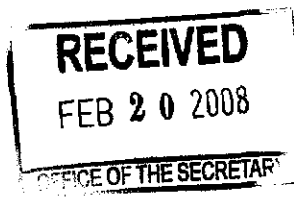




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February 19, 2008



Ms. Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, N.E.
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:

The American Petroleum Institute (API) is pleased to provide comments to the Commission on the *“Concept Release on Possible Revisions to the Disclosure Requirements Relating to Oil and Gas Reserves”*. The API is a national trade organization representing over 400 companies involved in all aspects of the oil and natural gas industry including exploration, production, refining, marketing, distribution and marine activities.

The reporting of oil and gas reserves is very important to our member companies, investors, and other users of financial statements and is vital to the efficient functioning of the U.S. securities markets. The API commends the Commission for initiating a project to re-examine the existing disclosure requirements. As has been noted in several recent studies, the current system has not been substantially updated since its inception in the late 1970's. Since then, there have been significant technological advances in the industry, changes in global energy markets and changes in the nature of oil and gas development, all of which we believe should be considered by the Commission. To develop our comments, the API convened a special Ad Hoc Working Group consisting of representatives from the companies listed on Attachment I. The comments herein reflect the unanimous views of the participating companies.

Overview

We believe the Commission's fundamental definition of proved reserves (as found in Rule 4-10(a) of Regulation S-X) is broad and principles-based and has been fairly

robust in applying to most situations encountered over a long period of time. The definition requires the application of good judgment, which is consistent with a principles-based disclosure system. However, we believe the Commission's current disclosure system could be improved if the related interpretative guidance were less fragmented, more principles based, directly communicated in a timely manner and timely updated to keep pace with technological advances and evolving commercial arrangements in the industry. We do not believe wholesale changes are called for, but instead recommend more selective updates to the definitions and interpretative guidance. We believe the selective updates recommended in this letter would modernize and enhance the disclosure system and would improve the quality of reporting. We also believe that they would better maintain the consistency and comparability of reported reserve volumes versus the potential changes that could result from a more substantial overhaul.

Our key recommendations are summarized below and will be expanded in the succeeding paragraphs.

- + Adopt the Society of Petroleum Engineers' (SPE) Petroleum Resources Management System (PRMS) for the reporting of proved reserves
- + Recognize the SPE Oil and Gas Reserves Committee (OGRC) in its current capacity as the responsible party to maintain and update the PRMS subject to Commission oversight and representation
- + Continue to require the reporting of proved reserves only
- + Eliminate the requirement for the use of year-end prices in determining reserves quantities and replace it with a 12-month average price
- + Eliminate the restrictions on reporting oil and gas reserves derived from oil shale, tar sands and other such sources
- + Amend the definition of proved undeveloped reserves to be consistent with the SPE PRMS framework
- + Coordinate the Commission's efforts with those of the International Accounting Standards Board's (IASB) Extractive Activities Research Project

Adopt the SPE PRMS for the Reporting of Proved Reserves

We recommend that the Commission adopt the SPE PRMS as the sole technical framework which registrants should follow in analyzing and categorizing their oil and gas reserves. The SPE PRMS has been developed by leading industry technical experts and reflects periodic updates for changing industry conditions and technology. The PRMS is the most widely accepted benchmark for classifying reserves in the global energy industry. Formal adoption of the SPE PRMS by the Commission would be an important step in converging the regulatory framework for the global oil and gas industry.

Although we recommend adoption of the SPE PRMS framework, we believe the Commission should continue to require the reporting of proved reserves only (see recommendation below). The SPE PRMS provides a very useful technical framework for classifying reserves; however, most industry companies never contemplated it as a stand-alone disclosure system for public reporting purposes. We believe most industry companies have not adopted the SPE PRMS classification framework in its entirety for internal management purposes. As a result, we do not believe that full adoption of it for public reporting purposes, including the reporting of additional categories of reserves/resources beyond proved, would be of sufficient value to investors to justify the costs, and potentially would create confusion in the investing community and for other users of financial statements.

Recognize the SPE OGRC as the Responsible Party to Maintain the PRMS

We also recommend that the Commission recognize the SPE Oil and Gas Reserves Committee (OGRC) in its current capacity as the responsible party to maintain and update the PRMS with appropriate SEC oversight and representation. This approach would be similar to how the Commission works with the Financial Accounting Standards Board to establish and maintain financial accounting standards. This approach would put the SEC in regular contact with leading industry experts on reserves reporting and industry technology. In this way, the SPE PRMS, and by extension the SEC guidelines, could be timely updated for technological advances and other changes in the industry. If an appropriate relationship with the SPE OGRC cannot be established because of governance or other issues, we would encourage the Commission to explore the possibility of establishing a relationship with another comparable industry body.

Continue to Require the Reporting of Proved Reserves Only

We recommend that the Commission continue to require the reporting of proved reserves only, consistent with the definitions found in the SPE PRMS framework. We believe that investors, other financial statement users and registrants would not be well served by the mandated inclusion of probable reserves or other reserve/resource categories below the proved threshold due to the increased uncertainty of resources in these categories and the breadth of methodologies and evaluation techniques that may be employed in their calculation. It is also felt that the reporting of reserve/resource categories below the proved threshold could expose companies to additional, unwarranted litigation due to the increased risk and uncertainty associated with these resources. As an alternative to mandatory reporting of probable reserves in a filed Commission document, it should be noted that many industry companies make significant supplemental data available to the investing public through information contained in the non-filed portions of the Annual Report to shareholders, Annual Operating Summaries and other periodic management presentations to the financial analyst community.

Eliminate the Requirement for Year-end Pricing

The current requirement for the use of year-end prices in determining reserves quantities should be discontinued. The use of year-end prices for reserves estimation introduces short-term price volatility into the process since significant annual adjustments could be required based on prices on a single day. This approach is inconsistent with the long-term nature of the oil and gas business, where production from individual projects often spans multiple decades. Annual variations in reserves based on such year-end prices are not of consequence to how the business is actually managed or how the resources are developed. The year-end pricing requirement also does not provide meaningful information to investors and does not necessarily provide a good basis to evaluate a company's enterprise value.

We recommend that reserves be calculated using a 12-month average price, as outlined in the SPE PRMS. This approach would maintain the comparability of disclosures among companies, but would eliminate the volatility that can be created by the use of single day prices. We recommend that the 12-month period run from October 1 of the previous year to September 30 of the reporting year for companies with a fiscal year ending on December 31. This timing would achieve the desired averaging effect and would help preparers to better manage their year-end workloads. Presently, all the necessary final reserve calculations and disclosures have to be prepared in the relatively short time frame between December 31 and the required filing dates for Form 10-K.

Eliminate the Restrictions on Oil Shale, Tar Sands and Similar Resources

We also recommend that the current restrictions on including oil and gas reserves derived from oil shale, tar sands and other such sources be eliminated. This would improve disclosure quality as it would present upstream operations to investors and other financial statement users on the same basis that company management views such operations. The investment community also views hydrocarbons produced from such resources as an integral part of the upstream oil and gas production business. It is only the exclusion found in the current SEC reserves reporting guidelines that causes company management to separate these production activities for public reporting. To effect this change, we recommend that the Commission's guidelines be aligned with the SPE framework, which focuses on the nature of what is ultimately produced versus the extraction method that is utilized.

Amend the Definition of Proved Undeveloped Reserves

The current definitions of proved reserves and proved developed reserves are fairly robust and apply well to most situations encountered. However, the Commission's definition of proved undeveloped reserves should be amended to be consistent with the SPE PRMS framework. Specifically, the SEC guidelines currently require that proved reserves for undrilled units more than one offset location from a proved developed well can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation.

The SPE guidelines make no distinction in the degree of certainty for proved developed or proved undeveloped reserves; both are held to the standard of reasonable certainty. Allowance of professional judgment in this area would make the existing SEC guidelines more consistent with a principles-based disclosure system. Elimination of the distinction would also improve the internal consistency of the guidelines by establishing one threshold (i.e., reasonable certainty) for all categories of proved reserves.


Coordinate with the IASB's Extractive Activities Research Project

We are encouraged that the Commission has undertaken this effort to revise the disclosure requirements for oil and gas reserves. However, we strongly recommend that the SEC coordinate this effort with the IASB's Extractive Activities Research Project. The objective of the IASB project is to develop an International Financial Reporting Standard (IFRS) on accounting for extractive activities. We understand that the IASB research team is following a path that will likely result in the IASB endorsing the SPE PRMS as the recommended framework for defining oil and gas reserves. We believe that SEC adoption of the SPE PRMS classification framework and the establishment of a relationship with the SPE OGRC would move the SEC into alignment with the current direction of the IASB Project. However, we believe the respective initiatives of both the SEC and the IASB would be enhanced by closer coordination of work activities.

Conclusion

The API appreciates the Commission's efforts to re-examine the current disclosure system and to provide us this opportunity for comment. Representatives of the API and its member companies would welcome the opportunity to discuss this response further with the Commission staff and/or to be available to answer questions. Responses to each of the Commission's detailed questions in the Concept Release are included on the following pages and provide additional support and background for the key recommendations noted above.

Very truly yours,



cc:	Mr. Glenn Brady	Extractive Activities Research Project, IASB
	Mr. Robert Garnett	IASB
	Mr. George Batavick	FASB

CONCEPT RELEASE ON POSSIBLE REVISIONS TO THE DISCLOSURE REQUIREMENTS RELATING TO OIL AND GAS RESERVES

Responses are provided on the following pages to each of the questions posed in the Concept Release.

1. Should we replace our rules-based current oil and gas reserves disclosure requirements, which identify in specific terms which disclosures are required and which are prohibited, with a principles-based rule? If yes, what primary disclosure principles should the Commission consider? If the Commission were to adopt a principles-based reserves disclosure framework, how could it affect disclosure quality, consistency and comparability?

We believe the current definition of proved reserves is broad and principles-based and has been fairly robust in applying to most situations encountered over a long period of time. The definition requires the application of good judgment, which is consistent with a principles-based disclosure system. The issues with the current disclosure requirements are that the related interpretative guidance is fragmented, too detailed, not directly communicated in a timely manner and has generally not kept pace with technological advances and evolving commercial arrangements in the industry. In addition, guidance has occasionally been too narrowly focused, a good example of which is the staff position related solely to well flow testing for deep water resources in the Gulf of Mexico. We do not believe wholesale changes are called for, but instead recommend more selective updates to the definitions and interpretative guidance.

We also recommend that prescriptive interpretive guidance, whether provided through formal or informal means or through the comment letter process, be avoided in the future. Prescriptive guidance cannot anticipate the different facts and circumstances that can be encountered in actual practice and does not allow registrants the ability to apply reasoned judgment to each situation. Instead, we believe interpretive guidance should be broad in nature, providing additional insight on the overarching principles and objectives of reserves reporting. This approach would be more consistent with and supportive of a principles-based disclosure system.

The Commission should consider the following key overarching principles in updating the current framework:

- + Encourage reporting of reserves on a basis that maximizes the comparability of reserves information among companies for the benefit of investors and other financial statement users
- + Encourage reporting of reserves on a basis that provides investors and other financial statement users a high level of confidence about the ultimate producibility of such reserves

- + Recognize that oil and gas are fungible commodities and that all in-place hydrocarbons ultimately sold or consumed for beneficial use (e.g., fuel gas) as oil and gas should be included in reported reserves
- + Provide needed information for investors to make decisions without imposing unreasonable costs on disclosing companies
- + Include a supporting process that allows for timely revisions of the guidelines to reflect changes in the industry
- + Protect the competitive position of the disclosing company

We believe that selective updates of the current disclosure framework, consistent with the recommendations in this letter, would modernize and enhance what we already view to be a principles-based disclosure system. We believe our recommended changes would improve disclosure quality and would better maintain the consistency and comparability of reported reserve volumes versus the potential changes that could result from a more substantial overhaul.

2. Should the Commission consider allowing companies to disclose reserves other than proved reserves in filings with the SEC? If we were to allow companies to include reserves other than proved reserves, what reserves disclosure should we consider? Should we specify categories of reserves? If so, how should we define those categories?

We recommend that the Commission continue to require the reporting of proved reserves only. We believe that investors, other financial statement users and registrants would not be well served by the mandated inclusion of probable reserves or other reserve/resource categories below the proved threshold due to the increased uncertainty of resources in these categories and the breadth of methodologies and evaluation techniques that may be employed in the calculation of unproved reserves. Proved reserves are more aligned with the measures of revenue, income, profitability and cash flow that investors are most focused on. Reporting of reserve/resource categories below the proved threshold could also expose companies to additional, unwarranted litigation due to the increased risk and uncertainty associated with these categories. As an alternative to mandatory reporting of probable reserves in a filed SEC document, it should be noted that many industry companies make significant supplemental data available to the investing public through information contained in the non-filed portions of the Annual Report to shareholders, Annual Operating Summaries and other periodic management presentations to the financial analyst community.

3. Should the Commission adopt all or part of the Society of Petroleum Engineers – Petroleum Resources Management System? If so, what portions should we consider adopting? Are there other classification frameworks the Commission should consider? If the Commission were to adopt a different classification framework, how should the Commission respond if that framework is later changed?

We recommend that the Commission adopt the SPE PRMS as the sole technical framework which registrants should follow in analyzing and categorizing their oil and gas reserves. However, the Commission should continue to require the reporting of proved reserves only (subdivided by developed and undeveloped reserves), consistent with the SPE PRMS definitions.

The SPE PRMS provides a very useful technical framework for classifying reserves. However, most industry companies never contemplated it as a stand-alone disclosure system for public reporting purposes. We believe most industry companies have not adopted the SPE PRMS classification framework in its entirety for internal management purposes. Its full adoption for public reporting purposes, including the reporting of additional categories of reserves/resources beyond proved, would not be of sufficient value to investors to justify the costs, and potentially would create confusion in the investing community and for other users of financial statements.

We believe that the Commission should recognize the SPE Oil and Gas Reserves Committee (OGRC) in its current capacity as the responsible party to maintain and update the PRMS, with appropriate SEC oversight and representation. This approach would be similar to how the Commission works with the Financial Accounting Standards Board to establish and maintain financial accounting standards. This approach would put the SEC in regular contact with leading industry experts on reserves reporting and industry technology. In this way, the SPE PRMS, and by extension the SEC guidelines, could be timely updated for technological advances and other changes in the industry. If an appropriate relationship with the SPE OGRC cannot be established because of governance or other issues, we would encourage the Commission to explore the possibility of establishing a relationship with another comparable industry body.

We also believe that SEC adoption of the SPE PRMS classification framework and the establishment of a relationship with the SPE OGRC would move the SEC into alignment with work currently being progressed by the International Accounting Standards Board (IASB). The IASB has been sponsoring a comprehensive research project on extractive activities since 2004. The ultimate objective of this project is to develop an International Financial Reporting Standard (IFRS) on accounting for extractive activities. We understand that the IASB research team is following a path that will likely result in the IASB endorsing the SPE PRMS as the recommended framework for defining oil and gas reserves. This would establish the SPE PRMS as a key underpinning to the IASB's ultimate accounting standard. We believe the respective initiatives of both the SEC and the IASB would therefore be enhanced by closer coordination of work activities.

4. Should we consider revising the current definition of proved reserves, proved developed reserves and proved undeveloped reserves? If so, how? Is there a way to revise the definition or the elements of the definition, to accommodate future technological innovations?

The current definitions of proved reserves and proved developed reserves are fairly robust and apply well to most situations encountered. However, the definition of proved undeveloped reserves should be amended to be consistent with the SPE PRMS framework. Specifically, the SEC guidelines currently require that proved reserves for undrilled units more than one offset location from a proved developed well can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation.

The SPE guidelines make no distinction in the degree of certainty for proved developed or proved undeveloped reserves; both are held to the standard of reasonable certainty. Allowance of professional judgment in this area would make the existing SEC guidelines more consistent with a principles-based disclosure system. Key considerations should include the identification of appropriate analogs and the assessment of reservoir depositional environment, reservoir characteristics and technical parameters; as opposed to the use of an arbitrary geographic or distance limitation.

As indicated in the response to question 3, SEC adoption of the SPE PRMS framework with ongoing SEC representation on the SPE OGRC would ensure that the definitions could be revised periodically as warranted by industry technological innovations and evolving commercial arrangements.

5. Should we specify the tests companies must undertake to estimate reserves? If so, what tests should we require? Should we specify the data companies must produce to support reserves conclusions? If so, what data should we require? Should we specify the process a company must follow to assess that data in estimating its reserves?

We believe that the Commission could improve the current disclosure rules by making them more principles based. To achieve this objective, rigid, rules-based specifications should be avoided. For example, staff guidance on acceptable testing criteria should not be limited to specific geographic areas or operating situations (e.g., well flow testing for deep water resources in the Gulf of Mexico). Accordingly, staff guidance should be more illustrative versus prescriptive in nature, consistent with our response to question 1 above.

6. Should we reconsider the concept of reasonable certainty? If we were to replace it, what should we replace it with? How could that affect disclosure quality? Should we consider requiring companies to make certain assumptions? Should we prohibit others?

We believe that most constituents in the reserves reporting process, including companies, investors, financial statement users and regulators, have a good understanding of the concept of reasonable certainty. Although it has been criticized, we believe that the concept should be retained. Also, and consistent with our response to question 4, we believe the concept should be extended to cover the definition of proved undeveloped reserves. This extension would allow for the use of professional judgment in this area and would make the existing guidelines more consistent with a principles-based regime. It would also improve the internal consistency of the guidelines by establishing one threshold (i.e., reasonable certainty) for all categories of proved reserves.

7. Should we reconsider the concept of certainty with regard to proved undeveloped reserves? Should we allow companies to indefinitely classify undeveloped reserves as proved?

As indicated in the responses to questions 4 and 6, the definition of proved undeveloped reserves should be amended to be consistent with the SPE PRMS framework. Specifically, the SEC guidelines currently require that proved reserves for undrilled units more than one offset location away from a proved developed well can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. The SPE guidelines make no distinction in the degree of certainty for proved developed or proved undeveloped reserves; both are held to the standard of reasonable certainty. Allowance of professional judgment in this area would make the existing SEC guidelines more consistent with a principles-based regime. It would also improve the internal consistency of the guidelines by establishing one threshold (i.e., reasonable certainty) for all categories of proved reserves.

To qualify for continued classification as proved undeveloped reserves, the quantities under consideration should continue to meet all of the basic requirements contemplated in the basic definition of reserves (i.e., reasonably certain to be recoverable ... under existing economic and operating conditions). However, we believe the Commission should avoid the use of arbitrary time deadlines as this would be inconsistent with a principles-based regime. Arbitrary deadlines could lead to situations where undeveloped reserves were de-booked merely because of the passage of time and not because of any fundamental change in the geoscience, economic or operating assessment of reserves viability, or management commitment to develop the reserves. As with all uncertainties involved with the evaluation of reserves, appropriate management judgment should be applied to determine the proper reporting treatment.

8. Should we reconsider the concept of economic producibility? If we were to replace it, what should we replace it with? How could that affect disclosure quality? Should we consider requiring companies to make certain assumptions? Should we prohibit others?

We believe the concept of economic producibility should be retained. This concept is key to the determination of volumes to be disclosed and is applicable to the wide variety of situations that are encountered. The concept is broad and requires the exercise of good technical and management judgment and is therefore consistent with achieving a principles-based disclosure system. As referenced by the SPE PRMS, economic producibility must also be accompanied by management commitment in order to classify specific volumes as proved reserves.

Rather than explicitly requiring specific data and tests, or prohibiting specific assumptions, we believe that management should be allowed to consider all available information in making judgments about reserves categorizations. This process naturally entails technical judgment in determining how much weight to give to various sources of information and under what circumstances. We believe this approach is most consistent with achieving a principles-based disclosure system and is consistent with and supported by the SPE PRMS framework.

9. Should we reconsider the concept of existing operating conditions? If we were to replace it, what should we replace it with? How could that affect disclosure quality? Should we consider requiring companies to make certain assumptions? Should we prohibit others?

Except in the area of year-end pricing, we believe the concept of existing operating conditions has been reasonably robust in meeting the wide variety of situations that are encountered. The concept is broad and requires the exercise of good technical and management judgment and is therefore consistent with achieving a principles-based disclosure system.

Rather than requiring or prohibiting specific assumptions, we believe that management should be allowed to consider all available information in making judgments about reserves categorizations. This process naturally entails management judgment in determining how much weight to give to various sources of information and under what circumstances. We believe this approach is consistent with achieving a principles-based disclosure system and is consistent with and supported by the SPE PRMS framework.

For the specific area of pricing, we believe that the SEC guidelines should be amended to eliminate the use of year-end pricing in determining reserves. Instead, we believe a 12-month average price should be used, as noted in our response to question 10 below, and consistent with Section 3.1.2 of the SPE PRMS.

10. Should we reconsider requiring companies to use a sale price in estimating reserves? If so, how should we establish the price framework? Should we require or allow companies to use an average price instead of a fixed price or a futures price instead of a spot price? Should we allow companies to determine the price framework? How would allowing companies to use different prices affect disclosure quality and consistency? Regardless

of the pricing method that is used, should we allow or require companies to present a sensitivity analysis that would quantify the effect of price changes on the level of proved reserves?

The current requirement for the use of year-end prices in determining reserve quantities should be discontinued. The use of year-end prices for reserves estimation introduces short-term price volatility into the process since significant annual adjustments could be required based on prices on a single day. This approach is inconsistent with the long-term nature of the oil and gas business, where production from individual projects often spans multiple decades. Annual variations in reserves based on such year-end prices are not of consequence to how the business is actually managed or how the resources are developed. The year-end pricing requirement also does not provide meaningful information to investors and does not necessarily provide a good basis to evaluate a company's enterprise value.

We recommend that reserves be calculated using a 12-month average price, as outlined in the SPE PRMS. This approach would maintain the comparability of disclosures among companies, but would eliminate the volatility that can be created by the use of single day prices. We recommend that the 12-month period run from October 1 of the previous year to September 30 of the reporting year for companies with a fiscal year ending on December 31. This would achieve the desired averaging effect and would help preparers to better manage their year-end workloads. Presently, all the necessary final reserves calculations and disclosures have to be prepared in the relatively short time frame between December 31 and the required filing dates for Form 10-K. The averaging period should be appropriately adjusted for companies that report on other fiscal year periods.

Companies should be allowed, but not required, to present sensitivity analyses that quantify the effect of prices on the level of proved reserves.

11. Should we consider eliminating any of the current exclusions from proved reserves? How could removing these exclusions affect disclosure quality?

The requirement to exclude the reporting of reserves recovered from tar sands, oil shale and other such resources, should be eliminated. This would improve disclosure quality as it would present upstream operations to investors and other financial statement users on the same basis that company management views such operations. The investment community also views hydrocarbons produced from such resources as an integral part of the upstream oil and gas production business. It is only the exclusion found in the current SEC reserves reporting guidelines that causes company management to separate these production activities for public reporting.

The exclusion for crude oil, natural gas, and natural gas liquids that may occur in undrilled acreage should also be revised, as contemplated in the responses to questions 3 and 7 above, to allow for inclusion of proved undeveloped reserves

where continuity of the formation and commercial productivity can be judged with reasonable certainty from available geoscience and engineering data.

In addition, there are other exclusions related to the use of pressure gradient data for determination of contacts, the use of seismic data and geographic limitations on analogs. These are adequately addressed in the SPE PRMS framework.

12. Should we consider eliminating any of the current exclusions from oil and gas activities? How could removing these exclusions affect disclosure quality?

Consistent with the answer to question 11 above, the exclusion related to the extraction of hydrocarbons from oil shale, tar sands and other such sources should be eliminated. Removing this exclusion would improve disclosure quality as it would present upstream operations to investors and other financial statement users on the same basis that company management views such operations.

13. Should we consider eliminating the current restrictions on including oil and gas reserves from sources that require further processing, e.g., tar sands? If we were to eliminate the current restrictions, how should we consider a disclosure framework for those reserves? What physical form of those reserves should we consider in evaluating such a framework? Is there a way to establish a disclosure framework that accommodates unforeseen resource discoveries and processing methods?

Consistent with the answers to questions 11 and 12 above, the current restrictions on including oil and gas reserves derived from oil shale, tar sands and other such sources should be eliminated. We believe the Commission's guidelines should be aligned with the SPE framework, which focuses on the nature of what is ultimately produced versus the extraction method that is utilized. The physical form should be based on volumes flowing into the plant inlet of any further downstream refining and chemical processing.

We believe it would be difficult to develop an appropriately accommodative disclosure framework for sources that require further processing as it is difficult to contemplate the scope and nature of future resource discoveries and processing methods. However, as indicated in the response to question 3 above, a more effective approach would be for the Commission to adopt and incorporate the SPE PRMS framework into the reserves reporting guidelines and to establish a permanent SEC relationship with the SPE OGRC. This relationship would ensure that the disclosure framework could be revised periodically for new resource discoveries and processing methods.

14. What aspects of technology should we consider in evaluating a disclosure framework? Is there a way to establish a disclosure framework that accommodates technological advances?

It is difficult to contemplate an appropriately accommodative disclosure framework as it is difficult to contemplate the scope and nature of future technological advances. However, as indicated in the response to question 3 above, a more effective approach would be for the Commission to adopt and incorporate the SPE PRMS framework into the reserves reporting guidelines and to establish a permanent SEC relationship with the SPE OGRC. This relationship would ensure that the definitions could be revised periodically as warranted by the evolution of industry technology.

We would note that the technology used for reserves estimation is complex and continually evolving. However, all technology used in the oil and gas industry is physically and mathematically based and can easily be held to the same standards as the results it produces, or reasonable certainty. If there is adequate technical support to demonstrate that specific techniques can be used to estimate reserves that are reasonably certain, those techniques should be allowed. The decision to accept the technology should be based solely on the reasonable certainty of the results achieved. Questions about the materiality of changes that might result from the use of technology that is reasonably certain should be considered separate and apart from the related technical concerns.

15. Should we consider requiring companies to engage an independent third party to evaluate their reserves estimates in the filings they make with us? If yes, what should that party's role be? Should we specify who would qualify to perform this function? If so, who should be permitted to perform this function and what professional standards should they follow? Are there professional organizations that the Commission can look to set and enforce adherence to those standards?

We believe that the professional technical staffs of companies are in the best position to determine reserves because of the inherent complexity of the estimating process and the breadth and complexity of resources owned by most industry companies. Contractual engagements with a third party by their very nature tend to limit the time and depth to which an assessment can be performed. In addition, a requirement for third party evaluation would be inoperable from the outset as the capacity of existing third party reserves evaluation consultants is far short of what would be needed to handle existing registrants. It is also unclear how such a system could be managed to produce independent valuations in time to meet the periodic reporting deadlines of registrants.

We do not believe that there is a well-recognized body of professional standards in place to govern such work, nor is there a well-established professional organization in place to develop such standards or to enforce adherence to such standards.

Until the above issues for the reserves evaluation industry are adequately addressed, we believe the management of each company is in the best position to assess their specific facts and circumstances and determine the appropriate involvement, if any, of independent third parties in the preparation and reporting of

their company's reserves estimates. Please note that companies' independent auditors already make inquiries and carry out analytical procedures around reserves data and disclosures presented as supplementary information to the financial statements and are required to report material departures from prescribed guidelines. This provides some check on the adequacy of each company's due diligence in this area.

In addition to the areas for comment identified above, we are interested in any other issues that commenters may wish to address and the benefits and costs relating to investors, issuers and other market participants of the possibility of revising disclosure rules pertaining to petroleum reserves included in Commission filings. Please be as specific as possible in your discussion and analysis of any additional issues. Where possible, please provide empirical data or observations to support or illustrate your comments.

We offer comments below on two additional issues.

SEC Coordination with the IASB's Extractive Activities Research Project

We are encouraged that the Commission has undertaken this effort to revise the disclosure requirements for oil and gas reserves. However, we strongly recommend that the Commission coordinate this effort with that of the IASB's Extractive Activities Research Project.

The IASB effort, under way since 2004, is a comprehensive research project that forms the first step towards the development of an acceptable approach to resolving accounting issues that are unique to oil and gas extractive activities. The ultimate objective of this project is to develop an International Financial Reporting Standard (IFRS) on accounting for extractive activities.

The primary focus of the research project is to consider financial reporting issues associated with reserves and resources (including the exploration for reserves and resources) – in particular whether and how to define, recognize, measure and disclose reserves and resources (emphasis added). We understand discussions on this project have taken place between the SEC staff and the IASB team, and the work of the IASB team is also being monitored by the FASB.

We believe global investors would be well-served by a joint effort between the SEC staff and the IASB project team. In remarks by SEC Chairman Christopher Cox on "International Business – An SEC Perspective" on January 10, 2008, at the American Institute of Certified Public Accountants' International Issues Conference, he stated that "...it's so important, in order to help investors make sense of this

dramatically different world of global investing, that we do everything within our power to ensure that financial reporting information from different countries is comparable and reliable. This is the imperative behind the SEC's cooperative initiatives with the International Accounting Standards Board..."

The FASB, in its November 7, 2007, response to the SEC's "Concept Release on Allowing U.S. Issuers to Prepare Financial Statements in Accordance with International Financial Reporting Standards," stated, "Investors would be better served...by moving U.S. public companies to an improved version of International Financial Reporting Standards (IFRS) ... The SEC should seek international cooperation to identify and implement changes we believe are necessary to sustain the IASB."

We agree with Chairman Cox and the FASB. We recognize the IASB and SEC are on different time lines for their respective projects. However, we believe a joint undertaking could result in final rules being issued by the SEC on reserves disclosures that are the same as the IASB team's eventual recommendation on this topic as part of its broader-scope deliverable on oil and gas accounting.

Required Disclosures Should Protect the Competitive Position of a Company

In deliberations on possible rule changes, we encourage the Commission to consider the potential for competitive damage to companies through overly detailed disclosure requirements. In particular, requirements for disclosures on a specific field by field basis should be avoided. Such disclosures can undermine the negotiating positions of companies in future property sale transactions or other asset transfers. In addition, information about individual fields is sensitive data that is often subject to restrictions by the national governments that have awarded the concession rights. Accordingly, we encourage the SEC to continue to require disclosures by country or regional aggregations as currently specified in FAS No. 69, "Disclosures about Oil and Gas Producing Activities".

API Ad Hoc Working Group
for
SEC Concept Release on Oil and Gas Reserves Disclosures

Participating Companies

Anadarko Petroleum Corporation

BP p.l.c.

Chevron Corporation

ConocoPhillips

Devon Energy Corporation

Exxon Mobil Corporation

Hess Corporation

Marathon Oil Corporation

Murphy Oil Corporation

Occidental Petroleum Corporation

Shell Oil Company