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Director of Research and Technical Activities Financial Accounting Standards Board 401 Merritt 7 Post Office Box 5116 Norwalk, Connecticut 06856-5116

File Reference No. 194-B Consolidated Financial Statements: Purpose and Policy

Dear Sirs:

Texas Utilities Company (TXU) respectfully submits the following comments in response to the Financial Accounting Standards Board's Revised Exposure Draft on Consolidated Financial Statements: Purpose and Policy (the ED) dated February 23, 1999.

TXU is one of the largest investor-owned energy service companies in the world. Through its subsidiaries, TXU engages in the generation, purchase, transmission, distribution and sale of electricity; the gathering, processing, transmission and distribution of natural gas; energy marketing; and telecommunications, retail energy services, international gas operations, power development and other businesses primarily in the United States, the United Kingdom and Australia.

Guidance on applying definition of control

TXU is concerned that guidance provided in paragraphs 18(b) and 18(c) will lead to inconsistent conclusions on whether or not to consolidate an entity.

Paragraph 18(b) states that if an entity "has a large minority voting interest in the election of a corporation's governing body and no other party or organized group of parties has a significant voting interest" then it is presumed, unless evidence demonstrates otherwise, that the entity has control. Additional guidance is needed to implement this presumption, along with examples of persuasive evidence that may indicate the existence of control.

Paragraph 18(c) states that an entity having a "unilateral ability" to acquire majority voting interest in a corporation, through the conversion of presently-held convertible securities, should consolidate the corporation despite the fact that it is currently controlled by a third party possessing a majority voting interest. The ED clearly indicates

that the ability to obtain control can override current control. TXU believes that the entity with current control is required to consolidate the subsidiary as long as it has the majority voting interest.

Example 4 of the ED provides an illustration in which it is clear from the facts that control of this Special Purpose Entity (SPE) exists. However, illustrations of the type of evidence that might demonstrate that control does not exist should be provided. Additional guidance is needed to resolve this conflict within the ED.

TXU believes that the Board should consider and address the impact this ED, specifically the presumptions of control addressed in paragraphs 18(b) and 18(c), will have on current guidance offered in Accounting Principles Board Opinion 18 (APB 18), "The Equity Method of Accounting for Investments in Common Stock". As currently stated, the ED may require that an investment currently accounted for using the cost method be accounted for using the equity method or be consolidated based on whether the investor has "significant influence" as defined in APB 18 or the investment meets the ED's definition of control.

Special-Purpose Entities

TXU is concerned that the ED, as currently stated, does not include or exclude current guidance on SPE transactions and, therefore, it is unclear how this ED affects accounting for SPEs. TXU believes the Board should consider and address the impact the ED has on the accounting for qualifying SPEs under the Statement of Financial Accounting Standards No. 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" and other securitization transactions involving SPEs. TXU is also concerned that the guidance provided in the ED for leasing SPEs does not include or exclude current Emerging Issues Task Force guidance on these SPE transactions; consequently, it is unclear how the ED affects leasing SPEs. TXU is concerned that a lack of consideration of current accounting literature will lead to inconsistency when entities go forward in applying the ED.

Conclusion

TXU respectfully requests that the Board offer more guidance for implementing the definition of control and clearer guidance as to how current accounting literature is impacted by the ED.

TXU appreciates this opportunity to provide input to the standard setting process. We hope the foregoing comments will be helpful to the Board in its work on this project.

Sincerely,

Jorn W. Inherton