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VIA E-MAIL to director@fasb.org, File Reference No. 1025-300



May 26, 2006

LETTER OF COMMENT NO. 64

Technical Director – File Reference No. 1025-300
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Subject:

Proposed Statement of Financial Accounting Standards
Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans

WPS Resources appreciates the opportunity to submit comments on the exposure draft "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." WPS Resources is a Fortune 500 company with regulated and nonregulated subsidiaries providing electric and natural gas products and services in several states as well as portions of Canada. Our pension plans and other postretirement benefit (OPRB) plans cover approximately 5,000 participants.

Our management team understands the need for transparent accounting and reporting and supports FASB's efforts to improve the value and relevance of financial information reported to the users of financial statements by revisiting the decisions made 20 years ago in developing SFAS Nos. 87 and 106. However, we have significant concerns about the proposed statement of financial accounting standards, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Benefit Plans," which would amend SFAS Nos. 87, 88, 106, and 132(R):

- **Recognition of the initial transition asset / obligation as an adjustment to retained earnings.** This treatment of the transition asset / obligation from the initial implementation of SFAS Nos. 87 & 106 will prevent these costs from ever running through the income statement. This could potentially prevent entities in a regulated environment from recovering these costs from ratepayers.
- **Implementation costs and effective dates.** While the direct costs of implementation of the proposed standard are not expected to be significant, we anticipate that indirect costs will be significant. We believe it would be beneficial to combine the two phases of the pension project into one and to delay implementation of the standard.
- **Retrospective application.** We believe the changes required by the new standard should be applied prospectively.

- ***Pension liability measure.*** The accumulated benefit obligation (ABO) – the current value at the measurement date of benefits earned to date by our current and former employees – is the most appropriate measure of the market value of pension liabilities. Use of the ABO to determine balance sheet recognition is a logical extension of the current SFAS No. 87 additional minimum liability rules. It would also improve comparability among companies. Using ABO, my company’s balance sheet liability for a 40-year-old employee who has earned a benefit of \$10,000 per year payable starting at age 65 would be the same as any other company’s balance sheet liability for a 40-year-old employee with the same accrued benefit – a logical and consistent result. Using PBO, different companies’ balance sheet liabilities for identical participants with identical accrued benefits will vary according to whether the pension plan is frozen, flat dollar, career pay, or final pay – a result that defies logic. A temporary use of the PBO as a balance sheet liability could be reversed on reconsideration in Phase II, but needless damage to companies and plans will already have occurred. For these reasons, the ABO, not the PBO, should be used to determine any required balance sheet recognition.
- ***Liability measure for other postretirement benefits.*** The accumulated postretirement benefit obligation is not an appropriate balance sheet liability measure for retiree medical benefits and OPRBs that the employer can unilaterally eliminate.
- ***Measurement date.*** The proposed standard would require entities to measure the defined benefit plan obligation as of the balance sheet date. Although we are currently following this practice, we are concerned about a potential lack of actuarial resources at critical times if all companies are required to use the statement date as the measurement date.

Our concerns regarding these issues are detailed below.

Recognition of the initial transition asset / obligation as an adjustment to retained earnings

We do not agree with the proposal for companies to recognize the currently unrecognized transition obligation (net of taxes) as an adjustment to retained earnings. Changing the amortization of this transition obligation would create inconsistency with other amortizations (actuarial gains/losses, prior service costs, etc...) that will still be allowed after Phase I is implemented. This accounting change for the transition obligation would be especially difficult for entities subject to cost-based regulation, such as regulated utilities. To the extent these charges never make it to a company’s income statement, utilities subject to cost-based regulation and rate-making will theoretically never recover from their ratepayers the transition obligations previously allowed in rates. To ensure cost recovery continues fairly, regulated entities would be required to go back to their respective regulators to request the appropriate treatment. This would be a very time consuming process and, in most cases, would span multiple jurisdictions. We hope this entire subject of transition obligations will be reconsidered. At a minimum, we ask the FASB to delay implementation of such a proposal so that regulated entities will have time to obtain a ruling from each of their respective Commissions.

Implementation Costs and Effective Dates

It is true that the cost to gather the necessary information to comply with the proposed standard is not significant in most cases; however, it is **not** true that the benefits of the proposed standard outweigh all of the costs. The implementation of the proposed standard will require considerable incremental indirect costs, not all of which are one-time costs. In particular, we will incur costs to change our incentive plans that are based on return on equity, communicate with investors to explain the changes to our balance sheet reporting, modify our internal control processes, and discuss the changes with our regulators in order to gain approval for regulatory accounting treatment of the additional liabilities that will be booked so that our costs can be recovered through the utility rate-making process. Because of the unique issues in a regulated environment, regulated entities will most likely incur more costs than entities in other industries. Additionally, this is a two-phase project that will in effect double the costs involved to implement as well as add to the confusion through multiple changes to financial statements. With respect to the benefits, the FASB has indicated one of the chief results from this proposed standard would be to provide clarity into a company's funding status of pension plans. The proposed standard would not provide that clarity in all cases and could in fact prove to be more confusing. Given this lack of clarity combined with all the direct and indirect incremental costs, the benefits of the proposed standard do not outweigh the costs of implementation.

We encourage the FASB to consider postponing the effective date of the proposed standard. In addition to the incremental costs associated with the proposed changes, implementation will also require a significant amount of time and effort. Entities operating in a regulated environment will need even more time to present these changes to their regulators, and that time will be doubled with the completion of the second phase of this project. Furthermore, the FASB might wish to consider whether the discount assumption used to determine the pension obligation should be made consistent with the standards emerging from the fair value measurement project. For these reasons, we believe it would be beneficial to combine the two phases of the pension project into one and to delay implementation of the standard.

Retrospective Application

We do not believe mandatory retrospective application (restatement) is warranted. The SEC holds the view that financial statements prepared under U.S. GAAP in any year are correct as reported and generally should not be revised except in rare circumstances or to correct errors. We do not feel the changes proposed in the exposure draft rise to the level contemplated by the SEC when forming its view regarding financial statement revisions. Accordingly, we believe companies should apply the changes prospectively, accompanied by appropriate disclosures.

Pension Liability Measure

Mandating the PBO for use as a balance sheet liability in phase I of the project preempts the outcome of conceptual issues that the Board is expected to address when it considers measurement issues in phase II. We believe that the Board may reasonably conclude, in its phase II deliberations, that the PBO is inappropriate and may substitute the ABO or some other measure that is often less than the PBO. We think that the Board should review this measurement issue before going forward with the mandate. Our reasons are as follows:

1. *Inclusion of the effect of future salary increases in a liability appears to be in conflict with Concept Statement 6.* Paragraph 36 of Concept Statement 6 provides, as follows: “A liability has three essential characteristics: (a) it embodies a present duty or responsibility to one or more other entities that entails settlement by probable future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand, (b) the duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice, and (c) the transaction or other event obligating the entity has already happened.” With respect to clause (c), we note that the existence of a defined benefit plan does not create an obligation to increase pay in the future.

2. *Including future salary levels misrepresents the value of the contract.* We assume that salary and total compensation are under the control of employer and employee, and that salaries are set to keep total compensation competitive. So long as both parties stick to ABO pricing, both parties emerge each year with a fair exchange. Increases in pension value can be easily coupled to increases in compensation.

Consider what happens with PBO pricing. The employer will have “paid” more than the employee will have “received” for a year of service. The employer may freeze or terminate the plan and take a curtailment gain. This moral hazard, from the employee’s point of the view, is only avoidable if there is an enforceable multi-period contract between the employer and the employee, which is typically not the case.

3. *Including future salary levels in pension liabilities does not provide shareholders with the most relevant information about the current value of their obligations.* Balance sheet liabilities presumably represent shareholders’ economic obligations as of the statement date. Unless an obligation to increase future pay levels exists, beyond the level of competitive rates, there appears to be no justification for including the value of future salary increases directly in the balance sheet.

Is there any reason to treat salary increases differently if the preparer sponsors a final-pay defined benefit plan? The plan, if not amended, will pay benefits indexed to pay, but the plan sponsor makes no commitment to increase the pay itself. An employer that commits itself to providing competitive total compensation has not committed itself to recognizing future pay increases by offering a defined benefit plan. PBO accounting would force recognition of future salary increases for sponsors of defined benefit plans but not otherwise, a distinction for which we see no justification.

4. *The PBO cannot be settled while the ABO can.* Since pay is under the control of the sponsor, no insurance company will accept an obligation to pay benefits based on future pay levels to be set independently by the annuity purchaser. Settlement accounting under SFAS 88 appears to recognize that only the ABO can be settled. The lack of marketability of the excess of PBO over ABO is a strong indication of the lack of economic substance to the PBO.

5. *Recognition of the ABO is consistent with use of the accumulated postretirement benefit obligation (APBO) under SFAS 106 for eligible employees and retirees.* The APBO includes an allowance for postretirement health care cost inflation. Unlike salary escalation in a pension plan, however, health care cost inflation is outside the employer’s control. Thus, based on the contractual exchange, fair value, and settlement theories outlined above, using the ABO under SFAS 87 would be compatible with using the

APBO for eligible employees under SFAS 106. (As discussed later in this letter, we do have issues with use of the APBO as a measure of the OPRB liability, that are unrelated to this point.)

6. *Recognition of the ABO is a reasonable extension of accounting under SFAS 87.* The excess, if any, of the value of the ABO over the fair value of assets is recognized in the balance sheet in some cases. It would be a logical extension of current practice to require that the difference between ABO and fair value of assets be the balance sheet entry in all cases while eliminating the intangible asset.

7. *Some historical comments on the PBO.* In a traditional final-pay plan, the increase in value of the accrued benefit for each unit of pay raise increases rapidly with increasing age and service. In order to recognize the ultimate projected benefit more evenly over an employee's career, actuaries devised the projected unit credit method (PUCM) many years ago as one means of ensuring a relatively level contribution flow in a final-pay plan. By design, the PUCM attributes more cost than the benefit earned in the early years, and less cost than the benefit earned in the later years. Mathematically, the consequence is to build up a reserve in excess of the value of accrued benefits.

When the PUCM is used as an actuarial funding method, the PBO is an intermediate result in the determination of the contribution and is not inherently meaningful by itself. In 1985, FASB adopted the PUCM as the only acceptable cost allocation method. However, the PBO remained an intermediate result that appeared only in the footnotes, except in the limited context of purchase accounting.

One reason given for moving the PBO (net of assets) to the balance sheet is that it would merely confirm what FASB had in mind in 1985 and get rid of the objectionable "off balance sheet" implications of current accounting. We do not think it is so simple. In 2006, placing the PBO on the balance sheet would not simply straighten out today's bookkeeping; it would significantly change it and should be so treated.

8. *Purchase accounting.* We note that the unfunded PBO is recognized as a liability by an acquirer under Paragraph 74 of SFAS 87. Consistent with the views expressed previously, we believe it is the unfunded ABO that should be recognized and hope the Board will address this matter at an appropriate time.

Other Postretirement Benefits Liability Measure

We do not believe that the APBO is an appropriate measure of the OPRB liability. The APBO may be appropriate for long-term budgeting or expense, but it is not a "market value" of liabilities. Because OPRB plans can be unilaterally reduced or eliminated, their APBO does not meet the definition of a liability under Concept Statement 6. Including the entire APBO for all OPRB plans on the balance sheet would vastly overstate the company's OPRB liability. Non-pension postretirement benefits are fundamentally and substantively different from pension benefits and raise significant measurement issues that should be considered before introducing balance sheet recognition.

Measurement Date

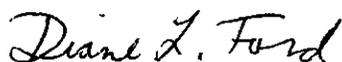
We believe FASB should retain current provisions which permit companies to use a measurement date up to three months earlier than the balance sheet date. Our position is based on practical considerations. Changing the measurement date to require valuations as of the balance sheet date would place an unreasonable burden on actuaries to compile the necessary information in time for all companies to

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understand, analyze, and incorporate this information into financial statements, especially with the accelerated SEC filing deadlines. Although we currently do measure our liability as of the balance sheet date, we are concerned that the actuarial community will experience difficulty absorbing the workload required by the change. Actuarial resources could be strained, especially for companies such as us with a December 31 year-end, when many more companies are expecting this information all at the same time. We believe that this change would increase the chance of material errors in financial statements without materially improving the accounting. Plus, basic economics and the laws of supply and demand could push up prices for the services of actuaries during the new peak times created by this change.

We appreciate your consideration of these comments. Please contact me if you have any questions or would like any additional clarification regarding our comments.

Sincerely,

A handwritten signature in cursive script that reads "Diane L. Ford".

Diane L. Ford
VP - Controller and Chief Accounting Officer
920-433-1453