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LETTER OF COMMENT NO. 27

A New Generation of Energy

June 16, 2008

Russell G. Golden
Director of Technical Application
And Implementation Activities
Financail Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Comments on Proposed FSP ARB 43-a

Dear Mr. Golden:

Conectiv Energy, a division of Pepco Holdings, Inc., would like to submit comments regarding proposed FSP ARB 43-a. Our comments are grouped below by issue.

Issue 1: Commodity Inventories

We believe that a "trading inventory" should be limited to commodities held for resale. By definition, this would include wholesale commodities, and perhaps certain bulk retail commodity inventories. Commodities used in production are generally not held for resale. In some cases, such as coal on a pile at a power plant, the inventory cannot be readily relocated; therefore, it would not be trading inventory. The Board may want to consider the transportability of the commodity in the definition.

Another issue the Board should consider is intangible assets accounted for as inventory. The energy industry often accounts for emission allowances and renewable energy credits as inventory. Since these can be traded, they may fall within the scope of this FSP.

Issue 2: Readily Determinable Fair Value

Most actively traded commodities will have readily determinable fair values for the base commodity. Not all locations where a commodity may be stored will have active quotes which may require entities to estimate appropriate transportation (basis) adjustments.

Issue 3: Trading Items Other Than Physical Inventories

We do not believe the Board should expand the scope of the project if it would significantly delay the issuance of final guidance. We do, however, agree with the Board that there are other off-balance sheet assets that can be trading activities.

Issue 4: Accounting Policy Election

We do not believe that an entity-wide policy election is appropriate. We believe that trading activities can be readily identified as such, and non-trading activities can be segregated. Companies such as PHI have different business units engaged in different strategies, often with the same commodity mix. It probably would not be appropriate to mark the natural gas inventory belonging to the regulated utility for delivery to end-use customers to market, but natural gas inventory held for resale to other marketers and utilities probably should be subject to fair value accounting. We believe that the Board should adopt an election option that can be applied to a portfolio of inventory or specific inventory locations. At a minimum, the election should be specific to a legal entity, as opposed to a reporting entity, to allow diversified companies to appropriately segregate their inventories.

Issue 5: Implementation Issues

a. We believe that the implementation cost associated with the proposed FSP to be minimal.
b. Applying the cumulative effect of a change in accounting principle can often be problematic when moving an activity onto fair value accounting. The adjustment to beginning retained earnings can be significant and fails to properly recognize the change in economic value the income statement which tends to be the primary measurement of an entity's performance by internal and external financial statement readers. Consider the following example: an entity holds a large quantity of natural gas for trading purposes and sold 2009 vintage futures contracts against the inventory in 2008. The futures contracts are accounted for at fair value under SFAS No. 133. Assume natural gas prices soar at year-end 2008, causing the entity to report a large loss on the futures contracts that they properly explain as a timing difference that will be recovered when the inventory is sold. Assuming the proposed FSP is effective on 01/01/2009, the substantial gains on the inventory will be moved to beginning retained earnings and the entity will not get to report the offsetting recovery of the 2008 losses in its

income statement. The transition provisions should permit some relief for this set of circumstances.

c. The proposed transition time is adequate.

Thank you for the opportunity to comment on this matter.

Sincerely,

Stephen T. Smith
Division Controller
Conectiv Energy