FERGUSON ASSOCIATES

1219 Stratford Drive Richardson, TX 75080-2918 Tel: (972) 699-8214 Fax: (972) 699-9396 Cell: (214) 533-3440 E-mail: johnfarg@swball.net

July 20, 2004

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

Letter of Comment No: / A File Reference: 1099-001

File Reference No. 1099-001:

These comments on the June 17, 2004 Exposure Draft, Accounting for Conditional Asset Retirement Obligations, supplement my comment letter of July 1, 2004, and are prompted by research into the history of treating salvage and cost of removal for regulatory accounting purposes that I recently conducted for another purpose. My prior letter explained why I believe the term salvage in the GAAP definition of depreciation accounting was intended to mean net salvage (the net of salvage proceeds and removal costs). My recent research provides further evidence of this intent.

My July 1 letter suggested that financial accounting would benefit from emulating the regulatory objective known as intergenerational customer equity, which matches asset costs with asset usage to assure that each generation of customers bears only those costs incurred to serve that generation. My recent research suggests that the GAAP definition was intended to make financial accounting the same as the then existing regulatory accounting that matches assets costs with asset usage, so it would appear that financial accounting has already so benefited.

I have long been aware of the consistency in the accounting treatment of salvage and cost of removal specified by the various US regulatory agencies, among them:

Federal Communications Commission (telecommunications)

Federal Energy Regulatory Commission (electric, natural gas and oil pipeline)

National Association of Regulatory Utility Commissioners (electric, gas, water and wastewater)

Rural Utilities Service (electric cooperatives)

Surface Transportation Board (railroads - both salvage and cost of removal for only track structure accounts)

Until my recent research, I did not realize that recognition of salvage and cost of removal through depreciation accounting began in 1913, when the Interstate Commerce Commission (ICC) issued its telephone Uniform System of Accounts in response to expanded accounting authority given by a 1909 amendment to the 1877 Interstate Commerce Act. While depreciation treatment may have started earlier, the fact that the 1913 rules were controversial enough to delay their issuance may be an indication that

this was the first such treatment. The ICC had a significant influence on the accounting of the above agencies, because several of them evolved out of the ICC and have current accounting rules for salvage and cost of removal that are similar to, if not identical to, the wording of such rules in the 1933 version of the ICC Uniform System of Accounts.

I do not know the year that the GAAP definition of depreciation accounting was issued, but have heard that it was during the 1950s. This timing relative to the development of the regulatory accounting treatment for salvage and cost of removal suggests that the GAAP definition was intended to recognize the appropriateness of the then existing regulatory accounting that had been in place for at least 40 years. If so, the GAAP reference to salvage was intended to mean net salvage, and should be so recognized by the Board.

The suggestion that financial accounting was merely trying to catch up with regulatory accounting is reinforced by my research indication that regulatory accounting was well ahead of financial accounting in abandoning the concept known as retirement accounting. With retirement accounting, the investment is recorded as an expense at the time of retirement, salvage is recorded as income (or a negative expense) when received, and cost of removal is recorded as an expense at the time of expenditure. The Board and the SEC now reverting back to the retirement accounting concept for cost of removal abandons a long history of accounting progress, which makes no sense.

John S. Fergusten/