



June 12, 2008

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Director of Technical Application and Implementation Activities
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Via email: director@fasb.org

File Reference: Proposed FSP ARB 43-a

Dear Director:

The American Gas Association ("AGA") is pleased to submit its comments concerning the proposed Financial Accounting Standards Board ("FASB") Staff Position amending ARB 43-a, Restatement and Revision of Accounting Research Bulletins (the "FSP"). The American Gas Association, founded in 1918, represents 202 local energy companies that deliver natural gas throughout the United States. There are nearly 70 million residential, commercial and industrial natural gas customers in the U.S., of which 92 percent — more than 64 million customers — receive their gas from AGA members. Today, natural gas meets almost one-fourth of the United States' energy needs. Substantially all AGA member utility companies hold commodity inventory, and some members engage in energy trading, generally through unregulated affiliates.

AGA strongly supports FASB's efforts to address the confusion that results from measuring trading assets and liabilities using different measurement attributes. The results produced by such a mixed-attribute model do not provide relevant information to company management, investors or creditors. While AGA enthusiastically supports the overall objective of reducing or eliminating different measurements for trading activities, it respectfully submits the following comments for your consideration. The comments address each "Issue" outlined in the proposal followed by a conclusion.

Issue 1: Commodity Inventories

AGA *agrees* with the Board's decision not to limit the scope of this project to "commodity inventories <u>not</u> used in production, wholesale, retail, or distribution activities." However, AGA is concerned that there is no definition, or guidance, as to the meaning of the phrase "inventories included in an entity's trading activities," as used in the proposal, or the term "wholesale," as used in describing the alternative. In the energy trading business, the term "wholesale" is sometimes used interchangeably to describe a company's "trading" operation.

Regardless of whether the scope is limited under this alternative, AGA believes the terms used should be defined so that this FSP can be applied consistently by all entities.

Without guidance as to the meaning of "inventories included in an entity's trading activities," there is an increased likelihood that different entities could apply different measurement attributes in very similar situations, thus undermining the comparability of financial statements for investors. AGA prefers guidance in the form of a list of factors to consider, similar to those in Exhibit 98-10A of rescinded EITF 98-10, Accounting for Contracts Involved in Energy Trading and Risk Management Activities, rather than a strict definition, as the former is more in keeping with a principles or objectives-based approach.

Issue 2: Readily Determinable Fair Value

AGA agrees with the Board's decision not to limit the scope to trading inventories with readily determinable fair values (those using Level 1 inputs). AGA has two comments. First, limiting the scope to include only items valued using Level 1 inputs may inadvertently scope out commodities for some companies. There seems to be a presumption that commodity inventories would be valued using Level 1 inputs under Statement of Financial Accounting Standard ("SFAS") 157, Fair Value Measurements. However, in some cases, companies and their auditors have interpreted Level 1 inputs so narrowly that even natural gas commodity may not be viewed as being valued with Level 1 inputs. Second, limiting the scope to include only Level 1 inputs would be inconsistent. It would be inherently inconsistent to require certain items (such as derivatives) to be carried at fair value regardless of how difficult it may be to estimate that value, and then prohibit fair value accounting for other items in the same portfolio citing reliability concerns.

Issue 3: Trading Items Other Than Physical Inventories

AGA urges the Board to consider a broader scope project that would include all contracts and assets or liabilities within an entity's trading activities even if it would result in significantly delaying the issuance of final guidance. The reason is that only a broader scope project will fully address the current mixed-attribute model that has resulted from the transition to fair value accounting, whereby certain items in a trading portfolio must be measured at historical cost while other items must be measured at fair value. Measuring trading portfolio items differently results in earnings volatility that lacks relevance. Hedge accounting under SFAS 133, Accounting for Derivative Instruments and Hedging Activities, has been only somewhat effective in mitigating such earnings volatility and is costly to administer. As the FASB noted in SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities:

The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions.

Carrying inventory at fair value, as would be required under the FSP, will not completely eliminate the earnings volatility caused by the present mixed-attribute model used by energy traders -- it will only *change* that volatility. In fact, if the proposed FSP were an election, rather than a requirement, we suspect many companies would not elect to carry their trading inventory at fair value without the ability to also carry other trading assets and liabilities at fair value.

Member companies with trading activities that pre-date the rescission of EITF 98-10 report that when storage and transportation contracts were carried at fair value, together with the related physical inventories and derivatives, reported accounting results generally matched management's internal performance measurements. In comparison, under the present mixed measurement attributes, externally reported accounting results can be misleading and provide very little useful information to investors, causing some members to also externally report a separate non-GAAP financial measure. It is believed that only a consistent fair value measurement model will provide a faithful representation of the economics of a trading operation.

Issue 4: Accounting Policy Election

AGA agrees with the Board's decision to reject an entity-wide policy election. While fair value might be an appropriate measure for trading inventory (if the remaining trading portfolio is also subject to fair value accounting), it is most likely not the best measure for inventory in other business units that follow primarily a historical-cost based accounting model. The use of mixed measurement attributes simply results in poor matching.

Again, the primary concern of AGA member companies is to eliminate the mixedattribute model that exists for trading activities. While an entity-wide election to record all commodity inventory at fair value could be a step towards consistency within an entity's trading activity, such an election would likely create a new mixed-measurement problem in another part of the consolidated organization.

Issue 5: Implementation Issues

AGA expects that the costs incurred to implement this proposed FSP would be minimal, and it believes that the proposed cumulative effect transition provision is appropriate. AGA, does, however, have reservations about the proposed effective date. Trading operations affiliated with member companies are expected to be already burdened with: (1) the ongoing first-year implementation of SFAS 157, Fair Value Measurements, and (2) the implementation of SFAS 161, Disclosures About Derivative Instruments and Hedging Activities. As many of our member companies have December 31 year-ends, issuing a final FSP late in the third quarter of 2008 would leave little time or resources to address the additional disclosures required by this FSP.

Conclusion

AGA supports FASB's effort to address the earnings volatility caused by measuring trading assets and liabilities differently and urges FASB to consider a broader scope project that would include all contracts and assets or liabilities within an entity's trading activities. If the FSP is issued as proposed, AGA requests that FASB include a list of factors indicative of "inventories included in an entity's trading activities." AGA also requests that the effective date of the FSP be deferred by one year while allowing for early adoption, an alternative that would be helpful for those companies with non-calendar fiscal years that may have the desire and ability to do so.

AGA appreciates this opportunity to contribute to the standard-setting process and hopes that our views will be helpful to you in your deliberations.

Very truly yours,

[s] Roy R. Centrella

Roy R. Centrella Chairman, American Gas Association, Accounting Advisory Council Vice President, Southwest Gas Corporation