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

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

Dear Ms. Morris

Petro-Canada is pleased to provide comments on the “*Concept Release on Possible Revisions to the Disclosure Requirements Relating to Oil and Gas Reserves*”.

Petro-Canada is one of Canada's largest oil and gas companies. As an integrated oil and gas company, Petro-Canada has a portfolio of businesses spanning both the upstream and downstream sectors of the industry. In the upstream businesses, the Company explores for, develops, produces and markets crude oil, natural gas liquids (NGL) and natural gas in Canada and internationally. The Downstream business refines crude oil and other feedstock, and markets and distributes petroleum products and related goods and services, primarily in Canada.

The Upstream Business units include North American Natural Gas (*Western Canada, U.S. Rockies, Mackenzie Delta/Corridor, Alaska*), International and Offshore (*East Coast Canada, Northwest Europe, North Africa/Near East, Northern Latin America*), and Oil Sands (*Western Canada Oil Sands Mining and In Situ leases*).

Petro-Canada is traded on both the New York Stock Exchange and the Toronto Stock Exchange. Petro-Canada annually files a Form 40-F with the Securities and Exchange Commission.

We commend the Commission on addressing this issue.

Petro-Canada's key recommendations are summarized as follows:

- Adopt these of the Society of Petroleum Engineers' (SPE) 2007 Petroleum Resource Management System (PRMS) for reserve and resource definition/classification (allows for the definitions & guidelines to be continuously updated using a world-wide recognized professional organization; as well as compatible with the United Nations framework and existing Canadian definitions)
- Change the requirement for the use of year end (last day of the year) prices in determining reserve quantities and replace it with a 12-month average price.
- Eliminate the restrictions on reporting oil and gas reserves derived from oil sands (tar sands), regardless of the recovery technology utilized, as it is the product of oil that is important to investors rather than the technology used to extract it.
- Provide the option to report/disclose reserves/resource category estimates beyond the current proved reserves. As a minimum, the Commission should mandate the disclosure of proved and probable reserves.
- Do not change the rules to mandate third party verification of reserves estimates companies report in their filings. Instead change the rules to mandate that reserves estimates companies report in their filings be prepared by “qualified reserve evaluators” (internal or external) as defined in the SPE Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserve Information Approved by SPE Board in June 2001 – Revision as of February 19, 2007 (SPE STANDARD).

Responses are provided on the following pages to the various questions posed in the Concept Release.

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?

Recommendation

Replace the current rules-based oil and gas disclosure requirements with the standards and the reserves/resource definitions set out by the SPE. Adopting the primarily principles-based SPE 2007 Petroleum Resource Management System (PRMS) for reserves and resource definition/classification would allow for the definitions and guidelines to be continuously updated using a world-wide recognized professional organization. These definitions and standards recommend the use of all available data that companies employ for internal investment decisions.

Adopting these definitions and standards would improve disclosure quality, consistency and comparability providing that the Commission also:

- *change the rules to mandate that the reserves estimates were prepared by qualified reserve evaluators or auditors (whether internal or external evaluators) as defined by the SPE STANDARD. This would ensure consistent application of the SPE's PRMS definitions and guidelines in reserves estimates.*
- *change the rules to enforce that all reserves categories (not resource categories) were estimated using a 12 month average price. This would provide the same or better comparability than the current rule of using the price on the last day of the reporting period. There would be a consistent methodology to calculating the price used with none of the confusion or variability/volatility of attempting to calculate a year-end single day price.*

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?

Recommendation

The Commission should provide the option to report/disclose reserves/resource category estimates beyond the current proved reserves. As a minimum, the Commission should mandate the disclosure of proved and probable.

The Commission should require that optional disclosure, if employed, follow or use the SPE PRMS definitions.

Petro-Canada's preference would be to disclose other reserves/resource categories (at least probable reserves) as defined by the SPE PRMS, but we understand that other companies may not have a similar view. Providing the option for additional disclosure would allow companies to provide a more complete understanding of their overall strategy.

We believe that the additional reserves/resource disclosure using the SPE PRMS would more accurately portray how companies base their investment decisions on a range of outcomes including proved and probable reserves, or mean reserves volumes.

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?

Recommendation

The Commission should adopt all of the SPE PRMS definitions. As stated above disclosure of reserves/resource categories beyond proved and probable should be optional, so long as any additional disclosure followed the SPE PRMS.

The SPE PRMS is very similar to the existing Canadian disclosure rules under National Instrument 51-101 and the "Canadian Oil and Gas Evaluation Handbook" (which provides more detailed guidance to companies filing under Canadian rules).

The Commission should not adopt a different framework, as the SPE PRMS is the result of years of consultation with the oil and gas industry by a world-wide recognized professional organization.

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?

Recommendation

As stated above, the Commission should adopt the SPE PRMS definitions/classification.

The SPE PRMS are mainly principles-based guidelines that will be able to accommodate future technological innovations.

These definitions and guidelines are continuously updated for any future technological innovations by a world-wide recognized professional organization. They are well understood by industry and show a more complete picture of the business of any oil and gas company.

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?

Recommendation

The SPE PRMS for reserves and resource definition/classification provides sufficient criteria and enough requirements to properly estimate reserves. The Commission should not mandate or specify additional tests or data beyond what the SPE PRMS requires to support reserves classifications.

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?

Recommendation

The SPE PRMS adopts the concept of reasonable certainty and provides guidelines regarding the determination of reasonable certainty. The Commission should

not require companies to make certain assumptions beyond those identified in the SPE PRMS.

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?

Recommendation

The SPE PRMS provides guidelines regarding proved and proved undeveloped reserves including the certainty/time periods for booking these estimates. The Commission should not impose additional requirements beyond those identified in the SPE PRMS.

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?

Recommendation

Petro-Canada supports the concept of economic producibility, or rather commerciality, as defined in the SPE PRMS. The SPE PRMS provides a framework that also considers both technical uncertainty and the “chance of commerciality” which together address the concept of producibility (economic, management commitment, regulatory, etc).

However, whereas the SPE PRMS permits a reasonable forecast of future conditions in determining economic producibility; for the sake of comparability between issuers, Petro-Canada recommends the use of a 12-month average price in determining reserves estimates.

All other assumptions associated with the “chance of commerciality” should be documented.

The Commission should also ensure that the Standardized Measures of Oil and Gas use the same pricing methodology as that adopted for reserves.

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?

Recommendation

Although the SPE PRMS allows forecasted commercial conditions in reserves/resource determination, provided that they are disclosed and reasonable, as stated above, Petro-Canada recommends the use of a 12 month historical average operating costs (same time frame as used for 12 month average price if adopted) for comparability with other issuers. For other operating conditions (e.g. operating pressures), Petro-Canada recommends utilizing forecasted conditions that are reasonable and disclosed if different from the existing conditions.

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?

Recommendation

The Commission should change the requirement for the use of year-end (last day of the year) prices in determining reserves quantities and replace it with a 12-month average price. This removes “point in time” variability, reduces the extent of year-on-year changes, and avoids seasonal price distortions while preserving “comparability” between issuers.

If the 12-month average price is accepted, Petro-Canada’s preference for determining an average sale price would be to use the fourth quarter of the previous year as well as the first three quarters of the reporting year to determine the average annual price.

Price sensitivities should not be mandated but rather left as an optional disclosure decision for the issuer.

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

Recommendation

See response to Item 12.

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

Recommendation

The Commission should remove the current exclusions from proved reserves and current oil and gas activities. The SPE PRMS focuses on the nature of what is ultimately produced rather than the recovery method that is used, thereby permitting the inclusion of hydrocarbons from shale, oil sands (tar sands), and coal.

Significant volumes of non-traditional resources, including mined oil sands, are entering and are expected to enter the global oil and gas markets over the

coming years. Including the non-traditional resources as oil and gas activities will provide the forward visibility necessary to foresee or predict future levels of oil supply. This will remove the distortion that exists in the current reporting of oil and gas activities and improve oil and gas activity disclosure quality.

Continuing ambiguity about the treatment of the current exclusions does not serve the interests of any stakeholder.

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?

Recommendation

The Commission should eliminate the current restrictions on including oil and gas reserves from sources that require further processing – in particular tar sands. As stated above the significant volumes of nontraditional resources, in particular oil sands (tar sands), are entering and are expected to enter the global oil and gas markets over the coming years. Permitting issuers to disclose non-traditional resources as oil and gas activities will provide investors with information necessary to foresee or predict future levels of oil supply. This will remove the distortion that exists in the current reporting of oil and gas activities.

The SPE PRMS not only considers traditional reserves/resources but has a framework for considering non-traditional resource including those that may require further processing.

The SPE PRMS has stated that it “intended that the resource definitions, together with the classification system, will be appropriate for all types of petroleum accumulations regardless of their in-place characteristics, extraction method applied, or degree of processing required.”

The SPE PRMS also states: “Similar to improved recovery projects applied to conventional reservoirs, successful pilots or operating projects in the subject reservoir or successful projects in analogous reservoirs may be required to establish a distribution of recovery efficiencies for non-conventional accumulations. Such pilot projects may evaluate both extraction efficiency and the efficiency of unconventional processing facilities to derive sales products prior to custody transfer.”

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?

Recommendation

Adopt the SPE PRMS reserves definitions and guidelines as recommended above. The need for continuous modernization to account for new technology would be addressed by the continuous updating of the SPE PRMS by the SPE’s Oil and Gas Reserves Committee. Petro-Canada also recommends that the SEC consider having a full-time representation on that committee.

The SEC can protect the integrity of the public markets by reserving to itself the power to reject or amend SPE PRMS definitions for the purpose of corporate disclosure should the SEC at any time believe the SPE PRMS definitions and guidelines lead to inaccurate or poor public disclosure.

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? 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.

Recommendation

The Commission should not mandate that companies engage independent third parties to evaluate their reserve estimates in SEC filings. However, the Commission should mandate that the reserves estimates are prepared by qualified reserves evaluators or auditors (whether internal or external) and that companies retain applicable documentation as support that the estimates have been prepared by qualified reserves evaluators.

The SPE Standard provides professional qualifications of Reserve Estimators and Reserve Auditors. The Canadian Oil and Gas Evaluation Handbook also contains alternative requirements to be met by individuals seeking to be qualified reserves evaluators and qualified reserves auditors. Both of these sets of qualifications, for evaluators and auditors, are attached as additional information.

Petro-Canada has obtained an exemption from the independent evaluation/audit requirement under Canada’s National Instrument 51-101. To obtain this exemption, Petro-Canada was required to satisfy both the Canadian securities regulators and its Board of Directors that the reliability of its internal reserves estimates is not materially different than estimates generated by external or independent reserves auditors. We believe that our internal contingent of qualified evaluators can better assess our reserves than external evaluators.

Although Petro-Canada has an exemption from the Canadian requirement to retain external independent reserves evaluators, as part of our governance practices, we engage external evaluators to assess our reserves entities at least once every three years (ensuring that every entity is assessed within a three year cycle). Comparison of the internal to the external estimate has confirmed that our reserves estimates are not materially different from those produced by external evaluators.

Yours sincerely,

PETRO-CANADA

*/s/ Hugh L. Hooker
Chief Compliance Officer, Corporate
Secretary, Associate General Counsel*

Attachments

1. Professional Qualifications of Reserve Estimators (SPE STANDARDS)
2. Professional Qualifications of Reserve Auditors (SPE STANDARDS)
3. Qualifications of Reserve Evaluators (COGEH) & Qualifications of Reserve Auditors (COGEH)

Attachment 1: Professional Qualifications of Reserve Estimators (SPE STANDARDS)

Professional Qualifications of Reserves Estimators

A Reserves Estimator shall be considered professionally qualified in such capacity if he or she has sufficient educational background, professional training, and professional experience to enable him or her to exercise prudent professional judgment and to be in responsible charge in connection with the estimating of reserves and other Reserves Information. The determination of whether a Reserves Estimator is professionally qualified should be made on an individual-by-individual basis. A Reserves Estimator would normally be considered to be qualified if he or she (i) has a minimum of 3 years' practical experience in petroleum engineering or petroleum production geology, with at least 1 full year of such experience being in the estimation and evaluation of Reserves Information; *and* (ii) *either* (A) has obtained, from a college or university of recognized stature, a bachelor's or advanced degree in petroleum engineering, geology, or other discipline of engineering or physical science *or* (B) has received, and is maintaining in good standing, a registered or certified professional engineer's license or a registered or certified professional geologist's license, or the equivalent thereof, from an appropriate governmental authority or a recognized self-regulating professional organization. In the context used herein, it is recommended that experience and competency levels should generally include a clear understanding of several areas of knowledge pertinent to the circumstances and conditions to which they are being applied, which could include industry accepted practices related to (1) the creation and understanding of geological maps and models, (2) the judicious selection of and reliance upon appropriate reservoir analogs, (3) appropriate application of and reliance upon seismic information in reserves estimation, (4) fundamentals and limitations of reservoir simulation, (5) basic knowledge and applicability of probabilistic and deterministic assessment methodologies, (6) the use of numerous performance evaluation techniques to confirm and/or refine geological interpretations, (7) the consequences of reliance on computer software without a full understanding of the internal calculation processes, (8) various forms of production licensing and fiscal systems, (9) ongoing training in the relevant or pertinent reserves definitions, and (10) ethics training – all of which should be refreshed periodically through some form of internally or externally provided continuing education.

Reserves Estimators and Auditors are encouraged to recognize the professional obligation to secure ongoing training in the areas described above, whether or not this is provided or required by their employer. A Reserves Estimator should decline an assignment for which he or she is not qualified.

Attachment 2: Professional Qualifications of Reserve Auditors (SPE STANDARDS)

Professional Qualifications of Reserves Auditors

A Reserves Auditor shall be considered professionally qualified in such capacity if he or she has sufficient educational background, professional training (similar to that described above), and professional experience to enable him or her to exercise prudent professional judgment while acting in responsible charge for the conduct of an audit of Reserves Information estimated by others. The determination of whether a Reserves Auditor is professionally qualified should be made on an individual-by-individual basis and with the recognition and respect of his or her peers. A Reserves Auditor would normally be considered to be qualified if he or she (i) has a minimum of 10 years' practical experience in petroleum engineering or petroleum production geology, with at least 5 years of such experience being in responsible charge of the estimation and evaluation of Reserves Information; *and* (ii) *either* (A) has obtained, from a college or university of recognized stature, a bachelor's or advanced degree in petroleum engineering, geology, or other discipline of engineering or physical science *or* (B) has received, and is maintaining in good standing, a registered or certified professional engineer's license or a registered or certified professional geologist's license, or the equivalent thereof, from an appropriate governmental authority or professional organization. A Reserves Auditor should decline an assignment for which he or she is not qualified.

Attachment 3: Qualifications of Reserve Evaluators (COGEH) & Qualifications of Reserve Auditors (COGEH)

DEFINITIONS FOR QUALIFIED RESERVES EVALUATOR AND QUALIFIED RESERVES AUDITOR

The definitions for "qualified reserves evaluator" and "qualified reserves auditor" as defined in NI 51-101 are set out below.

❖ QUALIFIED RESERVES EVALUATOR

Reserve evaluators are considered qualified if they have sufficient educational background, training and experience to exercise prudent judgment and to be in responsible charge in connection with reserves estimation and preparation and analysis of cash flows.

- ❖ They are a registered professional in good standing licensed to practice in engineering, geology, geophysics or other discipline of physical science.
- ❖ They have a minimum of five years' practical experience in petroleum engineering, geology, or geophysics, with at least three recent years of such experience in the evaluation of reserves and resources. The evaluator must be current and competent in the methods and practices of reserves evaluation.

❖ QUALIFIED RESERVES AUDITOR

Reserve auditors are considered qualified if they have sufficient educational background, training and experience to exercise prudent judgement and to be in responsible charge in connection with an audit of reserves evaluations estimated by others.

- ❖ They are a registered professional in good standing licensed to practice in engineering, geology, geophysics or other discipline of physical science.
 - ❖ They have a minimum of ten years' practical experience in petroleum engineering, geology, or geophysics, with at least five recent years of such experience in the evaluation of reserves and resources. The auditor must be current and competent in the methods and practices of reserves evaluation.
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