

Department of Energy/Office of Policy and International Affairs

Comments re: Concept Release on Possible Revisions to the Disclosure Requirements Relating to Oil and Gas Reserves

Comments referenced to SEC File No. S7-29-07.

The Department of Energy is pleased to comment on the Securities and Exchange Commission's (SEC) Concept Release on Possible Revisions to the Disclosure Requirements Relating to Oil and Gas Reserves, Release Nos. 33-8870 and 34-56945, File No. S7-29-07. The Energy Information Administration has already provided comments on the concept release from a non-policy perspective.

Existing reporting of oil and gas reserves, linked to the historical discovery, confirmation and production practices, may not fully reflect the economic value of producible reserves under current field technology. Improving the reporting of oil and gas reserves is potentially desirable for several purposes, including support for producers' capital raising activities, support for risk-sharing transactions that are common industry practice, and for energy policy development. The question presented is whether the SEC's utilization of an updated definition of proven reserves to provide more consistency with the technological advances in the industry will serve national and private interests. We believe it will.

We agree with the suggestion, supported by industry recommendations that offset well sites, confirmed by supporting 3D and 4D imaging can now be more confidently promoted to confirmed status. Prior to the availability of enhanced imaging those reserve components were less confidently defined. In addition, the advent of horizontal drilling to reach locations more than a single offset removed from existing wells, makes confirmation of distant locations more feasible. In addition, recognition of tar sand and oil shale deposits that meet the definition for proved reserves is warranted. Support for realistic classification of the "proven" category is supported by industry group recommendations, and we think these modest expansions, provided by use of probabilistic determinations and supported by industry exploration advances and available extraction technologies, are reasonable.

The anticipated impact of these changes will be to expand the reported reserve base, a matter of particular importance for entities with small proven reserve bases, under existing definitions. Many of these companies already report unproven reserves (outside the SEC reports) to their shareholders and lenders, but allowing expanded claims in SEC reporting would make such claims more bankable and perhaps add to the firm's ability to raise capital and contribute to marginal increases in domestic energy production. Similarly, with regard to risk-sharing activities such as farm-out transactions and sales of

working interests, the improved SEC reporting of reserves could facilitate such deals and reduce the cost of risk-sharing activities, contributing ultimately to expanded efficiency in domestic oil and gas production at the margin.

We also support the SEC's consideration of an approach that moves away from the use of prices on a single day to determine the economic producibility of reserves. We think it the better policy to determine economic producibility based on an annual average price, accompanied with respondents' statements of how the value of the resource would be affected by a 10%, for example, change in this price. The model and precedent for such an approach can be found in the inflation-impact statements in corporate reports that were introduced nearly a generation ago.

The contribution of this enhanced reporting to energy policy is based on the concept that accuracy and transparency are likely contributors to economic efficiency and efficient policy design. Accuracy and realism in the data would support realistic policies and would also aid in evaluation of efforts to expand domestic reserve additions and production. In sum, we think the improved reporting is justified by the impact on industry financing opportunities alone.

We think presentation of proven reserves, along with confidence measures for any additional volumes, into SEC reporting will contribute a useful transparency and may expand the financial options to domestic resource owners. Furthermore, we believe that the financial sector and investors are capable of interpreting the added data with appropriate caution.

In summary, we support a judicious expansion of reported reserves to reflect actual technology development and valuation practices in the industry. The modifications recommended by the Society of Petroleum Engineers and America Association of Petroleum Geologists represent one version of the directional changes that we support for purposes of energy policy formation and industry development.

Sincerely,

Karen A. Harbert
Assistant Secretary
Office of Policy and International Affairs