

September 5, 2008

Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-0609

Subject: File Number S7-15-08, 17 CFR Parts 210, 229, and 249 [Release Nos. 33–8935; 34–58030] RIN 3235-AK00, Modernization of the Oil and Gas Reporting Requirements

These comments are filed on behalf of the Independent Petroleum Association of America (IPAA). IPAA represents the thousands of independent oil and natural gas explorers and producers that develop about 90 percent of America's oil and natural gas wells, produce over 65 percent of American oil and produce more than 80 percent of American natural gas.

IPAA members support the need to revise the current reserves disclosure system, which, when it was developed in 1978, was the product of a world much different than today. Technology advancements, market pricing and more globalized markets have served to bring about change that is real, but which is not reflected in the current system. For publicly traded companies, reserves reporting primarily concerns increased accuracy about disclosure of a company's asset base in terms of volumes and value that investors can understand and use to make informed decisions. Under the current system, use of definitions that are 30 years old doesn't provide the necessary clarity.

IPAA's individual members will comment on the specific questions raised in the Proposed Rule and IPAA urges the SEC to fully consider those comments. These comments will address two broad issues: nontraditional sources of oil and natural gas and price volatility.

**Nontraditional sources of oil and natural gas.** IPAA supports the provisions in the proposed rule to broaden the definition of oil and natural gas reserves to encompass the "Extraction of marketable hydrocarbons, in the solid, liquid, or gaseous state, from oil sands, shale, coalbeds, or other nonrenewable natural resources which can be upgraded into natural or synthetic oil or gas, and activities undertaken with a view to such extraction."

The current reserves disclosure practices made sense decades ago when traditional resources dominated. But now, due to the ingenuity and innovation of the industry, nontraditional sources represent an important and growing portion of production. In the U.S., where natural gas is increasingly valued as a premium fuel, supply from unconventional natural gas formations (tight gas formations, coalbeds and gas shales) presently represents approximately 45 percent of production according to the Energy

Information Administration (EIA). Offshore production, driven by ultradeep development from the Gulf of Mexico, has increased dramatically in recent years. In the Gulf, the EIA indicates that production will grow from 3.0 trillion cubic feet in 2006 to a peak of 4.5 trillion cubic feet in 2019 as new resources come online. U.S. crude oil production is projected to increase from 5.1 million barrels per day in 2006 to a peak of 6.4 million barrels per day in 2019, with production increases from the deep waters of the Gulf and from onshore enhanced oil recovery projects. Cambridge Energy Research Associates estimates that extra heavy oil that typically requires some upgrading and GTLs together may account for nearly six million barrels per day of liquids production by 2015, a significant increment relative to total world supplies. Additionally, when combined with gas-related liquids (natural gas liquids and condensate) and ultradeepwater oil production, such liquids may account for more than a third of global liquids supply capacity by 2015.

The growing presence of nontraditional source production has been enabled by transformational technological advances such as horizontal drilling (which today accounts for 25 percent of American drilling operations), formation fracturing techniques, 3 and 4-D seismic imaging, petrophysics, and reservoir simulation models resulting from sophisticated computing power unavailable in years past. These and other accepted technologies decrease uncertainty and are integral to the way in which companies view their assets and make their decisions as the industry invests billions of dollars to ensure future production.

In sum, nontraditional activities that were once on the fringe of the supply mix are now in the mainstream and billions of dollars are being invested in bringing these volumes to market. Continuing ambiguity about the treatment of such volumes is not constructive. Addressing the ambiguity better serves stakeholders interests.

**Price volatility.** When the current SEC system was introduced in 1978, U.S. oil and natural gas prices were controlled, spot trading was just beginning, and futures markets were not yet in existence. Further, deregulated natural gas markets have emerged in North America and elsewhere, and extremely liquid, deeply traded spot markets for oil and natural gas have significantly increased daily price volatility.

Even during relatively stable periods, the economic planning assumptions generally used internally within the industry rarely if ever coincide with the price levels prevailing at a balance sheet date. It is rare for year-end prices, or other historical adjustments to price for transportation, gravity, and other factors, to be the same as the annual average price for oil and even more so for natural gas, where seasonal effects are evident. In reality, reserves are a measure of the long-term prospects and strategies of a company, and they should be more closely linked to longer-term assessments of oil and natural gas prices than to the vagaries of the market price on a particular day. Most observers of the exploration and production industry consider that the use of average prices would significantly eliminate volatility.

Recognizing the principle repeatedly emphasized by the SEC in arguing that 'judgment' should be minimized in estimating proved oil and natural gas reserves for disclosure to investors, IPAA supports the proposed rule change to using a 12-month average instead of the currently mandated year-end price. Use of such a mechanism would foster consistency between disclosures of different companies, remove "point in time" variability, reduce the extent of year-on-year changes, and avoid seasonal price distortions. Further, it would serve the needs of independents, many of which hold portfolios comprising projects with shorter payback times than major oil companies.

In closing, IPAA appreciates and supports the proposed changes to the current regulations described above. If there are questions regarding these comments or if additional information is required, please contact Fred Lawrence at IPAA, 202-857-4722.