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January 31, 2011

Ms. Susan M. Cospers, Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

Email: [director@fasb.org](mailto:director@fasb.org)

Re: Discussion Paper — *Effective Dates and Transition Methods*  
File Reference No. 1890-100

Dear Ms. Cospers:

FirstEnergy Corp. appreciates the opportunity to respond to the Financial Accounting Standard Board (FASB or Board) Discussion Paper, *Effective Dates and Transition Methods*.

FirstEnergy is a diversified energy company in the United States with approximately \$34 billion of assets, \$13 billion in annual revenues, and \$11 billion in market capitalization. Our subsidiaries and affiliates are involved in the generation, transmission and distribution of electricity, as well as energy management and other energy-related services. Our seven electric utility operating companies comprise the nation's fifth largest investor-owned electric system, serving 4.5 million customers within 36,100 square miles of Ohio, Pennsylvania, and New Jersey. Our generation subsidiaries control more than 14,000 megawatts of capacity.

We support the Board's effort to improve targeted areas of accounting principles generally accepted in the United States (U.S. GAAP) in the future and appreciate the Board's effort to seek input from preparers, auditors and users of financial statements with regard to timing and implementation of recently proposed standards.

This Discussion Paper requests responses to questions regarding implementation issues that we have not had sufficient time to assess. While we are not yet able to provide specifics regarding the impacts of these issues, we do want to convey our concerns about the cost, time and effort our organization would undergo in order to implement the recently proposed standards. We offer the following responses to questions presented within the Discussion Paper that are applicable to our operations.

**Question 1: Please describe the entity (or the individual) responding to this Discussion Paper. For example:**

- a. Please indicate whether you are primarily a preparer of financial statements, an auditor, or an investor, creditor, or other user of financial statements. Please also indicate whether you primarily prepare, use, or audit financial information prepared in accordance with U.S. GAAP, IFRS, or both.**
- b. If you are a preparer of financial statements, please describe your primary business or businesses, their size (in terms of number of employees or other relevant metric), and whether you have securities registered on a securities exchange.**
- c. [Not applicable.]**
- d. [Not applicable.]**
- e. Please describe the degree to which each of the proposed new standards will affect you and the factors driving that effect (for example, preparers of financial statements might explain the frequency or materiality of the transactions to their business).**

FirstEnergy Corp. is a diversified energy company in the United States with approximately \$34 billion of assets, \$13 billion in annual revenues, and \$11 billion in market capitalization. Its subsidiaries and affiliates are involved in the generation, transmission and distribution of electricity, as well as energy management and other energy-related services. Its seven electric utility operating companies comprise the nation's fifth largest investor-owned electric system, based on 4.5 million customers served, within a 36,100-square-mile area of Ohio, Pennsylvania and New Jersey; and its generation subsidiaries control approximately 14,000 megawatts of capacity. FirstEnergy employs approximately 13,300 employees located within the United States.

FirstEnergy is a publicly traded company listed on the New York Stock Exchange and complies with the regulations of the Securities and Exchange Commission under the Securities Exchange Act of 1934. FirstEnergy is a seasoned issuer and is classified as a large accelerated filer.

FirstEnergy prepares and reports its financial statements in accordance with U.S. GAAP and expects to incur more than the usual amount of incremental costs involved in complying with new pronouncements in order to implement the recently proposed new standards. Below we have attempted to summarize the frequency and/or materiality of the impact of each pending Exposure Draft to our financial statements:

Accounting for Financial Instruments: The impact of the scope of the proposed amendments to accounting for financial instruments within our organization would apply to FirstEnergy's equity method investments, industry-specific assets, corporate debt, and hedging instruments. We have significant concern with the concept of fair valuing less-than-majority owned investments, regulatory assets and liabilities, and the potential impact to our financial statements when fair valuing our own debt given that the associated changes in fair value will be recognized in net income and would not be truly representational of our earnings from operations. Further, we believe that determining the fair value of the aforementioned financial assets and liabilities would require significant resources not only for the reporting entity, but also for external auditors (that would ultimately become a cost to the reporting entity) given that there is not an active market for a broad range of such instruments.

Equity-method Investments: At the end of 2009, we accounted for 18 equity-method investments of which the majority represented investments in low-income housing partnerships. Under the current accounting standards proposal, we would be required to account for these investments at fair value each reporting period. This proposed change in current practice would have a significant impact to the relationship we hold with these organizations. The majority of our investments are in small, private organizations that do not maintain the same internal control environment or financial reporting personnel as does an SEC registrant. Retrieving the appropriate information to fair value each

investment, each reporting period, would create an additional burden on these organizations. Further, we expect that our internal operations will entail significant cost and effort in the preparation of fair value models associated with these investments and additional time spent with external auditors assisting them in their evaluation of our in-house models and assumptions.

Long-term Debt Obligations: At the end of 2010, we had \$12.8 billion of long-term debt and other long-term obligations used to fund non-financial assets, such as capital expenditures for productive assets or general operations. Recognizing associated changes in fair value in net income may not be truly representational of our earnings from operations. We believe the current disclosure of fair value information associated with these obligations in our quarterly and annual financial statements provides sufficient information to users of financial statements.

Derivative Instruments: We use a variety of derivative instruments to manage our risk associated with commodity prices, including prices for electricity, natural gas, coal and energy transmission, and fluctuating interest rates. The proposed accounting standard is not expected to have a significant impact to FirstEnergy's current practice for accounting for derivative instruments.

Revenue Recognition: FirstEnergy accounts for its operating utilities through the application of regulatory accounting which allows the capitalization of certain costs if the rate actions of its regulator make it probable that these costs will be recovered in future revenue.

The proposed new accounting standard for revenue recognition would eliminate the current Accounting Standards Codification (ASC) 980, *Regulated Operations*. We believe the provisions of ASC 980 continue to be relevant and that the recognition of a revenue-generated regulatory asset should continue based on a probable future revenue stream established by an order from the utility's regulatory commission. We expect that eliminating accounting for revenue-generated regulatory assets would have a significant impact to rate-regulated entities.

Leases: The scope of our lease agreements extend across the leasing of generating facilities, office space and other property and equipment. At the end of 2010, our future minimum operating lease rental obligations were approximately \$3.3 billion compared to the present value of future minimum capital lease payments of \$40 million. Clearly, the proposed new accounting standard to accounting for leases will have a significant impact not only to our financial statements, but to the additional time and internal resources needed to track and account for operating and short-term leases each reporting period. The costs associated with implementation and continuing compliance will require a significant investment in our accounting systems, particularly in the area of records management.

Other Comprehensive Income: FirstEnergy currently presents comprehensive income as a component of our statement of common stockholders' equity. The proposed new accounting standard is not expected to have a significant impact to FirstEnergy.

**Question 2: Focusing only on those proposals that have been published as Exposure Drafts (accounting for financial instruments, other comprehensive income, revenue recognition and leases):**

- a. How much time will you need to learn about each proposal, appropriately train personnel, plan for, and implement or otherwise adapt to each new standard?**
- b. What are the types of costs you expect to incur in planning for and adapting to the new requirements and what are the primary drivers of those costs? What is the relative significance of each cost component?**

Financial Instruments: We expect we would need up to two years from the issuance of the final ASU to evaluate, prepare and implement the proposed new accounting standard to accounting for financial instruments. Given the scope of the proposed standard on a full range of financial instruments, we urge the FASB to consider a phase-in of the effective dates of certain sections of this proposal.

We expect to undergo revisions of our internal processes and procedures relating to accounting for all financial instruments based on the need to either create internal fair value models or outsource the preparation to third party consultants. The processes and controls around reviewing, recording and reporting fair value information will be most significantly impacted by the proposed standard. In addition, our organization will need time to educate management's understanding of the models and assumptions used in the fair value of financial instruments. We also expect to incur additional time and effort to educate our audit committee and external auditors on our fair value approaches and assumptions.

We expect to incur additional cost to either acquire internal resources for fair value modeling of financial instruments or to outsource the function to third party consultants.

Revenue Recognition: We expect we would take at least a year following the issuance of the final ASU to evaluate, prepare and implement the proposed new standard for revenue recognition. Unless the provisions of ASC 980 continue to allow for recognition of a revenue-generated regulatory asset, eliminating the accounting for revenue-generated regulatory assets will have a significant impact to rate-regulated entities and will require up to two years to educate regulators and other users of the financial statements about the change and its impact. Time will be critical to implementing needed regulatory changes, including potential rate proceedings and possible legislative changes, in the states we conduct business.

Leases: We believe that implementation of the proposed new accounting standard for leases would require from two to three years following the issuance of the final ASU. We do not agree that the proposed standards will provide enough benefit to the users of financial statements to outweigh the significant time, cost of implementation and recordkeeping associated with the amendments.

We expect costs to be incurred in the following areas relating to accounting for leases:

- 1) Additional time and internal resources needed to comprehensively track and account for all leases, including short-term leases, each reporting period.

This will require a significant capital investment in the form of updates to our current accounting software and will drive the need to expand personnel and software within the area of records management.

The proposed new accounting standard for leases does not sufficiently mitigate our concerns about costs associated with maintaining appropriate accounting records for short-term leases. While the proposal provides an option to eliminate the present value calculation for short-term leases, the increase in cost would primarily result from the need to individually track and monitor a much greater number of leases.

- 2) Additional costs and time associated with estimating lease terms and contingencies.

These requirements could be particularly onerous when applied to short-term leases, as defined in the proposal. Additional costs and time are expected to be incurred to maintain the appropriate accounting records sufficient to properly estimate lease terms and contingencies.

The requirement to reassess the estimates of lease terms and contingencies will entail significant effort compared to that currently required. As stated earlier, the costs of estimating lease terms and contingencies and maintaining appropriate accounting records sufficient to properly estimate lease terms and contingencies outside of traditional accounting systems would outweigh any potential benefits to be derived from such disclosures.

3) In its proposed new standard to leases, the Board did not consider continuing the existing grandfathering of executory contracts entered into prior to May 28, 2003, as allowed under *EITF Issue No. 01-08, Determining Whether an Arrangement Contains a Lease*.

We understand that the Board did not intend to modify the scope of contracts considered to be leases and therefore recommend correcting this unintended consequence. We believe that the costs associated with reassessing contracts executed prior to May 28, 2003 would be extensive and would outweigh the potential benefits of additional financial statement disclosure associated with these contracts.

**Question 3: Do you foresee other effects on the broader financial reporting system arising from these new standards? For example, will the new financial reporting requirements conflict with other regulatory or tax reporting requirements? Will they give rise to a need for changes in auditing standards?**

Under item 9A of Form 10-K and item 4 of Form 10-Q, a registrant must disclose any changes in internal control over financial reporting in its periodic SEC filings. Certain components of the proposed amendments will prompt changes in internal controls over financial reporting and will require disclosure by management in its SEC filings. Implementing changes in internal controls resulting from the adoption of the proposed new standards would be costly for companies due to changes in systems and processes.

Implementing the proposed new standard to accounting for leases would have an impact on our current debt covenants as a result of recording existing leases, currently classified as operating leases, on the balance sheet. We request that the Board consider this business challenge and provide several years for transition to allow entities sufficient time to manage the process of renegotiating loan covenants with lenders or to undergo any necessary public debt remarketing.

Finally, the implementation of the proposed standards to lease accounting and revenue recognition may have unintended consequences for regulated entities. Certain components of these proposals could cause a significant difference in a regulated entity's reported rate of return and earnings. We request that the Board provide guidance on how to account for these differences through its review of the existing guidance under *ASC 980, Regulated Operations*.

**Question 4: In the context of a broad implementation plan covering all the new requirements, do you agree with the transition method as proposed for each project? If not, what changes would you recommend and why? In particular, please explain the primary advantages of your recommended changes and their affect on the cost of adapting to the new reporting requirements?**

We generally agree with a retrospective transition approach to all periods presented because it assists financial statement users and investors in understanding year-over-year comparisons. While we recognize the cost and effort of a retrospective implementation, we feel the benefit to our investors

and other financial statement users will outweigh this disadvantage to our organization. This would be possible, however, only with a transition period spanning several years.

**Question 5: In thinking about an overall implementation plan covering all of the standards that are the subject of this Discussion Paper:**

- a. **Do you prefer the single date approach or the sequential approach? Why? What are the advantages and disadvantages of your preferred approach? How would your preferred approach minimize the cost of implementation or bring other benefits? Please describe the sources of those benefits (for example, economies of scale, minimizing disruption, or other synergistic benefits).**
- b. **Under a single date approach, what should the mandatory effective date be and why?**
- c. **Under the sequential approach, how should the new standards be sequenced (or grouped) and what should the mandatory effective dates for each group be? Please explain the primary factors that drive your recommended adoption sequence, such as the impact of interdependencies among the new standards.**
- d. **Do you think another approach would be viable and preferable? If so, please describe that approach and its advantages.**

We prefer a sequential overall implementation plan. Sequential implementation would mitigate adverse effects to companies because it would allow more time to develop systems and processes that produce reliability information. In addition, a staggered implementation would be more manageable for the users of financial statements – allowing them time to understand how the changes have impacted the financial statements.

Given the magnitude of implementing some of the proposed standards, staggering the effective dates would allow sufficient time for FirstEnergy's accounting and financial reporting groups to evaluate the new standards, create corporate implementation plans for each standard and to execute such plans. Further, given the retrospective transition of the majority of the proposed standards, our expectation is that each will require significant research of historical information in order to properly apply the new standards.

We suggest staggering the years that the proposed standards become effective in order to give reporting entities enough time to thoroughly review and implement the changes. Further, we suggest the following sequence of implementation based on the cost, effort and complexity expected by the changes. This sequence will also give entities ample time to prepare management for the internal changes and costs associated with each amendment:

Comprehensive Income	First reporting period in 2012
Revenue Recognition	For annual periods beginning after 1/1/2012
Financial Instruments	For annual periods beginning after 1/1/2013
Leases	For annual periods beginning after 1/1/2014

**Question 6: Should the Board give companies the option of adopting some or all of the new standards before their mandatory effective date? Why or why not? Which ones? What restrictions, if any, should there be on early adoption (for example, are there related requirements that should be adopted at the same time)?**

We disagree with the allowance of early adoption of any of the proposed standards given that early adoption will significantly reduce comparability of financial statements across companies. The financial statement scope, materiality and disclosure requirements of the proposed standards are too

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significant when compared to current accounting practices and the current presentation of financial statements and disclosures.

By allowing early adoption of the proposed standards, users of financial information would find it very difficult to understand and quantify the differences between companies that choose to adopt early from those that choose to adopt on schedule. In addition, users of financial information may not have enough expertise or sufficient information available to carve out the financial statement impact of early adoption, reducing not only comparability but also the usefulness of the financial statements.

FirstEnergy commends the Board for soliciting information from stakeholders about the time and effort that will be involved in adapting to the proposed new accounting and reporting standards and when those standards should become effective. Thank you for your attention and consideration of our comments as you consider an appropriate implementation plan.

Sincerely,

A handwritten signature in cursive script, appearing to read "Harry L. Rogers". The signature is written in dark ink on a light-colored background.