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Nancy M. Morris, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington DC 20459-1090

Re: File Number S7-15-08

Dear Ms. Morris:

Thank you for the opportunity to offer my comments on the Commission's recently released proposed rule on the modernization of oil and gas reporting requirements.

I have a personal interest in the Commission's efforts in this area. From 1976 to 1978 I was a Professional Accounting Fellow with the Commission. I was the principal staff member in the Office of the Chief Accountant assigned responsibility for the development of accounting and disclosure practices for the oil and gas industry during this period. Following my tenure as an SEC Accounting Fellow, I headed Arthur Andersen's worldwide oil and gas industry practice, continuing my involvement in the development of the supplemental reserve disclosure standards of SFAS No. 69 and working with oil and gas companies, petroleum engineering firms, the accounting profession, the SEC and the FASB in the application of these requirements.

Since joining the Freeport-McMoRan group of companies in 1989, I have had the opportunity to participate in how management, investors, oil and gas analysts and financial markets use reserve data and have had direct involvement in the significant changes in the oil and gas industry over the years, especially with regard to markets and the development of technology in exploration and development activities.

The proposed rule is an appropriate and much-needed revision to reflect the changes that have occurred in the industry over the past thirty years. When I was involved in the initial development of the definition of oil and gas reserves and the related accounting and disclosure requirements, many characteristics of the industry were much different from those of today. Markets for selling oil and natural gas were different, financial markets for oil and natural gas have developed and the technology for producing oil and gas and for developing data used to estimate oil and natural gas reserves have changed markedly. The existing Commission rules were developed in the context of industry and market conditions in the 1970s at a time which is no longer reflective of current conditions, and

the Commission's disclosure rules should be changed in response to the environment of today's industry.

In response to the Commission's request for comments, I submit that the Commission should revise the proposed rule regarding the proposed use of historical average prices for the twelve months preceding year-end in the determination of reserve quantities. In my experience, companies, lenders, analysts and others focus on forward-looking prices, rather than historical prices, for reserve valuations and investment decisions. As such, the use of futures pricing market data would more closely reflect the frame of reference that management applies in decision-making. The disclosures would be much more relevant to investors, while preserving comparability among companies. Historical prices have little meaning in considering future investments and values.

I agree with the proposed rule's permitting companies to disclose analysis of their estimated reserves' sensitivity to different product prices. A minimum level of sensitivity analysis (for example, the impact of specified changes in assumed prices on reserve estimates) should be required of all registrants, and not just permitted. Such disclosure would facilitate analysts and others in making their own assessments of the impact of varying prices on reserve estimates.

In connection with finalizing the proposed rule, the Commission staff should coordinate with the FASB and IASB to implement corresponding revisions to other existing accounting and disclosure rules—for example, the capitalization criteria under both the successful efforts and full cost accounting methods that are dependant on the establishment of proved reserves and conforming the disclosure requirements of SFAS No. 69 with the Commission's revised rules. There should be a single definition of proved reserves that is used for both disclosure and accounting purposes. Specifically, the accounting rules dealing with the realizability of oil and gas capitalized costs (the full cost "ceiling test" and impairment assessments of oil and gas capitalized costs under SFAS No. 19) both should require the use of futures market prices.

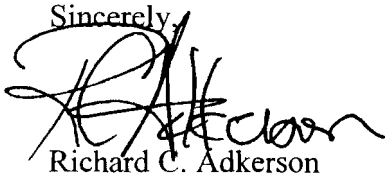
The following summarizes my observations on other aspects of the proposed rule.

- The proposed rule's new and revised reserve definitions and classifications generally appear appropriate. The proposed new rules define the "reasonable certainty" criterion required to be used by existing rules in determining proved reserves to mean "much more likely than not," and in commentary on this point state that "it is much more likely that estimated ultimate recovery would increase rather than decrease or remain constant." This additional commentary could be interpreted as a change to SEC guidance originally released in March 2001, which stated that "the concept of reasonable certainty implies that, as more technical data becomes available, a positive, or upward, revision is much more likely than a negative, or downward, revision." The Commission should clarify this guidance to state that estimated ultimate recovery is much more likely to increase or remain constant than to decrease, which would be consistent with the previous March 2001 guidance.

- The proposed rule's inclusion of provisions for establishing estimates of proved reserves using levels of lowest known hydrocarbons established through reliable technology other than well penetrations is an appropriate response to technological developments in the industry. The proposed permissibility of claiming proved reserves beyond drilling units that immediately offset developed drilling locations based on a company's being able to establish with reasonable certainty that the related reserves are economically producible also recognizes these developments.
- Permitting companies to disclose probable and possible reserve quantities, using the definitions outlined in the proposed rule, is appropriate. The Commission should consider how to provide an appropriate degree of "safe harbor" (similar to the forward-looking statement safe harbor) for companies electing to provide such disclosures.
- The proposed requirements governing the content of a report from a third party who either prepares reserve estimates disclosed by the registrant or conducts a "reserves audit" and disclosure of qualifications of the individual or firm primarily responsible for preparing reserve estimates or conducting the "reserves audit" are appropriate. The final rule should require a description of the level and scope of the work performed in estimating reserves, whether by an employee or a third party. To avoid potential investor misunderstanding of the nature of a "reserves audit," the Commission may wish to require disclosure of an explanation of differences between a "reserves audit" and a financial audit pursuant to the Society of Petroleum Engineers Reserves Auditing Standards.
- The proposed additional disclosures requiring discussion of the underlying reasons for material changes in proved and, if disclosed, probable and possible reserves and sources to which such changes are attributable is appropriate.

I appreciate the opportunity to submit comments on the proposed rule, which represents a much-needed enhancement of existing disclosure requirements for oil and gas reserves.

Sincerely,



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