



Oklahoma Municipal Power Authority is a wholesale electric producer, currently using the accrue-in-advance method to account for major overhaul costs on generating assets. The following are our comments related to the FASB Staff Position on accounting for planned major maintenance activities

Addressing the issue of the accrue-in-advance method resulting in the recognition of a liability that does not meet the definition of a liability in FASB Concept Statement #6. The following are the essential characteristics of a liability per FASB Concept Statement #6:

*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.*

Characteristic (a) requires the liability to “embody a present duty or responsibility...that entails settlement”. In legal terms this would be an obligation to pay a specific party or parties. By strict definition, accrual-in-advance may not meet this definition. When considering the financial substance of the transaction and its effect on current financial position, the liability created under the accrue-in-advance method may be a far more accurate measurement. Accrue-in-advance allows for true matching of expenses (and liabilities) to the periods in which they occurred.

Characteristic (b) requires “the duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice”. From a practical standpoint, major overhaul costs cannot be avoided, and in some cases they are strictly regulated. Whether accrue-in-advance meets this portion of the definition would depend on the intent of the applying party.

Characteristic (c) requires “the transaction or other event obligating the entity has already happened”. The accrue-in-advance method provides a measurable result in the period in which it occurs, and the resulting expense and liability are matched to that period.

In conclusion, aside from the definition of liability issue, we believe that the accrue-in-advance method of accounting for major maintenance activities is a financially sound method of accounting. When considering an entities financial position and results of operations, this method provides the most accurate matching of costs to the period in which they were incurred.

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