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VIA EMAIL

Nancy M. Morris
Secretary
U. S. Securities and Exchange Commission
100 F Street, N. E.
Washington, DC 20549-1090

Subject: SEC Concept Release 33-8870; File Number S7-29-07

Devon Energy Corporation ("Devon") appreciates the opportunity to comment on the important issue of oil and gas reserves disclosures. Our responses to the SEC's request for comments are consistent with and incorporate the following general concepts.

1. The SEC's current disclosure requirements for oil and gas reserves need to be modernized and should be changed from a rules-based disclosure system to a principles-based disclosure system.
2. Clarity and transparency are key to effective, comparable, and quality disclosures of oil and gas reserves. In the same vein, effective and consistent communication from the SEC concerning reserves disclosures is critical to the standardization of reporting guidance, which will lead to improved consistency in that reporting.
3. The standards-setting role should be delegated to an independent body of reserves experts. Separating the SEC's standards-setting and compliance functions will lead to greater confidence of all stakeholders in reserves disclosures required by the SEC.
4. The disclosure requirements should be flexible and kept current with modern technology through the use of the independent body of reserves experts.

Questions:

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?

Answer: The Commission should replace the current rules-based oil and gas reserves disclosure requirements with a principles-based system. Principles should include the following:

1. Reserves should be determined using proven, modern technology that is in general use in the petroleum extractive industries. Permitted technologies should include 3D seismic for structural interpretation as well as reservoir limits, where definitive; history-matched reservoir simulation to calculate original hydrocarbons-in-place and recoveries; use of modern pressure gauges in

- wireline formation testers; and other methods when proven to be reliable through repeated application. Any such technology should be proven through actual field and reservoir performance before reserves associated with such technology would be allowed in financial reports.
2. Oil and gas are fungible commodities, and all in-place hydrocarbons that are produced (in any manner) and sold as oil and gas should be included in the oil and gas reserves reported in financial reports.
 3. An independent professional body composed of technical experts should regularly evaluate and suggest updates to the technical reporting standards that are incorporated into the principles-based system, similar to the manner in which the Financial Accounting Standards Board considers and updates accounting standards.
 4. Technical standards should recognize the difference between conventional and unconventional reservoirs.
 5. International and domestic reserves should be evaluated using similar standards.
 6. Competitive positions of companies should be preserved by requiring disclosures at the current aggregated level, rather than at the field or prospect level.
 7. Undue optimism and undue conservatism should be avoided.

Such a principles-based system would improve the quality of reserves disclosures by allowing the use of modern technologies that have proven over time to accurately model reservoirs and the recovery expected from them.

Under the current rules-based oil and gas reserves disclosure system, disclosure quality, consistency, and comparability are adversely affected by rules that are approximately 30 years old, subject to fragmented guidance, and may in some cases treat similar situations differently. The Office of Natural Resources and Food within the Division of Corporation Finance strives to increase compliance with current rules and guidance. However, new technology, new types of projects (such as deep water developments and large projects involving gas-to-liquids or bitumen reforming), and the extension of the operations of many companies to the international arena have strained the capability of the current rules-based framework to effectively regulate oil and gas reserves disclosures.

An example of the strain placed on the existing framework is found in the increasing activity in deep water exploration, with respect to which the SEC's "Letter to Companies with Oil and Gas Operations in the Gulf of Mexico" (April 15, 2004) allowed booking of proved undeveloped reserves with modern data. Notwithstanding the interpretative guidance provided by the SEC in the 2004 letter, later guidance confirmed that this allowance applies only to the Gulf of Mexico, even though many deep water reservoirs are being developed outside of the Gulf of Mexico with similar data sets. As a result of this type of inconsistency, Devon recommends that the SEC replace the current rules-based oil and gas reserves disclosure requirements with a principles-based system that is consistently applied.

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?

Answer: The Commission should continue to mandate that companies disclose only proved reserves in filings with the SEC. The investing public does not have the same level of confidence in unproved reserves and resources as it does in proved reserves. In addition, disclosure of reserves other than proved reserves could lead to an increased risk of litigation and onerous reporting requirements (e.g., increased types of reconciliations leading to increased manpower requirements). Accordingly, unproved reserves and resources should not be disclosed in filings with the SEC.

Notwithstanding the above, Devon recognizes that certain investors may want to evaluate the “expected value” reserves of it and other oil and gas companies. Expected value reserves are defined as proved plus probable reserves in most reserves disclosure frameworks in the world, including the SPE/AAPG/WPC/SPEE Petroleum Resources Management System (SPE PRMS). For this reason, companies should continue to be allowed to provide information with respect to unproved reserves and resources in other media, such as the Annual Report to Shareholders, analyst meetings, and press releases.

While the SEC should continue to retain final approval authority for any changes in the framework for disclosure of oil and gas reserves, the independent body of experts recommended above should (i) review the technical reserves standards on a periodic basis, recommending any necessary changes to the disclosure framework and (ii) act as a consultative body to the Commission on matters of interpretation in technical matters. Changes to the framework should not be made lightly or on a predetermined time schedule, but rather only upon a demonstrated need for change to accommodate new technology or types of reservoirs and projects. The SEC should continue to retain final approval authority for any changes in the framework for disclosure of oil and gas reserves recommended by the independent body.

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?

Answer: Devon recommends that the PRMS be adopted in its entirety as the basis for the new standard except that only proved reserves continue to be required or permitted in reserves disclosures filed with the SEC. Use of the PRMS for establishing the base definitions for hydrocarbon reserves would almost certainly result in increased standardization with other world reserves disclosure frameworks (such as the United Nations Framework Classification).

Devon refers to the discussion of the use of an independent body of industry experts in its answer to Question 2 and in the additional comments below above for a discussion of potential changes in the framework.

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?

Answer: The definitions of proved reserves, including the developed and undeveloped categories, should be revised for consistency with the related definitions in the PRMS. The definitions in the PRMS for deterministic proved reserves and the categorization by developed and undeveloped are quite similar to the current SEC definitions. By using the most current technical standards and the independent body of experts as a consultative body for interpretative guidance, the SEC would be readily positioned to incorporate future technological innovations in disclosures. As noted above, the SEC and the independent body of experts should require that any technological innovations be proven by actual field and reservoir examples. The Society of Petroleum Engineers (“SPE”) and associated organizations review and revise those standards on a periodic basis.

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?

Answer: Because testing standards may change over time (as noted above with respect to deepwater exploration in the Gulf of Mexico), the SEC should not specify the tests required for reserves estimates but should instead direct companies to (i) consider the totality of technical data available to them and (ii) rely on consistent, well-founded engineering and geoscience practice to determine reserves estimates and categorization.

The SEC should not specify the process used to assess that data in estimating reserves but should defer to the most current standard practices. Concurrent with the issuance of the PRMS, the SPE issued its most recent *Standards Pertaining to the Estimating And Auditing of Petroleum Reserves Information*, which describes the process reserves estimators should use to make valid estimates of reserves. While the aforementioned standards currently are not enforceable by any body, adherence to such standards could be required by the SEC. Another source of guidance for the process used to assess data in reserves estimates is the 2001 SPE *Guidelines for the Evaluation of Petroleum Reserves and Resources* ("Guidelines"), which contains technical guidance for the inclusion of various data and interpretation in reserves estimates. A subcommittee of the Reserves Education Committee of the SPE is preparing an *Applications Document* to replace the Guidelines; this process should take from two to three years. The Guidelines remain a valuable source of guidance in the interim period. The independent body of experts should be a resource for the SEC to assist in the review of difficult or unusual estimates.

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?

Answer: The SEC should retain the concept of reasonable certainty for deterministic estimates, although the guidance currently issued by the SEC should be revised to avoid a mathematically low bias. The SEC guidance for reasonable certainty currently states that reasonable certainty will produce estimates that are much more likely to result in positive revisions rather than negative revisions. Devon believes that this contradicts the fundamental principle of avoiding undue conservatism.

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?

Answer: The SEC should reconsider the concept of certainty for proved undeveloped reserves more than one location away from a proved developed location in favor of a reasonable certainty standard. Unconventional (e.g., coalbed methane, shale gas, oil sands) reservoirs, which the existing SEC framework holds to the same standard as conventional reservoirs, can cover large areas and are usually not amenable to the proof required of pressure communication for the certainty standard. Yet, with respect to these types of reservoirs, seismic data, when calibrated with well data, leads to reasonably certain estimates of proved reserves more than one location away. Therefore, these types of reservoirs are reasonably certain of production when drilled. Accordingly, the concept of certainty with respect to proved undeveloped locations more than one offset away from a producing location should be revised to that of reasonably certain of production. This modification would provide a common standard for all proved undeveloped reserves.

Allowing companies to indefinitely classify undeveloped reserves for more than five years usually requires the documentation of exceptional circumstances, such as market restrictions, strategic plans for development of proved reservoirs, and long project lead times. This aspect of proved undeveloped reserves attribution should not be changed. However, rules that prohibit such

classification regardless of special circumstances can prevent meaningful disclosure of significant reserves values.

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?

Answer: Economic producibility is a valid concept and should be retained, but application of the concept combined with the use of a one-day price is misleading to investors. Reservoirs that drop below the economic limit because of temporary price conditions should not be forced off the books, as occurs when a company applies the one-day price currently required by the SEC. Application of a one day “snap shot” price to reserves that are produced and sold over an extended period distorts the worth of such reserves, both positively and negatively. Use of an average price over a stated period would ensure that a temporary price drop does not unnecessarily adversely affect reserves reporting for a short period of time, followed by a re-booking of reserves to the same reservoirs when prices rebound from a short term drop. Conversely, use of an average price will reveal long-lasting uneconomic fields and reservoirs that should not be carried as reserves

Devon refers to its answer to Question 10 below for additional discussion of price.

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?

Answer: In addition to the elimination of the one-day price requirement discussed above, the SEC should revise the definitions and rules of existing operating conditions to incorporate in the Commission’s current unofficial guidance. In cases where operating conditions are reasonably certain to be realized in the future, assumption of those conditions, together with the associated operating expenses and capital expenditures, should continue to be allowed by the SEC. If there are analogous projects and/or a reasonably certain expectation that operating conditions and associated costs will change, they should be considered to ensure proper, full disclosures are made. Examples of such changed conditions would be installation or dismantling of a waterflood project or the abandonment or installation of an offshore platform.

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?

Answer: This question goes to the heart of “existing economic conditions.” The SEC should change the current mandated one-day price rule. The one-day price rule was written when oil prices were more stable and most natural gas had little to no value. In today’s oil and gas markets, large price swings can occur in a very short period. As a consequence, use of a one-day price can radically alter the reserves for a company at the end of the fiscal year, only to see that alteration reversed within the first quarter after year-end reporting. In short, the one-day price rule has become inadequate, at best, and misleading, at worst.

Devon believes that the SEC should specify pricing, but the price specified should be rational and in keeping with the mission of the SEC to protect the investor. Work done by R. Harrell and others

clearly show that averaging smoothes out the volatility in oil and gas pricing, and Devon supports such an approach by the SEC. The price should be an average appropriate market price over 12 months adjusted for annual average differentials, and that period should end between one and three months prior to the end of the fiscal year. With the accelerated reporting schedule required under the Sarbanes-Oxley Act, ending the average period one to three months prior to the end of the fiscal year would not only result in a better estimate of actual value but also help in quality control of the disclosures by allowing more time to check for and correct errors.

Requiring that clearly stated disclosure of average prices used in the economic calculations would lead to lower volatility in reserves calculations. In addition, disclosure based on the principle of an average price would have the benefit of revealing a company's expertise in marketing its reserves (through its actual realized differentials), which is relevant to investors.

Finally, sensitivities should not only be allowed but should be encouraged. These calculations help investors to assess risk associated with the reserves reported. However, the sensitivities should not be unreasonably constrained. The SEC presently allows price sensitivities to be discussed in the MD&A, but the reserves can only be lower as a result of lower price estimates. In the future, the SEC should also allow discussion in the MD&A of how reserves (not just present value calculations) would change based on higher price estimates.

These changes would add to quality of the report. With the disclosure of pricing used and a requirement for all companies to use the same formula for calculating average price, clarity and consistency would be maintained. Unreasonable pricing would be clearly spotted. Forecast prices should only be allowed in declared sensitivities, and the forecasts used should be clearly and concisely presented.

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

Answer: All exclusions from proved reserves that bar what ultimately is sold as oil or gas (whether synthetic or not) should be removed. As noted above, oil and gas are fungible substances and can not be distinguished in the market. While different prices may be obtained for oil and gas of varying quality and gravity, oil and gas of all gravities and qualities are sold to downstream buyers for processing in refineries and plants and, therefore, should be included in the calculation of proved reserves. Again, clear and consistent disclosure of all sources of petroleum reserves and revenues is the key to maintaining quality. Adherence to Regulation S-K, in particular the requirement to discuss major properties, fields, or areas that contribute to petroleum reserves, should help to maintain quality and consistency.

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

Answer: All exclusions from oil and gas activities that bar what is ultimately sold as oil or gas (whether synthetic or not) should be removed. Processes that result in the sale of oil and/or gas may use different methods of extraction, but they all add to the production of a company and, therefore, should be included in a company's reserves calculations. The exclusion of transporting, refining, and marketing of oil and gas should refer only to those activities that result in consumer products (e.g., gasoline and diesel fuel), not to processing of naturally occurring hydrocarbons to produce a saleable product that is sent to a true refinery for making such consumer products. Reserves would thus include products of upgraders that produce synthetic crude oil or like products, as well as gas-to-liquid processes and shale gas retorting. This would actually improve disclosure quality by revealing the total business of a company in the oil and gas business. Large resource bases may be held by a

company, which currently can only report those resources as a footnote or in the MD&A section of a financial report. This can cloud the true worth (or risk) of a firm.

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?

Answer: All sources, whether liquid, gas, or solid, that result in a fungible product that is sold as oil and gas should be allowed as reserves in financial reports. Devon recommends establishing a disclosure framework similar to the principles set forth in the PRMS. The Canadian NI 51-101 regulation, in which different products are reported (light oil, heavy oil, etc.), and the Canadian Oil and Gas Evaluation Handbook (“COGEH”), which is the technical standard for implementing the reporting under that Canadian regulation, provide an example of this type of disclosure framework. Although the Canadian system requires disclosures beyond proved reserves, the templates provide some guidance that could be adapted to the SEC requirements.

The Canadian system also provides some guidance in accommodating unforeseen resources discoveries and processing methods, as well as in modifications to improve the disclosure system itself. Producers and regulators recognized a need for change in the NI 51-101 reporting structure, and the group who prepared the COGEH, the Calgary Chapter of the Society of Petroleum Evaluation Engineers, worked with regulators to revise the reporting requirements. The changes became effective in December 2007. This successful cooperation between an independent body and regulators should serve as an example for the SEC as it considers a new regulatory regime.

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?

Answer: The answers to Questions 1, 5, and 13 incorporate Devon’s recommendations regarding the issue of technological advances. Consultation with an independent body of experts, as well as allowing the use of the most modern reserves and resources definitions and guidance from technical societies, will enable the SEC to keep its reserves disclosures in line with modern geological, geophysical, and engineering practices. The SEC should maintain the right to accept or reject any specific practice if that practice is deemed too uncertain for use in reserves estimates that are reported in SEC filings. Updating reporting requirements, as briefly described in the answer to Question 13, could be coordinated with the independent body of experts.

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?

Answer: Devon recommends maintaining the current policy of allowing companies to choose whether or not to use independent third parties to evaluate companies’ reserves. Third parties can be useful to validate reserves estimates by performing completely independent evaluations of reserves or by auditing companies’ estimates of reserves. These terms are used as defined in the SPE *Standards Pertaining to the Estimating And Auditing of Petroleum Reserves Information* (as referenced in Question 5 above), which is the most recent standard for reserves estimating and auditing. However, it should be noted that there are no enforcement provisions in the standard, and no body at this time regulates the estimators who perform this work. The Joint Committee on

Reserves Evaluator Training, consisting of members from the SPEE, SPE, AAPG, and the World Petroleum Council (WPC), has begun a process of certifying educational course material for reserves evaluators. Two courses have been certified to date, and more courses are expected in the near future. More investigation would be required to decide how standards could be enforced. The heretofore mentioned independent body of experts could be one possible enforcer of the standards. All of the member societies have professional ethics codes, and the member societies could be encouraged to rigorously enforce the standards as specified by the rules and bylaws of the individual organizations. No legal penalties other than for securities law violations currently exist for enforcement of any reserves estimating and auditing standards.

One important reason that the use of independent third parties should be voluntary is the current manpower situation in the oil and gas industry. Reserves quality is associated with the skill, judgment, and experience of the estimator. These attributes are gained through sufficient experience in estimating reserves and involvement in actual reservoir engineering projects and can not be simply taught in a short period of time. There are not sufficient numbers of trained, experienced reserves estimators to perform reserves estimations for all disclosing companies in time to meet reporting deadlines. The quantity of work would be a burden to the estimators and could result in lower quality of estimates in the short term. The SEC has also noted that independent third party estimates can also fail to meet current standards, and a rush to fill the ranks of these companies would probably lead to more problems.

In addition to the areas for comment identified above, we are interested in any other issues that commenters may wish to address and the benefits and costs relating to investors, issuers and other market participants of the possibility of revising disclosure rules pertaining to petroleum reserves included in Commission filings. Please be as specific as possible in your discussion and analysis of any additional issues. Where possible, please provide empirical data or observations to support or illustrate your comments.

Answer: In several comments above, Devon referred to an independent body of technical experts. Although several sources in the past have recommended that the SPE Oil and Gas Reserves Committee (“OGRC”) fulfill that role, Devon believes that a better solution is to model such a body on the Financial Accounting Standards Board (“FASB”). This “Reserves Accounting Standards Board” (which will be referred to as “RASB” in the following) could be funded by industry both for administrative costs and for personnel. Similar to the FASB, a select group of experts in reserves estimation could be seconded by a variety of companies for a set term; three years is recommended as a minimum. The experts would serve full time with RASB and work with industry and the SEC to continually update the reserves framework and consult on various issues with the SEC staff. The OGRC is a volunteer group that reports to the SPE Board, and obtaining a quorum of the committee can be difficult. This would not be satisfactory in cases where the SEC staff needed advice in a timely fashion.

Although the SEC should not want to follow the Canadian model completely, there is a wealth of knowledge available from that experience. David Elliott, Chief Petroleum Advisor to the Alberta Securities Commission, has given several talks concerning the Canadian experience. Barry Ashton of AJM, as an active member and past chairman of the Calgary Chapter of the SPEE, was instrumental in guiding preparation of the COGEH. The SEC should consider their advice in future discussions of possible changes to the oil and gas reserves disclosure rules.

In addition, Cambridge Energy Research Associates (“CERA”), under the direction of Daniel Yergin (Pulitzer Prize-winning author of The Prize), conducted numerous workshops in 2004 and 2005 that led to the issuance of two reports on the current state of oil and gas reserves reporting in the U.S.:

1. *In Search of Reasonable Certainty: Oil and Gas Reserves Disclosure* (February 2005)
2. *Modernizing Oil and Gas Reserves Disclosures* (February 2006)

These reports gathered comments, observations, and recommendations from oil and gas firms, investment bankers, accounting firms, reserves consultants, professional societies, petroleum interest groups, and Congressional staff members concerning current practice for SEC oil and gas reserves disclosures. These reports, which traced the history of the current system in use at the SEC and made specific recommendations for changes to the system, should be considered in any possible framework for disclosure.

In conclusion, a more principles-based system consistent with the recommendations described herein would improve compliance across the industry and lead to better quality, consistency, and comparability of reserves disclosures, which will, in turn, more fully and accurately inform investors.

Regards,

A handwritten signature in black ink, appearing to read "K. Earl Reynolds". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

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Devon Energy, Inc.