Hugh Anderson

February 21, 2008

BY ELECTRONIC MAIL (rule-comments@sec.gov)

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

Re: Concept Release on Possible Revisions to the Disclosure Requirements Relating to Oil and Gas Reserves, SEC Release No. 33-8870 (Dec. 12, 2007), SEC File No. S7-29-07

Ladies and Gentlemen:

I appreciate the opportunity to respond to the Commission's request for comments in the above-captioned concept release (the "Release"). I am a portfolio manager employed by a private asset manager, Sigma Capital Management, LLC, but my comments are from me as an individual and should not be taken as necessarily representing the views of my firm. My participation in this process is from the standpoint of an institutional investor using SEC filings as the foundation of an investment conclusion. My hope is that by illustrating the way in which I, and I believe others in my position, interpret and reconstitute existing reserve reports useful improvements can be made that will benefit investors in the future.

The issue of reserve accounting is one of far greater significance than as a mere representation of the intrinsic value of a set of assets. I believe that the only practical and timely response to tightening power generation reserve margins in the United States is through the natural gas wellhead. A low-carbon response cannot be achieved in material magnitude in any other way. Thus, from the standpoint of longer term policy it is important to assess how technology has increased the reliability of proved natural gas reserves in the United States and that these data can be used with confidence as a guide to future decisions.

I have three basic suggestions:

1) The use of a single price reference marked at December 31 as the basis of net present value should be changed to an average daily price over the course of the year.

2) The advent of horizontal drilling in continuous unconventional resource basins should allow for the conversion of proved undeveloped reserves ("PUDs") previously booked under vertical assumptions as PUDs booked under horizontal assumptions, especially when it has been determined that the most efficient recovery of gas is through horizontal development.

3) Companies should restrict the net present value calculation (the "PV-10") only to proved reserves. A simple statement detailing the volumetric estimates of 2P or 3P reserves may be beneficial, but no economic value should be attached to these reserves in an issuer's SEC fiings.

The most practical change would be to use the average of the daily spot Henry Hub cash closing price throughout the year instead of a single price referenced from December 31. The current method introduces unnecessary volatility. For example, in the past five years the reference price has been $5.76/mmcfe, $6.02/mmcfe, $9.52/mmcfe, $5.50/mmcfe, and $7.46/mmcfe. The average year-to-year change has been 35%. If an average price through the year had been used, the past five years' reference prices would have been $5.47/mmcfe, $5.89/mmcfe, $8.71/mmcfe, $6.73/mmcfe, and $6.97/mmcfe. That would have resulted in a far more muted average year-to-year change of 20%. In fact, most practitioners reconstitute the PV-10 table so that they can use their own estimate of long-term prices as a guide for future value. Most individual investors, however, likely do not have the time, the expertise or the inclination to do this recalculation. A price that represents the context of the full year would be much closer to the price on which company managements have based their own exploration and development plans, and would also be closer to the longer-term economic value of the assets used by institutional investors.

My research indicates that an unconventional field conversion from vertical drilling to horizontal drilling would yield a legitimate improvement in PUDs that are within a single stepout from a proved horizontal reserve. If a horizontal well is drilled next to a PUD that was previously booked as vertical but will be developed horizontally, the PUD can and should be booked as a horizontal PUD. This will of course result in an increase in both the volume of gas estimated to be recovered but also a diminution of the time it will take for that recovery to take place. This responds to the first question posed in the request for comments, which is whether reserve accounting should be rules-based or principles-based. This particular aspect of PUD conversion accounting would certainly be accommodated in a principles-based framework.

Although I am sure that many companies would advocate the inclusion of 2P, or even 3P, reserves into their PV-10 calculations, there are two reasons why that is not appropriate. First, from a regulatory standpoint, it would double or even triple the burden of oversight, and would further introduce the potential for abuse. While most companies use third-party reserve engineers to determine proved reserves, many companies use their own engineers to estimate their 2P and 3P reserves. Second, and more importantly, it is doubtful that the rating agencies would ascribe any value to those reserves in assigning ratings. It is also doubtful, therefore, that the public debt markets or the banks would lend against 2P or 3P reserves. Since debt is senior to equity, if the debt market assigns no value for 2P or 3P reserves, then the equity market should be left to determine their value on its own, often on the basis of estimates that may be of uncertain reliability or comparability to those of other industry members.

Respectfully submitted,

Hugh Anderson

cc: Mr. Mark Mahar, Associate Chief Accountant
Office of the Chief Accountant

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