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TRACKING THE NUMBERS

Outside Audit

Getting Rid of Factories Is About to Get Tougher

New Guidance Will Require Companies to Account For the Expenses Upfront

By **DIYA GULLAPALLI**
Staff Reporter of THE WALL STREET JOURNAL
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New guidance on how to mark the books when getting rid of factories has power companies fired up.

Nevertheless, in a few weeks the Financial Accounting Standards Board plans to finalize a change in the way companies estimate the cost of disposing of plants or factories and other assets. Companies will have to apply the guideline in financial statements issued after Dec. 15.

The issue seems technical, but the response from electric utilities and dozens of other companies has been one of shock. That is because FASB's guidance is likely to require these companies to immediately expense hundreds of millions of dollars to record the cumulative effects of the accounting change on their income statements, while adding an obligation to their balance sheets that they will have to make good on down the road with cold hard cash.

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The new approach is actually a clarification of an element of a rule that FASB put into effect in 2002 amid a rise in asbestos problems at U.S. factories.

Asbestos cleanup was raising the costs of shuttering facilities, creating questions about whether companies were giving investors enough information about these costs.

The 2002 rule established that companies must recognize future disposal costs as a liability on their books. The new guidance broadens the definition of which obligations must be booked immediately when acquiring plants. It requires that "asset retirement obligations," or AROs, are recognized right away if there is some legal obligation to do work to retire a factory, say, through disposal, sale or abandonment.

For example, if a company acquires a factory that contains asbestos, and legislation requires asbestos to be removed if the company decides to demolish the building, the company must book a liability on its balance sheet in that period -- even if the company isn't sure how or whether it will dispose of the factory later. This is assuming the company has enough information to estimate the liability.

Many in the accounting and industrial worlds say FASB's guidance is nonsensical in instances where there are a lot of "what ifs" about a factory's ultimate disposition. Along these lines, power utilities as well as pharmaceutical, telecommunication and other companies sent about 35 letters to the accounting oversight body, based in Norwalk, Conn., this past summer when FASB was soliciting public comment on ways to clarify the rule's application.

FASB's guidance "provides examples that are contradictory and cannot be applied consistently," wrote Joseph Buonaiuto, chief accounting officer of American Electric Power Co.

Maybe We Should Keep It
 New guidance from the Financial Accounting Standards Board could force utilities and other companies to book more liabilities when disposing of plants

CORPORATE BEEF WITH THE FASB'S NEW GUIDANCE	FASB RESPONSE
Too many uncertainties to account for	Uncertainties must be measured, not ignored

"We believe that this interpretation actually interjects risk, uncertainty and noncomparability into the financial-statement process," stated Loretta Cangialosi, vice president and controller of **Pfizer** Inc.

"With so many unknown variables [in fact, with no values known with any degree of certainty], we would argue that any resulting calculated value of the liability would be arbitrary at best," penned Rajeev Bhalla, then vice president and controller of **Lockheed Martin Corp.**

Other letter writers included Edison Electric Institute, **BellSouth Corp.**, **Eastman Kodak Co.** and **Eli Lilly & Co.**

FASB says it tried to take these concerns into consideration in the new guidance. The board concluded that its approach is "a better method because it increases the informational content of financial statements," says Randall Sogoloff, a FASB practice fellow working on the project. "The uncertainty of timing and settlement should be reflected in the financial statements." It isn't an excuse to forgo accounting for the AROs right away, he says.

AEP recorded \$827 million in AROs in 2004 and expects that this interpretation likely would add more AROs in the future, although Mr. Buonaiuto says it is too early to say exactly how much. The AROs added \$242 million to the company's liabilities when AEP began recording them in 2003. Last year AEP booked AROs for nuclear-plant decommissioning and ash ponds, as well as certain plants and windmills in the United Kingdom.

Another group that reported hefty AROs was Edison Electric Institute. EEI is an association of U.S. investor-owned electric utilities. According to its research, these utilities set up \$18 billion in AROs in 2003 for \$600 billion in gross plant, property and equipment and expects future obligations to rise after the interpretation. "The issue we have is that you're dealing with obligations that are conditional on something happening in the future," says David Stringfellow, director of accounting at EEI. "It's extremely uncertain when those things might occur and you have to make a lot of estimates."

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