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noble energy

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VIA EMAIL

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Re: ***Comments of Noble Energy, Inc. on Margin and Capital Requirements for Covered Swap Entities***

On May 11, 2011, the Department of the Treasury, the Board of Governors of the Federal Reserve, the Federal Deposit Insurance Corporation, the Farm Credit Administration, and the Federal Housing Finance Agency (the "Agencies") issued a Notice of Proposed Rulemaking concerning "Margin and Capital Requirements for Covered Swap Entities" ("Margin and Capital NOPR" or "NOPR") in the Federal Register. The Margin and Capital NOPR was issued by the Agencies to provide regulations to implement Sections 731 and 764 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"). Noble Energy, Inc (Noble Energy) hereby submits comments on the Margin and Capital NOPR.

Noble Energy (NYSE: NBL) is in the business of exploring for, producing, processing and selling crude oil, natural gas and natural gas liquids. Noble Energy utilizes commodity swaps solely for the purpose of hedging the commercial risk of its physical businesses.

Noble Energy is faced with the daily demands of managing and operating its nonfinancial energy businesses. This is a challenging businesses which, for effective management, requires not only that the operational elements of exploration, production and processing, and sales of oil, gas, and natural gas liquids are properly conducted, but also that the significant energy price volatility be prudently hedged to provide for the stability and predictability in implementation of capital and operating budgets and the servicing of debt.

Cost effectively fixing the revenue line and otherwise addressing commodity price risk through over-the-counter (OTC) swaps is a critical element of effectively managing a physical energy company like Noble Energy. Through OTC hedging, Noble Energy limits its exposure to price volatility via hedging and therefore can focus on its physical business. Further, as history shows, physical energy producers are highly unlikely to pose a "systemic risk" to the U.S. or global financial system.

As an investment grade company with a strong business track record, a conservative balance sheet and financial metrics, Noble Energy is not subject to margin posting by its commodity hedge counterparties. Rather, Noble Energy is extended unsecured credit as part of a broader business relationship with its counterparties. This arrangement has worked well for many years including in the fast rising oil and gas price environment of 2004 to 2008 and during the financial crisis and its aftermath.

Noble Energy's investment capital and cash reserves are better utilized by investing in its physical businesses rather than sitting in an escrow account as margin.

Noble Energy supports maintaining the current credit requirements imposed by its bank swap dealer and major swap participant ("Covered Entities"), where appropriate. Currently, the credit requirements subject Noble Energy to comprehensive and professional credit analysis by these Covered Entities, which starts with the beginning of its swaps relationship and extends throughout its term.

The high quality and stability of Noble Energy's balance sheet and management thereof provides for the extension of an appropriate amount of unsecured credit. This hard-earned creditworthiness has been the basis for unsecured lending and extensions of credit in Noble Energy's OTC swap relationships. There is no reason to disturb this proven structure for Covered Entity lending and OTC swaps/activity with physical energy producers.

Noble Energy understands that it is ***not*** the Agencies' intent, where a Covered Entity has exposures to a nonfinancial commercial firm that are within the enterprise-wide credit exposure limits the Covered Entity has established under appropriate credit processes and standards, to: (1) mandate any particular form of documentation or agreement; (2) limit the appropriate form of collateral; or (3) mandate margin.

Freedom from regulatory imposed margin posting, directly or indirectly, is critical to ensure independent energy producers can direct capital to productive uses. Cash margin posting in a rising commodity price environment would do little to reduce systemic risk to the financial system; but would significantly increase the "enterprise" and liquidity risks for companies like Noble Energy. It could also constrain industry capital investment in exploration and development when it is most needed to ensure adequate energy supplies to ensure U.S. consumers secure energy supplies and affordable energy costs.

If Noble Energy, were required, directly or indirectly, to post cash collateral, it would be forced to either reduce or eliminate commodity hedging raising its enterprise risk and, very likely, reduce its business investment program impacting the affordability and availability of energy supplies and reducing jobs in the United States.

Noble Energy's continued business success relies on appropriate risk management. Therefore, we desire to continue our conservative hedging program and will continue to manage those exposures to permit us to prudently run our business. Therefore, Noble Energy requests that the Agencies clarify in any final rule that the new margin regulations will permit Covered Entity swap counterparties to nonfinancial physical energy companies to continue to extend credit as they do today, including with respect to swaps margin practices.

Given the importance and complexity of these issues, it is essential that (1) there be no confusion as to the Agencies' expectations of Covered Entities, and (2) nonfinancial end user commercial firms can hedge their risk without concern that they may be faced with problematic margin requirements.

Congress intended that nonfinancial end users that hedge commercial risk should be treated differently from other OTC swap counterparties with respect to both clearing and margin. Therefore, the Agencies should make clear that such entities are to be treated differently from financial entities and that they be permitted to continue their OTC swap hedging of commercial risk under the proposal set forth in the NOPR as they do today.

Noble Energy believes the Agencies need to unambiguously clarify in the final rules that, as a general matter, the NOPR is ***not*** intended to disrupt the ***status quo*** with respect to the swap relationship between Cover Entities and nonfinancial energy end users. Energy producers can then move forward with certainty to meet the energy security and affordability needs of U.S. consumers and, the Agencies can fulfill their regulatory mandate under Dodd Frank.

Respectfully submitted,

Kenneth M. Fisher
Senior Vice President and
Chief Financial Officer