March 30, 2016

Mr. David R. Bean
Director of Research and Technical Activities
Project No. 3-27E
Governmental Accounting Standards Board
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Mr. Bean:

Baker Tilly Virchow Krause, LLP ("Baker Tilly") appreciates the opportunity to respond to the GASB Exposure Draft ("ED"), Certain Asset Retirement Obligations ("ARO").

Baker Tilly is a large accounting firm with approximately 300 partners and 2,600 team members, and is ranked in the top 12 of American CPA firms. Baker Tilly performs approximately 1,000 audits of governmental entities annually. We have drawn on this experience, as well as ED comments provided by our clients, in preparing our response for your consideration.

General

We agree with adding additional standards to account for certain asset retirement obligations that are absent from existing GASB standards; however, we do have comments in response to this ED. Overall, we question why asset retirement obligation guidance was not considered more comprehensively with existing GASB Statement No. 18, Accounting for Municipal Waste Landfill Closure and Postclosure Care Costs, and GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. We believe a more consistent and comprehensive standard for these related topics would promote consistent application in practice.

Current Value Approach to Initial Measurement

These paragraphs require the measurement of the liability to be based on a current value approach of the expected outlays to be incurred. We are concerned that the introduction of this approach, which is different from the measurement approach used for similar liabilities (specifically those identified in GASB 18 and 49), introduces complexities to the financial reporting framework that will be challenging to implement for preparers that view these as conceptually similar.

In addition to the differences with existing GASB standards, the current value approach is very different than the FASB guidance being followed by many public utilities who currently report AROs. We believe that the divergence of FASB and GASB on this topic will result in challenges for these utilities identified below.

1. From our experience, we disagree with the information in the basis for conclusions paragraph B34 that states the board believes settlement value better equates value since governments generally settle their obligations internally. For many of our utility clients with AROs, this is not the case since many of these obligations are settled outside of the organization (such as decommissioning a power plant or joint operations with other entities).
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2. Utilities look to the market to determine whether certain projects should be pursued (whether constructed or purchased), and the value of the ARO is factored into these evaluations. If the valuation of the ARO is significantly different between GASB and FASB guidance, this will cause additional administrative burden for public utilities that will likely need to value the AROs in two different methods for purposes of evaluating projects.  

3. Many of our municipal utility clients have joint ownership of power plants and record their share of this type of ownership using the undivided interest method. In many instances, these joint projects are reported based on existing FASB guidance. Using different measurement approaches will create inconsistencies when recording these types of projects on the financial statement of otherwise similar municipal utilities.  

We request that the Board consider the appropriateness of the divergence with the measurement approach in GASB 18 and 49, as well as the complexities for public utilities currently reporting AROs under FASB guidance, as part of the final deliberation of this ED.  

Subsequent Measurement  

We anticipate inconsistency in applying the requirements in paragraphs 18 and 19 of the ED for subsequent remeasurement. We believe the annual consideration of inflation or deflation in paragraph 18 will be inconsistently applied when the annual changes are deemed to be immaterial. Also, the use of the terminology "significant" in paragraph 19 may be challenging to interpret because it is not defined in the ED. Rather than a two part approach, we recommend language that combines these factors and requires remeasurement as necessary to account for changes to the various factors that impact the calculation of the ARO.  

We appreciate the opportunity to provide comments on this exposure draft. Should you wish to discuss any of these comments, please contact Heather Acker at heather.acker@bakertilly.com or 608 240 2374 and Russ Hissom at russ.hissom@bakertilly.com or 608 240 2361.  

Sincerely,  

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