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Feb 16, 2008

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U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC, USA
20549-1090

File Number: S7-29-07
Concept Release: 33-8870

Attention: Nancy M. Morris, Secretary

**U.S. Securities and Exchange Commission
Comments on Concept Release on
Possible Revisions to the Disclosure Requirements
Relating to Oil and Gas Reserves**

Introduction

The following comments are in reply to the U.S. Securities and Exchange Commission's (SEC) Concept Release No: 33-8870 published on December 12, 2007 to obtain information about the extent and nature of the public's interest in revising oil and gas reserves disclosure requirements which exist in their current form in Regulation S-K and Regulation S-X under the Securities Act of 1933 and Securities Exchange Act of 1934. The Commission adopted the current oil and reserves disclosure requirements between 1978 and 1982.

The comments which are presented herein are based on the author's 40 years of experience in the oil and gas industry. He has evaluated oil and gas reserves while employed with a major worldwide independent evaluation firm, spearheaded the development of the Canadian Oil and Gas Evaluation Handbook (COGEH), and assisted the Alberta Securities Commission (ASC) by co-authoring the writing of National Instrument 51-101 (NI 51-101) "Standards of Disclosure for Oil and Gas Activities". Currently he is assisting several oil and gas companies in the preparation of their annual disclosure Form NI 51-101 F1 "Statement of Reserves Data and Other Oil and Gas Information".

The majority of the comments in this document pertain to the Reserves Definitions and Evaluation Practices and Procedures presented in the COGEH and in NI 51-101 Standards of Disclosure for Oil and Gas Activities that were developed in Canada and have been in use for over four years. The comments will only provide summaries of pertinent information contained in the COGEH and in NI 51-101.

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- is given appropriate attention by management and directors
- is provided on a regular basis and,
- is presented in a manner that facilitates comparison among reporting issuers and over time.

To accomplish these objectives, NI 51-101 establishes disclosure standards and procedures somewhat akin to those long applied to financial disclosure. It prescribes standards for the preparation and disclosure of oil and gas reserves and resources and related estimates, requires the annual public filing of certain of those estimates and other information pertaining to oil and gas activities, and specifies responsibilities of corporate directors.

There is little doubt that the NI 51-101 disclosure system has met the objectives of the CSA. Furthermore, the procedures for evaluating reserves and resources, as presented in the COGEH, have also been accepted and withstood the scrutiny of professional qualified reserves evaluators and auditors. COGEH Volume 1 was published on June 30, 2002. It is noteworthy that the Association of Professional Engineers, Geologists and Geophysicists of Alberta (APEGGA) has adopted the COGEH as their “Practice Standards for Evaluation of Oil and Gas Reserves for Public Disclosure”.

The concern as to how the Commission should respond to changing reserves and resources systems has been handled automatically in the Canadian system. Throughout the NI 51-101 “Standards of Disclosure”, all issues pertaining to the evaluation of reserves and resources are referenced to the appropriate procedure in the COGEH. Therefore, as procedures in COGEH change, so does NI 51-101 change. As changes occur in either NI 51-101 or in the COGEH, appropriate approvals are made between the ASC and the Calgary Chapter of SPEE (authors of COGEH).

(4) Should the Commission revise the current definitions of Proved Reserves, Proved Developed Reserves and Proved Undeveloped Reserves and if so, how?

In order to keep pace with the emerging reserves and resources classification systems in the oil and gas industry, the Commission should revise their current definitions. The classification system that is suggested is that used in Canada and presented in the COGEH Volume 1. The details of the COGEH “Definitions of Resources and Reserves” can be downloaded from the ASC website:

www.albertasecurities.com/COMPANIES/Pages/OilGas.aspx.

In summary, the COGEH definitions stipulates the following major categories of reserves:

Proved Reserves	(P _V)
Probable Reserves	(P _B)
Possible Reserves	(P _S)

Each major classification is further sub-divided into the following producing and development statuses:

Proved	
Developed Producing	(P _V DP)
Developed Non-Producing	(P _V DNP)
Undeveloped	(P _V UD)

Probable

Developed Producing	(P _B DP)
Developed Non-Producing	(P _B DNP)
Undeveloped	(P _B UD)

Possible

Developed Producing	(P _S DP)
Developed Non-Producing	(P _S DNP)
Undeveloped	(P _S UD)

The major reserve categories can be aggregated as follows:

Proved	(1P = P _V)
Proved + Probable	(2P = P _V + P _B)
Proved + Probable + Possible	(3P = P _V + P _B + P _S)

The COGEH definitions uses statistical confidence levels to better define the reserve categories. Confidence levels, such as P₉₀, means that there is a 90 percent probability that a result will be equal to or greater than the P₉₀ estimate. The confidence levels for the major reserves categories are:

Major Reserves Confidence Levels		
Aggregated Major Reserves Classifications	Entity Level	Total Company Level
1P	High Degree of Certainty of Recovery	At Least P ₉₀
2P	Equally Likely to be or not to be Recovered	P ₅₀
3P	Unlikely to be Recovered	P ₁₀

An Entity refers to the lowest level of a reserves evaluation. It may be a single well, a group of wells, a pool or a field or often an oil and gas production unit. The Total Company Level is the aggregation of all of the company's entities.

Unfortunately, at this time, the majority of evaluators are reluctant to place confidence levels at the Entity Level. When statistical concepts do become completely accepted, hopefully in the near future, P₉₀, P₅₀, and P₁₀ or similar confidence levels will also be applied at the entity level for 1P, 2P, and 3P reserves estimates. More discussion will be made on statistical concepts later in this report.

It is important to understand that the major reserve categories are not unique and not mutually exclusive. They are all part of an estimate where the P₅₀ is the Median value and the P₉₀ and P₁₀ confidence levels provide low and high estimates within the distribution of possible estimates. The low and high estimates (1P and 3P) are only included to provide a measure of dispersion of the data about the P₅₀ value. Also,

- Acquisitions
- Dispositions
- Economic Factors
- Production
- Closing Balance

Reference should be made to the COHEH and NI 51-101 for guidelines for each category. Since the Technical Revisions is such an important category in monitoring the performance of an evaluator, a few comments will be provided. Technical revisions apply only to those properties that are carry-forwards from one year to the next. This reconciliation indicates how the estimates of reserves are standing up to the test of time. There will be positive and negative revisions, however, the accepted targets for technical revisions at the entity and total levels are:

Reserves Category	Entity Level	Total Level
1P	Positive reserves revisions should occur in significantly more of the entities than negative revisions.	Negative reserves revisions should seldom occur at this level.
2P	Positive reserves revisions should equal negative reserves revisions.	Only minor positive or minor negative revisions should occur at this level.
3P	Negative reserves revisions should occur in significantly more of the entities than positive revisions.	Positive reserves revisions should seldom occur at this level.

Reserves additions requiring capital expenditure such as Infill Drilling must not be included in Technical Revisions.

The process of validation of the reserves estimates could take several years and, therefore, a Production Reconciliation should also be undertaken. Comparing Production Forecasts of a previous year's evaluation with Actual Production will instantly indicate if the evaluator is making realistic projections of production of the reserves in accordance with the particular reserves category. The 2P forecast should be tracking the actual production, whereas the 1P forecast should be less than the actual production and the 3P forecast should be greater than the actual production. If an evaluator can't make realistic projections for the next year how can confidence be placed on projections made for many years in the future?

Reconciliation of Net Present Value (NPV) of Future Net Revenue (FNR) has been currently eliminated for disclosure requirements in Canada. This reconciliation is a valuable tool but under current procedures it is extremely difficult to calculate and there is much doubt about the quality of the values presented. The author is suggesting a revised procedure that will use only the evaluation data and eliminate all the actual accounting values to streamline the calculation. The reconciliation between the previous year's evaluation and the current year's evaluation can be done using the economic model to calculate the differences between respective cases. This calculation will be much easier to perform and will provide all of the important reasons why the NPV of FNR has changed from one year to the next.

