

Date: February 17, 2008

From: Raymond Schutte, Registered Professional Engineer in North Dakota and Texas

To: Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090

Subject: File number S7-29-07

Comments: Release Nos. 33-8870; 34-56945; Concept Release on Possible Revisions to the disclosure requirements relating to Oil and Gas Reserves

I believe that the oil and gas industry is too multifaceted to immediately move to a solely principles-based system. However, existing rules and any new rules should be re-enforced by establishing an underlying principle to discourage the reporting community from testing for loopholes. The main reason for reporting oil and gas reserves is to establish the value of hydrocarbon that have yet to be recovered. Ultimately, the net cash flow from a company's operations is the desired outcome. Since the ownership of a majority of producing reserves is moving outside of the United States borders, the type of ownership of reserves is changing under emerging deal structures, so a principles-based system must eventually become a dominant system. The goal of the principles-based reserve reporting system should be to delineate the sure recovery from the unsure recovery so that investors will not have to suddenly react to a single press release about good or bad results from one particular company operation.

The average investor believes that all proved reserves can be converted into cash. Very few investors know or understand that there is risk in producing the proved reserve. However, the longer it takes to recover the oil and gas the more costly and riskier the recovery process becomes. Old wells and their infrastructure can fail and then the proven producing reserves from the active reservoirs and even the proven behind pipe or shut-in reserves can be trapped with their recovery deferred until huge changes in the economic conditions warrant an attempt to re-tap the potential. Additionally, contracts for access to foreign proved reserves have a set timeframe and any interruption in production can result in the loss of a proven reserve during this interruption. Reporting proven reserves that are on production or that are projected to be recovered decades into the future must be tempered with some additional common sense guidelines. The proven reserve volumes at risk should be separated and moved to a probable reserve category.

While the 2007 Petroleum Resources Management System (PRMS) that is endorsed by SPE/WPC/AAPG/SPEE addresses the proved and probable reserve categories with concepts of confidence and probability, the average investing public will not be able to absorb the information when reported in this format at a company level. Due to the mathematics of probability, the secure equity from mature developed production streams, which should have a small spread in their possible outcomes, will become contaminated with new or undeveloped projects that can experience large shifts away from their projected outcome. An enhanced rules-based deterministic calculation system is necessary to improve the quality of proved reserves and a less stringent deterministic calculation system developed for probable reserves.

The term "reasonable certainty" connected with proven reserves is a confusing and has generated a lot of industry debate. Changing the term to "confidence level" or some other nomenclature will not eliminate the confusion. Presently, the SEC required production test to define "reasonable certainty" is not stringent enough to guarantee a given outcome. The concept of one spacing unit allows for too much flexibility for proven reserves. I have witnessed that the hydrocarbon drainage volumes are significantly different than the well data and the seismic data have indicated. Typically, the drainage volume is much less and it rarely is more. Additional production and pressure data over a much longer time frame is usually necessary to understand the drainage capability, which is proportional to proven reserves. By allowing probable reserves to be reported, the SEC can definitely tighten up the requirements for the proven category. The industry has enough experience and improved technology to change the requirements for both proved and probable and should move quickly in the matter.

Most big companies (exceptions have happened) bring on new volumes of proved reserves that offset their proved reserve write downs, but small companies don't have this flexibility and their stock suffers when they must report proved reserve shortfalls. The SEC should move forward with allowing that both proved and probable categories of reserves can be reported to level the playing field between the large and small operators.

Due to the sensitivity of data and who has access to the data, when third party independent experts audit reserves, the audit is essentially being compromised by having too much dependence on the company experience. The consultants strive to be independent, but essentially they are supplied only the data that the company wants them to have and so logically they come up with the same answer as the company's qualified professional staff. Any unwanted answer given by consultants can be discarded easily and a new answer solicited from a different consultant. To improve the process an independent audit company must be funded by tax credit dollars and all tax credits reported as line items in the financial statements.

The concept of inexperience displayed in reporting proven reserves also holds for internally generated reports by a company. If the company management doesn't like the outcome of their reserve evaluation process, they sometimes restructure the staff and demand a new evaluation in a very short timeframe. A principle-based system added to the rules-based system will go a long way in rectifying the manipulation of outcomes by any company.

The above comments represent my personal opinions and do not necessarily represent those of my present and past employers, professional agencies or state boards that grant professional licenses.

A handwritten signature in black ink that reads "Raymond Schutte". The signature is written in a cursive style with a long horizontal flourish extending to the right.

Raymond Schutte –
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