



August 1, 2008

BY E-MAIL (director@fasb.org)

Financial Accounting Standards Board 401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Comments to the FASB's Exposure Draft on "Disclosure of Certain Loss Contingencies (FASB File No. 1600-100)"

Puget Energy, Inc. ("PSD" on the NYSE) is a public utility holding company. Puget Energy's wholly owned subsidiary Puget Sound Energy, Inc. (PSE) is the largest electric and natural gas utility serving customers in Washington State. We appreciate the opportunity to comment on the referenced exposure draft and the FASB's efforts to improve financial reporting.

Puget Energy is in full support of comments to the exposure draft being filed by our industry associations, the American Gas Association and the Edison Electric Institute.

Following are my own comments to the exposure draft. I submit these comments as a certified public accountant with over 30 years experience as an auditor and financial statement preparer.

- Why issue extensive new SFAS-5 guidance now given the IASB is currently deliberating changes in their IAS-37 standard, with the likely result to complicate convergence between US GAAP and IAS standards?
- The primary beneficiaries of the proposed guidance are likely to be litigators and their clients, not financial statement readers and investors. It would be naïve to assume the proposed standard would not adversely impact the US economy and investors in some manner, similar to what many individuals believe were the indirect but widespread negative impact the implementation of SFAS-157 has likely caused.
- SFAS-5 has been a US GAAP principles based accounting standard for over 30 years that is well worded, understood and applied appropriately by an overwhelming number of reporting entities.

- The proposed new standard would, on balance, harm investors by legitimizing the inclusion of speculative information in financial statement footnotes.
- The proposed new disclosures would undermine the proper rights of attorney-client privilege and require disclosure of confidential information.

Following are comments to the FASB's request that respondents address specific issues", which are primarily focused on loss reserves related to matters which are the subject of litigation:

1. Will the proposed Statement meet the project's objective of providing enhanced disclosures about loss contingencies so that the benefits of those disclosures justify the incremental costs? Why or why not? What costs do you expect to incur if the Board were to issue this proposed Statement in its current form as a final Statement? How could the Board further reduce the costs of applying these requirements without significantly reducing the benefits?

Comment

No. Public Companies are often a target of lawsuits alleging damages with little merit. Litigation is inherently unpredictable and providing quantitative information on future losses not meeting a "probable" threshold as defined by SFAS-5 would almost certainly be speculative and be of little value to financial statement readers and investors. Financial statement preparers would be thus forced by the proposed new disclosures to measure risks where loss estimates would difficult or impossible to determine.

In a real life example that was resolved the date of the letter, my company received a complaint filed in state court in Washington in November 2007 alleging the plaintiff was due damages of \$250,000 to \$500,000. In June 2008, the claim was reduced to \$50,000. On August 1, 2008, the claim was resolved for \$2,500. This fact pattern is not unusual.

2. Do you agree with the Board's decision to include within the scope of this proposed Statement obligations that may result from withdrawal from a multiemployer plan for a portion of its unfunded benefit obligations, which are currently subject to the provisions of Statement 5? Why or why not?

No Comment

3. Should an entity be required to provide disclosures about loss contingencies, regardless of the likelihood of loss, if the resolution of the contingencies is expected to occur within one year of the date of the financial statements and

the loss contingencies could have a severe impact upon the operations of the entity? Why or why not?

Comment

No. As noted in my comments to question 1, it is virtually impossible in many situations for a reporting entity to determine when underlying risks that give rise to loss reserves can be resolved due the unpredictability of litigation or regulatory compliance issues.

- 4. Paragraph 10 of Statement 5 requires entities to "give an estimate of the possible loss or range of loss or state that such an estimate cannot be made." One of financial statement users' most significant concerns about disclosures under Statement 5's requirements is that the disclosures rarely include quantitative information. Rather, entities often state that possible loss cannot be estimated. The Board decided to require entities to disclose the amount of the claim or assessment against the entity, or, if there is no claim or assessment amount, the entity's best estimate of the maximum possible exposure to loss. Additionally, entities would be permitted, but not required, to disclose the possible loss or range of loss if they believe the amount of the claim or assessment is not representative of the entity's actual exposure.
 - a. Do you believe this change would result in an improvement in the reporting of quantitative information about loss contingencies? Why or why not?

Comment

No. The primary result of the proposed requirement to disclose the amount of claims as a result of legal action would be an increase in the number of lawsuits filed with little merit, with its attendant costs to reporting entities, thus investors. Additionally, requiring quantitative measurements of estimated future losses where there is no claim or assessment amount would be speculative and self fulfilling in many cases.

b. Do you believe that disclosing the possible loss or range of loss should be required, rather than optional, if an entity believes the amount of the claim or assessment or its best estimate of the maximum possible exposure to loss is not representative of the entity's actual exposure? Why or why not?

Comment

No, as such disclosure would be misleading to investors and could provide the reader with a false sense of risks.

c. If you disagree with the proposed requirements, what quantitative disclosures do you believe would best fulfill users' needs for quantitative information and at the same time not reveal significant information that may be prejudicial to an entity's position in a dispute?

Comment

Current SFAS-5 provides an appropriate level of disclosure guidance on loss contingencies.

5. If a loss contingency does not have a specific claim amount, will an entity be able to provide a reliable estimate of the maximum exposure to loss (as required by paragraph 7(a)) that is meaningful to users? Why or why not?

Comment

No. Refer to my comment in response to Question 4(a).

6. Financial statement users suggested that the Board require disclosure of settlement offers made between counterparties in a dispute. The Board decided not to require that disclosure because often those offers expire quickly and may not reflect the status of negotiations only a short time later. Should disclosure of the amount of settlement offers made by either party be required? Why or why not?

Comment

No. Settlement "offers" are often made with the knowledge the terms may not be accepted to counterparties, presented informally through counsel as a way to "scope out" positions or made pursuant to confidential arrangements.

7. Will the tabular reconciliation of recognized loss contingencies, provided on an aggregated basis, provide useful information about loss contingencies for assessing future cash flows and understanding changes in the amounts recognized in the financial statements? Why or why not?

Comment

No. Summarizing complicated and disputed legal matters and the measurement of unrecognized loss contingencies into a table would be of little value.

8. This proposed Statement includes a limited exemption from disclosing prejudicial information. Do you agree that such an exemption should be provided? Why or why not?

- 9. If you agree with providing a prejudicial exemption, do you agree with the two-step approach in paragraph 11? Why or why not? If not, what approach would you recommend and why?
- 10. The International Accounting Standards Board (IASB) continues to deliberate changes to IAS 37, Provisions, Contingent Liabilities and Contingent Assets, but has not yet reconsidered the disclosure requirements. The existing disclosure requirements of IAS 37 include a prejudicial exemption with language indicating that the circumstances under which that exemption may be exercised are expected to be extremely rare. This proposed Statement includes language indicating that the circumstances under which the prejudicial exemption may be exercised are expected to be rare (instead of extremely rare). Do you agree with the Board's decision and, if so, why? If not, what do you recommend as an alternative and why?
- 11. Do you agree with the description of prejudicial information as information whose "disclosure . . . could affect, to the entity's detriment, the outcome of the contingency itself"? If not, how would you describe or define prejudicial information and why?

Comment to Questions 8 through 11

Nearly all additional disclosures contemplated in the exposure draft could potentially be considered prejudicial to a lawsuit where a reporting entity is a defendant

12. Do you believe it is operational for entities to disclose all the proposed requirements for interim and annual reporting periods? Should the tabular reconciliation be required only annually? Why or why not?

Comment

The contemplated tabular tables would be ill advised for the reasons previously discussed in this letter.

13. Do you believe other information about loss contingencies should be disclosed that would not be required by this proposed Statement? If so, what other information would you require?

Comment

No. Current SFAS-5 provides an appropriate level of disclosure guidance on loss contingencies.

14. Do you believe it is operational for entities to implement the proposed Statement in fiscal years ending after December 15, 2008? Why or why not?

Comment

No. The proposed new disclosures would require companies to "handicap" the outcome of litigation, contractual disputes and regulatory disputes, where the facts are not known, information is incomplete, counterparty demands and positions are not known, etc.

Thank you for the opportunity you have made available to respond to your proposals and for consideration of our comments. If you have any questions, please free to contact me at (425) 462-3135 or jim.eldredge@pse.com

Sincerely.

James W. Eldredge

Vice President and Controller