CANADIAN ASSOCIATION
OF PETROLEUM PRODUCERS

February 15, 2008

Ms. Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, D.C. 20549-1090

Dear Ms. Morris:

Re: File Number S7-29-07 – Concept Release on Possible revisions to the Disclosure Requirements relating to Oil and Gas Reserves

The Canadian Association of Petroleum Producers (CAPP) is pleased to provide comments on the *"Concept Release on Possible Revisions to the Disclosure Requirements Relating to Oil and Gas Reserves"*. CAPP represents 150 companies that explore for, develop and produce natural gas, natural gas liquids, crude oil, oil sands and elemental sulphur throughout Canada. CAPP member companies produce more than 95 per cent of Canada's natural gas and crude oil. Canada is the largest exporter of crude oil to the United States accounting for 20% of American crude oil imports.

We commend the United States Securities and Exchange Commission ("SEC" or "Commission") on addressing this issue, which is of obvious importance to Canadian companies reporting under these disclosure rules. We acknowledge the breadth of issues that are raised in the Concept Release document and that the time to respond is short and we have therefore focused our comments toward the treatment of bitumen (an extra heavy form of crude oil), which represents 173 billion barrels of North American based hydrocarbon resource. Despite limiting our response to the issues that are particularly pertinent to this bitumen resource, we believe that our comments also apply to other hydrocarbon resources, including natural gas, that display significant pricing seasonality.

CAPP's key recommendations are summarized as follows:

- Change the requirement for the use of year end (last day of the year) prices in determining reserve quantities to the use of a 12-month average price.
- Eliminate the restrictions on reporting oil and gas reserves derived from unconventional resources, regardless of the recovery method utilized, as it is the products that are important to investors rather than the method(s) used to extract them.

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Responses are provided on the following pages to Questions 10, 12 and 13 posed in the Concept Release.

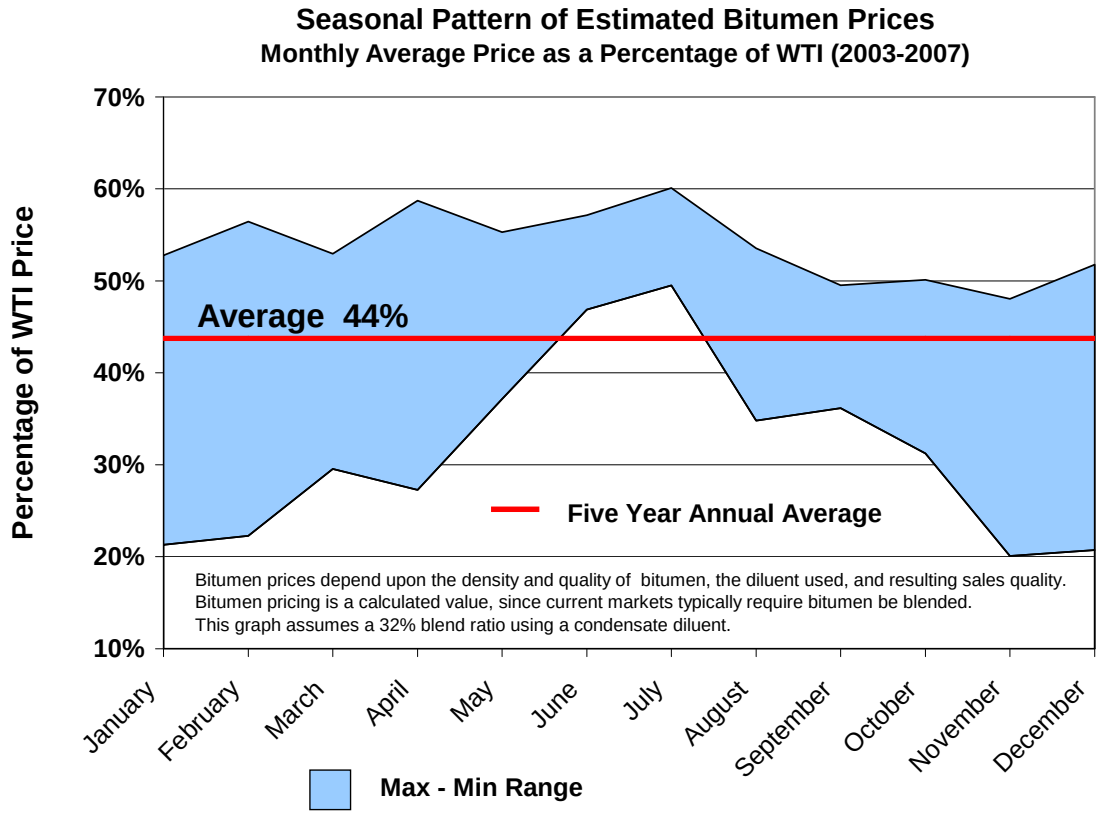
10. Should we reconsider requiring companies to use a sale price in estimating reserves? If so, how should we establish the price framework? Should we require or allow companies to use an average price instead of a fixed price or a futures price instead of a spot price? Should we allow companies to determine the price framework? How would allowing companies to use different prices affect disclosure quality and consistency? Regardless of the pricing method that is used, should we allow or require companies to present a sensitivity analysis that would quantify the effect of price changes on the level of proved reserves?

Recommendation
CAPP recommends that the SEC should recognize an annual average price, at the custody transfer point, for the 12 month period ending the previous reporting quarter, to be applied to the resources held at the reporting entity's year end, (e.g. September 30 for December 31 reporting entities) to further aid timely and accurate reporting. This approach maintains the comparability of disclosures between companies and eliminates the volatility currently created by the use of a single "last day of year" price.

To illustrate why a switch to average annual pricing is essential, we only need to examine the circumstances for bitumen produced in Canada.

Determination of bitumen prices
The North American bitumen market has developed quickly. Companies currently report based on their market sale price. The market based Western Canada Select (WCS) is becoming a widely accepted marker for Western Canadian heavy blend. WCS generally trades on a spot basis with increasing liquidity and is a market based pricing mechanism that is transparent and representative of the value of the bitumen resource in Alberta.

Bitumen and heavy oil market pricing is seasonal with historic low prices in and around the calendar year-end due to lower seasonal demand for asphalt and other bitumen derived products. Bitumen is typically blended with diluent (usually in the form of condensate or synthetic light crude) in order to facilitate its transportation via pipeline to North American markets. Typically, between 25 to 50% of the blended volume transported is diluent. Therefore, the effective field price for bitumen is also directly impacted by the input cost of the diluent required, the demand and price of which is also seasonal in nature. Consequently, bitumen blend pricing is seasonally low and more volatile around December 31 and this "last day of the year" price is not reflective of the annual average realized price or the economics of the "business" overall (see Graph 1).



Graph 1 – Seasonal Pattern of Canadian Bitumen Prices

Materiality

Collectively, oil and gas producers in Western Canada (the majority of which are publicly listed for trading in the United States) had over 3 billion barrels of proved bitumen reserves associated with in-situ operations on their books as of year-end 2006. Although the economics of this industry sector are well understood, as each year-end approaches, the industry is faced with the prospect of "de-booking" some or all of these reserves for SEC reporting purposes because of the seasonal weakness in bitumen pricing.

In fact, at year-end 2004 the vast majority of proved reserves, associated with in-situ operations, were "de-booked" by the industry for SEC reporting purposes as a consequence of "last day of year" prices. This was despite in-situ production at the time being in excess of 250,000 barrels per day, industry profitability and plans for continued significant capital investment in, and expansion of, the industry. Most of these reserves were "re-booked" the following year. Investors are ill served by

such “whip-saw” reporting activity that bears no relation to the physical existence or the overall economics of the underlying assets.

With billions of barrels of potential and billions of dollars of planned capital investment, the bitumen resources in Alberta are widely understood to be a cornerstone of future North American energy requirements.

Conclusion
The SEC’s adoption of the methodology proposed herein would address this issue. In fact, the adoption of the proposed methodology for the price of bitumen (an annual historical average price) would be of benefit to all stakeholders. Such an approach would improve the quality of disclosure while maintaining consistency and comparability. A similar analysis for other prices or cost elements would illustrate similar issues and the benefits to a move to an annual average system.

We recommend that this average price be for the 12 month period ending the previous reporting quarter, to aid in the timely completion of the reserves evaluation process and disclosure of year end results.

12. Should we consider eliminating any of the current exclusions from oil and gas activities? How could removing these exclusions affect disclosure quality?

Yes, we believe that the Commission’s guidelines should focus on the nature of what is ultimately produced versus the extraction method that is involved. Consequently, CAPP recommends that the current restrictions on including oil and gas reserves derived from mined oil sands be eliminated. Removing this exclusion would improve disclosure quality as it would present upstream operations to investors and other financial statement users on the same basis that company management views such operations, as an integral part of the upstream oil and gas production business.

13. Should we consider eliminating the current restrictions on including oil and gas reserves from sources that require further processing, e.g., tar sands (more accurately referred to as oil sands)? If we were to eliminate the current restrictions, how should we consider a disclosure framework for those reserves? What physical form of those reserves should we consider in evaluating such a framework? Is there a way to establish a disclosure framework that accommodates unforeseen resource discoveries and processing methods?

Consistent with answer to question 12, the current restrictions on including oil and gas reserves from sources that require further processing should be eliminated. The Commission’s guidelines should focus on the nature of what is ultimately produced versus the extraction method that is involved.

Bitumen reserves should be evaluated based on the value of the marketable product at the custody transfer point, as is done for all other oil and gas products. For example, bitumen upgrading must be considered as oil and gas activity, when it occurs prior to the custody transfer point. Upgrading is no different than other processes used to condition oil and gas products for sale such as gas processing, NGL extraction / fractionation and oil treating. Such processes have historically been considered to be oil and gas activities when they occur prior to the custody transfer point. The upgraded products compete in crude oil markets and not in the refined product market.

This method would afford greater comparability, transparency and certainty to investors participating in the United States capital markets.

Eliminating this restriction will not require significant changes to the existing disclosure framework for oil and gas activities and therefore would not cause any disruption to that framework.

Yours truly,

Greg L. Stringham
Vice President, Markets & Fiscal Policy