BP'99 Proved Reserves Forecast SPDC

- Cum Production IBV'99
- Exp wi L (end year)
- Exp wi L (BP'99) 1.1.xx
- Exp wi L (adjusted) 1.1.xx
- Proved Reserves BP'99
- Proved Reserves Freeze 1999

Purchased 10%
SS 20 --> 30%

Prod est 11 mn m3 per year to decline
Nigeria - SPDC Historic and Forecast Oil + NGL Production

Shell share & Licence Expiry:
30% Onshore MOU 30-6-2019
77% Shallow Offshore Nov-2008

MOU Cum Reserves 1.2000 = 238 mln m³ - base
BP'99 Proved Reserves Forecast SPDC

- Cum Production IBV'99
- Exp wi L (end year)
- Exp wi L (BP'99) 1.1.xx
- Exp wi L (adjusted) 1.1.xx
- Proved Reserves BP'99
- Proved Reserves Freeze 1999

Purchased 10%
SS 20 -> 30%

Prod est 11 mln m3 per year to decline

Treatment Requested

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SPDC - PROVED RESERVES

- Proved Reserves 1.1.1999 430 mln m3
  Proved MOU Oil 412 mln m3
  Proved NGL 9 mln m3
  Proved Shallow Offshore (30%) 9 mln m3
- Production 1999 - 11 mln m3
- Proved Reserves end '99 419 mln m3
  - Shallow Offshore (77%) 30 mln m3 or offset MOU?
  - Other additions 0 mln m3 freeze 1.99 ??
- Proved Reserves 1.1.2000 449 mln m3

To produce MOU proved(!) reserves 1.1.99 Onshore production needs to increase to some 1,400 kb/d!
Nigeria SPDC - Proved Reserves

- Premises
  - Proved reserves limited to volumes producable within existing licence
  - Nigeria SPDC Licence Expiry
    - 30 June 2019 for Onshore MOU
    - Nov’2008 for Shallow Offshore
- What forecast should be used to estimate proved reserves?
  - Scope for future proved reserves additions limited!
  - Delay of production growth will result in significant future proved reserves write-downs!
  - Should we freeze SPDC proved reserves as of 1.1999 or 1.2000 (RAB, Group reserves replacement)?
  - What NGL volume will be produced?
  - Impact OPEC Quota aspirations?
SPDC proposed proved oil/NGL forecast ARPR 459 + 39 = 498 mln m³

Sh. Offshore
39 mln m³

409 mln m³ Total MOU

41 mln m³
1,400 Kb/d

47 mln m³
1,200 Kb/d

85 mln m³
1,000 Kb/d

MOU Cum Reserves 1,2000 = 237 mln m³ - base


0 100 200 300 400 500 600

Prod Shp/yr [x 10³]/Shp/pd

39 mln m³
From: Eeflink, Egbert KPMG
To: Aalbers, Remco RD SEPIV-EPB-P
CC: 'Johnson, Steve PwC London'; Korteweg, Arjen
BCC: 
Sent Date: 2000-01-10 08:44:06.000
Received Date: 2000-01-10 08:45:04.000
Subject: Proved Reserves - excluding 'Own Use' (USA versus WOUSA)
Attachments: 

Remco,

Steve Johnson and I have discussed the issue referred to below and our joint response is as follows:

1. Excluding "own use" gas is defendable under SEC rules.

2. Including "own use" gas would also be defendable, but not under all circumstances. Where local circumstances are such that there is no alternative market to sell the gas or no alternative "own use" energy supply, including "own use" gas in reserves would normally not be appropriate.

3. Whether or not "own use" is included in reserves, it should not have an impact on the reserves used to calculate standardized measure: i.e., standardized measure to be calculated excluding "own use" gas.

4. From our observance, practice varies with regard to the inclusion of "own use" in reserves numbers.

5. The decision as to the exclusion or - under circumstances - inclusion of "own use" gas rests with Shell. Given the conservative nature of excluding "own use" and the acceptability of this approach, it would be practical to apply the Group guidelines consistently across the Group.

6. If Shell Oil were to adopt Group guidelines per 1.1.2000 and provided the materiality levels are as indicated in your e-mail, restatement would not be required.

Please give me a call if you would like further discussion or clarification.

Vriendelijke groeten / Kind regards,
Egbert Eeflink

Telephone : 31 (0) 20 656 7423
Mobile : 31 (0) 651 205 727
Telefax : 31 (0) 20 656 8300
E-mail : eeflink.egbert@kpmg.nl

---Original Message---
From: Aalbers, Remco RD SEPIV-EPB-P

PBW0006178
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file://X:\data2\1009370000009\watts_concordance\NativeFileOutput\RD_S_Production... 11/10/2004

[mailto:Remco.RD.Aalbers@SEPIBV.SHELL.COM]
Sent: dinsdag 21 december 1999 19:01
To: Eeflink, Egbert KPMG; 'Steve Johnson - PWC'
Cc: McKay, Aidan A SEPIV-EPB-P; Van Dorp, Wouter WG SEPIV-EPB-P; Van Nues, Hans JWf SIEP-EPF; Platenkamp, Roelof RJ SEPIV-EPB-P
Subject: Proved Reserves - excluding 'Own Use' (USA versus WOUSA)

--- Virus checked / op virussen gecontroleerd ---

Egbert, Steve,

(ref prior teleconf. Eeflink/Aalbers)

With the globalisation of the Group Shell Oil has now become a full part of the Group, requiring alignment of reporting - reporting exceptions have appeared and guidelines need to be aligned.

One of the differences that we are trying to resolve is a different interpretation of the SEC rules versus proved reserves between the Group and Shell Oil versus 'own use' gas.

The Group Resource Guidelines (SIEP 99-1100) are and have been (in prior versions) very clear and proved reserves exclude 'own use' (fuel) and losses (flare/vent etc). Shell Oil on the other hand have historically included 'own use' gas in their proved reserves in line with their internal Guidelines.

The Groups interpretation of the SEC definition of proved reserves "recoverable ...under existing economic and operational conditions, i.e. prices and cost..." means that only volumes from which you get direct economic benefit (price) should be included. If you stretch 'recoverable' you could start claiming that all volumes flared in Nigeria were recoverable (the economic gain is from the oil (like with own use gas). If it makes more economic sense to sell the 'own use' gas (book reserves) and buy other gas for fuel by all means do that!

I have asked Anton Barendregt as the External Group Reserves Auditor (responsible for the technical issues on behalf of Group External Auditors) on his advice (see below) - he will audit against the Group standard which excludes 'own use'.

Shell Oil raise a number of issues on which we would like your advise/confirmation (see below)

1) Confirm that the Group Guidelines on treatment of 'Own Use' is fully in line with SEC rules.

Based on prior Group External Auditor's support of the Group Guidelines, and since no change has been made versus the treatment of 'own use' in these
Guidelines I assume this to be the case.

2) From the Annual Reports of the other majors (USA in particular) it is not transparent how they treat ‘own use’ gas versus proved reserves (and gas production volume disclosures).

Could you provide some information of general treatment in the oil industry.

3) Requirement for consistent reporting basis of proved reserves across the Group with same treatment of ‘own use’ gas in line with SIEP 99-1100. If so what would be the best compromise?

Please comment, also in view of Anton’s recommendation.

4) Requirement for prior year restatement if Shell Oil were to adopt Group Guidelines per 1.1.2000

My understanding is that the change is not material at Group level and would not require restatements, also I would think you could easily defend it to be a change in estimate not in accounting policy especially at the 1.2% level indicated for Shell Oil.

With Shell Oil being de-registered I see no reason why one would even consider to restate prior years.

5) Requirement or not to include cost of ‘own use’ in financials. If cost are included under opex it directly raises the issue as to what price to use for evaluating and if the counter booking can be shown as revenues - where there has been no sale.

Incentive to minimise own use be better achieved, if excluded from production as gas volumes not used for ‘own use’ will then increases revenues, profit and result in a higher gas volumes. Inclusion in gas ‘mes despite ‘own use’ at a net zero impact on bottom line almost has the opposite effect (opex booking at zero bottom line impact, possibly low price and higher volumes almost discouerges reduction in own use).

USA is not the only place in the Group where there is a well developed market (NAM, Explo, Germany etc). Shell Canada have confirmed they report gas proved reserves (and production) excluding own use.

Appreciate your earliest response.

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

PBW0006180
CONFIDENTIAL
e-mail: remco.rd.aalbers@sepivbv.shell.com

— Comments Jeri Eagan - Shell Oil to EPN Tom Bourgeois

Tom,
> There is not a problem with us gathering data, but I think the change
> should be very carefully considered. We would be inconsistent with other
> US majors, for one thing. And at a time when Shell (both Shell Oil and
> Royal Dutch/Shell) is being challenged by the SEC on many issues, why
> would we want to knowingly be out of compliance? I noticed that Remco
> only references the reserves auditors and not the Group auditors. I think
> someone should check with PWC (Steve Johnson), who is the most
> knowledgeable on SEC issues. I don’t think there needs to be an arbitrary
> rule on always including or excluding own-use fuel, regardless of context.
> It makes sense for the rule to be different in countries where the
> alternative is to sell the gas in a well-developed market.

> one changes reserves then it would follow that we also change what we
> report as production. Why would we want to make this less when there is
> such attention paid to this by analysts? Finally, I think a change to
> ignore own-use gas (not record as an expense) would remove the incentive
> to minimize fuel and thereby maximize sales by the businesses.

> Also, do we restate prior years and thereby highlight the difference (and
> require Shell Oil to refile with the SEC just when we’ve de-registered
> with the SEC)? Or do we show this as a negative revision to reserves and
> hurt the trend?

> Regards,
> Jeri Eagan

> VP-Finance
> Shell E&P Company

From: Bourgeois, Tom T SEPI-EPN-USA
Sent: Thursday, December 18, 1999 4:40 AM
To: Eagan, Jeri JR SEPCO; Odum, Marvin ME SEPCO
Cc: Bourgeois, Tom T SEPI-EPN-USA
Subject: draft Guidance: USA - Reserves 1.1.2000 excl. Own Use (&
Losses)
Importance: High
Sensitivity: Confidential

In regards to the accounting for reserves from "own fuel and flare", the
advice from the auditors is to maintain consistency with the Group Reserve
Guidelines and exclude "own fuel and flare" from the reserves. As you
will see from the attached e-mails, the SEPCo interpretation is within the
SEC guidelines but not consistent with the Group guidelines. So, to