



September 7, 2010

Mr. Russell G. Golden  
Technical Director  
Financial Accounting Standards Board (FASB)  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

File Reference No. 1830-100

Re: Exposure Draft - Proposed Accounting Standards Update, Fair Value Measurements and Disclosures (Topic 820) Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs

Dear Mr. Golden:

RRI Energy (RRI) appreciates the opportunity to provide comments on the exposure draft for developing common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRSs. We understand that in order to aid in the analysis of a reporting entity's performance, one of the requirements of this amendment is to provide users of financial statements with information about how the effects of changing one or more unobservable inputs would impact a fair value measurement, including an assessment of the correlation between such unobservable inputs. While we support the Board's objective to provide users of financial statements with information about the measurement uncertainty inherent in fair value measurements categorized within Level 3 of the fair value hierarchy, we do not believe quantifying this information in the manner the Board has proposed is relevant or useful for physical and financial commodity derivative instruments. We believe any additional disclosures regarding the risks associated with unobservable inputs should be based on discussing the management of those risks, as the foundation for a reliable Level 3 fair value measurement is the success of a reporting entity's valuation procedures and subsequent review of fair value estimates.

Our responses to specific questions for respondents are presented below. We request that the Board reconsider the additional sensitivity disclosure requirements of this exposure draft, as we believe the lack of usefulness does not support the administrative costs associated with implementation and ongoing maintenance.

**Question 4: The Board has decided to permit an exception to fair value measurement requirements for measuring the fair value of a group of financial assets and financial liabilities that are managed on the basis of the reporting entity's net exposure to a particular market risk (or risks) (that is, interest rate risk, currency risk, or other price risk) or to the credit risk of a particular counterparty.**

**a. Do you think that proposal is appropriate? If not, why not?**

**b. Do you believe that the application of the proposed guidance would change the fair value measurements of financial assets and financial liabilities that are managed on the basis of the reporting entity's net exposure to those risks? If so, please describe how the proposed guidance would affect current practice.**

RRI Response: We believe this proposal is appropriate and do not anticipate it will change our fair value measurements that are managed on the basis of our net exposure to those risks.

**Question 5: The Board has decided to clarify the meaning of a blockage factor and to prohibit the use of a blockage factor when fair value is measured using a quoted price for an asset or a liability (or similar assets or liabilities). Do you think that proposal is appropriate? If not, why not?**

RRI Response: We believe this proposal is appropriate.

**Question 7: The Board has decided to require a reporting entity to disclose a measurement uncertainty analysis that takes into account the effect of correlation between unobservable inputs for recurring fair value measurements categorized within Level 3 of the fair value hierarchy unless another Topic specifies that such a disclosure is not required for a particular asset or liability (for example, the Board has decided in its project on the accounting for financial instruments that a measurement uncertainty analysis disclosure would not be required for investments in unquoted equity instruments). Do you think that proposal is appropriate? If not, why not?**

RRI Response: We believe that the requirements in providing Level 3 sensitivity disclosures in the manner described, exceed what is necessary in order to convey to the reader the commodity risks we face in our industry. The incremental administrative burden associated with collecting and preserving the required information is unlikely to provide such benefits to the users of the financial statements as to outweigh the costs of preparing the information. We do not believe a reasonable investor would arrive at a different investment conclusion based on having a range of outcomes for Level 3 fair

value measurements, as opposed to the current application using a stress analysis based on a specific rate of change to the Level 3 inputs used to measure fair value.

Paragraph BC63 of the exposure draft states the Board concluded that reporting entities should not need to assess how observable inputs might have differed, particularly because the disclosure is about measurement uncertainty. For certain fair value measurements using significant unobservable Level 3 inputs, such as physical and financial commodity swaps, a single pricing element is the predominant valuation source. In less liquid markets, in which a single broker's view of the market is used to estimate fair value, we consider such inputs to be unobservable Level 3 inputs. The Level 3 inputs for commodity derivative transactions are primarily obtained for a fee from external pricing services. For the commodities in which we transact, power, natural gas and coal, there is minimal variability in reported transaction pricing. We request the Board clarify whether these inputs are considered by the Board to be observable inputs not subject to the Level 3 sensitivity disclosures.

Paragraph BC59 of the exposure draft explicitly states the objective of the proposed measurement uncertainty analysis disclosure is different from the objectives of other disclosures that a reporting entity may be required to make in the Quantitative and Qualitative Disclosures about Market Risk section of MD&A. To engage multiple pricing services as a means to obtain reasonable alternative inputs is unlikely to provide additional information about measurement uncertainty or be more meaningful to a financial statement user than the existing sensitivity disclosure requirements in MD&A. The majority of pricing services available for our physical commodities will utilize inputs from the same data sources and merely provide an independent statistical analysis. The assumption that the independent statistical analysis performed would yield a result significantly different from what our valuation experts believe to be the most accurate depiction of fair value as of the reporting date is remote, therefore a considerable amount of cost and effort could be expended for little practical benefit.

**Question 8: Are there alternative disclosures to the proposed measurement uncertainty analysis that you believe might provide users of financial statements with information about the measurement uncertainty inherent in fair value measurements categorized within Level 3 of the fair value hierarchy that the Board should consider instead? If so, please provide a description of those disclosures and the reasons why you think that information would be more useful and more cost-beneficial.**

RRI Response: As stated above, for physical and financial commodity derivative instruments, we do not believe it is relevant or useful to quantify measurement uncertainty inherent in fair value measurements categorized within Level 3 of the fair value hierarchy in the manner proposed by the Board. To provide users of financial statements with information that helps them to assess the subjectivity of a reporting entity's Level 3 fair value measurements, we believe it would be more beneficial to discuss management's process surrounding valuation methodology and subsequent validation of fair value estimates.

**Question 9: The Board has decided to require limited retrospective transition. Do you think that proposal is appropriate? If not, why not?**

RRI Response: We believe this proposal is appropriate.

**Question 12: How much time do you think constituents would need to prepare for and implement the amendments in this proposed Update?**

RRI Response: At this time we have not performed an in depth analysis, however we anticipate significant implementation effort and cost, as well as ongoing operational and administrative costs associated with system functionality enhancements, external pricing services, data capture and storage, staffing resources and audit fees. We recommend the Board consider delaying adoption for at least one year.

Once again, RRI is grateful for the opportunity to express our views on these very important issues to our industry and would be pleased to respond to any further questions you may have.

Sincerely,



Deana N. Mangan  
Director of Derivatives Accounting