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Ms. Wendy M. Payne  
Executive Director  
Federal Accounting Standards Advisory Board  
Suite 6814 -- Mail Stop 6K17V  
441 G Street, NW  
Washington, D.C. 20548

January 11, 2008

Dear Ms. Payne:

This letter is in response to the invitation by the Federal Accounting Standards Advisory Board (FASAB) to comment on the Proposed Statement of Federal Financial Accounting Standards, *Accounting for Federal Oil and Gas Resources*.

The comments herein are from the perspective of the Accounting Committee of the American Petroleum Institute (API), which is the only national trade association that represents all aspects of America's oil and natural gas industry. Our 400 corporate members, from the largest major oil company to the smallest of independents, come from all of the industry's segments.

Our response is limited to the Exposure Draft's first question, which deals with crude oil and natural gas volumetric information our member companies may be required to provide under one of the described reporting alternatives.

***FASAB question:***

*Q1. The proposed standards would provide for recognition of the Federal government's royalty share of proved oil and lease condensate, NGPLs, and gas reserves. These reserves are subcomponents of the total oil and gas resources of the Federal government. Please see page 20 for an illustration of Federal oil and gas resource components and subcomponents.*

*The Board's proposal for quantifying the Federal government's royalty share of proved reserves is to use a single best estimate of recovering reserves based on known geological, engineering, and economic data. This approach is known in the oil and gas industry*

*as the deterministic method. This method would exclude reserves other than proved reserves. In contrast, a probabilistic method of estimation uses the known geological, engineering, and economic data to generate a range of estimates and their associated probabilities of recovering reserves. It would include more than proved reserves. See paragraphs A73 through A78 for additional information regarding the deterministic and probabilistic methods for measuring and reporting proved oil and lease condensate, NGPLs, and gas reserves.*

**Determination of Quantity:**

- a. Which of the following two options would you prefer?
  - i. Capitalize estimated petroleum royalties from the proved reserves based on the deterministic method as proposed in the ED.
  - ii. Capitalize estimated petroleum royalties from proved reserves, probable reserves, and possible reserves based on the methodology proposed in the alternative view. See the alternative view beginning at paragraph A119.
- b. Please explain the reasons for your preference.
- c. If you prefer a different basis for determining the quantity of reserves, please explain the alternative you propose and why you prefer it.

**Response:**

Q.1.a.: We strongly prefer option i. – “Capitalize estimated petroleum royalties from the proved reserves based on the deterministic method as proposed in the ED” – if the definition of proved reserves conforms to the definition of proved reserves under Rule 4-10(a) of Regulation S-X of the Securities Exchange Act of 1934. If the definitions are different, we recommend the FASAB conform to the SEC definition.

Q.1.b.: The reason for preferring option i. is that the proved reserve quantities calculated under SEC rules are readily available and consistent with volumes already reported annually to the Energy Information Administration of the U.S. Department of Energy and included in registrants’ Annual Report on SEC Form 10-K.

We strongly disagree with reporting volumes other than proved reserves, as described in option ii. Although organizations such as the Society of Petroleum Engineers have developed a process for quantifying and classifying reserves and resources other than proved, companies in our

industry are not required to follow any standardized process (as companies are required to follow for proved reserves). Moreover, Item 102 of SEC Regulation S-K prohibits companies from disclosing volumetric data for other than proved reserves. Thus, any FASAB request to our member companies for other than proved reserves data would directly conflict with our reporting responsibilities under SEC regulations.

We note also that in December 2007 the SEC issued Concept Release No. 33-8870 – “Concept Release on Possible Revisions to the Disclosure Requirements Relating to Oil and Gas Reserves.”

The Concept Release is available at <http://sec.gov/rules/concept/2007/33-8870.pdf>. We believe the FASAB should monitor the developments of this SEC project and continue to follow SEC guidelines with respect to classifying and reporting crude oil and natural gas reserves and resources.

We appreciate the opportunity to comment on this FASAB Exposure Draft. If you have any questions, please feel free to contact me at (713) 296-1816.

Sincerely,

*/s/ Joseph H. Bakies*

Joseph H. Bakies  
Chair, Accounting Committee  
American Petroleum Institute

cc: Desiree Burnley – API  
Don Whittaker – API