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ONE HUNDRED NINTH CONGRESS

U.S. House of Representatives
Committee on Energy and Commerce
Washington, DC 20515-6115

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February 9, 2006

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The Honorable Samuel W. Bodman
Secretary
Department of Energy
1000 Independence Avenue, S.W.
Washington, D.C. 20585

The Honorable Joseph T. Kelliher
Chairman
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

The Honorable Christopher Cox
Chairman
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Mr. Robert H. Herz
Chairman
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, Connecticut 06856

Dear Secretary Bodman and Chairmen Kelliher, Cox, and Herz:

I am writing with reference to a February 7, 2006, Wall Street Journal article, "Oil Firms Want SEC To Loosen Reserves Rules," and with further reference to my letters of May 4, 2004, and July 20, 2004, concerning implementation of the accounting practices requirements of the Energy Policy and Conservation Act of 1975 and the implications of notable revisions of proved reserves by Royal Dutch/Shell Group and El Paso Corporation. This matter continues to raise disturbing issues regarding the Nation's energy reliability and security.

The November 17, 2004, letter from then Department of Energy (DOE) Secretary Spencer Abraham to me states that:

The DOE shares your concerns about the accuracy of producer estimates of crude oil and natural gas reserves. The Administration's National Energy Policy is a long-term comprehensive strategy, the formation and effective implementation of which necessarily depends on accurate energy-related information being maintained and available to the public.

To assist in my examination, I respectfully request that you submit the following information by the close of business on Friday, March 3, 2006:

The Honorable Samuel W. Bodman
The Honorable Joseph T. Kelliher
The Honorable Christopher Cox
The Honorable Robert H. Herz
Page 2

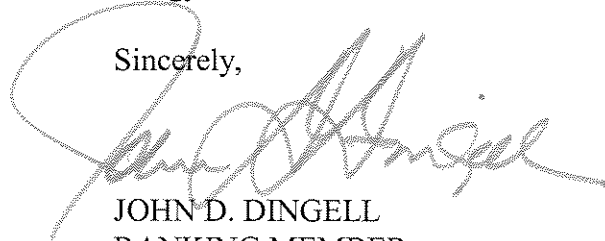
1. Please discuss and explain any steps that you have taken or plan to take since your 2004 reports to address the accuracy and reliability of the calculation and reporting of oil and natural gas reserves. With respect to the Securities and Exchange Commission, this includes the outcome, if public, of any enforcement actions.
2. The August 6, 2004, letter from Financial Accounting Standards Board (FASB) Chairman Robert H. Herz states that:

Section 404 of the Sarbanes-Oxley Act of 2002 will likely result in oil and gas enterprises being required to review, document, and test internal control procedures relating to determining proved reserves. Any major control weaknesses will be required to be reported.

Please provide copies of the most recent reserve and internal control disclosures by the 10 largest oil companies. Do these disclosures raise any issues that merit additional regulatory or legislative attention?

Thank you for your cooperation and assistance. Please have your staff direct any questions you may have about this inquiry to Consuela Washington (202-225-3641) or Bruce Harris (202-226-3400) of the Committee on Energy and Commerce Democratic staff.

Sincerely,



JOHN D. DINGELL
RANKING MEMBER

cc: The Honorable Joe Barton, Chairman
Committee on Energy and Commerce

The Honorable Ralph Hall, Chairman
Subcommittee on Energy and Air Quality

The Honorable Rick Boucher, Ranking Member
Subcommittee on Energy and Air Quality



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February 7, 2006

TRACKING THE NUMBERS

Outside Audit

Oil Firms Want SEC To Loosen Reserves Rules

By STEVE LEVINE
Staff Reporter of THE WALL STREET JOURNAL
February 7, 2006; Page C1

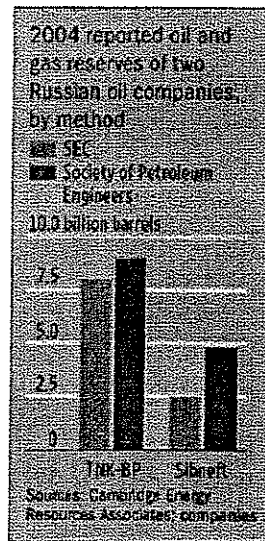
Thanks to record profits, oil companies are finding it easy to fatten up their bank accounts. But they're having a tougher time convincing skeptics how much oil and natural gas they have in the ground, which is the measure that Wall Street uses to gauge the companies' future profitability.

Big Oil's proposed solution to this dilemma? Change how reserves are measured.

A new industry-backed report proposes to let the companies be the best judge of their own stores of oil and gas rather than use a strict formula imposed by the Securities and Exchange Commission. The companies argue that the SEC's method -- intended to provide investors with apples-to-apples comparisons -- is archaic and arbitrary, and undercounts the amount of energy on tap for the future.

It's a big issue for the energy industry and its investors: Wall Street and the SEC view a company's success at replacing the oil and gas it pumps out of the ground as a fundamental reflection of its value.

Securities analysts don't necessarily agree with the SEC's conservative guidance on how to account for oil and gas in the ground, but they also tend to doubt the companies' optimistic forecasts of their stores. Matthew Simmons, a Houston-based energy investment banker and among a crowd of forecasters who believe the world is running short on oil, says the SEC rules should be even stricter.



An SEC spokesman declined to comment on the agency's rules, but the oil industry shouldn't expect large changes soon: John Heine, the spokesman, said the issue isn't on the SEC's current agenda.

There's no definitive way to predict how much oil or gas lies in any given field -- even industry insiders have described such estimates as being more art than science. While companies would like to show off the best possible numbers, the SEC favors a more-conservative approach to protect investors from placing their bets on inflated numbers that could prove wrong.

For example, Exxon Mobil Corp., the world's biggest oil company, last year said that its own calculations showed it had succeeded in adding 1.8 billion "oil-equivalent" barrels to replace the 1.6 billion barrels it had pumped in 2004. In other words, by Exxon's calculation, it had replaced more than 112% of the oil and gas it had pumped out of the ground the year before. But using the SEC rules, the oil giant actually fell behind, replacing only 1.3 billion barrels, or 83%.

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The stakes over whose tally is right are high: Oil production is dropping in the U.S., and about three-quarters of known global reserves are controlled by foreign governments and thus mostly off-limits to Western oil companies. Also, many new projects are in politically unstable regions, or in areas where it is difficult and expensive to drill, such as ultradeep waters off Africa and the Gulf of Mexico. Longer exploration and production schedules involved in getting that oil also set the bar higher in meeting SEC standards for claiming reserves.

Oil and gas reserves are classified based on how sure the company can be that they exist and can be produced profitably. The SEC allows companies to report only "proven" reserves -- energy that can be estimated and produced using standard technology and market prices. Oil companies want to be able to add in some of its "probable" reserves, a less-conservative measure using longer-term price assumptions and more advanced technology to estimate underground stores.

The industry-financed report by Cambridge Energy Research Associates, a widely cited energy consultant, proposes that the industry itself should decide how to measure its reserves, with the SEC relegated only to an enforcement role. CERA's 43-page report calls for the SEC to adopt more liberal standards set by the Society of Petroleum Engineers, an industry association.

"The SEC doesn't allow companies to use all data at their disposal," says David Hobbs, CERA's managing director for oil and gas research, who co-wrote the report.

For example, the reports says, the SEC rules prevent companies from claiming hundreds of millions of barrels of crude oil that can be taken from Canada's oil sands -- oil that is notoriously difficult and expensive to extract. But critics say the SEC rules don't take into account new technology that makes producing the oil profitable.

Companies also complain about a rule that requires them to use the market price of oil and natural gas as of Dec. 31 each year to calculate which projects are economically feasible, a criterion for claiming reserves. At higher prices, more oil is profitable to pump. But a Dec. 31 price can be considerably higher or lower than the average for the whole year, the measure CERA prefers.

-- Chip Cummins contributed to this article.

Write to Steve LeVine at steve.levine@wsj.com¹

URL for this article:

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The Secretary of Energy
Washington, DC 20585

NOV 29 2004

November 17, 2004

The Honorable John D. Dingell
Ranking Member
Committee on Energy and Commerce
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Dingell:

Thank you for your letter concerning implementation of the accounting practices requirements of the Energy Policy and Conservation Act (EPCA) and recent announcements by certain entities that they had overstated their crude oil and natural gas reserves.

You request specific information, largely within the jurisdiction of the Securities and Exchange Commission (SEC) and the Financial Accounting Standards Board, regarding the development by the SEC of accounting practices to be followed by producers of oil and gas in the United States related requirements to consult with the Department of Energy (DOE) and other agencies, the relevance of recent oil and gas reserve disclosures to investors and energy policy, and an explanation of SEC standards as well as its activities since the announcements identified in your letter.

The DOE did not play a significant role in the development of the accounting practices required by EPCA section 503, and has not played a significant role in their implementation and observance. However, representatives of DOE's Energy Information Administration (EIA) have met with the SEC to discuss proved reserves definitions, and EIA instructs companies to report proved reserves consistent with SEC definitions.

The DOE shares your concerns about the accuracy of producer estimates of crude oil and natural gas reserves. The Administration's National Energy Policy is a long-term comprehensive strategy, the formation and effective implementation of which necessarily depends on accurate energy-related information being maintained and available to the public. EIA currently is collecting 2003 data from energy companies regarding their estimated reserves. EIA advises that it subjects

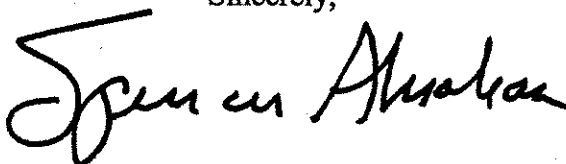


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the information collected to a rigorous review process, including working with reporting companies, as necessary, to make the information relied on as accurate as it can be before using it in EIA annual reports.

If we can be of further assistance, please contact me or Mr. Rick A. Dearborn, Assistant Secretary for Congressional and Intergovernmental Affairs, at (202) 586-5450.

Sincerely,



Spencer Abraham

cc: The Honorable Joe Barton, Chairman
Committee on Energy and Commerce

The Honorable Cliff Stearns, Chairman
Subcommittee on Commerce, Trade, and Consumer Protection

The Honorable Jan Schakowsky, Ranking Member
Subcommittee on Commerce, Trade, and Consumer Protection

The Honorable William H. Donaldson, Chairman
Securities and Exchange Commission

The Honorable Patrick Henry Wood III, Chairman
Federal Energy Regulatory Commission

Mr. Robert H. Herz, Chairman
Financial Accounting Standards Board

Financial Accounting Standards Board

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Ext. 267

Fax: 203-847-6030

e-mail: rherz@fasb.org



ROBERT H. HERZ
Chairman

VIA HAND DELIVERY

August 6, 2004

The Honorable John D. Dingell
Ranking Member
Committee on Energy and Commerce
United States House of Representatives
Washington, DC 20515-6115

Dear Representative Dingell:

Thank you for your letter of July 20, 2004, acknowledging receipt of my June 15, 2004 letter. That letter was in response to your May 4, 2004 letter regarding issues that have been raised in connection with recent revisions of proved reserves by Royal Dutch/Shell Group and El Paso Corporation.

As you are aware, the Financial Accounting Standards Board ("FASB" or "Board") is an independent private-sector organization. Our ability to conduct our work in a systematic, thorough, and unbiased manner is fundamental to achieving our mission—to establish and improve general-purpose standards of financial accounting and reporting for both public and private companies. Those standards are essential to the growth and stability of the United States ("US") economy because creditors, investors, and other consumers of financial reports rely heavily on credible, transparent, comparable, and unbiased financial information to make rational resource allocation decisions.

The Board recognizes the importance of the issues you have raised relating to the financial accounting and reporting of proved reserves. On July 24, 2004, I met with Consuela Washington, Senior Minority Counsel, Committee on Energy and Commerce, to discuss those issues. My fellow Board Member George J. Batavick, previously a Comptroller of Texaco, and a member of the FASB staff also participated at that meeting. Some of the items discussed include the following:

- The US Securities and Exchange Commission's ("SEC") current definition of proved reserves is viewed by many parties as clear and unambiguous.
- The SEC "Frequently Requested Accounting and Financial Reporting Interpretations Guidance" provides detailed guidance and examples to assist enterprises in determining proved reserves. (Subsequent to the meeting, we provided Ms. Washington with a copy of that document.)

- Section 404 of the Sarbanes-Oxley Act of 2002 will likely result in oil and gas enterprises being required to review, document, and test internal control procedures relating to determining proved reserves. Any major control weaknesses will be required to be reported.

As indicated in my June 15, 2004 letter, the Board will closely monitor the financial accounting and reporting issues that you have identified, including the review of any public information that may arise from the civil and criminal investigations referenced in your letter. Any information obtained will be carefully considered by the Board in connection with our evaluation of whether a potential project on oil and gas accounting should be added to the FASB's technical agenda, and what specific issues such a project might address.

The Board's due process procedures for evaluating any potential agenda project include extensive study, research, and analysis of available information about the issue or issues that have been identified. The process also generally includes solicitation of input from preparers, auditors, and users of financial reports and Board deliberations at public meetings. Those deliberations include consideration of the following factors:

- Pervasiveness of the issue—the extent to which an issue is troublesome to users, preparers, auditors, or others; the extent to which there is diversity of practice; and the likely duration of the issue (i.e., whether transitory or likely to persist)
- Alternative solutions—the extent to which one or more alternative solutions that will improve financial reporting in terms of relevance, reliability, and comparability are likely to be developed
- Technical feasibility—the extent to which a technically sound solution can be developed or whether the project under consideration should await completion of other projects
- Practical consequences—the extent to which an improved accounting solution is likely to be acceptable generally, and the extent to which addressing a particular subject (or not addressing it) might cause others to act, e.g., the SEC or Congress
- Convergence possibilities—the extent to which there is an opportunity to eliminate significant differences in standards or practices between the US and other countries with a resulting improvement in the quality of US standards; the extent to which it is likely that a common solution can be reached; and the extent to which any significant impediments to convergence can be identified
- Cooperative opportunities—the extent to which there is international support by one or more other standard setters for undertaking the project jointly or through other cooperative means with the FASB

August 6, 2004

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- Resources—the extent to which there are adequate resources and expertise available from the FASB, the International Accounting Standards Board, or another standard setter to complete the project; and whether the FASB can leverage off the resources of another standard setter in addressing the issue (and perhaps thereby add the project at a relatively low incremental cost).

It is not possible to evaluate the above factors in precisely the same way and to the same extent in every instance, but identification and consideration of the above factors help to bring about consistent decisions regarding the Board's technical agenda.

Thank you again for your letter and for your long-time support of the independence and mission of the FASB. We look forward to continuing our dialogue with you, Ms. Washington, the SEC, and other interested parties on this very important matter.

If you have any questions or comments, please feel free to contact me directly or our Washington, DC representative, Jeff Mahoney (703-243-9085).

Yours truly,

Robert H. Herz