

September 5, 2008

Ms. Florence Harmon
Acting Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Re: File Number S7-15-08, *Modernization of the Oil and Gas Reporting Requirements*

Dear Ms. Harmon:

We appreciate the opportunity to respond to the Securities and Exchange Commission's (SEC or "Commission") proposed rule *Modernization of the Oil and Gas Reporting Requirements* (the "Proposed Rule").

We support the Commission's objectives to modernize and update the current definitions and disclosure requirements relating to oil and gas reserves. We believe that the Proposed Rule will generally enhance the information about an oil and gas company's business available to investors. However, as further described below, it is not clear how a number of the new disclosures will aid investors' understanding of oil and gas companies. In addition, we believe that the Commission's estimate of the incremental burden to prepare the various new oil and gas disclosures is significantly understated.

Consistent with our February 18, 2008 response letter to the Commission's Concept Release on *Possible Revisions to the Disclosure Requirements Relating to Oil and Gas Reserves* (Concept Release Response), we note that the majority of the requests for comment in the Proposed Rule pertain to technical engineering topics that are outside our expertise, and therefore we have not responded to each question in the Proposed Rule. However, we have provided the following observations for the Commission's consideration.

Revisions and Additions to the Definition Section of Rule 4-10 of Regulation S-X

Year-End Pricing

Section II.B. of the Proposed Rule includes a proposal to revise the definitions in Rule 4-10 of Regulation S-X to change the price used in calculating reserves from the period end closing price to the average price for a 12-month period. The Commission states that the 12-month average price would be used for the purposes of disclosure (both the disclosures required by Financial Accounting Standard (FAS) No. 69, *Disclosures about Oil and Gas Producing Activities* (FAS 69) and those required by Regulation S-K), but it would not change the price

used for accounting purposes (which would remain the single-day, year-end price). While we agree with the proposal to revise the definition to use an average price, we do not support the proposal to use one price for disclosure and another price for accounting. Instead, we believe that the same price should be used to determine reserves for both accounting and disclosure purposes. To do otherwise creates an illogical and confusing inconsistency between the information reported in the basic financial statements and that disclosed elsewhere in registrant filings. In addition, we believe that dual reporting bases would significantly increase the cost and complexity for registrants to prepare and maintain reserve information.

A change in the definition, whether the Commission chooses to use two different definitions or to use one definition based on a 12-month average price, will require changes to the accounting literature and related rules.

- If the Commission adopts one definition using the 12-month average, the guidance in FAS No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies* (FAS 19) regarding the determination of reserve quantities would not need to be amended, because paragraph 7 of FAS No. 25, *Suspension of Certain Accounting Requirements for Oil and Gas Producing Companies, an amendment of FAS 19* (FAS 25) requires that registrants use the definition of proved reserves adopted by the SEC. However, the guidance in paragraph 30.a. of FAS 69 regarding the computation of the standardized measure would need to be amended to require the use of the 12-month average price. In addition, paragraph 30.b. of FAS 69 would also need to be amended to require the use of a 12-month average for computation of future development and production costs within the standardized measure.
- If the Commission adopts two different reserve definitions as proposed, the guidance in FAS 25 would need to be amended in order to clarify which SEC definition of reserves should be used for accounting purposes. FAS 69, paragraphs 30.a and 30.b also would need to be amended as discussed above.

We note that the conclusion regarding pricing also could have implications to auditors in relation to the unaudited supplemental information required by FAS 69 and the procedures prescribed in AU 558 and AU 9558 (as promulgated by the AICPA Auditing Standards Board (ASB) and as adopted in PCAOB Rule 3200T on an interim basis). We have described these issues in the section below entitled "Potential Implications to the Auditing Standards."

Trailing Year-end Price

Under the Proposed Rule, the average price for the 12 months prior to the end of a company's fiscal year would be calculated using the end-of-month prices. Instead, we recommend that the average be calculated based on beginning-of-month prices. This retains the advantages of using an average, while providing preparers and auditors more time to prepare and review the numerous calculations and disclosures that are predicated on the average price.

Effects on the Full Cost Accounting Method

As previously stated, we believe that the 12-month average price should be used to determine reserves for the purposes of both accounting and disclosure. Accordingly, we recommend that

the Commission revise the computation of estimated future revenues and expenditures for the full cost ceiling test described in Rule 4-10 to require the use of a trailing-12-month-average-price, instead of the currently required period-end price, for both year-end and interim period calculations. If the Commission amends the full cost ceiling test in this manner, corresponding revisions would be required to Staff Accounting Bulletin Topics 12-D-3b, 12-D-3c and 12-F.

Disclosure of Non-Traditional Resources

Under the Proposed Rule, the definition of “oil and gas producing activities” would be revised to include the extraction of non-traditional resources, including bitumen extracted from oil sands, and oil and gas extracted from coal beds and shale. As we noted in our Concept Release Response, in our experience, oil and gas companies do not draw any operational distinction between traditional and non-traditional resources. Thus, allowing disclosure of non-traditional proved reserves as oil and gas reserves would help investors evaluate the significance of these resources in relation to traditional oil and gas reserves. We therefore continue to support the Commission's proposed revisions to include such non-traditional resources within the definition of “oil and gas producing activities”. However, we note that FAS 19 excludes from its scope “the extraction of hydrocarbons from shale, tar sands, or coal.” We therefore urge the SEC to work with the FASB to establish consistency such that reserves from non-traditional resources that are included in oil and gas reserves pursuant to the Proposed Rule are also accounted for as oil and gas producing activities within the scope of FAS 19.

New Technology

In light of the Commission's intention to permit broader use of technologies to establish the proper classification of reserves as described in Section II.D. of the Proposed Rule, we reiterate our comment from our Concept Release Response that the Commission coordinate with the FASB to consider amending FAS 19 with respect to the accounting treatment for certain exploratory geological and geophysical costs.

Proposed Amendments to Codify the Oil and Gas Disclosure Requirements in Regulation S-K

As described in proposed Item 1200 of Regulation S-K, the Commission has proposed various new oil and gas reserve disclosures. Based on our experience with FAS 69, we believe the Commission's estimate significantly understates the incremental burden to prepare the proposed disclosures. Further, it is not clear how a number of the new disclosures (e.g., the disclosure of conventional accumulations and continuous accumulations described in Item 1202, the disclosure of reserve additions by supporting technology described in Item 1202, and the disclosure of the number of producing wells described in Item 1208, among others) directly contribute to the Commission's stated goal for the Proposed Rule of helping investors evaluate the relative value of oil and gas companies by providing them with a more meaningful and comprehensive understanding. We therefore urge the Commission to reevaluate its Cost-Benefit Analysis of the Proposed Rule and reassess whether each proposed disclosure is properly aligned with the stated goal for the Proposed Rule.

In addition, we note that the disclosures required under proposed Item 1200 would not be included within the notes to the financial statements with the current FAS 69 disclosures, even though the proposed disclosures complement, and in some cases, duplicate, the FAS 69 disclosures. Consistent with the recommendations of the Commission's Task Force on Disclosure Simplification, we agree that users of financial statements would be best served if all information with respect to oil and gas reserves was located together in one place in a filing. We therefore encourage the Commission to require that all oil and gas reserve disclosures, including those currently required by FAS 69, be provided in a single separate location outside the financial statements. Further, if the Commission adopts a pricing basis for the FAS 69 disclosures that is different from the pricing used for accounting and recognition in the financial statements, leaving the FAS 69 disclosures in the footnotes could be confusing, and potentially misleading. If the Commission concurs that all oil and gas reserve disclosures should be located together in one place, outside the financial statements, we would encourage the SEC to coordinate with the FASB and the PCAOB to amend FAS 69 and AU 9558, as appropriate.

Proposed Conforming Changes to Form 20-F

Under the Proposed Rule, the instructions to Form 20-F would be revised to conform the disclosure requirements for foreign private issuers. As discussed above, we believe that certain aspects of the proposed disclosure requirements should be reconsidered. Nevertheless, we support the Commission's proposal to harmonize the disclosure requirements for foreign private issuers.

The IASB is currently considering establishing guidelines for oil and gas extractive activities, including a definition of reserves. We note that the Commission intends to discuss its rulemaking project with the IASB and work to harmonize the rules upon effectiveness of the proposed rules, if adopted. We support this on-going dialogue between the Commission and the IASB, although we recommend that such discussions should not delay the issuance of the final rules.

In addition, we note that previously, companies that used an internationally recognized definition of reserves for purposes of their financial statements that is different from the SEC definition were required to reflect any impact of such a difference in their US GAAP reconciliation. Because certain foreign private issuers are no longer required to include a reconciliation to US GAAP in filings with the Commission, we recommend that the SEC clarify the reserve disclosure requirements under both FAS 69 and Regulation S-K for foreign private issuers who file using a different definition of reserves.

Impact of Proposed Amendments on Accounting Literature

Change in Accounting Principle or Estimate

We concur with the Commission's conclusion that any accounting changes arising from adoption of the Proposed Rules should be considered a change in accounting estimate, pursuant to FAS No. 154, *Accounting Changes and Error Corrections*, and be accounted for prospectively. We also encourage the Commission to work with the FASB to address whether this accounting treatment would also apply to a company that changes its accounting for non-

traditional resources, if FAS 19 is amended to provide for accounting for these resources as oil and gas activities (e.g., a bitumen mining company that would be required to account for bitumen production under the oil and gas accounting rules).

Potential Implications to the Auditing Standards

The requirements for auditors in relation to the supplemental information required by FAS 69 are prescribed in AU 558 and AU 9558. We recommend that the Commission coordinate with the PCAOB regarding how the Proposed Rule interacts with the auditing standards. We provide the following comments for the Commission's consideration in this area.

- AU 558.07(b) states that, with respect to supplemental information, the auditor ordinarily should compare the supplemental information for consistency with the audited financial statements. Further, AU 9558.05(c) states that the auditor should compare the entity's reserve quantity information with the corresponding information used for depletion and amortization, and make inquiries when differences exist. As described in the Proposed Rule, the Commission is not proposing to change the pricing assumption used for accounting purposes. As a result, companies would continue to depreciate property, plant, and equipment related to oil and gas producing activities using units-of-production over reserves determined using single-day, year-end prices, while reserves for disclosure purposes would be determined using a 12-month average price. As stated above, we recommend that the Commission require the use of the same price for both accounting and disclosure. However, if the final rule includes different prices for the determination of reserve quantities for accounting and for disclosure purposes, we recommend that the Commission coordinate with the PCAOB to amend AU 558.07(b) and AU 9558.05(c) to provide further guidance for auditors in applying these procedures.
- AU 9558.05(d) states that the auditor should make inquiries about the calculation of the standardized measure of discounted net cash flows, including whether the prices used to develop future cash inflows from estimated production of proved reserves are based on prices received at the end of the entity's fiscal year. If FAS 69 paragraph 30.a. is amended to use the 12-month average price, the standardized measure would no longer be based on year-end prices. Therefore, we recommend the Commission coordinate with the PCAOB to amend the procedures prescribed in AU 9558.05(d) to reflect any amendment to FAS 69 required as a result of the Commission's rule.

As noted above, we believe the Commission's estimate of the incremental burden to prepare the proposed disclosures has been significantly understated. Given the numerous and extensive additional proposed disclosures, we believe that it will be difficult for preparers to accumulate the required data accurately and in a timely manner. We therefore again urge the Commission to (1) reassess whether each proposed disclosure is necessary to achieve the stated goal of the Proposed Rule; (2) align the definition of reserves for accounting purposes with that to be used for disclosure purposes; and (3) base the twelve-month average pricing on beginning-of-month pricing, rather than end-of-month pricing.

Application of Interactive Data Format

We support the objectives of enhanced electronic financial reporting to increase the speed and usefulness of financial information. The introduction of eXtensible Business Reporting Language (XBRL) is an important step in achieving more effective and efficient preparation of corporate reporting, as well as consumption and analysis by users in the business reporting supply chain - management, investors, analysts, creditors, auditors, and regulators.

However, we believe it may be premature to mandate detailed tagging (as opposed to 'block-text' tagging) of tabular disclosure submissions in the XBRL format at this time considering that (a) preparers may need to expend incremental effort to implement the new tabular disclosures; and (b) there is currently not a well-developed, standard list of electronic tags for the tabular disclosure. The tabular disclosure taxonomy should be expanded, including the addition of more granular content, and exposed for public comment such that a more robust taxonomy is available sufficiently in advance of the proposed adoption dates.

We believe the SEC should consider implementing a voluntary filing program for oil and gas companies to submit the tabular disclosures in XBRL format, similar to that available for the mutual fund risk and return summary. The lessons learned through this voluntary filing program could be considered and modifications made, if necessary, before mandating detailed tagging of tabular disclosure submissions in the XBRL format for all oil and gas companies.

Proposed Implementation Date

We believe it would be impractical for companies to make the changes to their controls and processes necessary to meet the requirements of the Proposed Rule in their 2009 annual reports. We recommend that the Commission consider the length of time required to make these changes and delay any effective date accordingly. We expect that effective implementation of the Proposed Rule's requirements will take at least an additional year beyond the timeframe currently proposed by the SEC.

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We are available to discuss our comments and to answer any questions that the SEC staff may have. Please contact Steve Meisel (973-236-4407), Ken Miller (973-236-7336) or Thomas Smith (703-918-3153) regarding our submission.

Sincerely,

PriceWaterhouseCoopers LLP