FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

OFFICE OF ENERGY PROJECTS

February 19, 2008

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

Re: File Number S7-XX-70, Concept Release on Possible Revisions to the Disclosure Requirements Relating to Oil and Gas Reserves

Comments of the staff of the Federal Energy Regulatory Commission

Dear Ms. Morris:

On December 18, 2007, the Security and Exchange Commission (SEC) published a Concept Release in the Federal Register soliciting comments on possible revisions to the oil and gas reserves disclosure requirements. 72 Fed. Reg. 71610-12 (2007). In response to Question 4, the staff of the Federal Energy Regulatory Commission (Commission) provides the following observations and suggestions regarding the definition of "proved reserves."

Rule 4-10(a)(2) requires that an oil or gas company be able to recover resources under "existing...operating conditions" before classifying them as *proved reserves*. Historically, SEC has interpreted this to include a "ready market and a means to transport resources to that market." According to SEC, for natural gas, there must be a pipeline to transport the gas to a sales point; otherwise, known gas reserves are considered to be stranded.

FERC, however, believes that the lack of existing pipeline infrastructure connecting the resource to the market should not be used to exclude "shut-in" or stranded gas supplies when determining proved resources. The time necessary to authorize, construct, and place a connecting pipeline into service could be a matter of a few months if performed under FERC's blanket certificate process, depending

on the distance that shut-in supplies are from existing pipeline infrastructure.[1] Even infrastructure projects involving hundreds of miles of new pipeline, which would be ineligible for the blanket certificate program, may still be constructed and placed into operation in a relatively short period of time.

For example, the Rockies Express Pipeline Project – West (REX-West), a 713 mile long, 42-inch diameter pipeline from Weld County, Colorado, to Audrain County, Missouri, was authorized by FERC within 17 months. The first segment of this project, involving 503 miles of new pipeline through four states, was constructed and placed into service within nine months of authorization. The operation of this portion of REX-West allows formerly shut-in Rocky Mountain gas supplies to reach the market. However, according to current SEC policy,the gas reserves now transported by REX-West should be excluded from proved reserves. Clearly, lack of connecting infrastructure is not an appropriate exclusionary factor.

Rule 4-10(a)(2) also excludes natural gas from proved reserves that can be produced from shale formations and coalbeds.[2] Given that vast amounts of natural gas are expected to be recovered from these types of formations,[3] the level of proved reserves will be vastly understated when gas from such sources is excluded. Indeed, currently 15 percent of total U.S. gas production comes from these formations.

In 2006 and 2007, FERC authorized four projects specifically intended to bring gas from shale formations in Texas, Okalahoma, and Arkansas to market. In total, these projects comprise 529 miles of new pipeline, and will bring over 4 billion cubic feet (Bcf) per day of natural gas produced from shale deposits to market. Also, there are four projects currently pending at FERC which would bring an additional 5.9 Bcf per day of shale gas to market.

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[1] For information on FERC's blanket certificate program, see 18 CFR Part 157, subpart F.

[2] *See* 17 CFR §§ 210.4-10(a)(1)(ii)(D) and (iii)(D).

[3] The Energy Information Administration, in its *Early Release Annual Energy Outlook 2008,* estimates that for the period from 2003 through 2030, 43 Tcf of natural gas can be produced from shale formations, while 49 Tcf of natural gas can be produced from coalbeds.

As far as producing gas from coalbeds, the REX-West project is supported by coalbed methane, and FERC is aware of other prospective major projects which would also bring coalbed methane to market.

In sum, the development of the connecting infrastructure and the long-term service commitments by shippers employing this infrastructure allows a "ready market and a means to transport resources to that market" to be put into place relatively quickly. Therefore, inclusion of all "proved reserves", whether connected or unconnected to a transporting pipeline meets the stated threshold as provided in Rule 4-10. Further, due to their increasing importance to U.S. gas productions, gas from non-traditional sources, such as shale formations and coalbeds should be included in any definition of "proved reserves" as well.

Best regards,

Berne L. Mosley
Director, Division of Pipeline
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Federal Energy Regulatory Commission

Cc:
Joseph T. Kelliher, Chairman
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