Moody's Investors Service

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250 Greenwich Street
New York, New York 10007

February 19, 2008

Ms. Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 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:

Moody's Investors Service (MIS) appreciates the opportunity to comment on the U.S. Securities and Exchange Commission (SEC) *Concept Release on Possible Revisions to the Disclosure Requirements Relating to Oil and Gas Reserves* (the Concept Release). MIS assigns credit ratings globally to over 110 independent exploration and production companies, integrated oil companies and national oil companies that have extensive exploration and production (E&P) operations. More than 80 of these companies are SEC registrants. The oil and gas reserves reported under current SEC regulations provide critical information that we use in our fundamental analysis of E&P operations, directly affecting most key quantitative metrics in our E&P Rating Methodology[1]. Therefore, our views expressed in this letter are from the perspective of a global user of oil and gas reserves disclosures for the purposes of developing opinions about the creditworthiness of issuers.

MIS believes that the current oil and gas reserves reporting and disclosure framework established by the SEC is fundamentally sound and adequately meets our needs as credit analysts. While there are opportunities to update and improve these disclosure requirements, we believe that any changes should be incremental rather than involving the adoption of the alternative classification systems discussed in the Concept Release. The existing principles underlying the SEC's current definitions of proved reserves and the related sub-categories have served our needs well by embedding an appropriate degree of conservatism into the inherently imprecise process of reserves estimation. The reserves information provided by the current disclosure rules is also sufficiently consistent to facilitate comparability across companies.

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[1] See Appendix for a listing of our key E&P rating metrics.

Should the SEC replace its rules-based current oil and gas reserves disclosure requirements with a principles-based rule?

In summary, our response is no. While MIS generally supports principles-based accounting and disclosure standards, the more subjective the nature of the item disclosed the more important it is that sufficiently detailed guidance be provided to companies in order to achieve a necessary level of consistency and comparability. Estimating quantities of proved reserves (however the term is defined) incorporates assumptions about a reservoir's geological characteristics, existing technology, production history and numerous other factors. We believe that the current rules and their interpretation by the SEC staff have appropriately established an expectation that subsequent revisions to proved reserves estimates are more likely to be positive than negative, which has enhanced our confidence in the reported information.

Even with today's "rules-based" disclosure requirements, no two companies or petroleum engineers would likely arrive at exactly the same estimate for proved reserves, even using the same data. Performance-based negative reserves revisions do occur with some frequency and so have a number of well-publicized reserves restatements. A purely principles-based approach to the reporting of proved reserves would likely lead to greater inconsistency and potentially more negative reserves revisions, which could harm comparability and our confidence in the reported data.

The premise of any principles-based reporting standard is that transparent disclosure of the key judgments and estimates made by management will allow users of the information to identify inconsistencies between companies and adjust the reported information as they deem necessary. Unfortunately, we believe that this premise would not work well in the context of oil and gas reserves disclosures because of the complexity of the estimation process and the nature of the key data inputs. Proved reserves are an engineering estimate prepared by petroleum reservoir engineers with input from geologists. Even if the SEC were to mandate vast disclosure of critical estimates and assumptions under a principles-based reporting regime, we believe that many investors would have difficulty using this complex information effectively, thereby limiting the potential for market scrutiny of such disclosures to enhance its reliability.

What modifications to the existing oil and gas reserves reporting standards should the SEC consider?

MIS believes that the core principles, definitions, and reserves classifications underlying the SEC's existing oil and gas reserves reporting requirements are well understood by the industry and have served us well in our credit analysis. We view the SEC staff's interpretation of "reasonable certainty" as conceptually sound and believe it provides an appropriate amount of conservatism, which enhances our confidence in this subjective estimate. For example, the SEC's requirement limiting a company to reporting commercially recoverable hydrocarbons only to the depth of the lowest known hydrocarbon contact in a reservoir has been an important part of making it more likely than not that there will be positive reserves revisions over time. Furthermore, reasonable certainty combined with the requirement for a single deterministic reserves estimate places clearer responsibility and accountability on the individuals, departments, and executives involved, providing incentive for them to apply their best judgment to the data at hand before recognizing reserves as proved.

We also recommend no changes to the concepts of economic producibility or existing operating conditions with regard to proved reserves. In addition, we believe that no significant revisions to the broad definitions of proved reserves, proved developed reserves or proved undeveloped reserves (PUD) are needed. However, MIS encourages the SEC to consider requiring separate disclosure of proved developed producing reserves and clarify that management must have a committed plan to develop PUDs and be making clear progress on executing that plan. The SEC could consider establishing a presumption that companies have a high confidence level that their PUDs will be drilled and brought to production within five years, allowing for exceptions based on facts and circumstances that are transparently disclosed. We believe that companies should not be allowed to indefinitely classify undeveloped reserves as proved. We also believe that the SEC should consider requiring disclosure of an aging and roll-forward of PUD reserves with detailed discussion of the development timing, economics and capital expenditures necessary for their development.

There also is an opportunity in this process for the SEC to update some of its more detailed interpretations and guidance to reflect the technological advancements that have occurred since the SEC adopted the current disclosure requirements. Working with E&P companies, independent petroleum engineering firms and other industry participants, the SEC could consider alternative forms of evidence to support proved reserves recognition. This would also allow the SEC to move the current reserves disclosure requirements in a more principles-based direction, while not altering the core philosophy discussed above. The disclosure framework should be flexible enough to accommodate future changes in technology.

One example of where more principles-based guidance may be substituted for the existing rules is the current requirement for well-flow testing to support the recognition of proved reserves. The SEC staff has not objected to companies that operate in the deepwater Gulf of Mexico asserting reasonable certainty and economic producibility without a well-flow test if they provide certain alternative forms of supporting data. However, this exception currently does not apply to other deepwater locations around the world. In this example and other specific testing, data and process requirements, the SEC could work with industry participants to develop a broader and more current variety of information that companies can utilize to support their recognition of proved reserves.

What sales prices should the SEC require be used for estimating proved reserves?

We support the SEC continuing to provide specific pricing guidance to promote consistency and comparability across companies. The present requirement of using the year-end prices for oil and gas does subject reserves quantities to distortions caused by one-day anomalies in prices. MIS believes that using the trailing three-month average prices for oil and gas as of year-end would smooth out the one-day volatility issues while retaining a current historical price framework for estimating reserves.

MIS acknowledges that management appropriately makes business decisions for their E&P operations based on their own long-term forecasts of oil and gas prices. Management disclosing their reserves estimates based on their own price decks as an additional disclosure would provide a view of the company “through management’s eyes” as discussed in the Concept Release. However, companies may not want to disclose their price decks due to competitive concerns. Consequently, we believe that companies should continue to use a clearly defined historical price for estimating proved reserves in their primary disclosures to maintain consistency and comparability for this one key variable. MIS supports allowing companies to disclose alternative reserves quantities based on a sensitivity analysis as long as the SEC defines a common benchmark reference price for producers to use in their sensitivity disclosures.

Should the SEC reconsider some of its exclusions from oil and gas activities and proved reserves?

MIS believes that the SEC should include oil sands in the definition of oil and gas activities and proved reserves. The investment in and development of oil sands resources is a strategic priority for certain North American and European based oil and gas companies. The enormous oil sands investment made by these companies necessitates the analysis of these reserves. MIS recommends that the SEC, in collaboration with industry participants, develop guidance for the reporting of oil sands reserves that is based on the same core principles as conventional oil and gas reserves to yield a consistent volumetric measure. However, MIS believes that oil sands proved reserves and results of operations should be separately disclosed from traditional reserves.

Should the SEC consider requiring companies to engage an independent third party to evaluate their reserves estimates in their SEC filings?

MIS believes that the SEC should consider requiring independent third party evaluation of reported reserves since this clearly benefits the users of this information. However, we recognize that the SEC must carefully balance the costs and other regulatory considerations of such a requirement with the potential benefits to investors. We think a key point for the SEC in its deliberations on this topic is that the more principles-based the reserves disclosure requirements become, the more important it will be to have independent third party evaluation of these disclosures.

MIS notes that creditors, particularly banks, often require that smaller E&P companies have their reserves reviewed, audited or evaluated by independent petroleum engineers (IPEs). Many other companies, including large independent E&P companies, voluntarily engage IPEs. These market-driven outcomes have generally worked well. We believe that the SEC could consider requiring further disclosure by companies of their reserves estimation processes, including the board's oversight activities and the rationale for engaging or not engaging IPEs. Companies that use IPEs could include an explanation of the type and scope of the service provided by the IPE so that users of the information (including MIS) could discern the amount of assurance that is actually being provided.

We thank you for the opportunity to provide our perspective on the current disclosure requirements for oil and gas reserves. We would be pleased to assist in any manner we can as the SEC considers possible revisions to these disclosures. Please contact Steven Wood at (212) 553-0591 should you have any questions.

Sincerely,

Steven Wood
Senior Vice President

Andrew Oram
Vice President – Senior Credit Officer

Peter Speer
Vice President – Senior Analyst

Appendix
MIS Global Independent Exploration and Production (E&P) Industry Rating Methodology
Key Rating Factors and Metrics

The following is a summary of the four key rating factors and the 11 specific metrics that MIS uses to quantify those rating factors. As more fully discussed in our Rating Methodology, there are other metrics and considerations that inform our analysis, but these are the key metrics that we use to develop our expectations of an E&P company's future performance and creditworthiness.

Factor 1: Reserves and Production Characteristics
- Production (boe/yr)
- Proved developed (PD) reserves (boe)
- Total proved reserves (boe)
- Diversification (Qualitative assessment)

Factor 2: Re-investment Risk
- 3-year all-sources F&D[2] ($/boe)
- 3-year drillbit F&D[3] costs including revisions ($/boe)

Factor 3: Operating and Capital Efficiency
- Full-cycle[4] cost ($/boe)
- Leveraged full-cycle ratio[5]

Factor 4: Leverage and Cash Flow Coverage
- Debt/PD reserves ($/boe)
- (Debt + future development capex)/Total proved reserves ($/boe)
- (Retained cash flow – sustaining capex[6])/Debt

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[2] All sources finding and development (F&D) costs per boe is all capital spent from the cost incurred disclosure plus goodwill recorded as a result of corporate E&P acquisitions divided by reserves added through E&D, purchases and plus or minus revisions.
[3] Drillbit F&D includes exploration and development costs incurred divided by reserves added through E&D plus or minus revisions.
[4] Full-cycle cost includes cash costs per boe (lease operating expense, production taxes, transportation expense, G&A expense and interest expense) of production plus 3-year all-sources F&D costs per boe.
[5] Leveraged full-cycle ratio is cash margin per boe of production divided by 3-year all-sources F&D costs per boe. Cash margin is realized price per boe of production less cash costs per boe.
[6] Sustaining capex is estimated by multiplying annual production times 3-year all-sources F&D costs per boe.