

101365909: Proved Reserves - excluding 'Own Use' (USA versus WOUSA)

Page 5 of 9

> ellminate confusion within Shell, I would also advise consistency with
> the Group guidelines..... but, I don't know the unintended consequences of
> such advice. Before we send you "official guidance" are there compelling
> reasons for staying with status quo?

>

> Thanks,

>

> Tom Bourgeois

> EPN-USA

> 1343 Shell Centre, London

> 44-(0)171-934-5509

>

> -----Original Message-----

> From: Aalbers, Remco RD SEPIV-EPB-P

> Sent: 16 December 1999 09:10

> To: Platenkamp, Roelof RJ SEPIV-EPB-P; Cook, Linda LZ SEPIV-EPB

> Bourgeois, Tom T SEPI-EPN-USA; McKay, Aidan A SEPIV-EPB-P; Van Dorp,
vvouter WG SEPIV-EPB-P

> Subject: USA - Reserves 1.1.2000 excl. Own Use (& Losses)

> Importance: High

> Sensitivity: Confidential

>

> Linda, Roelof,

>

> Please find attached the advice from the Group Reserves Auditor (GRA)

> Anton Barendregt who's interpretation is confirm my own. SEPCo as of

> 1.1.2000 - following the globalisation - should report reserves proved,

> expectation and resources (SFR) in line with the Group Guidelines (SIEP

> 99-1100).

>

> The Guidelines are very clear - reserves are reported excluding own use
> (fuel) and losses (flare, vent).

>

Currently SEPCo reserves include own use 1-2% for SOC, but some 75% for Hera and some 7% for Altura.

> Based on the 1.1.99 proved gas reserves this would mean a negative
> revision as follows:

>

> Gas Estimated

> proved Res own use

> [mln sm3]

> Shell Oil (USA) 118.4 -1.78 (1.5%)

> Shell Oil (Aera) 4.4 -3.30 (75%)

> Shell Oil (Altura) 5.9 - 0.41 (7%)

> Shell Oil (TMR/MCC) 3.3 - 0.03 (1%)

> Pecten (Brazil & N.Z) 7.4 - 0.07 (1%)

> _____

> 139.4 5.59 mln sm3

> (4%)

>

>

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101365909: Proved Reserves - excluding 'Own Use' (USA versus WOUSA)

Page 6 of 9

> Actual reduction would have to be calculated by Shell Oil - also taking
 > into account the 1999 portfolio actions.
 >
 > Shell Oil should be officially advised to ensure 1.1.2000 proved reserves
 > are in line with the Group Guidelines. As indicated Anton will visit US
 > for a SEC reserves audit some time during 2000.
 >
 >
 > Note: Shell Canada have confirmed they report proved gas reserves
 > excluding own use as ex plant sales volumes in line with all ESOSC
 > countries.
 >
 >
 > Met vriendelijke groeten / With kind regards.
 >
 > Remco D. Aalbers
 > Group Hydrocarbon Resource Coordinator
 > Senior Economist
 >
 > EPB-P SEPIV BV
 > Tel. +31 (0)70 - 377 2001
 > e-mail: remco.rd.aalbers@sepivbv.shell.com
 >
 >
 >
 >
 >
 > —Original Message—
 > From: Barendregt, Anton AA SEPIV-EPB-GRA
 > Sent: Monday, 13 December , 1999 5:48 PM
 > To: Aalbers, Remco RD SEPIV-EPB-P
 > Cc: Van Dorp, Wouter WG SEPIV-EPB-P
 > Subject: RE: USA - Reserves excl. Own Use & Losses
 > remco,
 >
 > As discussed, herewith my reaction:
 >
 > The issue seems to be which guidelines SEPCO should apply. The SEC
 > guidelines may not be too specific on the issue of own use, fuel and flare
 > and SEPCO's interpretation that these can be included could be seen as
 > defendable. Question is what is defined by 'recoverable'. If we mean
 > 'produced to surface', then all of Nigeria's flared associated gas volumes
 > should also be booked as reserves. To avoid this undesirable effect, the
 > Group reserves guidelines have been made emphatic in excluding own use,
 > fuel and flare - see pages 9 and 25 of SIEP 99-1100.
 >
 > If SEPCO are now expected to submit their reserves and financial returns
 > in line with Group guidelines (as is my understanding), then it should be
 > clear what they should do. If no accurate calculation can be given of the
 > percentage of volumes that are used for own use, fuel and flare, then an

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101365909: Proved Reserves - excluding 'Own Use' (USA versus WOUSA)

Page 7 of 9

> approximate estimate will be perfectly acceptable (this is what many OUs
> do). If SEPCO chose to deviate from these guidelines, they should expect
> a comment from Group auditors (reserves and financial), either at
> submission time or at the time of a Group audit.

>

> Hope this helps,

>

> Anton

>

> -----Original Message-----

> From: Aalbers, Remco RD SEPIV-EPB-P

> Sent: 03 December 1999 15:32

> To: Barendregt, Anton AA SEPIV-EPB-GRA

> Cc: Van Dorp, Wouter WG SEPIV-EPB-P

> Subject: FW: USA - Reserves excl. Own Use & Losses

>

>/

> Anton,

>

> Appreciate your views - personally I feel the Group as a
> whole should apply one definition.

>

> Regards,

>

> Remco

> -----Original Message-----

> From: Deere, Bob RV SEPCO

> Sent: Thursday, 02 December , 1999 10:35 PM

> To: Aalbers, Remco RD SEPIV-EPB-P

> Cc: Van Dorp, Wouter WG SEPIV-EPB-P; McKay, Aidan A

> SEPIV-EPB-P; Eagan, Jeri JR SEPCO; Sidle, Rod RE SEPCO

> Subject: RE: USA - Reserves excl. Own Use & Losses

>

> Remco,

> Without a study of the prospective own-use requirements of
> the individual properties, it is not possible to accurately assess the
> portion of the proven reserves expected to be extracted from the lease in
> this manner. However, our best approximation for this quantity would be
> that we expect own-use gas to be about 1.5% of our 2000 production.
> Therefore, an estimate of 1.5% of reserves could be extrapolated from this
> figure.

>

> As regards Aera, all gas from the coastal properties of Aera
> is sold to Coral. Only gas in the valley properties of Aera are consumed
> to create steam flooding as well as additional gas which is purchased from
> Coral.

>

> From a theoretical standpoint, both SEC and FASB definitions
> of reserves are based upon the notion of future quantities of oil and gas
> which are reasonably expected to be recoverable through production under

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101365909: Proved Reserves - excluding 'Own Use' (USA versus WOUSA)

Page 8 of 9

> current economic conditions. The concept of a sales basis is not present
 > in these definitions. Also, the SEC defines production costs in SEC Reg
 > SX Rule 4-10 (a)(17)(c) as inclusive of fuel consumed to operate and
 > maintain the wells.
 >
 > In a market such as the United States all gas that is
 > produced has the expectation of being sold (with a realization of value).
 > On that basis it would seem consistent with the above regulations that
 > reserves consumed in operations be presented as a component of lifting
 > costs with the appropriate offset in sales. This discloses the
 > shareholder value which is required to be consumed in the operation of the
 > lease.
 >
 > Glad to hear that you enjoyed what little time was available
 > to you on your visit.

>
 > regards,

> Bob Deere
 > Shell Exploration and Production Co.
 > Manager Financial Policy & External Reporting
 > 713 241-1444
 > E-Mail: rdeere@msxsepc

>
 >
 > -----

> From: Aalbers, Remco RD SEPIV-EPB-P
 > Sent: Thursday, December 02, 1999 8:07 AM
 > To: Deere, Bob RV SEPCO
 > Cc: Van Dorp, Wouter WG SEPIV-EPB-P; McKay,
 > Aidan A SEPIV-EPB-P
 > Subject: USA - Reserves excl. Own Use &
 > Losses

>
 > Bob,

>
 > Trust you had a good Thanksgiving? We managed to see
 > a little of the Parade on Thursday before we left. Again thanks for your
 > time, was good to be able to catch up during my recent visit. I will have
 > a detailed look at the comments you prepared and revert where required.
 >
 > As per our discussion during the visit on the Group
 > definition of reserves I would appreciate if you could let me know what
 > the impact would be on Shell Oil's proved reserves by company (SO,4xSPI
 > and 4xEquity) if reserves would be reported in line with the Group's
 > definition based on future sales volumes excluding 'own use and losses'.
 > From the recent visit I expect that the impact on SO-USA and SPI would be
 > around 1-2% but for Aera it could be as high as 75%.

>
 > Please note that there has been no change to the
 > Group's definition of reserves - these have always been excluding 'own use'

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101365909: Proved Reserves - excluding 'Own Use' (USA versus WOUSA)

Page 9 of 9

> and losses' as reserves are defined as the sum of future sales volumes.
>
> The definition of sales quantities is given in the
> Group's Guidelines 97-99 as follow's:
> SIEP97-1100 - page 12
> SIEP98-1100 - page 27 appendix 6
> SIEP99-1100 - page 25 appendix 6 and highlighted
> also on page 9
>
> SEPCo's internal reserves definition I understand
> did include own use in the reserves. Did it excluded losses (flare/vented
> etc) from the reserves?
>
> With the recent globalisation there is a great
> opportunity to align reserves definitions across the Group.

 > Thanks for your help.

> Met vriendelijke groeten / With kind regards.
>
> Remco D. Aalbers
> Group Hydrocarbon Resource Coordinator
> & Senior Economist
>
> EPB-P SEPIV BV
> Tel. +31 (0)70 - 377 2001
> e-mail: remco.rd.aalbers@sepivbv.shell.com
>
>
>
>

 *****
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file:///X:/data2/100937000009/watts_concordance\NativeFileOutput\RD_S_Production_... 11/10/2004

Unknown

From: McKay, Aidan A SIEP-EPB-P
Sent: 02 October 2001 17:02
To: Platenkamp, Roelof RJ SIEP
Subject: FW: Roelof_career_end.ppt : 26th June 2000 Excom Presentation - State of the Portfolio



Roelof_career_end
er.ppt

Roelof,

as promised, its funny in a way as at the time (if you remember) we humourously agreed to call it the career ender given the likely response you would receive. In hindsight, it was Freudian in the extreme.

Aidan

DB 07471

1



FOIA Confidential
Treatment Requested

V00120307

Excom Early Look Business Plan 2000

- Flaws in the Capital Allocation Process
- The Capex requirements
- The Over-promise on delivery
- The Way Ahead

The Good News

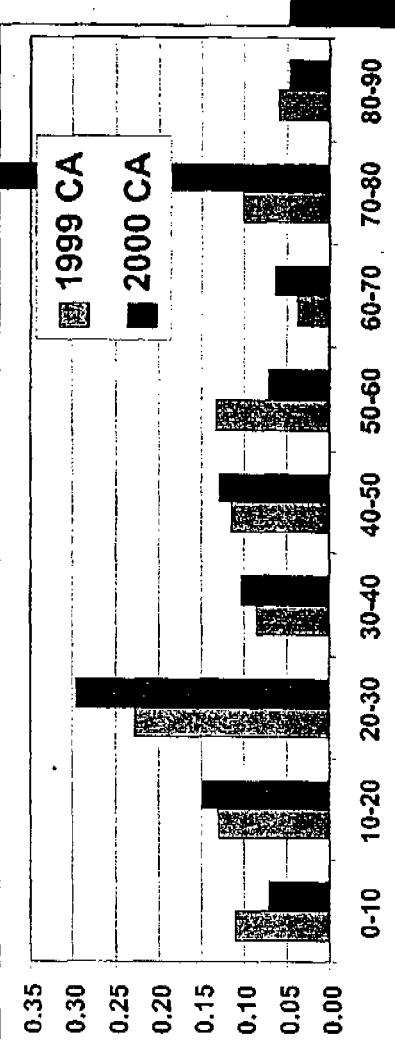
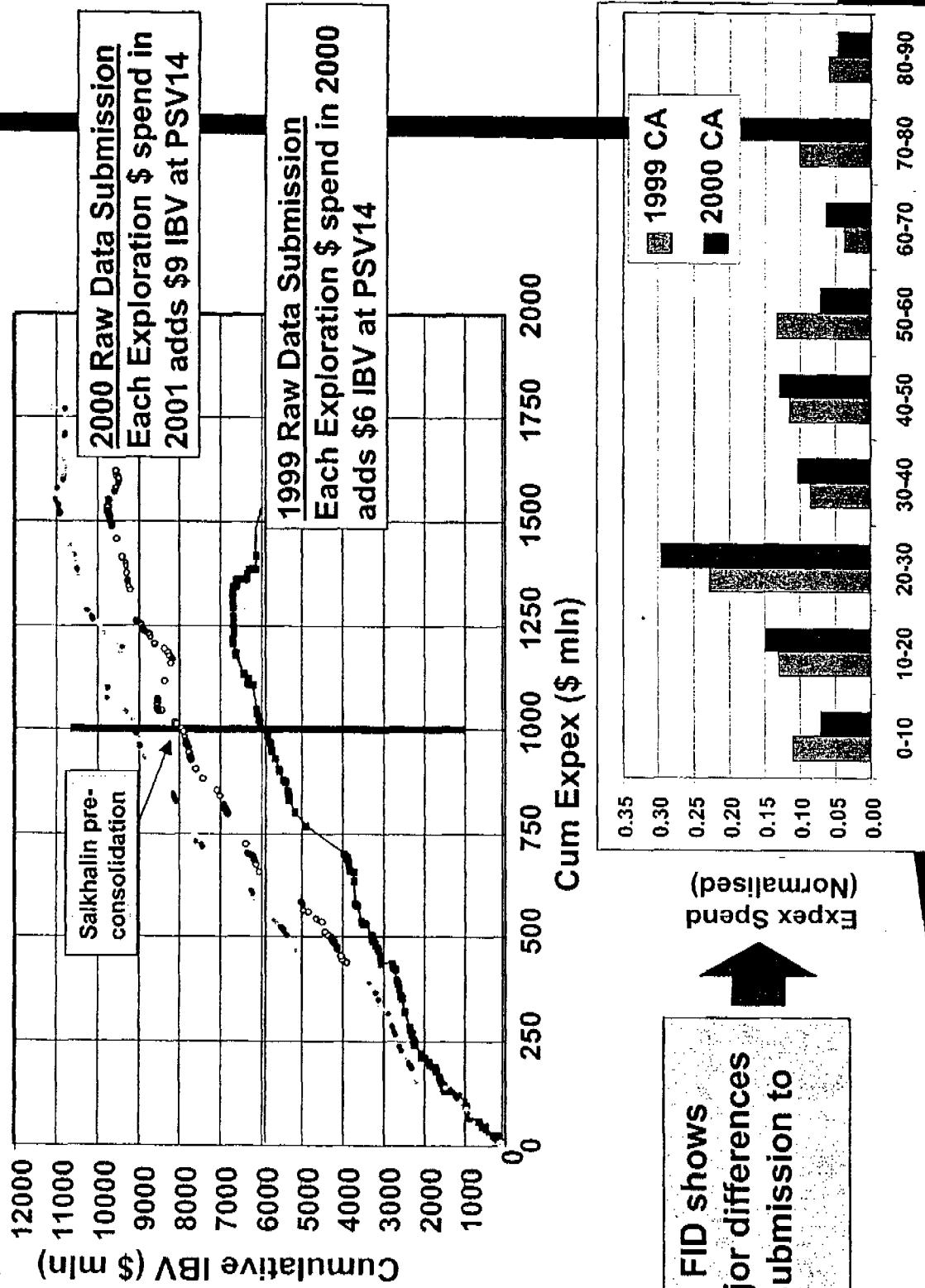
- High quality internally consistent data submissions
- Abundance of projects competing for funds:
 - 1.9 bln US\$ Exploration
 - 7.0 bln US\$ Production

The Bad News

- Projects appear over-optimistic both in Exploration and Production
 - The Capital Allocation Process appears to be flawed with overstatements of key parameters to secure funds
- We run the risk of initiating an Over-promise Under-delivery Cycle.....*

DB 07474

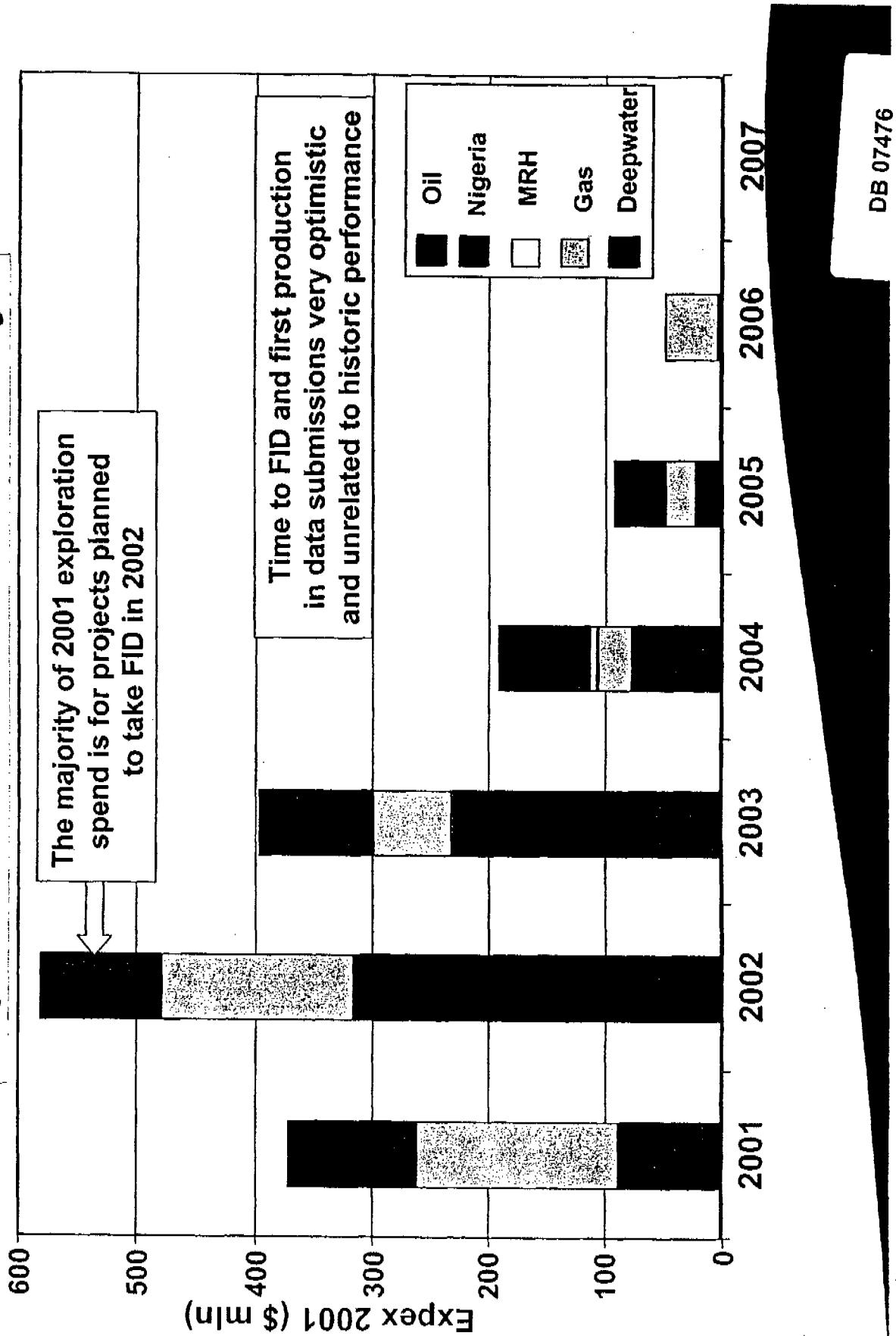
Exploration-Oversated Value?



↑
Expex Spend
(Normalised)

Pos to FID shows
no major differences
in 99 submission to
2000

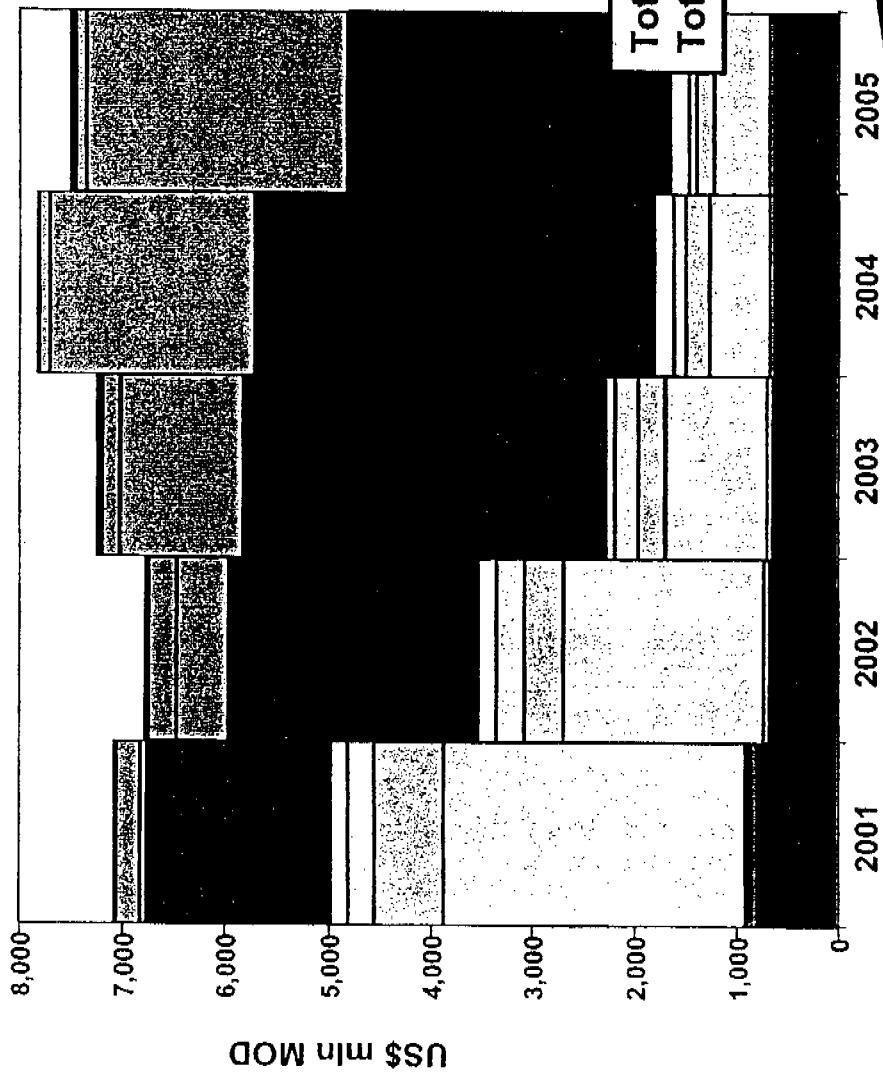
Exploration: Overstated Delivery?



CAPEX REQUEST 2001-2005

Raw Data Submission

Proposed spend is ca \$7 bln per year over the Plan Period*

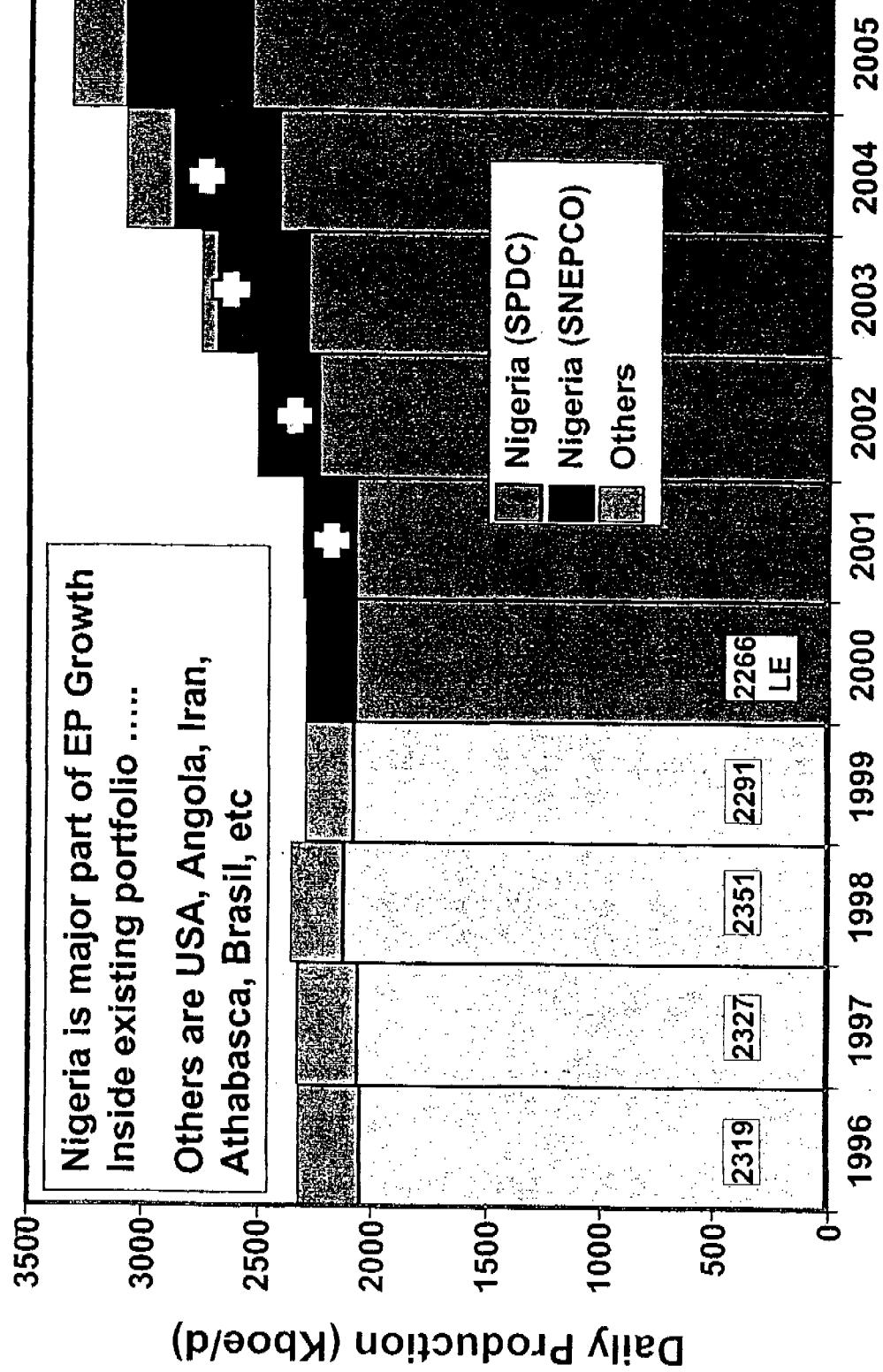


Total Capex request 2001 = \$7.1 bln
Total Commitments 2001 = \$2.7 bln

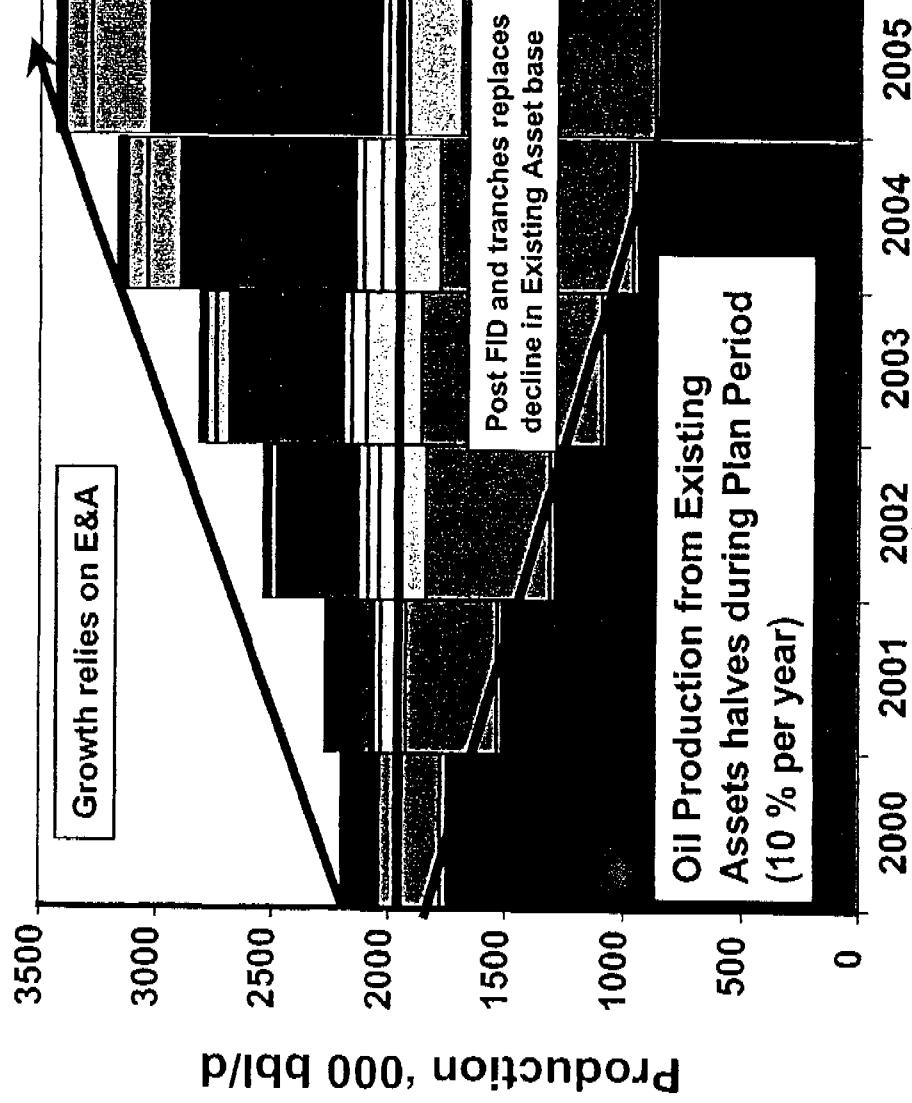
Commitment levels suspect

DB 07477

Production: Can we deliver on this promise?



OIL PRODUCTION 2001-2005 Raw Data Submission

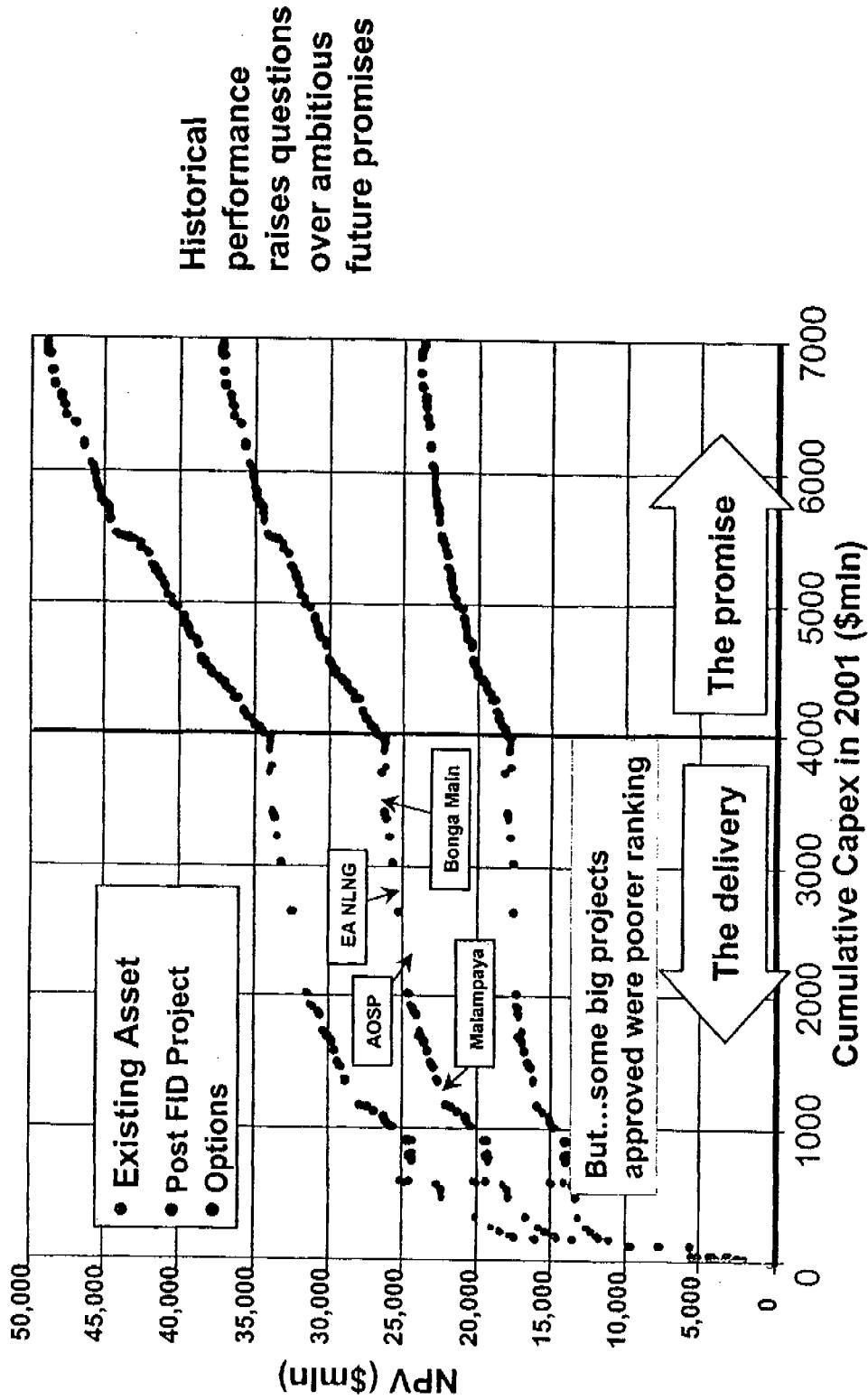


Major Concerns

- Existing Assets require 800 Million US\$ in 2001 without adding production...
- Most large post-FID projects indicate underdelivery compared with 1999
- New projects have very aggressive FID dates (36 FIDs in 2001 excluding big tickets e.g. Saudi Gas) and possibly overstated value promises
- E&A Follow Up extremely optimistic when compared with history
- Not enough funds for promising projects and strategic options

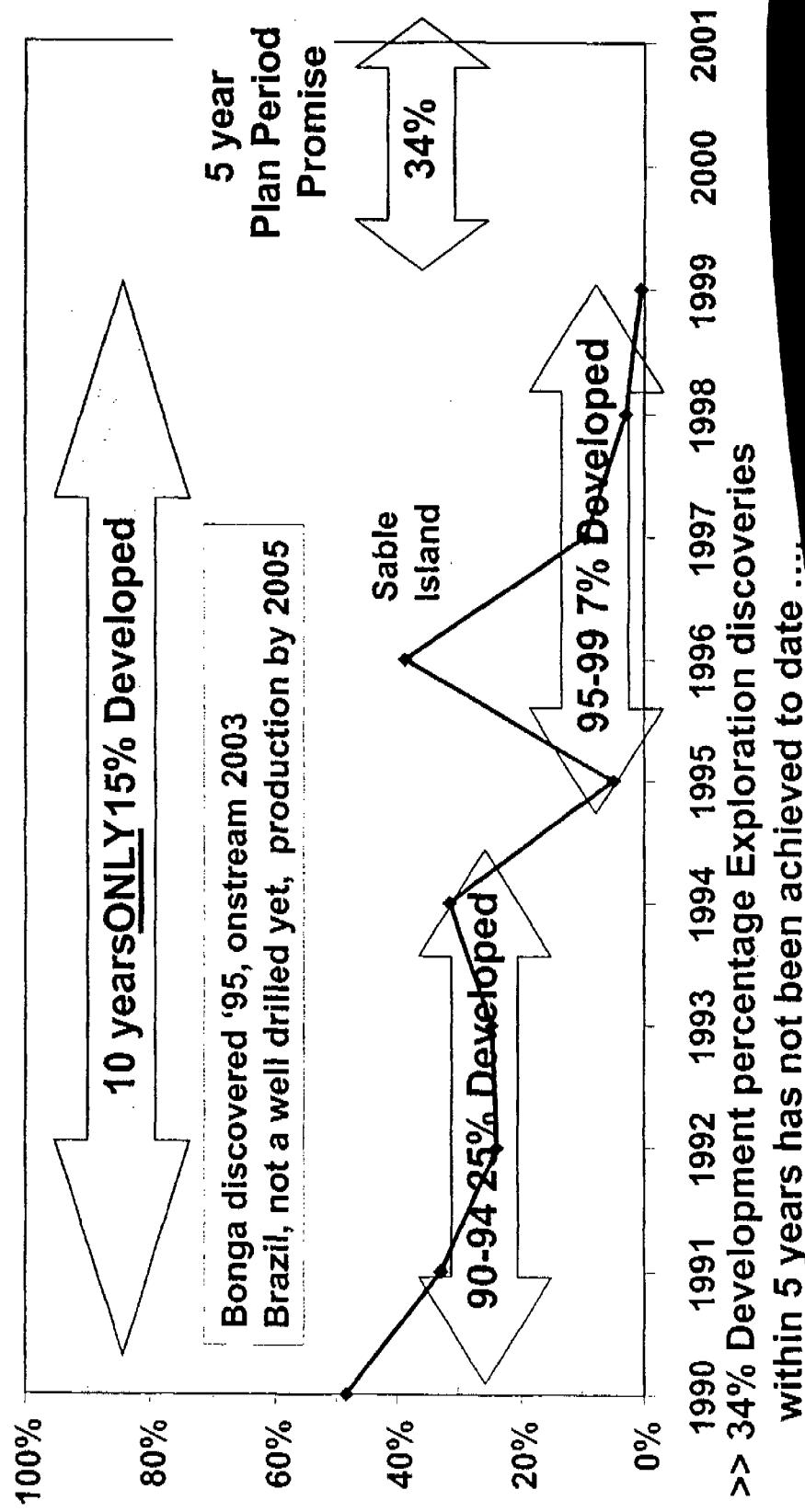
DB 07480

CAPEX CREAMING CURVE



DB 07481

Exploration Discoveries 1990-1999 Development Percentage @1.1.2000



Plan Excl. Sakhalin & OKIOC

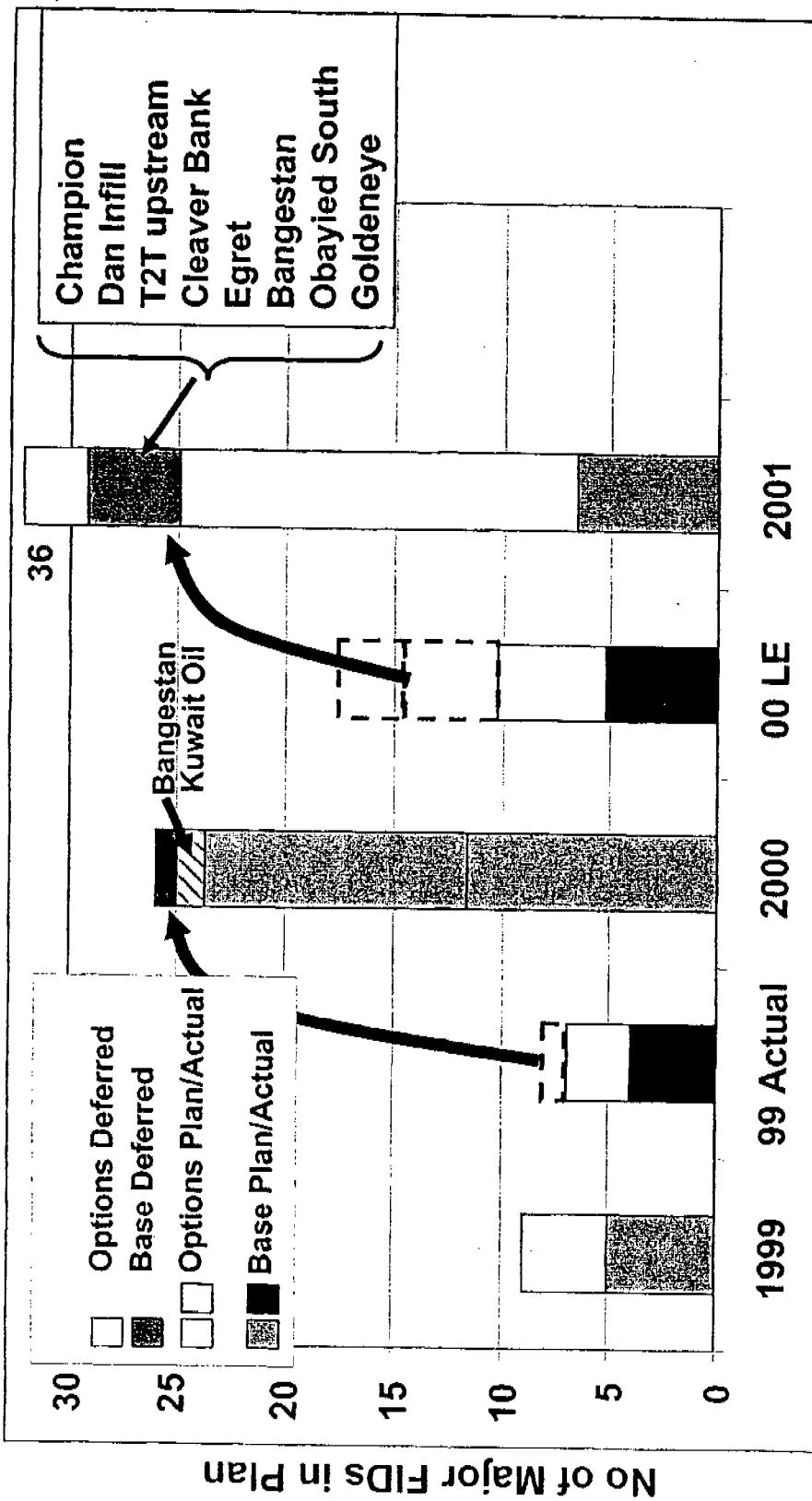
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MAJOR PROJECT FIDs 2000 from BP'99

Country	Projects with FIDs in 2000		BP '99 Timing	CA 2000 Timing
	On-time	Slipped		
Shell Malaysia (total)	KN ROUND 2		01-2000	1999
Shell Malaysia (total)	KN S1S2		01-2000	1999
Shell Iran	Soroosh /Nowrooz		01-2000	11-1999
Shell USA	Oregano		05-2000	04-2000
Shell USA	Serrano		05-2000	04-2000
Shell USA	Na Kika		05-2000	07-2000
Shell USA	North Marlin		04-2000	07-2000
Norske Shell	Garn West		03-2000	04-2000
Shell UK Expro	Mandarin		10-2000	09-2000
SPDC	Bonny Terminal Refurbishment		07-2000	07-2000
SPDC	Cawthron Channel		09-2000	10-2000
Brunei Shell	Champion West Existing Facilities		12-2000	01-2001
SOGU	Dan Infill and Debottlenecking		03-2000	03-2001
Shell Egypt N.V.	Obaiyed South Devt		11-2000	07-2001
Shell UK Expro	Goldeneye		10-2000	12-2001
Turkmenistan, Uzbekistan	Uzbekistan Alan & Kandym		07-2000	01-2001
Shell Australia	NWS LNG Expansion U/S		03-2000	01-2004
Shell Australia	ALNG LNG Train 1 U/S		09-2000	01-2004
Brunei Shell	Egret Development		10-2000	01-2004
Shell UK Expro	Cleaver Bank High		10-2000	10-2001
Shell Capsa	Cerro Tuyunti Stn.		11-2000	?
A/S Norske Shell	Sogn Gjøa Development		09-2000	?
Shell Devt. Pakistan B.V.	Kirthar Block : Bhit dev		03-2000	?

DB 07483

MAJOR PROJECT FIDs 2000 from BP'99

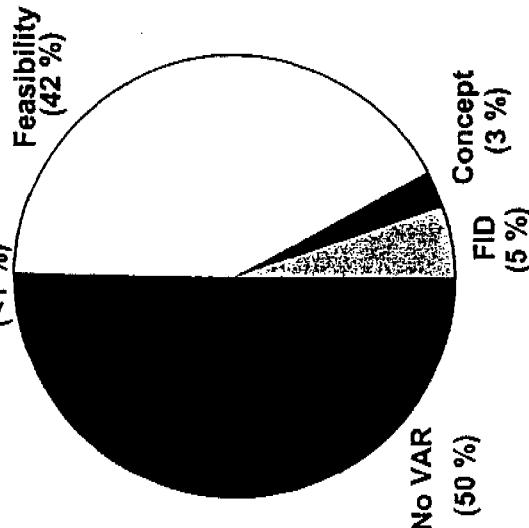


- 12 major Base Plan projects planned for FID in 2000 (BP 99) - 5 will now take FID
- 13 major Options projects planned for FID in 2000 (BP 99) - 6 will now take FID

DB 07484

MAJOR PROJECTS WITH PROMISES OF FID IN 2001....

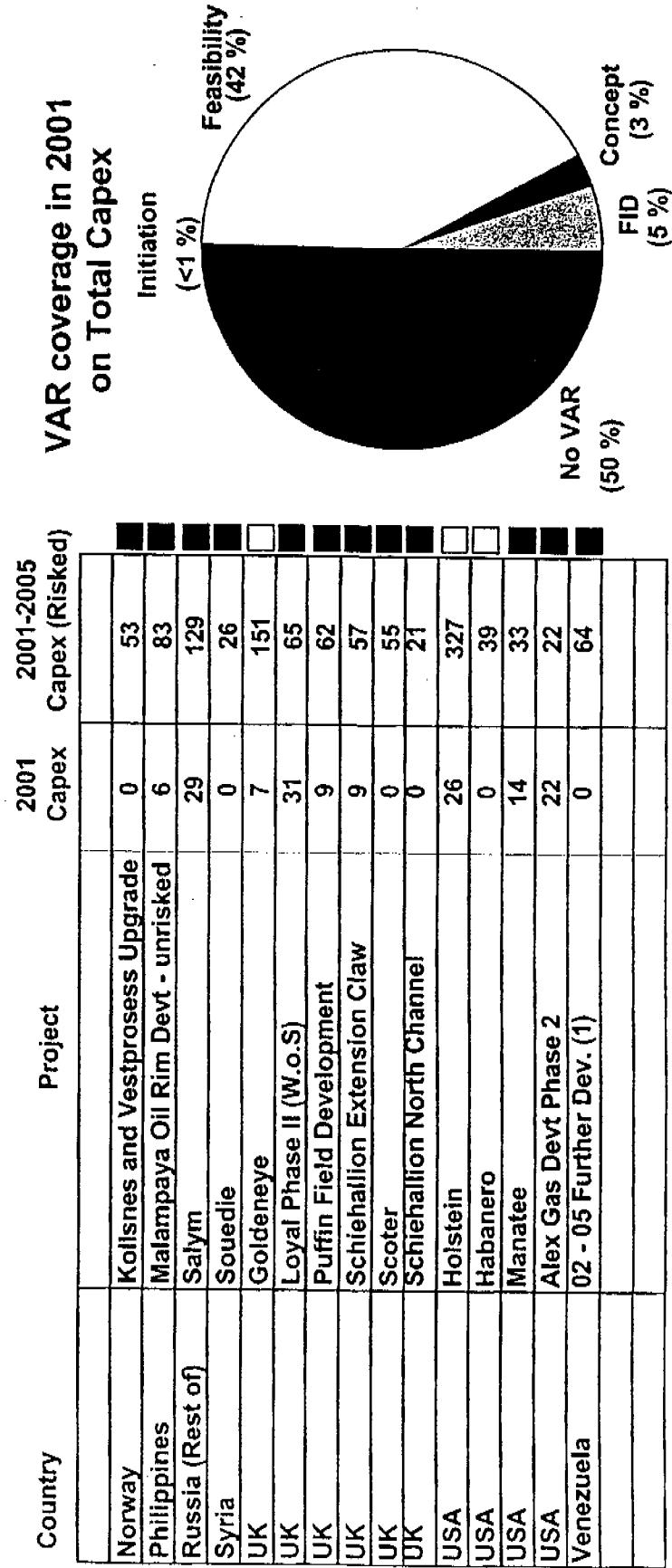
Country	Project	2001 Capex	2005 Capex (Risked)	VAR coverage in 2001 on Total Capex
Australia (Direct)	Gorgon SMDS Upstream	0	46	
Brunei	Champion West Central Platform Dev	1	75	
Brunei	East Gas Expansion	4	38	
Brunei	Egret Development, Phase 1	3	40	
Denmark	Halfdan Phase III	102	475	
Denmark	Halfdan Phase II	41	65	
Denmark	GSA4	13	75	
Denmark	Dan Infill and Debottlenecking	8	42	
Denmark	Skjold Phase II	32	32	
Egypt	Obaiyat South & Compression I	26	85	
Malaysia	96 PSC : BT/SF Stage IVC(SF30) WI Int.	1	31	No VAR
New Zealand	Pohokura Development	3	26	(50 %)
Nigeria (SNEPCO)	Erha Main EWTF (Extended Well Test Facility)	48	902	Concept (3 %)
Nigeria (SNEPCO)	92 Offshore Pipeline AF - NLNG 1-5	87	184	FID (5 %)
Nigeria (SPDC)	49 UGHELLI	24	122	
Nigeria (SPDC)	66 OTUMARA - NLNG 4/5	16	117	
Nigeria (SPDC)	67 SAPELE	1	90	
Nigeria (SPDC)	45 OGUTA	3	77	
Nigeria (SPDC)	61 BONNY - NLNG 3	1	29	
Nigeria (SPDC)	98 WAGP	22	22	DB 07485



Total Capex from 2001 FID projects amounts to \$4 bln in plan period

36 Projects with >20 mln spend excluding Major Options e.g. Bangestan, Saudi Gas

MAJOR PROJECTS WITH FID IN 2001 - continued



Total Capex from 2001 FID projects circa \$4 bln in plan period

36 Projects with >20 mln spend excluding Major Options e.g. Bangestan, Saudi Gas

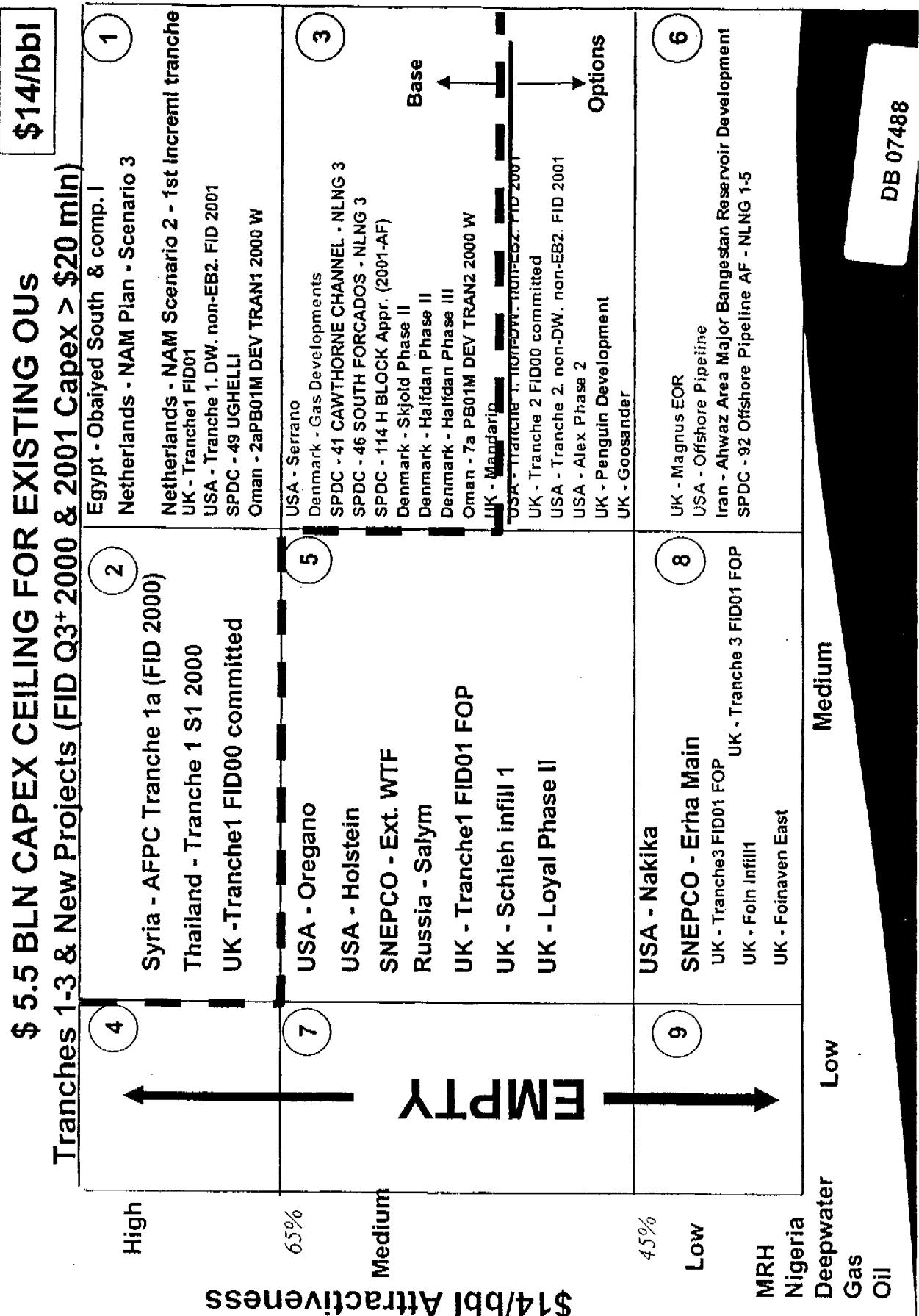
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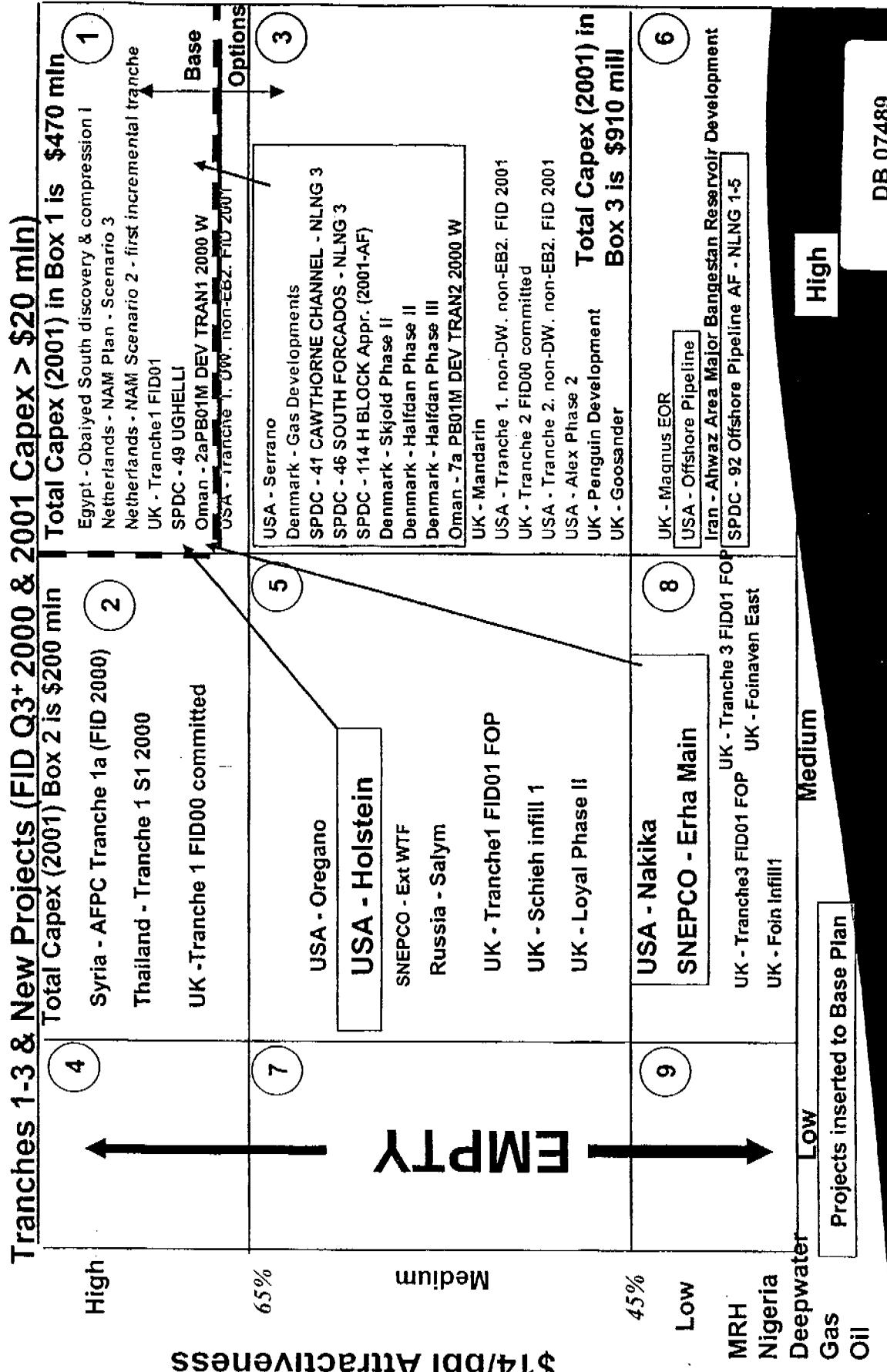
Existing Assets / Post FID Ranking (2001 Capex > \$20 million)

\$14/bbl

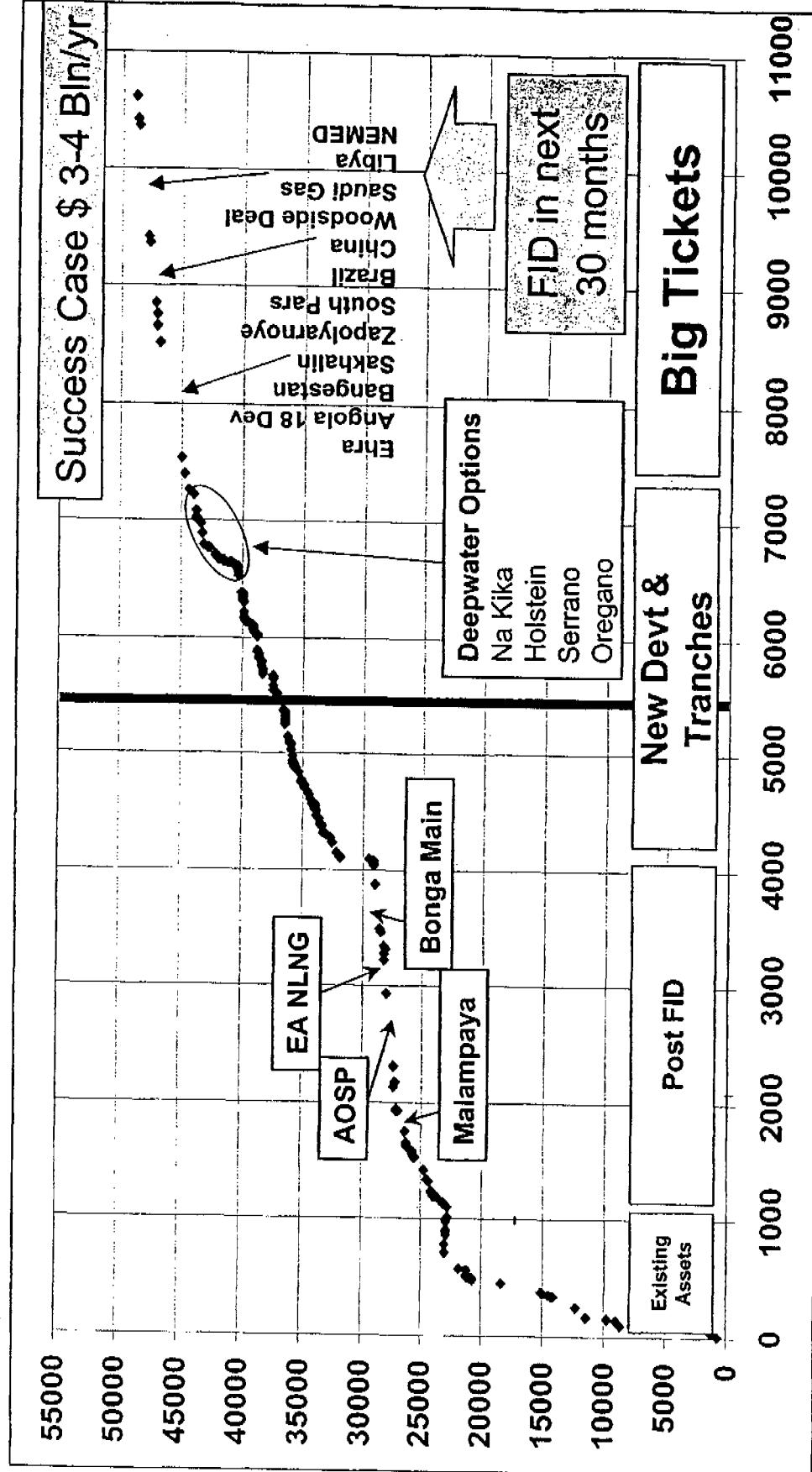
High		65%	Medium	45%	Low
④	Syria - AFPC Existing Facilities UK - Existing assets		⑦	USA - Brutus USA - Crosby	⑨
②			⑤		⑧
①	Australia - NWS Existing US Canada Existing Assets Malaysia - MLNG PSC New (F23/F6/E11 Comp.) Netherlands -NAM Plan - Scenario 1 Abu Dhabi - Existing Oil Business Denmark - Halfdan Phase I Oman - 1a PB01M NFA TRAN1 2000 W		③	Philippines - Malampaya Gas Devt SPDC - 42 FORCADOS YOKRI - NLNG 3 SPDC - 48 SOKU - NLNG 1-2	⑥
⑤			⑥	Argentina - VALLE MORADO Egypt - POST FID Obaiyed Malaysia - MLNG Dua PSC New (M4, B11, etc) Iran - Soroosh/Norooz Integ. SPDC - 90 EA Equity and Carry - NLNG 3 SPDC - 91 Offshore Pipeline - NLNG 1-5 Canada - Athabasca Oil Sands Project Brunei - Ampa Fairley Rationalisation Phase 1 USA - Aera Equity	⑩
⑥			⑦	MRH Nigeria Deepwater Gas Oil	Medium
⑧			⑨		DB 07487
⑨			⑩		

\$14/bbl Attractiveness



\$14/bbl**\$ 5.5 BLN CAPEX CEILING.....DENMARK & BIG PROJECTS IN**

CAPEX CREAMING CURVE



The Way Forward..(1)

- We accept the flaws in the process, challenge the submissions at the workshop, build the 2000 Plan and make a "promise adjustment" at Excom level:
 - existing assets minus 200 Million US\$
 - post-FID minus 400 Million US\$
 - weed out "false promises" to the tune of 400 Million US\$
 - adjust production promise

Manage Improvement through the scorecards

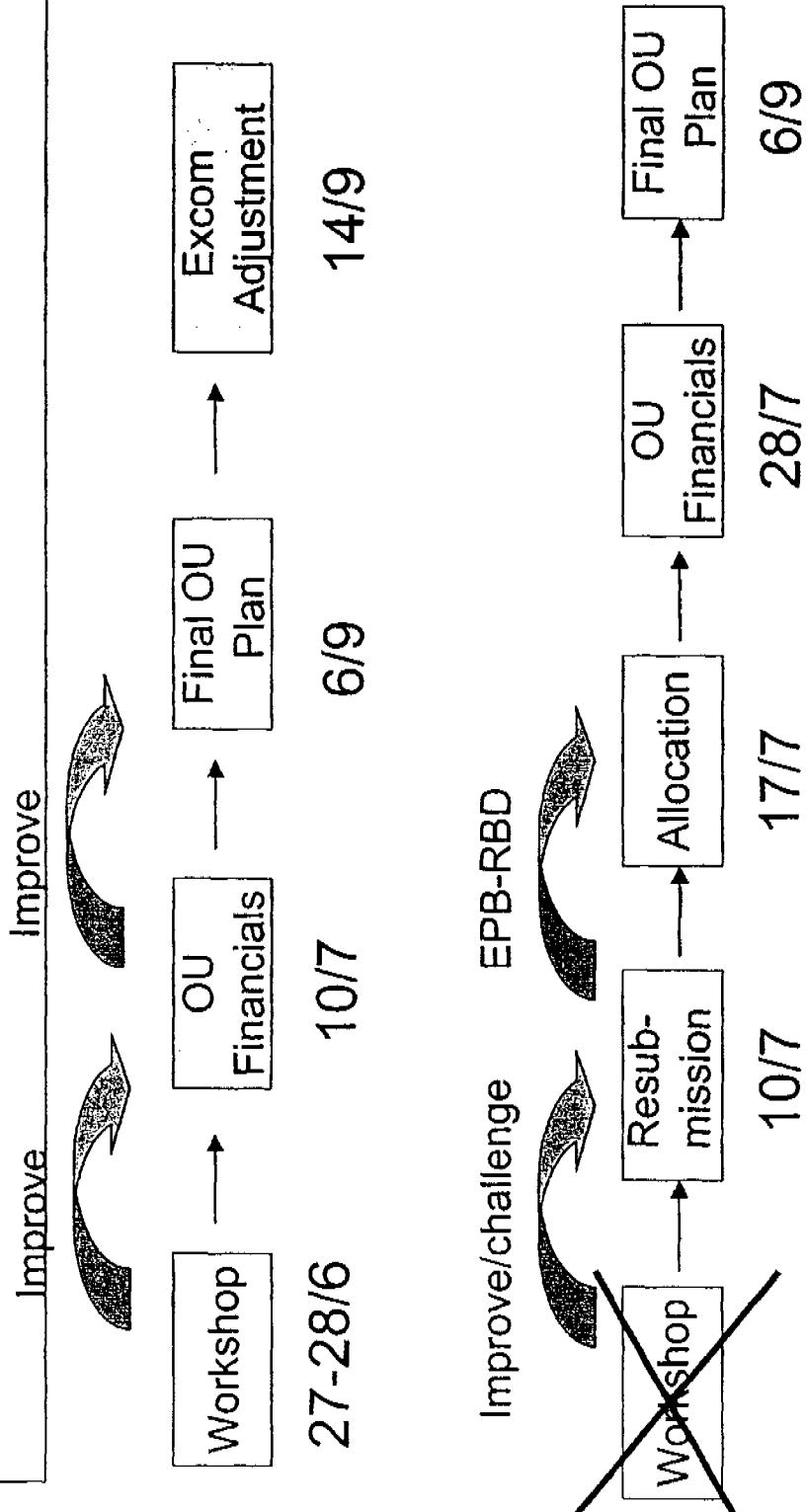
We must address the integrity flaws in the CA process and send a very strong signal...

DB 07491

The Way Forward..(2)

- We demand a resubmission....we change the workshop:
 - We explain our problems to the delegates at workshop.
 - We ask the delegates to return to their OU/NVOs and rework their submissions and restore reality
 - Key OU/NVOs will be invited for a hard challenge session with the Excom (large OUs) or their RBD.
- After resubmission of sanitised data, a final ranking will be done with the RBA/RFA community.

Two Possible Schedules



DB 07493

BACKUPS . . . DETAILS

DB 07494

KEY METRICS - RAW DATA

Base

	Capex 2001	IBV \$14	Boe/d 2001	Boe/d 2002	Boe/d 2003
Deepwater	454	5418	395	438	386
Gas	1238	16551	1351	1323	1361
MRH	278	34	139	180	205
Nigeria	1291	4509	265	288	494
Oil	2308	14271	1586	1524	1438
Total	5570	40783	3735	3754	3884

Value continues
to be dominated
by traditional OUs
Nigeria
dominance of
production growth
not reflected in
value

Options

	Capex 2001	IBV \$14	Boe/d 2001	Boe/d 2002	Boe/d 2003
Deepwater	520	29176	2	33	100
Gas	469	20702	12	65	139
MRH	83	1582	0	5	12
Nigeria	220	4116	7	38	59
Oil	466	10374	41	169	286
Total	1157	65950	63	312	597

Deepwater excludes
SNEPCO
Ranked out
production in 2001
63,000 bbls/d
Does not reflect OUs
outside EP control -
(SOGU)

DB 07495

SHORT TERM OPPORTUNITIES RANKED OUT

Short Term Oil Projects are predominantly in Shell Export.....

Country Name	Project Name	CA Cat	FID yr	Status	2001 Capex	2001 MBOE/d
UK	Tranche 2 FID00 FOP	Tranche 2	2000	Option	5.96	4.40
UK	Tranche 3 FID00 FOP	Tranche 3	2000	Base	12.60	21.27
UK	Tranche1 FID00 FOP	Tranche 1	2000	Base	15.46	22.73
UK	Tranche1 FID01 FOP	Tranche 1	2001	Option	25.23	5.08
UK	Tranche1 FID02 FOP	Tranche 1	2002	Option	0.29	0.00
UK	Tranche2 FID01 FOP	Tranche 2	2001	Option	8.51	1.03
UK	Tranche2 FID02 FOP	Tranche 2	2002	Option	0.00	0.00
UK	Tranche3 FID01 FOP	Tranche 3	2001	Option	31.91	2.39
UK	Tranche3 FID02 FOP	Tranche 3	2002	Option	0.00	0.00
		Sum:			99.94	56.89

**UTCs \$3.5 - 5.5/bbl
VIRs [\$14] 0.4 - 0.8
low / medium strategic fit.....**

DB 07496