



September 5, 2008

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

**RE: [Release Nos. 33-8935; 34-58030; File Number S7-15-08]
Proposed rule – Modernization of the Oil and Gas Reporting Requirements**

Dear Ms. Morris:

RepsolYPF, S.A., is pleased to provide comments to the Commission on the rule proposal entitled "Modernization of the Oil and Gas Reporting Requirements". RepsolYPF, S.A., is an international Oil and Gas enterprise representing over 350 companies involved in all aspects of the oil and gas industry including exploration, production, refining, petrochemical, marketing, and distribution.

As we all know in our industry, the reporting of oil and gas reserves in conjunction with financial information, is of paramount importance to our companies, investor community and other user of such information acting in the U.S. securities markets. RepsolYPF, S.A., acknowledges the Commission for their efforts and initiative in providing this proposal. We trust this proposal is a major step toward a unified set of standard rules for the reporting and disclosure of reserves figures so much needed in our today's industry. The work carried out by the staff is very comprehensive and represents a fine piece of work.

In July 2008, the U.S. Securities Exchange Commission (SEC) extended a series of questions to the Oil and Gas industry in order to receive feedback on several topics regarding reserves reporting. The main goal of this consultation is to modernize the reserves reporting requirements that were established by the Securities Act of 1933 and 1934, and were further legislated by the SEC "Industry Guide 2" (1978-1982).

In respond to the proposal, our comments and remarks encompass general aspects related with the overall philosophy of consistency and comparability of the reporting requirement as indicated by the proposal; other more related with specific key technical and reporting aspects.

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- ❑ **Alignment:** Most of the proposed technical and definitional terms are approached very closely by those reflected in the Petroleum Resource Management System (PRMS) of the Society of Petroleum Engineers (SPE) for the reporting of proved reserves. This will provide a solid ground for unification and understanding with the rest of the classification system in the global energy industry.
- ❑ **Keep it current:** The structure of the proposal opens ground for allowing a more flexible and easy-to-update set of principles and rules in compliance with technology and business development.
- ❑ **Optional capability:** Optional reporting on several elements allows for a flexible reporting system to be adaptable for specific filer's requirements. We do support the optional nature of these elements as long as they stay optional.
- ❑ **Year-end price:** In our opinion, the main considerations in this issue are price *volatility* and *seasonality*. Our suggestion is that year-end pricing be eliminated (to avoid volatility) and endorse the 12-months average price as proposed to calculate reserves (to level out seasonality). The final formula could be based on an arithmetic average price of a pointed day of the month or a full range of day-to-day average, whichever is more convenient. Some span for last month of year-end closing and for timely reporting should be allowed. One could de-phase the pricing period and consider the average price of the year ended on November 30th of that year (or even September 30th), when reporting reserves as of December 31st.
- ❑ **Two price system:** We do not support to have two price systems: the proposed 12-months average for reporting purposes versus year-end price for accounting. This will result in a very inconsistent reporting system in contrast with the general philosophy of the Commission for consistency and comparability among filers. The use of one single price system (12-months average) for both reporting and accounting will be of great benefit for everyone. This will required to amend FAS19.
- ❑ **Price scenarios:** Considering the varied comments and responses received and published by the SEC on this issue our opinion is that allowing for several price scenarios, especially if those are left to the discretion of the reporting companies, would lead to confusion and lack of comparability throughout the market. Additionally, it could create the following hazards:
 - it would reveal strategic information to the competitors
 - it could mislead the market, if the exercise is not carried out consistently among filers

This exercise can be easily replicated by investors and analysts given production, CAPEX and OPEX profiles, etc., and should be left up to them to apply the price scenarios that best suit their risk profiles and that are consistent with their industry outlooks.
- ❑ **Non conventional resources:** The industry is moving towards a broader usage of non conventional resources. There is a significant volume of hydrocarbons that is not

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presently recognized by the regulators, and is presently an important source of value for investors. Additionally, in order to be consistent with industry trends - like the Canadian regulations and SPE/WPC/AAPG/PRMS – we do support for the initiative of disclosing non conventional resources. That initiative would imply the modification of the requirement that the hydrocarbons reserves and resources are extracted through wells, opening the door for a whole range of hydrocarbon types that are already being exploited by different means other than wells.

- **Revision of Proved Reserves definitions - Incorporation of technologies:** This very important modification would allow Oil & Gas (O&G) companies to use engineering and geosciences data to extend proved areas to where presently SEC does not allow to book reserves, i.e. below lowest known hydrocarbons, or beyond drilled wells drainage radii and offsetting locations. This is a very positive change that should be fully supported by the industry for several reasons:
 - **It makes technical and business sense:** The application of these technologies (in particular pressure testers like MDT or RFT and seismic attributes) allows to measure with high degree of confidence the location of the hydrocarbon contacts and in most cases the lateral extent of the accumulations. The industry has been using this information for many years to determine the size of the accumulations and has become a common practice that drives most of the technical and business decisions in O&G fields.
 - **It will narrow the difference between SEC and SPE-WPC-AAPG PRMS and SEC reporting for proved reserves:** A large effort is being carried out by the industry to unify the reserves reporting system. The system created by SPE/WPC/AAPG – PRMS, aims to unify the industry best practices for reserves classification and reporting, and thus should be adopted to simplify the reporting process and provide transparency and comparability to the markets.
 - **It will make the internal reserves (and value) analyses more consistent:** Presently, many companies are internally reporting proved reserves under SEC rules, and Probable/Possible reserves under SPE guidelines. The convergence of the definitions for proved reserves will give the system a very valuable consistency. One example is in the valuing of reserves in their different categories, any valid combination of proved, probable and possible reserves based on their risk assessment should provide an unbiased estimate of the most probable ultimate recovery value of a reserves distribution. Current estimates of combined proved SEC with SPE/WPC probable and possible reserves, result is an estimate that is unrealistically and systematically biased to the downside of the 1P position.
- **Revision of Proved Reserves definitions – Accounting considerations:** The associated changes in the definition of proved reserves and from using single-day year-end price would affect accounting for oil and gas activities using the successful efforts method under Statement 19. Our understanding is that these changes should be considered a change in accounting estimate, and should be accounted for prospectively.

- **Technology:** We agreed with the term in support for the definition of proved reserves to establish reasonable certainty. This is a core reform of the rule since it will allow spanning the actual status of current technology development and usage in the industry. We do have some concerns about the disclosure of technologies used for reserves estimates. As we all know, reserves estimates is a highly complex process that involves multidisciplinary team, multi source data that are collected, processed over long periods of time, and interpreted by sophisticated technical means. One particular technology does not necessarily makes up for a material change in reserves estimates. The effective use and application of technology for a particular case and for a particular company is what create competitive advantage among companies. Therefore, disclosure of technology as proposed could become a very cumbersome process thus implying also disclosing technical processes and people competences, not to mention some legal restriction such as intellectual properties.

In sympathy with the Commission for the anti-abuse of this new term in the reserves definition, all those personnel engaged in reserves estimates and those with reporting and disclosure responsibilities are bounded with ethical professional and business principles that assure the investor and regulator with a complete degree of compliances of set rules. We believe that a disclosure of a strong institutional and rigorous internal control system that adequately provides effective control including technical assurance and personnel qualifications, should provide sufficient comfort and reliability to the stakeholders community.

- **Disclosure of probable and possible reserves:** The decision to propose disclosure of probable and possible reserves is a very sensitive issue and should be made after careful discussion and consideration of company and industry wide implications. We would like to offer the following considerations:
 - Reserves estimates are subject to evaluator's criteria and judgment and show important variability, particularly on the early stages of an oil or gas development. This variability is observed even in the determination of the more certain proved reserves (SPE or SEC). The higher expected variability for probable and possible reserves may be unbearable and confusing for the markets and the industry players.
 - Disclosure and control requirements may escalate to the point of substantial increased costs with no added value.

Based on these considerations, we suggest not recommending the disclosure of probable or possible resources. Otherwise, should be optional.

- **New disclosure requirement:** There is a whole set of new disclosure requirements in the proposal that we believe will distort the spirit of a high level reporting and disclosure system already in place. Requirements like: expanded reporting of proved undeveloped reserves, granularity of reserves disclosure, new definitions like geographic areas, split of volumes for conventional and continuous accumulations, drilling activities and status, and qualification for reserves estimator among other things, in our opinion might jeopardize the quality of the whole reporting system with unnecessary complexity and incoherency for the sought purpose. Greater time

consuming and cost in consolidation process and alignment of information systems across the whole organization for timely reporting should not be underestimated. Instead, we strongly recommend a comprehensive Management Discussion and Analysis – MD&A for any material changes due to technology, prices, concession conditions, commercial terms, known trends, demands, commitments, uncertainties, and any events that are reasonably likely to have a material effect on reserves estimates and financial condition of the company. As mentioned before, for control purpose the investor community can be better served on all these matters by providing them with a comprehensive MD&A disclosure as well as initiatives taken by the registrant toward an ever stronger institutional internal control system in harmony with modern international trends in administrative business and sound auditing practices and techniques.

Finally, RepsolYPF, S.A., appreciates the Commission's efforts to revise the current disclosure rules and to provide us this opportunity for comment. We remain open to provide any further details at your convenience.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'A. Regalado', is written over a horizontal line. The signature is stylized and somewhat cursive.

Aquiles Rattia Regalado
Corporate Reserves Director

cc: Dña. Paulina Beato Blanco, President of the Audit and Control Committee
D. Fernando Ramirez Mazarredo, Chief Financial Officer
D. Simeon Vadillo Zaballos, Corporate Director of Administration and Management Control