

February 19, 2008

Nancy M. Morris, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-0609

Subject: File Number S7-29-07, 17 CFR Parts 210, 229, 231 and 241 [Release Nos. 33-8870; 34-56945] RIN 3235-AK00, CONCEPT RELEASE ON POSSIBLE REVISIONS TO THE DISCLOSURE REQUIREMENTS RELATING TO OIL AND GAS RESERVES

These comments are filed on behalf of the Independent Petroleum Association of America (IPAA). IPAA represents the thousands of independent oil and natural gas explorers and producers that develop about 90 percent of America's oil and natural gas wells, produce over 65 percent of American oil and produce more than 80 percent of American natural gas.

IPAA members support the need to revise the current reserves disclosure system, which, when it was developed in 1978, was the product of a world much different than today. Technology advancements, market pricing and more globalized markets have served to bring about change that is real, but which is not reflected in the current system. For publicly traded companies, reserves reporting primarily concerns increased accuracy about disclosure of a company's asset base in terms of volumes and value that investors can understand and use to make informed decisions. Under the current system, use of definitions that are 30 years old doesn't provide the necessary clarity.

IPAA's individual members will comment on the specific questions raised in the Concept Release and IPAA urges the SEC to fully consider those comments. These comments will address two broad issues: nontraditional sources of oil and natural gas and price volatility.

Nontraditional sources of oil and natural gas. IPAA supports broadening the definition of oil and natural gas reserves to encompass the growing contribution of unconventional natural gas, ultra-deep water production, extra heavy oils, gas-to-liquids (GTL), coal-to-liquids (CTL), biofuels, and other sources.

The current reserves disclosure practices made sense decades ago when traditional resources dominated. But now, due to the ingenuity and innovation of the industry, nontraditional sources represent an important and growing portion of production. In the U.S., where natural gas is increasingly valued as a premium fuel, supply from unconventional natural gas formations (tight gas formations, coalbeds and gas shales) presently represents approximately 45 percent of production according to the Energy

Information Administration (EIA). Offshore production, driven by ultra-deep development from the Gulf of Mexico, has increased dramatically in recent years. In the Gulf, the EIA indicates that production will grow from 3.0 trillion cubic feet in 2006 to a peak of 4.5 trillion cubic feet in 2019 as new resources come online. U.S. crude oil production is projected to increase from 5.1 million barrels per day in 2006 to a peak of 6.4 million barrels per day in 2019, with production increases from the deep waters of the Gulf and from onshore enhanced oil recovery projects. Cambridge Energy Research Associates estimates that extra heavy oil that typically requires some upgrading and GTLs together may account for nearly six million barrels per day of liquids production by 2015, a significant increment relative to total world supplies. Additionally, when combined with gas-related liquids (natural gas liquids and condensate) and ultra-deepwater oil production, such liquids may account for more than a third of global liquids supply capacity by 2015.

The growing presence of nontraditional source production has been enabled by transformational technological advances such as horizontal drilling (which today accounts for 25 percent of American drilling operations), formation fracturing techniques, 3 and 4-D seismic imaging, petrophysics, and reservoir simulation models resulting from sophisticated computing power unavailable in years past. These and other accepted technologies decrease uncertainty and are integral to the way in which companies view their assets and make their decisions as the industry invests billions of dollars to ensure future production. In contrast, current reserves disclosure requirements lack any consultative forum to address technological change in reserves reporting.

When the SEC promulgated the current framework, it relied upon definitions used by the Society of Petroleum Engineers (SPE) and the oil and natural gas industry. Recognizing this precedent, it is noteworthy that the SPE has developed useful guidance to address nontraditional sources, taking into account quantities of petroleum considered to be commercially recoverable, regardless of the type of project used to recover the volumes. Its approach replaces the emphasis on oil and natural gas producing activities in favor of commercial recovery from projects. Further, it is significant that by introducing comprehensive new regulations that similarly increase accuracy and transparency, Canada is setting the standard for more comprehensive oil and natural gas reserve reporting.

In sum, nontraditional activities that were once on the fringe of the supply mix are now in the mainstream and billions of dollars are being invested in bringing these volumes to market. Continuing ambiguity about the treatment of such volumes is not constructive. Addressing the ambiguity would better serve stakeholders interests.

Price volatility. When the current SEC system was introduced in 1978, U.S. oil and natural gas prices were controlled, spot trading was just beginning, and futures markets were not yet in existence. Further, deregulated natural gas markets have emerged in North America and elsewhere, and extremely liquid, deeply traded spot markets for oil and natural gas have significantly increased daily price volatility.

Even during relatively stable periods, the economic planning assumptions generally used internally within the industry rarely if ever coincide with the price levels prevailing at a balance sheet date. It is rare for year-end prices, or other historical adjustments to price for transportation, gravity, and other factors, to be the same as the annual average price for oil and even more so for natural gas, where seasonal effects are evident. In reality, reserves are a measure of the long-term prospects and strategies of a company, and they should be more closely linked to longer-term assessments of oil and natural gas prices than to the vagaries of the market price on a particular day. Most observers of the exploration and production industry consider that the use of average prices would significantly eliminate volatility.

Recognizing the principle repeatedly emphasized by the SEC in arguing that 'judgment' should be minimized in estimating proved oil and natural gas reserves for disclosure to investors, IPAA recommends using a longer term average, such as a 12-month average (backward, or forward using an appropriate commodity futures market), instead of the currently mandated year-end price. Use of such a mechanism would foster consistency between disclosures of different companies, remove "point in time" variability, reduce the extent of year-on-year changes, and avoid seasonal price distortions. Further, it would serve the needs of independents, many of which hold portfolios comprising projects with shorter payback times than major oil companies.

In closing, the goal of this process should be to eliminate the general disconnect between companies' official reserves disclosures from the reality of their plans, strategies and actual projects. IPAA looks forward to a constructive process to meet this objective. If there are questions regarding these comments or if additional information is required, please contact Fred Lawrence at IPAA, 202-857-4722.