

AMERADA HESS CORPORATION

1185 Avenue of the Americas
New York, New York 10036

JOHN P. RIELLY
Senior Vice President
and Chief Financial Officer
(212) 536-8230
FAX: (212) 536-8502

Letter of Comment No: 48
File Reference: 1250-001

4-10-06

April 10, 2006

Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856

Attention: Technical Director – File Reference 1250-001

Re: Comment Letter on FASB's Exposure Draft Titled "The Fair Value Option for Financial Assets and Financial Liabilities" issued on January 25, 2006 ("proposed standard")

Amerada Hess Corporation, an integrated oil and gas company, ("the Corporation") is pleased to comment on the above referenced proposed standard. The Corporation agrees with the FASB's efforts to address certain situations where a mixed-attribute accounting model leads to volatility in reported earnings since accounting and economic results differ. However, the Corporation can only support the proposed standard if the fair value eligibility criteria for financial assets and liabilities are limited to instances of inconsistent accounting measurements. The Corporation believes the proposed standard will unnecessarily impair comparability among entities. We agree with the approach under IAS 39, described in paragraph A22(d) of the proposed standard, that "the fair value option can be applied only when doing so results in more relevant information either because it eliminates or significantly reduces a measurement or recognition inconsistency (that is, an accounting mismatch) that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases, or because a group of financial assets, financial liabilities, or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel." Under this framework, the fair value option resolves inconsistencies in a mixed-attribute model between economic and accounting views of performance while maintaining consistency and comparability when there is no "accounting mismatch". Accordingly, the Corporation believes the proposed standard should be modified to limit the fair value eligibility criteria similar to the eligibility provisions of IAS 39 described in paragraph A22(d) of the proposed standard.

We also believe the fair value eligibility criteria for nonfinancial assets and liabilities should be limited to instances of inconsistent accounting measurements. In the project update, under Issue 5, it is noted that "the Board is seeking input on what nonfinancial instruments should be included in the scope of Phase 2." Within our industry, we recommend that pipeline capacity and trading-based physical inventory be included as nonfinancial assets available for fair value as part of Phase 2. In many situations, pipeline capacity and trading-based inventory are used together with derivatives to manage underlying risks in energy marketing or trading businesses.

As part of its energy trading activities, the Corporation utilizes physical purchase and sales contracts, financial derivatives (e.g., swaps, options, futures, etc.) and physical inventory in order to take a position on or mitigate the risk of potential market movements. Under the current mixed-attribute model, the derivatives will be reported on a fair value basis while the inventory will be reported on a cost basis. The result is that management's view of the economic results, which includes all physical and financial positions, is different from the accounting results, which do not reflect the change in economic value of the physical inventory. If the fair value option were provided for trading-based physical inventory, physical and financial positions could both be reported on a fair value basis eliminating mixed-attribute issues thereby providing financial statement readers with the same view of performance as management.

The Corporation also acquires future pipeline capacity to transport natural gas from production regions to marketing regions to meet future customer demands. The underlying risk in pipeline capacity is a basis risk between changes in price at the injection point and changes in price at the delivery point. Changes in value of this pipeline capacity may be economically hedged using financial derivatives such as basis swaps. From an economic point of view, the basis swap reduces potential volatility in earnings by hedging the transportation cost to the customer. Hedge accounting under FAS 133 does not allow component hedging (i.e., hedging only a portion of a cash flow) for cash flow hedges. Therefore, changes in fair value of the financial derivative (i.e., the basis swap) are reflected in current earnings while the pipeline capacity is only reflected in earnings in the period of delivery resulting in increased volatility in reported earnings. The use of fair value will allow both the financial derivative and the pipeline capacity to be carried on a fair value basis.

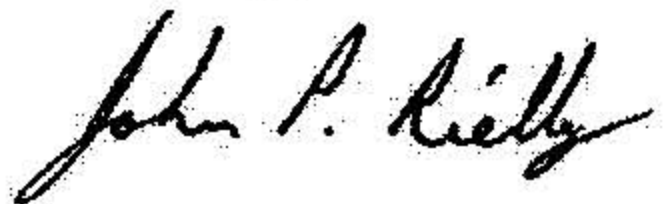
Underlying information is available to record pipeline capacity and trading-based physical inventory at fair value and these items are currently reflected at fair value in the Corporation's management reporting of results. The use of fair value for these items, in cases where they are used together with derivatives, will remove potential divergences between economic and accounting results.

The Corporation believes a modified Fair Value Option, similar to IAS 39 as described in paragraph A22(d) of the proposed standard, can be a practical solution to the current problem caused by the mixed-attribute model and will also promote greater convergence with the International Accounting Standards Board. This solution:

- provides better transparency into the economic results of business activities where physical and financial assets are jointly used;
- offers greater consistency between economic and accounting results;
- appropriately maintains the current accounting model for activities where no mixed-attribute issues exist.

In addition, we recommend that pipeline capacity and trading-based physical inventory be included as assets eligible for fair value in Phase 2.

Sincerely,



John P. Rielly
Senior Vice President and Chief Financial Officer
Amerada Hess Corporation