Darryl Coit

From: steve.korn@us.pwcglobal.com
Sent: Thursday, January 30, 2003 6:56 PM
To: dcoit@empiredistrict.com
Cc: gknapp@empiredistrict.com; stephen.ditman@us.pwcglobal.com
Subject: Re: FAS 143 Implementation Issue

Darryl,

The Ameren contact on FAS 143 is Theresa Nistendirk. Theresa was recently an audit manager with PwC, but now works for Marty Lyons. Her phone number is 314-206-0693. Ameren engaged Armstrong Teasdale to assist from a legal standpoint. Theresa can give you the name of the individual at that firm. I spoke to Theresa today and she is more than happy to explain to you the approach they used.

Also, please review the information below related to FAS 143. We will need to discuss this in the near future as it relates to the 10-K disclosures. As always, feel free to call me with any questions.

Regards,
Steve

Stephen Ditman
01/30/2003 02:08 PM

To: Miles Mooney/US/ABAS/PwC@Americas-US,
cc:
Subject: FAS 143 Implementation Issue

----- Forwarded by Stephen Ditman/US/ABAS/PwC on 01/30/2003 02:08 PM -----

Michael A. Herman
01/30/2003 11:19 AM
312.298.4462
Chicago

To: Alan D Felsenthal/US/ABAS/PwC@Americas-US, Alan Page/US/ABAS/PwC@Americas-US, Andrew McAdams/US/ABAS/PwC@Americas-US, Curtis J. Klement/US/ABAS/PwC@Americas-US, Dale Schaefer/C&L/SA@EMEA-SA@Americas-US, David Etheridge/US/ABAS/PwC@Americas-US, David P. Whitman/US/ABAS/PwC@Americas-US, David Schroeder/US/ABAS/PwC@Americas-US, Don Irving/US/ABAS/PwC@Americas-US, Doug Beck/US/ABAS/PwC@Americas-US, G Robert Powell/US/ABAS/PwC@Americas-US, James A. Kelly/US/ABAS/PwC@Americas-US, James D. Callihan/US/ABAS/PwC@Americas-US, James R. Hanlon/US/ABAS/PwC@Americas-US, Jim Palumbo/US/ABAS/PwC@Americas-US, John J. Gillen/US/ABAS/PwC@Americas-US, John McConomy/US/ABAS/PwC@Americas-US, Jon Staudt/US/ABAS/PwC@Americas-US, Mark Niehaus/US/ABAS/PwC@Americas-US, Martha Z

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cc:
Subject: FAS 143 Implementation Issue

Based on recent feedback from a number of engagement teams, it seems there is some confusion about PwC's advice to our clients concerning the implementation of FAS 143 as it relates to the accounting for excess depreciation recorded as a reserve for removal and retirement costs. Below is the guidance previously included in our Utility Industry Whitepaper - 2002 YeMiar-End Update (pdf version attached below):

FAS 143 includes special provisions for entities that apply FAS 71, Accounting for the Effects of Certain Types of Regulation (FAS 71). Differences between amounts collected through rates and amounts recognized in accordance with FAS 143 should be reflected as regulatory assets and liabilities, if the requirements of FAS 71 are met.

Historically, many utilities have received rate recovery through higher depreciation rates or otherwise received rate recovery of amounts designated for removal and retirement of utility plant assets. In some cases, the utility may have a clear legal obligation creating an ARO-- the requirement to decommission nuclear generating stations, for example. However, in other cases the utility's retirement obligation may not be as explicit. These rate arrangements should be evaluated to determine if an ARO has been established under the doctrine of promissory estoppel. As described above, companies will need the input of legal counsel in order to determine if such an obligation has been created.

If it is concluded that no obligation has been created, it may be necessary to cease the accounting practice of depreciating certain assets, such as transmission and distribution assets, using a negative salvage value approach, i.e., recognizing accumulated depreciation in excess of the historical cost of an asset, because the removal cost exceeds the estimated salvage value. Note that under FAS 143, the cost associated with the retirement of a long-lived asset may only be accrued when incurred, i.e., when a legal obligation exists. The standard does not allow an entity to recognize accumulated depreciation in excess of historic cost, and therefore a company will be precluded from accruing the cost of removal in excess of salvage value either as a liability or in depreciation rates. It will be necessary to cease this accounting practice on the adoption of FAS 143 and reflect

this change either in income (as a cumulative effect of an accounting change) or (for entities that are
still applying FAS 71) possibly as a regulatory liability if such liability meets the provisions of
paragraph 11 of FAS 71. [emphasis added]

As recently as December of 2002 some debate existed about this accounting and several of the other Big Four Firms were advising their clients that FAS 143 did not change the accounting for negative salvage value deemed not to be an ARO. However, recently the SEC Staff has specifically addressed this question and affirmed PwC's view as articulated above. We understand that both D&T and E&Y have recently advised their clients as to their change in position on this matter.

We have at times indicated in various speeches and presentations that, depending upon specific company circumstances, especially the materiality of an imbedded regulatory liability to the relevant balance sheet captions, we would suggest but not require our clients to reclassify the regulatory liability out of accumulated depreciation to the right side of the balance sheet. We continue to believe this guidance is appropriate. However, to arrive at the conclusion the reclassification is not necessary our clients must consider the materiality of the imbedded regulatory liability to their balance sheet. Obviously to conclude on the materiality of the amount they must first quantify the amount of the imbedded regulatory liability, a process which might take some time and effort.

Please take a few moments to remind our clients of our views on this issue, and to confirm that they are working on the quantification of the imbedded regulatory liability. I suspect that as a result of SAB 74 disclosures required in this years Form 10-K's, we would expect our clients to complete this exercise and form their conclusions as to materiality prior to the filing of the Form 10-K's.

Please feel free to call either me or Doug Beck is you would like to discuss our observations on this issue further.

Regards.

sey Herman
312.298.4462