

SOUTHWEST GAS CORPORATION

LETTER OF COMMENT NO. 15%

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BY E-MAIL (director@fasb.org)

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

Re: File Reference No. 1025-300

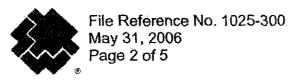
Southwest Gas Corporation (SWG) respectfully submits the following comments related to the Proposed Statement of Financial Accounting Standards – Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. SWG comments are provided in direct response to specific sections of the Proposed Statement and, where applicable, references those sections.

Overall Comments

This proposed standard appears to be in response to recently experienced economic conditions (low interest rates and asset returns). Consequently, the Financial Accounting Standards Board (FASB) has altered its own due process approach in an attempt to address these short-term events. The proposal acknowledges this by postponing many of the difficult and truly important decisions until phase two. When phase two is complete, it is likely that many of the phase one decisions will be superseded, effectively creating a short-term financial reporting morass, which will ultimately have to be clarified and modified. SWG believes the FASB should continue with current accounting requirements and disclosures until a well thought out and fully vetted approach to accounting for postretirement benefits (i.e., phase two) is undertaken. This model has served the FASB well over the years, and should not be abandoned on such an important and significant accounting change.

Proposed Standard Comments

Summary (p. v-vii) – The FASB conclusion that existing standards on postretirement benefits (PB) fail to report the current economic funded status of plans in the statement of financial position is founded on the assumption that the



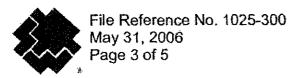
Projected Benefit Obligation (PBO) is the best measure of a plan's liability. The Accumulated Benefit Obligation (ABO), which is used to record the additional minimum pension liability, is already a conservative measure of plan liability since it considers future service for eligibility in its determination.

The Vested Benefit Obligation (VBO) is the true obligation of the company, and therefore the pension plan, because it represents the value of benefits that employees have an irrevocable right to at a point in time. Nonetheless, most financial theorists accept the ABO as a reasonable estimate of plan liability, which companies should recognize in their financial statements, as it essentially approximates the terminal obligation.

The PBO is a hypothetical liability creation that does not meet the essential characteristics of a liability as outlined in FASB Concept Statement No. 6, and therefore is not appropriate for balance sheet recognition. FASB Concept Statement No. 6 provides that liabilities arise as a result of <u>past</u> transactions or events. The PBO includes assumptions about <u>future</u> salary increases and <u>future</u> years of eligibility service, neither of which are certain or obligated by either employer (salary increase) or employee (service).

The PBO calculation does not allow companies to utilize company-specific relevant assumptions about interest rates. All companies are required to use high-quality long-term bonds to determine discount rates (note – this argument is also true of the ABO) even though generally, there is no relationship between such a portfolio and a company's plan. A relevant discount rate for qualified plans with trust assets would consider the investment mix of company assets in its derivation. It would also consider plan specific demographics, such as the ratio of active employees to retirees. Since PBO is a hypothetical calculation, use of discount rates as currently determined is only acceptable in the footnotes, which provide supplemental information to the financial statements, not as a component of the financial statements.

If the FASB decides to make this proposal a final standard, at least one additional year, and preferably two, is necessary for implementation. While it is true that actuarial data is provided currently for inclusion in annual reports, that information is only part of the footnotes. Due to the timing of obtaining necessary information (asset values, salary history, discount rate and other assumptions, plus related balance sheet account balances), the pension footnote is often one of the last components of the financial statement disclosures. Taking that information and rolling it through the financial statements will further complicate the year-end process, especially at a time when many companies are losing 15 days off the time allowed to file year-end SEC reports (from 75 days to 60



days). From a practical standpoint, a delay in the implementation date is crucial while companies and actuaries determine ways of obtaining information faster.

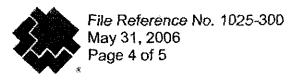
Paragraph 4c. Because actuarial reports for pension plans are rightfully only created annually, this standard will cause significant volatility to fourth quarter financial statements each year. Interim statements will not provide any indication of what is to come in the fourth quarter. Improvements or detriments to previously provided results will not be known for twelve months. To resolve this by requiring quarterly updates is impractical because market and other fluctuations on a short-term basis are generally meaningless. Also, having quarterly actuarial studies done would be costly and time-consuming with the cost undoubtedly outweighing the benefit.

Paragraph 15c. The retained earnings adjustment will be complicated by the fact that portions of prior costs have been capitalized and in certain industries, such as the utility industry, amortized/depreciated over numerous and varying asset lives. Determining the retained earnings adjustment will be a rough estimate at best. As a result, any changes arising from adoption of this standard need to be prospective.

Appendix. The example provided is far too simplistic. It should include a situation with plan changes and capitalization of uncertain amounts of historic periodic pension costs if it is to be useful.

Paragraph B17d. This paragraph implies that the FASB is choosing PBO as the liability measure out of expediency rather than theoretical soundness. In reality, this is precisely why the FASB should not issue this standard at this time. The FASB should embark on the long-term project first to determine the appropriate means of determining the obligation for all plan types, rather than choosing an existing calculation that may need to be changed in phase 2.

Paragraph B17e. This paragraph discusses the apparent conflict between including future compensation in expense and potentially excluding it from the obligation measurement. However, we do not view this as conflicting. Compensation assumptions are included in the expense estimate in order to accrue pension expense ratably over the employee's working career rather than back loading the expense over the employee's later years of service. In essence, this is a conservative measure of expense recognition. As a company, SWG would be indifferent as to whether the expense was back loaded or recorded relatively evenly over the employee's working career. FASB has chosen to smooth. This expense determination does not impact the obligation a company has to its entire employee population at a point in time. This amount is



best estimated by the ABO, which approximates the terminal obligation if the plan were curtailed.

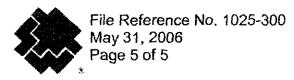
Paragraph B18. This paragraph indicates that the FASB has much work to do before completing this project. SWG believes this additional effort, particularly with regards to how to measure an employer's benefit obligations and related assumptions, must be completed before a new standard can be issued.

Paragraph B28. This paragraph indicates there is a balanced view on whether plan amendments benefit past or future operations. As such, this supports the current practice of amortization only. By charging comprehensive income, there is an immediate current-period impact to equity, which favors the past view over the balanced view.

Paragraph B32. This paragraph indicates how SFAS 106 permitted entities to amortize the transition obligation for postretirement benefits other than pensions (PBOP). Nothing has changed that would suggest this was inappropriate guidance. At SWG, amortization of the pension plan transition obligation has run its course and is now complete, whereas PBOP amortization will last seven more years. Given the long-term nature of these obligations, this amortization is appropriate and should be continued.

Paragraph B36-39. This section dealing with the measurement date fails to address a key practical application issue. Although companies, including SWG, can use the balance sheet date to obtain pension-related footnote disclosures, obtaining this data in time to record financial statement entries will be extremely difficult. Companies should continue to be allowed to utilize a 30 to 90 day difference between their balance sheet date and measurement date if, as proposed, financial statement entries are required. With the SEC reducing the filing deadline for Form 10-K by 15 days for many companies, this will be especially important. Should the FASB move forward with this proposal, companies should be given a one-time option to move their measurement date off of the balance sheet date in order to allow the time needed to obtain accounting data and incorporate it into financial statements.

Paragraph C2o. As mentioned, there is generally no correlation between high-quality bonds and a given pension plan. If a company is required to recognize the funded status of postretirement plans on its balance sheet, then the company should have the freedom to determine an appropriate discount rate. Forcing all companies into a single discount rate determination methodology (when every plan, every company's demographics and asset allocation mix are different) does not reflect the true economics of individual pension plans. In fact, it is this one-



size-fits-all approach in determining discount rates that has primarily fueled concerns (which time may prove unfounded) about the health of defined benefit plans and the companies that sponsor them.

Southwest Gas Corporation thanks you for allowing us this opportunity to shape the financial reporting process with regards to postretirement plans.

Sincerely,

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