

Mississippi Public Service Commission

Jackson Office
P.O. Box 1174
Jackson, MS 39215-1174
1-800-356 6429, (601) 961-5440



Hattiesburg Office
1-800-231-1257
Biloxi Office
1-877-502-1153

Michael D. Callahan
Commissioner

Letter of Comment No: 131
File Reference: 1082-200
Date Received: 09/11/02

September 4, 2002

Ms Suzanne Q. Bielstein
Director Of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
Post Office Box 5116
Norwalk, CT 06586-5116

Re: Consolidation of Certain Special-Purpose Entities,
an interpretation of ARB Number 51, File Reference No.
1082-200

To the Members of the Financial Accounting Standards Board:

The Mississippi Public Service Commission (Commission) has "exclusive original jurisdiction" over Mississippi Power Company's (MPC) electric business and property in the State of Mississippi. MPC is an electric public utility serving approximately 190,000 retail customers in 23 counties in southeast Mississippi. This Commission is charged with assuring that their rates and charges for services are just and reasonable, that service rendered is reasonably adequate, and that any facilities, including generating facilities, constructed or acquired are required for the convenience and necessity of the public.

We have been extremely interested in the Board's project concerning transactions with Special Purpose Entities (SPE) and would like for you to consider our comments on that project. Our interest stems from the probable effect the project will have on decisions we have made after considerable inquiry and deliberation, seeking to determine that the best interest of Mississippi's electric consumers is served.

Approximately four years ago, this Commission granted to MPC a Certificate of Public Convenience and Necessity authorizing construction of over 1,000 megawatts of generating capacity. We decided that the Company's entering

into a leasing arrangement with an independent entity to finance the construction was in the best interest of MPC and its customers. We then ordered that MPC proceed with this method of financing the new generation. This decision was reached after in-depth consideration of all of the facts and consequences of the plant and its financing alternatives.

In December 2001, we concluded a detailed rate case to review the impact of the generating plant on the retail customers of MPC and to consider allowing MPC to include the lease and other appropriate expenses in its customers' rates. The costs to be included in these rates incorporates the costs and benefits of the lease arrangement. During this rate-making process, the benefit of this lease arrangement to MPC's ratepayers was again reviewed in detail by the Mississippi Public Utilities Staff as well as various intervenors. The savings to MPC ratepayers resulting from this lease was a key consideration in our decision to include these costs in rates.

In the 1980s, this Commission was the first state commission in the nation to adopt performance-based ratemaking for electric utilities. Those rate plans, as well as other steps we have taken, have encouraged the utilities under our jurisdiction to be cost-conscious and to search aggressively for means to reduce costs and improve service. This requires a partnership to help solve customers' problems, reduce customers' costs and help make customers more competitive—in essence to add customer value. MPC and this Commission have worked together to institute many beneficial programs which have contributed to the ability of MPC to provide reliable electric service at rates well below the national average.

The addition of over 1,000 megawatts of capacity for MPC was an enormous undertaking for a company of MPC's size, increasing by nearly 50 percent the electric generating capability of the Company. From the beginning, this Commission urged MPC to attempt to minimize the financial impact that adding this new generation would have on its customers. MPC's leasing arrangement was proposed and approved by us since it would provide substantial savings to MPC's customers in the form of lower revenue requirements for rates when compared to traditional financing.

Like everyone else, this Commission has been watching the post-Enron events with great interest. We recognize that these events have caused a "ripple effect" within the accounting industry with respect to the accounting treatment of certain transactions. Recently, the Board issued its proposed interpretation on "Consolidation of Certain

Special-Purpose Entities.” This Commission is extremely interested and concerned about this proposed interpretation. Based on our current understanding, the proposed accounting interpretation would require consolidation of many existing SPEs as the result of applying this proposed interpretation on a retroactive basis. Such retroactive application to MPC’s leasing arrangement for its new generation will undoubtedly add additional costs that were not contemplated when the transactions were closed and were not included in the rates MPC is currently allowed to charge its customers.

Rate-regulated companies that have these structures in place are in a unique situation. Utilities subject to our jurisdiction are required to follow generally accepted accounting principles. The Commission, in turn, uses their GAAP-based financial results in setting rates. We are mandated to balance the interests of the utilities and our constituents to ensure that all stakeholders are treated fairly and not subjected to unnecessary costs. Retroactively applying new accounting interpretation to existing “off balance sheet” transactions that have already been reviewed, approved and incorporated into customers’ rates – and which fully conformed to the then-current accounting standards – penalizes both the utility and its customers without creating any offsetting benefits.

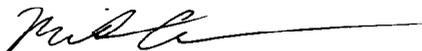
Applying the proposed accounting rules to MPC’s existing lease arrangement would require MPC to either: 1) consolidate that entity on its balance sheet and recognize the appropriate financial implications or 2) restructure the transaction to meet the new accounting standard. Either alternative would change the original economics and financial statement recognition of the lease arrangement, and would result in significant cost increases to MPC, which would then be the subject of further proceedings before this Commission regarding recovery of these costs from its customers.

We understand and appreciate the Board’s need to review the accounting for special purpose entities. However, we strongly believe and recommend that the Board give significant consideration to existing structures, particularly those involving regulated utilities, when adopting any change to the current SPE accounting rules. SPE transactions such as the one involved with MPC, involving regulated utilities, have undergone rigorous review and have been the subject of in-depth disclosure to the public. We strongly believe such a transaction should be given separate consideration and should at least be provided “grandfather status” by the Board. To do otherwise would produce unintended negative consequences to the

utilities and their customers. The primary objective of MPC's lease arrangement and the underlying reason for our approval of that arrangement was that it benefited MPC's customers in the form of lower rates. A retroactive application of new rules seems inappropriate in this case, considering the regulatory process and oversight that this transaction has seen.

We appreciate the opportunity to express our views to the Board on this important issue. If you would like to discuss this matter further, please contact this Commission.

Sincerely,

A handwritten signature in cursive script, appearing to read "Michael Callahan", followed by a long horizontal line extending to the right.

Michael Callahan, Chairman
Mississippi Public Service Commission