

To tThe United States Securities and Exchange Commission

Comment

by

StatoilHydro

on

US Securities and Exchange Commission,

17 CFR Parts 210, 229, 231 and 241 [Release Nos. 33-8870; 34-56945; File No. S7-29-07] RIN 3235-AK00

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

StatoilHydro thanks the Commission for their excellent Concept Release and offer the following comments:

The Securities and Exchange Commission (SEC) Concept Release on possible revisions to the disclosure requirements relating to oil and gas reserves is timely. The development of a highly-competitive global capital market and the widespread adoption of International Financial Reporting Standards (IFRS) provide appropriate incentives to reviewing critically the type of information that would be most useful to investors in the oil and gas sector.

The Commission has noted the ongoing efforts of the International Accounting Standards Board (IASB), where a Project Team is currently evaluating the options for convergence of accounting and disclosure reporting practices related to all extractive industries (i.e. mining and petroleum). While the Commission has indicated that comments on those matters are not being sought in the context of this concept release, it is to be hoped that the Commission will take full account of the beneficial consequences for investors of a revised system that:

1. Is consistent between minerals and petroleum, given the use of similar terminology and business processes. This objective has become even more relevant with the development of oil sands, where current SEC reporting standards are completely different depending on the recovery mechanism, despite the sales product being identical.
2. Recognizes the current developments towards the Harmonization of Fossil Energy and Mineral Resources Terminology as supported by the Society of Petroleum Engineers (SPE), the Committee for Mineral Reserves International Reporting Standards (CRIRSCO), the International Energy (IEA), OPEC, the Russian Federation and many other countries and

organizations, under the auspices of the United Nations Economic Commission for Europe (UNECE), and with a mandate of the UN Economic and Social Council through its resolution [2004/233](#) ; and,

3. Is aligned with the equivalent IFRS. This is perhaps a more difficult objective, given the pace of the IASB project, but nonetheless of critical importance for facilitating a global financial reporting standard.

We appreciate and encourage a development where the information used for financial reporting is a direct subset of the more complete resource information required for business process management, government resource management and formulation of international energy policies. Efficiency in the exploration and production of oil and gas depends on robust and efficient processes in all four areas. Financial disclosure requirements should therefore not impede the flow of the more complete resource information required for the three needs.

1 Response to questions

Question 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?”

Yes. Principle based rules are welcome. Relevance and reliability should be added to the criteria of quality, consistency and comparability.

Project based disclosures will strengthen all five criteria, and be consistent with common business processes. A project based approach ensures alignment between the recoverable quantities, the efforts required to recover them, the time dimension and thus value to the reporter.

For this reason and other management related reasons, classifications have (after 2000) related recoverable quantities more strongly to recovery efforts than what was the case previously ([SPE guidelines 2000](#), [Norwegian Petroleum Directorate, 2001](#), [UNFC 2004](#), [SPE – PRMS 2007](#)).

The laws and contracts under which projects are managed are always clear with respect to who pays the bills and who gets the revenues. Net revenues to the reporter are, in general, not well enough reflected by the (uncertain) sales quantities due to him. Costs, contract terms and conditions and the legal, fiscal and regulatory frameworks are all affecting value.

Question 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?”

We recommend that the Commission considers allowing disclosures of both reserves and a portion of the contingent resources. Disclosures of each category of reserves and contingent resources should be disclosed separately and not aggregated, as the forward values and risks of each are very different.

Reserves disclosures:

Principally, expected/best estimates/P50/proved+probable estimates, hereafter referred to as expectation should be reported. The law of large numbers will render the sum of the low (proved) estimates as well as the sum of the high (P90) estimates irrelevant in the sense that the sum will fall outside the uncertainty range of the portfolio once the portfolio is sufficiently large and diversified. Furthermore, the expectation will in most cases reflect better the basis for project design, implementation and cost as determined by management.

Contingent resources disclosure:

Consideration should be given to disclosures of those contingent resources that are economic, and where project development is ongoing, but where development commitments are not yet made. These are found in the:

- SPE – PRMS Contingent resources – development pending and economic status – economic.
- UNFC as class E1;F2.1; G1+2
- NPD Resource category 4.

To recognize these projects is consistent with current practices under FAS19 of allowing the costs associated with these to be capitalized and not expensed.

Question 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?”

We hold the individual and collaborative efforts by SPE, WPC, AAPG and SPEE in high regard. We recommend that a United Nations classification, developed with the help of these organizations be used to further improve the reliability of the classification. The parts to be used are outlined in our response to question 2. The United Nations reinforces the structure through stakeholder involvement, including the United Nations Member States. At the same time, the United Nations provides a service in this respect and not a requirement. This area is not a topic of an international treaty but of broad based recommendations. Member States, including the US are involved in the recommendations made but do not lose their

sovereign rights not to follow them. The commission would therefore be in the same position to respond to a change as it would if the SPE –PRMS was changed, but the likelihood of an unwelcome change would be even less. .

Question 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?”

Yes. They should be revised. The current system defines all three. In addition it can be inferred that proved reserves is the sum of the proved developed and proved undeveloped reserves, making the equation over determined.

Revised definitions should be principle based and relate the relevant expected sales quantities to the corresponding categories of projects as seen through the eyes of management, except with respect to future price assumptions where we recommend the use of standards, see our answer to Question 10.

Question 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?”

No. Specifications would be inconsistent with principle based rules. Under principle based rules we would expect to see requirements with respect to the level of reliability and relevance of observations and with respect to quality assurance of processes. The rules may be accompanied by specifications when required to meet the criterion for comparability (i.e. future prices) or guidelines to improve consistency and to provide a service to preparers.

Question 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?”

Yes. We recommend replacing reasonable certainty with the expected sales from defined projects. These would be defined at a reference point such as a sales flange where they would subsequently be measured. Assumptions would be the ones embedded in the projects that the management will act on. This will increase disclosure quality with respect to relevance and consistency with operations.

In addition to expectation, consideration should be given to allow disclosure of a range of the disclosed aggregated quantities, particularly for small or ill diversified portfolios when the expected values are highly volatile.

Question 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?”

Yes. Expected sales should be disclosed also for undeveloped reserves. They should be disclosed separately. If there are long delays in project implementation this should be explained.

Question 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?”

Yes. The sales quantities should be economically producible as seen by management. A principle based rule focused on relevance will invoke value. This will in turn improve quality by preventing projects that will not be realized from being included in the disclosures. Long term reliability is assured when sales forecasts are related to a reference point where sales subsequently will be measured and can be compared with forecasts disclosed.

Question 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?”

Yes, you should. The expected case should reflect management’s decisions. This will enhance quality in terms of relevance and consistency with operations. Assumptions should not be specified under principle based rules.

Question 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?”

No. We believe the concept of a standard sales price is appropriate and necessary. The criterion for comparability requires that a consistent and transparent price framework be used, such as an average of historical cost or an average of historically listed future prices. We note that neither of the classifications we refer to have specified what this framework should be, and recommend that the [UNECE Ad Hoc Group of Experts for Harmonization of Fossil Energy and Mineral Resources Terminology](#), of which the SPE Oil and Gas Reserves Committee constitutes the technical task force on petroleum, be challenged to produce a

recommendation to be evaluated by the Commission. Due to the non-linearity of petroleum exploration and production economics, it may be appropriate to disclose sensitivities to price variations.

Question 11

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

Yes. Principle based rules will be inconsistent with a specification of exclusion criteria such as lowest known oil or aerial well coverage. A project status based approach focused on expected sales will exclude projects that will not be realized and sales quantities that are not expected to be sold. Such rules will reinforce disclosure quality, particularly in terms of relevance and consistency with operations.

Question 12

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

Yes you should, but careful consideration should be given to the quality work done by the Commission and FASB in defining oil and gas activity. Principle based rules must be clear under all forms of contracts, including concessions, PSA's, service and buy back contracts of various forms. They must also be clear with respect to partnerships whether in the form of unincorporated joint ventures, affiliated companies or otherwise. We note that disclosures are complex when values are expressed through sales quantities. A direct indicator of the value of the contracts to the reporter may avoid many of these complexities and be more relevant to the investor.

Question 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?”

Yes. Introduction of projects with a reserves reference point will make such restrictions unnecessary. Quantities, qualities and price will then be defined over time as will values.

Question 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?”

Management assumptions should be used for the expected case.

Question 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?”

Principle based rules must include requirements with respect to quality control, ensuring that the requirements with respect to quality, relevance, reliability, consistency and comparability are met. They should allow the use of independent third parties, but also audited internal control procedures.

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