Letter of Comment No. 111
File Reference: 13-3PV
Date Received: 3/16/12

CPS ENERGY

March 15, 2012

Mr. David R. Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
Project 13-3
401 Merritt 7
Norwalk, CT 06856-5116

Dear Mr. Bean:

CPS Energy is one of the country's largest municipally owned combined electric and gas utilities. We present our financial statements in accordance with U.S. generally accepted accounting principles for proprietary funds of governmental entities, and comply with all applicable pronouncements of the Governmental Accounting Standards Board (GASB or the Board). We appreciate the opportunity to review and respond to GASB regarding the Preliminary Views (PV) statement on *Economic Condition Reporting: Financial Projections.*

While we appreciate the importance of the concern that GASB is endeavoring to address in the PV, and acknowledge the underlying merit of the concepts presented, we have serious reservations with the proposed requirements described therein, in general, and particularly as they relate to CPS Energy.

Further, while we are in agreement with the Board that projections and forward looking information are very important data, we believe their usefulness is limited to that of being a planning and budgeting tool for the use of management. We do not believe that data requiring extensive use of subjective assumptions that can and often do change on a daily or monthly basis can maintain their meaningfulness next to historical and fixed information.

Additionally, we consider that there would be significant risk associated with the publication of financial projections. The ever-changing nature of projected data reported from one year to the next would likely confuse the readers of the statements and may contribute to a sense that they have been misled.

We are also concerned that guidance in the PV omits, not only weighted impacts of the risks associated with the environment in which the governmental entity conducts its business, but fails to require reporting a description and assessment of those risks. We believe that a well developed discussion of the key short- and long-term risks and business variants affecting each governmental entity, and their relationships to each other and to the external environment in which business is conducted and services are provided would provide a far more meaningful tool for assessing the entity's fiscal sustainability than would financial projections.

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As a public power entity that owns and operates its own electric generation portfolio of assets, the requirement to provide the information proposed in the PV will put CPS Energy and many or our public power peers at a competitive disadvantage to investor owned utilities. Investor owned utilities operating under guidance from FASB and regulation from the SEC are not required to provide this information in their financial statements, and a divergence in reporting of this nature could potentially leave public power in a financially vulnerable position in a market driven environment.

CPS Energy offers the following comments in response to the questions included in GASB's Preliminary Views, *Economic Condition Reporting: Financial Projections.*

Question 1: Five Information Components Necessary for Assessing Fiscal Sustainability

We disagree that the five components described are necessary to assist users in assessing a governmental entity's fiscal sustainability. Components 1 through 4 describe projected financial data. We are very concerned about the publication of projected financial data with the intention that such data be used by readers as a basis for evaluating our fiscal sustainability. We believe the value of the projected data described would be inherently compromised beyond reliable usefulness for the intended purpose because, for our enterprise and others in public power, many of the material underlying variables are very dynamic and can be significantly unpredictable. Examples of these types of variables include weather patterns, natural gas prices, national and local economic conditions, technological advances that materially affect our business, and political trends that underlie regulations, which directly and materially affect our business. Reporting financial projections based on such volatile and unpredictable variables could be construed as misleading the reader. Further, projected data reported in the manner described in components one through five fail to demonstrate the potential variability of an entity's response to the dynamic circumstances in which it operates.

We believe that our current reporting, by means of our annual financial report and the reporting we provide as required by the Municipal Securities Rulemaking Board provides information that demonstrates our ability and willingness, as a governmental entity, to meet our financial obligations as they come due and meet our commitments to provide services on an ongoing basis. Users of our reported information are supplied with actual historical data and certain forward-looking information (future payments to be made related to capital and operating leases, debt service requirements), based on actual facts and circumstances, which enable them to reach their own conclusions about our future fiscal sustainability.

As an alternative to the way the five components are proposed in the PV, we believe that disclosure of major intergovernmental interdependencies could be incorporated into the existing framework of financial reporting, perhaps as a component of Management's Discussion and Analysis.

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Question 2: Basis for Formulating Financial Projections
Recognizing our fundamental objection to reporting financial projections as required supplemental information ("RSI"), we have concerns with the Board's proposal that financial projections should be (a) based on current policy, (b) informed by historical information, and (c) adjusted for known events and conditions that affect the projection periods. Limiting consideration of financial projections to currently adopted policy ignores the very real element of business environment change and an entity's responses to those changes. Not reporting actions contemplated by the governmental entity will produce results that could unfavorably impact stakeholder expectations for the entity.

Question 3: Basis of Accounting for Financial Projections
Recognizing our fundamental objection to reporting financial projections as RSI, we do not agree with the Board's view that financial projections should reflect a blend of cash basis and accrual basis accounting. We maintain accrual basis accounting records. We do not maintain historical financial records on a cash basis. It would be prohibitively cost ineffective to reproduce our accounting history on a cash basis so that information could be used as the basis for formulating financial projections. Further, we believe it would not be helpful to our readers to have two methods of reporting within the same document. Indeed, we think this practice would cause significant confusion for the readers of the statements. We suggest that if the Board continues to move forward with the idea of reporting financial projections, that it guides governmental entities to prepare and present this information on an accounting basis consistent with its existing financial reporting.

Question 4: Guidance for Identification and Development of Assumptions
Recognizing our fundamental objection to reporting financial projections as RSI, we agree with the Board's view that financial projection assumptions should consider relevant historical information, as well as events and conditions that have occurred and pertain to the projection periods. However, we believe the suggested method for formulating financial projections unrealistically suggests stability can be expected with respect to business elements materially affecting the reporting entity, when, in fact, volatility is a certainty. To exclude from projections the effects of unknown trends, such as economic, regulatory, environmental and technological, in factors significantly affecting the reporting entity is to suggest that the reporting entity presumes changes in these factors will not occur, in spite of the certainty of the fact. This deficiency would greatly compromise the usefulness of financial projections as a tool for evaluating the sustainability of the reporting entity.

Question 5: Number of Periods Covered by Financial Projections
A five-year projection period is gravely concerning to us because the data that would contribute most to the reader's ability to assess fiscal sustainability is that which is projected out the furthest, and also that which has the highest propensity to change substantially. The projection over a short period would be somewhat helpful, but such an approach will not solve the other issues cited in the paper.

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Question 6: Reporting Components of Fiscal Sustainability as Required Supplementary Information

We disagree with the Board's view that all of the components of fiscal sustainability information are essential for placing the basic financial statements and related notes in an operational or economic context and therefore should be required as RSI. Consistent with the alternative view expressed in Chapter 6 of the PV by two Board members, we do not believe that this information "is essential for placing basic financial statements and notes to the basic financial statements in an appropriate operational, economic, or historical context" (Concepts Statement 3, paragraph 42).

Accounting and financial reporting rightly focuses on objective, historical data. To introduce financial projections, with an entirely alternative nature –subjective, projected with an often very high degree of uncertainty, and forward-looking– into financial reporting content is dangerous in terms of the potential for misleading readers as to the reliability of the projection data and inappropriate.

A secondary concern regarding including this type of information as RSI is that the timeliness of conducting the annual audit and simultaneously coordinating an update of the long-range projections in enough time to relevant to investors. If we alternatively use the previous year's plan, it easily could be stale by the time the audit report is due to be released. We further anticipate practical difficulties in assisting our auditors to understand and gain necessary comfort with perceived subjectivity in key assumptions as reflected in financial projections compared to assumptions that affect accounting measurement and historical reporting.

Question 7: Entities Subject to Financial Projection and Related Discussion Reporting Requirements

We do not agree that all governmental entities should be required to report financial projections and related narrative discussions, for the reasons cited throughout our letter of response to the PV. We urge the Board to consider prescribing the reporting of financial projections as optional for those governmental entities that believe such reporting could be done meaningfully for their entity, and would be useful for their stakeholders.

Question 8: Reporting Requirements Phase-In Period

Recognizing our fundamental objection to reporting financial projections as RSI, if the Board continues to move forward with the idea of reporting financial projections, we consider more important than phasing-in reporting requirements is the allowance of ample time for all reporting entities to assimilate the considerable additional resources that will be required to fulfill the requirements described in the PV. Significant planning will be required with auditors to address the myriad of concerns and difficulties that will undoubtedly be part of their review of this information as RSI. Other third-party professional services will very likely be required, such as actuaries, to provide necessary information for financial projections. Of course, these collective efforts will likely come at significant cost to the reporting entities, another factor for which to plan and provide.

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Conclusion:
In summary, CPS Energy requests that GASB give serious consideration to all of the feedback we have provided in this letter, with particular emphasis on our belief that for a municipally owned utility, such as CPS Energy, the cost-benefit relationship of reporting financial projections and related narrative, as described in the PV, is questionable, at best. Besides our doubt about the degree of benefit that might be provided by the proposed reporting, we have serious concern that there could be considerable problems associated with such reporting. Projected data promotes the possibility of erroneous conclusions being formed on the part of the reader about the effectiveness or performance of the government, or its viability, because of the many inherent limitations of the projections.

We appreciate GASB's efforts in preparing the Preliminary View and express our gratitude for the opportunity to respond. Should you require additional information, please feel free to phone me at 210.353.4399, or contact me by email at pygold-williams@cpsenergy.com.

Sincerely,

Paula Gold-Williams

Paula Gold-Williams
Executive Vice President and CFO