



Society of Exploration Geophysicists

President

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To: Florence B. Harmon
Acting Secretary
Securities and Exchange Commission
File Number S7-15-08
Comments on Proposed Modernization of the Oil and Gas Reporting Requirements

The Society of Exploration Geophysicists (SEG) highly appreciates the opportunity to respond to the Commission's invitation for comments on "Modernization of the oil and gas reporting requirements" [SEC 17CFR Parts 210, 229, and 249, Release Nos. 33-8935; 34-58030; File No. S7-15-08]

The Society of Exploration Geophysicists (SEG), founded in the United States in 1930, is the world's largest professional geophysical society, with more than 30,000 members in 130 countries. SEG promotes the science of geophysics and the education of a wide range of geoscientists. The Society fosters the expert and ethical practice of geophysics in the exploration and development of natural resources, in characterizing the near surface, and in mitigating earth hazards. Its primary focus is on applications of geophysics to the oil and gas industry. The Society fulfills its mission through its publications, conferences, forums, Web sites, and educational programs.

SEG serves as a voice for the shared interests of applied geophysicists. Society membership also includes many petrophysicists, engineers, and geologists engaged in exploration and production activities. Included among its members are numerous CEOs, managers, directors, independent/consulting geoscientists, federal and State regulators, educators, researchers, and students. Approximately 40% of SEG members work and reside in the United States.

The importance of proper reserves calculation, classification, and reporting is clear, and it is inherently multidisciplinary. SEG endorses SEC's adoption of a "principle-based" system that can more readily accommodate the utilization of new and reliable technologies in the reserve reporting process. Many geophysical technology advancements have been critical to the reduction of risk and uncertainty in reserve and resource calculation in the oil and gas industry.

SEG has been an observer in the generation of the Petroleum Resources Management System (PRMS) and endorses the recommendations made by Oil and Gas Reserves Committee (OGRC) of the Society of Petroleum Engineers (SPE) that will be delivered to the Securities and Exchange Commission separately by the SPE president. The attached comments include some specific issues that are of particular interest to geophysical community.

Sincerely,

Fred Aminzadeh
2007-2008 SEG President

cc: Bill Cobb, SPE President
Scott Tinker, AAPG President



**SEG Comments to SEC on Modernization of the oil and gas reporting requirements
(SEC 17CFR Parts 210, 229, and 249, Release Nos. 33-8935; 34-58030; File No. S7-15-08)**

The Society of Exploration Geophysicists (SEG) highly appreciates the opportunity to respond to the Commission's invitation for comments.

- 1) SEG has been an observer in the generation of the comments to SEC from the Society of Petroleum Engineers (SPE). We hereby state SEG's general endorsement to the comments and recommendations made by SPE's Oil and Gas Reserve Committee (ORGC).
- 2) SEG recognizes and agree with our sister professional organizations (AAPG, SPE, SPEE and WPC) that there is presently an accelerating shortage of professional engineers and geoscientists who are qualified to carry out reserves estimates or audits. To address this staffing issue, SEG will participate in the Joint Committee on Reserves Evaluator Training [JCRET] sponsored by the sister professional societies [SPE, AAPG, Society of Petroleum Evaluation Engineers (SPEE), and World Petroleum Council (WPC)].

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

II.D. Reasonable Certainty and Proved Oil and Gas Reserves

II.D.1. New technology

Request for Comment

- Is our proposed definition of "reliable technology" appropriate? Should we change any of its proposed criteria, such as widespread acceptance, consistency, or 90% reliability?

SEG supports the broader use of new technologies to establish the proper classification for reserves and to lessen the need for frequent updates to our reserves definitions as technology continues to evolve. We consider the definition appropriate in general but more clarifications may be provided on "lead to correct conclusions in 90% or more of its applications." For example, in reserve estimation, a new technology is normally integrated into the existing workflow, does the "90% or more" mean that actual ultimate production from an accumulation 90% of the times will turn out to be at least as great as the proved reserves originally estimated by the "reliable technology" by itself or by integration with other reliable technologies in the workflow? How the 90% is to be verified or justified?

For "widespread acceptance and consistency", we recommend SEC to collaborate with various professional organizations in order to provide specific guidance on particular technologies that are deemed acceptable to SEC. While the "reliable technology" has an open-ended definition (see below), SEC reserve reporting should be conservative by nature. Relying on each company to provide individualized justifications on different twists of technology may overburden the SEC on its ability to verify the reliability of the technology used.

- Is the open-ended type of definition of "reliable technology" that we propose appropriate? Would permitting the company to determine which technologies to use to determine their reserves estimates be subject to abuse? Do investors have the capacity to distinguish whether a particular technology is reasonable for use in a particular situation? What are the risks associated with adoption of such a definition?

It is appropriate to have open-ended definition in a principle-based system because technology development will be faster than SEC rules could be practically updated. In addition to the requirements in the SEC proposal, SEC could work with relevant professional organizations and the industry to provide guidance and maintain an updated list of acceptable technologies as new technology develops to minimize the chance of abuse. This will also help individual investors to distinguish whether a particular technology is reasonable for use in a particular situation by referencing to the acceptable technologies.

II.D.3. Other revisions related to proved oil and gas reserves

Request for Comment

- Should we permit the use of technologies that do not provide direct information on fluid contacts to establish reservoir fluid contacts, provided that they meet the definition of “reliable technology,” as proposed?

Yes, SEG supports the use of other reliable technologies to determine fluid contacts. Some reliable technologies can be applied in combination with the current direct information system and reliably extend the “lowest known” and “highest known” hydrocarbon levels. These are widely used by most individual companies for internal project sanction and proved to be reliable in many geologic formations and environments.