



Grant Thornton

September 8, 2008

Ms. Florence Harmon
Acting Secretary
Securities and Exchange Commission
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Washington, D.C. 20549-1090

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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 on *Modernization of the Oil and Gas Reporting Requirements* ("Proposed Rule"). We support the Commission's objectives to modernize and update the current definitions and disclosure requirements related to oil and gas reserves.

The definition of proved reserves directly impacts amounts in the financial statements of oil and gas companies. Accordingly, we are interested that any revisions to that definition would be conceptually consistent with existing accounting concepts and standards. Consistent with our response letter dated February 19, 2008, to the Commission's Concept Release on *Possible Revisions to the Disclosure Requirements Related to Oil and Gas Reserves* ("Concept Release Response"), we note that many of the questions included in the Proposed Rule pertain to technical engineering topics that are outside our expertise. As such, we have not responded to each question in the Proposed Rule.

Use of a Sales Price in Estimating Reserves

The Commission proposes 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, but it would not change the price used for accounting purposes (which would remain the single day, year-end price).

Consistent with our Concept Release Response dated February 19, 2008, we encourage the Commission to consider a pricing model based on established futures prices (subject to pricing differentials) and management's estimate of future operating costs on the date the reserve estimate is made. In the absence of readily determinable futures prices, we believe the price used in calculating reserves should be management's estimate (consistent with the methodology related to the testing of impairment set forth in FAS 144). By doing so, the estimate of proved reserves disclosed to investors will be more closely aligned to the information relied upon by management and other third parties vested in their business to

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make investment, financing and other business decisions. However, regardless of the ultimate pricing model determined by the Commission, we do not support using one price for disclosure and another price for accounting and supplemental disclosures required by FAS 69, which would be inconsistent and confusing for investors. In addition, determining and reporting reserves based on two different prices would increase cost and complexity for registrants.

Full Cost Accounting Implications

As previously stated, we believe that a consistent pricing model 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 from a period-end-price to the ultimate pricing model determined by the Commission for both year-end and interim period calculations.

Disclosure of Non-Traditional Resources

Under the Proposed Rule, the Commission would revise the definition of "oil and gas producing activities" to include the extraction of non-traditional resources, including bitumen extracted from oil sands and oil and gas extracted from coalbeds and shales. 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 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 oil and gas reserves pursuant to the Proposed Rule also are accounted for as oil and gas producing activities pursuant to FAS 19.

Definition of Reserves

Under the Proposed Rule, the Commission has provided a definition of the term "reserves" based on the Petroleum Resources Management System ("PRMS") definition of the term, including within this definition reserves anticipated to be recoverable based on a company's "legal right to produce." We encourage the Commission to clarify when the "legal right to produce" extends beyond the initial term of an oil and gas concession. We recommend that the Commission base this clarification on the guidance included in the PRMS framework, which seems consistent with the informal guidance from the SEC staff in the past.

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We appreciate the opportunity to comment on the Concept Release and would welcome the opportunity to respond to any questions you may have regarding any of our comments and recommendations. Please contact L. Charles Evans, Partner – National Professional Standards Group at (832) 476-3614 or Brandon L. Sear, Member of Grant Thornton Energy Committee, at (832) 476-5048.

Sincerely,

/s/ GRANT THORNTON LLP