

October 8, 2009

Mr. Russell G. Golden Technical Director Financial Accounting Standards Board (FASB) 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

File Reference No. 1710-100

Re: Exposure Draft - Proposed Accounting Standards Update, Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements

Dear Mr. Golden:

RRI Energy (RRI) appreciates the opportunity to provide comment on the exposure draft for improving disclosures about fair value measurements. We understand one of the requirements of this amendment is to provide users of financial statements with information about the effects of reasonably possible alternative Level 3 inputs to aid in their analysis of the reporting entity's performance. While we support the FASB's efforts to increase transparency in financial reporting, we believe that the Board should reassess whether the full requirements of this exposure draft are appropriate for all companies and for all fair value measurements using significant unobservable Level 3 inputs.

Paragraph BC11 of the exposure draft states "...IFRS 7, as amended in March 2009, requires sensitivity information about potential changes in fair value measurements resulting from using reasonably possible alternative Level 3 inputs. The Board believes that the disclosure of similar information under US GAAP would be useful because it would indicate a range of values under different reasonably possible alternative inputs in the audited financial statements." It should be noted that the scope of IFRS 7 is limited to financial instruments. In addition, IFRS 7 was originally proposed as an industry-based standard for financial institutions. The correlation between IFRS 7 and US GAAP raises questions about the relevance and usefulness of this proposal to all entities required to make disclosures about fair value measurements. As discussed further in response to Issue 1 below, we believe that the Level 3 sensitivity disclosure requirements are not relevant to non-financial instruments and are not meaningful for entities that are not financial institutions.

Our responses to the specific questions for respondents are presented below. We request that the Board reconsider the scope of this exposure draft, or explain why the Board believes Level 3 sensitivity disclosures are relevant to physical commodities and non-financial institutions. Furthermore, while we understand that the application guidance is intended to be useful to all preparers of financial statements, adoption guidance or examples that are applicable to the energy industry would be helpful. We also request that if the scope of this exposure draft is not limited to financial instruments, the Board provide additional illustrative examples applicable to physical commodities or other derivative instruments.

Issue 1: With respect to the disclosure of the effect of changes in reasonably possible, significant, alternative inputs for Level 3 fair value measurements for each class of assets and liabilities (sometimes also referred to as sensitivity disclosures), the Board is seeking input from:

- 1. Financial statement preparers about their operationality and costs
- 2. IFRS financial statement preparers about the approach they plan to use to comply with a similar disclosure requirement in IFRS 7
- 3. Financial statement users about their usefulness more specifically, a discussion of how they would benefit from, and use, such disclosures.

RRI Response: We believe that the requirements in providing Level 3 sensitivity disclosures in the manner described, exceed what is required to convey to the reader the commodity exposures we face in our industry. The incremental administrative burden associated with collecting and preserving the required information is unlikely to provide sufficient benefits to the users of the financial statements to outweigh the costs of preparing the information. We do not believe a reasonable investor would arrive at a different investment conclusion based on having a range of outcomes for Level 3 fair value measurements, as opposed to the current application using a stress analysis based on a specific rate of change to the Level 3 inputs used to measure fair value.

For certain fair value measurements using significant unobservable Level 3 inputs, such as physical and financial commodity swaps, a single pricing element is the predominant valuation source. The Level 3 inputs for such commodity derivative transactions are primarily obtained for a fee from external pricing services. For the commodities in which we transact, power, natural gas and coal, there is minimal variability in reported transaction pricing. To engage multiple pricing services as a means to obtain reasonably possible alternative inputs, in consideration of the economic environment in which we operate, would likely not be more meaningful to a financial statement user than the existing sensitivity disclosure requirements in the Quantitative and Qualitative Disclosures about Market Risk section of MD&A. The majority of pricing services available for our physical commodities will utilize inputs from the same data sources and merely provide an independent statistical analysis. The assumption that the independent

statistical analysis performed would yield a result significantly different from what our valuation experts believe to be the most accurate depiction of fair value as of the reporting date is remote, therefore a considerable amount of cost and effort could be expended for little practical benefit.

Issue 2: With respect to the reconciliation (sometimes referred to as a roll forward) of fair values using significant unobservable inputs (Level 3), the amendments in this proposed Update would require separate disclosure of purchases, sales, issuances, and settlements during the reporting period. Is this proposed requirement operational? If not, why?

<u>RRI Response:</u> We believe this proposed requirement is operational and can be implemented with insignificant costs incurred.

Issue 3: Is the proposed effective date operational? In particular:

- 1. Will entities be able to provide information about the effect of reasonably possible alternative inputs for Level 3 fair value measurements for interim reporting periods ending after March 15, 2010?
- 2. Are there any reasons why the Board should provide a different effective date for nonpublic entities?

<u>RRI Response:</u> We do not believe the effective date is operational based on our assessment of system modifications and evaluation of costs. We anticipate significant implementation effort and cost, as well as ongoing operational and administrative costs associated with system functionality enhancements, external pricing services, data capture and storage, staffing resources and audit fees. We recommend the Board consider postponement until completion of the disclosure framework project to ensure consistency in requirements, thereby avoiding unnecessary incremental costs.

Once again, RRI is grateful for the opportunity to express our views on these very important issues to our industry and would be pleased to respond to any further questions you may have.

Sincerely,

Deana N. Mangan

Director of Derivatives Accounting

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