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May 31, 2006



LETTER OF COMMENT NO. 113

Ms. Suzanne Q. Bielstein
Director - Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: File Reference No. 1025-300

Dear Ms. Bielstein:

FirstEnergy Corp. appreciates the opportunity to respond to the proposed amendment of Statement of Financial Accounting Standards (SFAS) Nos. 87, 88, 106 and 132(R), "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.*"

FirstEnergy is a diversified energy services holding company with \$31 billion of assets and \$12 billion in annual revenues. Our electric utility operating companies comprise the nation's fifth largest investor-owned electric system, serving 4.5 million electric customers within 36,100 square miles of Ohio, Pennsylvania and New Jersey.

We support the Financial Accounting Standards Board (FASB) in its objective to develop accounting principles that enhance the transparency and relevance of financial statements. However, we have concerns about some of the Exposure Draft's proposed changes and offer the following comments for your consideration.

Implementation Costs

The FASB states that it believes that this proposed Statement will only impact the balance sheet and the costs of implementing the changes will "not be significant because the proposed Statement would not change the basic approach to measuring plan assets, benefit obligations, or annual net periodic benefit cost." This statement would appear to be true for FirstEnergy because we do not anticipate having to amend any of our agreements, our measurement date coincides with our reporting date and, as the FASB points out, all of the information required for adjusting the balance sheet is already disclosed in the footnotes to the financial statements. However, FirstEnergy's costs will increase as a result of needing to obtain quarterly updates from our trustees and actuaries for required quarterly reporting to the Securities and Exchange Commission (SEC). There may also be general professional service cost increases associated with increased resources required to serve clients on a timely basis under the revised measurement date constraints, as discussed further below.

If this proposed Statement is adopted, there are other less obvious impacts that could make this very costly for FirstEnergy. Our regulated utility businesses charge customers rates that are subject to regulatory agency approval and these rates are determined in part based on the level of equity capital. The proposed changes outlined in the Exposure Draft would have reduced FirstEnergy's consolidated equity as of December 31, 2005, thereby reducing FirstEnergy's ratio of equity capital to total capital. The end result in a rate setting context would be an arbitrary reduction in the authorized rate that our regulated utilities could charge for electricity – merely due to the implementation of a revised accounting standard.

Liability Measurement (PBO vs. ABO)

The FASB states in its reasons for issuing this proposed Statement that this proposed Statement will “require an employer that sponsors a defined benefit postretirement plan to report the current economic status of the plan in its statement of financial position, which would eliminate the need for reconciliation in the notes to financial statements.” As prescribed in paragraph 4 of the proposed Statement, recognition of the over- or under-funded status of defined benefit postretirement plans is required to be measured as the difference between the fair value of plan assets and the benefit obligation.

We believe that the use of the projected benefit obligation (PBO) misrepresents current economic status as suggested by the FASB and is not consistent with Statement of Financial Accounting Concepts No. 6 “*Elements of Financial Statements*” (Con 6) due to the inclusion of future compensation increase assumptions. Con 6 defines liabilities as probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events. Future compensation increases are not a present obligation nor do they arise from past transactions. Use of the PBO to measure pension obligations in the balance sheet would be inconsistent with the definition of a liability expressed in Con 6. However, using the Con 6 definition of a liability, the accumulated benefit obligation (ABO) would be a more appropriate measure of pension obligations if they are to be recognized on the balance sheet. Although discount rate variability continues, the ABO is based on service and compensation as of the measurement date, and is more representative of the characteristics of a liability as defined in Con 6.

The difference between liability measures is significant for FirstEnergy's benefit plans that contain long-duration liabilities. FirstEnergy's pension plan liability has a discount rate sensitivity such that every 1% change in the discount rate results in an 11.5% change in the PBO. As of December 31, 2005, FirstEnergy's pension plan obligation assumed a 5.75% discount rate (based on the then current interest rate yield curve) which resulted in a PBO of \$4.75 billion. If the PBO had been measured using a discount rate that approximated the potential future investment returns of FirstEnergy's pension plan assets (9% annual expected return), the resulting liability would have been approximately \$1.6 billion lower. While the propriety of either measure can be debated, the significant spread that exists between results clearly demonstrates the level of uncertainty that exists. When compounded with the uncertainty regarding future compensation levels, we believe the PBO should not be recognized on the statement of financial position.

If the final standard requires recognition on the balance sheet, we recommend that the FASB require the ABO to be used to measure pension and postretirement obligations. The PBO could continue to be disclosed in the notes to the financial statements.

We further believe that the use of the ABO only for eligible employees and retirees is more consistent with Con 6. FirstEnergy's postretirement medical benefits do not vest and can be eliminated at any time, supporting the conclusion that a liability does not exist beyond what has been incurred. As previously noted, Con 6 states that the entity has "little or no discretion to avoid future sacrifice" and "the event obligating the entity has already happened", neither of which applies to FirstEnergy's postretirement medical benefit obligations. If a liability must be recorded, we suggest that it include only those employees who are currently eligible to retire and receive benefits as of the measurement date as well as those that are currently retired. Otherwise, unintended consequences could result from enterprises potentially freezing traditional pension plans and eliminating postretirement medical benefit plans.

Employer's Measurement Date

As prescribed in paragraph 5 of the proposed Statement, the measurement date will be required to be the same as the date used to consolidate the statement of financial position. FirstEnergy is currently using the same date for measurement as for consolidation; therefore, it would appear that we will not be impacted by this change. However, given the deadlines for filing consolidated annual reports, plan sponsors and their consultants may encounter difficulty in gathering precise asset and liability values for all of their clients' postretirement benefit plans. Eliminating a non-fiscal year-end measurement date will only exacerbate this problem. Asset values at fiscal year-end are frequently not available from trustees for several weeks after that date.

Along with many other publicly traded companies, FirstEnergy's year end is December 31st. In addition, we are an SEC accelerated filer and are already challenged with obtaining all the necessary information as well as finalizing audit and Sarbanes-Oxley requirements within 60 days of our year end. Most of the information required to prepare the pension and other postretirement benefit valuations cannot be determined in advance of the measurement date (i.e., fair market value of the plan assets, discounted obligations). As a result, we have concerns that if our trustees and actuaries are completing all of their clients' valuation information as of the same date, this could cause a significant delay in receiving the necessary information to properly report our year end results in the accelerated time required.

In addition, the entire SFAS 87 and 106 valuation process is an estimate, containing numerous variables that cannot be precisely determined at any given point in time (e.g., mortality rate, discount rate, employee turnover, retirement and health care cost trends). Requiring the measurement date to be the same as the date used for consolidation may seem as though the estimate is more accurate; however, considering all the estimates and assumptions included in the valuation, measuring the liability within three months of the consolidation date as currently allowed by SFAS 87 and 106, will not make the estimate any less precise or accurate.

FirstEnergy sincerely appreciates the opportunity to comment on these proposed changes. We are very hopeful that our concerns are given serious consideration as the FASB concludes its deliberations.

Sincerely,

A handwritten signature in black ink, appearing to read "Harvey L. Brown". The signature is written in a cursive style with a large, looping initial 'H'.