



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

Concept Release on Possible Revisions to the Disclosure Requirements Relating to Oil and Gas Reserves

Release Nos. 33-8870; 34-56945
Commission File No. S7-29-07

Dear Ms. Morris:

China National Offshore Oil Corporation (CNOOC) Limited is pleased to comment on the Securities and Exchange Commission's (the "Commission" or the "SEC") captioned concept release (the "Release").

In general, we agree with the SEC's proposed re-evaluation of the disclosure rules relating to oil and gas reserves. The significance of reserve data becomes increasingly important along with the advancement of petroleum technology. We suggest the SEC consider revising the definitions of proved reserve, proved developed reserve, proved undeveloped reserve, as well as the requirements of oil and gas reserve disclosure and restriction in order to achieve the following:

1. providing investors, shareholders and other relevant parties a full picture of an oil and gas company's oil and gas reserves so that they can make informed decisions and business activities;
2. encouraging technology advancement in the oil and gas industry and oil and gas companies to explore different types of oil and gas reserves; and
3. aligning the market understanding and industrial standards.

The revision shall be flexible enough to gear towards future technological advancement.

1. Reserves disclosure and reserves classification (Questions 1, 2 and 3)

Oil and gas reserve is the basis for investors to evaluate an oil and gas company and for oil and gas companies to make decisions on oil and gas projects and business activities. However, because of the different standards for estimating oil and gas reserves, the investors might find that the reported reserves are not reflective of the actual reserves of a company. That is to say, a company usually has two sets of



reserves data. One is estimated according to industrial standards (e.g., SPE) and used in the company's practical operations, including proved, probable and possible reserves; the other set of reserves data is estimated according to SEC regulations and include only proved reserves, while reserves of other classes are prohibited to be disclosed. This situation makes it difficult for investors to have a complete understanding of a company's actual oil and gas reserves for decision making purposes, which prevents investors from judging a company's potential from the standpoint of management and which also makes a company incapable of demonstrating the investment decisions for a major project based on the disclosed reserve data. Therefore, we suggest that SEC make a revision to its regulations on reserves disclosure and allow oil and gas companies to disclose proved and probable reserves rather than only proved reserves.

SEC's "1978 System" was formulated by referring to Society of Petroleum Engineers' (SPE) rules and regulations. In the past 30 years, the system of reserve classification has been revised for many times according to technology advancement in the petroleum industry. In February 2007, the SPE, the World Petroleum Council (WPC), the American Association of Petroleum Geologists (AAPG) and the Society of Petroleum Evaluation Engineers (SPEE) jointly proposed the "Petroleum Resources Management System" (PRMS). We suggest the SEC give full consideration to the technology advancement and market changes when revising its reserve regulations, e.g. by taking into account the PRMS system.

2. Impact of Technology Advancement on Proved Reserves (Questions 4, 5, 6, 7, and 14)

The reserve estimation requirements currently adopted by the SEC were formulated in 1978. It adopts the concept of "reasonable certainty" when describing proved reserves and relating it to the direct measurements of primary physical attributes. In the past 30 years, petroleum technology has made significant progress in aspects of 3D seismic technique, reservoir description, logging technique, sampling technique, pressure gradient analysis, etc., and the concept of "reasonable certainty" has been expanded to indirect means of measurement and estimation.

When delineating the proved oil and gas bearing area, we suggest the SEC not to use the rule of "OFFSETTING" in the first place. "OFFSETTING" is a pure mathematical calculating method rather than a geological reservoir concept, which is only used as a final tool when reservoir cannot be clearly delineated by G&G data. First of all, based on advanced technological data and tools including geology, reservoir, seismic and wireline logging, analysis and research should be undertaken to determine the oil, gas and water contacts and oil and gas bearing range. When regional experience is available and seismic data quality is favorable, the proved reserves estimated with seismic reservoir description should be adopted. On the basis of reliable pressure data in some thick reservoirs, when free water level (FWL) in existing reservoir and favorable fluid quality are determined, the proved reserves estimated by determining fluid contact with pressure data should be adopted. When



the flat points of gas field seismic data are proved by drilling to be the influence of gas oil contact, the corresponding depth of seismic flat points could be interpreted as gas oil contact and the proved reserves are estimated accordingly.

There are more and more deep water projects and the cost of the drill-stem test in the deep water block is very high. In addition, the current technology in logging, coring and sampling, as well as sound indirect data such as seismic response can be used to make analogy and understand the production capacity. Therefore we suggest the SEC to cancel the strict requirement of direct formation test and accept the regional data analogy to determine the production performance. That is to say, the policy allowed for the Gulf of Mexico can be extended to all deep water projects in the world, and this complies with the actual situation of the enterprises, and also complies with the petroleum technology development, in addition, it will promote oil and gas activities in the deep water areas.

Since water injection is a widely applied and mature IOR technology in the world, so we believe it is not necessary for SEC to require the company to carry out water injection pilot projects or provide the actual effect of the water injection for the estimation of proved reserves. We also suggest if it is confirmed in the region, the water injection recovery can be used in the proved reserve estimation. As for steam injection, polymer injection, thermal recovery and other methods, the actual development effects is really needed for proved reserve estimation.

3. Suggestion to use annual average oil/gas prices to evaluate proved reserves (Question 10)

Currently, the SEC requires using the end of year oil and gas prices to evaluate reserves estimate. But since the year-end prices cannot be obtained prior to the year end, it would, to a certain extent, affect the timing of the reserve evaluation process of a company. Also, using the price as of a certain point of time rather than an average price over a period would make the reserves estimate more susceptible to abnormal fluctuations. As such, we suggest the SEC to adopt annual average price in determining reserves estimate. If any changes are made, the related rules in the Statement of Financial and Accounting Standard No. 19 and the Statement of Financial and Accounting Standard No.69 would need to be modified and adjusted.

We do not support using future forecast prices to make the economic evaluation since it is difficult to have consistent future price estimation for different companies and if it happens then the comparability among oil and gas companies cannot be assured. In addition, this would significantly undermine the ability to compare the oil and reserves of different companies.

4. The marketability issue of natural gas (Question 9)

Due to the unique features of natural gas which is different from oil, the SEC currently requires that gas reserves can only be classified as proved reserves if there is a ready market and there are pipelines available which can transport the natural gas to



the end users.

We suggest the SEC to segment the issues into 3 categories. (1) For mature markets where the natural gas pipelines are well-installed, for example in North America, the related gas reserves can be treated as proved. (2) In the case which there is sufficiently large market demand and the market conditions are clear, if there is a Memorandum of Understanding (MOU), we suggest that proved reserves can be recognized. (3) In the case of insufficient market demand or the market conditions are uncertain, we suggest that proved reserves can only be recognized when there is a formal sales contract for the natural gas in place.

5. Unconventional oil and gas reserves (Questions 11, 12 and 13)

By defining oil and gas reserves for all US listed companies, the SEC not only has influence on US listed oil and gas companies, but also other oil and gas companies in the world. Therefore, the SEC reserves guidelines should be formulated in order to promote world petroleum technology development, to inspire oil and gas companies in the world to find different types of resources and to ensure the world petroleum supply and world security. We suggest the SEC consider removing the restrictions on the recognition of unconventional oil and gas reserves, and we believe as long as certain reserves can be economically recovered, the reserves should be classified as proved. For example, oil and gas produced from oil sands and oil shale should be treated as oil and gas reserves like in conventional oil activities. However, more research and studies might be needed on the methodology to estimate the quantity of unconventional oil and gas reserves and considered by the SEC.

6. Issue on the engagement of independent third party engineers (Question 15)

While the engagement of an independent third party to help evaluate a company's own reserve estimates included in SEC filings is a viable option, a company should be able to make decision on whether such independent third party should be engaged. We do not support making this a mandatory requirement. However, we suggest the SEC should have measures to regulate those companies which just use in-house reserve engineers.

7. About Development Plan (Other Consideration)

In the current practice, Development Plan and the approval of Development Plan are part of the restrictive requirements for disclosure of proved reserves. However, there is no clear definition of a Development Plan in the current regulations. We suggest that the SEC clarify the definition of a Development Plan and other necessary procedures. This will not only help management to include the requirements as part of its evaluation system but also help in ensuring comparability and consistency between companies.

8. The disclosure requirements for oil and gas industry under IFRS (Other Consideration)



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From March 2008, the SEC will accept financial reports prepared under IFRS by Foreign Private Issuers listed in the US without additional disclosures for US GAAP adjustments. However, IFRS currently do not have any specific accounting and disclosure requirements for oil and gas reserves.

In view of the uniqueness of the oil and gas industry, we suggest that the SEC clarify the reserve disclosure requirements for companies which are listed in the US but prepare financial reports under IFRS. We believe information on oil and gas reserves is invaluable in the understanding of the operations and values of an oil and gas company.

Yours sincerely,

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