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February 19, 2008

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

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

Dear Ms. Morris,

Nexen Inc. is an independent, Canadian-based global energy company with activities in Canada, the United States, the United Kingdom, Yemen, Colombia, offshore West Africa and Norway. We are also involved in mining and in-situ oil sands activities in the Athabasca area of Alberta, coal bed methane and shale gas. We currently produce over 250,000 barrels of oil equivalent (boe) per day and have proved reserves of over 1 billion barrels of oil equivalent.

We are listed on the Toronto and New York stock exchanges. We have been an SEC Form 10-K filer for over 30 years and currently have exemptions from Canada’s National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*, allowing us to estimate reserves and disclose related oil and gas activities under SEC Rules and Regulations, and to dispense with the requirement to obtain independent third party evaluation of our reserves estimates.

We appreciate the opportunity to provide our comments supporting the Securities Exchange Commission’s (SEC) efforts to modernize its oil and gas disclosure requirements. We believe the current time offers a unique opportunity to establish a framework that is based on informed thought and has a robustness that will allow it to evolve with new developments. This process is likely to take some time and effort but we believe the underlying building blocks are present and that such an effort is in the public interest. We encourage the SEC to work closely with the various constituents to ensure the process truly modernizes the disclosures relating to an oil and gas company’s most important asset despite not being recognized on its balance sheet.

We have focused our comments on the questions posed in the Concept Release that are of most relevance to Nexen given that we are in the midst of preparing our year end reserves estimates and related disclosures. We have not provided detailed recommendations believing that the details should be determined through collaboration with the various constituents. We would be pleased to be involved in some of those discussions and to elaborate further on our comments at the SEC’s convenience.

Question 1 – Rules vs Principles

We favour a principle-based approach. We believe rules-based requirements can lead to manipulation of the circumstances in order to achieve a desired outcome that may not be appropriate but that, nonetheless, meets the rules. Conversely, it may also lead to an irrational outcome simply because the circumstances may not strictly meet all of the specified requirements or which may not have been contemplated when the rules were initially written. An example of this would be the current exclusion of tar sands which at the time of writing some 30 years ago were only recoverable through mining techniques.

A principles-based approach is broadly accepted as the basis of accounting standards in many jurisdictions and the world-wide standard is rapidly evolving in this direction with the movement towards IFRS. Fundamental to a principles-based system is the requirement for 'representational faithfulness' where the objective is to represent an item truthfully and accurately in accordance with its underlying business fundamentals. Rules-based requirements don't always lead to such an outcome.

We acknowledge that the application of principles to a specific situation in the accounting world is enhanced by the involvement of external financial auditors. However, we see inherent limitations in requiring an external reserves audit (as described in our response to question 15). Nevertheless, we believe representational faithfulness can be achieved without external audits. In this regime, companies would be expected to apply the principles when determining the appropriate treatment in their specific circumstances. Companies should be encouraged (perhaps required) to pre-consult with the SEC in cases of uncertainty of application. They should then be required to fully disclose the treatment adopted and the rationale for such in their public filings. In this way, readers would be fully informed and could make their own judgments. Misapplications can be addressed through SEC reviews of disclosures. Abuses should be vigorously pursued by the SEC.

We believe that quality, consistency and comparability need not be compromised in a principles-based system. In fact, we believe quality should be enhanced as companies will be in a position to represent an item in the form most appropriate in the circumstances. Consistency and comparability are likely to be achieved, as partners on a project are apt to adopt the same treatment and generally accepted industry practice becomes a key reference point for subsequent applications in similar situations. If someone departs from accepted practice, they would be required to disclose the rationale for their treatment, and SEC reviews and enforcement can drive consistency and comparability when appropriate under the circumstances.

We acknowledge that a principles-based approach would likely require considerable time and effort to establish. Such effort would be justified as the principles would have longevity and not become outdated in a few years as hydrocarbon sources, technologies and fiscal regimes evolve.

Question 2 – Disclosure of Reserves Beyond Proved

We believe companies should be permitted to formally disclose proved and probable reserves, and be permitted to provide additional potential resources as it believes is appropriate. This aligns disclosures with how management views its assets when making investment decisions. Full disclosure enhances a reader's understanding of management's decision-making process

and permits them to make an informed assessment of management's stewardship of its assets and a company's future potential. Proved reserves rarely show the full potential of a property and may call into question management's decision to develop a reservoir or continue to hold it. It also results in our joint venture partners knowing more about our assets than our shareholders which leads to an inefficient market and an uneven- playing field at the time of merger and acquisition activity. In addition, disclosure of proved and probable reserves is consistent with the underlying information utilized in assessing the carrying value of oil and gas properties on the balance sheet. Finally, companies frequently talk to other categories of reserves, permitting them to be included in filings ensures full disclosure and should enhance the quality and consistency of such disclosures.

All reserves estimates are inherently uncertain. Categorization of reserves as proved, probable and other continues to be important as it conveys to a reader the different levels of confidence that management has in its estimates. We believe the uncertainty associated with the various categories is generally understood by informed readers and could be reinforced by the inclusion of cautionary language similar to that utilized for forward-looking information included in a company's disclosures. In this way, readers are warned to be cautious and management is protected, provided the estimate of resource potential is based on reasonable interpretations. This supports full disclosures of a company's oil and gas assets while recognizing that the information is inherently uncertain.

We believe the Society of Petroleum Engineers – Petroleum Resources Management System (SPE – PRMS) provides an appropriate framework for estimating and categorizing resources. This will ensure standardization and consistency among companies. Refer to our response to question 3 for further comments on use of the SPE for the resource categorization framework.

Question 3 – Adoption of SPE – PRMS Framework

We support the adoption of the SPE – PRMS framework as a good starting point for new SEC definitions. Adoption of only portions of the framework may lead to gaps or overlaps between the various definitions used by companies whether for internal or external disclosures. We believe the SPE – PRMS framework is an appropriate starting point for the following reasons:

- it has been derived from informed and collaborative thought – i.e., it is developed by professional engineers and geoscientists with input from various constituents;
- while it may have a few gaps and deficiencies, these could be addressed within the current framework;
- it would not result in a substantive change from current practice; and
- it is relatively current, having been recently debated and revised.

We also support the establishment of a standard setting body (perhaps the SPE) as it pertains to reserves estimation and evaluation. This would be analogous to the Financial Accounting Standards Board. This process would allow reserve standards to evolve on a more timely basis, and reflect informed and collaborative thought. We would expect the SEC would have representation on this standard-setting body. This would permit reserves standards to remain current while reducing the resource requirements of the SEC without loss of input into the process.

Question 10 – Price Assumptions Underlying Reserves Estimates

We understand and support the need for consistency in the price assumptions utilized in estimating reserves. However, we do not support the use of the price on the last day of the fiscal year as this is subject to too many anomalies and seasonal factors that distort reality in the interest of consistency. For similar reasons, we do not support the use of a futures price as they also change constantly and are subject to the same anomalies and seasonality.

Instead, we support the use of 12 month historical average prices to eliminate short term anomalies and seasonal noise to the extent that they actually occurred during the past period, while continuing to ensure consistency. A 12 month period ensures the full seasonal cycle is represented in the pricing. We recommend that the average price be determined 2 or 3 months prior to year end (one of the two to be mandated) in order to accommodate timely year end reporting. This would enable the reserves evaluations to be commenced earlier, thereby ensuring enough time is available for a thorough understanding and analysis of the estimates, while continuing to provide timely information to the market.

We note that not all reserves are created equal and the quantities may respond differently to price changes. For instance, most reserve estimates increase with higher prices due to the extension of economic field life. However, some reserve estimates are binary where the entire project may be economic/uneconomic when prices cross a certain point. In the case of most production sharing contracts, reserves actually decrease as prices increase. These dynamics are not communicated in a disclosure regime built on a single price estimate. Hence, we would suggest that companies be encouraged (perhaps required) to disclose information on price sensitivity. This could be done graphically or narratively. In any event, companies should be permitted to talk about reserves under different price scenarios as this provides readers with a better understanding of how a company manages its properties and makes investment decisions.

Questions 12 and 13 – Defining Oil and Gas Activities

We believe oil and gas activities should include all activities to find and extract oil and natural gas from beneath the earth's surface, and prepare it for sale as crude oil or natural gas. The key determinant is that crude oil and natural gas compete in the same broad marketplace. The manner by which the oil or gas is found, the nature of the structure it's contained in, the method of extraction, or the extent of processing applied should not be distinguishing factors in the form of disclosure. By contrast, refining and manufacturing activities should include all activities commencing with the acquisition of crude oil or natural gas for the intention of producing refined products or converting crude oil or natural gas into some other form.

In this framework, hydrocarbons extracted from oil shale, tar sands and other such sources should be included as oil and gas activities. The products produced from these activities compete in the same markets, and prices received for all crude oil products (whether from conventional oil reservoirs, oil shales, tar (oil) sands, or other) are intertwined. Buyers of crude oil generally look to all grades of oil and relative pricing to find the optimal mix to maximize their economics; they do not care how or from where the oil was extracted. Similarly, management looks to all potential sources of crude oil and the economics thereof in making investment decisions. The same holds true for natural gas. Consequently, we believe crude oil and natural gas from all sources and extracted in all manners should be included in oil and gas activities.

Also in this framework, upgrading activity may be classified as either oil and gas activity or refining and manufacturing depending on its purpose. If upgrading is part of the process of producing refined products, it should be included in refining and manufacturing activities. If it is used to generate crude oil for sale, it should be included as oil and gas activities.

We point to two examples to emphasize the logical application of this framework to one of the world's fastest growing and largest sources of oil – the Canadian oil sands. Oil sands that are deposited near the earth's surface are extracted through open-pit mining. The mined sands need to be processed to separate the oil from the sands. As part of the process, the oil may be upgraded to a high quality crude oil (synthetic crude oil) generally for sale to refiners. This crude oil is sold in competition with all other grades of oil based on relative quality and pricing rather than the extraction and processing method. The second example is where the oil sands are buried more deeply and are extracted using steam assisted gravity drainage (SAGD) techniques. Some producers (including Nexen) employ a degree of upgrading in an integrated production process. Nevertheless, the end product is a synthetic crude oil that competes in the same market as other crude oils regardless of whether taken directly from the well head, from an oil and sand separation process, or an integrated SAGD process. Once again, the disclosures would be aligned with management's investment decisions regarding the form of extraction and the extent of upgrading it feels is appropriate to maximize the economics in selling crude oil (whether bitumen or synthetic crude oil).

This all-encompassing oil and gas framework best aggregates the information on a company's activities which generate crude oil or natural gas for sale. It provides a complete and comprehensive picture of the costs of finding, extracting and preparing crude oil or natural gas for sale into the same marketplace. It most accurately reflects management's decisions as to where it chooses to look for oil and natural gas deposits, how it chooses to extract them, how much processing it decides to do before sale, and the resulting sales price it receives after having made those decisions. This disclosure allows readers to assess the economic consequences of management's decisions from finding to selling its crude oil and natural gas. Excluding certain aspects of these activities, whether related to oil sands production or upgrading activities, results in disaggregation of the information and no longer aligns with how management makes its investment decisions. Further, excluding upgrading activities when done for the purpose of preparing crude oil for sale distorts the economic picture by leaving the reader to believe the company is economically exposed to receiving low prices and reduced market demand for a bitumen product when it is in fact selling a high quality product. This results in a misrepresentation of the true risks and rewards associated with the costs and revenues of the company's oil and gas activities.

While drawing the line as to where oil and gas activities stop may not always be clear, as noted in our response to question 1, companies would be required to ensure that the disclosure they choose meets the test of representational faithfulness and that they fully disclose the rationale for the choices they have made.

Question 15 – Independent Third Party Evaluators

We do not support mandating the use of independent third party evaluators in all cases. There are not enough experienced evaluators to accomplish all the required work in a compressed time period as the majority of oil and gas companies have calendar fiscal year ends. The inevitable consequence would be that the amount of effort would likely decrease, the estimates would become more conservative, and the price for the services would increase. The increased

liability for the evaluators would also likely lead to more conservatism and a higher price. We do not believe this increased conservatism is in the public interest as it will tend to result in companies being undervalued and, as previously noted, joint venture partners knowing more about a company's value than its shareholders.

A reserves audit or evaluation is not the same as a financial audit. The latter involves verification of events that have, for the most part, already occurred with decisions focused largely on their classification against a set of standards. By contrast, a reserves audit is about taking a view on future outcomes. As such, it is subject to significant judgment and interpretation that can lead to a wide range of outcomes. An independent evaluator's assessment is not necessarily a better view given that they may have less intimate knowledge of a reservoir than those who manage it on a day-to-day basis, and they have an inherent bias to be conservative.

We believe a company knows its properties best and is in the best position to make an estimate of reserves since it is also the one making the investment decisions. Company management and its board should take responsibility for the estimates. They should decide on an appropriate process and the level of due diligence (including the need for independent evaluation) they feel is necessary in light of a property's characteristics and the potential for evaluator bias. We believe the board's oversight responsibility would be enhanced by a requirement for it to have a reserves committee of informed members, the majority of whom should be independent. Companies should be required to fully disclose the process it follows in estimating reserves and the extent of due diligence it has undertaken with respect to the estimates. Readers can then make an assessment of the process followed, the extent of independent evaluation (if any) and the company's track record of revisions in making a determination of the extent of reliance on the estimates it feels is warranted.

We recognize that not all companies are of a sufficient size and complexity to achieve an appropriate level of segregation of duties and process required to enhance the quality of the estimates. As a result, we believe that companies under a prescribed threshold might be required to have a large portion of its reserves (two-thirds to three-quarters) independently assessed. This would be similar to the approach taken in Canada under National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*. Alternatively, instead of using a threshold, companies may need to meet a qualifying exemption to demonstrate their capabilities in estimating reserves and eliminating bias.

Other Comments

In the past few years, the SEC has required that extensive information be presented if a company chooses to disclose certain operating metrics like reserves replacement ratios, finding and development costs, etc. The additional disclosures are so extensive that virtually all companies have chosen not to report on these performance metrics and instead, leave it to readers to make their own assessments. We believe these are important measures and should not be left to interpretation by readers who generally lack sufficient information to make an informed assessment. We encourage the SEC to revisit the area of performance measures in an attempt to standardize the metrics and permit disclosures that provide meaningful insight into a company's performance.

Conclusion

We commend the SEC for initiating this effort to consider revising its oil and gas disclosure requirements. The current rules are clearly outdated and have not kept pace with the evolution of the global oil and gas business. We encourage the SEC to take the time and effort required to implement a new disclosure regime that reflects the business realities of today, while making it robust enough to evolve over time. Developing such a system requires collaboration amongst all constituents.

We would be pleased to be involved in this process, especially as it pertains to oil sands activities where our highly integrated extraction / upgrading process provides us with a unique perspective on the definition of oil and gas activities.

Please feel free to contact Kevin Reinhart, Senior Vice President, Corporate Planning at (403) 699-5163 with respect to our comments.

Sincerely,

NEXEN INC.

A handwritten signature in black ink, appearing to read "CW Fischer", with a long horizontal flourish extending to the right.

Charles W. Fischer
President and Chief Executive Officer