



CANADIAN ASSOCIATION
OF PETROLEUM PRODUCERS

September 5, 2008

Ms. Florence Harmon
Acting Secretary
Securities and Exchange Commission
100 F Street NE
Washington DC 20549

Dear Ms. Harmon:

Re: File Number S7-15-08 – Modernization of the Oil and Gas Reporting Requirements

The Canadian Association of Petroleum Producers (CAPP) appreciates the significant efforts of the Commission and its staff to undertake the modernization of the reporting requirements for oil and natural gas. CAPP represents 130 companies that explore for, develop and produce natural gas, natural gas liquids, and crude oil throughout Canada. CAPP member companies produce more than 95 per cent of Canada's natural gas and crude oil. Canada is the largest exporter of crude oil to the United States accounting for 20% of US crude oil imports and many of our members are listed in the United States and are subject to these reporting requirements.

CAPP commends the Securities and Exchange Commission's ("the Commission's") intent to provide investors with a more meaningful and comprehensive understanding of oil and gas reserves, which should help investors evaluate the value of oil and gas companies. We believe that the proposed changes and additions will achieve this outcome. This issue is of importance to Canadian companies reporting under these disclosure rules.

In general, CAPP concurs with the proposed changes. In addition, the following sections of this submission addresses several of the "requests for comment" outlined by the Commission in its proposal that provides CAPP's perspective. CAPP's key comments are summarized as follows:

- Prices used for determining reserves quantities should be the 12-month average price
- Prices used for accounting and disclosure purposes should be the same 12-month average price
- Oil and gas producing activities should include bitumen extracted from oil sands and oil and gas extracted from coal beds and shales
- Conventional and continuous accumulations should not be reported separately
- The proposed table of reporting PUD development should not be required

CAPP supports the Commission seeking public input on the proposed changes and additions as part of the process and recommends the points, noted in the attached Appendix, be considered in finalizing the new requirements and in moving into implementation.

Regards,

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APPENDIX

12-month average price (*Request for comments on pages 17-18*)

CAPP supports the use of a 12-month average price. This is a key issue for member producers who are subject to significant seasonal price variations, most notably from the production of bitumen and natural gas. CAPP's February 15, 2008 submission on the Concept Release provided the background details of our recommendation.

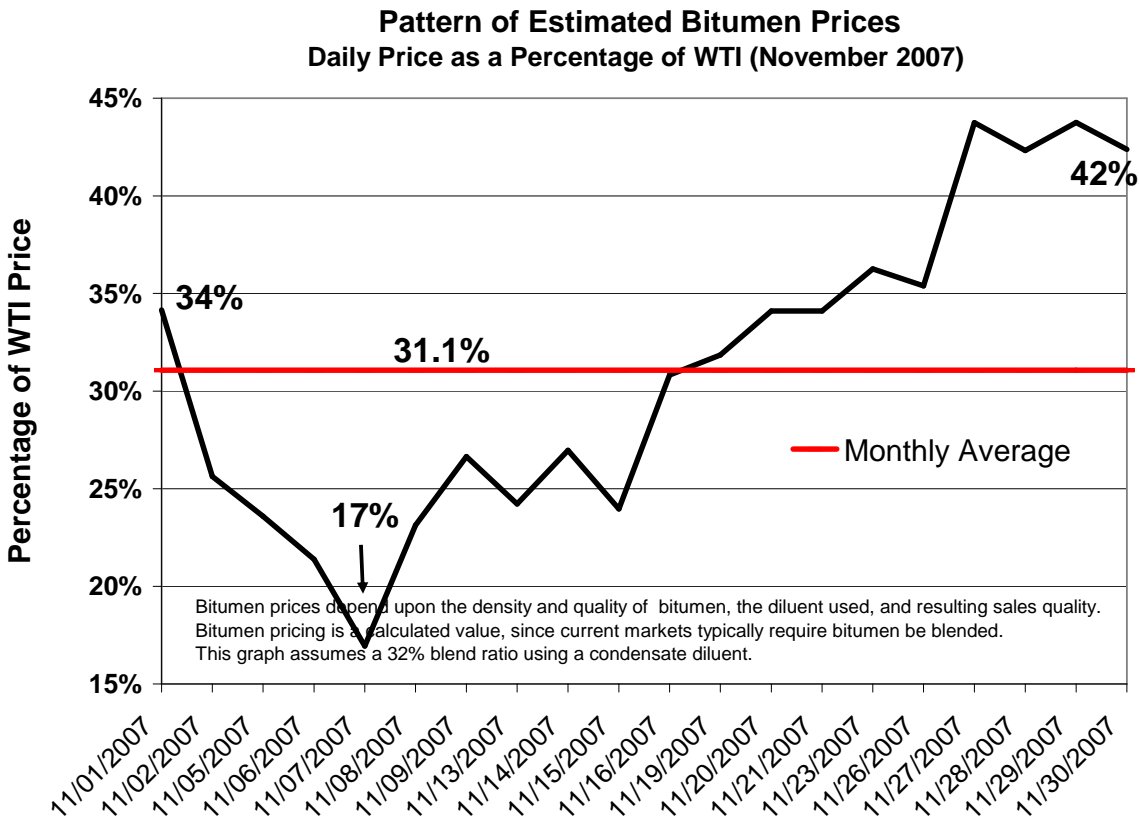
Should the economic producibility of a company's oil and gas reserves be based on a 12-month historical average price? Should we consider an historical average price over a shorter period of time, such as three, six, or nine months? Should we consider a longer period of time, such as two years? If so, why?

CAPP recommends that the economic producibility of a company's oil and gas reserves should be based on a 12-month historical average price. This approach maintains the comparability of disclosures between companies and eliminates the volatility currently created by the use of a single "last day of year" price. A 12-month average should be used to capture the full price pattern that occurs each year.

Should the average price be calculated based on the prices on the last day of each month during the 12-month period, as proposed? Is there another method to calculate the price that would be more representative of the 12-month average, such as prices on the first day of each month? Why would such a method be preferable?

The average price should be calculated using the average monthly price based on all days in a month for the 12-month period versus using the last day of the month as proposed.

Daily price data is just as available as month-end data and would reflect the actual historical 12-month average price as opposed to approximating the average price. The price fluctuates within a month and using the last day of the month calculation methodology may use a price that is not representative of the average monthly price. For example, as shown in the graph on the following page, the bitumen price in November, 2007 averaged 31.1% of WTI (\$29.33/bbl) but had a high price of 43.8% of WTI (\$41.30/bbl) and a low price of 16.9% of WTI (\$16.33/bbl) within the month.



Should we require, rather than merely permit, disclosure based on several different pricing methods? If so, which different methods should we require?

No. Additional disclosure of price sensitivities (different pricing methods) should continue to be permitted but should remain optional.

Should we require a different price, or supplemental disclosure, if circumstances indicate a consistent trend in prices, such as if prices at year-end are materially above or below the average price for that year? If so, should we specify the particular circumstances that would trigger such disclosure, such as a 10%, 20%, or 30% differential between the average price and the year-end price? If so, what circumstances should we specify?

No additional or supplemental disclosure should be mandated. Additional disclosure should remain optional.

Trailing Year-End Pricing (Request for comments on pages 19-20)

Should the price used to determine the economic producibility of oil and gas reserves be based on a time period other than the fiscal year, as some commentators have suggested? If so, how would such

pricing be useful? Do accelerated filing deadlines for the periodic reports of larger companies justify using a pricing period ending before the fiscal year end?

CAPP supports basing the test for economic producibility on an average 12 month annual price ending the quarter prior to the fiscal year end.

If the pricing data includes data up to the end of the fiscal year, tests for economic producibility must be completed within the first few weeks of the next fiscal year. Regardless of the size of the company or accelerated filing deadlines, this can be problematic and the trailing year-end pricing would aid in timely and accurate reporting.

Would the use of a pricing period other than the fiscal year be misleading to investors? Is a lag time between the close of the pricing period and the end of the company's fiscal year necessary?

An average annual trailing year-end price would not be misleading to investors, the calculation of the price would be clearly stated and would be the same and comparable for all companies. Therefore, CAPP sees an opportunity to assist both internal company and third party assessments in providing timely and accurate reporting of reserves.

Should the pricing period close one month, two months, three months, or more before the end of the fiscal year? Explain why a particular lag time is preferable or necessary.

While three months would be preferable to tie to quarterly financial reporting cycles, a minimum time lag of two months would allow for sufficient time to complete the required work at a measured pace.

Use the Same Average Price for Accounting and Disclosure Purposes (*Request for comments on pages 21-22*)

In general terms CAPP believes it would be more appropriate to use the same price assumptions for both accounting and disclosure purposes. If different price assumptions are used for accounting purposes, this would not only cause increased work and cost, but would increase the chance of confusion to investors due to inconsistency between the various public disclosures. Overall, it will result in a decrease in the transparency of the accounting information provided. If there was a substantial difference between the accounting and disclosure reserves, it would raise questions and concerns over the relevance and comparability of the information provided.

Should we require companies to use the same prices for accounting purposes as for disclosure outside of the financial statements?

Yes. We do not believe it would be appropriate for companies to use one reserve quantity for accounting purposes under the requirements of SFAS 19 or Rule 4-10(c) of Regulation S-X and another reserve quantity for reserves disclosures under the requirements of SFAS 69. Investors will be ill-served with financial results that are not only inconsistent with reserves estimates disclosed elsewhere in the same filing, but also bear no relation to the physical existence or the overall economics of the underlying reserves. Further, this proposal would break the principle of an

effective and transparent reporting model with the required SFAS 69 disclosures not being supported by the underlying accounting. We are not aware of any other areas in the accounting literature where accounting and the related disclosures are calculated on different bases.

CAPP encourages the SEC to work with FASB to arrive at a single twelve-month historical average price methodology that would be used for SFAS 69 disclosures, and financial accounting and financial statement purposes.

Is there a basis to continue to treat companies using the full cost accounting method differently from companies using the successful efforts accounting method? For example, should we require, or allow, a company using the successful efforts method to use an average price but require companies using the full cost accounting method to use a single-day, year-end price?

We see no basis for treating successful efforts companies differently from full-cost companies for purposes of reserve quantity calculations.

Should we require companies using the full cost accounting method to use a single day, year-end price to calculate the limitation on capitalized costs under that accounting method, as proposed? If such a company were to use an average price and prices are higher than the average at year end or at the time the company issues its financial statements, should that company be required to record an impairment charge?

We believe that the same twelve-month average pricing should be used to calculate the limitation on capitalized costs as is used to prepare the reserves for reserve disclosure purposes. We do not believe that the calculation of the limitation on capitalized costs based on the 12-month average pricing should be adjusted for any differences between the 12-month average pricing and the year-end prices or prices at the time the company issues its financial statements.

Should the disclosures required by SFAS 69 be prepared based on different prices than the disclosures required by proposed Section 1200?

No. We see no reason for different bases of the reserve quantity calculation.

If proved reserves, for purposes of disclosure outside of the financial statements, other than supplemental information provided pursuant to SFAS 69, are defined differently from reserves for purposes of determining depreciation, should we require disclosure of that fact, including quantification of the difference, if the effect on depreciation is material?

We believe that having two different bases for calculating reported reserves will only serve to confuse the investor. We see no benefit to the investor of presenting two different proved reserve quantities that potentially would require additional disclosures to explain why differences exist.

What concerns would be raised by rules that require the use of different prices for accounting and disclosure purposes? For example, is it consistent to use an average price to estimate the amount of reserves, but then apply a single-day price to calculate the ceiling test under the full cost accounting method? Would companies have sufficient time to prepare separate reserves estimates for purposes

of reserves disclosure on one hand, and calculation of depreciation on the other? Would such a requirement impose an unnecessary burden on companies?

Requiring the use of different prices for accounting and disclosure purposes could result in inconsistencies such as increased reserves reported using the twelve-month average pricing but a ceiling test limitation using a single-day price under full cost accounting. Conversely, reserves reported using the twelve-month average pricing could decrease, but there is no ceiling test limitation using a single day price.

Yes, this requirement would impose an unnecessary burden on companies. Besides our overarching belief that two prices and two reserve quantities would create confusion and provide no benefit to the investor, we believe a two-price system would severely strain the people, systems and governance processes of industry companies considering the short period of time between the year-end and filing date. Additional reserve runs will be required to be produced and additional reviews will be required to approve the reserve quantities used specifically for financial accounting purposes. These additional efforts will result in increased costs to companies, which do not appear to be reflected in your estimates of additional costs and time required.

Will our proposed change to the definitions of proved reserves and proved developed reserves for accounting purposes have an impact on current depreciation amounts or net income and to what degree?

We cannot comment on the significance of the change to depreciation and depletion expense for industry companies as these changes will be a function of the significance of the differences between the average prices for the year versus prices at the end of the year. We believe updating the reserve definitions is appropriate and the associated accounting is simply an outcome of those changes.

If we change the definitions of proved reserves and proved developed reserves to use average pricing for accounting purposes, what would be the impact of that change on current depreciation amounts and on the ceiling test? Would the differences be significant?

The impact of the changed definitions on depreciation amounts and the ceiling test will depend on the magnitude of the difference between the twelve-month average price and the year-end price, the sensitivity of the economics of an individual company's reserves to changes in prices, and the current excess of discounted future net revenues over capitalized costs in the ceiling test calculation.

Extraction of Bitumen and Other Non-Traditional Resources (*Request for comments on pages 25-26*)

Should we consider the extraction of bitumen from oil sands, extraction of synthetic oil from oil shales, and production of natural gas and synthetic oil and gas from coal beds to be considered oil and gas producing activities, as proposed?

Yes, CAPP strongly believes that the guidelines should focus on the nature of what is ultimately produced. This would improve disclosure quality as it would present upstream operations to investors from all sources of a company's integrated oil and gas business activities.

**Definition of “Proved Undeveloped Reserves” - Proposed replacement of certainty threshold
(Request for comments on pages 40-41)**

Are the proposed revisions appropriate? Would the proposed expansion of the PUDs definition create potential for abuses?

We believe the proposed revisions are appropriate and a significant improvement to the current rule. The focus will be on the best technical analysis of the engineering, geoscience, reliable technology and economic data that results in reasonable certainty of proved undeveloped reserve bookings for the specific reservoir. Therefore, the proposed revisions will allow a better technical and logical result instead of imposing an arbitrary rule of a one spacing unit offset.

The proposed revisions also eliminate the confusion of what offset spacing units are allowed to be booked as proved reserves as offset to horizontal wells. It addresses possible inconsistencies in the proved undeveloped reserves allowed to be booked between horizontal and vertical wells and development schemes. The booking of proved undeveloped reserves will be based on the analysis of the data, the company’s development scheme and commitment, and what that analysis technically supports, instead of assigning a combination of vertical and horizontal offset wells to match a one spacing unit rule.

The proposed expansion of the PUD reserves definition will create less potential for abuse since the reserve booking judgment will be based on the scientific analysis instead of an arbitrary and possibly automatic one spacing unit rule.

Geographic specificity with respect to reserves disclosures (Request for comments on pages 61-62)

Should we provide the proposed guidance about the level of specificity required when a company discloses its oil and gas reserves by “geographic area?”

The proposed geographic segmentation using specific thresholds based on percentage of the reserves base has a strong potential for competitive damage to companies due to transactions for material assets and undermines the negotiating positions of companies in future property sales. Disclosure of information at the field or basin level may not be permitted according to other countries’ regulations. In addition, this segmentation would need to be applied to numerous other disclosures, including production, prices, lifting costs, drilling activities, descriptions of present activities, producing wells, and acreages. Otherwise it will result in less than optimal segmentation in those other disclosures. We recommend that disclosures continue to be aggregated by country or region as currently required in SFAS 69 and that segmentation for all other disclosures be left to managements judgment based on their knowledge and assessment of the most appropriate data distribution for each disclosure category.

Separate Disclosure of conventional and continuous accumulations (*Request for comments on pages 62-63*)

Should we require separate disclosure of conventional accumulations and continuous accumulations, as proposed?

CAPP does not recommend a separate disclosure of conventional and continuous accumulations since we do not believe that this additional disclosure is necessary for investor understanding. One purpose of the Commission's proposal is intended to shift the focus of the definition of oil and gas producing activities to the **final product** of such activities, regardless of the extraction technology used. We believe that reporting by product (as well as discussion of material activity in the MD&A) will provide the information necessary for investor understanding.

In addition, some reserves cannot clearly be categorized as one or the other (conventional or continuous) but rather are a blend of the two. Examples of this would be CBM production from commingled layers of coal with layers of tight sandstone/silt or shale gas production from commingled layers of shale and tight sandstone/siltstone. It will also become more difficult and confusing in the future due to the increasing predominance of non-conventional production, thereby creating potential interpretation issues for investors. Any company with material "continuous" oil and gas activity would discuss this in the MD&A and as such it does not require it be separate in the reserve table

The proposed change would also unnecessarily increase the cost and complexity of company record keeping.

Elimination of the conventional vs. continuous categorization would also be applicable to the proposed disclosures on wells drilled and acreage.

Should we permit combining of columns if the product of the oil and gas producing activity is the same, such as natural gas, regardless of whether the reserves are in conventional or continuous accumulations?

Yes – see comment above

Proposed Item 1203 (Proved undeveloped reserves) (*Request for comments on pages 77-78*)

Should we adopt the proposed table?

The proposed table requires increased tracking and reporting associated with PUD's, which would be a complex requirement and require changes to both accounting and reserves information systems. Furthermore, the increased disclosure requirements and proposed defined timing horizons are problematic given the increasing size and length of project development for many oil and gas development projects. The increasing predominance of these large and lengthy project developments will mean that these requirements will apply to an increasingly large portion of reported reserves thus increasing the complexity of the disclosures.

We recommend that the PUD disclosure requirements be scaled back by eliminating the five-year table of PUD movements and the detailed recap of PUDs that remain undeveloped for five years or more. We recommend that further disclosure regarding the amount of a company PUD's, the progress that the company made during the year in converting them to proved reserves, and material PUD changes that occurred during the year be left to managements judgment. This would supplement the current multi year production and proved reserves information included in existing reserves disclosures, which should be sufficient for the investment community to assess a company's success in developing their resources.

Change in Accounting Principle or Estimate (*Request for comments on pages 96-97*)

Are the proposed changes more properly characterized as a change in accounting principle or a change in estimate under SFAS 154?

The proposed changes are more properly characterized as a change in estimate under SFAS 154 as the method of calculating the depreciation and ceiling test is not changed, only the estimate of the reserves used in those calculations.

Would it be appropriate to consider the changes as a change in accounting principle, but specify that no retroactive revision of past years would be required?

No, the changes should be characterized as a change in estimate.

If we required retroactive revision of past years, would companies have the historical engineering and scientific data to make such revisions? If not, are there alternatives to retroactive revision that we should consider?

The historical information is not available to make retroactive revisions of prior years.