Reese K. Feuerman Vice President and Controller



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LETTER OF COMMENT NO. 198

May 31, 2006

Suzanne Bielstein Director - Major Projects and Technical Activities Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

RE: File Reference No. 1025-300

VIA ELECTRONIC MAIL

Dear Ms. Bielstein:

Constellation Energy is a FORTUNE 200 company with 2005 revenues of \$17.1 billion and is the nation's largest competitive supplier of electricity to large commercial and industrial customers and the nation's largest wholesale power seller. Constellation Energy also manages fuels and energy services on behalf of energy intensive industries and utilities. We own a diversified fleet of more than 100 generating units located throughout the United States, totaling approximately 12,000 megawatts of generating capacity. The company delivers electricity and natural gas through the Baltimore Gas and Electric Company (BGE), its regulated utility in Central Maryland. As of December 31, 2005, we had approximately 9,850 employees for whom we sponsor several defined benefit pension and postretirement benefit plans.

I am writing to provide comments to assist the FASB in its deliberations on the Proposed Statement of Financial Accounting Standards, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (the ED). While we generally support many of the fundamental principles underlying the ED, we do have concerns with respect to certain aspects of the currently proposed standard.

We have reviewed the comment letters provided to the FASB to date on the ED. Specifically, we have focused on the comment letters submitted by several of the major international actuarial consulting firms, which are the subject matter experts with respect to the measurement of defined benefit obligations and expense.

Rather than repeating many of the comments and supporting rationale provided in those letters, Constellation Energy would like to indicate its general support for the positions put forth by those firms primarily in the following areas:

- Balance sheet recognition of the funded status of pension plans based on the PBO is inappropriate.
 The ABO is the obligation that can be effectively settled and meets the three essential characteristics of a liability under Statement of Financial Accounting Concepts CON 6: Elements of Financial Statements (CON 6). The PBO reflects future salary increases that are not current obligations of the sponsoring entity for services not yet rendered by employees. These projected increases are not a current economic or legal obligation.
- Balance sheet recognition of the funded status of postretirement benefit plans based on the APBO is also inappropriate. The APBO is not vested and does not meet the definition of a liability under CON 6. Moreover, salary escalation included within the life insurance component of the APBO for PRB plans is not a current economic/legal obligation or a liability for accounting purposes under CON 6.
- Because of these significant unresolved conceptual issues, we believe that the proposed requirements of Phase I of this Project should be deferred until the FASB has carefully addressed the important measurement and reporting issues raised during this comment process. We agree in principle that disclosure is not a substitute for appropriate recognition and measurement. However, we believe that greater confusion and harm to both financial statement users and other affected stakeholders will result from mandating interim changes in long-standing accounting requirements when the amounts proposed to be recognized in the balance sheet (1) are conceptually inconsistent with the definition of a liability; (2) were developed decades ago in order to implement income statement smoothing mechanisms more commonly associated with the "matching principle" that is no longer recognized; (3) are readily available to financial statement users through existing disclosures; and, (4) could result in recording a liability on a substantially different basis upon final resolution of these matters under Phase II.
- The final standard should allow for the use of reasonable estimates and assumptions with respect to the measurement of plan assets and liabilities as of the balance sheet date. Sufficient latitude should be provided to allow companies to consistently measure those balances, including the assumptions supporting them, within a reasonable period of time prior to the balance sheet date in order to provide companies enough time to ensure the validity of the related amounts, close their books, have their results audited, and meet external reporting deadlines. Once a company establishes a procedure for determining assumptions and measuring its period-ending benefit assets and liabilities, that procedure should be applied consistently period to period.
- We encourage the FASB to limit the retrospective application provisions of the ED to preclude the
 need for public companies to reflect its provisions for any periods prior to (1) the beginning of the
 comparative prior year in the balance sheet, or (2) the beginning of the earliest of the three years
 presented in the income statement, in the annual financial statements for the year in which the final
 standard becomes effective.

We appreciate the opportunity to provide our views on these important matters.

Very truly yours,
/s/ Reese K. Feuerman
Vice President and Controller
Constellation Energy Group, Inc.