Dominion Resources, Inc. 120 Tredegar Street Richmond, VA 23219

August 15, 2008

Technical Director – File Reference No. 1590-100 Financial Accounting Standards Board of the Financial Accounting Foundation (FASB or Board) 401 Merritt 7 PO Box 5116 Norwalk, Connecticut 06856-5116



LETTER OF COMMENT NO. 74

Submitted to: <u>director@fasb.org</u>

RE: Hedge Accounting Exposure Draft

Dominion Resources, Inc. (Dominion) is one of the nation's largest producers and transporters of energy, with a portfolio of approximately 27,000 megawatts of generation, 1.1 trillion cubic feet equivalent of proved natural gas reserves, 14,000 miles of natural gas transmission, gathering and storage pipeline and 6,000 miles of electric transmission lines. Dominion also operates the nation's largest natural gas storage facility with 975 billion cubic feet of storage capacity.

Dominion would like to comment on the Proposed Statement of Financial Accounting Standards, Accounting for Hedging Activities, an amendment of FASB Statement No. 133. We first would like to point out to the FASB that we share and concur with the issues raised in the letter to the FASB from the Edison Electric Institute (EEI) regarding implementation and practice issues related to the exposure draft. In addition, Dominion believes that there are other significant implementation and practice issues not specifically addressed by the EEI letter. These issues are as follows:

## 1) Calendar Instrument Hedging

Within the energy industry, we have struggled with SFAS 133's requirements to designate only a percentage of the derivative as the hedging instrument, as required by Paragraph 18, which states, "....Either all or a proportion of a derivative may be designated as the hedging instrument. The proportion must be expressed as a percentage of the entire derivative so that the profile of risk exposures in the hedging portion of the derivative is the same as that in the entire derivative. (Thus, an entity is prohibited from separating a compound derivative into components representing different risks and designating any such component as the hedging instrument...)." This issue is pervasive in the energy markets, where power, gas, and oil generally trade monthly forward physical and financial instruments. For time frames outside of the current year, the markets may only offer calendar products. This calendar instrument provides a hedge of all twelve months across the entire forward.

Assume that an entity plans to pursue hedging the price variability of a power plant's output in 2010 and expects an outage during the month of April during that year, but can only execute a calendar instrument in the market. In this situation, the entity generally would not be able to achieve hedge accounting (due to the provisions of Paragraph 18) since a portion (one month) of the entire instrument would not be used as a hedging instrument. Hedge accounting might be evaluated to designate only a percentage of the entire instrument (11/12ths or 92%), but this relationship might not be effective or, if effective, would not result in a true representation of the

hedge relationship's ineffectiveness. Therefore, we recommend that you provide for additional simplification of SFAS 133 by allowing for the hedging of portions of multi-month commodity instruments.

## 2) <u>Pre-issuance Hedging of Interest Rate Risk</u>

Under the guidance in the Exposure Draft, the Board would eliminate the ability of an entity to designate individual risks as the hedged risk in a fair value or cash flow hedge, with two exceptions. One of these exceptions is an entity would be permitted to designate interest rate risk related to its own issued debt as the hedged risk in a fair value or cash flow hedge, if hedged at inception. However, Paragraph A19 holds that in situations where the hedging relationship is entered into before inception of the debt, interest rate only hedging would not be permitted. We believe that the Board should continue to permit an entity to designate interest rate risk as the individual hedged risk in a fair value or cash flow hedge and, further, we believe that pre-issuance hedges should qualify to be used for hedging interest rate risk individually. While we agree with the Board that pre-issuance hedges do not result in synthetically creating fixed-rate debt or variable-rate debt, we believe that not permitting pre-issuance hedges to qualify for interest only hedging would:

- Require companies to compare changes in fair value for a pre-issuance derivative
  (interest rate only) to overall changes in the fair value (interest rate and credit) on the
  debt to be issued, therefore, likely result in ineffectiveness and income statement
  volatility largely due to changes in the companies' own credit ratings, which we
  believe to be and which has been criticized as misleading,
- Not result in simplification of the accounting for hedging activities, since an inability
  to observe credit spreads on a debt security that does not exist and/or determining or
  developing credit spread assumptions to use would instead increase hedge
  complexity, and
- Likely discourage the use of pre-issuance hedges, which are an important risk management tool for many companies.

We would appreciate the FASB staff's consideration of our comments on the Hedge Accounting Exposure Draft. If you would like to discuss this further, please feel free to contact me at 804-771-3962 (Ash Sawhney) or Ed DuRocher at 804-771-4512.

Sincerely,

/s/ Ashwini Sawhney

Ashwini Sawhney Vice President and Controller