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Letter of Comment No: 5
File Reference: FSPFAS19A

March 7, 2005

Mr. Lawrence Smith
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

RE: File Reference No. FSP FAS 19-a: Accounting for Suspended Well Costs

Dear Mr. Smith:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the proposed Financial Accounting Standards Board (FASB) Staff Position identified above ("the FSP"). We share the Board's belief that the facts and circumstances commonly faced by oil and gas producing companies in the current environment are much different than those which existed when Statement 19 ("the Statement") was issued in 1977. Accordingly, we support the Board's efforts to amend the existing accounting guidance for suspended well costs and offer the following comments and observations for your consideration.

We agree with the Board's decision to replace paragraphs 31-34 of the Statement. We support the "principles-based" guidance in revised paragraphs 32-34 related to assessing whether an enterprise is making sufficient progress on assessing the reserves and the economic and operating viability of the project. We believe all the revised paragraphs capture the spirit of the Statement, while providing sufficient guidance to support compliance with its broad objectives in a reasonably consistent fashion. However, given the requirement in the last sentence of revised paragraph 31 to determine the economic and operating viability of the "project," we encourage the FASB to clarify how the word "project" relates to the word "well" as those words are used throughout the FSP. For example, even though paragraphs 10(b) and 11 of the FSP require disclosure of the number of wells for which exploratory well costs have been capitalized, the Example Disclosures in the Year of Adoption within the FSP only includes information pertaining to the number of projects for which exploratory well costs have been capitalized. We understand that a project can be comprised of several individual wells, not all of which must be completed as producing wells. Accordingly, we believe disclosing the number of projects is far more relevant to readers than disclosing the number of wells, and therefore recommend an amendment to paragraphs 10 and 11 of the FSP to appropriately refer to the number of projects for which exploratory well costs have been capitalized. If the FASB agrees with us that preparers should be focused on the economic and operating viability of projects as opposed to individual wells, in addition to the changes noted above we recommend the following changes to the FSP to clarify this point:



- Change the last sentence of revised paragraph 31 to read "...to justify proceeding with the project plan and its completion..."
- Change the last sentence of revised paragraph 31A to read "...the development of the project economically and operationally viable"
- Change the last sentence of the lead-in section from paragraph 10 of the FSP to read "its evaluation of a project's capitalized exploratory well costs"

We also agree with the Board's decision concerning the need for additional disclosure related to capitalized exploratory well costs, and generally support the example disclosures included in the FSP. As noted above, we find disclosures about the number of wells to be less useful than disclosures about the number of projects. Given that projects may have significant capitalized leasehold costs in addition to capitalized exploratory well costs, we recommend that paragraph 10(a) of the FSP be amended to require the disclosure of related project leasehold costs in addition to the amounts of capitalized exploratory well costs. We also suggest eliminating the word "significantly" included in paragraph 10(b) of the FSP. Finally, we encourage the FASB to clarify the location and frequency of the various disclosures described in paragraph 10 of the FSP. While paragraph 10(a) indicates that the disclosure should be in the notes to the financial statements, paragraphs 10(b) and 10(c) are not specific to the location. We believe that the estimated timing for completing the evaluation of the reserves required by paragraph 10(c) would be "forward-looking" information that is not appropriate for inclusion within the notes of audited financial statements and therefore should not be included in the final FSP.

If you have any questions regarding our comments, please contact Ken Miller at (973) 236-7336.

Sincerely,

PricewaterhouseCoopers LLP