper maintenance and replacement. There is also no objective evidence on the life of a power or telecommunications system.

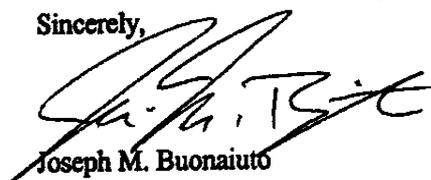
Existence of a Legal Obligation – Examples 1 and 2

For asbestos and poles treated with certain chemicals, we do not believe there is an existing legal obligation associated with the retirement of an asset, and thus FAS 143 is not applicable, based on the scope defined in FAS 143, paragraph 2. The Board should not attempt to replace an entity's legal judgment as to whether there is a liability. Concepts Statement 7 is used only to measure the liability, not determine if one exists. The Board must allow for professional judgment in determination of liabilities based on actual, not hypothetical, facts and circumstances. We are concerned that the examples in the ED could effectively require an entity to record a liability when its corporate legal review determined there was no legal obligation. For example, a building with asbestos could be abandoned and retired from service without triggering a legal requirement to remove the asbestos. Conversely, a requirement to remove asbestos could be triggered by renovations made prior to retirement of the asset. Similarly, a pole could be removed from service and stored, or sold for another use, without triggering a legal liability. If the Board is concerned that an asset's value may be overstated, as indicated in Example 1, we believe that is a possible impairment issue under FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, rather than a FAS 143 issue.

We do not believe this ED will advance the Board's principles-based agenda. However, if the Board believes otherwise, Examples 1 and 2 should be clarified so they pertain only to instances where the reporting entity has determined a legal liability exists.

Thank you for the opportunity to comment on this proposal.

Sincerely,



Joseph M. Buonaiuto