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April 1, 2009

Technical Director
Financial Accounting Standards Board
401 Merritt 7
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(e-mail: director@fasb.org)



LETTER OF COMMENT NO.

278

Re: File Reference Proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b

Dear Technical Director, Board Members and Staff:

PPL Corporation ("PPL") appreciates the opportunity to comment on the Proposed FSP FAS 115-a, FAS 124-a, and EITF 99-20-b ("Proposed FSP") referenced above. PPL is an energy and utility holding company. Through its subsidiaries, PPL controls more than 12,000 megawatts of generating capacity in the United States, sells energy in key U.S. markets, and delivers electricity to about four million customers in Pennsylvania and the United Kingdom.

Summary

We support the efforts of the FASB to address the accounting and disclosure consequences of the current financial turmoil expeditiously. However, in addition to concurring with the dissenting opinions of Messrs. Linsmeier and Siegel, we have concerns about the application of the Proposed FSP to investments in PPL's nuclear decommissioning trust funds. We believe the FASB's expedited process to issue this guidance has resulted in inconsistencies that must be addressed before the guidance can be finalized and imposes a significant burden on entities other than the financial institutions it is intended to help. Additionally, we believe the proposed presentation confuses and complicates the face of the income statement and the proposed effective date is not operational. Therefore, we believe the FSP should not be adopted as proposed.

Inconsistency between Objective and Guidance

As demonstrated below, we believe the application of paragraph 2 versus the application of paragraphs 12 and 13 to PPL's investments in its nuclear decommissioning trust funds would produce conflicting results. PPL believes the FASB should address the

inconsistency between its stated objectives in paragraph 2 and the guidance in paragraphs 12 and 13, particularly since we believe the application of each would produce significantly different results in our situation.

Background

In connection with certain Nuclear Regulatory Commission (“NRC”) requirements, one of PPL’s subsidiaries maintains trust funds to ultimately provide for the payment of certain costs of decommissioning our Susquehanna nuclear station. The securities held in these trust funds are classified as available-for-sale and are carried on the balance sheet at fair value. Unrealized gains and losses on these securities are reported, net of tax, in other comprehensive income or are recognized currently in earnings when a decline in fair value below amortized cost is determined to be other-than-temporary.

Application of existing guidance

To appropriately account for unrealized gains and losses, we apply FSP FAS 115-1 and FAS 124-1, which indicates that existing guidance, particularly SAB Topic 5M, should be used to determine if a decline in a security’s value is other-than-temporary. Clarification by the SEC related to applying the guidance in SAB Topic 5M has established the ability to hold an investment until it recovers its value as a required element in determining if an individual security is other than temporarily impaired. Based on this clarification and as a result of NRC requirements that nuclear decommissioning trusts be managed by independent investment managers who have discretion to buy and sell securities in the trusts, PPL has concluded that it is unable to assert that it has the ability and intent to hold an impaired security until it recovers its value. We believe this conclusion has been consistently applied throughout our industry. Accordingly, an unrealized loss below the cost of a security always represents an other-than-temporary impairment and requires a current period charge to earnings. Any unrealized gain or loss while the fair value of a security exceeds amortized cost is recorded to other comprehensive income.

Application of Proposed FSP

To appropriately account for unrealized gains and losses under the Proposed FSP, we would attempt to apply the proposed guidance from the following paragraphs:

Paragraph 2:

To avoid considering an impairment to be other than temporary, “[t]he Board believes it is more operational for management to assert that (a) it does not have the intent to sell the security and (b) it is more likely than not that it will not have to sell the security before its recovery.” (Emphasis added)

Paragraph 12:

“If a decline in fair value below the amortized cost exists at the measurement date for a debt or equity security and the entity intends to sell the security or it is more likely than not that an entity will sell the debt or equity security before recovery of its cost basis, an other-than-temporary impairment exists. If an other-than-temporary impairment exists, the entire amount of the impairment shall be recognized in earnings (or the “performance

indicator”). The fair value of the investment would become the new cost basis of the investment and shall not be adjusted for subsequent recoveries in fair value.” (Emphasis added)

Paragraph 13:

“If a decline in fair value below the amortized cost exists at the measurement date for a debt security and it is more likely than not that an entity will not sell the debt security before recovery of its cost basis but it is probable that the investor will be unable to collect all amounts due according to the contractual terms of the security, the debt security shall be considered other than temporarily impaired. The amount of the impairment related to the credit losses shall be recognized in earnings (or the “performance indicator”). The amount of the impairment related to other factors shall be recognized in other comprehensive income (or shall be excluded from the “performance indicator”). The previous cost basis less the impairment recognized in earnings would then become the new cost basis of the investment and shall not be adjusted for subsequent recoveries in fair value.” (Emphasis added)

When a decline in fair value below amortized cost exists at the measurement date, we would attempt to apply the Proposed FSP as follows:

Paragraph 2:

Due to the trust funds being managed by a third party that has discretion to buy and sell securities, PPL is not able to assert that (a) it does not have the intent to sell the security and (b) it is more likely than not that it will not have to sell the security before its recovery.

Conclusion:

PPL would not be able to avoid considering an impairment to be other than temporary and unrealized losses below amortized cost would be recorded to earnings.

Paragraph 12:

Due to the trust funds being managed by a third party that has discretion to buy and sell securities, PPL is not able to assert that it intends to sell a security or that it is more likely than not that it will sell a debt or equity security before recovery of its cost basis.

Conclusion:

An other-than-temporary impairment does not exist and unrealized losses below amortized cost would be recorded to other comprehensive income.

Paragraph 13:

Again, due to the trust funds being managed by a third party that has discretion to buy and sell securities, PPL is not able to assert that it is more likely than not that it will not sell a debt security before recovery of its cost basis.

Conclusion:

An other-than-temporary impairment does not exist and unrealized losses below amortized cost would be recorded to other comprehensive income.

PPL questions whether the FASB intended to write paragraphs 12 and 13 such that a company would be unable to meet the criteria in both paragraphs or if the FASB presumed that if a company did not meet the criteria in paragraph 12, it would by default meet the criteria in paragraph 13. As noted above, PPL would not meet the criteria in either paragraph as we are unable to assert that the independent investment managers will or will not sell a given security before recovery of its cost basis. If the intent is that one of these paragraphs must apply, the FASB should clarify this with appropriate language.

Inconsistency - Application to Debt and Equity Securities

While the Scope indicates that the Proposed FSP applies to other-than-temporary impairments of debt and equity securities, the guidance proposed in paragraph 14 on subsequent measurement addresses only debt securities. We believe that paragraph 14 of the Proposed FSP and/or the proposed amendment to paragraph 16 of SFAS 115 should be updated to address the subsequent measurement of equity securities.

Presentation

PPL believes the FASB should consider removing from the Proposed FSP the gross presentation in the income statement of impairment losses offset by the non-credit impairment. We believe that this presentation confuses and complicates the face of the income statement with information that is more appropriate for inclusion in footnote disclosures.

Implementation Timeline

PPL believes that the effective date of the guidance as proposed for interim and annual periods ending after March 15, 2009, does not provide adequate time for PPL and other companies with trust funds managed by others to successfully implement the Proposed FSP.

Should the FASB decide to clarify in its final guidance that if a company does not meet the criteria in paragraph 12, it would by default meet the criteria in paragraph 13, PPL would need to record the amount of impairment related to credit losses to earnings. This guidance would be virtually impossible for PPL to implement. Since PPL does not and can not actively manage the investments in its nuclear decommissioning trust funds we do not have access to the information needed to calculate credit losses. As we indicated in our comment letter on Proposed FSP FAS 107-a, the credit loss calculations required by the Proposed FSP will require coordination with investment custodians to gather information that may not be readily available and is likely not to have been previously computed. Furthermore, the investment custodians may need to enhance computer systems to provide the necessary information. Ensuring that their systems are

reprogrammed and thoroughly tested in such a short time frame would be extremely difficult and could lead to inaccuracy.

Additionally, time will be necessary for companies to review the information provided by the investment custodians for accuracy and to record the indicated losses as well as prepare related disclosures. Finally, if the Proposed FSP is approved, PPL would be required to create and test internal control processes around these disclosures to comply with the requirements of the Sarbanes-Oxley Act of 2002.

For the reasons noted above, PPL believes the Proposed FSP should not be required; rather, its provisions should be voluntarily available to those entities that believe credit losses provide more relevant information to the users of their financial reports. However, if the FASB decides to immediately proceed with the issuance of final guidance on this topic applicable to all entities, including non-financial institutions, we strongly believe that it should be effective prospectively, no earlier than for interim and annual periods ending after June 15, 2009, with early adoption permitted.

PPL believes this approach would accommodate those entities that believe the credit loss amount is a more relevant measurement, while providing entities whose systems, processes and disclosures were not designed to capture the necessary data and perform the required loss calculations additional time to create and test systems that will insure these calculations and related disclosures in 2009 and beyond are accurate. PPL acknowledges that certain companies may reap substantial benefits as a result of applying this guidance to retrospective periods. Therefore, if the FASB decides to make this guidance effective retrospectively, PPL recommends that retrospective application be applied voluntarily.

Summary and Conclusion

For the reasons noted above, PPL believes the Proposed FSP should not be adopted as proposed.

We would like to thank the Board for the opportunity to share our views on this significant accounting issue.

Very truly yours,



Matt Simmons
Vice President & Controller

cc: Mr. P. A. Farr
Mr. M. A. Cunningham
Mr. M. D. Woods