



OFFICE OF THE UNDER SECRETARY OF DEFENSE

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WASHINGTON, DC 20301-1100

COMPTROLLER

Ms. Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

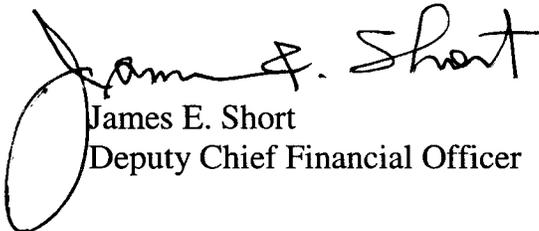
Dear Ms. Payne:

This letter is in response to the Federal Accounting Standards Advisory Board request for comments on its proposed Statement of Federal Financial Accounting Standard, "Accounting for Federal Oil and Gas Resources." The Department of Defense detailed comments are attached.

In addition to the attached responses, we request the standard clarify the recognition of restoration costs. The Exposure Draft does not address the accounting treatment of land restoration to previous condition if resource extraction or well survey is undertaken. It is unclear whether this restoration cost should be recorded as a liability and what entity should record it.

The Department appreciates the opportunity to comment on the Exposure Draft. My staff point of contact is Ms. Regina Kearney. She may be reached by email at regina.kearney@osd.mil or by telephone at (703) 697-0538.

Sincerely,

A handwritten signature in black ink that reads "James E. Short". The signature is written in a cursive style with a large, looped initial "J".

James E. Short
Deputy Chief Financial Officer

Enclosure:
As stated

Accounting for Federal Oil and Gas Resources
FASAB Exposure Draft
September 21, 2007

General Comment: The Exposure Draft (ED) does not address land restoration to previous condition if resource extraction or well survey is undertaken. Is this restoration cost something that needs to be recorded as a liability; if so, what entity should book it (i.e. The land holding entity? The entity licensed to exploit?).

1.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.

Response: We recommend option i.

1.B Please explain the reasons for your preference.

Response: This method is a more conservative approach. It better meets the intent of SFFAC 1 for reliability. Using other than proved reserves introduces unacceptable uncertainty.

1.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: N/A

2.A Which method do you believe is most appropriate for valuing estimated petroleum royalties?

- 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.
- ii.** Value estimated petroleum royalties using the alternative view fair value method.

Response: We recommend option i, using first purchase price or wellhead price.

2.B Please explain the reasons for your preference.

Response: The federal government's asset is the royalty revenue streams once the reserves have been produced; in this way its royalty value is based on the

produced reserves valued at the purchase price or wellhead price. Therefore, the valuation should be based on the first purchase price or wellhead price and not a market price.

- 2.C** If you prefer a different basis for estimated petroleum royalties, please describe the method you propose and why you prefer it.

Response: N/A

- 3.A** Do you believe that each item of information, whether disclosed in the notes or provided as RSI, is necessary to meet reporting objectives and is cost-beneficial to provide?

Response: No. RSI should not extend to the Regional breakdowns exemplified in Table 1. This information does not appear relevant to the Stewardship Objective of determining whether the government's financial position has improved or deteriorated over time, nor does it appear relevant to the Operating Performance Objective to determine the efficiency and effectiveness of the government's management of its assets and liabilities. In this regard, the cost of the information appears to outweigh the benefit.

- 3.B** How would each item of information be used for decision-making or assessing the financial position of the federal government?

Response: Reference 3.A above, the cost of the information appears to outweigh the benefit.

- 3.C** Please explain the reasons for your position and any alternative you propose.

Response: We recommend a development of an IT solution to report this information into a Federal repository that would allow for federal review. This would enable a better understanding of Federal reserves and foreign deposit dependencies. If the RSI remains as a requirement as currently presented in Table 1, suggest extending the effective date of the ED to September 30, 2010. The extension of the effective date allows suffice time for data collection mechanisms necessary to comply with the ED.

- 4.A** Do you believe that a monetary value for royalty relief should be reported as RSI?

Response: Yes. The offset of potential income by the use of royalty relief could be weighed to the true cost of the depletion of the assets in total across the Federal government. We request the Board to review the GAO report GAO-07-590R that illustrates the need for understanding of this information.

4.B Do you believe the quantity of production for which relief was granted during the reporting period should be reported as RSI?

Response: Yes, for the same reason as in comment 4.A.

5.A Do you believe it is cost-beneficial to require disclosure of the value of estimated fiduciary petroleum royalty assets, liabilities, and related inflows and outflows?

Response: We have not performed a cost benefit analysis to support a response to this question. However, reference question 3 above, the cost of the information appears to outweigh the benefit.

6.A Do you believe that the CFR disclosures requirements should be limited as proposed?

Response: Yes. Aggregation of the CFR provides for ease of use by the intended audience.

7.A Please comment on any accommodation that you believe is not appropriate or that you believe does not sufficiently reduce the cost or burden of the proposal.

Response: We have no issues with the proposed accommodations.