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Federal - Preparer

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Ms. Comes:

Attached are comments that the Office of Financial Management (OFM) within the Office of the Chief Financial Officer compiled in response to the exposure draft. Please feel free to contact me if you require any clarification in our response.

Thank you...

(See attached file: Accounting for Federal Oil and Gas Resources.doc)

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**EPA Office of Financial Management (OFM) Comments on FASAB
Exposure Draft: "Accounting for Federal Oil and Gas Resources"
Contact with Questions: Christopher Osborne, Financial Manager, 202 564
5070**

- 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.

OFM Response:

a i. Capitalize estimated petroleum royalties from the proved reserves based on the deterministic method as proposed in the exposure draft.

- b. Please explain the reasons for your preference.

OFM Response:

This method would provide more consistency since the deterministic method is based on objective criteria vs subjective criteria. The use

of “proved reserves” in estimating petroleum royalties would offer the most accurate measure.

- c. If you prefer a different basis for determining the quantity of reserves, please explain the alternative you propose and why you prefer it.
- Q2. The Board proposes to value the Federal government's royalty share of proved reserves based on average regional prices and effective average regional royalty rates experienced during the 12 months preceding the balance sheet date. See paragraphs 16 through 19 and 37. Also, see paragraphs A48 through A53 for a discussion of measurement attributes that were considered and paragraphs A79 through A113 for a discussion of the valuation approach proposed. An alternative approach to valuing estimated petroleum royalties is fair value. Fair value is the price that would be received for an asset or paid to transfer a liability in a transaction between market participants at the measurement date. One Board member believes that fair value is feasible and preferable. See the alternative view beginning at paragraph A119. The Board member believes that fair value could be derived from market transactions or discounted cash flows. The view of the majority of the Board members is that fair value would not produce a more reliable valuation than the valuation method proposed in this ED due to the challenges in adopting a fair value method.

Determination of Value:

- a. Which method do you believe is most appropriate for valuing estimated petroleum royalties?
- Value the royalty share of proved reserves based on average regional prices and effective average regional royalty rates experienced during the 12 months preceding the balance sheet date.
 - Value estimated petroleum royalties using the alternative view fair value method.

OFM Response

a.i. Value the royalty share of proved reserves based on average regional prices and effective average regional royalty rates experienced during the 12 months preceding the balance sheet date.

- b. Please explain the reasons for your preference.

OFM Response

This method would provide more consistency since the basis for the calculation is more clearly defined. Fair values leave a lot up to subjectivity. The valuation based on proved reserves and the corresponding value provides a known quantity in the valuation process that has an actual objective basis.

- c. If you prefer a different method for valuing estimated petroleum royalties, please describe the method you propose and why you prefer it.

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OFM General Comments on Document:

- *In the 1st bullet on p.2 of the cover sheet to the document, the date of the MOU referred should be stated:*

Additional background information is available from the FASAB:

- **"Memorandum of Understanding among the General Accounting Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board."**
Insert date of MOU
- **"Mission Statement: Federal Accounting Standards Advisory Board"**
- **Suggest that disclosure requirements for Agencies mirror those for the government-wide consolidated financial reporting.**