Grant Thornton

Accountants and Business Advisors

February 19, 2008

Ms. Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

RE: File Number S7-29-07, *Concept Release on Possible Revisions to the Disclosure Requirements Relating to Oil and Gas Reserves*

Dear Ms. Morris:

We appreciate the opportunity to respond to the Securities and Exchange Commission's (SEC or Commission) *Concept Release on Possible Revisions to the Disclosure Requirements Relating to Oil and Gas Reserves* (Concept Release). We support the Commission's decision to solicit information concerning the public's interest in the potential revision of the current disclosure requirements relating to oil and gas reserves.

The definition of proved reserves directly impacts amounts in the financial statements of oil and gas companies. Accordingly, we are interested that any revisions to that definition would be conceptually consistent with existing accounting concepts and standards. Since many of the questions included in the Concept Release's general request for comment pertain to technical engineering topics that are outside our expertise, we have responded only to certain of those questions.

Disclosure of Non-Traditional Resources

The Commission's current rules prohibit the disclosure of proved reserves from "non-traditional" sources such as those from oil shale and tar sands. We believe that many oil and gas companies have significant capitalized costs related to non-traditional resources and that such reserve information is commonly used by the management of oil and gas companies for a variety of purposes. With continued tightening of the supply/demand balance for oil and natural gas and the escalated prices for each, we believe that there will be increased investments in these non-traditional resources in the future. Accordingly, we encourage the Commission to reconsider its position prohibiting the disclosure of these reserves as proved. We believe that companies do not draw a distinction between traditional and non-traditional resources. A change to allow disclosure of these reserves would recognize the significance of these resources to investors and their similar role to conventional oil and gas reserves.

Sales Price Used in Estimating Reserves

Currently, the Commission requires the use of fiscal year end pricing in determining reserves. In our experience, companies prepare two reserve reports, a SEC Case based on fiscal year end pricing and cost

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assumptions and a Management Case based on future prices and cost assumptions. It is our understanding that the SEC Case is prepared primarily for financial reporting purposes, whereas the Management Case is utilized by management to make internal strategic, operating and business decisions.

From an accounting standpoint, we believe that companies using a units of production method in amortizing or depreciating costs typically base their estimate of future production quantities anticipating future economic conditions, including pricing. We believe the current requirements that recognize reserves based on point-in time pricing can improperly inflate or deflate anticipated future reserves and related disclosures when that pricing significantly conflicts with anticipated future pricing. The effects can be extremely severe in the case of full cost ceiling tests. We believe as financial accounting has moved toward more of a fair value model in many areas, the concept of point-in–time pricing is outmoded.

We encourage the Commission to reconsider its position on the use of fiscal year pricing and cost assumptions. In its place, we encourage the Commission to consider a pricing model based on established futures prices (subject to pricing differentials) and management's estimate of future operating costs on the date the reserve estimate is made. By doing so, the estimate of proved reserves disclosed to investors will be more closely aligned to the information relied upon by management and other third parties vested in their business to make investment, financing and other business decisions.

<u>Classification of Proved Undeveloped Reserves</u>

It is our understanding that the Commission has recently challenged the classification of undeveloped reserves as proved if not developed within five years. We also understand that contributing to the Commission's position was the release of the Society of Petroleum Engineers – Petroleum Resources Management System ("PRMS"), which states in Section 2.1.2, "While 5 years is recommended as a benchmark . . ." We are not responding to the appropriateness of five years as an appropriate benchmark. However, as the Commission has not yet adopted the PRMS framework, we encourage the Commission to clarify which sections of the framework the Staff believes oil and gas companies should currently adopt to reduce uncertainty in reserve estimation and related financial accounting matters.

<u>Full Cost Accounting Implications</u>

The Commission should consider the impact that potential changes to the current oil and gas reserves disclosure requirements might have on the full cost accounting rules. In particular, any changes related to the definition of proved reserves or the primary inputs to the standardized measure (for example, static operating conditions, year end prices and costs, and the 10% discount rate) could potentially impact the full cost ceiling limitation.

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We appreciate the opportunity to comment on the Concept Release and would welcome the opportunity to respond to any questions you may have regarding any of our comments and recommendations. Please contact L. Charles Evans, Partner – National Professional Standards Group at (832) 476-3614 or Brandon L. Sear, Member of Grant Thornton Energy Committee at (832) 476-5048.

Sincerely,

Grant Thornton LLP