

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

3 September 2008

**Proposed rule Modernization of the Oil and Gas Reporting Requirements
(Release Nos. 33-8935; 34-58030)
Commission File No. S7-15-08**

Dear Ms. Harmon:

Ernst & Young LLP is pleased to comment on the Securities and Exchange Commission's (the "Commission" or the "SEC") proposed rule *Modernization of the Oil and Gas Reporting Requirements* (the "Proposed Rule"), which seeks to update the oil and gas disclosure requirements in Regulation S-K and Regulation S-X based on changes in technology and current industry practice to provide investors with more meaningful information.

Our comments also reflect the views of Ernst & Young Global, which is the global organization of Ernst & Young member firms.

General

We strongly support the objective of the Proposed Rule to reevaluate the Commission's current oil and gas reserve disclosure requirements in light of the significant changes in technologies and world markets that have occurred since the Commission originally adopted those requirements. Overall, we believe the proposed changes are consistent with this objective. We believe that the proposed disclosures generally would provide information that is more meaningful to investors and more consistent with how management determines its estimates of the ultimate recoverability of reserves than those currently required.

Further, we believe that the majority of the proposed changes to the recognition, measurement and disclosure requirements would allow investors in registrants with significant oil and gas exploration and production activities to better understand how management evaluates investment opportunities and why management makes certain investment decisions.

However, as discussed below, we believe that the Commission should make certain changes to the proposed disclosures to maintain consistency between the financial statements and other information contained within registrants' filings. Also, the costs to registrants of accumulating and presenting additional information must be carefully balanced against how useful and meaningful that information would be to users.

Areas on which the Commission seeks comment

We have organized our comments below to respond to certain areas as opposed to specific questions on which the Commission sought public comment. Most of the areas for which comments were requested in the Proposed Rule relating to the definition and estimation of oil and gas reserves are outside of our area of expertise as accountants and auditors. Accordingly, we will not comment on such areas.

Prices used for estimating proved reserves (Section II.B.1.)

The proposing release states that “We propose to revise the definitions in Rule 4-10 of Regulation S-X to change the price used in calculating reserves from a single-day closing price measured on the last day of the company’s fiscal year to an average price for the 12 months prior to the end of the company’s fiscal year. ... This price would be calculated as the unweighted arithmetic average of the closing price on the last day of each month in that 12-month period.” Section XI.C.1 of the proposing release goes on to state that “The proposal to change the price used to calculate reserves from a year-end single-day price to an historical average price over the company’s most recently ended fiscal year is expected to reduce the effects of seasonality and facilitate comparability between companies. ... We recognize that some reserves will be of more value than others due to extraction and transportation costs. As a result, since our proposal would require the use of a single price to estimate reserves, the proposal also gives companies the option of providing a sensitivity analysis and reporting reserves based on additional price estimates.”

In our experience, companies have historically used prices realized for individual properties as of the year end when estimating proved oil and gas reserves pursuant to the Commission’s existing guidelines for those properties. Such prices include the effect of transportation costs and other basis differentials from benchmark prices. Some have questioned whether the references to transportation costs and a single price in the comments quoted above from Section XI.C.1. were meant to change historical practices. For example, would the proposed language require the use of (1) a single unweighted arithmetic average of prices realized by a company for production from all of its properties during the year, or an index or other price that is not specific to a company or its individual producing properties (e.g., a benchmark price such as West Texas Intermediate), or (2) prices that do not contemplate the effect of transportation costs and other basis differentials? We recommend the Commission clarify its intent as to what prices should be used when determining the average price to be used in estimating proved reserves.

Prices used for accounting purposes (Section II.B.3.)

The Commission has proposed that companies estimate and disclose economically producible reserves outside of the financial statements using a twelve-month average price, but for accounting purposes continue to use single-day, year-end prices. We believe that one pricing convention should be used for purposes of estimating and disclosing reserves pursuant to the Commission’s rules and for accounting purposes.

We believe using two different pricing conventions for oil and gas reserve estimates would reduce the transparency and meaningfulness of the related disclosures. The proposed dual pricing basis would lead to inconsistencies between the information used to prepare amounts reported in the financial statements and elsewhere within registrant filings, which would likely be confusing to users. This inconsistency also might require registrants to make additional disclosures to explain the differences between estimated reserves used for disclosure and for accounting purposes.

Additionally, having two different price bases would place an unnecessary administrative burden on companies to compute two sets of reserve estimates. Based on our experiences auditing registrants with significant oil and gas producing activities, the preparation of estimates of proved reserves requires substantial effort by those companies. We question whether the additional costs that registrants would incur to prepare reserve estimates using inconsistent pricing conventions would be beneficial to users and investors.

Further, it is unclear to us how the proposed changes would interact with the FASB's literature to require the continued use of a single-day, year-end price for accounting purposes. The Proposed Rule notes that the SEC will *"revise the definitions in Rule 4-10 of Regulation S-X to change the price used in calculating reserves from a single-day closing price measured on the last day of the company's fiscal year to an average price for the 12 months prior to the end of the company's fiscal year."* It appears that such revisions also would require financial statement preparers to use reserves computed on such a basis for accounting purposes based on the provisions of Paragraph 7 of Statement of Financial Accounting Standards No. 25, *Suspension of Certain Accounting Requirements for Oil and Gas Producing Companies*, an amendment of FASB Statement No. 19 (FAS 25), which states *"For the purpose of applying this Statement and Statement No. 19, the definitions of proved reserves, proved developed reserves, and proved undeveloped reserves shall be the definitions adopted by the SEC for its reporting purposes that are in effect on the date(s) as of which reserve disclosures are to be made."*

Statement of Financial Accounting Standards No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies* (FAS 19), as amended by Statement of Financial Accounting Standards No. 69, *Disclosures about Oil and Gas Producing Activities* (FAS 69) also requires registrants that have significant oil and gas producing activities to supplementally disclose, in an unaudited footnote, information regarding proved reserves as estimated in accordance with the Commission's definitions. FAS 19, as amended by FAS 69, also requires registrants to disclose a standardized measure of discounted future net cash flows relating to reserve quantities computed using proved reserves, as estimated using the Commission's definitions. That information includes future cash inflows that *"shall be computed by applying year-end prices of oil and gas relating to the enterprise's proved reserves to the year-end quantities of those reserves."* Absent amendment, it appears that the provisions of FAS 19 would require companies to estimate future cash flows for purposes of this disclosure using prices that are inconsistent with the prices used to estimate the amount of proved reserves, which seems inappropriate and could be misleading.

We urge the SEC to coordinate with the FASB to amend and clarify its standards as necessary in response to any change in the Commission's rules for the estimation of reserves.

The Commission also has requested comment on whether there is a basis for requiring or permitting companies that use the full cost method of accounting to use different pricing conventions than those using the successful efforts method of accounting. We do not believe there is a basis for requiring or permitting companies to use different prices based on their method of accounting. Using different prices based on the method of accounting would only add to the differences between the two methods and create financial statements that are more difficult to analyze and less comparable. We believe that if the price is changed as suggested above, it should be changed consistently for both methods of accounting.

In addition, Regulation S-X Article 4-10 requires under the full cost method of accounting that capitalized costs not exceed an amount, referred to as the cost ceiling. The cost ceiling is currently calculated by computing the present value of estimated future net revenue by applying year-end prices to estimated future production of proved oil and gas reserves as of the date of the latest balance sheet presented, less estimated future expenditures to be incurred in developing and producing the proved reserves. Consistent with our comments above, we believe the estimation of future cash flows using prices that are inconsistent with the prices used to estimate the amount of proved reserves is inappropriate. Accordingly, the computation of the cost ceiling should be revised such that the prices used to compute estimated future cash flows are the same as those used to estimate proved reserves. Additionally, the SEC should consider whether any other changes should be made to the full cost provisions of Regulation S-X Article 4-10 or Staff Accounting Bulletin Topic 12 as a result of the changes contemplated by the Proposed Rule.

Disclosure of non-traditional resources (Section II.C)

The Proposed Rule would expand the definition of oil and gas producing activities to include the extraction of reserves from non-traditional resources. We support this revision because many participants in the oil and gas industry also consider non-traditional resources when evaluating investment opportunities. Additionally, certain companies have made substantial investments in projects relating to the extraction of hydrocarbon reserves from such resources. Permitting companies to disclose the reserves estimated to be produced as a result of such investments will provide more meaningful information to users.

However, we note that FAS 19 excludes from its scope *"the extraction of hydrocarbons from shale, tar sands, or coal."* We urge the SEC to work with the FASB to revise the scope of FAS 19 such that reserves from non-traditional resources that are included in estimated oil and gas reserves pursuant to the Proposed Rule are also accounted for as oil and gas producing activities pursuant to FAS 19.

Additionally, the Commission should reconsider the proposed limitation regarding the ability to consider the prices of processed resources when estimating proved oil and gas reserves. The proposing release notes that *"if a company extracting the resources also builds its own processing plant on-site or near the extraction location (other than field processing of gas to extract liquid hydrocarbons), we do not believe it would be appropriate for that company to use the price of its processed product to determine the economic producibility of the unprocessed product."* We believe that if a registrant has constructed such a plant that is dedicated to a producing property, and that plant is critical to the registrant's evaluation of the economic producibility of the resources and its related investment decisions for the property, it should be permitted to report reserves based on a

price that considers the processed price (and the costs of such processing). We believe that allowing registrants to disclose reserves estimated on such a basis would allow investors to gain a more comprehensive understanding of the resources held by such companies and to better evaluate the investment decisions and future prospects of such companies.

Technology disclosures (Section II.D.1)

The Proposed Rule would require a company to disclose the technology used to establish the appropriate level of certainty for material properties in its first filing with the Commission and for material additions to reserves estimates in subsequent filings. Proposed Item 1202(a)(4) of Regulation S-K, states *"If the registrant has not previously disclosed reserves estimates in a filing with the Commission, the registrant shall disclose the technologies used to establish the appropriate level of certainty for reserves estimates from material properties included in the total reserves disclosed."* It is unclear whether such disclosure would be required by a registrant that currently discloses reserve estimates (i.e., an existing registrant) in its first filing subsequent to the effective date of a final rule. We recommend the Commission clarify the applicability of this disclosure to existing registrants.

Proposed definition of reserves (Section II.H.)

The Proposed Rule adds a legal right to produce criterion to the definition of reserves. We understand that, in some cases, production sharing contracts or agreements and other concessions convey an economic interest in oil and gas reserves but not a legal right to produce. Additionally, concession agreements with an initial term that is less than the estimated life of the field might have renewal provisions or might be granted by a nation that has a demonstrated history of extending such agreements. In practice, companies have historically estimated reserves using the life of the field subject to the contract or agreement if indicators suggest renewal or extension of the contract is perfunctory. We believe that the definition of reserves should be clarified to address such situations.

Geographic Area (Section III.B.3.iii.)

The Proposed Rule defines the geographic area (i.e., country or field) for which disaggregated disclosure would be required by specifying a threshold percentage of total barrels. While we agree that disaggregated disclosure of significant reserve concentrations can be meaningful to users, we believe that the number of barrels as a fraction of total barrels might not be indicative of the future financial contribution of a country or field due to the heavy tax burdens imposed in some locations outside of the United States. In such situations, there could be a significant amount of reserves in a country or field; however, the future estimated net cash flows accruing to the registrant's benefit from such production might not be significant. Accordingly, we suggest that the Commission consider revising the requirement for disaggregated geographic disclosures based on a percentage of future estimated net cash flows from the production of estimated proved reserves.

Increase in disclosure requirements

The Commission has proposed a significant number of new disclosure requirements. While many of the new disclosures would provide meaningful information, we question whether users will find some of the proposed disclosures meaningful and useful. For example, we do not find the proposed disclosure of estimated reserves by conventional and continuous accumulations to be meaningful. Conventional and continuous accumulation definitions are highly technical terms that would not be useful to users who are not trained geologists. The Commission should reevaluate each of its proposed disclosure requirements to confirm they provide meaningful information to a reasonably broad range of users on a cost-beneficial basis.

Many of the proposed disclosures would be in addition to the oil and gas reserve disclosures currently provided as supplemental information to the financial statements in accordance with FAS 19, as amended by FAS 69 and, in some cases, overlap those disclosure requirements (e.g., disaggregated geographical information). We believe that investors would be best served if all information with respect to oil and gas reserves was centrally located within an SEC filing. This approach also would be consistent with the recent recommendations of the SEC Advisory Committee on Improvements to Financial Reporting (CIFiR). In those recommendations, CIFiR stated *"We believe any recommendations regarding new disclosure guidance will be most effective and informative for investors if the FASB and SEC update or, as necessary, rescind outdated or duplicative disclosure requirements. Equally important, the presentation of disclosures in SEC filings could be restructured to make them more meaningful."* We therefore encourage the Commission to consider requiring all oil and gas reserve disclosures, including those currently required to be disclosed by FAS 19 as supplemental information, be provided outside of the financial statements in a single separate section of an SEC filing. In adopting such a change, we would encourage the SEC to coordinate with the FASB to amend FAS 19 as appropriate.

Application of interactive data format to oil and gas disclosures (Section VII)

The Commission has requested comment on the desirability of permitting, or requiring, oil and gas companies to present the tabular disclosures in proposed Subpart 1200 in interactive data format. As we have previously stated in other communications to the Commission, we support the Commission's interest in XBRL as a means to enhance the public accessibility, communication and analysis of financial and other filed information. Providing XBRL-tagged financial information should allow investors, analysts and other financial market participants to more efficiently and reliably perform quantitative and qualitative analyses of information reported by public registrants.

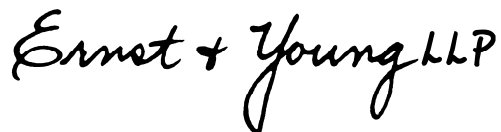
However, we believe it might be premature to mandate detailed-tagging of tabular reserve disclosures. Currently, there is not a well-developed taxonomy for such data and significant initial effort likely will be required by preparers to implement the new disclosure requirements. Instead, we urge the Commission to implement a voluntary program for oil and gas companies to submit XBRL-tagged reserve disclosures until a sufficiently robust taxonomy is available. A voluntary filing program also could provide valuable lessons for consideration in designing and ultimately implementing mandatory XBRL-tagging of reserve disclosures.

Coordination with the FASB and IASB

We note the SEC staff intends to “discuss our rulemaking project with the FASB and IASB and work with them to harmonize the rules upon effectiveness of the proposed rules, if adopted.” We strongly support this coordination and believe it is consistent with many of our comments above. Nevertheless, any such discussions with the IASB should not delay the adoption and implementation of the many improvements contained in the Proposed Rule.

We would be pleased to discuss our comments with the Commission or its staff at your convenience.

Very truly yours,

A handwritten signature in black ink that reads 'Ernst + Young LLP'.

cc: Mr. Robert Herz, FASB Chairman