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March 30, 2009

LETTER OF COMMENT NO. 132

Technical Director, FASB  
401 Merritt 7, PO Box 5116  
Norwalk, CT 06856-5116



File Reference: Proposed FSP FAS 157-e

*A New Generation of Energy*

Dear Sir:

Conectiv Energy, a division of Pepco Holdings, Inc., would like to submit comments regarding proposed FSP FAS 157-e. Our comments are grouped below by question number.

Question 1: Is the proposed effective date of interim and annual periods ending after March 15, 2009, operational?

The implementation of improvement on the fair value model should be implemented as soon as possible. Companies experiencing difficulty with the current model, as interpreted, are likely to be experiencing negative financial consequences, and should be willing to implement improvements quickly.

Question 2: Will this proposed FSP meet the project's objective to improve financial reporting by addressing fair value measurement application issues identified by constituents related to determining whether a market is not active and a transaction is not distressed? Do you believe the amendments to Statement 157 in this proposed FSP are necessary, or do you believe the current requirements in Statement 157 should be retained?

The proposed two-step approach is an appropriate, principles-based, approach to resolving valuation issues for instruments in inactive markets. Step 1 represents a list of common-sense guidelines, and Step 2 asks the reporting entity to use good judgment in modeling fair value.

There is a need for this additional guidance because the audit community continues to struggle in its interpretation of SFAS No. 157. The difficulty stems from two concepts embedded in FAS 157:

1. the concept of "exit price" as the sole determination of fair value;
2. the concept that "observable market data" should be used before other factors are considered.

Unfortunately, the concept of exit price breaks down in thin markets. Companies with the ability and willingness to hold onto instruments through times when a market is weak should be permitted to use alternative valuation scenarios for their instruments. For

example, a company that intends to hold a mortgage bond to maturity, and has the financial strength to do so, might use a discounted cash flow model to represent fair value. As an alternative to the one-size-fits-all approach of exit price, perhaps FAS 157 should require disclosure of models used if alternative valuation techniques are applied.

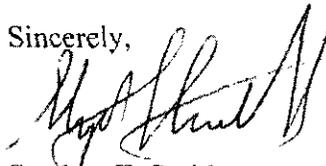
Question 3: Do you believe the proposed two-step model for determining whether a market is not active and a transaction is not distressed is understandable and operational? If not, please suggest alternative ways of identifying inactive markets and distressed transactions.

As mentioned above, the criteria listed in Paragraph 11 are a set of common-sense guidelines of when it would be appropriate to use an alternative valuation approach. There is no one method to identify a distressed market. The facts and circumstances that determine market liquidity can vary from market to market, and between different instruments in the same market (e.g. it may be easy to trade a commodity strip for year one, but the market for transactions three years out may be very thin). The guidelines presented appear to be adequate to determine market liquidity in most cases, and the list is not intended to be all-inclusive.

In summary, FSP FAS 157-e moves FAS 157 closer to being a principles-based standard. In many cases, fair value is difficult to determine. Infrequently traded, complex instruments increase the chance that individuals and entities will disagree on fair value and the best methods to measure it. FASB may want to consider shifting focus from prescribing methodology to enhancing disclosure for fair value accounting.

Thank you for the opportunity to comment on this matter.

Sincerely,



Stephen T. Smith  
Division Controller  
Conectiv Energy