



conEdison, inc.

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May 22, 2006



LETTER OF COMMENT NO. 168

Ms. Suzanne Bielstein
Technical Director
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 1025-300

Dear Ms. Bielstein:

Consolidated Edison, Inc. appreciates the opportunity to comment on the recent Proposed Statement of Financial Accounting Standards – Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans. Consolidated Edison, Inc. is one of the nation’s largest investor-owned energy companies with approximately \$12 billion in annual revenues and \$25 billion in assets. The Company provides a wide range of energy-related services and products to its customers through its regulated subsidiaries, Consolidated Edison Company of New York, Inc. and Orange and Rockland Utilities, Inc., and its competitive businesses.

While we support the FASB’s objective of improving existing reporting for defined benefit postretirement plans, we have concerns regarding the use of the Projected Benefit Obligation (PBO) to measure the funded status and the two-phase approach, which we discuss further below.

Use of the PBO to Measure a Company’s Funded Status

The Exposure Draft proposes that the funded status of a company’s pension and other postretirement benefit plans be recognized on the balance sheet. For pension plans, the funded status would be measured as the difference between the PBO and the fair value of plan assets. We believe that the use of the PBO as the measure of the liability is not consistent with the definition of liabilities. Statement of Financial Accounting Concepts No. 6, *Elements of Financial Statements* (CON 6), provides the following definition of a liability:

Liabilities are 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.

CON 6 further states that a liability is a present duty or responsibility, which obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice.

The PBO includes an assumption of future salary growth, including increases due to merit awards and promotions. These salary assumptions, which also reflect productivity

improvements are, for the most part, at the sole discretion of the employer and may not actually occur. Therefore, the PBO does not measure a company's true obligation at the balance sheet date. As an alternative, we believe that the plan liability should be measured at fair value, which, as defined in the proposed standard, *Fair Value Measurements*, is the price that would be received for an asset or paid to transfer a liability in a transaction between market participants at the measurement date. The accumulated benefit obligation (ABO) is the appropriate measure of fair value under this definition because it represents the value at any given point in time. Furthermore, since the proposed standard is calling for disclosure of the net position, using the PBO as the liability measure is not consistent with the way the assets are measured. The proposed standard does not permit the inclusion in plan assets of cash contributions that may be made in the future to fund liabilities arising from additional service and salary increases.

Two-Phase Approach

The FASB has indicated that the proposed Statement is Phase 1 of a two-phase approach. While we understand the need for reform, implementing such significant changes in Phase 1 when Phase 2 could result in a different liability measure will not achieve the desired result of providing financial information that is useful, relevant and reliable.

In Phase 2, the Board plans to address key issues relating to pension and other postretirement accounting including how to measure an employer's benefit obligations, and whether different guidance should be provided about measurement assumptions. This could lead to asset and liability measures that are different from those currently defined in FAS 87. As acknowledged by the Board, as a consequence of applying this proposed statement, certain entities may incur costs associated with revising contractual arrangements that reference financial statement metrics, such as book value. While we agree that this is not a direct cost of implementing the standard, we ask that the Board give consideration to the significant costs that may be incurred based on asset and liability measures that may or may not be the most appropriate. We recognize the urgency of Phase 1 and the importance of providing timely information to financial statement users. However, until the issues regarding measurement of assets and obligations are fully deliberated in Phase 2, we recommend continuing to disclose the funded status on a PBO basis in the footnotes with additional 'proforma' disclosures showing the impact of bringing the funded status on the balance sheet.

While we understand the need for reform in pension accounting standards, we ask the Board to address all issues in one comprehensive standard, not piecemeal resulting in more confusion, not clarity and transparency.

We appreciate the opportunity to comment on the proposed Statement and thank you for your consideration of our comments.

Sincerely,



Robert Muccilo
Assistant Controller