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May 31, 2006



Technical Director - File Reference No. 1025-300 Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116



LETTER OF COMMENT NO. 171

#### Dear Director:

Southern Company (Southern) appreciates the opportunity to comment on the Financial Accounting Standards Board's (FASB or the Board) Exposure Draft of a Proposed Statement of Financial Accounting Standards - Employers' Accounting for Defined Benefit and Other Postretirement Plans, an Amendment of FASB Statements No. 87, 88, 106, and 132(R).

Southern (NYSE: SO) is one of the largest generators of electricity in the United States. Southern is the parent firm of Alabama Power, Georgia Power, Gulf Power, Mississippi Power and Savannah Electric, all integrated, cost-based regulated utility companies, as well as Southern Power, a market-based generation company. Other members of the Southern group include Southern Company Services, which provides financial reporting, treasury, payroll, and other services to the various group members, and Southern Nuclear, which provides nuclear facility operation services to Georgia Power and Alabama Power. The services provided by Southern Company Services and Southern Nuclear are billed at cost.

Southern sponsors a qualified defined benefit pension plan for its employees. It also offers a supplemental pension plan, as well post-retirement medical and life insurance benefits.

### General Comments

While we support the Board's continuing efforts to improve financial reporting with respect to defined benefit post retirement plans, we have serious concerns regarding these current proposals. As explained below, we do not agree with the Board's "two phase" approach. We also disagree with its proposed method of measuring the funded status of a plan and changes with respect to the measurement date.

We also support the comments submitted to the Board by the Edison Electric Institute.

# Two Phase Approach

The Board itself has concluded that a comprehensive reconsideration of the accounting for postretirement benefits should be undertaken. The Board's decision to first conduct a short-term project (Phase I), resulting in the proposed Statement, is inconsistent with a comprehensive approach. It could likely lead to more confusion for users of financial statements, thereby not achieving the Board's objective of more clarity and transparency in financial reporting. The fact that the information for which the proposed Statement would require Balance Sheet recognition is currently detailed in a footnote disclosure makes the Board's piecemeal approach even more perplexing. We believe the users of financial statements will be better served if the disclosure and conceptual issues are addressed together.

# Determination and Recognition of Funded Status

The proposed Statement would require current recognition of the funded status of defined benefit postretirement plans in the Balance Sheet. The funded status would be determined as the difference between fair value of plan assets and the projected benefit obligation (PBO) for pension plans. For other defined benefit postretirement plans, the funded status would be determined as the difference between the fair value of the plan assets and the accumulated postretirement benefit obligation (APBO). We do not believe that the PBO and the APBO are the appropriate measures of the benefit obligations.

#### **Defined Benefit Pension Plans**

If current recognition of a pension obligation is to be required in the Balance Sheet, we believe that it should be based on the accumulated benefit obligation (ABO) of defined benefit pension plans. The ABO represents the actuarial present value of benefits rendered to date. It is the amount that would remain as a liability of the plan sponsor if the pension plan were frozen. It could be settled with third parties at the Balance Sheet date.

The PBO reflects estimated future pay increases which may not occur. The PBO does not have the characteristics of a liability as described in FASB Concept Statement 6. Specifically, future events (such as pay increases and continued service to the company) on which the PBO is based may not occur. In addition, the PBO does not fit the definition of Fair Value per the Board's current Fair Value Measurements project — "Fair value is the price that would be received for an asset or paid to transfer a liability in a transaction between market participants at the measurement date." The PBO cannot readily be settled with a third party.

If a pension plan liability is to be included on the Balance Sheet, we strongly believe it should be the ABO rather than the PBO.

# Other Postretirement Defined Benefit Plans

Unlike defined benefit pensions, postretirement medical and life benefits typically do not vest. Additionally, they can usually be eliminated by a sponsor at any time. As such, they represent liabilities that are much more contingent than those associated with defined

benefit pension plans. These fundamental differences must be considered in determining any Balance Sheet recognition of the contingent liability associated with these postretirement plans. Pursuant to such consideration, it would seem more appropriate to recognize as a liability the portion of the APBO associated with actual retirees.

#### **Measurement Date**

The proposed Statement also includes a requirement to use a measurement date corresponding to the date of the company's financial statements. We do not believe that such a change would result in a meaningful improvement in reporting. It could, however, create additional burdens relating to collection and analysis of asset information, resulting in less accuracy in reporting. Having less time to compile, understand, analyze, and audit the relevant information would also place a burden on our plan trustees, actuaries, auditors, and our own employees. This burden would compound time pressures resulting from the SEC accelerated financial statement filing requirements. We believe that the current provision allowing a measurement date not more than 90 days before the company's fiscal year end should be retained.

# **Transition & Effective Date**

Under the proposed standard, rate regulated companies would face significant problems in attempting to secure appropriate cost recovery though rates under SFAS No. 71, Accounting for the Effects of Certain Types of Regulation. Charges to retained earnings and/or other comprehensive income would require special consideration by our regulatory authorities. For example, new or revised rate orders could be required for inclusion of the transition obligation since, pursuant to the Statement's required direct charge to retained earnings, it would not be reflected in costs. The proposed charges to retained earnings create an additional issue with respect to our two service companies. They are required to bill at cost and they have no retained earnings. An appropriate mechanism for recovery of these costs will also need to be developed. It is unlikely that these matters could be resolved in time for application by the proposed effective date.

In short, charges to retained earnings and/or other comprehensive income, as contemplated in the proposed Statement, coupled with the short implementation time frame create unnecessary risk of receiving proper cost recovery and have potential capital structure implications since the requisite time for regulatory due process with our regulatory bodies would be severely limited. As a result, we believe that the effective date should be delayed.

#### Summary

While we support the Board's efforts to improve financial reporting with respect to pension and other postretirement benefit plans, we do not agree with the approach outlined in the proposed Statement. As explained above, we believe none of the proposed changes should be implemented until such time as the Board has completed its planned *comprehensive* 

reconsideration of accounting for defined benefit plans. If it is ultimately determined that the "funded status" of defined benefit plans should be reflected on the Balance Sheet, such status should be determined using the APO and APBO, as described herein. The current provision allowing a measurement date of not more than 90 days prior to the sponsor's balance sheet date should be retained.

Thank you for your consideration of our opinions of the proposed Statement. Should you have any questions about our comments, please call me at 404-506-6641.

Sincerely,

W. Ron Hinson

Comptroller and Chief Accounting Officer