From: McKay, Aidan A SIEP-EPB-P
To: Bell, John J SIEP-EPB-P
CC: Aalbers, Remco RD SIEP-EPB-P
BCC:  
Sent Date: 2001-01-18 11:00:49.000
Received Date: 2001-01-18 11:00:49.000
Subject: RE: Reserve audit - use of contractors
Attachments:  

John,

We have discussed this subject, which has some history. Two issues are raised:
- the role of Group Reserves Auditor (GRA) and our OUs working relationship with him
- the history of booking proven reserves and commitments made at Excom level in Block 18 Angola in 2000 & the resultant pressures.

I will explain in detail the story, should you or Lorin not be fully aware of the facts. Happy to discuss how we revert to Mark or Rich.

Role of GRA and Our Working Relationship.
The GRA provides the Shell Auditor KPMG with technical expertise in reserves related matters. Anton is a highly respected reservoir specialist and therefore was ideal to fill this role. [Either we pay for contractors Deroiler McNaughton, GCA, etc or we have an "independent ex-Shell consultant]. He visits all our OUs once every 4-5 years, he reviews proved reserves bookings and gives excellent recommendations on the quality of our hydrocarbon management processes and quantity of proved reserves booked. His visits have always been positively received without any issues being raised by either the auditee or us here in the centre. he has improved substantially the audit process compared to predecessors.
Our philosophy and that of our OUs is to be completely open to him and to explain exactly what we are trying to achieve, either in complex contracts (GISCO, Buybacks AOSP) or in improving our proven booking process. He is always impartial but completely understands our intents and his independent role (auditors need to see evidence).
I have complete faith in his judgement and am completely confident on why he was selected from 3 candidates for this role, KPMG sums it up "Barendregt was born with auditor genes...these types are really rare and valuable." If you (or SDS etc) have improvement suggestions we welcome them.

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History of Reserves Booking in Block 18 Angola
Angola was an "identified potential exit" (from exploration) country after CA 1999,
this was reversed by PW Watts and we have made 6 exploration discoveries in a row. It is non operated with BP driving the business. The role of Deepwater Services has been very limited given that it was in 1999 an "identified potential exit" and therefore was not vs Brazil, GoM, NeMed etc not a priority. In Q1 2000, it became apparent that 2000 proven reserves booking outlook was poor, EP CEO asked EPG what they could do to assist with reserves booking for example could we book reserves in Block 18 and EPG then committed to CEO that 293 mln bbl was bookable in 2000. The pressure that the system experienced was primarily as a result of this commitment, which grew as it became obvious near year end that the number was substantially less (70 mln bbl).

Although we have 6 successful wells there has been no appraisal and the discovered volumes are marginally economic at present. During the SEPCo reserves audit in November in Houston, Anton was asked by Shell Deepwater Services (along with Rod Sidle SEPCo Reserves Manager) to provide input an the requirements to book proved reserves in Angola. From that meeting it was clear that technical and commercial maturity was not evident!

Therefore EPG requested a special reserves review of Angola Block 18 in December by Remco Aalbers as group reserves coordinator. It was agreed with EPG & Shell Angola that Anton Barendregt would be part of the review team (along with G Parry RBA Angola & G Simon Shell Angola) as he is highly knowledgable and because it would be a close call, which he would need to support in January 2001. SDS was fully aware of the review team makeup and objectives of the meeting. The review highlighted that SDS technical work was incomplete (negative economics) and additional effort would be required by early January to achieve even 70 mln bbl booked in 2000. This may have caused sensitivity in SDS. This technical work has been done by SDS and the booking in of 70 mln bbl is supportable.

Happy to help further with this one.

Regards Aidan

-----Original Message-----
From: Bell, John J SIEP-EPB-P
Sent: Tuesday, January 16, 2001 1:42 PM
To: McKay, Aidan A SIEP-EPB-P; Aalbers, Remco RD SIEP-EPB-P
Subject: FW: Reserve audit - use of contractors

Aidan/Remco,

Not sure what prompted Rich Sears to go to print. Have we any more examples of this disquiet?

Let's discuss at some convenient time.
John

---Original Message---
From: Brass, Lorin LL SIEP-EPB
Sent: dinsdag 9 januari 2001 7:46
To: Bell, John J SIEP-EPB-P
Subject: FW: Reserve audit - use of contractors

John, Let's get the lines drawn so there's no confusion. Thanks.

---Original Message---
From: Leonard, Mark MS SIEP-EPB
Sent: 08 January 2001 21:05
To: Sears, Richard RA SIEP-EPT-DE; Bell, John J SIEP-EPB-P; Brass, Lorin LL SIEP-EPB
Subject: Reserve audit - use of contractors

Rich,
I agree with you and already passed those concerns on to Remco. However, since he may be somewhere else by the time this occurs again, I am forwarding our notes to John Bell and Lorin Brass to further embed in the corporate memory.

Mark

---Original Message---
From: Sears, Richard RA SIEP-EPT-DE
Sent: Monday, January 08, 2001 20:46
To: Leonard, Mark MS SIEP-EPB
Subject: RE: Your December question
Importance: High

Mark, I'm not surprised that Shell OU's are open with him because everybody thinks he works for Shell, not our outside auditor. I'm very uncomfortable with him being present during working meetings. The nature of the discussions are not really appropriate, and they go far beyond being open (openness I have no problem with). Through the series of meetings on Angola Block 18 he was usually an active participant, going so far as to be editing minutes written by the asset to EPG. He seems to blur the lines quite between insider and objective auditor, and in the meetings I was aware of, he made no attempt to identify his parentage so as to avoid any confusion. Rich

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From: Leonard, Mark MS SIEP-EPB
Sent: Monday, January 08, 2001 1:09 PM
To: Sears, Richard RA SIEP-EPT-DE
Subject: Your December question

Rich,

You asked me last month about the Reserves auditor that was working with Remco. I talked to Remco today and he explained that Anton Barendregt is ex-Shell (VS two years ago because he wanted it) who was requested back by us as our Reserves Auditor from KPMG. This appears to have been planned prior to the VS.

So, he is not strictly a Shell employee, but he probably knows the ins and outs and tricks of booking reserves from his prior Shell days.

Remco said that all of the Shell OUs were quite open with him.

Cheers,

Mark