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U.S.A

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Dear Ms. Morris;

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

BP is encouraged that the SEC is seeking public comment on its oil and gas reserves disclosure framework through the "Concept Release on Possible Revisions to the Disclosure Requirements Relating to Oil and Gas Reserves". BP has participated in the API working group and supports the comments made in the API letter. We are also pleased to provide our own comments. We have addressed each of the Commissions questions in the pages that follow, but we would like to highlight four issues that we view as being of special importance.

Retain the existing principles-based definition of proved reserves but delete the rules-based elements of the definitions and the Staff interpretative guidance

In our view the Rule 4-10(a) of Regulation S-X definition of proved reserves and the required disclosures already constitute an appropriate principles-based framework that meets the requirements of the investor without imposing an undue burden on the industry. We believe that a progressive update is preferable to a significant change in the overall disclosure framework. Generally, it is the interpretative guidance which has not kept pace with industry changes.

While we are not opposed to the use of the Society of Petroleum Engineers Petroleum Resources Management System as the sole disclosure framework for proved reserves, we are concerned about the potential risk of unforeseen consequences which might result from a radical change to the existing disclosure rules. If the SPE PRMS were implemented, there would need to be a clear and appropriate governance process in place for the SPE PRMS and any future guidelines prior to adoption.

Continue to report proved reserves only

We believe that the Commission should continue to require disclosure of proved reserves only. Disclosure of volumes over and above proved reserves would result in an increase in uncertainty around the reported volumes. The principle of reasonable certainty associated with the existing proved reserves definition is generally understood and consistently applied across the industry. These are also the appropriate reserves to use for financial statement reporting purposes. This will maintain comparability between companies and reliability of the presented information.

Change the price model to be used for year-end reporting

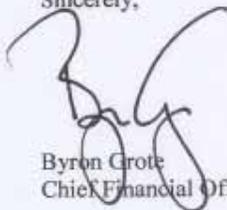
The existing use of a single-day, year-end price results in volatile estimates of proved reserves in a changing price environment. We believe that a twelve month average price would represent better the existing economic conditions, while reducing the impact of the daily volatility in price that adds no value to the reserves estimate for investors and still provide comparability among companies.

No requirement for third party evaluation

Given the complexity involved, we believe that the technical and commercial staff of each company is able to provide a more consistent and accurate estimate of proved reserves than a third party evaluator. Many estimates require significant time and resources to complete – often beyond what is feasible for an independent review.

BP would be happy to discuss this response further with the Commission and to answer any questions that may arise.

Sincerely,

A handwritten signature in black ink, appearing to read 'Byron Grote', written over a printed name and title.

Byron Grote
Chief Financial Officer

SEC CONCEPT RELEASE ON POSSIBLE REVISIONS TO THE DISCLOSURE REQUIREMENTS RELATING TO OIL AND GAS RESERVES

1. Should we replace our rules-based current oil and gas reserves disclosure requirements, which identify in specific terms which disclosures are required and which are prohibited, with a principles-based rule? If yes, what primary disclosure principles should the Commission consider? If the Commission were to adopt a principles-based reserves disclosure framework, how could it affect disclosure quality, consistency and comparability?

We do not believe that any wholesale changes to the existing framework are required. We do recommend some updates to the definitions and interpretive guidance as discussed in the remainder of this document. Updating the existing regulations rather than introducing an entirely new framework will reduce the chance of any significant change in the disclosure quality, consistency or comparability that investors have come to expect in SEC reserves reporting.

A principles-based disclosure framework is best placed to address the unique difficulties in assessing oil and gas reserves. Every reservoir and development plan presents a unique set of challenges for the estimation of its ultimate recovery. These estimates are best evaluated using a holistic approach which takes into consideration all available data.

The existing definition of proved reserves found in Rule 4-10 is a principles based description of proved reserves. It is not dependent on any specific technology and with a small amount of editing to correct some of the short comings in its exclusions of certain oil and gas activities and unrealistic requirement for certainty in the recognition of proved undeveloped acreage the definition should continue to be the benchmark for regulatory disclosures.

Much of the criticism of the SEC rules in the past few years has been directed at the interpretive guidance provided by the Staff. This guidance has often been rule based and has added limits to proved reserves which prevent the recognition of volumes which would have otherwise met the requirement of reasonable certainty in the view of conventional industry practice. When reasonable certainty is required, no other technical guidance is necessary, as the evaluator in each situation is required to assess the available data and its applicability.

One example of this limiting guidance is around the use of hydrostatic pressure measurements in contact definition. The definitions state that in the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons should be used. This is fitting advice - if no other information is available, lowest known hydrocarbon should be the limit, but if pressure and fluid seismic data that have been shown to be good indicators of contact depth in appropriate analogs are available, and the evaluator can demonstrate reasonable certainty of their estimate, then that information should be used.

As new technologies become available and develop a track record of success in application to reserves estimation, they will become part of the geologic and engineering data that are used to support the reserves estimate.

The definition also states that estimates should use the prices and costs as of the date the estimate is made. This has been interpreted to mean the single-day, year-end price on the last trading day of the year. An interpretation of existing conditions based on a 12 month average of price and cost would significantly reduce the volatility in the reserves estimates that has been evident in recent years.

2. Should the Commission consider allowing companies to disclose reserves other than proved reserves in filings with the SEC? If we were to allow companies to include reserves other than proved reserves, what reserves disclosure should we consider? Should we specify categories of reserves? If so, how should we define those categories?

The SEC should continue to require the disclosure of proved reserves quantities only. Investment decisions within a company may be based on volumes, which are not technically compliant with SEC criteria and are based on economic criteria that may vary significantly from the conditions required in the definition of proved reserves. Disclosure of investment case volumes would not be comparable between companies due to these choices in economic criteria.

Generally accepted accounting practice has been developed around a system where only proved reserves volumes are reported. We would not propose changing the disclosure framework for financial reporting.

3. Should the Commission adopt all or part of the Society of Petroleum Engineers – Petroleum Resources Management System? If so, what portions should we consider adopting? Are there other classification frameworks the Commission should consider? If the Commission were to adopt a different classification framework, how should the Commission respond if that framework is later changed?

The Society of Petroleum Engineers (SPE) Petroleum Resources Management System (PRMS) should not be adopted until a clear and appropriate governance process is in place for the SPE PRMS and any future guidelines. The PRMS provides a standard set of industry definitions for the reserves and resources identification and classification. It is a well structured system that was developed through many long hours of work by volunteer members of the SPE Oil and Gas Reserves Committee (OGRC).

One concern with the adoption of the PRMS is the governance model and potential conflict of interest that are introduced for the SPE and volunteer members of the OGRC. The SPE, as a professional association, does not have the independence of the Financial Accounting Standards Board (FASB) or the International Accounting Standards Board (IASB), and must meet the needs of all of its constituents. The PRMS was developed as a resource management system for many purposes. If the SPE PRMS were implemented, there would need to be a clear and appropriate governance process in place for the SPE rules prior to adoption.

We believe that the existing regulation with the revisions recommended in our response to your question 4 will provide a long lasting framework without the need to adopt a radically different set of rules.

4. Should we consider revising the current definition of proved reserves, proved developed reserves and proved undeveloped reserves? If so, how? Is there a way to revise the definition or the elements of the definition, to accommodate future technological innovations?

We suggest the definitions of proved, proved developed and proved undeveloped reserves be kept basically as they are with the following changes.

- i. Add clarity to the definition of current conditions in the definition.
- ii. The Staff has accepted that there are situations where economic producibility can be demonstrated without production or formation test. If there is conclusive geologic and engineering support (of which a formation test would be part) for economic producibility, then the volumes should be considered for inclusion within the proved reserves and the regulation modified to allow this.
- iii. The Staff should consider striking paragraphs i and iii completely as they are rules based and the limitations are already covered under the principle of reasonable certainty as discussed in the definition. For example, with existing technology, it would not be appropriate to claim proved reserves with reasonable certainty for volumes in undrilled prospects – there is no need to specifically address this in this regulation.
- iv. As secondary and tertiary recovery techniques become more common place, it makes sense to not limit proved reserves to primary depletion prior to response in a reservoir, if an adequate track record in appropriately chosen analogs and support by geologic and engineering data is available. If the holistic analysis of the volume meets the test of reasonable certainty, then the volumes should be included in the proved reserves. This does not impact the existing requirements for facilities to be in place prior to claiming proved developed status.
- v. The exclusion of certain non conventional volumes from proved reserves should be removed.
- vi. The word “unit” as used in the definition is outmoded in modern, international application, and should be replaced with the word “area”.

- vii. The current requirement for certainty of continuity of production for attribution of proved undeveloped status should be tempered to meet the same level of reasonable certainty as the rest of the proved reserves. These volumes will still need to be supported by appropriate geologic and engineering evidence. This proposal is discussed in more detail in our response to your question 7.

The following is a marked version of the changes that we feel will allow the current definitions to accommodate any future technical innovations.

(2) Proved oil and gas reserves. Proved oil and gas reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs ~~as-of-based on a recent 12 month average prior to~~ the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

[(i) Reservoirs are considered proved if economic producibility is supported by either actual production or conclusive ~~formation-test geologic and engineering data~~. The area of a reservoir considered proved includes (A) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, and (B) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.] *Commission should consider whether this entire paragraph is too rules-based and should be removed as it is already covered under the principle of reasonable certainty.*

(ii) Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are included in the proved classification when successful testing by a pilot project, or the operation of an installed program in the reservoir ~~or appropriate analog~~, provides support for the engineering analysis on which the project or program was based.

[(iii) Estimates of proved reserves do not include the following: (A) Oil that may become available from known reservoirs but is classified separately as indicated additional reserves; (B) crude oil, natural gas, and natural gas liquids, the recovery of which is subject to reasonable doubt because of uncertainty as to geology, reservoir characteristics, or economic factors; (C) crude oil, natural gas, and natural gas liquids, that may occur in undrilled prospects; ~~and (D) crude oil, natural gas, and natural gas liquids, that may be recovered from oil shales, coal, gilsonite and other such sources.~~] *Commission should consider whether this entire paragraph is too rules-based and should be removed as it is already covered under the principle of reasonable certainty.*

(3) Proved developed oil and gas reserves. Proved developed oil and gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery should be included as proved developed reserves only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.

(4) Proved undeveloped reserves. Proved undeveloped oil and gas reserves are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage shall be limited to those drilling ~~units areas~~ offsetting productive ~~units areas~~ that are reasonably certain of production when drilled. Proved reserves for other undrilled ~~units areas~~ can be claimed only where it can be demonstrated with reasonable certainty that there is continuity of production from the existing productive formation. Under no circumstances should estimates for proved undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same ~~or appropriate analog~~ reservoir.

5. Should we specify the tests companies must undertake to estimate reserves? If so, what tests should we require? Should we specify the data companies must produce to support reserves conclusions? If so, what data should we require? Should we specify the process a company must follow to assess that data in estimating its reserves?

Specifying the process, data or tests required to support proved reserves estimates would be contrary to a principles based system and the specifications would need to be continually updated to accommodate new technologies. It would also limit a company's ability to exercise its innovative strength in developing and applying new technologies, if volumes based on these technologies were not recognised as reserves following appropriate proof of validity.

The estimation of proved reserves should be based on a holistic assessment of all available geologic, engineering and commercial data. It is the responsibility of the evaluator to ensure that a level of reasonable certainty is met for all proved reserves estimates.

The staff has been criticised for the geographic bias of some of its requirements, but for some technology applications this is required if tests are to be specified. A technology that is well proven in one area may prove to be an inadequate indicator of proved reserves in another area. As it would be impossible to develop any test criteria that could be applied globally, the preference must be to apply the existing principles based requirements for reasonable certainty and geologic and engineering data, thus eliminating the need for any specific geographic requirements.

6. Should we reconsider the concept of reasonable certainty? If we were to replace it, what should we replace it with? How could that affect disclosure quality? Should we consider requiring companies to make certain assumptions? Should we prohibit others?

The concept and application of reasonable certainty as used in Rule 4-10 should be kept as it is.

The staff guidance description of reasonable certainty:

The determination of reasonable certainty is generated by supporting geological and engineering data. There must be data available which indicate that assumptions such as decline rates, recovery factors, reservoir limits, recovery mechanisms and volumetric estimates, gas-oil ratios or liquid yield are valid. If the area in question is new to exploration and there is little supporting data for decline rates, recovery factors, reservoir drive mechanisms etc., a conservative approach is appropriate until there is enough supporting data to justify the use of more liberal parameters for the estimation of proved reserves. The concept of reasonable certainty implies that, as more technical data becomes available, a positive, or upward, revision is much more likely than a negative, or downward, revision.

is a clear, appropriate and straight-forward definition that is used and understood throughout the industry.

We would propose that this paragraph be included as part of the revised definitions or as an instruction to Rule 4-10(a).

7. Should we reconsider the concept of certainty with regard to proved undeveloped reserves? Should we allow companies to indefinitely classify undeveloped reserves as proved?

The current requirement for certainty of continuity of production for attribution of proved undeveloped status should be revised to align with the same level of reasonable certainty as the rest of the proved reserves. These volumes will still need to be supported by appropriate geologic, engineering and commercial evidence. Allowing the recognition of proved undeveloped reserves for which there is reasonable certainty will allow investors to compare companies on a similar basis and better represent the proved reserves associated with the project.

There should be no specific time set for the development of proved reserves. The volumes must meet all of the requirements of geologic, engineering and commercial data, and an appropriate activity plan must be presented for the volumes, to ensure that there is commitment to develop. However, this plan could cover a time span of many decades as in the case of large LNG projects.

8. Should we reconsider the concept of economic producibility? If we were to replace it, what should we replace it with? How could that affect disclosure quality? Should we consider requiring companies to make certain assumptions? Should we prohibit others?

The concept of economic producibility should be maintained. Being able to economically produce the quantities disclosed is fundamental to the estimation of proved reserves. As discussed above, no specific tests should be set for the determination of economic producibility, but it should be viewed as a holistic interpretation.

9. Should we reconsider the concept of existing operating conditions? If we were to replace it, what should we replace it with? How could that affect disclosure quality? Should we consider requiring companies to make certain assumptions? Should we prohibit others?

The current concept of meeting existing operating conditions is an appropriate requirement for the attribution of proved reserves and should be maintained. The application and exercise of good judgement is required to determine if there is sufficient evidence to support the existence of a ready market and transport. This is fully consistent with a principles based disclosure framework and should be supported.

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?

The current use of single-day, year-end price should be discontinued and replaced with a twelve month average price. Single day pricing introduces a significant amount of volatility into the estimate that provides no value given the long term nature of the industry. A twelve month average will significantly temper the volatility while still providing a reasonable, common platform for the estimate.

Averaging the twelve month period from 01 October to 30 September will allow companies extra time to estimate and fully review their volumes using the average price for year-end reporting.

There should be no requirement for sensitivity analyses at other prices. Price is only one aspect of the economic analysis of reserves – costs play an equally important role. The relationship between price and costs is exceedingly complex with some being directly related, some related with a lag and some completely independent. It would be impossible for the Staff to stipulate a single cost model that would be applicable and fair to all companies and situations. Allowing companies to choose their own cost model would result in sensitivity analyses that were not comparable and misleading. We do not feel that the presentation of this information would be in the interest of the investor.

11. Should we consider eliminating any of the current exclusions from proved reserves? How could removing these exclusions affect disclosure quality?

The exclusion of quantities that may be recovered from oil shales, coal, gilsonite and other sources should be removed. The investment community and the industry consider these volumes to be indistinguishable from conventional volumes and they should be included in the proved reserves quantities providing they meet all other requirements.

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

The exclusion of extraction activities from shale, tar sands or coal should be removed. The investment community and the industry consider these volumes to be indistinguishable from conventional volumes and they should be included in the proved reserves quantities providing they meet all other requirements.

13. Should we consider eliminating the current restrictions on including oil and gas reserves from sources that require further processing, e.g., tar 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?

Oil and gas recovered in its natural state and from its original location should be included in proved reserves, provided that it complies in all other respects with the definition of proved oil and gas reserves as specified by the SEC including the requirement that development meets relevant commerciality tests. Volumes that cannot be produced commercially under relevant economic and operating conditions, or for which there is no market or any existing method of delivery to the market, should not be included in the category of proved reserves.

The volumes should be measured at a point upstream of any inlet to plants for refining or processing required for transportation.

14. What aspects of technology should we consider in evaluating a disclosure framework? Is there a way to establish a disclosure framework that accommodates technological advances?

The disclosure framework should not be dependent on any technologies but should rely on the simplicity and flexibility of the concept of reasonable certainty to determine when new technologies and the associated volumes can be included based on track record of successful application. Restricting the use of certain technologies could stifle innovation and negatively impact ultimate recoveries.

15. Should we consider requiring companies to engage an independent third party to evaluate their reserves estimates in the filings they make with us? If yes, what should that party's role be? Should we specify who would qualify to perform this function? If so, who should be permitted to perform this function and what professional standards should they follow? Are there professional organizations that the Commission can look to set and enforce adherence to those standards?

There should be no requirement for independent third party evaluation of proved reserves estimates. Given the complexity of the analysis, an in depth knowledge of the available geologic and engineering data is required to appropriately estimate proved reserves. Full analysis of reserves may take many months for a single field and be an integral part of the field development.

It would not be practical for a third party to undertake these types of analyses or audit across the industry. Furthermore, the pool of independent auditors is limited and would be challenged to provide the level of service required for implementation of any proposed general audit requirement.