



Energy East Corporation

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Technical Director  
Financial Accounting Standards Board  
of the Financial Accounting Foundation  
401 Merritt 7  
PO Box 5116  
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LETTER OF COMMENT NO. 104

Re: File Reference No. 1025-300  
Proposed Statement of Financial Accounting Standards  
*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R)*

To Whom It May Concern:

We appreciate this opportunity to provide comments on the Exposure Draft (ED) issued on March 31, 2006, by the Financial Accounting Standards Board (Board) concerning proposed changes in accounting for and disclosures about defined benefit and other postretirement plans. We support the Board's efforts in addressing this complex issue and its objectives to improve reported financial information and promote the presentation of financial statements that are more complete and easier to understand.

While we agree with many of the positions taken in the ED, we have several concerns about the Board's project including:

- the use of the projected benefit obligation (PBO) rather than the accumulated benefit obligation (ABO) to measure pension plan liabilities in the first phase, and
- the two-phase approach to addressing concerns and implementing changes.

As further explained in the attachment to this letter, we believe the use of the PBO and a two-phase approach are at odds with many of the Board's stated objectives.

Again, we appreciate the opportunity to comment on the ED and are available to discuss our concerns with Board members or staff at your convenience.

Sincerely,

RDK/08/sd

## **Attachment**

### ***Concern about use of the PBO rather than the ABO***

Our concern about the use of the PBO to measure pension plan liabilities is that it does not accurately represent an entity's pension liability since the PBO is determined using assumptions as to future years of service and compensation levels. We believe a more accurate measure of the pension liability would result from the use of the ABO because the ABO is determined based on service compensation levels to date. According to Statement of Financial Accounting Concepts No. 6, *Elements of Financial Statements*, a liability has three essential characteristics: (a) there is a present duty or responsibility to at least one other entity *involving 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*. An amount based on the PBO does not meet the first characteristic of a liability because an entity has no present duty or responsibility to transfer assets in excess of the ABO at the balance sheet date. This is evidenced by the fact that the PBO could not be settled with a third party, whereas the ABO could be settled with a third party. Concerning the second characteristic, the duty or responsibility does not obligate the entity for any amount in excess of the ABO and the entity has wide discretion concerning the PBO because it could revise its plan to reflect a flat-benefit or non-pay-related pension benefit formula. The third characteristic is not met with respect to the PBO because any contemplated pay increases have not yet occurred and, since the employer-employee relationship is "at will", such pay increases might not occur.

We understand that the Board plans to address in the second phase of this project the remaining issues not addressed in the first phase. Such issues might include addressing delayed recognition of various periodic cost elements, benefit cost reporting, liability measurement and consolidation of plan assets. Liability measurement would involve, among other considerations, determining if the PBO or the ABO (or some other actuarial valuation) is the more appropriate measure of pension plan liability. We believe it is premature in the first phase to require that the pension plan liability be measured using the PBO, considering that the basis for the liability measurement might change in the second phase of the project. This leads to our next area of concern.

### ***Concerns about the two-phase approach***

We believe that the Board should hold to its stated goal in this project to "*comprehensively* reconsider the accounting for postretirement benefits" and that a two-phase approach does not accomplish that goal. If the first phase goes forward and a final Statement is issued requiring an entity to use the PBO to measure its pension plan liability, it is conceivable that *this conclusion could be reversed in the second phase and the ABO or some other actuarial valuation could be determined to be a better measure of the pension plan liability*. This could lead to more than one revision of financial statements for the same component. Another item that could change in the second phase of the project is the recognition of actuarial gains and losses. The second phase will address how unrecognized actuarial gains and losses are determined and how they are to be recognized and affect earnings. It would be regrettable and inefficient if conclusions reached in the first phase of the project were to be changed in the second phase. The costs to implement changes required in a *two-phase approach might well be double or more than those that would be incurred as compared to a single, comprehensive approach*.

Energy East Corporation is the parent of various rate-regulated utilities, and the changes proposed in this ED could have profound effects on each company's rate base and return on equity, *embedded cost of capital, cost deferrals, cost of service, and cost-sharing and earnings-sharing calculations*. Those companies will need to negotiate with their regulators for cost recovery concerning the effects that the final changes will have (which they have not yet fully evaluated). If this project continues following a two-phase approach, they would need to negotiate again for cost recovery concerning the effects of any changes that would result in the second phase. Again, as noted in the paragraph above, it would be regrettable and inefficient if a conclusion reached in the first phase were to change in the second phase, requiring renegotiation of matters that had previously been settled.

In addition, we understand that some entities may incur other costs including, for example: legal fees to prepare and amend documents such as By-Laws, if decreases in equity were to affect their ability to pay dividends; additional fees to lending institutions or higher interest rates to amend credit agreements or loan covenants; and the hidden cost of a lower credit rating as a result of a reduction in equity. The Board's two-phase approach may result in such costs being incurred unnecessarily or more than once, which is again regrettable and inefficient.

*About Energy East: Energy East is a respected super-regional energy services and delivery company that our customers can depend on every day. We are a motivated and skilled team of professionals dedicated to creating shareholder value through our focus on profitable growth, operational excellence and strong customer partnerships. We serve about 3 million customers throughout upstate New York and New England.*