



May 24, 2006

**BY E-MAIL** (director@fasb.org)

Financial Accounting Standards Board  
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**Re: Comments to the FASB's Exposure Draft on Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans (FASB File No. 1025-300)**

Puget Energy, Inc. ("PSD" on the NYSE) is a public utility holding company. Puget Energy's wholly owned subsidiary Puget Sound Energy, Inc. (PSE) is the largest electric and natural gas utility serving customers in Washington State.

PSE has sponsored a qualified defined benefit pension plan for its employees and retirees for over 45 years and offers post-retirement medical and life insurance benefits to certain classes of its retirees.

PSE believes it has a responsibility to properly fund its post-retirement plans and to account for plan expenses using appropriate actuarial assumptions. The company also supports straightforward and robust disclosure of post-retirement benefit plans in financial statements.

The fair value of PSE's qualified pension plan assets presently exceeds the plan's accumulated benefit obligation and projected benefit obligation. PSE has VEBA and 401(h) trusts established to fund its post-retirement medical and life insurance plans.

PSE's primary concerns with the FASB amending Statements 87, 88, 106 and 132R are:

1. The changes should not unnecessarily threaten the continuation of benefit plans sponsored by PSE or other U.S. businesses.
2. New accounting guidance should not be overly complex as is the case with many recently issued FASB pronouncements (FAS-133/149, FIN-46, FAS-123R). The investing public is not well served if issuers and investors are unable to reasonably understand the FASB's pronouncements or when readers can not comprehend disclosures. We believe it is important to always be mindful that few financial statement readers are practicing CPA's, actuaries or financial statement preparers.

3. The changes should not compromise a plan sponsor's ability to issue timely financial statements. Since plan sponsors of larger pension plans use multiple investment managers to achieve investment diversification, compiling pension asset value information at a reporting date in time for an early earnings release would be impossible for many, if not most, companies. This would be an acute issue for companies with pension plans invested in funds where the fair value of assets takes time to compute (venture capital funds, certain hedge funds, real estate investment trusts, etc.). Also, are valuation actuarial service providers adequately staffed in the US to provide defined benefit plan valuation reports using only one measurement date for calendar year companies or will this change be a cause for further delaying issuance of financial results?
4. The changes should not make computation of deferred taxes problematic when a funding status difference amount is recorded as a liability of a reporting entity. How would an entity assess the net realizable value of a related deferred tax asset under various scenarios? This will likely be an area of significant concern to issuers and auditors. We believe the large public accounting firms will be providing specific comments to the FASB on this matter.

Puget Energy is supportive of the FASB issuing a final statement by September 2006 requiring plan sponsors to recognize the over funded or under funded status of defined benefit post-retirement plans in financial statements. We, however, believe when determining the over or under funded status of plans, an entity should consistently measure the difference between the fair value of plan assets and the accumulated benefit obligation for all plans. The use of a projected benefit obligation for pension plans would be inconsistent with other plans under the FASB's exposure draft guidance. Puget Energy believes the use of an accumulated benefit obligation in determining the funding status at a balance sheet date better measures the true liability or funding excess and would be in keeping with the FASB's definition of a liability under Concept Statement No.6.

The current conceptual framework under discussion for a later phase of this FASB project is flawed and will be unnecessarily detrimental to U.S. employers, employees and retirees. Specifically, recognizing current actuarial gains/losses in net period benefit plan expenses of a plan sponsor without smoothing ignores the fundamental long term nature of defined benefit plans and the fact plan sponsors do not legally own special purpose benefit plan funding trusts. For PSE, many employees have 25+ years of service prior to retirement and continue as a beneficiary for 25+ years. PSE is typical of many defined benefit plan sponsors in our industry and other industries.

A plan sponsor's obligation is to fund benefit plans that generally have a very long duration. Year-to-year returns on trust assets of most plans vary significantly and would have little, if any, impact on benefit plan funding levels if target returns are achieved over the long term. PSE uses a current return on pension plan asset actuarial assumption of 8.25%, which management believes is appropriate given the asset allocation of the fund

and historical experience. Year-to-year returns inherently vary significantly as the following table shows in PSE's most recent experience:

<u>Year</u>	<u>Calendar Year Return</u>
2005	+10.5%
2004	+13.3%
2003	+23.3%
2002	-9.7%
2001	-5.8%

Thank you for the opportunity you have made available to respond to your proposals and for consideration of our comments. If you have any questions, please free to contact me at (425) 462-3135 or [jim.eldredge@pse.com](mailto:jim.eldredge@pse.com)

Sincerely,



James W. Eldredge  
Vice President  
Corporate Secretary and Controller