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2 IN THE UNITED STATES DISTRICT COURT

3 DISTRICT OF NEW JERSEY

4 -----x

5 In Re: ROYAL DUTCH/SHELL TRANSPORT Civil Action No.

6 SECURITIES LITIGATION. 04-3749 (JAP)

7 Consolidated Case

8 -----x

9

10 October 30, 2006

10:00 a.m.

11 Volume 1

12

13

14 Videotaped Deposition of RODNEY

15 SIDLE, held at the offices of LeBoeuf Lamb

16 Greene &amp; MacRae LLP, 125 West 55th Street, New

17 York, New York, before Frank J. Bas, a

18 Registered Professional Reporter and Notary

19 Public of the State of New York.

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2 A P P E A R A N C E S:

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4 BERNSTEIN LIEBHARD &amp; LIFSHITZ LLP

5 Attorneys for Lead Class Plaintiff

6 10 East 40th Street

7 New York, New York 10016

8 BY: TIMOTHY J. MacFALL, ESQ.

LAURA HUGHES, ESQ.

9 LESLIE DAVID, ESQ.

REBECCA COHEN, ESQ.

10 JEFFREY HABER, ESQ.

11

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13 DEBEVOISE & PLIMPTON LLP  
14 Attorneys for Royal Dutch/Shell Transport  
15 and The Witness  
16 555 13th Street, N.W.  
17 Washington, D.C. 20004  
18 BY: COLBY SMITH, ESQ.  
DAVID C. WARE, ESQ.

19  
20  
21 EARL D. WEED, ESQUIRE  
22 Senior Litigation Counsel  
23 Shell Oil Company, Litigation Department  
24 910 Louisiana, OSP 4836  
25 Houston, Texas 7701

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2 A P P E A R A N C E S (Cont'd):  
3  
4 LeBOEUF LAMB GREENE & MacRAE LLP  
5 Attorneys for Royal Dutch/Shell Transport  
6 1875 Connecticut Avenue, Northwest  
7 Washington, D.C. 20009  
8 BY: RALPH C. FERRARA, ESQ.

9  
10  
11 HUGHES HUBBARD & REED LLP  
12 Attorneys for PriceWaterhouseCoopers  
13 One Battery Park Plaza  
14 New York, New York 10004-1482  
15 BY: SAVVAS A. FOUKAS, ESQ.

16  
17  
18 HOGAN & HARTSON, LLP  
19 Attorneys for KPMG Accountants NV  
20 875 Third Avenue  
21 New York, New York 10022  
22 BY: NICHOLAS W.C. CORSON, ESQ.

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2 A P P E A R A N C E S (Cont'd):

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4 FOLEY &amp; LARDNER LLP

5 Attorneys for Judith Boynton

6 777 East Wisconsin Avenue

7 Milwaukee, Wisconsin 53202-5306

8 BY: REBECCA E. WICKHEM, ESQ.

9

10

11 MAYER BROWN ROWE &amp; MAW

12 Attorneys for Sir Philip Watts

13 1909 K Street, N.W.

14 Washington, D.C. 20006-1101

15 BY: AIMEE LATIMER, ESQ.

AKRIVI MAZARAKIS, ESQ.

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18

19 ALSO PRESENT:

20 NICO MINERVA, Grant &amp; Eisenhofer

21 MICHAEL DRENKALO, Videographer

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2 VIDEOGRAPHER: We're now recording

3 on the record. My name is Michael

4 Drenkalo, certified legal video specialist

5 for LegaLink, our address is 420 Lexington

6 Avenue, New York, New York. Today is

7 October 30, 2006. The time is

8 approximately 10:04 a.m. We're at the

9 offices of LeBoeuf Lamb Greene &amp; McCrae,

10 125 West 55th Street, to take the

11 videotaped deposition of Rodney Sidle in

12 the matter of Royal Dutch/Shell Transport

13 Securities Litigation, United States

14 District Court, District of New Jersey,

15 Civil Action Number 04-3749 (JAP).

16 If counsel will please introduce

17 themselves for the record, our court

18 reporter Frank Bas of Legalink will swear

19 in the witness.

20 MR. MacFALL: Timothy MacFall,  
21 Bernstein Liebhard & Lifshitz, for  
22 plaintiffs in the class.

23 MS. HUGHES: Laura Hughes, Bernstein  
24 Liebhard & Lifshitz, on behalf of the lead  
25 plaintiff.

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2 MS. COHEN: Rebecca Cohen, Bernstein  
3 Liebhard & Lifshitz, on behalf of the  
4 class.

5 MR. HABER: Jeffrey Haber from  
6 Bernstein Liebhard & Lifshitz, on behalf of  
7 lead plaintiff, Peter M. Wood, and the  
8 class.

9 MR. FOUKAS: Savvas Foukas, Hughes  
10 Hubbard & Reed, on behalf of  
11 PricewaterhouseCoopers LLP.

12 MR. CORSON: Nicholas Corson, Hogan  
13 & Hartson, for KPMG Accountants NV.

14 MS. MAZARAKIS: Akrivi Mazarakis,  
15 Mayer Brown Rowe & Maw for Philip Watts.

16 MS. LATIMER: Aimee Latimer, Mayer  
17 Brown Rowe & Maw, for the plaintiff Philip  
18 Watts.

19 MS. WICKHEM: Rebecca Wickhem, Foley  
20 & Lardner LLP, on behalf of defendant  
21 Judith Boynton.

22 MR. WARE: David Ware, Debevoise &  
23 Plimpton LLP, on behalf of corporate  
24 defendants and Rod Sidle.

25 MR. WEED: Earl Weed, in-house,

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1 RODNEY SIDLE  
2 Shell.

3 MR. SMITH: Colby Smith from  
4 Debevoise & Plimpton LLP on behalf of the  
5 two corporate defendants, Royal Dutch  
6 Petroleum and Shell Transport & Trading,  
7 and for the witness.

8 MR. FERRARA: Ralph Ferrara, LeBoeuf  
9 Lamb. I'm here for the two corporate

defendants, Royal Dutch/Shell and Shell  
Transport & Trading, as well as Mr. Sidle,  
who is our witness today.

RODNEY SIDLE,

called as a witness, having been duly  
sworn by a Notary Public (Frank J. Bas),  
was examined and testified as follows:

EXAMINATION

BY MR. MacFALL:

Q. Good morning, Mr. Sidle. We met a  
few moments ago. My name is Tim MacFall and I'm  
going to be asking you a few questions today and  
part of tomorrow in connection with the  
litigation pending against Shell.

I just want to cover a few ground  
rules. I'm sure your counsel has already

RODNEY SIDLE

discussed it with you, but it will make things  
probably a little bit easier going along.

Even though the deposition is being  
video recorded, it is also being  
stenographically recorded. In order to have a  
clear record, we need you to answer audibly and  
verbally to each of the questions. Okay, sir?

A. Yes. I will.

Q. Thank you. If at any point during  
the deposition you would like to take a break or  
confer with counsel, just let me know and I'm  
sure we can accommodate you.

A. Very good.

Q. Mr. Sidle, have you ever had your  
deposition taken before, sir?

A. Yes, I have.

Q. Was that in connection with this  
litigation?

A. (No response.)

Q. Withdrawn.

Was that in connection -- was that a  
deposition conducted by the SEC in connection  
with Shell?

A. That is one of them. Yes.

1 RODNEY SIDLE

2 Q. Okay. Could you please describe for  
3 me very briefly the other occasions in which you  
4 had your deposition taken?

5 A. I've also been a witness for Shell  
6 in two different tax litigations. I had my  
7 deposition taken and testified in one of those.

8 Q. Do you recall approximately how long  
9 ago that was?

10 A. One was two weeks ago, and one was  
11 about ten years ago.

12 Q. Okay. This will probably be old hat  
13 for you then.

14 Mr. Sidle, would you please describe  
15 for me your education, beginning with college?

16 A. Yes. I went to the University of  
17 Akron in Ohio, and I graduated with a BS degree  
18 in chemical engineering in 1974.

19 Q. Are you currently employed, sir?

20 A. Yes, I am.

21 Q. By whom are you employed?

22 A. I'm employed by Shell International  
23 E&P Inc.

24 Q. What position do you hold with  
25 Shell?

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1 RODNEY SIDLE

2 A. My title is senior reserves  
3 consultant.

4 Q. How long have you held that  
5 position, sir?

6 A. Since 2004.

7 Q. Could you please briefly describe  
8 for me your duties and responsibilities as a  
9 senior reserves consultant?

10 A. Yes. I provide advice to the E&P  
11 line organization on matters of reserves  
12 determination, training, instructions, like  
13 guidance documents, guidelines, rules, that sort  
14 of thing, as well as reviewing proposed reserve  
15 changes and then giving my recommendations to  
16 the E&P reserves committee for their final  
17 decision.

18 Q. Could you please describe for me  
19 what E&P refers to?

20 A. Yes. That's an arm of the Shell  
21 organization that is exploration and production.

22 Q. Did the position that you currently  
23 hold exist prior to 2004?

24 A. No, it did not.

25 Q. Was that position created as a

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1 RODNEY SIDLE  
2 consequence of Shell's recategorization of  
3 certain of its reserves?

4 MR. SMITH: Objection to form.

5 A. The position was created because  
6 Shell chose to change the way it was managing  
7 its reserves data collection and instructions to  
8 the business, and as a result an expanded  
9 organization was put in place, and I was part of  
10 it.

11 Q. Thank you, sir. How long have you  
12 been employed by Shell?

13 A. Thirty-two years.

14 Q. This may take a while, but if we  
15 can, could you please briefly describe for me  
16 your employment history with Shell?

17 A. Yes. After graduating from college  
18 in 1974 I started in a training assignment with  
19 Shell Oil Company in our California office,  
20 where I went through the training program and  
21 served as a production engineer.

22 In 1976 I transferred to Houston and  
23 became a reservoir engineer. I was in Houston  
24 in various reservoir engineering and reservoir  
25 engineering supervisor positions until 1982. I

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1 RODNEY SIDLE  
2 served in the Shell Oil E&P corporate office for  
3 a year in economics.

4 Then in 1983 I transferred to  
5 Bakersfield, California in a leadership  
6 position, I served in several management roles  
7 in California for the subsidiaries -- several  
8 subsidiaries that were there at the time, in

9 E&P.

10 I then, in 1990, returned to Houston  
11 into the Shell Western organization that handled  
12 onshore operations. I served -- strike that.

13 In 1990 I returned to the Shell E&P  
14 corporate office in Houston in planning and  
15 economics, and was there until about '93 or '94,  
16 and then I went to the Shell Western E&P  
17 offices, also in Houston, and served there in a  
18 variety of positions.

19 In 1999 I became the reserves  
20 manager for Shell Oil Western, which by that  
21 time had consolidated, it was Shell E&P Company,  
22 or SEPCO, which was all of the US E&P  
23 operations.

24 And then in late 2003 I was  
25 essentially seconded to Shell E&P Inc.

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1 RODNEY SIDLE

2 And in 2004 took on an official  
3 position in Shell E&P Inc. as senior reserves  
4 consultant.

5 Q. With respect to the 2003 time period  
6 when you were seconded to E&P Inc., what  
7 position did you hold at that time, sir?

8 A. I was a reserves manager for SEPCO,  
9 the Shell Oil E&P arm.

10 Q. I believe you said that SEPCO was  
11 the US operations of Shell. Is that correct,  
12 sir?

13 A. It was the US portion of the  
14 exploration and production operation of Shell.

15 MR. SMITH: Tim, your question  
16 raises something. Sometimes you say at the  
17 beginning of the depositions, but we didn't  
18 hear, which is the convention of using the  
19 name "Shell."

20 I think Mr. Sidle, because he comes  
21 from the US operation, sometimes uses the  
22 words "Shell Oil," and just so the record  
23 is clear, Rod, when you say Shell oil, are  
24 you referring to the US entity, or are you  
25 referring to the group as a whole?



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1 RODNEY SIDLE

2 THE WITNESS: When I refer to Shell

3 Oil, that is the US entity that is Shell

4 Oil Company. And when I refer to the

5 international operations, I'll say Shell

6 International, I'll say the Group, or I'll

7 say Royal Dutch Shell.

8 MR. SMITH: If you don't mind. I

9 just wanted that to be clear for the

10 record.

11 MR. MacFALL: No, I appreciate that,

12 and in order to help keep the record clear,

13 although I have not been doing so in prior

14 depositions, I will endeavor to refer to

15 the international organization as the

16 Group.

17 MR. SMITH: Thank you.

18 BY MR. MacFALL:

19 Q. Was there a time when SNEPCO made

20 periodic filings with the Securities and

21 Exchange Commission?

22 A. I'm not sure I understand your

23 question, because you said "SNEPCO," which is

24 Shell Nigeria, and I had no connection with them

25 at that time.

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1 RODNEY SIDLE

2 Q. Thank you. I'm sorry. Was there a

3 time when SEPCO made periodic filings with the

4 Securities and Exchange Commission in the United

5 States?

6 A. SEPCO was a subsidiary of Shell Oil

7 Company. Shell Oil Company did make filings,

8 both as a listed member of the Stock Exchange

9 until 1984, and then continuing after that until

10 all Shell Oil specific debt, which caused them

11 to be SEC registrants, while that was still in

12 existence.

13 Q. Do you recall when that debt was no

14 longer in existence? Approximately.

15 A. It was 2000, plus or minus a few

16 years. Late '90s, early 2000. Somewhere in

17 that period.

18 Q. At the time that you became the  
19 reserves manager for SEPCO, was Shell Oil still  
20 making periodic filings with the SEC?

21 A. Yes.

22 Q. Were you involved in that process?

23 A. Let me describe my involvement. As  
24 the reserves manager, I had the responsibility  
25 to train the staff, to give them guidance, to

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1 RODNEY SIDLE  
2 review their work, to make sure it met the  
3 requirements for compliance. And then the  
4 result of that data was provided two places:  
5 One to our financial organization within SEPCO,  
6 Shell Oil, and also on to Royal Dutch/Shell,  
7 each of whom used it in their filings.

8 Q. With regard to your responsibilities  
9 in training staff, I believe you indicated that  
10 you were responsible for ensuring compliance.  
11 Compliance with what, sir?

12 A. With regard to reserves -- and this  
13 is a good place to introduce the term. My  
14 background is as an engineer and a scientist, so  
15 when I say the unmodified term "reserves,"  
16 that's with a lower case R, and it generically  
17 means what it would to an engineer or a  
18 scientist. It means the future production from  
19 some project or field, without specification as  
20 to any particular agency or entity that might  
21 add additional requirements to what that entity,  
22 called "reserves," might be.

23 When I refer to "proved reserves,"  
24 or "SEC reserves," then I refer to those  
25 reserves that fit the criteria that have been

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1 RODNEY SIDLE  
2 provided by the SEC, and in the cases of Shell,  
3 then interpreted as to what those mean so as to  
4 meet those SEC standards.

5 I also may refer to "probable" or  
6 "possible" or "expectation" reserves. But the  
7 unmodified term reserves is a generic one to me,

8 and I would ask to make clear our  
9 communications, if you mean proved reserves or  
10 SEC reserves, we use that modified term, and if  
11 you just have a generic question about the  
12 technical concept, the reserves, then the  
13 unmodified term works.

14 So now back to your question. What  
15 I reviewed was the filings of "proved," SEC  
16 reserves to make sure that, to the best of my  
17 knowledge, they were in line with the guidance  
18 of the SEC and Shell's requirements for those  
19 proved reserves. And that's Shell Oil Company's  
20 at that time. SEPCO.

21 Q. I take it from your testimony that  
22 you have an understanding, obviously, of the  
23 term proved reserves. Right?

24 A. I do.

25 Q. Could you please describe for me

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1 RODNEY SIDLE  
2 what the term proved reserves means, as best you  
3 can, generally?

4 A. I'll respond with a conceptual  
5 description.

6 Q. That's fine.

7 A. Rather than reading you Regulation  
8 S-X 4-10(a).

9 Essentially what proved reserves  
10 means are those reserves which will be produced  
11 in the future with very high confidence that at  
12 least that number, or more, will be produced,  
13 and therefore there is reasonable certainty that  
14 the volume that is associated with proved  
15 reserves is going to be produced.

16 Q. Is that your present understanding,  
17 or your present summary of -- let me try that  
18 again.

19 Is that a summary of your present  
20 understanding of proved reserves?

21 A. Yes, it is.

22 Q. Did you have an understanding of  
23 that term prior to 1999?

24 A. Yes.

25 Q. Was your understanding of the term

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1 RODNEY SIDLE

2 proved reserves, prior to 1999, different in any  
3 way from the summary you just provided?

4 A. That summary is a very general one,  
5 and reflects my understanding throughout the  
6 period that I've been associated with proved  
7 reserves.

8 Q. In your testimony you referred to  
9 the SEC regulation that embodies Rule 4-10. Are  
10 you familiar with that rule, sir?

11 A. Yes. I read it before.

12 Q. Do you recall the first time you  
13 read that rule, approximately?

14 A. No, actually I don't.

15 Q. Were you familiar with the rule  
16 during the time you were responsible for  
17 training and reviewing proved reserves at SEPCO?  
18 And I'm specifically referring to the 1999-2000  
19 time period.

20 A. Yes.

21 Q. You also used the term "reasonable  
22 certainty."

23 Could you please explain for me your  
24 understanding of that term?

25 A. In a general sense, it means

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1 RODNEY SIDLE

2 something of very high confidence. A value that  
3 is highly likely to be either matched or  
4 exceeded. It's consistent with the instructions  
5 that I'm aware of that say that reserves that  
6 are reasonably certain, proved reserves are much  
7 more likely to increase over time as new data is  
8 available than to decrease.

9 Q. Does your testimony reflect your  
10 current understanding of the term "reasonable  
11 certainty"?

12 A. My testimony today reflects my  
13 current understanding. Yes.

14 Q. Do you recall if you had an  
15 understanding of that term "reasonable

16 certainty" prior to 1999?

17 A. Yes, I had an understanding of it.

18 Q. Do you recall if your understanding,  
19 prior to 1999, differed in any way from your  
20 current understanding of that term?

21 A. I think it's a bit clearer now  
22 exactly what the SEC means with the guidance  
23 they've provided, where the terminology much  
24 more likely to increase than decrease over time  
25 was added, and that was March of 2001.

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1 RODNEY SIDLE

2 The general concept of being volumes  
3 of high confidence has been the same throughout.

4 Q. With regard to the guidance that you  
5 stated that the SEC issued in March of 2001, do  
6 you recall how that guidance was disseminated by  
7 the SEC?

8 A. Yes. That guidance was placed on  
9 their website.

10 Q. Are you familiar with the terms  
11 "technical maturity" and "commercial maturity"  
12 as they relate to proved reserves?

13 A. Yes, I am.

14 Q. Breaking it down, with regard to  
15 technical maturity, could you please explain for  
16 me your understanding of that term, sir?

17 A. Yes. Technical maturity relates to  
18 the definition of the volumes that one would  
19 expect to produce from a project, where that  
20 project is sufficiently defined to know where  
21 the wells will be placed, how they will be  
22 drilled, how they will be completed, the  
23 elements of the operation that will be the  
24 development and the production, as well as a  
25 subsurface description of the resource that will

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1 RODNEY SIDLE

2 be developed, things like the extent of the  
3 reservoir, the thickness of the reservoir, the  
4 types of fluid that it contains, a variety of  
5 factors like that.

6 When you have the two of those

7 together, then you have a technically mature  
8 opportunity.

9 Q. Could you please describe for me  
10 your understanding of the term "commercial  
11 maturity"?

12 A. Yes. Commercial maturity relates to  
13 other factors, such as the rights to produce  
14 that you would get from the owner of the  
15 minerals, that could be a national government,  
16 or in the US, a lessor. It refers to the  
17 economic conditions; in other words, is it  
18 profitable to pursue, are the monies available  
19 to be expended.

20 It also refers to any other elements  
21 of approvals, be those partner approvals, if you  
22 have a partnership. It could refer to agencies,  
23 governmental or otherwise, that have purview  
24 over the choice as to whether that resource is  
25 developed. So you may need permits, for  
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1 RODNEY SIDLE

2 example, to be able to produce.

3 It refers, also, to markets. You  
4 need to be able to have an economic opportunity,  
5 you need to have a market into which your  
6 product will be sold, and so the existence of  
7 those markets, or any infrastructure needed to  
8 deliver that product to market, is part of  
9 commercial maturity.

10 Q. Did you have an understanding of the  
11 term technical maturity back in 1999?

12 A. I was first introduced to it about  
13 that time frame.

14 Q. Okay. Could you describe for me,  
15 briefly, how it was that you were introduced to  
16 that concept at that time, sir?

17 A. Yes. One of the reasons that SEPCO  
18 created the reserves manager position that I  
19 filled in 1999 was to provide a person within  
20 the SEPCO organization who could assist the  
21 organization in adapting to the requirements  
22 that the Royal Dutch/Shell group had at that  
23 time for reporting of reserves, unmodified, and

24 other volumes that were less mature than  
25 reserves -- scope for recovery. Those were both  
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1 RODNEY SIDLE

2 certain of the definitions that Royal  
3 Dutch/Shell used, as well as several of the  
4 categories that they had in identifying resource  
5 volumes were unfamiliar to the US, and so in  
6 that position I needed to become familiar with  
7 the group rules and categories and practices to  
8 be able to harmonize those with what SEPCO did.

9 Q. The term "technical maturity," was  
10 that a -- withdrawn.

11 The concept of "technical maturity,"  
12 was that a concept that was embodied in the  
13 group as opposed to the SEPCO guidelines at that  
14 time?

15 A. The concept was present in both  
16 places. The term itself was only used in the  
17 group.

18 Q. With respect to commercial maturity,  
19 were you familiar with that term prior to 1999?

20 A. No, I was not.

21 Q. And when is it that you first became  
22 familiar with that term, sir? Well, let me ask  
23 in order to save time. Was that in the same  
24 context in which you became familiar with the  
25 term "technical maturity"?

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1 RODNEY SIDLE

2 A. Yes, it was.

3 Q. Was the concept of commercial  
4 maturity -- withdrawn.

5 Prior to 1999 did SEPCO have  
6 guidelines with regard to the booking of proved  
7 reserves?

8 A. Yes, they did.

9 Q. Were those guidelines distinct from  
10 any group guidelines concerning the booking of  
11 proved reserves?

12 A. Yes, they were.

13 Q. Did the SEPCO guidelines concerning  
14 the booking of proved reserves embody the



15 concept of commercial maturity in or about 1999?

16 A. The concept, yes, to the extent that  
17 it applied to the situation of US-based  
18 operations.

19 Let me give you an example.

20 Internationally things like LNG  
21 facilities or production sharing contracts,  
22 PSCs, are elements of commercial maturities that  
23 simply had no meaning within the US. So the  
24 concept was there, but not to the extent that  
25 you deal with it in an international setting.

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1 RODNEY SIDLE

2 Q. Could you give me an example of the  
3 applicability of the concept of commercial  
4 maturity in a US setting?

5 A. Yes. Yes. In a US setting you  
6 would need to have a lease, or fee, or some  
7 legal right to have access to potential  
8 reserves. So that's consistent with the  
9 agreements that are needed.

10 You also would need to have an  
11 economic opportunity, one that shows that it's a  
12 profitable investment. And that's another  
13 example of an element of commercial maturity.

14 Q. Under the SEPCO guidelines  
15 concerning the booking of proved reserves that  
16 existed in or about 1999, were there specific  
17 criteria applicable -- withdrawn.

18 With regard to the SEPCO guidelines  
19 concerning the booking of proved reserves as  
20 they existed in or about 1999, were there any  
21 criteria that had to be satisfied with respect  
22 to technical and commercial maturity before  
23 reserves could be booked as proved?

24 MR. SMITH: Objection to form.

25 A. Yes. The -- the rules we had at the

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1 RODNEY SIDLE

2 time listed the appropriate practices and  
3 methods for determining proved reserves, and  
4 contained requirements such as, as I just  
5 mentioned, an economic assessment of the



6 opportunity to show that it was commercial.

7 Q. Did those criteria differ, depending  
8 upon the size of the project involved?

9 A. They did indirectly, in that Shell's  
10 business processes for demonstration of  
11 commitment and securing funding, what's now  
12 called FID, or sanction, were different for  
13 different sized opportunities.

14 An example. A deepwater development  
15 using a tension leg platform, TLP, which could  
16 cost a billion or more dollars, had a different  
17 process in our approval system for sanction and  
18 securing funding than a \$200,000 well that was  
19 the 85th well being drilled in a field where  
20 there were 84 and there were likely another  
21 fifteen to go. It had a process, but there were  
22 different processes.

23 And so in one case we had a very  
24 rigorous examination before a unique billion  
25 dollar investment was made. In another case, if  
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1 RODNEY SIDLE

2 it was a continuation of ongoing operations and  
3 there was a track record of drilling profitable  
4 opportunities, and there wasn't the major event  
5 that was the approval process for a very large  
6 investment, within our standard system, we  
7 didn't create one. We simply went with the  
8 standards that were in our approval system. So  
9 since those standards were somewhat different,  
10 yes, indirectly, that then caused the reserve  
11 requirements to be somewhat different.

12 Q. I believe you used the term "final  
13 investment decision" in your testimony just now.  
14 Could you explain for me what that is, sir?

15 A. Yes. Final investment decision is  
16 the point at which a proposed project of a  
17 certain magnitude goes to the approving  
18 authorities. For very large ones that would be  
19 the board, and that project is endorsed and the  
20 release of funds to execute the project is  
21 decided and granted.

22 Q. Under the SEPCO guidelines that

23 existed in or about 1999, was FID required prior  
24 to the booking of proved reserves for large  
25 projects?

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1 RODNEY SIDLE

2 A. Yes, it was.

3 Q. Was FID required for, for lack of a  
4 better term, smaller projects?

5 A. FID didn't, in itself, exist in the  
6 same way for smaller projects, therefore you  
7 couldn't use it as the standard. Smaller  
8 projects were reviewed within the context of an  
9 annual budget, and once they were agreed to in  
10 the budget, and the funding was then delegated  
11 down into the organization to an appropriate  
12 level, the equivalent of an FID then became what  
13 is called an AFE, authority for expenditure.

14 Those typically occur immediately  
15 before the drilling is done, and so they don't  
16 have the period between a budget approval and  
17 actual drilling of a well as FID may have with  
18 the start of a very large project.

19 The equivalent that was used for  
20 small project was the approval in the budget.

21 Q. Thank you. I believe you stated,  
22 and I could be wrong, that the reserves manager  
23 position that you held in '99-2000 was created  
24 in order to have SEPCO adapt to the group  
25 guidelines. Is that correct, sir?

0030

1 RODNEY SIDLE

2 A. There were multiple reasons. That  
3 was among them.

4 Q. Just to clarify, was there an effort  
5 to have SEPCO fully adopt the group guidelines  
6 in or about 1999-2000?

7 A. That was not the instruction I was  
8 given. I was given the instruction to look at  
9 the group requirements, to fully satisfy them,  
10 but to do so by fitting the SEPCO rules within  
11 the flexibility that was allowed by the group  
12 rules, which although SEPCO used deterministic  
13 methods which did not -- was not the dominant

14 method across the group, was certainly allowed  
15 within the context of the group rules, and so  
16 the harmonization that I was doing was to fit  
17 the SEPCO rules within what the group allowed.

18 Q. I take it then as part of that  
19 process, you obviously reviewed the group rules  
20 as they existed at that time. Correct?

21 A. Yes, I did.

22 Q. With respect to -- withdrawn.

23 Did the group guidelines provide a  
24 process for the booking of proved reserves in or  
25 about that time period, 1999-2000?

0031

1 RODNEY SIDLE

2 A. Could you explain what you mean,  
3 "process"?

4 Q. I'll rephrase the question. Did the  
5 group guidelines include criteria governing the  
6 booking of proved reserves?

7 A. Yes, they did.

8 Q. Did you have occasion to compare the  
9 group criteria governing the booking of proved  
10 reserves to the SEPCO guidelines concerning the  
11 booking of proved reserves --

12 A. Yes.

13 Q. -- in or about 1999-2000?

14 A. Yes, I did.

15 MR. SMITH: Let him finish his  
16 questions.

17 BY MR. MacFALL:

18 Q. Do you recall if the group  
19 guidelines required that large projects reach  
20 FID prior to the booking of proved reserves, in  
21 or around -- in or about the 1999-2000 time  
22 period?

23 A. As I recall, they did not.

24 Q. Did the group guidelines have  
25 criteria governing -- withdrawn.

0032

1 RODNEY SIDLE

2 Were there other criteria specified  
3 in the group guidelines with regard to the  
4 economic status of a project and the booking of

5 proved reserves?

6 MR. SMITH: Objection to form.

7 A. I'm -- you say "other," and I'm not  
8 sure what other -- beyond what?

9 Q. Other than FID.

10 A. Ah, thank you. The group defined  
11 the term "commercial maturity," which embodied a  
12 variety of elements that were required to reach  
13 commercial maturity, and the requirement was  
14 that commercial maturity be achieved. That  
15 included instructions around the status of  
16 commitment and funding for projects.

17 Q. Would the commercial maturity  
18 criteria of the group guidelines be satisfied by  
19 a project reaching FID?

20 A. Yes.

21 Q. Are you familiar with the term  
22 "value assurance review"?

23 A. Yes, I am.

24 Q. Could you please describe for me  
25 what that is, sir?

0033

1 RODNEY SIDLE

2 A. Yes. Shell instituted a program --  
3 Royal Dutch/Shell instituted a program called  
4 Value Assurance Review in which senior members  
5 of the business organization -- business and  
6 technical organization were brought together as  
7 a review team to look at proposed projects and  
8 provide an outside-view on their readiness to  
9 proceed to the next level of maturity in  
10 progressing until ultimate approval and  
11 execution. There were several levels that were  
12 involved.

13 And that review then provided  
14 guidance to the business as to whether a project  
15 was ready to go through a stage gate into the  
16 next type of operation to continue its maturity.

17 Q. Do you recall if the group  
18 guidelines in existence in or about 1999-2000  
19 permitted a project that had not passed a VAR 4  
20 review to book proved reserves?

21 A. Yes, I recall.

22 Q. And could you please explain for me  
23 if the group guidelines did in fact permit the  
24 booking of proved reserves for projects that had  
25 not passed the VAR 4?

0034

1 RODNEY SIDLE

2 A. At that time they did not.

3 Q. Did there come a time when that  
4 changed?

5 A. Yes.

6 Q. Do you recall approximately when  
7 that was, sir?

8 A. There was a progression of changes  
9 to the group guidelines that involved references  
10 to different VAR, value assurance review, levels  
11 that occurred from that period to, well, the  
12 early 2000 period.

13 Q. Could you describe the nature of the  
14 changes in connection with the value assurance  
15 reviews?

16 A. In general terms they began making  
17 reference to those reviews as an indicator of  
18 maturity, and of commitment, and the level that  
19 was required changed throughout that period.

20 Q. Could you describe for me the  
21 various levels required? Withdrawn.

22 When you say the level required  
23 changed throughout that period, are you  
24 referencing the level of VAR review that needed  
25 to be passed? Is that correct, sir?

0035

1 RODNEY SIDLE

2 A. Yes, I am.

3 Q. Did that level increase or decrease  
4 throughout that period?

5 A. It started by first being  
6 referenced, and then it increased. I think the  
7 first I remember seeing related to a VAR 3,  
8 which at a VAR 3 level you would have pretty  
9 much fully completed the technical maturity  
10 elements of assessing the reservoir, and  
11 developing a plan by which it would be  
12 developed. Later commercial elements that were

13 typically looked at after that assessment were  
14 made were brought into the picture by requiring  
15 a VAR 4. And VAR 4 FID are approximately the  
16 same thing. So they aren't the same events, but  
17 they typically occur at about the same time, so  
18 a reference to FID, or VAR 4, is essentially a  
19 reference to the same status of a project.

20 Q. Do you recall when it was that you  
21 first saw a reference to VAR 3 in connection  
22 with the booking of proved reserves under the  
23 group guidelines?

24 A. Hm-mm.

25 ---

0036

1 RODNEY SIDLE

2 (Pause in the record.)

3 ---

4 A. I don't remember the exact year. It  
5 would have been in the early 2000 time period.

6 Q. Just so I'm clear, did that  
7 reference indicate that it was permissible to  
8 book proved reserves after a VAR 3, under the  
9 group guidelines?

10 MR. SMITH: Objection to form. Are  
11 you still asking about when he first saw  
12 it? It sort of progressed over time. I  
13 think we need a time frame to be clear.

14 MR. MacFALL: Sure. I'm talking  
15 about the time that he first saw it. Yes.

16 A. Could you repeat the question,  
17 please?

18 Q. Sure. The reference to the VAR 3  
19 that you indicated you saw in connection with  
20 the booking of proved reserves under the group  
21 guidelines, did that reference indicate that it  
22 was permissible to book proved reserves if a  
23 project had passed VAR 3?

24 MR. SMITH: Objection to form.

25 A. It was -- I don't remember exactly

0037

1 RODNEY SIDLE

2 what the word said at the time. It's important  
3 to understand that when we're talking about

4 individual qualifiers, that we don't become  
5 confused that that is the only element that is  
6 ever looked at to determine whether a project is  
7 in or out of proved reserves. So I'll caution  
8 you, as I do my students, that when you're  
9 asking about any one element, please remember  
10 that it's within the context of all other  
11 elements being fully satisfied, so that that's  
12 the only issue that remains.

13 The description of VAR 3 was put  
14 within the context of commercial maturity, and  
15 that's a way to demonstrate a certain level of  
16 maturity. It wasn't necessarily the only way.  
17 And that's put within the broader context of  
18 reasonable certainty.

19 So I'm qualifying to make sure  
20 you're aware that that was an element of it, but  
21 that's by no means the only element that was  
22 considered.

23 Q. And I just want to make sure I  
24 understand. And I believe that I do.

25 But if other elements were

0038

1 RODNEY SIDLE

2 satisfied, am I correct that a project having  
3 passed VAR 3 during this time period, when you  
4 first saw reference to it in connection with the  
5 guidelines, would -- the passage of the VAR 3  
6 would support a finding of commercial maturity  
7 in order to book proved reserves?

8 A. I would need to go back and look at  
9 the guidelines at that time just to be sure.

10 Q. You said that changed over time.  
11 Did there come a time when a VAR 4 was required  
12 in order to book proved reserves, in connection  
13 with a project under the group guidelines?

14 A. Yes. As I mentioned, VAR 4 is  
15 essentially the same as FID, and through the  
16 years, and through the implementation of the VAR  
17 process, which is an important element of this,  
18 it did go to a VAR 4 FID level for major  
19 projects.

20 In part, because when the concept



21 was first introduced into the requirements the  
22 VAR process was new, and so many projects hadn't  
23 even qualified to be part of the VAR process.  
24 As it was instituted across more and more of the  
25 group projects, then you had a greater pool of  
0039

1 RODNEY SIDLE

2 projects that had actually been through the  
3 process, and that milestone became a more  
4 important indicator of project maturity.

5 Q. Do you recall approximately what  
6 year it became a more important indicator of  
7 project maturity?

8 A. Again, this was going on through the  
9 early 2000 period.

10 Q. At the time that you first saw a  
11 reference to VAR 3 in connection with the  
12 booking of proved reserves, and the guidelines,  
13 did SEPCO continue to utilize its own guidelines  
14 concerning the booking of proved reserves?

15 A. Yes, we did use our guidelines, but  
16 we were able to harmonize those such that we  
17 were within the guidance provided by the group.

18 Q. Who was responsible for attempting  
19 to harmonize the SEPCO guidelines with the group  
20 guidelines?

21 A. Largely that was me.

22 Q. Could you describe the process by  
23 which you attempted to accomplish that  
24 harmonization?

25 A. Okay. You've indicated the first  
0040

1 RODNEY SIDLE

2 step, and that is simply read them, and then  
3 talk to the people that understood them within  
4 the group, who typically was the reserves  
5 coordinator, so that I had a good understanding  
6 for what those words meant and how they were  
7 administered. Then I looked at our own  
8 processes to see where the things we were doing  
9 either exactly aligned with, or Shell practices  
10 were within what was allowed by the group. I  
11 looked at places where there might have been



12 some issues of difference and then tried to  
13 resolve those.

14 Q. Do you recall who at the group you  
15 spoke to, what individual you spoke to in  
16 connection with your effort to harmonize the  
17 SEPCO guidelines and the group guidelines?

18 A. Yes. When that first started, the  
19 reserves coordinator was Remco Aalbers.

20 Q. Did you actually speak with  
21 Mr. Aalbers or was your primary communication by  
22 e-mail, or some other form?

23 A. Both.

24 Q. I realize this was some time ago,  
25 but do you recall as you sit here today any

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1 RODNEY SIDLE

2 specific areas where the group guidelines  
3 differed from the SEPCO guidelines?

4 A. Yes. Yes. Two specific examples  
5 come to mind. One was a place where the group  
6 guidelines on royalty were written for the  
7 international -- meaning outside the US --  
8 situation where the resources were always owned  
9 by a host government, and then the concept of  
10 royalty in that type of outside-the-US setting  
11 lent itself to claiming the royalty volumes that  
12 were paid in cash to be included in the group  
13 share, because it was simply an alternative form  
14 of taxation and proved reserves are before tax.

15 When SEPCO began looking at -- when  
16 I began looking at the group rules and applying  
17 them to the US, that rule was not correct. In  
18 the US, because we have the unique concept of  
19 volumes being owned in the ground by private  
20 parties, not just the government, the rules,  
21 FASB and SEC, specify that reserves in the  
22 ground owned by others could not be called part  
23 of the company's share of reserves.

24 So that was a place where the group  
25 rules had not anticipated the unique nature of

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1 RODNEY SIDLE

2 resource ownership that existed in the U.S. And

3 so there was a requirement for me to document  
4 that and get the group rules changed to allow an  
5 exception for US, and as it turns out Canada  
6 also, those places where that general  
7 international/national government ownership  
8 situation did not apply. That was one where the  
9 group rules needed to change.

10 Another was where the SEPCO rules,  
11 which grew up with operations in the Gulf of  
12 Mexico, allowed for volumes that were behind the  
13 pipe. Now, what that means is you have several  
14 stacked layers, much as the pancakes I ate this  
15 morning, that each contained oil and gas, and  
16 you drew a well through them and you typically  
17 start by depleting the bottom reservoir and the  
18 ones above it have not been completed, they're  
19 behind pipe, they're not flowing into the well  
20 bore, and later you come in and complete them by  
21 perforating gun shooting holes in the pipe and  
22 then the upper layers contribute each in their  
23 sequence. The rules allow, in certain  
24 circumstances, the volume is so penetrated,  
25 they're not producing, to still be called

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1 RODNEY SIDLE  
2 developed, because the essence of the  
3 development operation, the drilling of the well,  
4 is already complete.

5 The SEPCO rules were written around  
6 the situation where that occurred in onshore  
7 settings or in very shallow waters of the Gulf  
8 of Mexico where that re-completion operation was  
9 very trivial, in terms of both cost and effort,  
10 and so it allowed any reserves behind pipe to be  
11 classified as developed.

12 The group rules at the time  
13 recognized that in some cases, that  
14 re-completion could be very significant, both in  
15 terms of its operation, or in terms of its cost,  
16 and therefore put a qualifier on what could be  
17 behind pipe, both in terms of practical  
18 operation, do you need to put a rig on it, or in  
19 terms of cost -- 10 percent of the cost of a new

20 well.

21 At the time I was looking at those  
22 regulations and comparing SEPCO's positions with  
23 Royal Dutch, we were in the midst of developing  
24 deepwater Gulf of Mexico fields, which had a  
25 very different character than the shallow

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1 RODNEY SIDLE

2 fields, and did require a significant operation  
3 to get on the well, to recomplete the behind  
4 pipe volumes. So in that case my recommendation  
5 was that we change the SEPCO rules to align with  
6 the group practices, because the group's  
7 practices better fit the situation that SEPCO  
8 then had in its operation.

9 Q. Were those guidelines regarding  
10 volumes behind the pipe in fact changed?

11 A. Yes, they were.

12 Q. With respect to the prior issue that  
13 you discussed, the payment of royalties, were  
14 the group guidelines modified to make allowances  
15 for the United States and Canada?

16 A. Yes, they were.

17 Q. Do you recall if during this process  
18 you had any discussion with Mr. Aalbers or  
19 others at the group concerning SEPCO relaxing  
20 its requirement that large projects reach FID  
21 before proved reserves were booked?

22 A. I recall some general conversations  
23 about that. Yes.

24 Q. Do you recall who you had those  
25 conversations with?

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1 RODNEY SIDLE

2 A. Oh, I'm sure I had them at least  
3 with Remco. I know I had them with several of  
4 the managers within SEPCO also.

5 Q. With regard to any conversations  
6 that you might have had with Mr. Aalbers, do you  
7 recall the substance of such talks?

8 A. No, I don't.

9 Q. Was there an effort by the group to  
10 have SEPCO liberalize its requirements

11 concerning commercial maturity and the booking  
12 of proved reserves?

13 MR. SMITH: Objection to form.

14 A. I'm not sure what you mean by the  
15 word "liberalize."

16 All I can say is I worked with Remco  
17 to have a harmony between what SEPCO did and  
18 what the group required so that we were within  
19 the flexibility of what the group allowed.

20 Q. Did you have an opinion as to the  
21 stringency of the SEPCO guidelines versus  
22 out-of-the group guidelines in or about 1999 or  
23 2000?

24 MR. SMITH: Objection to the form  
25 and foundation.

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1 RODNEY SIDLE

2 A. It was certainly easier -- it was  
3 easy to note that the SEPCO guidelines gave to  
4 me clearer guidance as to how exactly to  
5 determine proved reserves. When I looked at the  
6 group guidelines, there were elements of what  
7 was included in there that were things I had  
8 never dealt with before, in an international  
9 setting, as I gave you examples. Production  
10 sharing contracts. A requirement of LNG sales  
11 contracts before you booked gas reserves.  
12 Things that I simply had no basis for ever  
13 touching before.

14 So I recognize that the group  
15 guidelines covered a much broader range of E&P  
16 situations than what my -- than what I was used  
17 to did.

18 ---

19 (Sidle Exhibit 1, document, three  
20 pages, was marked for identification.)

21 ---

22 BY MR. MacFALL:

23 Q. Mr. Sidle, I'm now flinging a  
24 document previously marked as Sidle Exhibit 1 to  
25 you. Could you take a look at that document,

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1 RODNEY SIDLE

2 sir, and tell me if you recognize it?

3 MR. SMITH: I object to the flinging  
4 of documents.

5 MR. MacFALL: Passed with some  
6 vigor. I would note for the record that  
7 the document was produced from the hard  
8 drive, the native drive number document,  
9 identifier number appears at the top is  
10 0103659522. I would also note for the  
11 record, Mr. Sidle, that you are neither the  
12 author or recipient of the document,  
13 however, it does reference you. So you may  
14 not have seen it.

15 (Witness reviewing document.)

16 MR. FERRARA: Is there a part of  
17 this document that you would like him to  
18 focus on?

19 MR. MacFALL: My first question was  
20 whether --

21 BY MR. MacFALL:

22 Q. Well, have you recognize -- do you  
23 recognize this document, Mr. Sidle?

24 A. I've seen it in my preparation for  
25 this deposition.

0048

1 RODNEY SIDLE

2 Q. Okay. Before we get to specific  
3 portions of the document, do you recall  
4 attending an SPE -- withdrawn.

5 Do you know what the SPE is?

6 A. Yes, I do.

7 Q. And can you please tell me what that  
8 is, sir?

9 A. That's the Society of Petroleum  
10 Engineers.

11 Q. Are you a member of that society?

12 A. Yes, I am.

13 Q. Were you a member of the SPE in  
14 1999?

15 A. I probably was. I don't recall for  
16 sure.

17 Q. Do you recall attending the workshop  
18 that's referenced in this e-mail from

19 Mr. Barendregt --

20 A. Yes, I do.

21 Q. And that would be the SPE workshop  
22 on Probabilistic Reserves Assessment?

23 A. Yes.

24 Q. Mr. Barendregt, as indicated in this  
25 document, also attended that workshop. Do you  
0049

1 RODNEY SIDLE

2 recall that, sir?

3 A. Yes, I do.

4 Q. Do you recall meeting with  
5 Mr. Barendregt during that workshop?

6 A. Yes.

7 Q. Directing your attention  
8 specifically to the first paragraph that appears  
9 under the word "Wouter" -- actually, let me ask  
10 you this. I'm sorry.

11 The e-mail is addressed to Wouter  
12 Van Dorp. Do you know who Mr. Van Dorp is, sir?

13 A. No, I don't.

14 Q. Again, now going to that first  
15 paragraph, Mr. Aalbers referenced -- I'm  
16 sorry -- Mr. Barendregt references the workshop  
17 and indicates that he had discussions with you  
18 and made some notes following that discussion.

19 Do you recall having discussions  
20 with Mr. Barendregt concerning reserves,  
21 probabilistic reserves assessment in or about  
22 the time of this workshop?

23 A. I remember meeting Anton and having  
24 some brief discussions with him, but I don't  
25 remember the substance of any of it.

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1 RODNEY SIDLE

2 Q. Okay. If you go down --

3 A. Excuse me.

4 Q. I'm sorry. There's a caption  
5 beneath that first paragraph, SPE Workshop on  
6 Probabilistic Reserves Assessment, if you go  
7 down to the third paragraph, the third full  
8 paragraph that appears under that caption,  
9 Mr. Barendregt references two papers that were

10 given during that workshop, and says "Apart from  
11 US SEC standards," and then it continues.

12 My question is: Do you recall there  
13 being a presentation concerning US SEC standards  
14 at that workshop?

15 MR. SMITH: Objection to form.

16 A. I recall that a variety of reserves  
17 issues had been discussed there, but it's been a  
18 while, and I don't remember exactly what was  
19 discussed.

20 Q. Okay. If you go down now to the  
21 last paragraph that appears on that page,  
22 beginning with the words "Main differences."

23 Do you see that, sir?

24 A. I do.

25 Q. Mr. Barendregt describes "Main

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1 RODNEY SIDLE  
2 differences between SEC guidelines and the  
3 SIEP/SEPIV guidelines."

4 Could you please tell me what SIEP  
5 stands for?

6 A. SIEP is Shell International  
7 Exploration & Production.

8 Q. And SEPIV?

9 A. I believe that's Shell Exploration &  
10 Production International Ventures.

11 Q. The guidelines that Mr. Barendregt  
12 is referring to there, are those the group  
13 guidelines, do you know?

14 A. I would believe so. Yes.

15 Q. There are a series of bullet points  
16 that follow that sentence, and the first one  
17 Mr. Barendregt indicates that SEC proved  
18 undeveloped reserves need to have evacuation  
19 facilities in place, and then he goes on to say  
20 that the Shell guidelines, as he says, do not  
21 insist on this.

22 With respect to the first part of  
23 that sentence, do you recall the SEC requiring  
24 evacuation facilities in place with respect to  
25 proved undeveloped reserves?

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1 RODNEY SIDLE

2 MR. SMITH: Objection to form and  
3 lack of foundation. Are you asking him  
4 about the presentations at this conference?

5 MR. MacFALL: Let me clarify that.  
6 That's fair.

7 BY MR. MacFALL:

8 Q. Were you familiar with the SEC  
9 requirements concerning the booking of proved  
10 reserves in 1999?

11 A. Yes, to the extent that they applied  
12 to typical US operation, which was my focus at  
13 that time.

14 Q. Do you recall -- withdrawn.  
15 Were you aware if the SEC had a  
16 requirement with respect to proved undeveloped  
17 reserves for evacuation facilities in place?

18 A. I don't -- that is a typical  
19 situation you have with US development, because  
20 the US developments are essentially sitting in  
21 the middle of a market. Once you have a project  
22 that drills wells, has facilities, there  
23 typically is the delivery to a sales point  
24 that's not distant from the place where you're  
25 developing the field. So that wasn't a focus of

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1 RODNEY SIDLE

2 mine. That was just a natural assumption that  
3 for US projects you would have that in place.

4 Q. Do I take it from that, then, that  
5 it wasn't an SEC requirement; if it was an SEC  
6 requirement, you weren't aware of that?

7 A. It wasn't an issue I had to deal  
8 with, so I have no memory of whether it was or  
9 was not.

10 Q. Okay. The second bullet point  
11 references monetary royalties, and I believe  
12 that's what you had described previously, that  
13 such were excluded from SEC reserves and  
14 included in Shell's.

15 Actually, is that bullet point  
16 consistent with what you previously testified  
17 about monetary reserves?



18 A. Yes --

19 MR. SMITH: Objection to the form  
20 and foundation.

21 A. Yes, the bullet point is exactly  
22 what I mentioned.

23 Q. Thank you. The third bullet point  
24 references something called I/OR. Do you know  
25 what that is?

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1 RODNEY SIDLE

2 A. Yes. That's improved oil recovery.

3 Q. Mr. Barendregt wrote that the SEC  
4 insisted on a successful test in the reservoir  
5 itself. It then continues.

6 Do you recall if the SEC had such a  
7 requirement in or about 1999?

8 A. Yes.

9 Q. Mr. Barendregt then continues that  
10 the Shell guidelines -- and by that I take it  
11 that he means the group guidelines -- accept a  
12 neighboring analog. Do you see that, sir?

13 A. I see that, yes.

14 Q. Do you recall if the group  
15 guidelines in fact accepted neighboring analog,  
16 in this context?

17 MR. SMITH: At that time?

18 MR. MacFALL: At that time. Thank  
19 you.

20 A. I believe the group guidelines in  
21 1999 did allow an analog. Yes.

22 Q. Do you recall if you ever discussed  
23 the difference between the SEC requirement and  
24 the group guidelines concerning I/OR, improved  
25 reserve, with Mr. Barendregt?

0055

1 RODNEY SIDLE

2 A. At this time?

3 Q. At this time. Yes, sir.

4 A. No, I don't recall.

5 Q. I would like now to ask you to turn  
6 to the second page of that document, sir, and if  
7 you look at the very bottom of the page you'll  
8 see a caption: "My Conclusions of the

9 Workshop." Followed by a series of bullet

10 points. Do you see that, sir?

11 A. Yes, I do.

12 Q. In the first bullet point

13 Mr. Barendregt comments on the way reserves  
14 estimation is practiced in the US, and then goes  
15 on to describe that a number of Shell OUs having  
16 experience with US consultants provide a much  
17 more conservative estimate of prospects than the  
18 Shell estimate.

19 My question is: Do you recall  
20 discussing that with Mr. Barendregt at that  
21 time?

22 A. No, I don't.

23 Q. I realize that you didn't write  
24 this, sir, but do you know what Mr. Barendregt  
25 meant by a much more conservative estimate of

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1 RODNEY SIDLE

2 prospects than the Shell estimate?

3 MR. SMITH: Objection to form and  
4 foundation.

5 A. I don't know.

6 ---

7 (Sidle Exhibit 2, e-mail exchange,  
8 two pages, was marked for identification.)

9 ---

10 A. So this time you had someone else  
11 fling it for you.

12 Q. I don't want to be accused of  
13 flinging unnecessarily.

14 Mr. Sidle, you've just been handed a  
15 document identified, or marked for  
16 identification as Sidle Exhibit 2. I would ask  
17 you, sir, if you would look at that document and  
18 tell me if you recognize it.

19 (Witness reviewing document.)

20 A. I reviewed the document.

21 Q. Okay. Do you recognize this  
22 document, sir?

23 A. Yes.

24 Q. And what is it that you recognize it  
25 to be?

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1 RODNEY SIDLE

2 A. I'm sorry?

3 Q. And what is it that you recognize it  
4 to be?

5 A. To be. It's an e-mail that I wrote  
6 to Remco Aalbers in 1999.

7 Q. Okay. Also attached at the bottom  
8 of the document in sort of reverse chronological  
9 order is an e-mail from Mr. Aalbers to you. Do  
10 you see that, sir?

11 A. I do.

12 Q. Okay. Do you recall first receiving  
13 the e-mail from Mr. Aalbers? This particular  
14 e-mail that's part of Exhibit 2.

15 A. I see that it's here, but I don't  
16 have a memory of it. No.

17 Q. Okay. With respect to the second  
18 e-mail, which is your response to Mr. Aalbers,  
19 do you recall authoring that e-mail, sir?

20 A. As I said, I remember we had  
21 discussions about this topic at the time.

22 Q. Directing your attention  
23 specifically to the second page of the document,  
24 which contains the body of the e-mail from  
25 Mr. Aalbers to you. If you could take a look at

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2 that, sir.

3 Mr. Aalbers is discussing in that  
4 e-mail the idea of linking -- excuse me -- of  
5 booking proved reserves in SEPCO utilizing the  
6 VAR process, and he states here, "initial  
7 suggestion was VAR 4, but maybe VAR 3 could also  
8 be an option."

9 Do you recall, separate and apart  
10 from the e-mail, if you had conversations with  
11 Mr. Aalbers regarding utilization of the VAR  
12 process in connection with the booking of proved  
13 reserves at SEPCO?

14 A. I remember generally that topic was  
15 being discussed at the time because of the  
16 then -- the broader use of the VAR process as a

17 standard way to review projects. So on one hand  
18 you had an internal process with specific  
19 milestones that didn't exist before that now was  
20 being implemented. At the same time there was  
21 the ongoing need to identify for proved reserves  
22 purposes that point at which commitment and  
23 expectation to develop was satisfied.

24 So there was a natural opportunity  
25 to have a discussion about the relation of the  
0059

1 RODNEY SIDLE

2 two.

3 Q. And as referenced in Mr. Aalbers'  
4 e-mail -- withdrawn.

5 When Mr. Aalbers indicates here that  
6 SEPCO was utilizing FID, as we discussed  
7 previously, as a milestone or benchmark in  
8 connection with the booking of proved reserves.  
9 Is that correct, sir?

10 A. Yes. For our large projects. Yes.

11 Q. Thank you. Now, do you recall if  
12 the group guidelines provided that reserves, at  
13 this time, at the time of the e-mail, which is  
14 September of 1999, could be booked upon the  
15 passage of VAR 3?

16 A. I don't have a specific memory of  
17 the language in the 1999 1100 document as it  
18 related to demonstration of commercial maturity.

19 Q. Do you recall what your reaction was  
20 to Mr. Aalbers' suggestion that VAR 4, or VAR 3,  
21 be utilized at SEPCO in lieu of FID, in  
22 connection with the booking of proved reserves?

23 A. Well, my reaction was simply that I  
24 needed to share my experiences with him. We  
25 often had discussions and tested different

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1 RODNEY SIDLE

2 ideas -- well, what about this, what about  
3 that -- so the banter of sharing our experiences  
4 and our knowledge was a standard part of our  
5 interaction. He asked a question. I gave him  
6 my experience that related to that.

7 Q. And you're providing Mr. Aalbers

8 that information, is that the reply e-mail that  
9 appears at the first page -- or on the first  
10 page of this document?

11 A. Yes. Yes, it is.

12 Q. Directing your attention  
13 specifically to the first paragraph, you  
14 indicate that passing of VAR 4 together with  
15 senior management commitment to monetize would  
16 be adequate to meet proved reserve requirements,  
17 and then you continue that in some rare cases  
18 reasonable certainty can be defined at VAR 3,  
19 but you indicate that you believe those were  
20 exceptions.

21 Do you recall if that was -- if  
22 what's here is consistent with what you believed  
23 at the time, sir?

24 A. Yes. This was my view at the time.

25 Q. You go on to describe some of the

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1 RODNEY SIDLE  
2 issues under VAR 3, and then in the next  
3 paragraph, the first sentence, you indicate that  
4 you were reluctant to liberalize the booking  
5 mark on a general basis, and then it continues.

6 Could you please explain for me what  
7 you meant by use of the phrase "liberalize the  
8 booking mark," what were you talking about?

9 A. I'm not sure why I chose those  
10 words. I think it generally relates to the  
11 experience that I had had within SEPCO, all of  
12 this applies to SEPCO experience, of situations  
13 where things were booked that later, because of  
14 changes in conditions, we had to take off the  
15 books.

16 Q. Did you view the adoption of a VAR 3  
17 in lieu of an FID for SEPCO to be a  
18 liberalization of the standards concerning the  
19 booking of proved reserves?

20 A. Well, it certainly lowered the VAR  
21 level requirement from the maturity that you  
22 would have at FID and VAR 4, to a lesser level  
23 of VAR 3. However, what you would need to do if  
24 you did that was then insist on certain other

25 criteria to demonstrate that you've satisfied

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1 RODNEY SIDLE

2 the proved reserves categories of commitment and  
3 expected execution.

4 Q. I would like to direct your  
5 attention to the next paragraph. Sir, the first  
6 sentence reads: "At this point we changed to  
7 requiring major projects pass FID before being  
8 booked - conservative perhaps."

9 What did you mean by "conservative"  
10 as used in that sentence?

11 A. If you look at the SEC standards,  
12 there's no reference made to FID, to project  
13 sanction. What they refer to is a commitment on  
14 the part of the parties, the operator, partners,  
15 whatever the entity is, a commitment to execute,  
16 funding being available, and then being expected  
17 that that development, and the volumes  
18 associated with it, will then be produced.  
19 Nowhere in there does sanction FID, or any of  
20 that, exist.

21 Shell's budgeting system, at the  
22 time of 1999, was one where there was not a  
23 separate clear milestone that was called  
24 commitment. Systems, we had in budgeting in the  
25 past, and years gone by did have that. But at

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1 RODNEY SIDLE

2 that time it didn't exist.

3 To make it very clear to the staff,  
4 you know, when they had reached a point that  
5 satisfied the requirements, when you didn't have  
6 one at exactly the point the SEC asked for, we  
7 said well, what's the next thing that shows up  
8 in our process that would have passed that and  
9 had all of those requirements met and perhaps  
10 even a few more, and that then is the sanction,  
11 or FID point. You've gone beyond commitment to  
12 the point of not only committing, but also  
13 releasing the funds to execute. SEC doesn't say  
14 you have to be at releasing the funds to  
15 execute. They say you have to be at commitment.

16 So there remained within the

17 organization a discussion of, well, if we use  
18 the very clear mark that we have with our own  
19 internal processes of FID, aren't we actually  
20 waiting longer than what the rules say we have  
21 to, because at some prior date we've actually  
22 been to the point of commitment, it's just that  
23 there was no obvious and consistent benchmark to  
24 know that you'd satisfied that.

25 Q. So your reference to conservative,  
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1 RODNEY SIDLE

2 were you saying that the FID requirement was  
3 conservative vis-a-vis the SEC requirements?

4 A. Yes.

5 Q. Do you recall if you had a view of  
6 the group guidelines, vis-a-vis the SEC  
7 requirements at that time?

8 A. I don't recall a view. My mission  
9 at that time was simply to ensure that the  
10 practices that SEPCO had, and wished to retain  
11 use, fit within the rules that we were allowed  
12 by the group.

13 Q. Did SEPCO ultimately change its  
14 guidelines so that proved reserves could be  
15 booked after VAR 3 was passed?

16 A. (Pause.) They were not changed for  
17 major billion dollar very big projects. There  
18 were some smaller projects that, on an exception  
19 basis, where the SEC standard of commitment and  
20 maturity was met, but for a variety of reasons  
21 may not have experienced and passed the VAR 4.  
22 Those specific exceptions were, on a few cases I  
23 can remember, were allowed.

24 Q. Do you recall if the SEPCO  
25 guidelines subsequent to 1999 continued to  
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1 RODNEY SIDLE

2 require major projects to pass FID before proved  
3 reserves could be booked?

4 A. For very large projects, yes.  
5 That's what I recall.

6 Q. Do you recall if the SEPCO



7 guidelines were different than the group  
8 guidelines in that respect, subsequent to 1999?

9 A. Yes. Through that period the group  
10 was implementing references to the VAR process,  
11 and those references were at the VAR stages that  
12 were initially before FID, later became FID,  
13 during the period where they were at stages that  
14 were earlier than FID, they would have been  
15 different from SEPCO's.

16 Q. Were SEPCO's guidelines regarding  
17 the booking of proved reserves subsequent to  
18 1999 more conservative than that utilized by the  
19 group?

20 MR. SMITH: Objection to form.

21 A. The SEPCO guidelines were written  
22 specific to the issues that were addressed with  
23 the projects in our inventory in the US at that  
24 time. They were the guidance that we felt would  
25 be the best instruction to the staff -- excuse

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1 RODNEY SIDLE  
2 me -- to ensure their ease of understanding, and  
3 satisfying SEC and group requirements.

4 I wasn't in a position, with my  
5 knowledge at that time, to make a judgment about  
6 the group requirements used in situations  
7 outside the United States, or the circumstances  
8 with where they were used to see if they were --  
9 how they would have been different from the use  
10 of the Shell -- the SEPCO guidelines. In some  
11 cases the business processes we referred to in  
12 the SEPCO guidelines were not business processes  
13 that were used in others in the Shell group.

14 Q. Did there ever come a time when you  
15 had occasion to participate in the review of the  
16 group guidelines?

17 A. Well, each year when they were  
18 published, I would review the group guidelines  
19 and offer comments, both to assist ensuring that  
20 SEPCO, and the rules that we grew up with,  
21 people were familiar with, and we wished to  
22 retain, would still be allowed, as well as offer  
23 suggestions from things that I've seen within



24 the US industry as to how different terms and  
25 practices are interpreted.

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1 RODNEY SIDLE

2 Q. Did there ever come a time,  
3 subsequent to 2000, when you recommended that  
4 the group guidelines be changed to permit the  
5 booking of proved reserves only after major  
6 projects had passed FID?

7 A. I remember sending in replies to  
8 each of the EP 1100 drafts and covering a  
9 variety of topics. The specific elements of  
10 each of those I don't recall, but it was a  
11 common topic of the day, and it was quite likely  
12 that I may have included that as a suggestion.

13 Q. And I'm sorry. I believe you did  
14 indicate this earlier, but the current group  
15 guidelines, do they require that major projects  
16 pass FID before proved reserves can be booked?

17 A. I think I mentioned that in 1999 I  
18 don't remember exactly what the requirements  
19 were for commercial maturities and where the VAR  
20 standards were, I don't recall at that time that  
21 they did require FID.

22 Q. I'm sorry. I'm talking about the  
23 current guidelines as they currently exist.

24 A. Oh, as they exist today?

25 Q. Yes, sir.

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1 RODNEY SIDLE

2 A. Yes, as they exist today, major  
3 projects, very large projects, with a few very  
4 specific exceptions, require FID.

5 Q. Do you recall approximately when  
6 that was changed?

7 A. It would probably be somewhere in  
8 the 2002, '3, '4 time frame. I don't remember  
9 exactly which year it was.

10 Q. Do you know why that change was  
11 made?

12 A. The only answer I ever got to that  
13 question was dealing with the reporting of  
14 business results, in that when Shell announced

15 FID of large projects, a typical question that  
16 would come from the audience, analysts,  
17 stakeholders, whoever they may be, was well, how  
18 many additional reserves did you book with that.  
19 And the comment that I remember from -- and I  
20 don't even remember who it was -- one of Shell's  
21 leadership was that because Shell was booking  
22 projects before FID, the actual date of FID  
23 didn't have new things left to book, and so they  
24 wanted to be able to, for reporting purposes,  
25 align the delivery of additional proved reserves

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1 RODNEY SIDLE

2 volumes with the message that the funding for a  
3 project was approved and released.

4 Q. Do you recall if any specific  
5 projects were discussed in that context?

6 A. No.

7 Q. Are you aware of any projects where  
8 reserves were booked -- proved reserves were  
9 booked prior to FID? By the group.

10 A. Today?

11 Q. Let me give you a time period. I'm  
12 sorry. 2000 through 2004.

13 A. Okay. But at any time during that  
14 period did I know that, or --

15 Q. I'll rephrase the question.

16 A. Yes, please.

17 Q. Let's start off this way. Are you  
18 aware today of any projects that had booked  
19 proved reserves prior to reaching FID?

20 MR. SMITH: Objection to form.

21 Q. During the 2000 through 2004 time  
22 period. I'm sorry.

23 A. Oh, yes. I am.

24 Q. Could you identify those projects  
25 for me, please?

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1 RODNEY SIDLE

2 A. I can't give you an exhaustive list,  
3 I don't remember them all, but one very  
4 memorable one was Gorgon.

5 MR. SMITH: When you reach a natural

6 breaking point, I think we've been going an  
7 hour and a half or so, if we can take a  
8 break?

9 MR. MacFALL: We can do that now.

10 VIDEOGRAPHER: The time is now  
11 11:29 a.m. This is the end of tape  
12 number 1 of the deposition of Rodney Sidle.  
13 Off the record.

14 ---

15 (Recess.)

16 ---

17 VIDEOGRAPHER: The time is now  
18 11:49 a.m. This is the beginning of tape  
19 number 2 of the deposition of Rodney Sidle.  
20 Back on the record.

21 BY MR. MacFALL:

22 Q. Mr. Sidle, I just would like to ask  
23 a follow-up with regard to Exhibit 1, if that's  
24 okay. If you could just get that document in  
25 front of you again, sir.

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2 And specifically directing your  
3 attention to page 2. At the very top of the  
4 page there's a reference to ongoing discussions  
5 between SPE and the SEC regarding the update --  
6 or possible update of SEC reserves definitions,  
7 and then it continues.

8 Were you aware of those discussions  
9 between the SPE and the SEC at that time?

10 A. No, I was not.

11 Q. Mr. Barendregt then continues,  
12 "perhaps also including allowance for  
13 probabilistic reserves estimation."

14 Do you recall if any of this,  
15 discussions between the SPE and SEC, and  
16 probabilistic reserves estimation, was that  
17 discussed during the actual workshop, to the  
18 best of your recollection?

19 A. I don't recall.

20 Q. Okay. Mr. Barendregt then writes  
21 about the employment of two petroleum engineers  
22 by the SEC in connection with reserves

23 definitions.

24 Do you recall if you were aware of  
25 that at that time? And by "that," I mean the

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1 RODNEY SIDLE

2 SEC's employment of two engineers to look at the  
3 reserves definitions.

4 A. I don't recall at that time, no.

5 Q. Okay. You can put that document  
6 aside. Thank you.

7 Before the break we were talking  
8 about the differences, and some of the  
9 differences between the SEPCO guidelines  
10 concerning the booking of proved reserves and  
11 the group guidelines. Directing your attention  
12 specifically to the 1999-2000 time frame --  
13 withdrawn. Let me expand the time frame.

14 Actually, specifically directing  
15 your attention to the period 2000 to 2004, was  
16 it easier to book proved reserves under the  
17 group guidelines than it was under the SEPCO  
18 guidelines?

19 MR. SMITH: Objection to form.

20 A. I'm not sure I can answer, because I  
21 just -- I don't know how the international  
22 guidelines applied to an international situation  
23 to be able to compare that to the SEPCO  
24 guidelines compared to a US situation. Again,  
25 my focus and my job responsibility was only for

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1 RODNEY SIDLE

2 the application of the rules for SEPCO in the US  
3 situation. There was quite a lot about things  
4 that were different outside of the US that I  
5 simply had no knowledge of, and thus it made it  
6 difficult -- I had no ability to know whether it  
7 was easier, harder, or what it was. My only  
8 comparison is how does it apply to the US.

9 Q. During the 2000 to 2004 time period,  
10 were you ever involved in reviewing the booking  
11 of proved reserves at OUs outside of the United  
12 States?

13 MR. SMITH: Objection to form.

14 A. My primary responsibility is for the  
15 US, but since I was based in Houston, and some  
16 work was done in Houston, there were rare  
17 occasions when simply because of my physical  
18 proximity to those teams, and usually because I  
19 knew a team member on the team who had been part  
20 of the SEPCO operation and had worked with me on  
21 reserve issues, I was asked to offer some  
22 comments.

23 Q. Do you recall being involved in  
24 review of the booking of proved reserves in  
25 connection with Angola Block 18?

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2 A. Yes, I do.

3 Q. Just generally, could you describe  
4 what Angola Block 18 is?

5 A. Angola Block 18 is a reference to a  
6 deepwater offshore track of the nation of  
7 Angola, where Shell and other partners had  
8 interest in that concession, and after some  
9 exploration operations, were at a point of  
10 considering the maturity of the resource that  
11 they had discovered, including whether they  
12 would be able to book proved reserves.

13 Q. Were you familiar with the technical  
14 work, if any, that was done in connection with  
15 Angola Block 18?

16 A. At what time?

17 Q. During the '99-2000 time period.

18 A. Not in '99, but perhaps it was 2000.  
19 Perhaps 2001, would have been about the time  
20 that one of the team members of the Angola Block  
21 18 team, who had worked for SEPCO, contacted me  
22 and asked if I could help them understand how  
23 the rules applied to their situation.  
24 Initially, yeah, I met with him simply to  
25 explain my understanding of the rules.

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2 Q. And when you say your understanding  
3 of the rules, are you talking about the group  
4 rules?

5 A. Yes. The group rules. The  
6 international rules that would apply to their  
7 situation.

8 Q. Do you recall if you recommended to  
9 that individual that he speak with the group  
10 reserves coordinator at the time?

11 A. Yes, I did.

12 Q. Who is the individual that you spoke  
13 to?

14 A. I don't remember exactly who all the  
15 team members were, but the person that I knew  
16 that I had worked with in SEPCO was Alan  
17 Lockwood, and then I spoke with the team, and I  
18 recall providing guidance to the team generally,  
19 I don't remember exactly which individual, that  
20 the group reserves auditor should be involved.

21 Q. Where was Mr. Lockwood physically  
22 located? Was he working at Angola?

23 A. No. He worked in Houston.

24 Q. Were there other members of the  
25 Angola team that -- with whom you were familiar

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1 RODNEY SIDLE

2 during that period, 2001?

3 A. Not people that I had worked with  
4 before. No.

5 Q. Were there people that you worked  
6 with subsequent to Mr. Lockwood's contact, or  
7 initial contact with you, who worked on Angola  
8 Block 18?

9 A. Yes. I met members of the team, and  
10 I was introduced to them.

11 Q. Do you recall any of those team  
12 members?

13 A. Off the top of my head I can't give  
14 you any names.

15 Q. Do you recall where the --  
16 withdrawn. Were those team members also located  
17 in the United States?

18 A. When I met with them, I met with  
19 them in the United States. Yes.

20 Q. Do you know if they worked out of  
21 offices in the United States?

22 A. I know a part of the team was based  
23 in Houston. I know there were other people that  
24 were working on it, that were based in other  
25 places. I don't know exactly where each of them  
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1 RODNEY SIDLE

2 was based.

3 Q. In connection with your review of  
4 the reserves bookings at Angola Block 18, did  
5 you have occasion to review the technical work  
6 that was done --

7 MR. SMITH: Objection.

8 Q. -- in connection with that project?

9 MR. SMITH: I'm sorry. Objection to  
10 form.

11 A. Part of what I did to give them  
12 guidance was to at least go through a summary of  
13 work that had been done to get some familiarity  
14 with the situation at Block 18, to be able then  
15 to give them guidance.

16 Q. Do you recall what it was that you  
17 reviewed?

18 A. Not specifically, no.

19 Q. Do you recall who prepared the  
20 summary that you reviewed?

21 A. I believe I recall that Alan was one  
22 of the members in the meeting, but there were  
23 other team members that were there that  
24 presented that summary to me.

25 Q. Do you recall what Shell

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1 RODNEY SIDLE

2 organization Mr. Lockwood worked for at that  
3 time?

4 A. He was part of a Shell organization  
5 that provided technical services to other parts  
6 of Shell's operations and business entities,  
7 but, frankly, Shell reorganizes so frequently  
8 that the exact name of the organization at that  
9 date and time, I'm not sure I could give you.

10 Q. Are you familiar with an entity that  
11 was known as Shell Deepwater Services?

12 A. Yes, I am.



13 Q. Was Mr. Lockwood employed by Shell  
14 Deepwater Services, or SDS?

15 A. At one point in time he was.  
16 Whether it was exactly at that point in time or  
17 not, I don't recall.

18 Q. It might be helpful just to go  
19 through some of the entities that might have  
20 existed at that time.

21 Are you familiar with an entity  
22 known as SEPTAR?

23 A. Yes, I am.

24 Q. Okay. And could you please tell me  
25 what SEPTAR is?

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1 RODNEY SIDLE

2 A. Yes.

3 Q. Or was?

4 A. Well, SEPTAR is another of Shell's  
5 entities that changed character over time.  
6 Actually in 1999, before I transferred to the  
7 reserves group, I was employed by SEPTAR.

8 SEPTAR started as the SEPCO research  
9 technology arm, so it was a part of the US E&P  
10 SEPCO organization that dealt with E&P research  
11 and technology application.

12 Later SEPTAR merged with an  
13 equivalent organization within the group called  
14 KSEPL, and that's Dutch, an acronym, so please  
15 don't ask me what it means --

16 Q. Fair enough.

17 A. -- but it had a similar purpose,  
18 research and technology application, and the  
19 combined organization took the name SEPTAR. It  
20 stands for Shell Exploration and Production  
21 Technology and Applied Research.

22 Q. Do you recall when it was that  
23 SEPTAR, based in the US as a SEPCO entity,  
24 merged with the Dutch entity?

25 A. It was a process that took place

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1 RODNEY SIDLE

2 over a time period. I know that process was  
3 ongoing about 1999, because that was the

4 occasion that caused the opportunity that became  
5 my job as reserves manager to open up, so I know  
6 it was in the process of being done at that  
7 time. Exactly when it started and exactly when  
8 it ended, I don't know.

9 Q. What did you do for SEPTAR?

10 A. I worked for one of the technical  
11 leaders, doing reservoir engineering studies and  
12 other special work.

13 Q. You described that SEPTAR was  
14 involved primarily -- withdrawn.

15 You described SEPTAR's work in  
16 connection with SEPCO. During the time that you  
17 were there, do you recall if SEPTAR did any work  
18 for non-US OUs within Shell?

19 A. Yes.

20 Q. Could you describe the nature of the  
21 work that you're familiar with having been done  
22 by SEPTAR for other OUs?

23 A. Okay. The work that I'm  
24 specifically familiar with is a piece of work  
25 that I did myself, which was to support our

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2 Brazil asset at looking at a business  
3 opportunity offshore in Brazil. The EP support  
4 work that was done by SEPTAR was very broad in  
5 base, from drilling, to geology, to installation  
6 of offshore facilities, a great breadth of work,  
7 and exactly how much of that was done for US  
8 versus outside of the US organizations, I don't  
9 know. Some was done for organizations outside  
10 the US.

11 Q. With regard to the specific project  
12 that you have experience with involving Brazil,  
13 do you recall how long that project lasted while  
14 you worked on it at SEPTAR?

15 A. Oh, while I worked on it, I was only  
16 there for probably about nine months, and I  
17 worked on it probably the last six of those nine  
18 months.

19 Q. Were there other individuals at  
20 SEPTAR also working on that Brazilian project

21 with you?

22 A. Yes, I believe there were. A  
23 geophysicist, a geologist, a geoscientist was  
24 also working on it with me.

25 Q. Do you recall the individual's name?

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2 A. No, I don't.

3 Q. Do you recall if there were any  
4 other entities or organizations, Shell entities  
5 or organizations in the United States that  
6 worked on the Brazilian project, besides SEPTAR?

7 A. Besides SEPTAR?

8 (Pause.) No, I don't.

9 Q. Now, you mentioned a little while  
10 ago Shell Deepwater Services, and you indicated  
11 that you were familiar with that organization.  
12 Correct?

13 A. Yes.

14 Q. Do you know where Shell Deepwater  
15 Services was physically located in the time  
16 period of 2000 -- 1999 to 2004?

17 A. The headquarters, the leadership of  
18 the organization was located in Houston, I  
19 believe.

20 Q. Do you recall, during the time  
21 period '99 to 2004, approximately how many  
22 individuals worked at SDS in Houston?

23 A. No, I don't.

24 Q. Are you familiar with the kind of  
25 work that SDS in Houston did during that time

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1 RODNEY SIDLE

2 period?

3 A. Only in a very general way.

4 Q. And could you describe for me your  
5 understanding of it?

6 A. Yes. As the name implies, deepwater  
7 business ventures were -- one of the  
8 organizations that supported them was SDS, using  
9 technologies that Shell had developed for  
10 deepwater drilling, deepwater exploration,  
11 deepwater development.

12 Q. You identified Mr. Lockwood as  
13 possibly having worked for SDS at some point.

14 A. I think he did work for them. It's  
15 just, as like with any big company, people move  
16 in and out of subsidiaries quite commonly. And  
17 so at a specific point in time, I can't be sure  
18 that that was where he was employed.

19 Q. Do you recall if you had any  
20 involvement -- withdrawn.

21 Do you recall having any interaction  
22 with SDS in connection with the work you did for  
23 Angola Block 18?

24 A. Yes. There were members of the SDS  
25 team that worked on the Angola Block 18

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2 development, and members of the people that I  
3 met with, that I had my technical discussions.

4 Q. When you say technical discussion,  
5 could you just generally describe what it is  
6 that you mean by that, sir?

7 A. Okay. The technical discussions I  
8 would typically have -- I have no exact memory  
9 of what went on -- but the typical discussions  
10 would be to look at the maps that showed the  
11 acreage that was available.

12 Look at seismic information or other  
13 information that tried to suggest where the  
14 potential accumulations of oil and gas would be.

15 Look at placement of wells to see  
16 where wells and information were sampled.

17 Look at the results of the  
18 information from that drilling.

19 Look at technical analysis of core  
20 samples, of fluid samples, of production test  
21 results.

22 Look at subsurface mapping of the  
23 distribution of the thickness and extent of  
24 layers, not just a map view, but cross-sections.

25 Look at a representation of

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1 RODNEY SIDLE  
2 potential recoveries as theoretically calculated

3 by a reservoir simulator, which tried to  
4 represent the physics of oil and gas flow in a  
5 porous and permeable subsurface layer.

6 Look at potential development plans,  
7 where might producing wells be. If it was a  
8 water injection project, where would water  
9 injection wells be. What were the dynamics of  
10 their interaction to try to suggest how much oil  
11 and gas could be produced.

12 Also, we would look at economics to  
13 see what the cost of that development might be  
14 and what the value of projected production would  
15 be to see if there were revenues sufficient to  
16 cover the costs and make it a profitable  
17 project. All of those are examples.

18 Q. I realize that you indicated that  
19 that was -- those were examples, or exemplars of  
20 what you would typically discuss.

21 Do you recall if you reviewed any  
22 such work -- withdrawn.

23 Do you recall if any of the work you  
24 just described was done by SDS in connection  
25 with Angola Block 18?

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2 A. I'm not sure which business entity  
3 created the information I saw.

4 Q. Did you ultimately make a  
5 recommendation with the booking of proved  
6 reserves in connection with Angola Block 18?

7 MR. SMITH: Objection to form.

8 A. I don't recall being involved in the  
9 final review by which a decision to book or not  
10 occurred. My engagement in the first session,  
11 and later in a meeting that included Anton  
12 Barendregt, was to look at the technical work  
13 and provide guidance to the team about what they  
14 had, and what -- what they could do in addition  
15 to what they had that would best satisfy the  
16 Shell International -- the group --  
17 requirements. Some of the things they had were  
18 simply not mature enough -- we talked about the  
19 concept of technical maturity -- some of it was

20 not technically mature to the point where it  
21 looked to be even close to satisfying proved  
22 reserves.

23 Some portions seemed more  
24 technically mature, also had the opportunity to  
25 be able to meet the commercial maturity

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2 standards, and so the guidance that we -- that I  
3 participated in the discussions to give was to  
4 help them focus on how they could direct their  
5 efforts to the things that had a higher  
6 likelihood of actually meeting a test.

7 Q. Do you recall if you did any work in  
8 connection with any projects in New Zealand?

9 A. Yes. I was asked to look at the  
10 Maui field in New Zealand to assist the  
11 New Zealand staff in understanding the criteria  
12 for expectation, and scope for recovery volumes.  
13 Not for proved reserves.

14 Q. Was that under the group guidelines?

15 A. Yes. That would be under the group  
16 guidelines.

17 Q. Do you recall if either the GRC, or  
18 Mr. Barendregt, were involved in work at the  
19 Maui field in New Zealand?

20 A. Could you explain what the GRC  
21 means, the way you've used it?

22 Q. I'm sorry. Group reserves  
23 coordinator.

24 A. Okay. Let's see. Well, they didn't  
25 participate while I was in New Zealand reviewing

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1 RODNEY SIDLE

2 the data for the field.

3 I don't actually remember what  
4 discussions may have been held at that time.

5 Q. Do you recall if you did any work in  
6 connection with Bonga in Nigeria?

7 A. The Bonga Southwest, which is a  
8 separate accumulation from the main Bonga field,  
9 was a discovery where the question of, again, of  
10 maturity to meet group standards for proved

11 reserves arose. Unfortunately, the timing and  
12 logistics of how that arose were limiting, in  
13 terms of how the group could respond to provide  
14 review of the proposed booking of new proved  
15 reserves.

16 I don't remember exactly what year  
17 it was, but the time of the year was that the  
18 information that there was a proposal to book  
19 some proved reserves at Bonga Southwest appeared  
20 very late in the reserve reporting year -- I  
21 don't remember if it was late December or very  
22 early January -- but because of the timing of  
23 the first notice that that was being proposed,  
24 there was limited opportunity for any of the  
25 normal group reviewers to sit down with the  
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2 Bonga Southwest team and really go through the  
3 details or the basis of that proposal to book  
4 reserves.

5 The team that was doing the work on  
6 behalf of SNEPCO, which is the Shell Nigeria  
7 offshore subsidiary, was based in Houston, and  
8 their work was available for review in Houston,  
9 and I was contacted by the reserves coordinator  
10 at the time to ask if I would go take a look at  
11 their work and use my judgment as to the  
12 international standards and provide them --  
13 provide him with my view as to whether or not it  
14 seemed sufficiently mature to actually meet the  
15 group's standards.

16 So I did that, and I concluded and  
17 documented in an e-mail that it did not meet the  
18 standards and should not be booked as proved  
19 reserves.

20 Q. Do you recall who were the members  
21 of the team involved with the Bonga Southwest  
22 project? If you don't recall, that's fine.

23 A. I'd be happy to draw the diffusivity  
24 equation for you, but you asked me names, and  
25 I'm really in a bad shape.

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2 Q. Fair enough. Do you recall -- this  
3 may or may not help -- do you recall what  
4 organizations or entities those individuals  
5 worked for, besides SNEPCO?

6 A. Many of those teams were composed of  
7 people from a variety of entities, and so it's  
8 difficult for me to know just from a face that's  
9 there. Even if I know the person or entity that  
10 he's with at that point in time. I don't  
11 recall.

12 Q. Okay. It occurs to me that there is  
13 another entity that you may or may not know  
14 about, but I'll ask. Are you familiar with  
15 something called the Bellaire Technology Center?

16 A. Yes, yes, I am. I worked there when  
17 I was part of SEPTAR.

18 Q. Okay. Could you describe for me  
19 what the Bellaire Technology Center is,  
20 vis-a-vis SEPTAR, for example?

21 A. Yes. Yes. SEPTAR is an  
22 organization, it's an arm of one of Shell's  
23 entities, first SEPCO, and later the group, but  
24 it is an organization. Bellaire Technology  
25 Center is a facility. Simply a building,

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2 parking lots, laboratories, offices, where a  
3 variety of different Shell organizations have  
4 located from time to time, but dominantly it's  
5 tenant is the research arm of Shell that is  
6 located in Houston. Most times that was people  
7 who are part of SEPCO, but later when it became  
8 part of the group, there were people that were  
9 from a variety of different backgrounds that  
10 occupied that facility.

11 Q. Just with respect to SEPTAR, and I'm  
12 sorry. I do apologize for jumping around, it's  
13 just that things occur to me when we talk.

14 Do you recall approximately how many  
15 individuals were employed by SEPTAR at the time  
16 that you were there?

17 A. No, I don't.

18 Q. Do you have any idea how many people

19 were employed by the Dutch entity that  
20 ultimately joined with SEPTAR?

21 A. Yes. KSEPL. No. No, I don't know.

22 Q. Thank you. Do you recall an  
23 individual named Phillip Denning?

24 A. Phillip Denning?

25 Q. (Nodding head.)

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1 RODNEY SIDLE

2 A. Yes.

3 Q. Could you identify Mr. Denning for  
4 me?

5 A. Phil Denning was a staff person in  
6 the, at the time I knew him, SEPCO finance  
7 organization.

8 Q. Do you know an individual named  
9 Robert, or Bob Deere?

10 A. Yes.

11 Q. Could you identify Mr. Deere for me?

12 A. When I first met him, Bob also was  
13 part of the SEPCO finance organization, but I've  
14 continued to work with Bob now that he's been at  
15 the Royal Dutch/Shell group corporate finance  
16 controller's level.

17 MR. MacFALL: May I have this  
18 marked, please.

19 ---

20 (Sidle Exhibit 3, e-mail string,  
21 five pages, was marked for identification.)

22 ---

23 BY MR. MacFALL:

24 Q. Mr. Sidle, you were just handed a  
25 document that has been marked as Sidle Exhibit 3

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1 RODNEY SIDLE

2 for identification. You'll see the first page  
3 is an e-mail involving the two individuals we've  
4 just discussed. It may help, in terms of  
5 whether or not you recognize the document, to  
6 turn to the second page and you'll see that  
7 there's an e-mail on which you were cc'd.

8 A. Okay.

9 Q. If you just take a look --

10 A. Can I have a moment to read it,  
11 please?

12 Q. Yes. I was just going to say, just  
13 take a look at the document and let me know when  
14 you're ready to discuss it.

15 A. Thank you very much.  
16 (Witness reviewing document.)

17 A. Okay. I've read it.

18 Q. Do you recall the issues  
19 described -- or discussed in these e-mails, sir,  
20 coming up in or about March 2000?

21 A. I remember the issues. I don't  
22 remember exact timing. This seems about right.

23 Q. Okay. And the issues involve well  
24 count for indeterminate wells, is what  
25 Mr. Denning describes it as in one e-mail.

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1 RODNEY SIDLE

2 My understanding, and this is a  
3 gross generalization, it had to do with the  
4 difference between group treatment of certain  
5 wells and SEPCO's treatment of certain kinds of  
6 wells. Is that correct, sir?

7 A. In a broad sense it really relates  
8 to whether you want the data capture that you  
9 use internally to benchmark your performance to  
10 be the same as or separate from other  
11 requirements for reporting similar data. And  
12 the issue that's described in here is one where,  
13 as Phil's explaining it, he would prefer to keep  
14 those as two separate sets of data so that you  
15 preserve the individual elements and  
16 distinctions of each, whereas for ease of  
17 reporting, the group asked if it would be  
18 possible to have just one set of data.

19 Q. If I could direct your attention now  
20 to the first page of that document, sir.

21 A. All right.

22 Q. It is an e-mail from Mr. Denning to  
23 Mr. Deere. In that e-mail Mr. Denning refers to  
24 the group wanting a one-size-fits-all ability to  
25 deal with this.

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1 RODNEY SIDLE

2 If I could specifically direct your  
3 attention, sir, to the middle of the very last  
4 paragraph on that first page. Do you see  
5 there's a sentence that begins, "If I read  
6 between the lines of Remco's e-mail."

7 Do you see that, sir?

8 A. I see that.

9 Q. Okay. If you could just read from  
10 that line to the bottom of the paragraph to  
11 yourself, and let me know when you're ready.

12 (Witness reviewing document.)

13 A. Okay. I've read it.

14 Q. Mr. Denning appears to suggest that  
15 there is a -- that reporting in the manner that  
16 the group suggests would -- could be misleading  
17 to investors, or at least he seems to suggest  
18 that here.

19 Do you recall ever discussing that  
20 with Mr. Denning?

21 MR. SMITH: Objection to form and  
22 foundation.

23 A. Well, I'm not sure I agree with the  
24 preface that you've outlined. But your question  
25 is do I recall discussing it. No, I don't.

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1 RODNEY SIDLE

2 Q. Without characterizing what's said  
3 here, do you recall discussing what's stated  
4 here in the last paragraph of that exhibit, on  
5 the first page, with anyone at any point?

6 MR. SMITH: Objection to form and  
7 foundation.

8 A. Not the specific items here, in  
9 terms of that exploration well count. No.

10 Q. Do you recall ever discussing --  
11 withdrawn.

12 In or about 2000, April of 2000, do  
13 you recall if SEPCO or the group had drawn any  
14 criticism from investors with respect to its  
15 past exploration performance?

16 A. No.

17 MR. SMITH: Objection to form.

18 Q. No, you don't recall or no, they  
19 hadn't drawn any criticism?

20 A. No, I don't recall.

21 Q. Were you aware if there was any  
22 analyst commentary on SEPCO's past exploration  
23 performance in or about March of -- April of  
24 2000? I'm sorry.

25 A. That's not an area of my expertise.

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1 RODNEY SIDLE

2 I just didn't study those things. I don't  
3 recall.

4 Q. Okay. I take it that your response  
5 would be the same with respect to analyst  
6 commentary about group exploration efforts?

7 A. You take that correctly.

8 Q. Thank you.

9 ---

10 (Sidle Exhibit 4, e-mail and  
11 attachment, Bates number RJW00113489  
12 through RJW0013496, was marked for  
13 identification.)

14 ---

15 BY MR. MacFALL:

16 Q. Mr. Sidle, you've just been handed a  
17 document that has been marked for identification  
18 as Sidle Exhibit 4. I would ask you to take a  
19 look at it, sir, and tell me if you recognize  
20 it. I would note that it is a short e-mail  
21 followed by a fairly lengthy attachment. But  
22 please take your time and just let me know when  
23 you're done.

24 (Witness reviewing document.)

25 Q. Do you recognize this document, sir?

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1 RODNEY SIDLE

2 A. Yes, I do.

3 Q. And just for the record, the first  
4 page of the document is an e-mail from  
5 Mr. Aalbers to you cc'ing Aidan McKay and  
6 Mr. Van Nues, and it concerns a document  
7 prepared by the SEC and received by KPMG.  
8 Just directing your attention to the

9 long paragraph there in the e-mail. It says:

10 "Production of natural gas should include only  
11 marketable production of gas on an 'as sold'  
12 basis," and then it continues.

13 Do you recall if this requirement --  
14 withdrawn.

15 Do you recall if the "as sold basis"  
16 was a requirement of the SEC regarding -- I'm  
17 going to withdraw that again.

18 With respect to booking of proved  
19 reserves, do you recall if the SEC required that  
20 gas be the subject to sales contracts or  
21 actually sold prior to such bookings being  
22 permitted?

23 MR. SMITH: Objection to form.

24 A. I think the question you're asking,  
25 it always required the gas be sold because it

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1 RODNEY SIDLE

2 had to be sold to create the revenue that made  
3 it economic. The topic I believe you're  
4 addressing is, is the volume to be calculated  
5 and classified as reserves for proved reserves  
6 purposes, the volume that is sold, as opposed to  
7 another representation of volume, for example,  
8 the amount of gas that actually came out of the  
9 well, rather than just that portion that  
10 ultimately made it through the sales meter.

11 The SEC rules were and remain, for  
12 proved reserves reporting, that it could be  
13 either, as long as the treatment was consistent  
14 within the description of the reserve and the  
15 calculation of the economic basis of that  
16 reserve, called the standardized measure.

17 Q. Thank you. Now, you had mentioned  
18 the Gorgon project a little bit ago. Do you  
19 recall that, sir?

20 A. Yes, I do.

21 Q. Okay. The Gorgon project, was that  
22 a natural gas project?

23 A. I believe so. Yes.

24 Q. I believe you had indicated that you  
25 were aware, or became aware at some point, that

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1 RODNEY SIDLE

2 proved reserves were booked in connection with  
3 that project prior to it reaching FID. Is that  
4 correct?

5 A. That's correct.

6 Q. Are you aware if proved reserves  
7 were booked in connection with Gorgon prior to  
8 any sales contracts being in place?

9 MR. SMITH: Objection to form. Lack  
10 of foundation.

11 A. At what time? At any time?

12 Q. During the period 2000 to 2004?

13 A. Yes, by late 2003 and 2004 I became  
14 aware of some information about the Gorgon  
15 project, and became aware that the volumes were  
16 booked in the absence of a sales contract.

17 Q. That booking would therefore -- and  
18 by that booking, I mean the booking of Gorgon --  
19 would then therefore fail to satisfy the SEC's  
20 requirements concerning the booking of proved  
21 reserves for gas. Correct?

22 MR. SMITH: Objection to form.  
23 Objection; lack of foundation. Objection;  
24 lack of qualification.

25 A. (No response.)

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2 Q. Before you answer, maybe this will  
3 address some of Mr. Smith's concerns.

4 A. Okay.

5 Q. As part of your duties and  
6 responsibilities at Shell, were you called upon  
7 to opine as to whether the booking of various  
8 proved reserves would comply with the SEC's  
9 requirements concerning the booking of proved  
10 reserves?

11 A. That was asking me for all the US  
12 projects that -- all of the projects SEPCO had,  
13 because that was my responsibility as reserves  
14 manager. On a unique and one-off basis,  
15 occasionally I was asked for such guidance  
16 relative to the Shell standard, which were at



17 that time thought to align with the SEC, and on  
18 those one or two or three occasions when I was  
19 so asked, I did give guidance.

20 Q. Based on your experience as reserve  
21 manager and your experiences within Shell, is  
22 the booking of proved reserves in connection  
23 with a natural gas project prior to the  
24 execution of a final sales contract, or a sales  
25 contract with respect to that gas, in violation

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1 RODNEY SIDLE  
2 of the SEC requirements concerning the booking  
3 of proved reserves?

4 MR. SMITH: Objection to the form,  
5 it's hypothetical. Objection; lack of  
6 foundation.

7 A. I can relate to the situation that  
8 you asked, because that's the one I'm familiar  
9 with.

10 Q. Okay.

11 A. And at the time I was looking after  
12 the US operations, our typical process would be  
13 to make sure that we had a market for the gas,  
14 in other words, a connection to a point of sale.  
15 Within the US there are many places in the  
16 distribution system where you can have that  
17 access, so as we were booking gas reserves in  
18 the US, we would say well, where will it be sold  
19 and then what is the price that you will receive  
20 there, as a standard part of assuring that we  
21 had all the information necessary to determine  
22 if you could meet proved reserves requirements.

23 Q. Okay. Fair enough. Let me ask you  
24 this: During the course of your comparison of  
25 your review of the group guidelines and SEPCO's

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1 RODNEY SIDLE  
2 guidelines, or at any other point -- withdrawn.

3 Did the SEC rules apply to projects  
4 outside of the United States?

5 A. Yes.

6 Q. During those times that you were  
7 asked to review the booking of proved reserves

8 in connection with projects outside of the  
9 United States, did you ascertain, as part of  
10 that process, whether the booking of proved  
11 reserves would comply with SEC requirements?

12 MR. SMITH: Objection to form and  
13 lack of foundation.

14 A. When I was looking at projects  
15 outside of the US, I used the group guidelines  
16 as my basis for determining what could be called  
17 proved or expectation reserves. The information  
18 that I had at that time, and the knowledge that  
19 I had at that time about the group guidelines,  
20 was that the instructions that were there were  
21 consistent with how the SEC saw things to be  
22 applied outside of the U.S.

23 Q. Did you ever become aware --  
24 withdrawn.

25 Were you aware of any specific

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1 RODNEY SIDLE  
2 instances in which the Shell guidelines -- the  
3 group guidelines -- were inconsistent with the  
4 SEC requirements concerning the booking of  
5 proved reserves?

6 MR. SMITH: Objection to form.

7 A. Well, one example was the royalty  
8 situation, certain of the circumstances of  
9 ownership of minerals in the US were different  
10 from the international situations that the group  
11 guidelines were broadly written to address. So  
12 that's an example. Yes.

13 Q. Were you aware of any other  
14 examples? And I'll direct your attention to the  
15 time period of 2000 to 2004.

16 MR. SMITH: Objection to form.

17 A. There were things that I saw in the  
18 document that as I relate them to the US  
19 experience, I found it difficult to understand  
20 because I didn't have a parallel US experience  
21 to say whether they were or were not consistent  
22 with that understanding.

23 My attempt in looking at the group  
24 guidelines was not to ascertain how the SEC

25 applied internationally, because I simply had no

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2 basis for knowing that. It was to ensure that  
3 the way I saw the SEC rules being applied within  
4 the US, that the group guidelines allowed me to  
5 do that, and so I could continue to follow the  
6 rules that we had established within SEPCO and  
7 had maintained for some time.

8 Q. Were you ever called upon to review  
9 the group guidelines to assess their compliance  
10 with the SEC requirements?

11 A. Again, the focus of my work was on  
12 US operations. I personally did, through SPE  
13 and others, you know, get information from time  
14 to time that I passed on to the group so that  
15 they would be aware of that, and then could  
16 consider that within the pool of information  
17 they had when they prepared the guidelines.  
18 Whether or not that was better guidance or not  
19 of what the SEC meant, I didn't know. But I  
20 wanted them to share at least the things I was  
21 hearing so they could make a proper judgment of  
22 what the rules should be.

23 Q. Okay. But I guess my question was:  
24 Were you ever personally requested to review the  
25 group guidelines to assess whether or not they

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1 RODNEY SIDLE

2 were complying with the SEC requirements?

3 MR. SMITH: Still in this 2000-2004  
4 time frame?

5 MR. MacFALL: Yes. Thank you.

6 A. It was a service that I provided. I  
7 don't remember the exact request, but I did get  
8 draft copies of the guidelines, as I believe  
9 other reserve managers around the world did, to  
10 provide feedback to things that are  
11 clarifications, questions as to should we say it  
12 this way, should we say it that way, things like  
13 that. And yes, I did provide feedback like  
14 that.

15 Q. Do you recall the time period -- do

16 you recall the specific year when you first did  
17 that?

18 MR. SMITH: Objection to form.

19 A. It was probably around 2000, 2001,  
20 to the best of my knowledge.

21 Q. Do you recall any specific instances  
22 when you reviewed the group guidelines, or a  
23 draft of any changes, proposed changes to the  
24 group guidelines, when you found that either an  
25 existing guideline or proposed change failed to  
0107

1 RODNEY SIDLE  
2 comply with the SEC requirements concerning the  
3 booking of proved reserves?

4 A. Well, again, my experience at that  
5 time didn't really give me clear guidance as to  
6 how the things I was used to applying in the US  
7 would apply internationally. So my comments  
8 were typically here's something I see that as I  
9 apply it to the US, I may not do it that way for  
10 the US, like royalties, for example, but here's  
11 my guidance as to the things that I see within  
12 the US have that information so you now can  
13 consider that in an international setting and  
14 whether or not that is an appropriate way to go  
15 internationally, as well as within the US, or  
16 there's some reason, guidance information,  
17 whatever others may have, that would suggest,  
18 no, the way that the statement is made in the  
19 guidance document is indeed correct.

20 Q. I'm sorry. I sort of wandered  
21 afield from Exhibit 4. We talked about the  
22 e-mail. The attachment begins on page 2 of the  
23 document, sir.

24 A. Yes.

25 Q. And it's from the Division of  
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1 RODNEY SIDLE  
2 Corporation Finance: Current Accounting and  
3 Disclosure Issues, dated June 30, 2000.

4 A. Mm-hmm.

5 Q. Do you recall reviewing this  
6 document, or the information contained in this

7 document, in or about June of 2000?

8 A. Yes. Yes, that's when it was  
9 published on the website as a draft for comment,  
10 so it would have been after that. Yes.

11 Q. Okay. I would like to specifically  
12 direct your attention to page 3 of the document,  
13 which is the first page of text in the actual  
14 attachment.

15 Do you have that, sir? Beginning at  
16 the top it says "Issues in the Extractive  
17 Industry"?

18 A. I have that.

19 Q. The second full paragraph bears a  
20 caption "Definition of Proved Reserves."

21 There are two paragraphs that are  
22 unnumbered followed by a numbered paragraph that  
23 says No. 1, Proved Oil and Gas Reserves. Do you  
24 see that, sir?

25 A. Yes, I see those.

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2 Q. It's about a third of the way from  
3 the bottom of the page.

4 A. Yes.

5 Q. Okay. This gets a little tricky,  
6 but in that paragraph, seven lines from the  
7 bottom of that paragraph, about halfway through,  
8 there's a sentence that begins with the words,  
9 "If the area in question is new."

10 Do you see that, sir?

11 A. I do.

12 Q. And then it continues. If you could  
13 just read that to yourself, and I would like  
14 specifically to discuss the last sentence in  
15 that paragraph.

16 (Witness reviewing document.)

17 A. Yes.

18 Q. The last sentence in the paragraph  
19 discusses the concept of reasonable certainty,  
20 and the likelihood of an upward revision being  
21 greater than a downward revision in that regard.

22 My question is: Were you aware,  
23 prior to the time that this material was issued

24 for comment, of a similar requirement in  
25 connection with proved reserves from the SEC?

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2 MR. SMITH: Objection to form.

3 A. I believe I answered a prior  
4 question of yours earlier today that I was  
5 certainly aware of the concept of reasonable  
6 certainty, and that it required a high  
7 confidence that the volume you produced that was  
8 reasonably certain would have high likelihood of  
9 being produced, or better. This was the first  
10 time I saw a clear explanation that that meant a  
11 much more likely positive or upward revision  
12 than downward with future information. The  
13 concept was the same. But this was a more  
14 succinct and direct way to explain it.

15 Q. Do you recall if you discussed that  
16 particular concept, as embodied in the sentence  
17 we just read, with Mr. Aalbers at any point?

18 A. I don't remember a discussion about  
19 specifically that.

20 Q. Do you remember if you discussed  
21 this material with Mr. Aalbers? And by this  
22 material, I mean the attachment to the e-mail,  
23 which is Exhibit 4.

24 A. Yes. This was a draft that was  
25 posted by the SEC prior to the issuance of a

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1 RODNEY SIDLE

2 final guidance document, and I recall providing  
3 it to, I don't remember if it was Remco, or  
4 Anton, or both, but providing to people that I  
5 spoke to about reserves issues in the group so  
6 that they could be aware of it.

7 Q. Do you remember if you had any  
8 discussions with them subsequent to your  
9 forwarding it to them?

10 A. I don't remember any specific  
11 discussions, no.

12 Q. If I could direct your attention now  
13 to the next page of the document, ending in  
14 Bates number 3492. Do you have that, sir?

15 A. Yes.

16 Q. You'll see at the bottom fifth of  
17 the page there is a numbered paragraph 3. I  
18 would actually like to direct your attention to  
19 the fifth line in the paragraph -- or from the  
20 bottom of the paragraph that precedes that,  
21 which I guess is numbered 2, beginning with the  
22 words, "In the absence of a fluid contact."

23 Do you see that, sir?

24 A. Just a moment.

25 Q. I'm sorry. Take your time.

0112

1 RODNEY SIDLE

2 A. I see a paragraph that begins, "In  
3 the absence of information on fluid contacts."

4 MR. FERRARA: Sorry. You're in  
5 paragraph 2 or 3?

6 MR. MacFALL: I'm sorry. Let me  
7 start again. I am in paragraph 2. It is  
8 the penultimate sentence in that paragraph.

9 A. Yes, I have that.

10 Q. Okay. That sentence, and the  
11 balance of the paragraph, actually references  
12 LKH. Are you familiar with the term LKH, sir?

13 A. Yes, I am.

14 Q. Okay. Could you please describe for  
15 me what that is?

16 A. LKH is an acronym that refers to the  
17 lowest known hydrocarbon. In other words, the  
18 indication that you would have as to the  
19 presence of hydrocarbon at a structural position  
20 in a subsurface accumulation.

21 Q. Did the SEC, at this time, in or  
22 about 2000, June of 2000, have requirements  
23 concerning the booking of proved reserves from  
24 reservoirs below the lowest known hydrocarbon?

25 MR. SMITH: Objection to form.

0113

1 RODNEY SIDLE

2 A. The -- if you go up to the, let's  
3 see, first, second -- third sentence in the  
4 paragraph labeled 2, you find the sentence,  
5 quote, "In the absence of information on fluid



6 contacts, the lowest known structural occurrence  
7 of hydrocarbons controls the lower proved limits  
8 of the reservoir," end quotes. That statement  
9 comes directly out of rule 4-10(a), and was the  
10 basis for guidance until further clarification  
11 in this document came out.

12 Q. As a practical effect of that --  
13 withdrawn.

14 Under the SEC rules, was it  
15 permissible to recognize proved reserves below  
16 the LKH based on seismic data where there had  
17 been no actual fluid contact?

18 MR. SMITH: Objection to form. Is  
19 there a time frame?

20 MR. MacFALL: During this time  
21 period. I'm sorry.

22 MR. SMITH: Before or after this  
23 came out?

24 MR. MacFALL: Let's make it 2000 to  
25 2002.

0114

1 RODNEY SIDLE

2 A. Okay. There's another sentence in  
3 here that's relevant to that question. If  
4 you'll give me a moment to find that --

5 Q. Yes, sure.

6 A. -- I'll point it out to you.

7 MR. FERRARA: While he's looking.  
8 Is your question whether before this  
9 interpretive language was put out, that  
10 whether the SEC would permit use of seismic  
11 technique?

12 MR. MacFALL: It actually related to  
13 the period after, but, you know what, I can  
14 break it down, because it's probably  
15 clearer that way. But I'll let Mr. Sidle  
16 finish, sure.

17 MR. FERRARA: Let him finish looking  
18 at the document.

19 (Witness reviewing document.)

20 A. All right. Since we've now  
21 qualified time periods, I would like you to  
22 re-ask the question --

23 Q. Sure.

24 A. -- and the time period that applies  
25 to the question.

0115

1 RODNEY SIDLE

2 Q. Okay. With respect to the period  
3 prior to the issuance of this draft guidance,  
4 okay, which would be pre-June 2000. Are you  
5 aware if the SEC permitted the booking of proved  
6 reserves for hydrocarbons below the LKH based on  
7 the use of seismic data where there had been no  
8 physical contact with the fluids?

9 MR. SMITH: Objection to form.

10 A. There was no written instruction in  
11 place beyond the phrase "In the absence of  
12 information on fluid contacts," which, taken in  
13 the context of rule 4-10(a), and the concept of  
14 reasonable certainty, meant that the information  
15 you needed should be highly reliable to be able  
16 to provide information on fluid contacts.

17 So it's conjecture as to whether the  
18 SEC agreed or not. There simply is -- I have no  
19 data as to their exact position.

20 Q. Did there come a time when you  
21 understood that the SEC actually required  
22 physical contact, physical fluid contact in  
23 order to book proved reserves below the LKH?

24 A. Yes, there did.

25 Q. And when was that, sir?

0116

1 RODNEY SIDLE

2 A. Let's see. It would probably have  
3 been about August of -- August or September of  
4 2003.

5 Q. And what was the event that gave  
6 rise to that understanding?

7 A. Okay. After the publication of this  
8 document in its final form, which was 2001, and  
9 experience that I had within SEPCO in the  
10 deepwater, where we found seismic data was  
11 remarkably consistent and indicative, SEPCO  
12 developed a technique that demonstrated  
13 reasonable certainty in the application of

14 seismic data for identifying fluid contacts,  
15 hydrocarbon fluid contacts in wells. We looked  
16 to this document, which I don't have its final  
17 form, but the language didn't change for this  
18 portion, at least, and I'm now on page that ends  
19 in 495, the portion of the paragraph that  
20 starts, the page ends a sentence, and then the  
21 first full sentence on the page reads as  
22 follows: "The use of high-quality, well  
23 calibrated seismic data can improve the  
24 reservoir description for performing volumetrics  
25 (e.g., fluid contacts.)"

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1 RODNEY SIDLE

2 That information suggested that in  
3 certain well calibrated, high-quality seismic  
4 situations, a validity of that data would be  
5 considered. About that same time documents  
6 published by the SPE included a reference of how  
7 to use seismic for proved reserves, which to the  
8 SPE, of course, meant their definition of proved  
9 reserves, and so we looked at the situation we  
10 had of very highly reliable seismic and a  
11 screening technique that qualified when the  
12 seismic data were of a high caliber that would  
13 meet a standard of reasonable certainty, and  
14 when it was not, developed a technique that  
15 within SEPCO allowed us to book some additional  
16 reserves below the lowest penetrated point, but  
17 not below the lowest known point, because to us  
18 we knew where that point was, and then discussed  
19 that with the SEC.

20 That occurred initially in an SPEE,  
21 Society of Petroleum Evaluation Engineers  
22 meeting that the SEC engineers annually  
23 attended, when I demonstrated the basis for the  
24 technique to him, in an off-the-record, let's  
25 just share ideas type of format, and the

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1 RODNEY SIDLE

2 response that was given to the presentation I  
3 made by the SEC, again, off the record personal  
4 opinion, no binding nature to it, was that it

5 looked interesting, but they would have to

6 review it on a case-by-case basis.

7 Later, a variety of questions arose  
8 that allowed -- well, that were best dealt with  
9 by John Pay, who was then group reserves  
10 coordinator, and I visiting the SEC's office in  
11 Washington and speaking with each of the  
12 engineers, Jim Murphy and Ron Winfrey, as well  
13 as for a portion of the meeting Roger Schwall,  
14 who was their supervisor in corporate finance,  
15 about the technique and a variety of other  
16 issues.

17 At that time we were able to go into  
18 considerably more detail as to the technique.  
19 The fact that we had 100 percent success rate in  
20 our hind casting, in other words, testing the  
21 technique against known situations to see if you  
22 had used it before you knew the answer, would  
23 you get the right answer. In 100 percent of the  
24 cases we tried it, the answer was yes. Some  
25 cases to prove that seismic was good; in some

0119

1 RODNEY SIDLE

2 cases to prove that seismic was bad. But our  
3 method gave us exactly the right answer in each  
4 case.

5 The SEC looked at the data and I  
6 believe were impressed by the work we had done,  
7 but at that point made it very clear that they  
8 were not ready to accept that for general use.  
9 While they may feel comfortable with it by  
10 having Shell use it, the question they  
11 specifically asked was, is this technology  
12 something that a, quote, "mom-and-pop" oil  
13 company would be able to use, and it was  
14 difficult to say that that would be something  
15 they could use. And for whatever reason, after  
16 asking that question and getting that answer,  
17 they then said don't use it, go to penetration.

18 Q. At that time do you recall if Shell  
19 had booked any proved reserves based on the use  
20 of seismic, where there had been no penetration,  
21 using the process you just described?

22 A. The only thing I was familiar with  
23 at that time was the practices of SEPCO in the  
24 Gulf of Mexico where we did have some volumes  
25 that were so booked.

0120

1 RODNEY SIDLE

2 Q. Was the SEC aware of those volumes  
3 during the course of those discussions?

4 A. Yes. In fact, they asked me why I  
5 even bothered to come and talk to them because  
6 the volumes that were booked were so trivial.

7 Q. And this was during this -- was this  
8 during the same meeting that you previously  
9 described?

10 A. Yes, it was.

11 MR. MacFALL: Why don't we go off  
12 the record.

13 VIDEOGRAPHER: The time is  
14 12:58 p.m. We're going off the record.  
15 (Lunch recess taken at 1:00 p.m. )  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

0121

1 RODNEY SIDLE

2 A F T E R N O O N S E S S I O N  
3 (1:56 p.m.)

4 VIDEOGRAPHER: The time is 1:56 p.m.

5 Back on the record

6 R O D N E Y S I D L E,

7 resumed as a witness, having been  
8 previously sworn by the Notary Public,  
9 was examined and testified further as  
10 follows:

11 EXAMINATION (cont'd)

12 BY MR. MacFALL:

13 Q. Good afternoon, Mr. Sidle.

14 A. Good afternoon.

15 Q. Before the lunch break we were  
16 discussing Sidle Exhibit 4, which is the SEC  
17 materials, which have been circulated for  
18 comment. I would like now, sir, to ask you to  
19 go back to page ending in Bates number 3491,  
20 which is the first full page of text.

21 A. 3491. Okay.

22 Q. And again, with regard to the  
23 material that we discussed previously concerning  
24 technical data establishing that an upward  
25 revision is more likely than a downward, or

0122

1 RODNEY SIDLE  
2 negative revision, which appears at the bottom  
3 of the last full paragraph that appears on that  
4 page.

5 Do you have that, sir?

6 A. Yes, I do.

7 Q. Do you recall if the group's  
8 guidelines for the booking of proved reserves  
9 was consistent with the material contained here,  
10 during this time period?

11 A. It certainly referenced the same  
12 concepts that the proved volumes for Shell's  
13 guidelines needed to meet a standard of  
14 reasonable certainty, and that that standard was  
15 one of high likelihood. I don't believe at that  
16 time the language that was here of "much more  
17 likely" was used, because it wasn't in common  
18 use at the time. But the concept was the same.

19 Q. Do you recall if that concept was  
20 embodied within SEPCO's guidelines concerning  
21 the booking of proved reserves at about that  
22 time?

23 A. Yes. Yes, they also had the same  
24 basic concept. Yeah.

25 Q. Do you recall if the group guideline

0123

1 RODNEY SIDLE  
2 embodied the concept that revision was more  
3 likely to be positive or upward as technical

4 data became available?

5 A. Well, it's the same basic concept of  
6 reasonable certainty, it's just a different way  
7 to say it. And as I said, that particular  
8 language didn't show up, wasn't actually in  
9 common use until it came out in this document,  
10 first in draft form, which this is, although  
11 it's important to note that this draft had the  
12 disclaimer at the front, that these were only  
13 views of the staff and not official commission  
14 guidance -- which actually -- actually showed up  
15 in the final draft also, the website guidance.  
16 So this represented their thoughts, and I think  
17 it was useful to help clarify what they were  
18 thinking.

19 Q. Do you recall if there was any  
20 discussion at SEPCO of any need to revise or  
21 amend SEPCO's guidelines regarding the booking  
22 of proved reserves, based on the SEC's  
23 dissemination of these materials in June of  
24 2000?

25 MR. SMITH: Just so the record is  
0124

1 RODNEY SIDLE  
2 clear, are you asking him about the  
3 specific portion of this that you were just  
4 talking about, or are you asking him  
5 generally about the whole document?

6 MR. MacFALL: I'm asking him more  
7 generally.

8 MR. SMITH: Okay.

9 A. We did, actually as an annual event,  
10 look at the result of the SEPCO reserves  
11 determination to make sure that we were seeing a  
12 consistent positive trend. Now, the concept of  
13 "much more likely," rather than simply "more  
14 likely," was an element of it that may not have  
15 been clear, but the concept that it was more  
16 likely that you would have a positive, and  
17 therefore a conservative number booked, was  
18 clearly in the books. Yes.

19 Q. Do you recall if there was any  
20 discussion within the group, as opposed to



21 SEPCO, of revising the group's guidelines based  
22 on anything that was disseminated by the SEC in  
23 this particular document?

24 MR. SMITH: Objection to form and  
25 lack of foundation.

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1 RODNEY SIDLE

2 A. Well, the entirety of the document,  
3 of course, covers a lot of topics, and there  
4 remained ongoing dialogue before, during and  
5 after this, as to on some of those topics what  
6 the proper approach was.

7 I entered into these dialogues at  
8 times when it was consistent with my role of  
9 ensuring that SEPCO's rules were allowed to be  
10 followed, so long as we were consistent with the  
11 group's, so certain of these topics would come  
12 up from time to time as they applied to SEPCO,  
13 and we talked through the issue of LKH as one  
14 example.

15 Beyond that I provided the  
16 information so that the group could use it in  
17 considering international operations as they  
18 understood the guidance should be used.

19 Q. When you say there was a dialogue,  
20 do you recall specifically who it was that you  
21 communicated with in the group concerning these  
22 issues? And by "these," I mean the concepts  
23 embodied in this document relative to proved  
24 reserves.

25 A. Not trying to point to specific

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2 discussions, I'm not sure I remember each  
3 specific discussion, but broad when I had those  
4 types of discussions, it would either be with  
5 the reserves coordinator, who several people  
6 were in that role during the time period that  
7 we've been discussing from 2000 to 2004, or with  
8 the auditor, Anton.

9 Q. And by Anton you're referring to  
10 Mr. Barendregt?

11 A. Anton Barendregt. Yes.

12 Q. Thank you. My pronunciation is not  
13 good.

14 With regard to the actual process by  
15 which proved reserves were reported at SEPCO  
16 during the 2000-2004 time period, were reserves  
17 reported on an annual or a quarterly basis?

18 MR. SMITH: Objection to form.

19 A. (No response.)

20 Q. Let me rephrase the question just to  
21 make it a little easier.

22 A. Okay.

23 Q. Were proved reserves reported  
24 internally within SEPCO on a quarterly basis?

25 A. Internally SEPCO looked at and noted  
0127

1 RODNEY SIDLE  
2 potential changes to be realized with the  
3 official year-end reporting on a quarterly basis  
4 during the year.

5 Q. Were changes in reserves --  
6 withdrawn.

7 Could you describe for me the  
8 reporting process with regard to changes in  
9 proved reserves throughout the year at SEPCO?

10 A. Okay. Within SEPCO we had each  
11 quarter an update of our estimate, because they  
12 weren't official yet, an estimate of proved  
13 reserves changes that would occur at the end of  
14 each quarter. Those were initially validated by  
15 the review of an internal SEPCO team that I  
16 typically led, talking with the technical staff  
17 to ascertain the basis for those, and validate  
18 that they indeed satisfied our requirements. At  
19 that point during the year, assuming they did  
20 satisfy the requirements, we would log them in  
21 as changes that then we would communicate to the  
22 group for official reporting with our  
23 disclosures at year-end.

24 We also would have, in typically the  
25 October, late October/early November time frame,  
0128

1 RODNEY SIDLE  
2 an annual review that went back and looked at

3 old items, whether we had reviewed them or not,  
4 if there had been changes made. If there had  
5 been no changes, then the prior reviews were  
6 satisfactory. But to make sure that at least in  
7 that November -- typically early November  
8 review, we had looked in detail at each of the  
9 proposed changes, above some size materiality  
10 limit, to validate that they were -- they were  
11 appropriate.

12 We then -- when that was done, we  
13 entered them into our database that kept track  
14 of the proved reserve changes, then at year-end  
15 we essentially reran the database to include all  
16 of those changes and calculated all the numbers  
17 that were submitted to the group as our proved  
18 reserves at year-end of that year.

19 Q. The reporting at year-end, was that  
20 part of the group's ARPR process?

21 A. Yes, it was.

22 Q. Now, I believe you indicated that  
23 you were involved in the quarterly review. Were  
24 you also involved in the annual review at SEPCO?

25 A. Yes. Yeah, I typically led both the

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1 RODNEY SIDLE

2 quarterly reviews and the annual reviews while I  
3 was the reserves manager.

4 Q. Did anybody assist you in those  
5 reviews?

6 A. Yes. We had a technical team that  
7 included typically a geologist, and where  
8 appropriate, a geophysicist, and another  
9 reservoir engineer that comprised the team  
10 within SEPCO that looked at the reserves.

11 Q. Can you identify, by name, any of  
12 the individuals that you worked with during the  
13 time period of 1999 through 2004?

14 A. Yes. Yes. The team typically  
15 consisted of John Bickley, who is a geologist.  
16 Rich Moen, M-O-E-N, who is a geophysicist. And  
17 A.J. Durrani, D-U-R-R-A-N-I, who is a reservoir  
18 engineer, and also the manager of reserves  
19 data -- reserves administration. He was the

20 person that brought both reservoir engineering  
21 expertise as well as managed the collection of  
22 the data in our databases.

23 Q. Those three individuals, were they  
24 all -- withdrawn.

25 Can you identify what organizations  
0130

1 RODNEY SIDLE  
2 within Shell -- SEPCO -- those individuals  
3 worked?

4 A. Organizations?  
5 (Pause.) A.J. was always part of  
6 SEPCO, and he was part of the reserves  
7 management group that I led. For a portion of  
8 that time, each of John Bickley and Rich Moen I  
9 believe were part of SEPTAR. And then later  
10 John Bickley was part of SEPCO. He transferred  
11 in from SEPTAR to SEPCO.

12 I think through that entire period  
13 Rich was part of SEPTAR.

14 Q. Thank you.

15 A. Mm-hmm.

16 Q. During this same period, 1999 until  
17 2004, were you familiar with the reserves  
18 reporting process utilized by the group?

19 A. The reporting process being the  
20 ARPR, meaning that database by which data are  
21 entered and transmitted to the group for their  
22 calculation of overall group reserves, yes, I  
23 believe I was first introduced to it in late --  
24 well, in 1999, when I came in, the data at that  
25 time were provided from finance directly into  
0131

1 RODNEY SIDLE  
2 the ARPR, because my group hadn't existed long  
3 enough to have taken on those responsibilities.

4 Then from 2000 on, my group took  
5 over the responsibilities for filling out the  
6 ARPR. I think that's -- I might be off on one  
7 of those years, but that's about right.

8 Q. Okay. Thank you.

9 Do you know if any of the operating  
10 units within the group besides SEPCO performed

11 quarterly reviews of changes in their reserves?

12 Proved reserves?

13 A. I don't know.

14 ---

15 (Sidle Exhibit 5, e-mail string, two  
16 pages, was marked for identification.)

17 ---

18 BY MR. MacFALL:

19 Q. Mr. Sidle, you've just been handed a  
20 document that has been marked as Sidle Exhibit 5  
21 for identification. I would ask you to take a  
22 look at that, sir, and tell me if you recognize  
23 it.

24 (Witness reviewing document.)

25 A. Okay. I've reviewed it.

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1 RODNEY SIDLE

2 Q. Do you recognize this document, sir,  
3 or recall this document?

4 A. I basically recall the discussions  
5 at the time. But the details of this document,  
6 I didn't exactly know -- remember until I had  
7 read it here.

8 Q. Okay. For the record, the document  
9 is an e-mail string between yourself and  
10 Mr. Barendregt. The most recent e-mail being  
11 dated December 20, 2001. The subject line reads  
12 re: Comparison SEC and Shell Interpretations.

13 The document is laid out so that the  
14 earlier of the e-mails appears at the end of the  
15 document. The author and recipient are  
16 indicated on the bottom of the first page, and  
17 the text of the e-mail follows on the second  
18 page. That e-mail is -- I'm sorry -- from  
19 Mr. Barendregt to you dated December 10, 2001.

20 Sir, directing your attention  
21 specifically to the second page of the document,  
22 the paragraph -- the single paragraph that  
23 appears there, Mr. Barendregt indicates that the  
24 e-mail covers what he describes as a first  
25 attempt at a more complete and up-to-date

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1 RODNEY SIDLE

2 overview of our current interpretation of the  
3 SEC guidelines and those by the SEC themselves.

4 Do you recall seeing such a  
5 document, sir?

6 A. Yes, I do.

7 Q. Do you know why Mr. Barendregt had  
8 prepared that document?

9 A. Other than the fact that the  
10 guidelines were typically revised once a year to  
11 bring in whatever information was necessary --  
12 better explanations, other guidance -- I assume  
13 that that -- that that was part of that ongoing  
14 process.

15 Q. The signature line appearing at the  
16 bottom of the second page is Anton A.  
17 Barendregt, Shell Group Reserves Auditor.

18 Are you familiar with the role of  
19 the group reserves auditor?

20 A. Now or then?

21 Q. Then.

22 A. Then. Only generally. I knew that  
23 the person in that position was the person that  
24 typically would come around to the businesses  
25 from time to time and check the processes to see  
0134

1 RODNEY SIDLE

2 if they were following the standards that Shell  
3 had.

4 Q. Does your understanding of the  
5 duties and responsibilities of a group reserves  
6 auditor now differ from what you just expressed?

7 A. Well, the character of the job as it  
8 is today in the current organization is  
9 different from what it was then, because the  
10 organization has changed quite considerably from  
11 what it was then.

12 Q. When did that change occur?

13 A. 2004.

14 Q. Prior to that change occurring in  
15 2004, did your understanding of the role of the  
16 group reserves auditor differ from your  
17 understanding at the time of this document,  
18 which was December of 2001?

19 A. No. Not really.

20 Q. Was it part of the group auditor's  
21 function to assist in the revision of the  
22 group's guidelines in or about 2001?

23 A. I don't know.

24 MR. SMITH: Objection to form.

25 Q. Do you know why Mr. Barendregt had  
0135

1 RODNEY SIDLE

2 forwarded that draft document to you?

3 A. I believe, as it says here, he  
4 simply wanted comments from myself and three  
5 others.

6 Q. Do you know why Mr. Barendregt was  
7 soliciting your comments with respect to that  
8 document?

9 A. Well, again, as it says here, it  
10 appears he was trying to update the guidelines.

11 Q. Do you believe Mr. Barendregt  
12 reached out to you because of his belief that  
13 you had expertise with respect to the SEC  
14 requirements concerning the booking of proved  
15 reserves?

16 MR. SMITH: Objection to form.

17 A. I'm not sure about whether he --  
18 expertise. We certainly had discussions about  
19 it, and I think he was trying to tap into people  
20 that had -- he had had meaningful discussions  
21 with before.

22 Q. Do you recall if you had discussions  
23 with Mr. Barendregt about differences between  
24 the Shell -- I'm sorry -- between the group  
25 guidelines regarding the booking of proved  
0136

1 RODNEY SIDLE

2 reserves and the SEC requirements, prior to the  
3 time of this e-mail?

4 A. I -- I can't think of specifics, no.  
5 I don't recall any specific discussions. That  
6 was just a normal part of when we spoke to each  
7 other to talk about a variety of things that  
8 related to reserves. That may or may not have  
9 been part of them.



10 Q. Directing your attention to the last  
11 of the e-mails in the string, which appears at  
12 the top of the first page, from Mr. Barendregt  
13 to you.

14 A. Okay.

15 Q. The second full paragraph appearing  
16 underneath your name, Rod --

17 A. Yes.

18 Q. -- Mr. Barendregt writes: "The  
19 original reason for putting out my first draft  
20 at this stage was to show people here that our  
21 Shell guidelines are in some respects already a  
22 little more relaxed than the SEC  
23 interpretations."

24 Do you recall ever discussing with  
25 Mr. Barendregt that, I take it he means the

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1 RODNEY SIDLE  
2 group guidelines, the possibility that the group  
3 guidelines were more relaxed than the SEC's  
4 requirements?

5 A. I don't recall a discussion of that.

6 Q. Do you recall discussing that with  
7 Mr. Barendregt subsequent to the receipt of this  
8 e-mail?

9 A. Subsequent to this, of course, he  
10 had a table that, as the caption indicates,  
11 looked at comparing the SEC and Shell  
12 interpretations, so that made it clear to me  
13 that there were some potential differences. But  
14 at this time, as I've mentioned before, my  
15 interest was to make sure that SEPCO was allowed  
16 to use the guidance they had, and that  
17 interpretations of how Shell's or SEC's or  
18 others definitions of reserves, including proved  
19 reserves, applied internationally was simply not  
20 part of my remit, and not where I focused my  
21 time.

22 Q. Did you focus your attention,  
23 however, on whether or not the group's --

24 (Interruption.)

25 MR. MacFALL: Why don't we go off

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2 the record until this is over.

3 MR. SMITH: Weren't you required to  
4 take all of that down?

5 VIDEOGRAPHER: The time is now  
6 2:20 p.m. This is the end of tape number 2  
7 of the deposition of Rodney Sidle.

8 ---  
9 (Recess.)

10 ---  
11 VIDEOGRAPHER: The time is now  
12 2:24 p.m. This is the beginning of tape  
13 number 3 of the deposition of Rodney Sidle.  
14 Back on the record.

15 BY MR. MacFALL:

16 Q. Mr. Sidle, we were discussing the  
17 e-mail exchange between you and Mr. Barendregt  
18 dated December 2001 before the break.

19 With respect to Mr. Barendregt's  
20 statement concerning the group guidelines in  
21 some respects being a little more relaxed than  
22 the SEC, as he puts it, interpretation, do you  
23 recall if you ever reviewed the group guidelines  
24 to ascertain whether or not they were more  
25 relaxed or -- more relaxed than the SEC

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1 RODNEY SIDLE

2 requirements?

3 A. I did review the group guidelines.  
4 I offered my personal view. Knowing how that  
5 they should be applied -- how the SEC meant they  
6 should be applied in international situation was  
7 not an area of my background or experience. So  
8 what I did was look for where there were SEPCO  
9 issues and tried to provide specific instruction  
10 there, to make sure that SEPCO's practices that  
11 had been well established were able to fit  
12 within the framework of the group guidelines,  
13 and then beyond that simply provide whatever  
14 information I had, because I was on SPE  
15 committees and had access to other industry  
16 information, to help the group, whoever was  
17 preparing the document, have that as information

18 that they should -- they could use when they put  
19 the rules together. As long as I had given them  
20 all the information I had, I relied on them to  
21 make the judgments as to how Shell's  
22 interpretation of those rules to be used  
23 internationally fit with the requirements.

24 Q. Do you recall if you formed an  
25 opinion, whether or not you expressed it to

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1 RODNEY SIDLE

2 Mr. Barendregt, as to whether or not the group's  
3 guidelines with respect to the booking of proved  
4 reserves were in some respect -- some respects  
5 more relaxed than the SEC requirements?

6 MR. SMITH: Objection to the form  
7 and foundation. And is it possible to get  
8 a time frame for that question?

9 MR. MacFALL: During 2001.

10 MR. SMITH: Okay.

11 MR. MacFALL: 2002.

12 A. Again, what I could see, and what I  
13 had knowledge of, in 2001, was dominated by the  
14 application of the rules within the U.S.  
15 Clearly there were some differences between what  
16 the group had for guidance internationally than  
17 what we had for use in the US, I could see that,  
18 however, I didn't have a basis for instruction  
19 to know exactly how to interpret some of the SEC  
20 guidance when it was applied to a US -- or  
21 outside of a US situation, because the parallels  
22 were simply not clear to me.

23 Let me give you an example. One of  
24 the SEC statements in Rule 4-10(a) relates to  
25 drilling units and productive units, which is

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1 RODNEY SIDLE

2 built around US state regulation -- oil and gas  
3 regulation laws and spacing units for drilling  
4 wells. There is no parallel internationally, it  
5 doesn't exist. So internationally someone would  
6 have to interpret that instruction based on US  
7 requirements in a manner that related to how  
8 things were done in the many different countries

9 around the world where that rule would need to  
10 be applied.

11 That's an expertise I didn't have.  
12 That's a background I didn't have. So I didn't  
13 really know how to take that text that was  
14 written around a uniquely US situation and apply  
15 it in other places. That's an example.

16 Q. Directing your attention again to  
17 the 2001-2002 time frame. Were you aware of any  
18 specific provision of the group guidelines that  
19 was non-compliant with SEC requirements  
20 concerning the booking of proved reserves?

21 MR. SMITH: Objection to the form  
22 and foundation.

23 A. There were elements of the text that  
24 seemed a different explanation than the way the  
25 SEC explained things, but the fundamental basis

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1 RODNEY SIDLE  
2 remained exactly the same: reasonable  
3 certainty. So to simply look at the text and be  
4 able to judge if it was being used in a  
5 compliant manner or not was, frankly,  
6 impossible. You needed to be able to see how  
7 people were interpreting that text, what actions  
8 they were taken -- were taking, and then be able  
9 to make a judgment.

10 Now, I didn't have access to any of  
11 that information, so it was impossible for me to  
12 know, just looking at the text, whether or not  
13 it was being interpreted and acted on in a way  
14 that may or may not have been compliant. That  
15 wasn't the focus of my assignment and that  
16 wasn't information that I had access to.

17 Q. Again, directing your attention to  
18 Exhibit 5. The following sentence  
19 Mr. Barendregt writes: "Hence, any pressure to  
20 move the limits even further should be  
21 resisted."

22 Do you recall if you ever discussed  
23 with Mr. Barendregt the existence of any  
24 pressure to revise the guidelines with respect  
25 to -- and the group's guidelines, I'm sorry --

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1 RODNEY SIDLE

2 with respect to the booking of proved reserves?

3 A. I don't remember any specific  
4 discussions, no.

5 Q. Were you generally aware of any  
6 pressure within the group to relax the  
7 guidelines concerning the booking of proved  
8 reserves?

9 MR. SMITH: Objection to form. At  
10 this time frame?

11 MR. MacFALL: Yes.

12 A. No, I was not.

13 Q. Were you ever aware of any pressure  
14 within the group to relax the group's guidelines  
15 concerning the booking of proved reserves?

16 MR. SMITH: Objection to form.

17 A. No. During the time period of this,  
18 and subsequent changes to the guidelines,  
19 actually things went the other way, they  
20 gradually made more strict the requirements in a  
21 number of places. So the actions taken were  
22 actually opposite of that.

23 Q. Could you identify for me any  
24 examples where the group guidelines were made  
25 stricter with respect to the booking of proved

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1 RODNEY SIDLE

2 reserves?

3 A. Well, we talked about one earlier  
4 today, and we talked about the commercial  
5 maturity being tied to VAR 3, and then later to  
6 VAR 4, and FID. That's a perfect example.

7 Q. Do you know why those changes were  
8 made? Specifically with regard to the VAR and  
9 FID requirements.

10 A. Well, again, as I said, two things  
11 were happening. The new process called VARs was  
12 being implemented, and so as it was first coming  
13 in, it took a while to go through the inventory  
14 of all Shell projects to reach maturity  
15 milestones and then to progress from one  
16 milestone to the next, so that that process was

17 being implemented.

18 At the same time Shell was looking  
19 at its projects and judging, as I gave you an  
20 example before, also that really for very large  
21 projects the right sequence of events was to be  
22 able to announce to the various interested  
23 outside parties when you officially approved a  
24 project that there was a certain amount of  
25 proved reserves that then qualified to be so

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1 RODNEY SIDLE  
2 recognized.

3 ---

4 (Sidle Exhibit 6, e-mail exchange,  
5 Bates number PAY 0149 through PAY 0150, was  
6 marked for identification.)

7 ---

8 BY MR. MacFALL:

9 Q. Mr. Sidle, you've just been handed a  
10 document that has been marked as Sidle Exhibit 6  
11 for identification. I would ask you to review  
12 that document, sir, and tell me if you recognize  
13 it.

14 A. Okay.

15 (Witness reviewing document.)

16 A. All right. I've reviewed it.

17 Q. Do you recognize the document, sir?

18 A. Yes, I do.

19 Q. Okay. And what is it that you  
20 recognize it to be?

21 A. This is an e-mail interchange  
22 between myself and Jan Willem Roosch.

23 Q. Do you recall the substance of the  
24 communication as embodied in the e-mail?

25 A. Yes, I do.

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1 RODNEY SIDLE

2 Q. For the record, the most recent of  
3 the e-mails is from you to Mr. Roosch dated  
4 March 12, 2002. There are various e-mails  
5 shown, the first of which is an e-mail from you  
6 to Mr. Roosch dated March 8, 2002. The body of  
7 that e-mail, the text of that e-mail appears on

8 the second page of the document, and I would ask  
9 you, Mr. Sidle, if you could turn to that page.

10 Directing your attention to the  
11 second full paragraph that appears under the  
12 words Jan -- or Jan Willem -- there is a  
13 reference there -- you make reference to your  
14 belief, or seeming to you that Anton B. was part  
15 of the team. I take it by Anton B, you're  
16 referring to Mr. Barendregt. Correct?

17 A. That is correct.

18 Q. The second sentence in that  
19 paragraph indicates that you have recently noted  
20 that this may have changed.

21 Do you recall what it is that you  
22 meant by that?

23 A. Yes. Yes. As I mentioned here, I  
24 would engage in discussions around reserves  
25 knowledge, learnings, questions, just to have

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1 RODNEY SIDLE

2 dialogues on, both with Anton and with the  
3 person that was the reserves coordinator, Remco,  
4 and then Lee, to simply share ideas.

5 At the time I wrote this, I found  
6 that I was not having the dialogues with Anton  
7 that I had previously, and I don't remember  
8 whether he suggested or I just took the  
9 initiative to contact Jan Willem about that, but  
10 that absence of the historic dialogue prompted  
11 this e-mail.

12 Q. And just for purposes of  
13 clarification, when you say Lee, are you  
14 referring to Lee Yaxley?

15 A. That's correct.

16 Q. You indicated in the following  
17 sentence that it seemed to you then, at the time  
18 of this e-mail, that you should not be doing  
19 this.

20 Do you recall why it was that  
21 that -- why it was it seemed to you that you  
22 should not be consulting Mr. Barendregt?

23 A. Well, that's my assumption, based on  
24 his lack of response, that there was some



25 communication line there that had been opened

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1 RODNEY SIDLE

2 previously that now was deemed to be not  
3 appropriate to continue, and so I was seeking --  
4 I mean I couldn't ask Anton to talk to me when  
5 Anton couldn't talk to me, so I asked Jan  
6 Willem.

7 Q. And if I could direct your attention  
8 now to the first page of the document, sir.  
9 About halfway down the page appears an e-mail  
10 from Mr. Roosch dated March 11, 2002 to you. In  
11 the first full paragraph Mr. Roosch describes  
12 Mr. Barendregt's role as the group reserves  
13 auditor.

14 Directing your attention  
15 specifically to the third line from the bottom  
16 of that first paragraph, beginning with: "He  
17 even reworked ..."

18 Do you see that, sir?

19 A. Yes, I see that.

20 Q. And then it goes on, "the Shell  
21 guidelines single handed."

22 Do you recall Mr. Barendregt doing  
23 so; specifically reworking the group guidelines?

24 A. Again, I had dialogues on and off  
25 between the reserves coordinator and with Anton

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1 RODNEY SIDLE

2 on topics and then a document was written. I  
3 wasn't -- it wasn't clear to me exactly who or  
4 how many people wrote that.

5 Q. I would like to direct your  
6 attention now to the second paragraph in that  
7 e-mail, the one immediately following. The  
8 second sentence states: "Anton B. will be  
9 invited to comment and debate from an SEC  
10 perspective."

11 It then continues: "We at Shell aim  
12 for compliance with the spirit of SEC rule."

13 For purposes of completion, it then  
14 continues: "Compliance audits by the group's  
15 reserves auditor are against Shell guidelines

16 and not against the letter of SEC (FASB)."

17 Did you have an understanding of  
18 what Mr. Roosch meant when he said that Shell  
19 aimed for compliance with the spirit of the SEC  
20 rule?

21 MR. SMITH: Objection to form.

22 A. It was unclear to me what he meant  
23 by "spirit."

24 As I read the 1100 document, the  
25 guideline document from the first time I saw it,  
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1 RODNEY SIDLE  
2 it began with a paragraph that indicated that  
3 the instructions provided therein had been  
4 reviewed and were compliant with SEC  
5 requirements. So when I read this, it left me a  
6 little unsure of what was being meant, because  
7 the document was portrayed to me, in the text  
8 that was written there, that it was compliant.

9 Additionally, at that time it was  
10 general knowledge among reservoir engineers that  
11 a number of Shell's practices that didn't  
12 exactly show up in SEC text, for example, the  
13 use of probabilistics, had actually been  
14 discussed with the SEC, and that guidance was  
15 given that the Shell practices were acceptable.

16 So there was that element that was  
17 in the pool of knowledge at that time, that  
18 while what we were doing may not look like it  
19 meant the, quote, "letter of the SEC" as he  
20 states here, that indeed we had guidance, and  
21 were told that what we were doing was SEC  
22 compliant.

23 Q. Mr. Roosch was the group reserves  
24 coordinator at this time, at the time of the  
25 e-mail. Is that correct?

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1 RODNEY SIDLE

2 A. That's correct.

3 Q. Do you know what Mr. Roosch's  
4 responsibilities were generally at -- withdrawn.

5 Do you have an understanding of the  
6 group reserves coordinator role with respect to

7 the booking of proved reserves in or about 2002?

8 A. My understanding about 2002 was that  
9 the reserves coordinator for the group was the  
10 focal point for ARPR capture of data, it's a  
11 database, so there was an element of that  
12 capture, and then calculations done on it to  
13 come up with the exact data that were reported  
14 in our disclosures. It was the -- that  
15 coordinator was the owner, custodian, of the  
16 guideline document, and so it was under that  
17 custody that it was published. It wasn't clear  
18 to me exactly who the author was or what  
19 expertise was tapped into to create it, but they  
20 at least were the custodian of it.

21 Q. Did you have an understanding as to  
22 whether or not the group reserves coordinator  
23 had any role in assessing the propriety of  
24 proved reserves booked under the group  
25 guidelines in or about 2002?

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1 RODNEY SIDLE

2 MR. SMITH: Objection to form.

3 A. About that time I believe the  
4 guideline document contained a statement that  
5 said any significant new bookings should be  
6 brought to the attention of the reserves  
7 coordinator so they can then assure, through  
8 whatever process there might be -- it was  
9 undefined in the text -- so that they can then  
10 assure a proper response to review the proposed  
11 booking.

12 Q. Was that function similar to the  
13 function that you served at SEPCO with respect  
14 to review of changes in reserves on a quarterly  
15 and annual basis?

16 A. The responsibilities I had in SEPCO  
17 were similar to the auditor in that we audited,  
18 reviewed, more accurately, the changes through  
19 the process I've already described, quarterly  
20 and annually. They were similar to the reserves  
21 coordinator in that my organization captured the  
22 data and prepared the instructional document and  
23 did training.

24 Q. By instructional document, are you  
25 referring to the SEPCO guidelines?

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1 RODNEY SIDLE

2 A. Yes.

3 Q. When you say that that function was  
4 similar to the group reserves coordinator, do  
5 you mean that it's your understanding that the  
6 GRC, or group reserves coordinator, was  
7 responsible for revisions to the group  
8 guidelines?

9 A. They were the custodian of the  
10 document. What resources they tapped into to  
11 actually do the authoring, or how they captured  
12 information that was ultimately created into  
13 that document, I mean I made some submittals of  
14 information to the coordinator, but the exact  
15 process of who did that, I don't know.

16 Q. Was there anybody at SEPCO who is  
17 responsible for ensuring that the SEPCO  
18 guidelines regarding the booking of proved  
19 reserves complied with the SEC requirements?

20 A. Yes. Me.

21 Q. Do you know if anyone at the group  
22 level had a similar responsibility with respect  
23 to the group guidelines concerning the booking  
24 of proved reserves?

25 A. As I mentioned, the statement in the

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1 RODNEY SIDLE

2 guidelines suggested that there was a review and  
3 validation, approval, assurance, whatever you  
4 want to call it, a process that enabled the  
5 statement to be made that they had been reviewed  
6 and were judged compliant with SEC requirements.  
7 Exactly how that was done, I did not know.

8 Q. Did you ever discuss with Mr. Roosch  
9 his statement that compliance audits by the  
10 group reserves auditor are against Shell  
11 guidelines and not against the letter of the SEC  
12 rules?

13 A. I did not discuss that with him, no.

14 Q. And I believe you stated, but

15 correct me if I'm wrong -- I may have  
16 misrecalled -- did that statement strike you as  
17 being inconsistent with the language in the  
18 group guidelines themselves, at the time that  
19 you read this e-mail?

20 MR. SMITH: Objection; lack of  
21 foundation.

22 A. It involved one person's  
23 interpretation as to what was the spirit and  
24 what was the letter. I looked at the document  
25 and it said that it had been reviewed and it was

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1 RODNEY SIDLE  
2 SEC compliant. I was aware like most reservoir  
3 engineers that there had been this legend of a  
4 meeting, where SEC validation of the Shell  
5 practices were accepted, and so I just looked at  
6 it as one person's interpretation.

7 Q. Did it take on any special  
8 significance for you that the one person who had  
9 that interpretation was the group reserves  
10 coordinator, who was the custodian of the group  
11 guidelines concerning the booking of group  
12 reserves?

13 A. Again, in writing, I read that it's  
14 SEC compliant, and I'm not aware of what's going  
15 on behind all of this, other than I just don't  
16 get to talk to Anton anymore.

17 Q. You can put that aside, sir.

18 Mr. Sidle, I just want to follow up,  
19 I forgot to do so before, with respect to  
20 Exhibit 4. There are -- I'm sorry. I'll wait  
21 until you get that in front of you.

22 There are various handwritten  
23 notations on that document. Do you recognize  
24 the handwriting, sir?

25 (Witness reviewing document.)

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1 RODNEY SIDLE

2 A. No, I don't.

3 Q. I take it then that that's not your  
4 handwriting?

5 A. It is not my handwriting.

6 Q. Okay. Thank you.

7 ---

8 (Sidle Exhibit 7, e-mail string,  
9 Bates number TT 000310 through TT 000311,  
10 was marked for identification.)

11 ---

12 BY MR. MacFALL:

13 Q. Mr. Sidle, you've just been handed a  
14 document marked for identification as Sidle  
15 Exhibit 7. I would ask you to take a look at  
16 that, sir, and tell me when you're done  
17 reviewing it. I would note for the record that  
18 there is no indication on the document that you  
19 are either the author or recipient of it.

20 (Witness reviewing document.)

21 Q. I stand corrected. Actually, there  
22 is a part of the e-mail string which indicates  
23 that there is an e-mail from Mr. Roosch to you,  
24 sir, and that appears in the bottom third of the  
25 last page. My apologies.

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1 RODNEY SIDLE

2 (Witness reviewing document.)

3 A. All right. I've reviewed the  
4 document.

5 Q. Directing your attention  
6 specifically to the first e-mail, which is the  
7 last e-mail that appears physically on the  
8 document, from Mr. Roosch to you dated March 19,  
9 2002.

10 Do you recall this e-mail, sir?

11 A. Not specifically, but again it's  
12 part of the ongoing dialogue that I had with the  
13 coordinator, and for a while, with the auditor.

14 Q. There are several other individuals  
15 shown in the -- as recipients of this e-mail,  
16 one of whom is Stuart Evans. Do you know  
17 Mr. Evans?

18 A. Yes, I do.

19 Q. And could you please tell me who  
20 Mr. Evans is?

21 A. Stuart is one of the more senior  
22 reservoir engineers in the group. At this time

23 he was assigned to a partnership operation which  
24 the group had interest in, Oman, PDO is  
25 Petroleum Development Oman, an operating company  
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1 RODNEY SIDLE

2 in that country.

3 Q. The cc's include Mark Wharton and  
4 Jaap Nauta. Do you know Mr. Wharton?

5 A. The name doesn't ring a bell. No.

6 Q. How about Mr. Nauta, or Nauta? If  
7 I'm mispronouncing it.

8 A. Yes, I've met Jaap, and I know who  
9 he is.

10 Q. Okay. What position did Mr. Nauta  
11 hold within Shell at that time?

12 A. I don't know.

13 Q. The text of the e-mail indicates  
14 that Mr. Roosch is forwarding to you, and  
15 Mr. Evans, draft guidelines. Backing up a  
16 little bit, the subject of the e-mail is New PR  
17 Volume Guidelines. Do you know what the PR  
18 refers to there?

19 A. It would seem to mean proved  
20 reserves.

21 Q. Do you recall receiving draft  
22 guidelines from Mr. Roosch in or about March of  
23 2002?

24 A. Not specifically, no.

25 Q. The text of the e-mail from

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1 RODNEY SIDLE

2 Mr. Roosch to you and Mr. Evans indicates that  
3 the draft guidelines strive to align better with  
4 the SEC rule. Do you know what Mr. Roosch meant  
5 by that?

6 A. I'm sorry. Could you ask the  
7 question again, please?

8 Q. Sure. Do you know what Mr. Roosch  
9 meant when he wrote that the attached draft  
10 guidelines strive to align better with the SEC  
11 rule?

12 MR. SMITH: Objection to form.

13 A. Other than just what is implied by



14 the language, no. Just trying to align better  
15 with the SEC rules.

16 Q. At this time, March 2002, were you  
17 aware of any provisions of the group guidelines  
18 that were inconsistent with the SEC requirements  
19 concerning the booking of proved reserves?

20 MR. SMITH: Object to the form.

21 A. I think we've discussed this before.  
22 My focus was on the US, and so I -- I kept my  
23 focus on the U.S. I provided information where  
24 I had it that could apply internationally. It  
25 was obvious in the reading of the group

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1 RODNEY SIDLE  
2 guidelines and the SEC document that there were  
3 some places where the text did not seem to  
4 perfectly align.

5 However, the document that was the  
6 guidelines stated that it was -- had been judged  
7 by others to be SEC compliant, and the technical  
8 staff at the time were aware of other meetings  
9 for which there wasn't established text by the  
10 SEC, it was a result of that meeting where  
11 Shell's practices were believed to have been, by  
12 what we understood about that meeting, validated  
13 by the SEC.

14 Q. Breaking it down first with respect  
15 to this meeting. Do you recall who attended  
16 this meeting?

17 A. No.

18 Q. Do you know when the meeting  
19 occurred?

20 A. No.

21 Q. How is it that you heard about this  
22 meeting?

23 A. As I said, it was just information  
24 that was passed along to the staff in  
25 communications, discussions. I could never find

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1 RODNEY SIDLE  
2 it in writing. It was just general knowledge  
3 that, you know, why are we using probabilistics.  
4 Well, we got the guidance that that was okay.

5 And that's the kind of answer you got. So that  
6 was passed on from one to the other.

7 Q. Am I correct that you don't recall  
8 specifically who you heard about the meeting  
9 from?

10 A. I don't recall.

11 Q. Separate and apart from the use of  
12 probabilistics, do you recall any other specific  
13 provision of the Shell guidelines relating to  
14 proved reserves that were reportedly discussed  
15 during this meeting?

16 A. No, I don't. That's the example  
17 that's always been given me.

18 Q. Did you ever discuss this meeting  
19 with Mr. Roosch?

20 A. I don't recall that I did. No.

21 Q. Do you recall if you discussed the  
22 meeting with Mr. Barendregt?

23 A. Yes, I do believe I discussed it  
24 with Anton, but I don't remember the time frame.  
25 I don't know if it was this time frame or later.

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1 RODNEY SIDLE

2 Q. Do you recall the substance of your  
3 conversations with Mr. Barendregt -- or  
4 conversation with Mr. Barendregt concerning that  
5 meeting?

6 A. Yes. Yes. It was I had heard this  
7 meeting occurred. I couldn't find any reference  
8 to it in any of the documents that I saw in the  
9 guidelines. Do we have anything in our files  
10 that actually shows, just what you asked, who  
11 was there, what had happened, what did they say.

12 And after searching the files, which  
13 was done pretty thoroughly in 2004, the answer  
14 that came back was there was no written record  
15 of that meeting occurring.

16 Q. Did the conversation that you had  
17 with Mr. Barendregt -- I'm sorry. Withdrawn.

18 You referenced the search in 2004.  
19 With respect to your conversation with  
20 Mr. Barendregt, however, do you recall the  
21 substance of that discussion?

22 A. Again, I don't remember the time  
23 frame, but it was Anton, do you have anything  
24 that came out of that meeting that could help us  
25 better understand exactly what was said and what  
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1 RODNEY SIDLE

2 was agreed to, and the answer that I got was no,  
3 at that time he didn't have it.

4 Q. Do you recall if Mr. Barendregt  
5 indicated that he was aware that the meeting had  
6 occurred?

7 A. No, I don't remember how he  
8 responded to my question. Other than that he  
9 didn't have any evidence of it.

10 Q. Do you recall if Mr. Barendregt had  
11 indicated that he had additional detail or  
12 information concerning the meeting?

13 A. No.

14 Q. And by "no," you mean no, you don't  
15 recall or no, he did not have?

16 A. No, I don't recall him saying  
17 anything like that.

18 Q. Thank you. Directing your attention  
19 now to the e-mail that immediately followed the  
20 March 19, 2002 e-mail from Mr. Roosch to you and  
21 Mr. Evans, there is an e-mail dated March 21,  
22 2002 from Mr. Evans to Mr. Roosch.

23 Do you recall if you've ever seen  
24 this e-mail before?

25 A. No, I have not.

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1 RODNEY SIDLE

2 Q. Mr. Evans, in the first paragraph of  
3 that e-mail, talks about the 2001 ARPR, and then  
4 follows an identification of the underlying  
5 causes for the situation we find ourselves in  
6 today.

7 Do you know what Mr. Evans is  
8 talking about there?

9 MR. SMITH: Objection; lack of  
10 foundation.

11 A. No, I don't.

12 Q. What follows are several points, the

13 first of which is ambiguous guidelines, the  
14 parenthetical indicates that Mr. Evans assumes  
15 that Mr. Roosch's, or the new guidelines,  
16 address that.

17 Do you recall if the group  
18 guidelines were ambiguous with respect to the  
19 booking of proved reserves back in or about  
20 March of 2002?

21 MR. SMITH: Objection; lack of  
22 foundation.

23 A. It wasn't -- I didn't have an  
24 opinion as to whether or not they were ambiguous  
25 for use in international settings. It simply

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1 RODNEY SIDLE  
2 wasn't an area of my experience or expertise.

3 I did find that the guidelines gave  
4 me, broadly, the ability, within their  
5 flexibility, to do what SEPCO felt were the  
6 proper things within our guidelines, which did  
7 add a little bit more instruction specific to US  
8 operations beyond what the group guidelines  
9 provided.

10 So that flexibility that gave me the  
11 opportunity to use Shell's guidelines was what I  
12 wanted to maintain so we could use the  
13 guidelines we had.

14 Whether or not that meant they were  
15 ambiguous, I don't know.

16 Q. Did you ever have any discussions  
17 with anyone concerning whether or not the group  
18 guidelines, in effect in March 2002, were  
19 ambiguous with regard to the booking of proved  
20 reserves?

21 A. No, I don't recall any discussions  
22 about that.

23 Q. Do you recall if anybody ever  
24 expressed that sentiment to you?

25 A. The question of ambiguous guidelines

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1 RODNEY SIDLE  
2 is one that all reserves auditors and reviewers  
3 deal with, including the SEC themselves. If you

4 want to go back to one of the prior exhibits,  
5 the statement that is made in the SEC draft  
6 website is that it's impossible to issue  
7 standards that are so specifically clear that  
8 all people in all situations know exactly what  
9 they're supposed to do.

10 So yes, it's not unusual for people  
11 to say well, these are ambiguous, but it's  
12 largely because they want such exacting and  
13 perfect information for their situation, and not  
14 to be put in a situation where they're required  
15 to use judgment that, frankly, there's -- you  
16 can't write guidelines that are so exacting they  
17 cover everything.

18 I hear that -- I hear even today  
19 that there's some ambiguity. But frankly, as I  
20 read them, they're very clear.

21 Q. Do you specifically recall, however,  
22 anyone expressing to you specifically that the  
23 group guidelines with regard to the booking of  
24 proved reserves were ambiguous?

25 A. I don't recall a specific individual  
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2 making that comment at this time. No.

3 Q. You used the term flexibility in  
4 connection with the group guidelines, and I  
5 believe you indicated that the SEPCO guidelines  
6 were more specific. Is that a fair statement?

7 A. That's what I said. Yes.

8 Q. Okay. Could you describe for me  
9 what you mean by -- withdrawn.

10 How were the SEPCO guidelines more  
11 specific, as compared to the group guidelines,  
12 in connection with the booking of proved  
13 reserves?

14 A. Okay. There are two dominant  
15 processes that are often used to determine  
16 reserves, little R. One is a deterministic  
17 method, where a specific representation of an  
18 opportunity is done on maps with wells, in  
19 calculating volumes; another is a probabilistic  
20 method, or a range of outcomes are considered,

21 and then that range is used, with statistical  
22 representations, to come up with volumes  
23 associated with either a higher case, a middle  
24 case, or a lower case.

25 So within the Shell group

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1 RODNEY SIDLE  
2 guidelines, either of probabilistic methods,  
3 then selecting a conservative or low-end case,  
4 or deterministic methods, by building that  
5 deterministic case around a conservative  
6 representation of the resource, were  
7 permissible. That was fine with me, because all  
8 I wanted was deterministic. That was the way US  
9 SEPCO had always done its books, and even though  
10 probabilistics were something that the group had  
11 used for years, the fact that they allowed  
12 deterministics left me the leeway to continue to  
13 use the process that we felt most comfortable  
14 with, because it's the one we had always used.

15 Q. You just described the difference  
16 between the group and the SEPCO guidelines. My  
17 question really has to do with the level of  
18 specificity.

19 Leaving aside the issue of  
20 probabilistic versus deterministic, can you  
21 think of any other way in which the SEPCO  
22 guidelines concerning the booking of proved  
23 reserves were more specific than the group  
24 guidelines?

25 A. Yes. Another example would be

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1 RODNEY SIDLE  
2 references to SEPCO's budgeting process, which  
3 was specific to the way the processes that SEPCO  
4 used, in determining which projects they would  
5 fund. There were references made to elements of  
6 that that were simply tied to the work process  
7 we had in SEPCO, that was different in different  
8 businesses around Shell. So we tied it to  
9 things that were specific for the way we ran the  
10 business in the US, because it applied to only  
11 our country as opposed to the group guidelines

12 that would need to provide a framework for all  
13 countries.

14 Q. Did those budgetary references  
15 involve commercial maturity of various projects?

16 A. Yes. Budgetary references would  
17 have been a part of the determination of  
18 commercial maturity. Yes.

19 Q. Can you think of any other instances  
20 where the SEPCO guidelines -- and I realize, I  
21 don't want you to necessarily go through all  
22 provisions -- but to the extent that you can  
23 think of any other areas where the SEPCO  
24 guidelines were more specific than the group  
25 guidelines at that time?

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2 A. Well, another place was in  
3 ownership, because the typical ways of the  
4 ownership of reserves in the ground involved  
5 private owners, and it involved things like base  
6 royalties, overriding royalties, back-ins, a  
7 variety of ownership agreements that were  
8 specific to the types of ownership in the US; we  
9 had more detail on that.

10 Those are the ones that come to  
11 mind. As you say, you lay the two down and we  
12 can walk through and look for as many as you  
13 would like. But those are examples.

14 Q. That's fine. Thank you.

15 I would like to direct your  
16 attention again back to the document, Mr. Evans'  
17 response to Mr. Roosch. Beneath ambiguous  
18 guidelines, he lists behaviors driven by  
19 scorecard compliance. My question is in or  
20 about this time period, March of 2002, were you  
21 aware of any instance where proved reserves were  
22 booked in order to achieve a certain result on  
23 an OU scorecard?

24 MR. SMITH: Objection to form.

25 A. My experience within SEPCO was that

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2 that wasn't an issue, so I didn't know what



3 happened in other OUs around the world.

4 Q. Item C, Mr. Evans lists as problems  
5 only becoming apparent years down the road from  
6 the original booking. Did you have any  
7 experience with that in SEPCO?

8 A. Yes. That's part of the reason that  
9 you classify reserves as estimates. I believe I  
10 made reference to the fact that you had to have  
11 some situations in SEPCO where we had data that  
12 allowed us to properly book reserves, and then  
13 changes in circumstances, and later information  
14 caused us to need to remove those lines.

15 Q. Let me ask you. With respect to  
16 those circumstances where proved reserves had  
17 been booked by SEPCO and a change in  
18 circumstance arose which impacted those  
19 reserves, did SEPCO de-book those reserves?

20 A. Yes, they did.

21 Q. Could you please describe for me the  
22 process -- withdrawn.

23 Was there a process in place to  
24 ascertain whether or not reserves, proved  
25 reserves, should be de-booked?

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2 A. Yes.

3 MR. SMITH: Objection to the form.  
4 Do you mean in SEPCO?

5 MR. MacFALL: Within SEPCO. Yes,  
6 please.

7 A. Yes, within SEPCO there was.

8 Q. Okay. Could you just briefly  
9 describe for me that process?

10 A. Yes. I mentioned to you the process  
11 by which reserve volumes changes were reviewed,  
12 a quarterly process, supplemented by an annual  
13 process. One element of that annual process was  
14 to look at not only new bookings, but to look at  
15 any changes, positive or negative, that would  
16 have occurred because of new data being  
17 available.

18 We had a quality control process  
19 that in addition to instructing the staff to

20 bring those forward, we also selected on our --  
21 as the reviewers, on our own account, fields  
22 where we thought there would be useful to  
23 continuously validate that even if no changes  
24 were being brought forward, that that was the  
25 right answer.

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2 So either through things the staff  
3 brought forward, which could have included  
4 de-booking volumes, or places where we, as  
5 reviewers, said we need to see the project to  
6 make sure we're still comfortable with the  
7 volumes on the books, those things came forward,  
8 the circumstances where de-bookings were  
9 required were identified, and those were done.

10 Q. Within SEPCO who made the decision  
11 to -- the final decision to de-book proved  
12 reserves?

13 A. The -- I and my predecessors, as the  
14 focal points for the reviews, would make a  
15 recommendation, and then that went to, at least  
16 in the time that I was in the position, a board  
17 of the EP leadership, who reviewed the  
18 recommendation and the documentation behind it,  
19 and then made the decision.

20 Q. Can you think of any circumstance,  
21 or any incident, where SEPCO determined that  
22 reserves should be de-booked -- proved  
23 reserves -- but they were maintained on SEPCO's  
24 books for longer than a year?

25 MR. SMITH: Objection to form.

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1 RODNEY SIDLE

2 A. Time frame?

3 Q. 1999 to 2004.

4 A. No. There were none that I'm aware  
5 of.

6 Q. Did SEPCO endeavor to de-book proved  
7 reserves that had been identified as having  
8 developed some problem in the same year in which  
9 that problem was identified? Do you understand  
10 the question? It was awkward. I can rephrase,

11 if you like.

12 A. I think I understand it. Let me  
13 rephrase what I think you meant and answer that  
14 question.

15 Q. Sure.

16 A. The SEPCO process was to do  
17 technical evaluations to ascertain what the  
18 proper reserve level was, proved reserves. The  
19 staff then would have their technical work  
20 reviewed by the reviewers at that time, the team  
21 that I led, and then a recommendation to make a  
22 de-booking would be made, if that study indeed  
23 showed that the proper compliant thing to do was  
24 to de-book it. And that was done in the year  
25 that the study was done.

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2 Q. Thank you. The process you just  
3 described, do you know if the group had a  
4 similar process with regard to the de-booking of  
5 reserves during the same time period, 1999-2004?

6 A. I'm sorry. The time frame again?

7 Q. I'm sorry. 1999 until 2004.

8 A. During the early part of the period  
9 I had very limited contact with their audit  
10 function. Actually prior to Anton's visit of  
11 SEPCO in, I believe it was 2000, we had actually  
12 never had the group auditor visit us, so that I  
13 had no background to know what their process  
14 was.

15 After he visited, I at least had  
16 some knowledge of what the process was, based on  
17 what I saw in SEPCO. It was then my belief that  
18 the process that the group had was essentially  
19 the businesses reporting when a de-booking  
20 situation arose, and then audit -- the group  
21 reserves auditor periodically would come around  
22 to assure that that was done.

23 Q. Your understanding of the group  
24 process concerning de-booking of proved  
25 reserves, was that based on your conversations

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1 RODNEY SIDLE

2 with Mr. Barendregt?

3 A. It was based more on inference and  
4 reference from what I saw him do to us. He had  
5 no ability to discuss with me the results of his  
6 studies or his actions with any other business.  
7 That's one of the system -- one of the legal and  
8 structural conditions within Shell, is that if  
9 you're in an OU, you don't really have rights to  
10 the data from other OUs. And so it was  
11 impossible for me to know that or for him to  
12 tell me that.

13 But what I observed from his  
14 processes was that that seemed to be the way the  
15 process worked.

16 Q. Now, with respect to the quarterly  
17 reviews done within SEPCO, you at some point had  
18 used the term review and audit interchangeably.  
19 Were the quarterly reviews quarterly audits?

20 A. As I've better come to know what  
21 audit actually means, the things that were done  
22 within SEPCO are correctly called reviews rather  
23 than audits. Because the depth of study that's  
24 done at the time of that review is more  
25 consistent with the term review than audit.

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2 However, the depth that is done in  
3 an audit does have a parallel in that the  
4 involvement of the reserves group at getting the  
5 work done, providing guidance as the  
6 calculations are being done, does occur so you  
7 do get a chance to get deep into the data and  
8 make sure people are doing it right.

9 Q. How about the annual review at  
10 SEPCO, was that an audit versus a review?

11 A. No, it actually was a review.

12 Q. Okay. I believe you indicated that  
13 prior to 2000 Mr. Barendregt had not come to  
14 SEPCO. Is that correct?

15 A. That's correct. SEPCO had not  
16 integrated itself into the group practice of  
17 allowing the group reserves auditor to visit.

18 Q. Mr. Barendregt's visit in 2000, was

19 that an audit of SEPCO?

20 A. That was the word that was used by  
21 the group. Yes.

22 Q. Were you involved in that audit by  
23 Mr. Barendregt?

24 A. Yes, I was.

25 Q. Could you please describe for me

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1 RODNEY SIDLE

2 your role in that audit?

3 A. Yes. As the reserves manager for  
4 SEPCO I was the host, so I communicated with him  
5 to set up the arrangements for what locations he  
6 would visit, when he would visit, communicated  
7 with him the schedule of what fields we were  
8 going to review. He also gave me requirements  
9 for other parties he wished to talk to other  
10 than just the technical staff; people that  
11 handled data, people in finance, things like  
12 that. People in tax.

13 So myself, or through my staff, we  
14 arranged all the logistics for his visit.

15 Q. Do you recall how long that audit  
16 lasted?

17 A. I believe he was there for  
18 essentially a complete week.

19 Q. Did you have occasion to observe  
20 Mr. Barendregt actually performing his work as  
21 auditor during that audit?

22 A. For a portion of it, yes. Because a  
23 portion of it he conducted while he was  
24 physically in the meetings that I, as a  
25 reviewer, and the review team, were conducting

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1 RODNEY SIDLE

2 to look at the projects.

3 A portion of it he conducted with  
4 private interviews with others that were not  
5 part of my review process, people like in  
6 finance and in tax.

7 Q. That portion of the audit process to  
8 which you were privy --

9 A. Yes.

10 Q. -- that you had an opportunity to  
11 observe, did it involve a level of detail of  
12 review that was greater or more in depth than  
13 the reviews you conducted at SEPCO?

14 A. No. It was identical.

15 Q. Do you know how often the group  
16 performs audits of the various OUs?

17 A. During --

18 Q. During the 1999-2004 time frame.

19 A. In the earlier part of that -- I  
20 don't remember exactly -- well, 2004 was an  
21 unusual year, and so prior to 2004 there was a  
22 general schedule that said the very large OUs  
23 would be visited every four years, and smaller  
24 ones could be up to seven years. Or, if there  
25 was a special need identified for a business to

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1 RODNEY SIDLE  
2 be visited outside of that schedule, then that  
3 would be added to the schedule also.

4 Q. Separate and apart from the audits  
5 by the group reserve auditor, were you aware of  
6 any review process, with respect to group OUs,  
7 that were similar to the review process that  
8 your group performed within SEPCO?

9 A. No, I was not aware of it.

10 MR. MacFALL: I want to go off the  
11 record.

12 VIDEOGRAPHER: The time is 3:24 p.m.  
13 We're off the record.

14 ---

15 (Recess.)

16 ---

17 VIDEOGRAPHER: The time is now  
18 3:44 p.m. Back on the record.

19 BY MR. MacFALL:

20 Q. Mr. Sidle, before the break we were  
21 discussing the audit process, both within SEPCO  
22 and the group. You had described the general  
23 schedule, the timing of audits within the group  
24 by Mr. Barendregt.

25 Do you recall if the group also

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1 RODNEY SIDLE

2 conducted audits based on need by various OUs?

3 A. Yes, I believe I added that to my  
4 response, that the standard of four years to  
5 seven years could also be supplemented outside  
6 of that schedule, when a specific need was  
7 identified.

8 Q. Now, going back to your testimony  
9 concerning de-booking of proved reserves that  
10 became problematic within SEPCO. I'm sorry.  
11 You described the process, and I believe you  
12 indicated that after your group had reviewed and  
13 issued a report, it then was reviewed, I believe  
14 you said, by the EP leadership, but I'm not  
15 sure. And I just wanted to clarify. After that  
16 left you, where did it go?

17 A. Yes. My -- the reserves group, I  
18 made a recommendation to the SEPCO EP leadership  
19 team, which is chaired by the head of SEPCO's  
20 operation, and had, for example, the chief  
21 financial officer, the chief technical officer,  
22 key members of the CEOs -- of SEPCO's staff on  
23 the team. They then reviewed it and made the  
24 final decision.

25 Q. Prior to the time that

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1 RODNEY SIDLE

2 Mr. Barendregt -- well, prior to 2000 did the  
3 group have any role in approving the de-booking  
4 of proved reserves at SEPCO?

5 A. I'm not aware of that. No.

6 Q. I would like you to turn your  
7 attention back to Exhibit 7, sir, and  
8 specifically direct your attention to the second  
9 page of that document.

10 A. I'm sorry. To which page?

11 Q. I'm sorry. The second page of the  
12 document we were looking at a little bit  
13 earlier.

14 Directing your attention  
15 specifically to the next-to-last paragraph in  
16 the e-mail from Mr. Evans to Mr. Roosch  
17 beginning with the words "There is probably the



18 need ..."

19 Do you see that, sir?

20 A. I see that.

21 Q. Okay. And he continues discussing a  
22 hydrocarbon resource volume/value peer-review  
23 process.

24 Do you recall if such a process was  
25 put in place prior to -- well, put in place

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1 RODNEY SIDLE

2 ever, within the group?

3 MR. SMITH: Objection to form and  
4 foundation.

5 A. This makes specific reference to the  
6 conditions in PDO, and that adds to the  
7 complication of it being actually owned by a  
8 foreign government, with Shell as a partner.  
9 Exactly what happened there was not my -- I did  
10 not have the ability to know.

11 Q. Okay. Thank you. And if I could  
12 ask you to turn your attention to the first page  
13 of that document, sir. At the top of the first  
14 page is the last e-mail in this string from  
15 Mr. Roosch dated March 22, 2002 to Stuart Evans  
16 responding to his e-mail. Directing your  
17 attention specifically to the, I guess it's the  
18 third line down that says, "On the scorecard  
19 pressure issue:"

20 Do you see that, sir? It's the  
21 first big paragraph beneath "Stuart."

22 A. I see the first big paragraph. Yes.  
23 I see that paragraph.

24 Q. Okay. Mr. Roosch writes: "RRR is  
25 now such an important external KPI."

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2 And then it continues. Are you  
3 familiar with the term RRR?

4 A. Yes, I am.

5 Q. Okay. Could you tell me what that  
6 means, sir?

7 A. That is reserves replacement ratio.

8 Q. Do you know what KPI refers to?

9 A. Yes, I do.

10 Q. Okay. And can you --

11 A. That's key performance index. Or  
12 indicator.

13 Q. Do you recall if the reserves  
14 replacement ratio was a key performance  
15 indicator in or about March of 2002?

16 MR. SMITH: Objection to the form  
17 and foundation.

18 A. The references are being made here  
19 to group policies and group scorecards, which I  
20 had no knowledge of.

21 Q. Was RRR a component of -- withdrawn.  
22 Did SEPCO utilize scorecards?

23 MR. SMITH: At this time, in 2002?

24 MR. MacFALL: Yes. I'm sorry. Yes.

25 A. I don't recall any specific

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2 information around scorecards. There were  
3 certain business measures we looked at for our  
4 performance, but the specific items that were  
5 scorecards, I don't recall.

6 Q. Do you remember one of the measures  
7 that was looked at by SEPCO was RRR?

8 A. RRR was a historic indicator that  
9 had been used for some time of reserve  
10 replacement, as the name implies, and it was a  
11 measure that we looked at. Yes.

12 Q. Do you recall approximately what  
13 SEPCO's RRR was during the period -- well, let's  
14 start with 2000?

15 A. No, I don't.

16 Q. Okay.

17 A. I don't recall.

18 Q. Do you recall for any specific year  
19 during that period, 2000-2004?

20 A. I don't remember specific values, no

21 Q. Okay. Thank you. I would like now  
22 to direct your attention to the paragraph  
23 beneath that, specifically the second sentence  
24 in that paragraph beginning "one fatal flaw."

25 Do you see that, sir?

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2 A. I see the sentence, yes.

3 Q. Do you know what Mr. Roosch is  
4 talking about when he references notional  
5 project definition?

6 MR. SMITH: Objection to form.

7 (Witness reviewing document.)

8 A. I don't specifically know what he's  
9 referring to. No.

10 Q. Do you know what NPV stands for,  
11 which is a little bit later in that sentence?

12 A. Yes. Net present value.

13 Q. Directing your attention to the  
14 following sentence, Mr. Roosch wrote: "The SEC  
15 notion, that proved reserves disclosures should  
16 only be in relation to projects that are  
17 'reasonably certain' to go ahead, was pushed to  
18 the background," and then the sentence  
19 continues.

20 Do you recall if you ever discussed  
21 that thought or concept with Mr. Roosch?

22 A. I have never seen this e-mail  
23 before, and I don't recall ever discussing that  
24 with him.

25 Q. Mr. Roosch then writes, "Valuable

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1 RODNEY SIDLE

2 time and effort has been spent on a 'parallel  
3 industry' of virtual project definition with the  
4 sole purpose of underpinning volumes to be  
5 'booked.'"

6 Do you recall if you ever discussed  
7 that idea or notion with Mr. Roosch?

8 A. No, I don't recall.

9 Q. Do you recall if Mr. Roosch's  
10 observation in the sentence that we just  
11 discussed was accurate in or about March of  
12 2002?

13 MR. SMITH: Objection to form and  
14 lack of foundation.

15 A. I don't know what he's referring to.

16 Q. Directing your attention to the

17 following paragraph, the last sentence in that  
18 paragraph beginning with the words "It is clear  
19 to all."

20 Do you see that sentence, sir? The  
21 next paragraph down, last sentence.

22 A. Okay. The last sentence of the  
23 next -- it is clear -- oh, yes. Okay. I'm with  
24 you.

25 Q. Okay. Mr. Roosch discusses being  
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1 RODNEY SIDLE  
2 liberal with the implementation of guidelines,  
3 and propping up numbers temporarily. Do you  
4 recall if you ever had -- if you ever discussed  
5 the group's implementation of the guidelines  
6 being liberal with Mr. Roosch?

7 A. I don't recall.

8 Q. Do you have any knowledge of whether  
9 or not the group's implementation of its  
10 guidelines with respect to proved reserves was  
11 liberal in or about March of 2002?

12 MR. SMITH: Objection to the form.

13 A. I'm not familiar with its  
14 application outside of the US, which was where I  
15 focused my efforts.

16 Q. Directing your attention to the next  
17 paragraph, the first sentence references an  
18 observation made by the external auditors to the  
19 effect that Shell was then more aggressive than  
20 its competitors -- competitors, I'm sorry -- in  
21 booking of new discoveries. Do you see that  
22 sentence, sir?

23 A. I see it.

24 Q. Do you have any knowledge of whether  
25 Shell was more aggressive than its competitors  
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2 in or about March of 2002 with respect to the  
3 booking of proved reserves in connection with  
4 new discoveries?

5 MR. SMITH: Objection to the form.

6 A. I'm familiar with Shell's practices  
7 in SEPCO. I was not aware of that occurring in

8 SEPCO. I did not believe it did occur in SEPCO.

9 I don't know what happened outside of the US.

10 Q. During the time that you --  
11 withdrawn.

12 Prior to 2000, did you have any  
13 interaction with Shell's external auditors?

14 A. I may have had some interactions  
15 with PricewaterhouseCoopers, or they might have  
16 been Price Waterhouse then, I don't recall  
17 when -- when it changed -- because they were the  
18 Shell Oil Company external auditors, and part of  
19 the SEPCO reserves process was to engage Price  
20 Waterhouse at a review of our reserves after we  
21 had agreed internally as to what our reserves  
22 changes would be. They would solicit  
23 information from us on a representation letter  
24 of the training of staff, the activities that  
25 underpinned our reserves. They would look at

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2 the practices that were used by the people that  
3 captured the data. And then they used that to  
4 report back to the Shell Oil Corporation.

5 So any interaction, and I'm not  
6 absolutely sure when I first was involved in  
7 that, it could have been prior to 2000, would  
8 have been in that way.

9 Q. Do you recall the individual from  
10 Price Waterhouse that you dealt with?

11 A. No, I don't.

12 Q. Do you recall if it was more than  
13 one individual?

14 A. No, I don't.

15 Q. With respect to the review done by  
16 Price Waterhouse, was that an annual review?

17 A. Yes, it was.

18 Q. Do you recall approximately what  
19 time of year that occurred?

20 A. It was year-end, but I don't  
21 remember if it was December or January. But it  
22 was proximal to year-end.

23 Q. Do you recall approximately how long  
24 the review by Price Waterhouse lasted?

25 MR. SMITH: Objection to form and

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2 foundation. Are you talking about the  
3 review of -- the part of the review that he  
4 described, or their audit?

5 MR. MacFALL: I'm talking about the  
6 part of the review that he described.

7 A. The process of review that they used  
8 primarily engaged them spending time with the  
9 person who administered our database and  
10 capturing data from the database to summarize  
11 different categorizations of the changes. They  
12 did not do any form of technical review, which  
13 was the principal participation that I had in  
14 the process. How long they talked with the  
15 person that collected the data to provide it to  
16 them, I don't know. I just don't know.

17 Q. Do you recall if as part of that  
18 review Price Waterhouse reviewed your technical  
19 work or your technical review?

20 A. No. No, they had no engagement in  
21 the technical review.

22 Q. Did Price Waterhouse conduct those  
23 reviews throughout the period of 1999 to 2004?  
24 And by "those reviews," I'm speaking  
25 specifically at SEPCO.

0192

1 RODNEY SIDLE

2 MR. SMITH: Objection to the form  
3 and foundation.

4 A. For SEPCO, yes, they continued to do  
5 that.

6 Q. And just so I have a sense of the  
7 timing, you said you thought it was  
8 approximately year-end. Was that prior to the  
9 time when SEPCO reported its proved reserves to  
10 the group as part of the ARPR process?

11 A. I can't remember the exact timing.

12 ---

13 (Sidle Exhibit 8, e-mail exchange,  
14 two pages, was marked for identification.)

15 ---

16 BY MR. MacFALL:

17 Q. Mr. Sidle, you've just been handed a  
18 document marked for identification as Sidle  
19 Exhibit 8. I would ask you to take a look at  
20 that, sir, and tell me when you're done  
21 reviewing it and if you recognize it.

22 (Witness reviewing document.)

23 A. I reviewed the document.

24 Q. Do you recall this document, sir?

25 A. Yes, I do.

0193

1 RODNEY SIDLE

2 Q. For the record, the document is an  
3 e-mail exchange between Mr. Sidle and John Pay,  
4 the last of which is dated September 19, 2002.

5 The subject is the SPEE Forum on SEC Reserve  
6 Definitions - Houston, October 22.

7 Do you recall if you attended that  
8 forum, sir?

9 A. Yes, I did.

10 Q. And I believe you had previously  
11 indicated that SPEE is Society of Petroleum  
12 Evaluating Engineers. Is that correct?

13 A. Evaluation Engineers. Yes.

14 Q. Thank you. Were you a member of the  
15 SPEE?

16 A. Not at that time.

17 Q. Do you recall attending this forum?

18 A. Yes, I do.

19 Q. Now, it's a little difficult to  
20 follow because in the last -- or the most recent  
21 of the e-mails you indicate that you replied to  
22 Mr. Pay's comments below in red, and obviously  
23 this is not a color reproduction. But having  
24 had an opportunity to look at the document,  
25 there is material that appears in brackets.

0194

1 RODNEY SIDLE

2 Are you able to identify the  
3 bracketed material as your comments to Mr. Pay's  
4 e-mail?

5 A. I believe the bracketed comments are  
6 mine.



7 Q. Now, specifically directing your  
8 attention to the second paragraph -- I'm  
9 sorry -- of the e-mail from Mr. Pay to you dated  
10 September 19, 2002 that appears in the second  
11 half of the first page. The second paragraph,  
12 second sentence -- I'm sorry -- first sentence  
13 indicates that one of Mr. Pay's objectives would  
14 be to "see how the land lies with the  
15 competition on their actual practice in  
16 interpreting the SEC rules. There seems to be  
17 the possibility for quite a gulf to persist  
18 between the SEC intent and the actual practice  
19 of producers."

20 And then you comment with respect  
21 to, I believe it's British Petroleum and  
22 ExxonMobile. Is that correct, sir?

23 A. That is correct.

24 Q. Separate and apart from your  
25 response in the bracketed material, do you  
0195

1 RODNEY SIDLE  
2 recall discussing with Mr. Pay Shell's  
3 competitors' interpretation of the SEC rules?

4 A. It was a standing topic for  
5 discussion, as with many issues related to  
6 reserves, as to what we knew and how we were  
7 able to discern it, about how our competitors,  
8 or others, for example, consultants, interpreted  
9 the SEC criteria.

10 Q. Now, your response that references  
11 British Petroleum and ExxonMobile, was that  
12 response limited to the United States, or were  
13 you referring to British Petroleum and  
14 ExxonMobile worldwide?

15 A. If I could put this discussion in a  
16 framework --

17 Q. Sure.

18 A. -- it's easier for me to answer.

19 Q. Sure.

20 A. The SPEE forum was an event that had  
21 been held for several years in a row about  
22 October, where at least one, or more recently at  
23 this meeting both of the SEC petroleum

24 engineers, Jim Murphy and Ron Winfrey, would  
25 attend at an informal setting, offer their  
0196

1 RODNEY SIDLE

2 personal observations on hypothetical cases.

3 It was a very instructive session,  
4 even though unofficial, to gauge the thinking  
5 from the SEC about how to address particular  
6 issues.

7 Industry had the opportunity to  
8 bring case histories, examples, hypothetical  
9 situations to them for their hypothetical  
10 responses as to interpretation. That gave the  
11 opportunity to see what people were interested  
12 in, and to get guidance from the SEC as to how  
13 best to understand their directions. So it was  
14 a highly beneficial educational event.

15 The intent of this e-mail was to  
16 encourage John Pay to attend. I had attended  
17 two prior meetings, and I found them most  
18 beneficial, and I thought that were he able to  
19 attend, he would find it educational also.

20 The intent of that education was  
21 simply to have more data upon which to base our  
22 foundation of interpretation for the SEC rules,  
23 whether it be US or anyplace else.

24 Q. Was Mr. Pay the group reserves  
25 coordinator at the time?

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1 RODNEY SIDLE

2 A. Yes, he was.

3 Q. Do you recall if you provided --  
4 withdrawn.

5 Did you ask any questions of the  
6 SEC's engineers at that particular forum?

7 A. Not at this one, no.

8 Q. Do you recall -- withdrawn.

9 Did you present them with any  
10 hypotheticals at that particular forum?

11 A. Not at this one, no.

12 Q. Do you recall having done so at any  
13 other SPEE forums?

14 A. Yes. The prior one was when I made

15 the presentation regarding seismic  
16 qualifications for being used to determine  
17 lowest known hydrocarbon.

18 Q. Did you receive feedback from the  
19 SEC engineers at that forum?

20 A. Yes, I did. I believe I mentioned  
21 that the feedback that I was given, for a  
22 hypothetical case, their guidance being personal  
23 opinion in a hypothetical setting, was that the  
24 case that I was making for a qualified use of  
25 seismic was interesting and would be considered

0198

1 RODNEY SIDLE

2 on a case-by-case basis.

3 Q. Do you recall any other circumstance  
4 in which you posed hypothetical questions to the  
5 SEC engineers at a SPEE -- SPE forum?

6 A. No, I don't.

7 Q. I would like now to direct your  
8 attention to the second page of the document.  
9 Specifically the last paragraph in that e-mail,  
10 Mr. Pay states: "I think there is a real danger  
11 that by a strict and dogmatic interpretation of  
12 the rules in Shell, we let the competition steal  
13 a day's march on us," and then it continues.

14 Do you have any understanding of the  
15 rules to which Mr. Pay is referring there? And  
16 by that I mean, is he referring -- do you know  
17 if he's referring to the SEC rules or the group  
18 guidelines?

19 A. I'm not entirely sure, but in the  
20 context of the sentence, if it was a rule that  
21 would apply to our competition as well as to  
22 Shell, it would imply that it was something that  
23 was a general industry rule, like the SEC rules.

24 Q. Do you recall ever having a  
25 discussion with Mr. Pay about a competitive

0199

1 RODNEY SIDLE

2 disadvantage being inflicted upon Shell by  
3 virtue of a strict compliance with the SEC rules  
4 concerning booked reserves?

5 A. Yes, I believe we discussed that.

6 Q. Okay. Could you please describe for  
7 me the substance of the conversation that you  
8 had with Mr. Pay?

9 A. All right. There was a strong  
10 desire for Shell's interpretation application of  
11 the SEC rules to be exactly the same as our  
12 competitors; to achieve the comparability that  
13 was intended as the basis for rules that all SEC  
14 registrants would use. The discussion I had  
15 with John was around how do we assure that that  
16 comparability is present in our report.

17 Q. Do you recall approximately when  
18 that conversation occurred?

19 A. No, I don't.

20 Q. Was there any discussion of engaging  
21 in comparable -- withdrawn.

22 Was there any discussion of engaging  
23 in practices comparable to those of your  
24 competitors -- and by yours, I mean Shell's --  
25 where such practices were not in compliance with  
0200

1 RODNEY SIDLE

2 the SEC rules concerning the booking of proved  
3 reserves?

4 MR. SMITH: Objection to form.

5 A. No, there were not. In all cases we  
6 wished to be compliant, but interpreting what  
7 was and was not compliant was the intent of  
8 looking at others who were interpreting those  
9 and achieving compliance to assure again that  
10 comparability was a feature in what our  
11 reporting achieved.

12 Q. Do you recall what specifically was  
13 looked at or discussed between you and Mr. Pay  
14 in that regard? And by that I mean what were  
15 you looking at that was being dealt with --

16 A. I don't remember specific details.  
17 No.

18 MR. FERRARA: I'm sorry. Is this 9?

19 MR. MacFALL: It is.

20 ---

21 (Sidle Exhibit 9, e-mail with  
22 attached draft document, Bates number PAY

23 1761 through PAY 0782, was marked for  
24 identification.)

25 ---

0201

1 RODNEY SIDLE

2 BY MR. MacFALL:

3 Q. Mr. Sidle, you've just been handed  
4 what has been marked as Sidle Exhibit 9 for  
5 identification. I would ask you to take a look  
6 at that document, sir, and tell me if you  
7 recognize it.

8 (Witness reviewing document.)

9 MR. SMITH: Do you need him to look  
10 at the whole thing or is there someplace  
11 you can direct his attention?

12 MR. MacFALL: I can specifically  
13 direct his attention to various portions of  
14 the document that I would like to discuss.  
15 Unless Mr. Sidle would rather look at the  
16 entire document.

17 MR. SMITH: It's up to you.

18 A. I recall the document, but I'll need  
19 to refresh myself on any particular portion of  
20 it you want to discuss. So if you want to ask  
21 about a particular portion, then I'll focus on  
22 that.

23 Q. Okay. That's fine. Let's discuss  
24 the document generally. I would note for the  
25 record that the first page of that is an e-mail

0202

1 RODNEY SIDLE

2 from you to Mr. Pay. The subject is "Reviewed  
3 Document."

4 Along with that e-mail is a draft of  
5 a document. It says "Note For Discussion," in  
6 parens -- I'm sorry, this is on the second page  
7 of the document -- it says "with comments as  
8 shown using 'track changes' by Rod Sidle." The  
9 document is captioned "EP Proved Reserves  
10 Management."

11 Did Mr. Pay provide you with this  
12 draft document?

13 A. Yes, he did.

14 Q. Do you know why?

15 A. He wanted my views on what he was  
16 proposing.

17 Q. Does this document relate to  
18 reserves management within SEPCO or the group?

19 A. It's a group-wide, which would  
20 include SEPCO, but is beyond just SEPCO.

21 Q. Do you know who the intended  
22 recipient -- excuse me -- the intended recipient  
23 of this document was, in final form?

24 A. In general, it was senior EP group  
25 leadership. Exactly what -- which team or

0203

1 RODNEY SIDLE

2 organization or committee, I don't know.

3 Q. Are you familiar with the term  
4 ExCom?

5 A. Yes, I am.

6 Q. And can you tell me what ExCom is?

7 A. It means the executive committee of  
8 Shell. The group.

9 Q. Is that within the EP -- group EP?

10 A. It includes members from EP, but I  
11 believe it's actually at the corporate -- the  
12 corporate structure of what was then Shell's  
13 Transport & Trading and Royal Dutch.

14 Q. Do you know if this document was to  
15 be disseminated to members of the ExCom?

16 A. I don't remember. Well, let's see.  
17 No, I don't remember where the document was  
18 going. Reference is made to ExCom, but I don't  
19 know if this was going to them or not. Okay.

20 Q. Do you recall if Mr. Pay asked you  
21 to comment, or make comments on the document at  
22 the time that he forwarded it to you?

23 A. I don't specifically recall, but it  
24 would make no sense for him to send it to me  
25 unless he wanted my comments, because it was in

0204

1 RODNEY SIDLE

2 draft form.

3 Q. Do you recall having any discussions  
4 with Mr. Pay concerning this draft document?

5 A. I remember we had discussions. I

6 don't remember exact topics.

7 Q. When you say you had discussions,  
8 were those discussions about this document, or  
9 just discussions generally?

10 A. Yes. About this document.

11 Q. Did Mr. Pay ever indicate to you  
12 what the purpose of this document was?

13 A. Yes. He was attempting to institute  
14 a procedure within the group that better looked  
15 after the practices of reserves determination,  
16 data capture, staff involved in that, management  
17 involved in that -- the whole process.

18 Q. I believe you had previously  
19 testified that you were involved primarily with  
20 the practices -- with the proved reserves  
21 booking practices at SEPCO as opposed to of the  
22 group. Is that correct?

23 A. That's --

24 MR. SMITH: Objection to the form.

25 A. That's correct.

0205

1 RODNEY SIDLE

2 Q. This document relates to practices  
3 within the group, or on a group-wide basis.  
4 Correct?

5 A. That is correct. This is the first  
6 instance in which I had access to any more than  
7 just the guidelines to know what was going on  
8 within the group.

9 Q. Did Mr. Pay ever indicate to you why  
10 he was forwarding this to you, if your  
11 experience had been previously limited to the  
12 proved reserves booking practices at SEPCO as  
13 opposed to the group?

14 MR. SMITH: Objection to form.

15 A. Yes. SEPCO had an organization that  
16 had looked after reserves, instruction,  
17 determination, validation to review, and so an  
18 instituted organization that helped with the  
19 management of processes related to those in  
20 reserves was part of what we had been doing for  
21 some time. I was the reserves manager, so I had



22 the experience to know how within SEPCO the  
23 organization of all of those things were done,  
24 and then to be able to relate SEPCO's experience  
25 for an organization and those practices done  
0206

1 RODNEY SIDLE

2 within SEPCO could be an analog for what the  
3 group might see as they tried to implement  
4 something similar group-wide.

5 Q. Did Mr. Pay actually indicate that  
6 to you, that the SEPCO processes could be used  
7 as an analog for processes that might be applied  
8 group-wide?

9 A. I believe we discussed it. Yes.

10 Q. Did Mr. Pay reach out to you with  
11 regard to these processes? Do you understand --  
12 I'll rephrase the question.

13 Do you recall if Mr. Pay first  
14 contacted you with regard to assisting him in  
15 the preparation of group-wide processes?

16 A. I don't recall.

17 Q. I would like specifically to direct  
18 your attention to the page ending in Bates  
19 number 767 in this document, sir. Do you have  
20 that page?

21 A. I have the page.

22 Q. At the very bottom of the page there  
23 is an item 1(e), Potential Reserves Exposure  
24 Catalog. Do you see that, sir?

25 A. I see it.

0207

1 RODNEY SIDLE

2 Q. The first sentence discusses  
3 maintenance of an inventory of all proved  
4 reserves that are under threat of de-booking,  
5 and then it continues.

6 Are you aware if such a catalog was  
7 actually prepared?

8 A. There is a table that is a part of  
9 this document, I believe.

10 Q. I believe that's correct, sir, and I  
11 might save you some time. There is -- the page  
12 ending in Bates number 774, Appendix B.

13 A. Ah yes.

14 Q. Is that what you're referring to?

15 A. Yes. Yes, this was an entry that  
16 represented what that catalog would look like,  
17 as I understood it, at that time.

18 Q. Do you know if Appendix B, this  
19 catalog, was forwarded to you along with the  
20 draft for comment?

21 A. Yes, it was.

22 Q. Okay. And if I could ask you to  
23 turn back to the original page we were  
24 discussing.

25 A. All right.

0208

1 RODNEY SIDLE

2 Q. Actually, if I could ask you to go  
3 to the next page, ending in Bates number 768.

4 A. Okay.

5 Q. After the first short paragraph at  
6 the top of the page, there appears materials in  
7 a parenthetical, which is underscored, with a  
8 line next to it. Is that material your comment  
9 to this draft?

10 A. I believe so. Yes.

11 Q. Directing your attention to the  
12 first sentence in that underscored material, it  
13 says: "This proposal seems logical but may have  
14 legal problems either internally or with our  
15 external auditors."

16 Do you recall what it is that you  
17 meant by that in connection with the preceding  
18 proposal?

19 MR. SMITH: Before he answers that  
20 question, because it raises an issue of  
21 law, it may be prudent for me to step in  
22 the hall with him and understand the basis  
23 for that understanding so that he wouldn't  
24 inadvertently reveal advice of counsel. So  
25 if we may do that before he answers?

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1 RODNEY SIDLE

2 MR. MacFALL: That's fine.

3 MR. SMITH: Thank you.

4 VIDEOGRAPHER: The time is now

5 4:28 p.m. This is the end of tape number 3  
6 in the deposition of Rodney Sidle. Off the  
7 record.

8 ---

9 (Recess.)

10 ---

11 VIDEOGRAPHER: The time is now

12 4:35 p.m. This is the beginning of tape  
13 number 4 of the deposition of Rodney Sidle.  
14 Back on the record.

15 MR. SMITH: We've had a chance to  
16 confer off the record about this passage,  
17 and I think, Tim, if you can focus on his  
18 understanding as reflected in this  
19 document, there shouldn't be a privilege  
20 issue that arises, so ...

21 MR. MacFALL: Okay.

22 BY MR. MacFALL:

23 Q. Mr. Sidle, in light of what your  
24 counsel has just stated, did you have an  
25 understanding -- well, what did you mean by,

0210

1 RODNEY SIDLE

2 let's first just focus on problems, either  
3 internally or externally -- I'm going to try  
4 that again.

5 Problems either internally or with  
6 external auditors, what kind of problem did you  
7 mean when you referenced the internal problems?

8 A. Well, certainly I'm not a lawyer and  
9 I had no legal advice at the time I wrote this.  
10 I recognized that such a list could have a  
11 potential for misinterpretation, and among the  
12 potential misinterpretations was that that  
13 table, and the fields listed on it, had reached  
14 some point of conclusion, instead of simply  
15 being identified and needing more study.

16 Q. How is it that you believe that that  
17 would cause a problem internally?

18 A. We would like clarity -- any time  
19 you put the list together, you want clarity as  
20 to what actions are needed, and you want

21 commitment to follow up on those actions. So  
22 the concern was that that list would then not be  
23 understood, and the proper responses would not  
24 occur.

25 Q. I don't mean to belabor the point,

0211

1 RODNEY SIDLE

2 but when you say not properly understood, by  
3 whom?

4 A. Well, if you look at the title of  
5 the category, the title of the section, the  
6 title of the table that is Appendix B refers to  
7 potential exposures. All right? The text  
8 described that to be proved reserves that could  
9 be under threat of de-booking, in the event of  
10 some future failure of the projects.

11 So you want to be clear to all who  
12 read this that what you're attempting to do is  
13 identify a list of things that need further  
14 scrutiny, further study, and that it's clear  
15 that the items on this list have not been so  
16 conclusively determined to be exposures, that  
17 the action of de-booking is necessary.  
18 Otherwise they shouldn't be on the list, they  
19 should be immediately de-booked.

20 Q. You mentioned that that list is  
21 susceptible of misinterpretation by, for  
22 example, here specifically you cite to the  
23 external auditors. Let me ask, that reference  
24 to external auditors, are you referring to Price  
25 Waterhouse and KPMG, or are you referring to

0212

1 RODNEY SIDLE

2 Anton Barendregt?

3 A. Probably the -- I don't remember  
4 exactly what I meant at the time, but I think in  
5 the context it's being used, it would be the  
6 financial external auditors.

7 Q. Which would be Price Waterhouse and  
8 KPMG?

9 A. Price Waterhouse and KPMG.

10 Q. Thank you. Let me try it one last  
11 time. The sentence, however, discusses problem,

12 and you phrase it alternatively, either  
13 internally or with the external auditors. Were  
14 you concerned that within the group, that the  
15 proposal that you're commenting upon might cause  
16 some problems?

17 A. The problem would only be with  
18 misinterpretation. The act of identifying  
19 places where you want knowledge and focus and  
20 study to identify that you continued to meet the  
21 requirements of reasonable certainty is a proper  
22 process. You need to look carefully at your  
23 inventory to make sure each year end you can say  
24 that they are all reasonably certain.

25 So if there are places where you

0213

1 RODNEY SIDLE  
2 start to -- and I use the euphemism as a  
3 reviewer, even smell a concern before you know  
4 it's really there, those are the ones where you  
5 need to spend your time and focus.

6 So you have to have some way of  
7 identifying things where it's not at all  
8 conclusive, but those are the things you need to  
9 look at.

10 And my concern was that in creating  
11 such a list, if it wasn't carefully explained,  
12 it would be misunderstood. And my caution to  
13 John was simply be clear that what you mean is  
14 that these have -- they need that scrutiny, and  
15 not that we would have things on the list that  
16 actually have gotten to the point where it's  
17 clear they need to be removed -- de-booked --  
18 because they no longer meet the standard of  
19 reasonable certainty.

20 Q. I would like to direct your  
21 attention to the next sentence in your comment  
22 on page 768, which states: "One could ask if  
23 you have such concerns about the likelihood of a  
24 booked project realizing reserve estimates, then  
25 it by definition does not meet the reasonable

0214

1 RODNEY SIDLE  
2 certainty standard and should be de-booked

3 immediately from proved."

4 A. Yes.

5 Q. The concerns that you're referencing  
6 in this sentence, were those the concerns that  
7 are summarized in Appendix B?

8 A. The information that's provided in  
9 the column in Appendix B that is labeled Comment  
10 is an indication that there's something that  
11 needs further study. As I told you before, the  
12 process that I was used to in SEPCO is that when  
13 you identified places that needed further study,  
14 you conducted the study, and then you determined  
15 where you were, and if at year-end you needed to  
16 de-book them, you did that.

17 It's impossible for me to conclude,  
18 in all cases from what's here, that -- all of  
19 the details and the circumstances that could  
20 determine whether they are or are not properly  
21 on the books.

22 Q. But doesn't the second sentence in  
23 your comment, beginning with "One could" suggest  
24 that if these concerns are extant, then the  
25 reasonable certainty standard is not satisfied

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1 RODNEY SIDLE

2 and those reserves should be de-booked?

3 MR. SMITH: Objection to form.

4 A. It says one could ask, because  
5 that's a concern you need to have if you're  
6 going to put this into a document. One could  
7 note that these are -- could be under threat of  
8 de-booking. And I think the intent, as I  
9 understood it at the time, of the document was  
10 to create a list of places where focus was  
11 needed to ensure that the SEC standards were  
12 being met. And if we found with that further  
13 capture of data they were not, then the guidance  
14 that I give is then we would need to de-book  
15 them.

16 Q. Directing your attention to the  
17 following sentence, beginning with the word  
18 "however," you reference the possibility of  
19 including a rule concerning a percentage that

20 would establish the level of de-booking as being  
21 material as a way of avoiding what's discussed  
22 in the prior sentence, which is de-booking.

23 A. I wouldn't use the word avoiding.  
24 Recognize that there's limited resources at any  
25 company. The things that you have the resources

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1 RODNEY SIDLE

2 to do, especially if you have a long list, is to  
3 start with the big things that are the most  
4 material and work your way down until you get to  
5 the smaller things.

6 The intent of that was simply to say  
7 we need to make sure that the very big things  
8 are addressed first. If we have the time, we go  
9 through all of them, but if not, then make the  
10 things that should be left that you don't have  
11 time to get to should only be very small things  
12 that would not be material. Hopefully you can  
13 get to them all.

14 Q. I would like now to direct your  
15 attention to Appendix B on page 774, and that's  
16 the actual Potential Reserves Exposure Catalog.  
17 Do you have that, sir?

18 A. Appendix B?

19 Q. Yes.

20 A. Yes.

21 Q. Now, do you recall if you actually  
22 reviewed Appendix B at the time that you  
23 reviewed the draft -- the document in draft  
24 form?

25 A. I believe that table was present in

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1 RODNEY SIDLE

2 it. Yes.

3 Q. Do you recall if you reviewed it?

4 A. If it was there I looked at it.

5 Yes. I don't see any comments there, so I  
6 offered no comments on it.

7 Q. In the context of the title,  
8 "Potential Reserves Exposure Catalog," could you  
9 tell me what exposure means?

10 A. Well, I believe it was explained in



11 the sentence that I read before. Let me go back  
12 to 1(e) that says, quote, "inventory of all  
13 proved reserves that could be under threat of  
14 de-booking in the event of failure to execute  
15 projects or failure of projects to deliver as  
16 expected." End quote.

17 Q. Going back now to the appendix, the  
18 column on the right-hand side is captioned  
19 "Comment (reason not to de-book.)"

20 Now, you had previously mentioned  
21 this project generally, the first entry is  
22 Australia Gorgon. Do you see that, sir?

23 A. I see it.

24 Q. And in the parenthetical it says  
25 1997. Is it your understanding that that refers  
0218

1 RODNEY SIDLE  
2 to the year that proved reserves were booked in  
3 connection with Gorgon?

4 A. As I look at --

5 MR. SMITH: Objection to the form  
6 and foundation.

7 A. As I look at the title block that's  
8 at the top of that first column, it shows  
9 "Asset," and then in parenthesis "year booked."  
10 So I would assume that that's what that means.

11 Q. And in fact in the comment it states  
12 booked in 1997.

13 A. It does.

14 Q. It goes on to state that it was  
15 booked in anticipation of imminent FID,  
16 subsequently deferred indefinitely, and then it  
17 continues and states, "It is inevitable that a  
18 resource of this magnitude will be developed  
19 eventually."

20 Let me ask. Apparently, as I  
21 understand it, the booking occurred in  
22 anticipation of FID, which did not occur. Is  
23 that also your understanding with respect to  
24 Gorgon?

25 MR. SMITH: Objection to form and  
0219

1 RODNEY SIDLE

foundation. His understanding at the time  
he received this document? Or his  
understanding today?

MR. MacFALL: Let's start with the  
time you received this document.

A. At the time I received this  
document, I knew essentially nothing about  
anything on the page with the exception of  
Angola Block 18. I think Angola Block 18 was  
the only place that I had had a detailed review  
of the basis for reserves.

Q. Again, specifically with respect to  
Gorgon. Looking at the comment section that  
appears in this appendix, utilizing the  
standards applicable in SEPCO, under the SEPCO  
standards, or guidelines, should those proved  
reserves have been debooked?

MR. SMITH: Objection to form and  
foundation. You want him to make that  
evaluation based on the few words in this  
column of this document?

MR. MacFALL: If he can't do it, he  
can tell me he can't.

MR. SMITH: Tell him if you can do

0220  
1 RODNEY SIDLE

2 it or not.

3 A. I'm unable to make that  
4 determination, based on the words that are in  
5 this column.

6 Q. Hardly surprised.

7 Did you discuss with Mr. Pay, or  
8 anyone else, whether or not the maintenance of  
9 proved reserves in connection with the project  
10 specified here complied with the SEC rules?

11 A. I don't recall that discussion at  
12 the time of this document.

13 Q. Do you recall that discussion  
14 occurring at some other time?

15 A. Yes, I recall seeing lists similar  
16 to this in late 2003, early 2004.

17 Q. Was that in connection with Project  
18 Rockford?

19 A. Yes, it was.

20 Q. Do you recall if proved reserves, in  
21 connection with any of these -- and by these I'm  
22 referencing the projects specified in Appendix  
23 B -- do you recall if any proved reserves in  
24 connection with those projects were actually  
25 de-booked as a consequence of Project Rockford?

0221

1 RODNEY SIDLE

2 A. I'm aware that certain of them were.  
3 I don't know about every one.

4 Q. Which ones are you aware of having  
5 been debooked?

6 A. The ones that I'm certain of are  
7 Gorgon, Ormen Lange, and Waddensee.

8 Q. Do you know why the proved reserves  
9 booked in connection with Gorgon were debooked?

10 A. At this time, or today?

11 Q. Well, do you know today why those  
12 reserves were debooked?

13 A. Yes, I do.

14 Q. Okay. And why was that?

15 A. There was not FID, and there was no  
16 gas sales contract.

17 Q. Is that different from what's shown  
18 in the comment section next to Australia Gorgon  
19 on Appendix -- or in Appendix B?

20 MR. SMITH: Objection to form.

21 A. Yes, it is.

22 Q. Okay. How so?

23 A. There's no reference to gas sales  
24 contract. Shell's rules allow booking before  
25 FID if the volumes are committed to a gas sales

0222

1 RODNEY SIDLE

2 contract and therefore the commitment to execute  
3 the project has the foundation in a contractual  
4 agreement to deliver the reserves. There's no  
5 reference in this to whether there was or was  
6 not a gas sales contract.

7 Q. Do you recall if you ever inquired  
8 with respect to -- withdrawn.

9 You had previously stated that you

10 did not utilize scorecards at SEPCO. Is that  
11 correct?

12 A. I believe you asked if we had RRR on  
13 our scorecards at SEPCO, and what I said is I  
14 don't recall about that particular measure.

15 Q. Did SEPCO utilize scorecards?

16 A. Most of the groups they used did, so  
17 I believe they did, yes.

18 Q. Do you believe the existence of  
19 scorecard criteria relating to proved reserves  
20 had an adverse impact on the booking of marginal  
21 proved reserves?

22 A. I'm not aware of specific examples,  
23 but I'm familiar with that in SEPCO, that that  
24 occurred. I don't know about elsewhere in the  
25 group.

0223

1 RODNEY SIDLE

2 Q. Were you aware whether or not  
3 Mr. Barendregt held a view with regard to the  
4 possible impact of OU scorecards and the booking  
5 of proved reserves?

6 A. Yes. Very aware.

7 Q. How is it that you are aware of  
8 Mr. Barendregt's view?

9 A. We, several times, had the  
10 philosophical discussion around including proved  
11 reserves on scorecards. Anton was categorically  
12 opposed to it in any way, shape or form. I --  
13 my position was that it wasn't bad, because it  
14 caused focus on a key business indicator, but  
15 should only be done so if there was a proper,  
16 thorough and independent audit process to assure  
17 that the volumes that were booked as proved were  
18 indeed fully and correctly qualified.

19 Q. You said that Mr. Barendregt was  
20 opposed to the inclusion of proved reserves as a  
21 metric or a criteria on the scorecards. Did he  
22 express to you that he believed that the  
23 inclusion of proved reserves on the scorecard  
24 acted as improper incentive to book proved  
25 reserves for the OUs?

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1 RODNEY SIDLE

2 MR. SMITH: Objection to form.

3 A. I believe in our discussions he  
4 mentioned that risk concerned him, but details  
5 as to whether it was or was not occurring he  
6 didn't share.

7 Q. Did Mr. Barendregt ever express to  
8 you his belief, or a belief that proved reserves  
9 had been improperly booked by any OUs within the  
10 group? And I'll give it a time period. Between  
11 1999 and 2004.

12 MR. SMITH: Just to be clear about  
13 the time period. Did he have that  
14 conversation with Mr. Barendregt during  
15 that time period, or were the bookings in  
16 that time period? Sorry. Just to be  
17 clear.

18 BY MR. MacFALL:

19 Q. At any point during --

20 MR. MacFALL: I'll rephrase the  
21 question.

22 BY MR. MacFALL:

23 Q. At any point during the period of  
24 1999 to 2004, did you have conversations with  
25 Mr. Barendregt in which he indicated that any OU

0225  
1 RODNEY SIDLE

2 had booked proved reserves improperly?

3 MR. SMITH: Thank you. Objection to  
4 form.

5 MR. MacFALL: No good deed goes  
6 unpunished.

7 A. Yes.

8 Q. Do you recall -- or could you  
9 describe for me what it was that Mr. Barendregt  
10 said?

11 A. Yes. I spoke with Anton in late  
12 2003 and early 2004 as part of Rockford, and it  
13 was at that time that he mentioned there may  
14 have been some improper booking.

15 Q. Did he indicate the projects, or the  
16 OUs involved in what he believed to be improper  
17 bookings?

18 A. No, not specifically.

19 Q. Did he indicate why he believed  
20 certain proved reserves had been booked  
21 improperly?

22 A. Why? Well, in creating the lists  
23 that were part of Rockford, we had identified  
24 what. But I don't remember the specifics as to  
25 why, other than a misinterpretation of the  
0226

1 RODNEY SIDLE

2 rules.

3 Q. Did Mr. Barendregt ever express to  
4 you how it was that reserves -- withdrawn.

5 Did Mr. Barendregt ever express to  
6 you the means by which he believed those proved  
7 reserves to have been improperly booked?

8 A. I'm not sure I understand your  
9 question.

10 Q. I'll try rephrasing again. Did he  
11 ever explain to you why it was that the booking  
12 of certain proved reserves was improper?

13 MR. SMITH: Object to form.

14 A. Well, why it was improper was it  
15 either violated one or both of the Shell  
16 criteria, or the SEC criteria.

17 Q. Did Mr. Barendregt offer any greater  
18 detail with respect to his belief that proved  
19 reserves had been booked improperly in or about  
20 the end of 2003, 2004?

21 A. He offered detail in that we were  
22 working on a list of those volumes for the  
23 Rockford study that then needed review to  
24 determine if they were non-compliant and should  
25 be removed, so in terms of statements of  
0227

1 RODNEY SIDLE

2 condition, what was going on at Waddenzee, for  
3 example, or the technical details behind Ormen  
4 Lange, we had discussions around that.

5 Q. And those discussions occurred, I'm  
6 sorry. At the end of 2003, 2004?

7 A. Yeah. End of 2003, early 2004. It  
8 was project Rockford-related.

9 Q. Okay?

10 MR. MacFALL: Why don't we go off  
11 the record.

12 MR. SMITH: Sure.

13 VIDEOGRAPHER: The time is now  
14 4:58 p.m. Off the record.

15 ---

16 (Recess.)

17 ---

18 VIDEOGRAPHER: The time is now  
19 5:10 p.m. Back on the record.

20 BY MR. MacFALL:

21 Q. Mr. Barendregt -- Mr. Barendregt,  
22 I'm sorry. Mr. Sidle, I just have a couple of  
23 more questions with respect to the scorecard  
24 issue, and the views expressed by  
25 Mr. Barendregt, which is where that comes from.

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1 RODNEY SIDLE

2 I would like now to direct your  
3 attention to page 769 of the exhibit before you.  
4 Do you have that, sir?

5 A. I do.

6 Q. And I would like specifically to  
7 direct your attention to the parenthetical in  
8 the underscored portion of that page.

9 A. Yes.

10 Q. The preceding material references OU  
11 scorecard, which is what we were discussing, and  
12 their impact on the booking of proved reserves.  
13 As you had indicated here, in this material you  
14 indicated mixed feelings, and you indicate that  
15 you agree with Anton's observations about the  
16 influence of reserve scorecards on OU staff  
17 objectivity, but you like that they focus  
18 attention on reserves addition.

19 My question is directing your  
20 attention specifically to the last couple of  
21 sentences in the underscored material, it talks  
22 about the communication of standards required  
23 for reserves addition at SEPCO, and frequent  
24 audits, and then goes on to discuss that that's  
25 hard to duplicate at the group-wide level



0229

1 RODNEY SIDLE

2 because audits are less frequent, and then you  
3 state "allowing 'room'" quote-unquote "for  
4 aggressive non-objective bookings to possibly  
5 sneak by."

6 Were you aware of such aggressive  
7 and non-objective bookings?

8 A. I was pointing out a hypothetical  
9 objection.

10 Q. You had also previously testified,  
11 in connection with the scorecards, that  
12 consistent with the underscored comments here,  
13 that they were a key business indicator, and you  
14 stated, "but should only be done so if there was  
15 a proper, thorough and independent audit process  
16 to assure that the volumes that were booked as  
17 proved were indeed fully and correctly  
18 qualified."

19 My question is: Did you believe  
20 that the audit process that was in place at the  
21 group met those standards? And by "those  
22 standards," I mean thorough, independent and  
23 assured that the volumes were indeed fully and  
24 correctly qualified?

25 MR. SMITH: Objection to form and

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1 RODNEY SIDLE

2 lack of foundation.

3 A. Certainly my understanding of the  
4 group audit practices was as I've described  
5 before. The frequency wasn't annual, which as I  
6 note here is important. As to thoroughness, I  
7 only had one example at the time I read this,  
8 that the one example, the first time that Anton  
9 Barendregt visited SEPCO, to really have an  
10 understanding of the depth and breadth of what  
11 was reviewed.

12 So while I had a sampling of what  
13 that process was, it would be difficult for me  
14 to conclude how that was done in every other OU,  
15 how it was done after seeing it over multiple  
16 occasions. It would be hard for me to be able

17 to conclude whether it was or was not adequate  
18 when it occurred. I would observe that it  
19 didn't occur annually, and that was something  
20 that, as I pointed out here, left some room for  
21 potential concern.

22 Q. Did you ever talk about that with  
23 Mr. Barendregt?

24 A. Talk about exactly which part?

25 Q. I'm sorry. Talk about the fact that

0231

1 RODNEY SIDLE  
2 the audits were conducted on -- were not  
3 conducted on an annual basis, left room for the  
4 possibility of aggressive non-objective bookings  
5 with respect to booked reserves?

6 A. Not with respect to that category.  
7 We did talk about the fact they were not annual  
8 audits, and I noted that what SEPCO always had  
9 was an annual audit, and Anton noted that it had  
10 been group practice not to review every year,  
11 but because of the resources they had, and the  
12 number of OUs to be visited, it wasn't practical  
13 to do it annually. They did it at a frequency  
14 that they thought was appropriate.

15 Q. Did Mr. Barendregt ever indicate to  
16 you that he had endeavored to increase the  
17 resources utilized by the audit function within  
18 the group?

19 A. Not before Rockford, no.

20 MR. MacFALL: Why don't we go off  
21 the record.

22 (Continued on next page to allow for  
23 signature line and jurat.)  
24  
25

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1 RODNEY SIDLE  
2 VIDEOGRAPHER: The time is now  
3 5:15 p.m. This is the end of tape number 4  
4 of the deposition of Rodney Sidle. Off the  
5 record.

6 (Time Noted: 5:15 p.m.)  
7

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 2006.

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RODNEY SIDLE	MR. MacFALL	7

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1

2 C E R T I F I C A T E

3 STATE OF NEW YORK )

4 : ss.

5 COUNTY OF NEW YORK )

6

7 I, FRANK J. BAS, a Notary Public  
8 within and for the State of New York, do  
9 hereby certify:

10 That RODNEY SIDLE, the witness whose  
11 deposition is hereinbefore set forth, was  
12 duly sworn by me and that such deposition  
13 is a true record of the testimony given by  
14 the witness.

15 I further certify that I am not

related to any of the parties to this  
action by blood or marriage, and that I am  
in no way interested in the outcome of this  
matter.

IN WITNESS WHEREOF, I have hereunto  
set my hand this 30th day of October, 2006.

\_\_\_\_\_  
FRANK J. BAS, RPR

ERRATA SHEET

NAME OF CASE: In Re: ROYAL DUTCH/SHELL TRANSPORT  
SECURITIES LITIGATION

DATE OF DEPOSITION: OCTOBER 30, 2006

NAME OF DEPONENT: RODNEY SIDLE

PAGE	LINE(S)	CHANGE	REASON
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\_\_\_\_\_  
RODNEY SIDLE

SUBSCRIBED AND SWORN TO BEFORE ME

THIS \_\_\_ DAY OF \_\_\_\_\_, 20\_\_.

\_\_\_\_\_  
(NOTARY PUBLIC) MY COMMISSION EXPIRES:

0237

1

2 IN THE UNITED STATES DISTRICT COURT

3 DISTRICT OF NEW JERSEY

4 -----x

5 In Re: ROYAL DUTCH/SHELL TRANSPORT Civil Action No.

6 SECURITIES LITIGATION. 04-3749 (JAP)

7 Consolidated Case

8 -----x

9

10 October 31, 2006

10:05 a.m.

11

12 VOLUME II

13

14 Continued Videotaped Deposition of

15 RODNEY SIDLE, held at the offices of LeBoeuf

16 Lamb Greene &amp; MacRae LLP, 125 West 55th Street,

17 New York, New York, before Frank J. Bas, a

18 Registered Professional Reporter and Notary

19 Public of the State of New York.

20

21

22

23

24

25

0238

1

2 A P P E A R A N C E S:

3

4 BERNSTEIN LIEBHARD &amp; LIFSHITZ LLP

5 Attorneys for Lead Class Plaintiff

6 10 East 40th Street

7 New York, New York 10016

8 BY: TIMOTHY J. MacFALL, ESQ.

9 LAURA HUGHES, ESQ.

10 JEFFREY HABER, ESQ.

11

12 DEBEVOISE &amp; PLIMPTON LLP

13 Attorneys for Royal Dutch/Shell Transport

14 and The Witness

15 555 13th Street, N.W.

16 Washington, D.C. 20004

17 BY: COLBY SMITH, ESQ.

DAVID C. WARE, ESQ.

18

19

20 EARL D. WEED, ESQUIRE

21 Senior Litigation Counsel

22 Shell Oil Company, Litigation Department

23 910 Louisiana, OSP 4836

24 Houston, Texas 7701

25

0239

1

2 A P P E A R A N C E S (Cont'd):

3

4 LeBOEUF LAMB GREENE & MacRAE LLP

5 Attorneys for Royal Dutch/Shell Transport and

6 The Witness

7 1875 Connecticut Avenue, Northwest

8 Washington, D.C. 20009

9 BY: RALPH C. FERRARA, ESQ.

10

11 HUGHES HUBBARD & REED LLP

12 Attorneys for PriceWaterhouseCoopers

13 One Battery Park Plaza

14 New York, New York 10004-1482

15 BY: SAVVAS A. FOUKAS, ESQ.

16

17

18 HOGAN & HARTSON, LLP

19 Attorneys for KPMG Accountants NV

20 875 Third Avenue

21 New York, New York 10022

22 BY: NICHOLAS W.C. CORSON, ESQ.

23

24

25

0240

1

2 A P P E A R A N C E S (Cont'd):

3



4 FOLEY & LARDNER LLP

5 Attorneys for Judith Boynton

6 777 East Wisconsin Avenue

7 Milwaukee, Wisconsin 53202-5306

8 BY: REBECCA E. WICKHEM, ESQ.

9

10

11 MAYER BROWN ROWE & MAW LLP

12 Attorneys for Sir Philip Watts

13 1909 K Street, N.W.

14 Washington, D.C. 20006-1101

15 BY: AKRIVI MAZARAKIS, ESQ.

16

17

18

19 ALSO PRESENT:

20 NICO MINERVA, Grant & Eisenhofer

21 LESLIE DAVID, Paralegal,

22 Bernstein Liebhard

23 MICHAEL DRENKALO, Videographer

24

25

0241

1 RODNEY SIDLE

2 VIDEOGRAPHER: We're now recording

3 and on the record. Today is October 31,

4 2006. The time is approximately 10:05 a.m.

5 This is the beginning of tape number

6 5 in the continued deposition of Rodney

7 Sidle in the matter of Royal Dutch/Shell

8 Transport Securities Litigation. All

9 attorneys present will be noted by our

10 court reporter, and we also remind the

11 witness that you're still under oath.

12 R O D N E Y S I D L E,

13 resumed as a witness, having been

14 previously sworn by the Notary Public,

15 was examined and testified further as

16 follows:

17 EXAMINATION (Cont'd)

18 BY MR. MacFALL:

19 Q. Good morning, Mr. Sidle.

20 A. Good morning.

21 Q. Yesterday before we broke, we were  
22 discussing Exhibit 9, which was a draft that you  
23 commented upon concerning certain reserves  
24 within the group. I would like you to get  
25 Exhibit 9 in front of you again, if you could.

0242

1 RODNEY SIDLE

2 I just want to ask some follow-up questions and  
3 then we'll finish that off.

4 A. Of course.

5 Q. Thank you. If I could ask you, sir,  
6 to turn to page 7881. Do you have it, sir?

7 A. I have it.

8 Q. I would note that at the top of the  
9 page it reads General Comments From Rod Sidle on  
10 EP Proved Reserves Management Topics.

11 I take it, sir, that you drafted  
12 this portion of this document?

13 A. I believe so. Yes.

14 Q. What was the purpose of your  
15 drafting this material?

16 A. I had been given the preceding  
17 document as a draft by John Pay for comment. I  
18 provided comments both specific within the  
19 document that we reviewed yesterday, some of  
20 those, as well as I also provided some general  
21 thoughts that weren't specific to any particular  
22 section, and therefore they were collected as a  
23 separate document at the end. This is the first  
24 page of that series of general comments.

25 Q. Thank you. Directing your attention

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1 RODNEY SIDLE

2 on that same page specifically to the first  
3 bullet point. It references something called  
4 T&OE. Can you identify that for me, sir?

5 A. Yes. An organization within Shell  
6 EP's technical community was called Technical &  
7 Operating Excellence. It was a group of  
8 specialists, chief reservoir engineers, chief  
9 geologists, people like that, who were put into  
10 a separate organization within the technology  
11 department to try to advance Shell's

12 capabilities in their various technical arenas.

13 Q. Were you a member of that  
14 organization, sir?

15 A. At that time, no, I was not.

16 Q. Did you subsequently become a member  
17 of that organization?

18 A. Yes. Yes, in the position I'm in  
19 now, I'm part of T&OE.

20 Q. Okay. Did that change -- or did  
21 membership in that organization occur sometime  
22 in the beginning of 2004?

23 A. It was when I moved into my current  
24 position, it was about the middle of 2004.

25 Q. Thank you. Your reference to T&OE  
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1 RODNEY SIDLE

2 here was with regard to improving the reserve  
3 booking process, according to the document. Do  
4 you recall if you had specific recommendations  
5 with regard to their involvement in the reserve  
6 booking process?

7 A. Yes. Yes. Among them, if you go  
8 down two bullets, to the OU reserves focal  
9 points, was to engage the community that  
10 provided the service of capturing the data at  
11 the OU and sub OU levels to get that group  
12 together, which had never actually assembled as  
13 an entity and talk about issues, efficiencies,  
14 understandings. We already referenced the ARPR,  
15 a large database that required population and  
16 collection every year. A number of process  
17 issues of how to ensure full understanding and  
18 make the overall processes as efficient as  
19 possible.

20 We also looked at things like  
21 training; how could we improve the materials  
22 that were available to provide people better  
23 understanding of what the Shell guidelines  
24 actually meant, in addition to just publishing a  
25 document.

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1 RODNEY SIDLE

2 So those are two examples.

3 Q. And actually in the second bullet  
4 point, you reference certain OU's and proved  
5 reserve management practices, you specifically  
6 cite SEPCO in connection with such practices.

7 Could you please, briefly, describe  
8 for me the reserve management practices that  
9 were employed by SEPCO? And I know you touched  
10 on that yesterday, but if you could expand upon  
11 that.

12 A. Certainly. Certainly. Among the  
13 things that were done in SEPCO, first in terms  
14 of education, because that's the place you need  
15 to start with the staff, we provided them with  
16 the documents that they needed to understand the  
17 rules, not just the 1100, but as I've mentioned  
18 several times, an adaption of that, and an  
19 expansion of that, that was specific to US  
20 operations, to the SEPCO business practices, so  
21 that they had a good understanding in the way  
22 they worked in that business, how that related.  
23 So that's a document.

24 We also did annual training. We  
25 went to the various places within SEPCO where  
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1 RODNEY SIDLE  
2 reservoir engineers did their work and provided  
3 a training session at least once a year to give  
4 them guidance, just generally, okay, now here's  
5 a set of written rules, what do those mean; how  
6 do you apply them. That was an important part  
7 of it.

8 We also had consultation, so in  
9 addition to the review process where we looked  
10 at completed work, was it right or was it not,  
11 we provided hands -- you know, one-on-one  
12 training, so when they had some specific  
13 questions -- and many times reserve rules  
14 applied to unique situations, you can't always  
15 generalize and anticipate everything -- then we  
16 would work with them to help understand how the  
17 rules would apply to their situation. So that's  
18 all part of the education process.

19 Then we had the assurance validation

20 process, and we've been through that -- the  
21 quarterly reviews and the annual review.

22 We also had the data capture  
23 process. So once you train them, they've  
24 generated numbers, you reviewed them, you've got  
25 the numbers that are the proper numbers, then

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1 RODNEY SIDLE  
2 you have to capture them in some way. So you  
3 fill out data forms. They're sent in, there's a  
4 QC process of that data. Then there's the  
5 assimilation of that data totalling an analysis.

6 All of those are elements of just  
7 managing the processes that get you to the  
8 proper reserves.

9 Q. With respect to the training aspect  
10 of that, were you involved in the training  
11 portion of that program, or reserves management  
12 practices process?

13 A. Within SEPCO, yes, I was.

14 Q. Was there anyone else involved in  
15 that portion of those processes?

16 A. The training typically was delivered  
17 by me on what the rules meant, and delivered by  
18 A.J. Durrani on the data capture and reporting  
19 rules, so how to fill out the spreadsheets and  
20 things like that.

21 Q. When you say what the rules meant,  
22 are you referencing the Shell guidelines, the  
23 group guidelines?

24 A. The SEPCO --

25 Q. The SEPCO guidelines?

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1 RODNEY SIDLE

2 A. Yes. The group guidelines were the  
3 framework in which the SEPCO guidelines fit, and  
4 so we typically would talk about the things that  
5 specifically applied to the US, because that was  
6 my focus, that was their interest, and that's  
7 what we talked about.

8 Q. Do you recall if during that  
9 training process you also discussed SEC Rule  
10 4-10?

11 A. Yes. Yes. I've got a famous slide  
12 that I used at every single one of them where we  
13 showed 4-10 and showed the foundation for the  
14 SEPCO rules.

15 Q. Your recommendation that reserve  
16 booking and management practices be adopted in  
17 the group, can I take it from that that no such  
18 process, that you are aware of, existed in the  
19 group at that time?

20 A. I wouldn't say -- I didn't know  
21 exactly what the process was. I was certainly  
22 aware of the part that touched me, but that  
23 wasn't necessarily everything.

24 My intent, in general responses to  
25 this document, was just as in that second  
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1 RODNEY SIDLE  
2 bullet, to share what we were doing, and  
3 actually to encourage everyone else around the  
4 world to share what they were doing, so that as  
5 a collective, with that dialogue, we could look  
6 for some combination or extension of that that  
7 would fit the international needs.

8 Q. Were you aware if the group had a  
9 group-wide training process in place at this  
10 time?

11 A. At that point I had never  
12 participated in any training, but I wasn't  
13 specifically aware that there was or was not.

14 Q. I would like now to direct your  
15 attention to the last bullet point that appears  
16 on that same page, underneath the caption "Other  
17 Thoughts." Do you see that, sir?

18 A. Yes.

19 Q. Next to the bullet point you wrote:  
20 "Control of 'low quality' proved reserves often  
21 requires active enforcement of booking rules by  
22 a frequent (at least near year end) audit of  
23 reserves bookings before they are accepted."

24 My first question is with respect to  
25 your reference to "low quality proved reserve,"  
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1 RODNEY SIDLE

2 what did you mean by that?

3 A. Well, you may remember my reference  
4 yesterday to reserve reviewers simply being able  
5 to smell when there were situations -- not hard  
6 evidence, so you couldn't make a judgment --  
7 just the situations that existed, where you just  
8 felt you need to dig deeper to understand. That  
9 was the sort of thing.

10 Places where -- actually, I don't  
11 like using sports analogies, because  
12 internationally, because every time I say  
13 football outside of the US, they don't know what  
14 I mean, but in the sense of a football game, the  
15 quarterback has to be able to sense that there's  
16 a lineman in his blind side about to hit him.  
17 You don't see it, you don't have hard evidence,  
18 but you have to sense that that's the case.

19 So that's exactly the case here.  
20 You have to sense that there are things out  
21 there that you need to investigate to get hard  
22 data on to be able to make a good decision.

23 Q. Am I correct that you were  
24 recommending an audit of reserves bookings on an  
25 annual basis in that bullet point?

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2 A. What I noted here was, as I did  
3 throughout the document, offer my observations  
4 and suggestions, and I noted that what I was  
5 familiar with within SEPCO, what I was familiar  
6 with with other companies, was an annual  
7 process.

8 Q. Did you receive feedback with  
9 respect to that recommendation, specifically the  
10 annual -- or the possibility of an annual audit?

11 A. I don't remember if it was to the  
12 reference of this written text or just other  
13 conversations, but I think, mas I mentioned  
14 yesterday, I spoke with Anton about that idea,  
15 and he mentioned that resource limitations made  
16 it very difficult for a single auditor to visit  
17 every OU every year.

18 Q. How about with respect to the prior



19 bullet points, the three that precede that which  
20 talk about the, or implementing a training  
21 process.

22 Do you recall having -- withdrawn.

23 Do you recall if you received any  
24 feedback with regard to those suggestions or  
25 comments?

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1 RODNEY SIDLE

2 MR. SMITH: Objection to form.

3 A. I'm not remembering -- I don't  
4 remember exactly the feedback. I know that it  
5 happened. The T&OE organization that was  
6 responsible for this got together with  
7 discipline leads for reservoir engineering, and  
8 I was one of the discipline leads -- outside of  
9 T&OE, but a disciplined lead -- and we organized  
10 a meeting of the reserve focal points and other  
11 key reserve staff around the world when we had  
12 one of our global reservoir engineering  
13 meetings, and at that time we talked about  
14 sharing best practices, and we did that,  
15 including SEPCO, and we talked about training  
16 needs and putting together a training set of  
17 slides that could be used by all OUs around the  
18 world so they would have a standard resource to  
19 build on, and we got together the focal points  
20 to talk about efficiencies that they found and  
21 how they did the work, and shared those with  
22 others.

23 Q. Do you recall approximately when  
24 that meeting occurred?

25 A. That was 2003. I think it was the

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1 RODNEY SIDLE

2 spring of 2003.

3 Q. If I could ask you to turn to the  
4 next page, sir, Bates number 782. And  
5 specifically direct your attention to the first  
6 bullet point that appears on that page. The  
7 first sentence there states: "Any staff  
8 interpretation that ExCom may unhappily view  
9 technically valid downward reserve revisions

10 will only worsen the problem."

11 Could you please explain for me what  
12 you were attempting to convey in that sentence?

13 (Witness reviewing document.)

14 A. Okay. The concept that I'm  
15 advancing here is one of perception, so when the  
16 people who make reserves determinations and  
17 bring forward numbers that are fully supportable  
18 by a technical case, they would bring forward  
19 numbers that, by the instructions, by the rules,  
20 are reasonably certain, not absolutely certain.  
21 And so although there's a -- the guidance is  
22 much more likely to have an upward revision than  
23 a downward, it doesn't say there should never be  
24 a downward revision. So it's anticipated,  
25 because of the uncertainties, and the nature of

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1 RODNEY SIDLE  
2 just determinations such as this, this will, on  
3 occasion, although those occasions will be rare,  
4 but there still are occasions when there will be  
5 downward revisions. When the message is sent  
6 that whenever those downward revisions may  
7 occur, that is not viewed upon as just part of  
8 the normal job, just recognizing that some  
9 things are uncertain and sometimes they will go  
10 down, then the staff will react in a way of  
11 making sure there's never even a possibility of  
12 it ever going down, absolutely certain. Which,  
13 frankly, results in a reserves understatement.

14 And that paragraph is intended to  
15 convey that we should avoid creating a situation  
16 where that misinterpretation could be conveyed  
17 to staff, such that they would react in a way  
18 that deliberately understated reserves.

19 Q. Was that something, in your  
20 experience, that was currently happening within  
21 the group?

22 A. I was not aware of it within the  
23 group. I had seen individual instances, on rare  
24 occasions, in the past where there were  
25 supervisors that simply didn't understand the

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2 nature of the uncertainties in booking reserves.

3 Q. When you write here "will only  
4 worsen the problem," do you know what it is that  
5 you were talking about there?

6 A. Actually I don't remember exactly  
7 what that meant.

8 Q. Okay.

9 ---

10 (Sidle Exhibit 10, e-mail string,  
11 Bates number DB 01376 through DB 01378, was  
12 marked for identification.)

13 ---

14 BY MR. MacFALL:

15 Q. Mr. Sidle, you've just been handed a  
16 document that has been marked as Sidle Exhibit  
17 10 for identification. I would ask you to take  
18 a look at it, sir, and tell me if you recognize  
19 it.

20 (Witness reviewing document.)

21 A. This is a sequence of e-mails that  
22 is -- that primarily is a response from Chris  
23 Kennett on the document that we just reviewed in  
24 Exhibit 9, the EP proved reserves management  
25 draft, through the T&OE organization that we had

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2 mentioned, where we had a T&OE leader, who is  
3 Min-Teong Lim. In the originating e-mail of  
4 this sequence, he asked that I coordinate  
5 comments from other reservoir engineering  
6 leaders who were part of that leadership group  
7 on that draft document.

8 Chris's is his response.

9 Q. Do you know what Mr. Kennett's  
10 position in the group was at that time?

11 A. At that time I believe Chris was in  
12 Shell Brunei -- Brunei Shell Petroleum, BSP, and  
13 I believe he was either the chief reservoir  
14 engineer or chief petroleum engineer.

15 Q. I would like specifically to direct  
16 your attention to the second page of the  
17 document, which is a continuation of

18 Mr. Kennett's various comments. With respect to  
19 number 4, "OU scorecards that appears at the top  
20 of the page." Do you see that, sir?

21 A. I see that.

22 Q. Mr. Kennett discusses the  
23 possibility of removing preserved reserves from  
24 OU scorecards and replacing it with appropriate  
25 milestones and comments that it would remove  
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2 pressure to find offsets for unexpected reserve  
3 disappointments.

4 Were you aware of the practice of  
5 using offsets -- or using reserves to offset  
6 reserve disappointments, or other reserves which  
7 were no longer properly classified as proved?

8 MR. SMITH: Objection to form.

9 A. I was at that time the reserves  
10 manager for SEPCO, I was certainly aware of the  
11 practices and processes in SEPCO. The intent of  
12 this group of reservoir engineering leaders was  
13 to share practices elsewhere. Those practices  
14 were unknown to me, and I was not familiar with  
15 what had or was occurring in Brunei at that  
16 time.

17 Q. Directing your attention now with --  
18 I'm sorry -- to number 5, Proved Reserve  
19 Replacement Performance. Do you see that, sir?

20 A. Yes.

21 Q. Mr. Kennett writes about the effort  
22 to reduce what he calls historic conservatism in  
23 Shell reporting for mature assets, and then it  
24 continues. He notes, and this is in about the  
25 middle of the paragraph, "This is, however, a  
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1 RODNEY SIDLE

2 'once off' gain now largely realized," and then  
3 continues.

4 Were you aware of an initiative or  
5 an effort to remove conservatism in Shell's  
6 reporting practices that resulted in a reserve  
7 increase?

8 MR. SMITH: Objection to form.

9 A. Again, I wasn't aware of most of the  
10 international operation, and I wasn't aware of  
11 the general practice internationally. There was  
12 one example of this that I was aware of, and I  
13 had seen data from Shell's UK operation called  
14 EXPRO, where Shell and Exxon together owned  
15 assets. That study, as I recall seeing it,  
16 showed that for similar very mature fields  
17 within EXPRO -- 50/50 ownership, so  
18 theoretically the numbers should be exactly the  
19 same -- Shell's probabilistic methods led to a  
20 reporting significantly less than the  
21 deterministic methods that Exxon had used, and  
22 that then when Shell went back and looked at  
23 using a deterministic method for very mature  
24 assets, they were able to see why the  
25 probabilistic method really didn't work well for  
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1 RODNEY SIDLE

2 very mature assets. And they did make a, as  
3 mentioned here, one time correction by moving  
4 from probabilistic in their very mature assets,  
5 to deterministic, and then remained  
6 deterministic after that.

7 Q. Was that change a group-wide change  
8 or did it just relate to EXPRO?

9 A. That was specific -- the example  
10 that I saw -- I don't know what was done  
11 group-wide -- the example that I saw related to  
12 EXPRO, the UK assets.

13 Q. Do you recall approximately when  
14 that change occurred?

15 A. I believe it was in the late '90s.

16 Q. Going down to the next paragraph in  
17 number 5, the second sentence Mr. Kennett  
18 writes, "With respect to undeveloped assets,  
19 Shell appears to have been very aggressive in  
20 the past, both by booking before FID and also in  
21 many cases using probabilistic methodology for  
22 booking new discoveries," and then it continues.

23 At this time do you recall if the  
24 group guidelines specified a particular economic  
25 status, such as FID or VAR, that needed to be

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1 RODNEY SIDLE

2 reached before proved reserves could be booked?

3 A. Let's see. This is 2002. In 2002,

4 and in fact throughout the period where I had

5 the opportunity to see the group guidelines,

6 some form of technical and commercial maturity

7 was required. We discussed that yesterday.

8 The VARs actually are a technical

9 maturity method rather than a commercial

10 maturity method. Although when you get to

11 VAR 4, that's essentially the same timing as

12 FID, and FID is a commercial measure.

13 So some form of requirement of

14 technical and commercial maturity would have

15 been in effect at this time. As I said, as we

16 discussed yesterday, the benchmark, the

17 milestone that was used to define that maturity

18 did progress through the years, but at all times

19 there was some requirement for technical and

20 commercial maturity.

21 Q. Did you believe that booking proved

22 reserves prior to FID was aggressive?

23 MR. SMITH: Objection to form.

24 A. The requirement for booking reserves

25 was commercial and technical maturity. FID was

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1 RODNEY SIDLE

2 a measure that would have been an indicator, but

3 it wasn't the only method. There were other

4 elements that could be looked at to fully

5 establish technical and commercial maturity.

6 Q. Do you know what Mr. Kennett meant

7 here, then, when he talks about Shell appears to

8 have been aggressive in the past by booking

9 before FID?

10 A. I don't know.

11 Q. Did you ever discuss it with him?

12 A. No, I didn't.

13 Q. You can put that aside, sir.

14 A. Okay.

15 ---

16 (Sidle Exhibit 11, document, Bates

number LON00142065 through LON00142086, was  
marked for identification.)

---

BY MR. MacFALL:

Q. Mr. Sidle, you've just been handed a  
document marked as Sidle Exhibit 11 for  
identification. I would ask you to take a look  
at that, sir, and tell me if you recognize it.

(Witness reviewing document.)

RODNEY SIDLE

A. I reviewed the document.

Q. Have you ever seen this document  
before, sir?

A. I have seen documents like this  
during the Rockford period. I don't recall  
having seen this specific one. I may have seen  
it during that period.

Q. With that caveat, I would like to go  
through some of the information in the document  
and see whether or not you were aware of it at  
the time, or subsequently became aware of it  
during your review as part of the Rockford  
project.

A. Well, I could categorically state  
that the things in here that are not SEPCO, I  
was not aware of at the time. But we can talk  
about subsequent, if you wish.

Q. Okay. That's fine. If that's all  
we can do, that will be appropriate. We might  
as well do that now, since you have it in front  
of you.

I would like first to direct your  
attention to the first page of the actual  
review, which is page 067.

RODNEY SIDLE

A. Page 067. Yes.

Q. There's a chart that appears toward  
the middle of the page. I would like now to  
direct your attention to the second paragraph  
beneath that chart that starts with the words  
"the most significant."



8 Do you see that, sir?

9 A. I see it.

10 Q. Mr. Barendregt wrote: "The most  
11 significant comment is that serious efforts have  
12 been made during 2002 towards further alignment  
13 of Group Proved reserves with SEC and Group  
14 reserves guidelines."

15 Now, I take it from what you said  
16 before, at the time -- and this is January  
17 2003 -- you didn't have any personal knowledge,  
18 I take it, of any misalignment between the SEC  
19 requirements and the proved reserves that were  
20 booked at various OUs within the group?

21 MR. SMITH: Objection to form.

22 A. So you're talking about the  
23 application of the rules to the volumes, rather  
24 than the rules themselves. Is that correct?

25 Q. At -- yes.

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1 RODNEY SIDLE

2 A. At that time.

3 Q. Yes.

4 A. That's correct, yes.

5 Q. Were you aware of any misalignment  
6 between the group guidelines, at this time, and  
7 the SEC requirements?

8 MR. SMITH: Objection to form.

9 A. I think we discussed this yesterday,  
10 and as I had mentioned, as I laid down 4-10 and  
11 the group guidelines, there were certain textual  
12 difference, but within the group guidelines  
13 there was a statement made that these did adhere  
14 to the SEC requirements, and so again my focus  
15 being on US things, which where we had rules we  
16 knew were in alignment, I felt -- I believed  
17 what was in the guidelines that they met the  
18 requirements.

19 Q. Directing your attention to the  
20 paragraph beneath that beginning with the words  
21 "In spite of."

22 Do you see that, sir?

23 A. I see it.

24 Q. It says: "In spite of these

25 significant efforts there are a number of

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1 RODNEY SIDLE

2 smaller items in the group proved reserves  
3 portfolio that are not (or not fully) supported  
4 by the present SEC or group reserves  
5 guidelines."

6 And then Mr. Barendregt lists a few  
7 projects. Again, I believe I know the answer to  
8 this based on your prior statement, but at the  
9 time of this document, or in or about the time  
10 of this document, January 2003, were you aware  
11 of any group proved reserves specifically  
12 relating to the project shown as not being  
13 supported or fully supported by SEC rules or  
14 group guidelines?

15 A. At this time I was not even aware of  
16 the existence of those projects.

17 Q. Did there come a time when you did  
18 become aware of any of those projects and the  
19 sentiment -- or the thought expressed by  
20 Mr. Barendregt in that sentence?

21 A. As we got to the Rockford effort in  
22 late 2003 and early 2004, yes, I did see some of  
23 these names at that time.

24 Q. What was your role -- withdrawn.  
25 Did you have a role in the Rockford project?

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2 A. Yes.

3 Q. Could you please describe for me  
4 briefly what your role was, sir?

5 A. Yes. Because of my familiarity with  
6 the US application of the SEC rules, I was asked  
7 to come to the group EP headquarters in Holland  
8 and be part of a team that looked at certain of  
9 these fields, and a variety of others, where  
10 there were questions about whether or not there  
11 was an exposure based on Shell requirements and  
12 SEC requirements.

13 Q. As part of your efforts in  
14 connection with project Rockford, did you review  
15 the various audit reports prepared by

16 Mr. Barendregt for the fields at issue?

17 A. Certainly not all of them. As I  
18 said, I've seen forms like this before, but what  
19 years it was, I don't recall. It could have  
20 been this and it could have been others.

21 MR. SMITH: I thought his question  
22 was about audit reports.

23 A. Oh.

24 MR. SMITH: Did I misunderstand your  
25 question?

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1 RODNEY SIDLE

2 MR. MacFALL: It was in fact about  
3 audit reports.

4 A. I misunderstood your question. I  
5 thought you were referring to this document.

6 Q. No.

7 A. No, I hadn't seen the audit reports.  
8 With exception to the ones related to the US, of  
9 course. I got those.

10 Q. Did you see a summary of the  
11 conclusions reached by Mr. Barendregt in  
12 connection with the audits of various OUs,  
13 conducted between 1999 and 2004?

14 A. Only the US ones. I didn't have  
15 access to any of the others.

16 Q. Did you have access to any documents  
17 summarizing his conclusions?

18 A. No.

19 Q. Did you review, as part of your  
20 efforts on Rockford, the proved reserve bookings  
21 for various OUs in the group?

22 A. Yes.

23 Q. Generally, could you describe for me  
24 what documents, if any, you reviewed as part of  
25 your efforts in Project Rockford?

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2 A. In the early stages of Rockford, I'm  
3 trying to remember, I don't remember very much  
4 in terms of documents at all, there were staff  
5 that were brought in from the reserves managers,  
6 primarily, from certain of the more involved

7 OUs -- Nigeria being one example -- that  
8 explained the circumstances of their current  
9 proved reserves situation and characteristics of  
10 some of the fields that were part of those  
11 reserves, especially those characteristics that  
12 would cause questions as to whether or not they  
13 met with Shell or SEC standards.

14 So most of that early discussions  
15 were not really documents, as much as  
16 descriptions and tables of data, things like  
17 that.

18 Q. Did there come a time when you  
19 actually reviewed documents in connection with  
20 the proved reserves of various OUs?

21 A. Later in the project I had the  
22 opportunity to read documents like this, perhaps  
23 this one, perhaps others, I just don't recall.  
24 But those were the things that I remember  
25 seeing.

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1 RODNEY SIDLE

2 Q. As part of your efforts in Project  
3 Rockford, were you called upon to opine as to  
4 whether or not certain volumes of proved  
5 reserves complied with the SEC requirements?

6 A. My opinions that I could express  
7 then, of course, were only with the expertise  
8 that I had developed within -- within the US.  
9 Many of the things, as I've mentioned, in  
10 international settings I simply had no  
11 experience on, so all I could do was relate to  
12 SEPCO's and US situations.

13 As, let's use Nigeria as another  
14 example -- as the circumstances there were  
15 brought forward, I could offer the view of,  
16 well, were these situations present in the US,  
17 you know, here are the things I would look at,  
18 here are the questions I would ask to try to  
19 determine whether or not I felt comfortable that  
20 they did, or could conclude that they did not  
21 meet SEC requirements, as I knew them applied in  
22 the US.

23 So I would provide that type of

24 commentary, and then there were others who were  
25 on the team that would bring in international  
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1 RODNEY SIDLE

2 experience and their perspectives to try to  
3 provide some suggestion, guidance,  
4 recommendations back to management as to how to  
5 deal with this inventory of volumes that looked  
6 troublesome.

7 Q. As part of your role in Project  
8 Rockford, were you ever asked whether or not  
9 various -- certain volumes of proved reserves  
10 should be de-booked?

11 A. Continuing on with that -- with that  
12 discussion, yeah, I mean part of what I would  
13 say is when they brought a set of circumstances  
14 in front of me, I could apply -- I could say  
15 well, were this in the US, this is how we would  
16 treat it. And when they brought a set of  
17 circumstances that was indeed complete and  
18 conclusive, well, then my answer would have been  
19 in the US we would have done this.

20 But again, that had to be put in the  
21 context of an international setting, and others  
22 had to assist with judgments of things I didn't  
23 know about how international situation may be  
24 different from my experiences in the US.

25 Q. Do you recall any of the specific  
0271

1 RODNEY SIDLE

2 OUs for which you recommended volumes of proved  
3 reserves be de-booked?

4 MR. SMITH: Objection to form. Lack  
5 of foundation.

6 A. The two that I remember are there  
7 were -- and I don't remember individual field  
8 names, just the circumstances -- there were some  
9 circumstances in Nigeria where it appeared that  
10 projects, once planned, were not then going to  
11 be done, and in a situation like that in the US,  
12 it wasn't in our plan, we weren't planning to do  
13 it, we would have removed the volumes.

14 There were some situations in Oman

15 where the volume estimates were based on very  
16 immature project understandings, without really  
17 a clear and specific plan for how those volumes  
18 would be developed and produced.

19 And again, if that occurred in the  
20 US, then I would feel uncomfortable with calling  
21 those proved reserves. They wouldn't seem to  
22 meet the criteria.

23 Q. Did you do any work in connection  
24 with Gorgon as part of the efforts in Project  
25 Rockford?

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2 A. No. Not actually. I had very  
3 little contact with it.

4 Q. With respect to the reserves that  
5 you looked at in Nigeria, was that in connection  
6 with the SPDC OU?

7 A. Yes, it was.

8 Q. Do you recall the approximate volume  
9 of proved reserves at issue?

10 A. I don't remember an exact number,  
11 no.

12 Q. Do you recall if proved reserves  
13 were actually de-booked in connection with SPDC,  
14 at the conclusion of Project Rockford?

15 A. Yes, I believe they were.

16 Q. Do you recall the volume of --

17 A. No, I don't.

18 Q. During the course of your efforts in  
19 connection with Project Rockford, did you ever  
20 consider whether the various issues that called  
21 into question, in your mind, the viability of --  
22 or the propriety of the reserves bookings at  
23 SPDC should have come to light in a group audit?

24 MR. SMITH: Objection to form.

25 A. Could you ask the question again,

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2 please?

3 Q. I'll rephrase the question. Sure.

4 While you were looking or reviewing  
5 the proved reserves bookings at SPDC, did it

6 ever occur to you that some of the issues or  
7 problems to those reserves should have come to  
8 light in a group audit?

9 MR. SMITH: Objection to form. Lack  
10 of foundation.

11 A. Given my relative inexperience with  
12 the group audit structure, and how it was done,  
13 other than the single example that I had in the  
14 US, it was difficult for me to conclude what  
15 should or should not have been done in that  
16 audit structure.

17 Q. Were you ever asked whether the  
18 problems with the proved reserves at SPDC should  
19 have been picked up or caught during the group  
20 audit?

21 A. I don't recall that being asked.  
22 No.

23 Q. Did you ever indicate to anybody  
24 that you thought there were issues that came  
25 up -- withdrawn.

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1 RODNEY SIDLE

2 Did you ever indicate to anybody  
3 that any of the problem issues connected to the  
4 proved reserves at SPDC should have been brought  
5 to light in a group audit?

6 MR. SMITH: Objection to form.

7 A. I don't recall that I did. No.

8 Q. I would like now, sir, to direct  
9 your attention to the page ending with Bates  
10 number 069.

11 A. 069. I have it.

12 Q. Directing your attention to the  
13 fourth paragraph from the bottom of the page,  
14 beginning with the words "stricter application  
15 of SEC guidelines."

16 Do you see that, sir?

17 A. I see it.

18 Q. Mr. Barendregt talks about stricter  
19 application of the SEC guidelines and revision  
20 of the group guidelines and the effect they had  
21 on SNEPCO -- well, in connection with Bonga and  
22 Erha.



23 Do you know what Mr. Barendregt was  
24 referring to there when he references stricter  
25 application of SEC guidelines?

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1 RODNEY SIDLE

2 A. He makes reference to stricter  
3 application of SEC guidelines and consequent  
4 revision of group guidelines. Exactly what he  
5 was referring to, what sections or what change,  
6 I don't know.

7 Q. If I could ask you now, sir, to turn  
8 to page 071.

9 A. 071, okay. All right.

10 Q. A little bit from the top of the  
11 page you'll see number 7, Reasonable Certainty  
12 of Development. Do you see that, sir?

13 A. I see it.

14 Q. Mr. Barendregt writes, "During 2001  
15 the SEC re-clarified their interpretation of the  
16 FASB rules regarding the booking of proved  
17 reserves" -- references -- or "(Refs 4.5)."

18 Do you know what Mr. Barendregt is  
19 referring to when he talks about the  
20 re-clarification of the interpretation of FASB  
21 rules?

22 A. I'm not sure I know exactly what he  
23 was referring to, but given the date of 2001,  
24 and our discussions yesterday about the March  
25 2001 guidance that the SEC has made available, I

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1 RODNEY SIDLE

2 think it's logical to speculate that that's what  
3 he meant.

4 Q. Are you referencing the -- we looked  
5 at yesterday an exhibit that was the proposed,  
6 or draft --

7 A. Yes. Finalized with a March 2001  
8 version that expanded the draft we saw  
9 yesterday, and that's what the official guidance  
10 was, that was prepared. Now, whether that's  
11 exactly what he meant here or if he meant  
12 something else, I don't know.

13 Q. The next sentence in that paragraph

14 reads: "One of the stipulations was that proved  
15 reserves could only be booked for projects whose  
16 development was not subject to 'reasonable  
17 doubt.'"

18 A. I see that.

19 Q. Okay. Based on your understanding  
20 of the SEC rules, could proved reserves have  
21 ever have been booked for projects that were  
22 subject to a reasonable doubt?

23 MR. SMITH: Objection to form.

24 A. Well, certainly it's clear from the  
25 SEC rules, especially from my understanding of  
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1 RODNEY SIDLE  
2 how they were applied within SEPCO, which is the  
3 basis of my knowledge at that time, that  
4 reasonable certainty was required. Exactly what  
5 Anton means here by "reasonable doubt," he  
6 doesn't define. So whether reasonable doubt is  
7 enough to mean you're not reasonably certain, or  
8 there's some doubt and you can still be  
9 reasonably certain, is unclear. I'm not sure I  
10 know exactly what he's meaning by the statement.

11 Q. If I could now direct your attention  
12 to page 073 of that document, sir.

13 A. 073. All right. I have that.

14 Q. Number 11, it's toward the top of  
15 the page, the second numeral down, reads Group  
16 Guidelines - first time booking of new fields.  
17 Do you see that, sir?

18 A. Yes, I do.

19 Q. If you look at that first paragraph,  
20 and if you would just read that to yourself,  
21 you'll see that Mr. Barendregt indicates that  
22 all major projects of VAR 3 would need to be  
23 passed before a -- before proved reserves could  
24 be booked, and references FID in connection with  
25 new gas markets.

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2 My question -- well, let me know  
3 when you're done reading that paragraph. I'm  
4 sorry.

5 (Witness reviewing document.)

6 A. Okay. I've read the paragraph.

7 Q. Actually. The first sentence in the  
8 next paragraph, if you could read that also,  
9 where he opines on the VAR 3 review.

10 (Witness reviewing document.)

11 A. I've read it.

12 Q. Yesterday we talked a little about  
13 the evolution of the standards under the group  
14 guidelines. At some point you indicated that  
15 you thought it was VAR 3 and then moved to  
16 VAR 4.

17 But we had some trouble in terms of  
18 the timing, I guess. Does this help refresh  
19 your recollection as to when a VAR 3 was  
20 appropriate as a milestone for the booking of  
21 proved reserves?

22 A. The date of this document, I  
23 believe, was early '03, so it would be looking  
24 back at reviews done in '02. From that I would  
25 conclude that the VAR 3 standard was in place

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1 RODNEY SIDLE

2 with the 2002 guideline document, and that  
3 subsequent changes to higher levels of VAR came  
4 later.

5 Q. If you go back to the document, the  
6 third paragraph under 11, Mr. Barendregt  
7 recommends passage of -- I'm sorry -- yeah,  
8 passage of FID, or another strong public  
9 commitment by the OU concerning development as a  
10 milestone.

11 My question is: Do you recall,  
12 prior to 2004, whether or not the group  
13 guidelines ever required passing of FID as a  
14 milestone before proved reserves could be  
15 booked?

16 A. Well, we know they didn't have it in  
17 2002, so prior to 2004, it would only mean 2003,  
18 and I would have to go look at the guidelines in  
19 2003 and see whether it occurred there or later.

20 Q. Throughout this period SEPCO  
21 required FID as a milestone prior to the booking

22 of proved reserves on major projects. Correct?

23 A. That's what we discussed yesterday.

24 That is correct.

25 Q. Do you know why it was that SEPCO

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1 RODNEY SIDLE

2 utilized FID as a milestone for major projects

3 in connection with proved reserves bookings?

4 A. Yes, I do. Yes, I do. Our

5 experiences in developing the deepwater Gulf of

6 Mexico were such that the projects were

7 extremely costly, literally a billion or

8 billions of dollars, and at the time that SEPCO

9 was entering into the developments in the

10 deepwater portion of the Gulf of Mexico, crude

11 oil prices and natural gas prices were at a

12 particularly weak state. So the economics of

13 those ventures were challenged, given the cost

14 that it -- that it would require.

15 Because of that, there was

16 considerable uncertainty with the new projects,

17 whether or not they really would be funded by

18 the corporation, because of the questions of

19 profitability. And so the leadership at the

20 time said well, we can't be certain that these

21 very costly projects with challenged economics

22 will be approved, just because we think there

23 are good technical opportunities, we must wait

24 until we're certain the corporation is going to

25 approve this massive expenditure before we say

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1 RODNEY SIDLE

2 there is reasonable certainty and we go ahead.

3 And it was that experience in the

4 deepwater Gulf of Mexico that led to the rule

5 for very major projects, we need FID.

6 Q. Did SEPCO ever change that standard?

7 A. For the very large projects like TLP

8 deepwater development, no, they never did. We

9 recognize that there were smaller projects that

10 were more routine, where that particular level

11 of uncertainty wasn't the same, and so for

12 smaller projects, then, we still required

13 reasonable certainty, but we didn't necessarily  
14 require FID.

15 Q. Thank you.

16 ---

17 (Sidle Exhibit 12, series of  
18 e-mails with attached booklet, EP Global  
19 Processes - Hydrocarbon Resource Volume  
20 Management, April 2003, was marked for  
21 identification.)

22 ---

23 BY MR. MacFALL:

24 Q. Mr. Sidle, you've just been handed a  
25 document that has been marked for identification

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2 as Sidle Exhibit 12. I would like you to take a  
3 look at it, sir, and tell me if you recognize  
4 it.

5 (Witness reviewing document.)

6 A. I reviewed the document.

7 Q. Do you recognize these series of  
8 e-mails -- or this series of e-mails, sir?

9 A. Yes, I do.

10 Q. And for the record, the document is  
11 an e-mail string with the last of which is an  
12 e-mail from Mr. Sidle to John Pay dated April 4,  
13 2003. The subject is Organization Option:  
14 Reserves Manager.

15 Mr. Sidle, I would like specifically  
16 to direct your attention to the second e-mail  
17 that appears on the first page of the document,  
18 which is an e-mail from you dated April 4, 2003  
19 to Gaurdie Banister, John Haines, Aidan McKay,  
20 Bob Jefferis, Rob Ryan and Charlie Williams. Do  
21 you have that, sir?

22 A. I do.

23 Q. First, could you identify Mr., or  
24 Ms. Banister?

25 A. Mr. Banister --

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2 Q. Thank you.

3 A. -- at that time was the

4 engineering -- the technical leader of the SEPCO  
5 organization.

6 Q. Mr. Haines?

7 A. John Haines was the focal point for  
8 the members of SEPCO that participated in the  
9 T&OE discipline leads that were part of -- the  
10 T&OE organization had dashed lines, if you will,  
11 relationships to functional leads in each of --  
12 in the OUs. Within SEPCO John Haines was the  
13 focal point within SEPCO functional leads who  
14 related to an T&OE functional lead.

15 Q. How about Mr. McKay?

16 A. Both Aidan and Bob Jefferis were  
17 development managers within SEPCO.

18 Q. Mr. Ryan?

19 A. Rob Ryan was the business support  
20 manager within SEPCO.

21 Q. And finally, Mr. Williams?

22 A. Charlie Williams was my supervisor  
23 at the time.

24 Q. What position did Mr. Williams hold?

25 A. Let's see. What was his title?

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2 (Pause.) Charlie was the manager of  
3 a group that provided technical services to  
4 SEPCO -- boy, I can't remember the name of it --  
5 but I was part of that group. The reserves  
6 manager reported to Charlie, who had a  
7 collection of other folks that did technical  
8 administrative sorts of things to support the  
9 business.

10 Q. I would like to direct your  
11 attention to the first full paragraph in that  
12 second e-mail. You describe a diagram  
13 containing an organizational structure with  
14 regard to HC resources. Does HC stand for  
15 hydrocarbon?

16 A. Yes, it does.

17 Q. You describe the various reporting  
18 under that diagram, and you conclude with the  
19 sentence, "This has been fine when all we want  
20 is reporting of volumes."

21 What is it that you meant to convey  
22 in that sentence, sir?

23 A. What this conveyed was my  
24 observation that the staffing level and people  
25 assigned to reserves, instruction, training,  
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2 determination, review, capture, reporting -- all  
3 of that was limited to such a few number of  
4 people that the only effective thing you could  
5 do was just capture and report the data; that  
6 the other functions of training, consulting,  
7 elements like that, the precursors to the  
8 capture of data, accurate data, didn't really  
9 have people assigned sufficient to fully engage  
10 in those responsibilities.

11 Q. Was one of the responsibilities also  
12 the assessment of the proved reserves proposed  
13 for booking?

14 A. It was a part of that overall  
15 process in that it looked at the example that I  
16 was familiar with, the role that I had within  
17 SEPCO, as a model, saying that there is work  
18 that can be done at the local OU level to  
19 provide kind of a first order screening, if you  
20 will, that could be used in addition to a  
21 corporate -- a global audit function, to just  
22 provide additional assurance that we had people  
23 looking at things and getting it right.

24 Q. In the next paragraph you write:  
25 "However, there is evidence to suggest we may  
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1 RODNEY SIDLE  
2 need to change our approach."

3 I'm sorry. I'm still on the first  
4 page, sir.

5 A. Oh.

6 Q. It's the next paragraph in that same  
7 e-mail.

8 A. Mine's on the next page.

9 Q. Oh, I'm sorry. I apologize. We  
10 have slightly different versions of that same  
11 document. Okay. Well, the second paragraph



12 which appears on the second page of the document  
13 in front of you states, "However" -- well, I've  
14 already read it.

15 By that sentence, did you mean that  
16 the approach described in the preceding  
17 paragraph was the one that was currently in  
18 place within the group?

19 A. What that approach in that sentence  
20 refers to is the statement in the prior  
21 paragraph that talks about current  
22 organizational structure where you have John Pay  
23 with links to OU staff, some of which are only  
24 part-time resource coordinators. That was the  
25 current structure, and that was the approach  
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2 that I was referring to.

3 Q. You then write, "Consider RRR for  
4 2002 impacted by major reserve reduction for  
5 volumes booked incorrectly (outside Group and  
6 SEC guidelines)," and then it continues.

7 Do you recall what reserve reduction  
8 you were referring to in that sentence?

9 A. I don't remember specific ones.  
10 This was written in the early part of 2003,  
11 about the time that our annual results were  
12 being made public for 2002, so I'm sure this  
13 refers back to the disclosed values from 2002.

14 Q. Do you recall what the RRR impact  
15 was that you reference here?

16 A. I don't recall a numeric value, no.

17 Q. Do you remember if it was an adverse  
18 impact?

19 A. Yes. I believe it was an adverse  
20 impact.

21 Q. I would like now to direct -- that  
22 was the first bullet point that appeared under  
23 the sentence "However."

24 I would like now to direct your  
25 attention to the third paragraph, you'll see a  
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1 RODNEY SIDLE

2 star there, "A recent survey."

3 A. Yes.

4 Q. You wrote: "A recent survey of 20  
5 larger OUs on reserve reporting processes shows  
6 some OUs do not understand the fundamental SEC  
7 'proved area' concept (and one OU believes it  
8 does not apply to them!)"

9 And then the sentence continues.

10 Now, with respect to that first  
11 part, what survey were you referencing in that  
12 sentence?

13 A. Okay. It was one that I did, as the  
14 focal point for the reserves subgroup of the  
15 T&OE reserves functional leads, we broke down  
16 into subgroups to address a variety of topics,  
17 one being reserves, and I was the chairman of  
18 that subgroup -- we developed a list of, I don't  
19 remember how many, of 20, 30 questions, just on  
20 situations, practices, elements of reserves  
21 determination, data capture reporting review,  
22 all of those sorts of things, and then several  
23 of us called the larger OUs, the people who were  
24 the reserves focal points in those, and asked  
25 those questions to get their responses.

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2 Our intent was simply to compare  
3 where people were in terms of their depth of  
4 understanding, good practices, bad practices,  
5 things that we could learn. We had to survey  
6 the land -- the landscape for what people need  
7 to be educated about before you decide how to  
8 train them.

9 So that was an attempt to get  
10 information on a variety of things, and one of  
11 the questions related to an understanding of  
12 proved area.

13 Q. Do you recall the OUs -- the  
14 specific OUs that did not understand the SEC  
15 proved area concept?

16 A. I don't remember the specific ones,  
17 except the one that said it did not apply to  
18 them, because I didn't understand that response  
19 at that time, but later I came to understand it.

20 Q. Could you identify the one OU that  
21 indicated that it believed it did not apply to  
22 them?

23 A. That was Abu Dhabi.

24 Q. Did the proved area concept in fact  
25 apply to Abu Dhabi?

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2 MR. SMITH: Objection to the form  
3 and foundation.

4 A. As I came to find out later, the  
5 reason they responded the way they did was  
6 because all of their reserves were determined  
7 based on performance data. The proved area  
8 concept relates to reserve determination using  
9 volumetric methods. So actually what they  
10 should have said, though they were correct in  
11 saying it wasn't applying to them, it didn't  
12 apply in the country, it was it didn't apply to  
13 the method that they were using, which was an  
14 SEC compliant method.

15 Q. Now, with respect to the other 20  
16 OUs that did not understand the fundamental SEC  
17 proved area concept, is the proved area concept  
18 related to the booking of proved reserves?

19 MR. SMITH: Objection to form. You  
20 mischaracterized the document.

21 MR. MacFALL: Withdrawn. Let me ask  
22 you this.

23 BY MR. MacFALL:

24 Q. Is the proved area concept part of  
25 the SEC rules concerning proved reserves?

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2 A. It is part of the rules. Yes.

3 Q. Is an understanding of the proved  
4 area concept necessary for the booking of proved  
5 reserves?

6 A. There are multiple SEC compliant  
7 ways to calculate reserves. When a volumetric  
8 method is being used, the proved area concept is  
9 important. If other methods, like performance  
10 methods, are being used, then proved area is not

11 a part of that determination method.

12 Q. With respect to the 20 OUs that you  
13 referenced in this e-mail, do you recall if they  
14 used the volumetric method?

15 A. I don't recall the details of which  
16 OUs or exactly what comments they made that led  
17 me to this statement.

18 Q. Did you ever come to learn of any OU  
19 besides Abu Dhabi that used the performance  
20 metric as opposed to volumetric method?

21 A. Oh, yes, most of them did. In any  
22 mature field you would typically, and in fact  
23 you're instructed to typically use a  
24 performance-based method.

25 Q. Did those OUs book proved reserves  
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1 RODNEY SIDLE

2 based on that method?

3 A. Yes.

4 Q. Can you identify any of them?

5 A. Well, any of our older OUs. Brunei  
6 would be one. Oman would be another. I mean  
7 most of our OUs had been around for quite some  
8 time, and had mature fields, and in a mature  
9 field it's appropriate to use performance-based  
10 methods.

11 Q. Let me ask you: Do you recall if  
12 SPDC used volumetric or performance-based  
13 methods?

14 MR. SMITH: Objection to form.

15 A. At the time of this document I would  
16 not have had that knowledge.

17 Q. Did there come a time when you  
18 learned whether or not SPDC used volumetric as  
19 opposed to performance-based metrics to book  
20 proved reserves?

21 MR. SMITH: Objection to form. I'm  
22 just not sure it's an either/or  
23 proposition. That's why I'm objecting.

24 MR. MacFALL: That's fine. Why  
25 don't we clarify that.

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1 RODNEY SIDLE

2 BY MR. MacFALL:

3 Q. Is it an either/or proposition?

4 A. It is certainly not.

5 Q. Can you use both?

6 A. Yes, you can use both and indeed are  
7 encouraged to consider both in appropriate  
8 considerations. You could use -- one is  
9 adequate. You're always encouraged to use  
10 multiple methods. For very new fields which are  
11 in the process of being developed, where you  
12 have very little performance issue, you would  
13 typically use volumetric data. In very mature  
14 fields, where the best data you have to  
15 characterize the reserve is how the field has  
16 actually performed rather than the volumetric  
17 data, which is inherently a bit less precise,  
18 you would be using performance data.

19 So any business that had been around  
20 long enough to have mature fields, and was  
21 continuing investments for discovery so they  
22 also had new fields, would have some blend of  
23 both. It was all new, it would primarily be  
24 volumetric. If it was all old fields, it would  
25 primarily be performance.

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2 Q. Thank you for that clarification.

3 And let me ask you this: And besides Abu Dhabi,  
4 were you aware of any OUs that only used the  
5 performance -- only used performance data for  
6 the booking of proved reserves?

7 A. Not at that time, no.

8 Q. Thank you.

9 MR. SMITH: We've been going about  
10 an hour and fifteen. Do you want to take a  
11 quick break, if you're done with this  
12 document?

13 MR. MacFALL: That makes sense.  
14 Thank you.

15 VIDEOGRAPHER: The time is  
16 11:20 a.m. Off the record.

17 ---

18 (Recess.)

19

---

20 VIDEOGRAPHER: The time is now

21 11:38 a.m. We're back on the record.

22 BY MR. MacFALL:

23 Q. Mr. Sidle, I'm sorry. I wasn't

24 quite done with Exhibit 12. I just have a

25 couple of fairly quick follow-ups.

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1 RODNEY SIDLE

2 Again, directing your attention to

3 the second page of that document, sir, the

4 second paragraph on that page, the sentence we

5 were looking at before actually continues on,

6 and indicates that several OUs provide no

7 training to staff on proper reserve booking

8 practices, including new guideline changes. Do

9 you see that, sir?

10 A. I do.

11 Q. Do you recall which of the OUs you

12 were referring to in that sentence?

13 A. No, I don't.

14 Q. Do you recall the approximate

15 number?

16 A. No.

17 Q. Just one other question, and I

18 believe it's indicated on the first page of the

19 document. You forwarded your April 4 e-mail on

20 that same date to John Pay. Correct?

21 A. Yes, I did.

22 Q. Why did you forward that e-mail to

23 Mr. Pay?

24 A. At that time John was not a member

25 of the reservoir engineering functional lead

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2 team within T&amp;OE, and so he didn't naturally get

3 a copy of this as it was distributed among the

4 T&amp;OE functional lead team within reservoir

5 engineering, nor, obviously, was he part of

6 SEPCO, the team that I distributed to in the

7 first e-mail, so I wanted to make sure that he

8 was aware that this document was being

9 circulated within the T&amp;OE reservoir engineering

10 functional group that worked on reserves so that  
11 he could add comments if he wished.

12 Q. Did Mr. Pay hold the position of  
13 group reserves coordinator at that time; do you  
14 recall?

15 A. Yes, he did.

16 Q. Thank you.

17 ---

18 (Sidle Exhibit 13, e-mail dated  
19 June 22, 2003, and attachment, Bates number  
20 DB 02027 through DB 02033, was marked for  
21 identification.)

22 ---

23 BY MR. MacFALL:

24 Q. Mr. Sidle, you've just been handed a  
25 document marked for identification as Sidle  
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1 RODNEY SIDLE

2 Exhibit 13. I would ask you to take a look at  
3 it, sir, and tell me if you recognize it.

4 (Witness reviewing document.)

5 A. I've looked at it.

6 Q. Do you recall having seen this  
7 document before, sir?

8 A. Yes, I do.

9 Q. For the record, the document is an  
10 e-mail with attachment. The e-mail is dated  
11 June 22, 2003 from Mr. Barendregt to Mr. Pay and  
12 yourself. The subject is Comparison SEC versus  
13 Group Guidelines.

14 Directing your attention to the  
15 first sentence of the first paragraph,  
16 Mr. Barendregt writes of recent excitements. Do  
17 you know what he's referring to there?

18 A. No, I don't.

19 Q. Did you ever discuss with him why he  
20 prepared this document comparing the SEC  
21 requirements and the group guidelines?

22 A. I don't recall that I did, no.

23 Q. Do you recall if you had any  
24 discussions with Mr. Barendregt about the  
25 attachment, the actual chart that he prepared  
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2 comparing the SEC requirements and the group  
3 guidelines?

4 A. I know I provided comments on  
5 this -- a table like this at one time. I don't  
6 remember if it was this one or its predecessor.  
7 Or it may be both.

8 Q. Did you have a discussion with  
9 Mr. Barendregt about the predecessor table that  
10 you might have worked on?

11 A. I'm sorry. Could you repeat it?

12 Q. I'll rephrase it.

13 Do you recall that there was a prior  
14 version of this document, or a table like this  
15 that was issued or circulated to you prior to  
16 June of 2003?

17 A. Yes. I remember a prior version of  
18 this, yeah.

19 Q. Do you remember talking to  
20 Mr. Barendregt about that earlier version of the  
21 document?

22 A. Again, I remember commenting on that  
23 form of a document, and I don't remember if it  
24 was the earlier one, this one, or both of them.

25 But I did comment in a form like this, of a

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2 comparison. Yes.

3 Q. Did you have discussions with  
4 Mr. Barendregt, if not about this particular  
5 document then about the earlier version, with  
6 regard to why it was that he was preparing that  
7 document?

8 A. No. Not specifically. No. Not  
9 that I recall.

10 Q. I would like now to direct your  
11 attention to the third full paragraph on the  
12 first page of the document, beginning with the  
13 words "I have highlighted."

14 Do you see that, sir?

15 A. I see that, yeah.

16 Q. Mr. Barendregt references  
17 specifically that he's highlighted where it

18 would seem that the group guidelines may perhaps  
19 not be in full alignment with the SEC  
20 interpretations.

21 Do you recall discussing with  
22 Mr. Barendregt that any part of the group  
23 guidelines did not comply or misaligned with the  
24 SEC requirements?

25 MR. SMITH: At or around this time?

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1 RODNEY SIDLE

2 MR. MacFALL: At or about this time.  
3 (Witness reviewing document.)

4 A. I recall general discussions around  
5 that. I don't recall specific details.

6 Q. In that paragraph Mr. Barendregt  
7 goes on to identify four subjects which he  
8 believes might be the subject of possible  
9 nonalignment. The first one is production  
10 testing.

11 Do you recall ever discussing that  
12 with Mr. Barendregt, in terms of the SEC  
13 requirements and the group guidelines perhaps  
14 being different?

15 A. I believe I did discuss that one,  
16 because that one had a specific -- was a  
17 specific item of interest to SEPCO.

18 Q. Did you discuss that with  
19 Mr. Barendregt or someone else?

20 A. I believe I discussed it with  
21 Mr. Barendregt. I may have discussed it with  
22 others.

23 Q. Do you recall who those others might  
24 have been?

25 A. No.

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2 Q. Okay. Do you recall what it was  
3 that you discussed about production testing and  
4 the group guidelines with Mr. Barendregt?

5 A. Yes. Yes, I do. One of the  
6 practices that SEPCO had, as well as, frankly,  
7 all of industry, in the Gulf of Mexico,  
8 especially the deepwater Gulf of Mexico, was

9 that new fields and new reservoirs were  
10 discovered, appraised, and then projects  
11 installed without a full flow to surface  
12 production test, and yet we felt reasonable  
13 certainty was achieved with the data we had in  
14 hand and booked reserves for that.

15 Q. Did you ever discuss production  
16 testing in the context of the group guidelines,  
17 outside of the SEPCO context, with  
18 Mr. Barendregt?

19 A. No, I don't recall that I did.

20 Q. The next subject identified by  
21 Mr. Barendregt in this document is LKH, and I  
22 believe that's lowest known hydrocarbons.  
23 Correct?

24 A. Yes, it is.

25 Q. Do you recall if you ever had

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1 RODNEY SIDLE  
2 discussions with anyone concerning LKH as a  
3 possible subject of nonalignment between the SEC  
4 requirements and the group guidelines?

5 A. Yes. Yes, I did.

6 Q. Could you please tell me who it was  
7 that you discussed it with?

8 A. Yes. I recall talking with Anton  
9 about it, because he was interested in the  
10 seismic method that SEPCO had developed and  
11 used.

12 Q. Did you understand that use of the  
13 seismic method at that point to be in compliance  
14 with the SEC requirements concerning LKH?

15 MR. SMITH: This is June of '03?

16 MR. MacFALL: Yes.

17 A. Yes. In June of '03, which is prior  
18 to John Pay and I meeting with the SEC in their  
19 offices that we discussed yesterday, I believe  
20 it to be in compliance, because it was  
21 demonstratively reasonably certain.

22 Q. Do you know why Mr. Barendregt  
23 identified LKH as a subject of possible  
24 nonalignment between the group guidelines and  
25 the SEC requirements?

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1 RODNEY SIDLE

2 A. I believe that would be because  
3 there are differences between the SEC language  
4 and the language that was in the group  
5 guidelines, and the seismic example is one of  
6 those.

7 Q. Without going through the chart,  
8 because it's fairly lengthy, do you recall if  
9 you ever discussed that with -- the language  
10 differences, I'm sorry -- discussed the language  
11 differences between the group guidelines and the  
12 SEC rule with Mr. Barendregt?

13 MR. SMITH: I object to the form of  
14 the question. If you need to refer to the  
15 chart to answer the question, you should  
16 feel free to do so.

17 MR. MacFALL: Absolutely.

18 MR. SMITH: I'm sorry. I just  
19 didn't want him to misunderstand.

20 MR. MacFALL: I'm sorry. That's  
21 fine.

22 A. Could you ask the question again,  
23 please?

24 Q. Sure. Do you recall ever discussing  
25 the language differences between the group

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1 RODNEY SIDLE

2 guidelines and the SEC requirements, that you  
3 just mentioned, with Mr. Barendregt? Regarding  
4 LKH. I'm sorry.

5 A. LKH, okay. Very good. Yes. Yes.  
6 Again, we spoke about SEPCO's belief that the  
7 use of seismic, as we qualified it, fit the  
8 requirements of reasonable certainty, and  
9 therefore the belief that the SEC would find  
10 that acceptable.

11 Q. Outside of the SEPCO context again,  
12 do you recall any conversations with  
13 Mr. Barendregt concerning LKH and possible  
14 nonalignment between the group guidelines and  
15 the SEC requirements?

16 A. Not outside of that topic. No.

17 Q. Mr. Barendregt also specifies  
18 lateral continuity of production as a subject of  
19 possible nonalignment between the group  
20 guidelines and the SEC requirements.

21 Do you recall if you ever discussed  
22 that topic with him?

23 A. I don't recall that one. No.

24 Q. And the last one is improved  
25 recovery pilots. Do you recall discussing that  
0305

1 RODNEY SIDLE  
2 with Mr. Barendregt?

3 A. I don't recall discussing that one.  
4 No.

5 Q. Skipping the next sentence and going  
6 to the sentence that begins "They all concern  
7 areas," in that same paragraph. Do you see  
8 that, sir?

9 A. I'm sorry. Could you repeat that,  
10 please?

11 Q. Sure. In the third paragraph, I  
12 guess it's the next-to-last sentence, beginning  
13 with the words "They all concern."

14 Do you see that?

15 A. I see that.

16 Q. Mr. Barendregt wrote, "They all  
17 concern areas where strict adherence to the SEC  
18 interpretations would lead to unrealistically  
19 low reserves."

20 Do you recall discussing that with  
21 Mr. Barendregt at any point?

22 A. No, I don't.

23 Q. Did you have any understanding as to  
24 whether or not the group was not strictly  
25 adhering to the SEC, as he puts it,  
0306

1 RODNEY SIDLE  
2 interpretations in connection with those areas  
3 and the booking of proved reserves?

4 MR. SMITH: At this time?

5 MR. MacFALL: At this time.

6 A. Again, my dataset was SEPCO, and I  
7 believe SEPCO was adhering to the SEC

8 requirements. Outside of that, I didn't have  
9 data.

10 Q. Did you ever ask Mr. Barendregt why  
11 he said that?

12 A. No, I did not.

13 Q. Did you ever talk to anybody else  
14 about that?

15 A. I don't recall that I did, no.

16 Q. In or about June of 2003, subsequent  
17 to the receipt of this e-mail, did you undertake  
18 any actions to assess whether or not the group  
19 was adhering to the SEC requirements concerning  
20 the booking of proved reserves?

21 MR. SMITH: Objection to form.

22 A. Not in June of 2003. No.

23 Q. Did there come a time when you did  
24 take such action?

25 A. As I explained in my Rockford

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1 RODNEY SIDLE

2 participation, I was part of a team and I  
3 offered my observations relative to a SEPCO  
4 example, to certain international situations,  
5 which I then had the opportunity to see data  
6 related to.

7 Q. Thank you.

8 ---

9 (Sidle Exhibit 14, e-mail dated  
10 December 20, 2003, two pages, was marked  
11 for identification.)

12 ---

13 BY MR. MacFALL:

14 Q. Mr. Sidle, you've just been handed a  
15 document that has been marked for identification  
16 as Sidle Exhibit 14. Do you recognize this  
17 document, sir?

18 (Witness reviewing document.)

19 A. Yes, I do.

20 Q. For the record, Exhibit 14 is an  
21 e-mail from you to Mr. Pay and Mr. Barendregt  
22 dated December 20, 2003. Subject: Rockford  
23 thoughts while flying.

24 I take it from that subject line

25 that this was after Project Rockford had started

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1 RODNEY SIDLE

2 and during the course of your involvement. Is  
3 that correct?

4 A. Yes. This occurred on my plane ride  
5 back to Houston. Aren't laptops wonderful.

6 Q. I would like specifically, sir, to  
7 direct your attention to the second bullet point  
8 that appears after the sentence that starts with  
9 "Although."

10 In that bullet point you  
11 specifically discuss group guidelines,  
12 interpretations of SEC definitions, and the  
13 acceptance of those interpretations by the  
14 external auditors, as fulfilling SEC  
15 requirements.

16 You then pose a question with  
17 respect to whether or not the external auditors  
18 validated it and whether or not there are  
19 documents concerning that validation.

20 My question is: Do you recall if  
21 you received a response to that query?

22 (Witness reviewing document.)

23 A. I recall that I never saw such  
24 documents. I don't recall whether that was  
25 because there was no response, or I got a

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1 RODNEY SIDLE

2 response that there are no documents. But I  
3 know I never saw them.

4 Q. Do you recall if you ever discussed  
5 that topic, separate and apart from the e-mail,  
6 with either Mr. Pay or Mr. Barendregt?

7 A. Separate from the e-mail. Separate  
8 from this e-mail, no, I don't recall.

9 Q. And just so I'm clear, because I  
10 think the question was a little vague. Did you  
11 ever discuss with them the external auditor  
12 validation of the group's guidelines, separate  
13 and apart from the existence of any documents  
14 memorializing such validation?

15 A. The only reference to a discussion



16 of external auditor validation of the group  
17 guidelines was -- that I recall -- was the  
18 comment that's in this e-mail.

19 Q. Did you ever have discussions  
20 regarding that topic with anyone, besides  
21 Mr. Pay and Mr. Barendregt?

22 A. Not that I recall. No.

23 Q. Thank you.

24 ---

25 (Sidle Exhibit 15, series of

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1 RODNEY SIDLE  
2 e-mails, Bates RJW00780458 through  
3 RJW00780461, was marked for identification.)

4 ---

5 BY MR. MacFALL:

6 Q. Mr. Sidle, you've just been handed a  
7 document marked as Sidle Exhibit 15 for  
8 identification. I would ask you to take a look  
9 at that, sir, and tell me if you recognize it.

10 A. All right.

11 (Witness reviewing document.)

12 A. All right. I've reviewed it.

13 Q. Do you recognize this document, sir?

14 A. Yes, I do.

15 Q. And for the record, the document is  
16 a series of e-mails, the last of which is a  
17 December 31, 2003 e-mail from you to Anton  
18 Barendregt, with a cc to various individuals.

19 Mr. Sidle, I would like to direct  
20 your attention specifically to the second page  
21 of that document. At the bottom third of the  
22 page there is an e-mail from you dated  
23 December 30, 2003 to John Darley. The subject  
24 is: Response to Walter's questions. Do you see  
25 that, sir?

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1 RODNEY SIDLE

2 A. I do.

3 Q. In the first paragraph you indicate  
4 that John Pay advised you that there were  
5 certain questions that had been raised by  
6 Walter. My question is: Is that a reference to

7 Mr. van de Vijver?

8 A. Yes. Walter meant Walter  
9 van de Vijver.

10 Q. Beneath that appears the number 1  
11 with a question next to it, which reads: "Is it  
12 credible for Shell to claim 'Only with the SEC  
13 reserves guidance since 2001 were we able to  
14 first realize our internal reserve guidelines  
15 and practices did not comply with the SEC proved  
16 reserve definitions.'"

17 Do you recall being advised by  
18 Mr. Pay that this was a question for  
19 Mr. van de Vijver?

20 A. Yeah, he -- I'm trying to remember  
21 if it was a phone conversation or an e-mail, but  
22 he did advise me that that was a question. Yes.

23 Q. The paragraph that appears beneath  
24 that with R-E-S in caps, is that your response  
25 to that question that's posed above?

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1 RODNEY SIDLE

2 A. Yes, it is.

3 Q. It states: "I do not believe this  
4 is a credible position," and then goes on to  
5 explain that the reason for that is -- well,  
6 I'll read it. It states: "Not only did a major  
7 OU in our fold have different knowledge and  
8 considerable experience with interpreting the  
9 SEC rules, but other outside USA indicators  
10 existed," and we'll go through those.

11 With respect to the major OU, which  
12 you state had different knowledge and  
13 considerable experience with interpreting the  
14 SEC rules, was that a reference to SEPCO?

15 A. Yes, it was.

16 Q. You also state "outside USA  
17 indicators."

18 The first -- one example that you  
19 give is external auditors expressing concern  
20 over PSC reserve evaluation oil price practices.

21 Could you please explain for me what  
22 you meant by that?

23 A. Yes. Among the information that was

24 shared with me when I was part of Rockford was  
25 that at least one of our external auditors felt  
0313

1 RODNEY SIDLE

2 that Shell's practice of using our view of  
3 future price was inconsistent with the SEC's  
4 requirement for use of year-end -- actual  
5 year-end price.

6 Q. Do you recall when you had heard  
7 that the -- withdrawn.

8 When did you learn that the external  
9 auditor expressed that view?

10 MR. SMITH: Objection to form and  
11 foundation.

12 A. As I recall, it was as part of the  
13 information shared with me during the Rockford  
14 episode.

15 Q. Do you recall which auditor that  
16 was?

17 A. No, I don't.

18 MR. SMITH: Objection to the form  
19 and foundation.

20 Q. You next write: "Current Shell  
21 staff who have worked for other companies  
22 (outside USA) and more diligently followed SEC  
23 rules would have noted our variance from such  
24 practices."

25 What did you mean by that, sir?

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1 RODNEY SIDLE

2 A. It's common within the industry, the  
3 oil and gas industry, for technical people to  
4 move between companies, so there are people  
5 within Shell's ranks who had worked for other  
6 E&P -- oil and gas companies and observed those  
7 companies' practices for booking proved  
8 reserves.

9 Comments that were made to me from  
10 certain of those were that they noticed  
11 differences between the company that they had  
12 worked for before and their practices and  
13 interpretations of the SEC rules, and what Shell  
14 was doing, in an international -- in an

15 international application of the rules.

16 Q. With respect to those differences,  
17 did they indicate that the Shell guidelines were  
18 less compliant with the SEC requirements than  
19 those of Shell's competitors?

20 MR. SMITH: Objection to the form  
21 and foundation.

22 A. There wasn't a conclusion of less or  
23 more compliance. It was a note that they were  
24 different.

25 Q. You wrote: "Current Shell staff who

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1 RODNEY SIDLE  
2 have worked for other companies outside the USA  
3 that more diligently followed SEC rules," and  
4 then it continues.

5 How is it that -- withdrawn.

6 By that did you mean to express that  
7 the other companies more diligently followed the  
8 SEC rules than Shell?

9 MR. SMITH: Objection to form and  
10 foundation.

11 A. Could you repeat the question,  
12 please?

13 Q. Sure. The sentence here references  
14 other companies outside the United States that  
15 more diligently followed SEC rules. That's what  
16 the sentence states.

17 How is it that you learned that  
18 these other companies outside the United States  
19 more diligently followed SEC rules?

20 MR. SMITH: Objection to form and  
21 foundation. I don't think that's what that  
22 sentence says.

23 Q. Let's try it this way: What is it  
24 that you were intending to convey in that part  
25 of the sentence?

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1 RODNEY SIDLE

2 A. From the folks that I was talking to  
3 that had experience outside of Shell, they were  
4 noting that prior experience was a practice, and  
5 that Shell was using a different practice, and

6 so they simply noted those two were different.

7 They were different approaches that  
8 were intending to follow SEC rules, that at the  
9 time the reserves were being determined, both  
10 seemed practical approaches. Now, with the  
11 hindsight that we had at this point in time, it  
12 became clearer that probably the Shell practices  
13 were not the ones that should have been  
14 followed.

15 Q. Specifically the phrase that "more  
16 diligently followed SEC rules," what were you  
17 referring to there?

18 A. It was a generalization of the  
19 example. I don't remember the details of the  
20 conversation.

21 Q. You then wrote, "We simply did not  
22 react to these warning signals."

23 And by "warning signals" in this  
24 sentence, are you referring to the facts  
25 expressed above in that same paragraph?

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1 RODNEY SIDLE

2 A. In all of those examples, yes. Not  
3 any one in particular. All of those.

4 Q. You then also indicate that, "We did  
5 not proactively seek clearer understanding of  
6 the SEC rules from available industry sources."

7 What industry sources were you  
8 specifically referring to there?

9 A. A common practice for oil and gas  
10 companies would be to use reserve consultants,  
11 companies that maintained a high level of  
12 expertise and also have contact -- more frequent  
13 contact with the SEC than most oil and gas  
14 companies do, to bring in another opinion.

15 Q. Are you aware if Shell's competitors  
16 use such consultants?

17 A. Some do. Some do not.

18 Q. Were you aware of the use of such  
19 consultants prior to your involvement in project  
20 Rockford?

21 A. Yes, I was.

22 Q. Mr. Sidle, I would like now to

23 direct your attention to the subsequent e-mail,  
24 which actually physically appears above that  
25 e-mail, and that is dated December 31, 2003 from  
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1 RODNEY SIDLE

2 Mr. Barendregt to you. And he indicates that he  
3 is going to comment on your e-mail.

4 He writes on question 1, "You're  
5 right on the issues of PSC and lateral size of  
6 proved area, of course. The 2001 SEC guidance  
7 did not, or hardly, change our perception on  
8 these issues and we knew that Group reserves  
9 were possibly exposed in this respect," and then  
10 it continues. Well, he specifies PSCs only, and  
11 then it continues.

12 Were you aware that there was  
13 exposure in connection with PSCs and lateral  
14 size of proved areas under the group guidelines?

15 MR. SMITH: Objection to the form.

16 A. At which time?

17 Q. Prior to Project Rockford.

18 A. No, I was not.

19 Q. Did Mr. Barendregt ever discuss that  
20 with you?

21 A. No, he didn't.

22 Q. Did you agree with Mr. Barendregt's  
23 assessment that the 2001 SEC -- as he puts it --  
24 guidance really didn't affect that particular  
25 issue?

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1 RODNEY SIDLE

2 MR. SMITH: Objection to form.

3 A. Well, I think actually Anton missed  
4 my point. His response was specific to details,  
5 and trying to decide which detail we learned  
6 about in 2001, and which detail may have been  
7 there before. The point that I had in my  
8 response was keyed around the word "credible."

9 Remember the date. The date is the  
10 very end of December. And just a little more  
11 than a week later Shell has to be in front of a  
12 public audience of investors, media, and needs  
13 to take a position as to the condition of our

14 reserves.

15 And the point that I was trying to  
16 make in this response is let's not spend a lot  
17 of time trying to find excuses or trying to  
18 identify exactly what happened when for purposes  
19 of that public announcement. That serves no  
20 useful purpose. What we need to do, as a  
21 corporation, as Shell, is to simply say we made  
22 a mistake. We're working to identify all  
23 elements of the mistake. We're going to correct  
24 the mistake. In numbers, we're going to correct  
25 the processes that led to the mistake, and we'll

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1 RODNEY SIDLE

2 go forward.

3 And so this rather short response  
4 that I gave to the John Pay question was all  
5 around avoiding lengthy, complex, detailed  
6 discussions around individual elements of what  
7 did or did not happen, and when it happened, and  
8 rather just let's look forward. It's not  
9 credible to go back and try to work through all  
10 the details. I don't know if I could have done  
11 it, or anyone could have done it. Let's just go  
12 forward and say we made a mistake.

13 And then Anton tries to go back  
14 through all the details of well, what about LKH,  
15 and what about PSCs, and all of that. And  
16 certainly his points are quite right, and indeed  
17 later, as you see in the document that you've  
18 handed me, I agree with certain of those points.  
19 But he didn't get the message that this was not  
20 the place, and the time, to try to have that  
21 debate. What we needed to do at that point, for  
22 purposes of that public announcement just a few  
23 days later, we needed to simply say we made a  
24 mistake. We are going forward. We're going to  
25 correct it. And that was my point.

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1 RODNEY SIDLE

2 MR. MacFALL: I think we --

3 VIDEOGRAPHER: Four minutes.

4 MR. MacFALL: Why don't we go off



5 the record and change the tape.

6 VIDEOGRAPHER: The time is now  
7 12:20 p.m. This is the end of tape  
8 number 5 in the deposition of Rodney Sidle.  
9 Off the record.

10 ---  
11 (Recess.)

12 ---  
13 VIDEOGRAPHER: The time is now  
14 12:23 p.m. This is the beginning of tape  
15 number 6 in the deposition of Rodney Sidle.  
16 Back on the record.

17 BY MR. MacFALL:

18 Q. Mr. Sidle, you just gave a fairly  
19 thorough explanation of what you intended in  
20 your response, and indicating that  
21 Mr. Barendregt misinterpreted that in his reply  
22 e-mail to you.

23 I would just note, sir, with respect  
24 to the public relations aspect, or the investor  
25 aspect, the written response actually identifies

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1 RODNEY SIDLE  
2 things which are contrary, or suggest that a  
3 position change within Shell only occurred after  
4 the issuance of the SEC guidance.

5 My question is: You gave one fairly  
6 elaborate answer, but the written text of the  
7 e-mail doesn't say that. If you intended for  
8 what you just stated to be the actual response,  
9 why didn't you write it?

10 MR. SMITH: Objection to form.

11 A. I intended -- I gave examples of  
12 why. The simple short answer of well, we didn't  
13 know until March 2001, didn't seem credible.  
14 So -- remember, I'm focusing on the word  
15 "credible."

16 Is it credible? Will people believe  
17 you if you take that stance? And so my answer  
18 was look, here's the setting. People are going  
19 to dissect every word we say. Do we want to  
20 stand up there, do we want to say it's credible  
21 to take this position, and then try to answer

22 all of these lengthy questions and details, or  
23 do we want to simply say, we got it wrong.  
24 We're intending to fix it now. We will change  
25 the numbers, we will change our processes. We  
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1 RODNEY SIDLE

2 will look forward and do it right. That was the  
3 point.

4 Again, I didn't want to go into  
5 lengthy orations here or in the text. Simply,  
6 here are some examples of why people might point  
7 to it not being credible. So let's just forget  
8 that argument. Let's break with this  
9 credibility question and simply say we did  
10 something wrong and go forward.

11 Q. Besides credibility, the issues that  
12 you identify in your response to this question,  
13 specifically that SEPCO interpreted and complied  
14 with the SEC rules, and the other various issues  
15 that you identify, did you also understand or  
16 believe -- let me rephrase that.

17 Did you believe that the issues you  
18 identified in your response meant that Shell  
19 should have recognized that its group guidelines  
20 did not comply with the SEC proved reserve  
21 definitions even prior to the 2001 guidance?

22 MR. SMITH: Objection to form. And  
23 foundation.

24 A. It's certainly very difficult for me  
25 to put myself in the international position that  
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1 RODNEY SIDLE

2 Shell faced as of the day and know what the  
3 circumstances were in which they created the  
4 rules in which they operated -- whether meetings  
5 that were legendary were actually held or not --  
6 those are things that I didn't know then and in  
7 some cases don't know now.

8 However, in 20/20 hindsight today,  
9 and knowing what I saw in Rockford, certainly --  
10 which is knowledge I had at the time I wrote  
11 this -- it certainly led me conclude there were  
12 opportunities for sharing of knowledge that,

13 with 20/20 hindsight, I wish people would have  
14 taken advantage of.

15 Q. And also in light of when this was  
16 written, which is after the start, certainly, of  
17 Project Rockford, you also wrote that there are,  
18 or there were, warning signals to which Shell  
19 did not react. And is that a view that you held  
20 when you wrote this, that there were warning  
21 signals?

22 A. Well, as I was learning things,  
23 through going through Rockford, I started to see  
24 some of the documents that you have showed me,  
25 or other things similar to that, and to me -- we

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1 RODNEY SIDLE  
2 talked about being able to sense where there's  
3 something that needed greater depth of study --  
4 to me, I couldn't conclude whether they were  
5 right or wrong, but I could conclude that those  
6 were things that probably needed some study.

7 Q. Based on your experience as an  
8 auditor within SEPCO, during the course of  
9 Rockford, along those same lines, did you see  
10 things that you thought were -- should have --  
11 were red flags for auditors, in connection with  
12 proved reserves?

13 MR. SMITH: Object to the form.

14 A. Within SEPCO?

15 Q. No. Let me rephrase the question.

16 Based on your experience as an  
17 auditor in SEPCO, during the course of Rockford,  
18 did you see things that you believed were red  
19 flags for auditors concerning the booking of  
20 proved reserves by the group?

21 MR. SMITH: Objection to form.

22 A. Well, during my -- my initial  
23 participation in Rockford, I started to have  
24 access to certain data, and while I wasn't in a  
25 position to, in almost all of the cases, have

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1 RODNEY SIDLE  
2 sufficient detail to reach a full conclusion,  
3 certainly the things that were shared with me,

4 if I had been auditing such a situation in  
5 SEPCO, would have led me to ask some additional  
6 questions to better understand the circumstances  
7 of that volume and that field's booking.

8 MR. MacFALL: Why don't we go off  
9 the record.

10 VIDEOGRAPHER: The time is  
11 12:30 p.m. Off the record.  
12 (Lunch recess taken at 12:30 p.m.)  
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1 RODNEY SIDLE  
2 A F T E R N O O N S E S S I O N  
3 (1:16 p.m.)

4 VIDEOGRAPHER: The time is now  
5 1:16 p.m. Back on the record.

6 R O D N E Y S I D L E,  
7 resumed as a witness, having been  
8 previously sworn by the Notary Public,  
9 was examined and testified further as  
10 follows:

11 EXAMINATION (cont'd)

12 BY MR. MacFALL:

13 Q. Good afternoon, Mr. Sidle.

14 Mr. Sidle, are you familiar with something known  
15 as the reserves committee?

16 A. Which reserves committee?

17 Q. Let me try a different question.

18 Did you serve on any reserves committee within  
19 the group during the period of 2000 to 2004?

20 A. In late 2003, in the early part of

21 2004, I was a member of the Shell E&P reserves  
22 committee. I was also a member of other  
23 reserves committees in industry, so hence my  
24 question.

25 Q. Thank you. With regard to the Shell  
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1 RODNEY SIDLE

2 E&P reserves committee that you were a member  
3 of, what was the purpose of that committee?

4 A. The committee was formed prior to my  
5 joining, I believe in the middle -- earlier in  
6 2003, or perhaps even late 2002. It was put in  
7 place, to the best of my knowledge, to be a part  
8 of the Shell E&P process of reviewing the proved  
9 reserves disclosures that Shell made.

10 Q. Can you identify the other members  
11 of the committee at the time that you joined?

12 A. At the time I joined, Frank Coopman  
13 was a member, I believe chairman of the  
14 committee.

15 John Pay was a member of the  
16 committee.

17 And John Darley was a member of the  
18 committee.

19 There may have been others. Those  
20 are the ones I recall.

21 Q. Mr. Coopman, was he the CFO of the  
22 group at the time?

23 A. He was the CFO of E&P.

24 Q. Thank you. And I believe we had  
25 identified Mr. Pay as the group reserves  
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1 RODNEY SIDLE

2 coordinator. Did he hold that position at that  
3 time?

4 A. Yes, he did.

5 Q. I'm sorry. I just don't recall if  
6 we talked about Mr. Darley previously, but what  
7 position did he hold within the group at that  
8 time?

9 A. John Darley was the head of the  
10 technology part of Shell E&P.

11 Q. You talked about the committee's

12 purpose at the time of formation. Could you  
13 describe generally your activities as a member  
14 of that committee?

15 A. Yes. At the time that I joined the  
16 committee, it was to provide a perspective that  
17 I had acquired as part of SEPCO on the  
18 determination of SEC proved reserves.

19 Q. Did you share that perspective with  
20 the other members of the committee?

21 A. That's what I was asked to do. Yes.

22 Q. Were there any actions taken based  
23 on your perceptions as shared with the  
24 committee? And by actions, I mean actions by  
25 the committee.

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1 RODNEY SIDLE

2 A. Well, the way the committee  
3 functioned was that issues from within the  
4 group, Shell E&P, that related to reserves were  
5 brought to the committee. The committee engaged  
6 parties that had knowledge of those issues to  
7 provide comment on the elements of the issues  
8 that were critical to a decision, that would, in  
9 some cases, have included my observations, and  
10 then they took a decision.

11 Q. When you say a decision, was that  
12 with respect to whether or not to book proved  
13 reserves?

14 A. That was among them. Yes.

15 Q. What were some of the other  
16 decisions that were to be made by the committee?

17 A. Oh, other things about reporting of  
18 proved reserves. About process, internal  
19 processes, of how things were done. The form of  
20 the data capture that was the ARPR. Language  
21 that was in the guideline document. Things like  
22 that.

23 Q. At the time that you were on the  
24 committee, did the committee make any  
25 recommendations concerning revisions to the

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1 RODNEY SIDLE

2 group guidelines concerning the booking of

3 proved reserves?

4 A. I don't recall for the period in  
5 which I was actually on the committee whether  
6 that occurred. The committee reorganized in  
7 2004 such that I was an invitee to the  
8 committee, but I was not a member of the  
9 committee. And during that period, when I was  
10 an invitee, I do recall that discussions about  
11 changes to the guideline document were made.

12 Q. Those discussions, did they occur  
13 subsequent to Project Rockford?

14 A. Yes, they did.

15 Q. Did the reserves committee, while  
16 you were a member, interact directly with the  
17 OUs within the group?

18 A. Yes. Yes, they did.

19 Q. Just so I can get a sense of it.

20 Was it the OUs that came to the committee with  
21 specific questions concerning whether to book  
22 proved reserves?

23 MR. SMITH: Objection to form.

24 A. I'm not certain I can say they came  
25 directly to the committee. There was a chain of

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1 RODNEY SIDLE  
2 communication within the line organization of  
3 Shell E&P that ultimately got questions raised  
4 to higher levels, and when it got to a level  
5 that caused the committee to need to be engaged,  
6 they were. Now, whether that came directly to  
7 the committee or up through the coordinator,  
8 John Pay, or other means, I just don't know.

9 Q. Thank you.

10 ---

11 (Sidle Exhibit 16, document, four  
12 pages, was marked for identification.)

13 ---

14 BY MR. MacFALL:

15 Q. Mr. Sidle, you've just been handed a  
16 document that's been marked for identification  
17 as Sidle Exhibit 16. I would ask you to take a  
18 look at that document, sir.

19 I would note for the record that



20 there is no indication of the author or  
21 recipient, as far as I can tell, on the  
22 document, but I would ask, after you've had an  
23 opportunity to review it, if you can tell me if  
24 you've ever seen it before.

25 (Witness reviewing document.)

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1 RODNEY SIDLE

2 MR. SMITH: While he's reviewing the  
3 document, I would just note for the record  
4 that the document has no Bates number, or  
5 anything on it to indicate what its origin  
6 is. Not even one of those numbers that you  
7 see attached to e-mails sometimes.

8 MR. MacFALL: You are correct. I am  
9 fairly confident that the document was  
10 reproduced from your production. We can  
11 substitute a document with a proper  
12 identifier number, if we can locate one.

13 If Mr. Sidle does not recall the  
14 document in any event, then it may be a  
15 moot point, and we'll just move along.

16 MR. SMITH: I just wanted the record  
17 to reflect it.

18 A. Yeah, I've never seen this before.

19 Q. That's fine. You can put that side,  
20 then.

21 Let me ask, separate and apart from  
22 the document itself, to the extent that there  
23 are certain entities identified in the document,  
24 let me just ask you if there are entities that  
25 you're familiar with, or organizations you're

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1 RODNEY SIDLE

2 familiar with.

3 Do you know what GDWS is?

4 A. I've never seen that before.

5 Q. Okay. How about SOI?

6 A. SOI -- the SOI reference, I'm aware  
7 of, whether that's what they mean here or not,  
8 is Shell Offshore Inc., which is one of the  
9 subsidiaries of Shell Oil Company that dealt in  
10 the offshore portions of the Gulf of Mexico.

11 Q. So that was part of SEPCO?

12 A. Yes. It was part of SEPCO.

13 Q. There is a reference in the document  
14 to something called SDW-WDU. And that appears  
15 at the third page of the document. Do you know  
16 what that acronym stands for, sir?

17 A. No, I don't.

18 Q. That's fine. You can put that  
19 document aside. Thank you, Mr. Sidle.

20 ---

21 (Sidle Exhibit 17, e-mail with  
22 attachment, Shell Visit Programme - DPR  
23 Staff, four pages, was marked for  
24 identification.)

25 ---

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1 RODNEY SIDLE

2 BY MR. MacFALL:

3 Q. Mr. Sidle, you've just been handed a  
4 document marked as Sidle Exhibit 17 for  
5 identification. I would ask you to take a look  
6 at this document, sir, and tell me if you  
7 recognize it.

8 (Witness reviewing document.)

9 A. I've reviewed the document. I do  
10 recall it. Yes.

11 Q. For the record, the document is an  
12 e-mail, the most recent of which is dated  
13 July 28, 1999 from Mark Varner to several  
14 individuals, including yourself. The subject is  
15 Meeting with Nigerian visitors - July 29 & 30 -  
16 1154 BTC.

17 Do you actually recall the visit by  
18 the Nigerian officials that's referenced in this  
19 document, sir?

20 A. Yes, I do.

21 Q. That visit involved an official of  
22 the Nigerian government. Correct?

23 A. Yes, it did.

24 Q. Specifically a Mr. Ogunjana of the  
25 Department of Petroleum Resources?

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1 RODNEY SIDLE

2 A. Yes.

3 Q. Did you have a role in the visit by  
4 the Nigerian officials to SEPCO?

5 A. Yes, I did.

6 Q. Okay. Could you please describe  
7 that for me?

8 A. If you look at the last page of  
9 Exhibit 17 you'll see an agenda. That agenda  
10 highlights the fact that I spoke to them on two  
11 different topics on the two days that they were  
12 in Houston, one that had to do about the Shell  
13 Oil Company, SEPCO, reserve reporting practices,  
14 and then on the next day about value assurance  
15 reviews.

16 Q. Do you know what the purpose of that  
17 visit was?

18 A. Yes. It was intended to showcase  
19 Shell's technologies that, in this particular  
20 case, were available for determination of  
21 reserves.

22 Q. That showcase involved -- withdrawn.

23 That showcase took place in Houston.

24 Correct?

25 A. Well, there were multiple meetings.

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1 RODNEY SIDLE

2 The portion of it that was Houston is summarized  
3 on that page that I pointed out as the agenda,  
4 that's the last page of this document.

5 Q. Now, with respect to the  
6 presentation that you gave, the first  
7 presentation, it says introduction to SOC  
8 reserve management and reporting practices. And  
9 I believe the SOC, is that Shell Oil Company?

10 A. That is Shell Oil Company.

11 Q. Do you recall why the visitors from  
12 Nigeria were provided with a presentation  
13 regarding the Shell Oil Company reserve  
14 reporting practices?

15 A. The only knowledge that I had was  
16 that it related to the intended showcasing of  
17 technologies and to tie that to what were the  
18 Shell Oil Company, SEPCO, reporting practices,

19 and then make the link between technologies and  
20 the support of processes within the SEPCO  
21 reserve reporting activities that linked to the  
22 use of those technologies.

23 Q. Were you familiar with the proved  
24 reserves reporting practices in use in Nigeria  
25 during 1999?

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1 RODNEY SIDLE

2 A. No.

3 Q. Do you recall if during your  
4 presentation there was any discussion of --  
5 withdrawn.

6 To the best of your knowledge, did  
7 Shell's Nigerian operations report proved  
8 reserves pursuant to the group guidelines?

9 MR. SMITH: Objection to form.

10 Q. You can answer.

11 A. I had no knowledge of their  
12 practices.

13 Q. Was there any indication given to  
14 the Nigerian officials that the Shell Oil  
15 practices were done pursuant to the SEPCO  
16 guidelines?

17 A. Could you ask the question again,  
18 please?

19 Q. I'll rephrase it. Do you recall if  
20 you distinguished between the group and SEPCO  
21 guidelines during your presentation?

22 A. No, I don't.

23 Q. Could you, very generally, summarize  
24 for me what it was that you said during your  
25 presentation?

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1 RODNEY SIDLE

2 A. We focused on practices, reporting  
3 practices, and the link to technologies. So as  
4 an example, we would point to a technology of  
5 being able to make subsurface measurements that  
6 would aid in the determination of the presence,  
7 or the amount of oil and gas that were there,  
8 and then link that to the activities we had to  
9 make a reserve determination, review the data,

10 do the reporting, the databases, and all of that  
11 sort of thing. That refers to the first  
12 presentation that I had.

13 Q. Now, with regard to the second  
14 presentation, which according to the agenda took  
15 place the following day.

16 A. Mm-hmm.

17 Q. The topic was value assurance  
18 reviews. Do you recall -- again -- withdrawn.

19 Can you generally summarize the  
20 substance of the presentation that you made at  
21 that time, if you can recall?

22 A. I don't actually remember much of  
23 the details about that. It was a very short  
24 presentation. I think it was simply touching on  
25 the fact that SEPCO used value assurance

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1 RODNEY SIDLE

2 reviews.

3 Q. Now, with respect to the technology  
4 that was showcased in connection with the  
5 reporting of reserves, were such technologies in  
6 use at other OUs, and by other, I mean non-SEPCO  
7 OUs?

8 MR. SMITH: Objection to the form  
9 and foundation.

10 A. I don't remember exactly what  
11 technologies were reviewed with the visitors at  
12 that time, and I didn't know at that time what  
13 technologies were used elsewhere within the  
14 group outside of SEPCO either.

15 Q. Separate and apart from these two  
16 presentations, did you accompany the visitors  
17 from Nigeria on any portion of their visit in  
18 Houston?

19 A. There is a -- I'm sorry?

20 Q. In Houston.

21 A. In Houston?

22 Q. Yes.

23 A. Yeah, we went to lunch at a Texas  
24 barbecue, and they really enjoyed it.

25 Q. If I could ask you to turn to the

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1 RODNEY SIDLE

2 next-to-last page in that document. At the  
3 bottom of the page appears a chart under the  
4 caption Timing and Program. And if you look at  
5 the third entry from the bottom, it says  
6 29-30/July 1999 Shell Oil, there are two  
7 subjects listed. "Mature/end-game assets."

8 The second is "Reporting to  
9 Regulators: Challenges."

10 Do you recall if you attended any  
11 presentation besides those that you gave,  
12 touching on the second bullet point?

13 A. No, I don't recall attending  
14 anything that touched on that.

15 Q. How about with regard to the first  
16 bullet point; do you recall attending any  
17 presentations that addressed mature/end-game  
18 assets?

19 A. No, I don't.

20 Q. If I could ask you, sir, to turn to  
21 the prior page in that document. It's an  
22 outline of the travel schedule for the 29th and  
23 30th of July. It shows technical discussions in  
24 SEPCO, and that is the fifth entry from the  
25 bottom of the page.

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1 RODNEY SIDLE

2 Then it references a free --  
3 Houston, New Orleans, and a free day in New  
4 Orleans.

5 Beneath that for August 2nd and 3rd,  
6 1999 there's an entry for "Technical Discussions  
7 in Shell Deep Water."

8 Did you participate in that portion  
9 of their visit?

10 A. No I did not.

11 Q. I'm sorry. I realize we're going  
12 backwards, but if you could turn to the prior  
13 page. About halfway down the page is a caption  
14 Visit Themes. Do you see that, sir?

15 A. I see it.

16 Q. The second-to-last bullet point  
17 under that caption states, "The Shell Group is

18 not more optimistic than the competition on the  
19 reserves assessment (we appear to be more  
20 conservative than the competition.)"

21 Do you recall any presentations  
22 which conveyed this theme to the visitors from  
23 Nigeria?

24 A. No, I do not.

25 Q. Did any portion of the

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1 RODNEY SIDLE

2 presentation -- withdrawn.

3 Did any portion of the visit in  
4 which you were involved concern a discussion of  
5 the group's reporting of reserves versus  
6 SEPCO's?

7 A. I don't recall that topic at all.

8 Q. Thank you.

9 MR. SMITH: Can I just observe for  
10 the record that this flight from Aberdeen  
11 to Houston that's on this agenda is the  
12 most atrocious booking I've ever seen.  
13 Aberdeen to London to Zurich to Atlanta to  
14 Houston? I mean were they alive when they  
15 got there? Unbelievable. Sorry.

16 MR. MacFALL: That's quite all  
17 right.

18 MR. SMITH: I know levity has no  
19 place in a deposition, but still --

20 THE WITNESS: They really did enjoy  
21 the barbecue. Really.

22 ---

23 (Sidle Exhibit 18, e-mails, two  
24 pages, Bates number SMJ00040769 through  
25 SMJ00040770, was marked for identification.)

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1 RODNEY SIDLE

2 ---

3 BY MR. MacFALL:

4 Q. Mr. Sidle, you've just been handed a  
5 document marked as Sidle Exhibit 18 for  
6 identification. I would ask you to take a look  
7 at that, sir, and tell me if you recognize it.

8 (Witness reviewing document.)



9 A. I've reviewed it.

10 Q. Do you recall this document, sir?

11 A. Yes, I do.

12 Q. For the record, the document is an  
13 e-mail from Alan Lockwood to Ian Hines, Derek  
14 Newberry and Jerome Coggins dated November 3,  
15 2000. The subject is Reserve Booking Meeting  
16 with Anton Barendregt. The document  
17 specifically discusses a meeting that occurred  
18 in connection with possible reserves bookings  
19 for Angola Block 18.

20 Do you recall attending that  
21 meeting, sir, which according to the e-mail  
22 occurred on November 3, 2000?

23 A. Yes.

24 Q. The e-mail indicates that, in  
25 addition to Mr. Barendregt and Mr. Lockwood,  
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1 RODNEY SIDLE

2 there are, including yourself, several other  
3 attendees.

4 Going down the list, the first one  
5 is Ian Hines. Could you please identify that  
6 individual for me?

7 A. I believe Ian was one of the  
8 projects leads that worked on Angola.

9 Q. Did Mr. Hines work for SDS, do you  
10 know? At that time.

11 A. I don't know what Shell organization  
12 he worked for.

13 Q. Did Mr. Hines work out of Houston?

14 A. Hm-mm.

15 (Pause.) I believe so, but I'm not  
16 entirely sure.

17 Q. How about Mr. Newberry?

18 A. Derek also worked on the Angola  
19 project.

20 Q. Do you recall what organization he  
21 worked for at that time?

22 A. Shell has so many organizations,  
23 I -- I don't know exactly who he worked for.

24 Q. Okay. Again, do you recall if he  
25 worked out of Houston?

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2 A. Yeah, I believe Derek did work out  
3 of Houston.

4 Q. How about Mr. Coggins?

5 A. I don't recall his position.

6 Q. Do you recall if he worked out of  
7 Houston?

8 A. No, I don't.

9 Q. And finally, Mr. Knight?

10 A. Barry. Yes. He -- I believe he was  
11 in Shell Deepwater Services, and he -- let's  
12 see. I don't know if he worked in Houston or  
13 New Orleans, but it was in the US.

14 Q. Okay. Thank you. The body of the  
15 e-mail talks about the events at the meeting,  
16 and it specifically references analog work  
17 prepared by Dave Powell. Do you know  
18 Mr. Powell?

19 A. No, I don't.

20 Q. It then goes on to state that that  
21 work is the basis for the team's range in  
22 recovery efficiency and ultimate recovery per  
23 well.

24 Did you have an opportunity to  
25 actually review the analog work done by

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1 RODNEY SIDLE

2 Mr. Powell?

3 A. I saw what was presented at this  
4 meeting. I don't recall review other than that.

5 Q. Do you recall what materials were  
6 presented at this meeting? And I do realize  
7 it's a while ago.

8 A. No, I don't.

9 Q. Okay. The e-mail then references  
10 discussion that took place regarding the  
11 maturity of the technical work. Do you have any  
12 recollection of that discussion, sir?

13 A. Basically my recollection is as  
14 noted here, that what was shown to this group at  
15 that time was not technically mature, however,  
16 some suggestions for work that could be done

17 that then would need further review were offered  
18 to see if something that would qualify as  
19 technically mature could be generated.

20 Q. And were those discussions about the  
21 possibility of doing work to book some portion  
22 of the volumes at Angola, as opposed to the  
23 entirety of what was being proposed to be  
24 booked?

25 MR. SMITH: Objection to form.  
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1 RODNEY SIDLE

2 Q. Would you like me to rephrase that?  
3 Do you understand the question?

4 A. Why don't you rephrase it, please.

5 Q. Okay. There's a reference in the  
6 second page of the document to the project being  
7 "cherry picked."

8 A. Mm-hmm.

9 Q. Or being a cherry-picked  
10 development. Did that mean that what was being  
11 discussed here was development of a portion of  
12 the volume at Angola Block 18 for purposes of  
13 booking proved reserves?

14 MR. SMITH: Objection to form.

15 A. The -- the reference to  
16 "cherry-picked" development was indeed to -- a  
17 reference to development of -- a plan of  
18 development for only a smaller portion than the  
19 entirety, but that portion in which there was  
20 high confidence, the most data and the most  
21 maturity, in terms of technical work.

22 Q. Was there a specific quantity of  
23 volume that was discussed in connection with the  
24 cherry-picked development?

25 A. There may have been, but I don't  
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1 RODNEY SIDLE

2 recall what it was.

3 Q. Do you recall if there was any  
4 discussion of pressure to book reserves at  
5 Angola Block 18 at this meeting?

6 MR. SMITH: Objection to form.

7 A. I don't recall that that was

8 discussed at this meeting. I don't recall.

9 Q. Do you recall if that was ever  
10 discussed?

11 MR. SMITH: Objection to form.

12 A. Within what time frame?

13 Q. Within '99, 2000.

14 A. '99, 2000. It may have been in  
15 2000. I do recall a general reference to the  
16 fact that there's interest in booking reserves  
17 at Angola Block 18 being made. I don't remember  
18 the exact timing that I heard that comment made.

19 Q. Do you recall from whom you heard  
20 that comment?

21 A. No, I don't.

22 Q. Was there any indication of who it  
23 was that was expressing that interest?

24 A. I don't recall.

25 Q. Do you remember the context in which

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1 RODNEY SIDLE

2 you heard that comment? Let me rephrase that.

3 Do you recall if you heard that  
4 comment in the context of attempting to find  
5 reserves at Angola Block 18 to be booked as  
6 proved?

7 MR. SMITH: Objection to form.

8 A. I don't recall exactly the context  
9 of the comment, because there were things said  
10 during the presentations, there were things said  
11 at side conversations during breaks. I remember  
12 the comment being made, and I heard it. So I  
13 don't remember much more than that.

14 Q. Okay. Do you recall if the  
15 technical work for Angola Block 18 was performed  
16 by SDS?

17 A. I know there was some SDS staff that  
18 contributed to it, because there were some that  
19 were present at this meeting. But again, which  
20 Shell subsidiary Shell people worked for, for  
21 purposes of the meeting, I just wanted to see a  
22 technical story. I didn't care what  
23 organization they were with. I don't know  
24 exactly how much was SDS, or how much or how

25 little.

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2 Q. Was Angola Block 18 a deepwater  
3 project?

4 A. Yes, it was.

5 Q. Do you recall if in or about  
6 November of 2000 there were any Shell  
7 organizations besides SDS that had expertise in  
8 deepwater development?

9 A. There were a variety of Shell  
10 technology organizations that would have  
11 supported the technologies needed to be used to  
12 explore for, analyze, drill wells. Development  
13 is not just one thing. It's part of an entire  
14 process. So I don't remember specifically if  
15 there were technology organizations focused on  
16 development. I know there were other technology  
17 organizations that covered the broad spectrum of  
18 technologies you would use to analyze a new  
19 discovery and determine what it might produce.

20 Q. Could you identify some of those  
21 organizations for me, please?

22 A. Yeah. The technology organization  
23 like SEPTAR and its counterpart in Rijswijk had  
24 a variety of technical services that they  
25 provided around drilling optimization and

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1 RODNEY SIDLE

2 reservoir simulation used, and a variety of just  
3 basic engineering and scientific tools and  
4 analyses, all of which formed the toolkit, if  
5 you will, that the people needing to appraise  
6 things like an Angola Block 18, or any other new  
7 discovery, would use.

8 Q. Would it then be -- withdrawn.

9 You said that they provided the  
10 toolkit. Would application of those tools to a  
11 specific project then fall to some organization,  
12 besides SEPTAR, and its counterpart in Rijswijk?

13 A. Yes, it could. Yes.

14 Q. Were you aware if the Shell  
15 organization in Angola had the technical

16 expertise to develop or to create a development  
17 plan with respect to Angola Block 18?

18 A. I had no idea what the Shell Angola  
19 team -- what its composition or its expertise  
20 was.

21 Q. Okay. Thank you.

22 ---

23 (Sidle Exhibit 19, packet of  
24 documents, Bates number RJW01000797 through  
25 RJW01000801, was marked for identification.)

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1 RODNEY SIDLE

2 ---

3 BY MR. MacFALL:

4 Q. Mr. Sidle, you've just been handed a  
5 document marked as Sidle Exhibit 19 for  
6 identification. I would ask you to take a look  
7 at it, sir, and tell me if you recognize it.

8 (Witness reviewing document.)

9 A. All right. I've looked at this  
10 collection of documents.

11 Q. Do you recognize these documents?

12 A. I'm sorry?

13 Q. Do you recognize them, sir?

14 A. Some of them I do. Some of them  
15 I've never seen before.

16 Q. Okay.

17 A. It's a collection of things that are  
18 disassociated and have simply been collected  
19 from a variety of things related to Block 18.

20 Q. Turning to the first page, the  
21 handwritten notation. It says RD/S Angola.

22 A. Mm-hmm.

23 Q. Do you know whose handwriting that  
24 is?

25 A. No, I don't.

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1 RODNEY SIDLE

2 Q. Do you know what RD/S refers to?

3 A. I believe that stands for Royal  
4 Dutch/Shell.

5 Q. Turning to the second page of the  
6 document, there are two e-mails that appear on

7 that page. Do you recognize that e-mail string?

8 A. Yes. The ones where I've  
9 participated in the e-mails, I do recognize  
10 those.

11 Q. Okay. Why don't we focus our  
12 attention on those.

13 The first of the two e-mails  
14 appearing on that page is from Mr. Barendregt to  
15 you dated November 21, 2000. It says Subject:  
16 re: Comments on Draft Report and Att3.  
17 Mr. Barendregt, in the first paragraph, thanks  
18 you for comments received so far.

19 Let me ask you: Is the draft that  
20 Mr. Barendregt is referring to the document that  
21 begins following that next page, which is  
22 captioned Angola Block 18 - Initial Reserves  
23 Booking, 1/1/2001?

24 A. I'm not entirely sure, because the  
25 document there is dated the 17th of January,  
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1 RODNEY SIDLE  
2 2001, and the note that was sent to me was on  
3 November 2000. So it's possible it could have  
4 been an earlier draft, or it may mean something  
5 else. I just don't know.

6 Q. Do you recall if the document,  
7 whether this version or not, that appears in  
8 this exhibit, that Mr. Barendregt is referencing  
9 was in fact some draft of the Angola Block 18  
10 initial reserves booking?

11 A. Since the exchange of e-mails  
12 relates to Angola, I think it's likely that it  
13 did.

14 Q. Do you have a specific recollection  
15 one way or the other?

16 A. I -- obviously I received these  
17 documents. Exactly what was attached to them, I  
18 don't remember.

19 Q. Okay. Thank you.

20 Directing your attention to the  
21 second paragraph in that e-mail, Mr. Barendregt  
22 references a possible reserves review on Angola  
23 in December in Houston.



24 Do you recall if such a review took  
25 place?

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1 RODNEY SIDLE

2 A. Yes, I believe it did.

3 Q. Did Mr. Aalbers attend that review?

4 A. I believe Anton and Remco attended  
5 that meeting. Yes.

6 Q. Did you attend that meeting?

7 A. No, I did not.

8 Q. Do you know why that reserves review  
9 occurred in Houston?

10 A. I believe it was to look at the work  
11 of the Angola team, which had the data and  
12 network in Houston.

13 Q. The last sentence in that paragraph  
14 reads: "Seems they're under pressure from high  
15 up to book something ..." followed by an  
16 ellipse, which is what you had indicated you had  
17 heard before. Do you recall if this was the  
18 first time you had heard that in this e-mail, or  
19 do you recall if you had heard it previously?

20 A. I don't recall. As I said, I  
21 remember the comment being made. I didn't  
22 remember exactly when or in what context.

23 Q. You responded on that same date in  
24 the e-mail that appears above Mr. Barendregt's  
25 e-mail, and you wrote -- my copy is, I believe,

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1 RODNEY SIDLE

2 cut off, but I believe it states, "I have  
3 continued to talk with the Angola team and  
4 provide guidance on the approach you outlined  
5 for them for booking proved reserves."

6 Could you describe for me, as best  
7 you can recall, the approach that you are  
8 referencing in this sentence?

9 A. Yes. I believe it was what we saw  
10 on the prior document, about trying to limit the  
11 portion of Angola Block 18 that they would  
12 identify as technically mature to a smaller  
13 region than the entire field. Or several  
14 fields, actually.

15 Q. What was referred to in the other  
16 document is the cherry-picked development?

17 A. Yes. Yes, that's right.

18 Q. The next sentence states: "It  
19 appears their situation is that they need all  
20 expected volumes just to meet economic hurdles  
21 for even a minimal development scheme."

22 Could you please explain for me what  
23 it was that you were attempting to convey in  
24 that sentence, sir?

25 A. Yes. In my discussions with them to  
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1 RODNEY SIDLE  
2 help them understand the guidance that Anton  
3 gave them, we had a conversation about their  
4 progress in doing the, quote, "cherry-picking,"  
5 and the comment was made to me, which I relayed  
6 back to Anton, that it appeared that the volumes  
7 that would qualify to be technically mature  
8 within this cherry-picked area seemed small  
9 enough it would be difficult for them to meet  
10 the economic hurdles. However, final work  
11 hadn't been done, so they would need to finish  
12 their technical work, come up with exactly what  
13 volume that was, and then complete it before we  
14 would have a conclusive answer.

15 Q. If you could, sir, I would like to  
16 direct your attention to the following page of  
17 the document.

18 A. Mm-hmm.

19 Q. And as noted previously, this is a  
20 January 17, 2001 version of Angola Block 18  
21 initial reserves booking, group reserves auditor  
22 comments.

23 Do you have any idea, sir, whether  
24 or not this is the final version of this  
25 document?

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1 RODNEY SIDLE

2 A. No, I don't.

3 Q. Do you recall if you saw, regardless  
4 of whether or not this is it, the final version  
5 of this document?

6 A. No, I don't recall.

7 Q. Do you recall if you saw various  
8 drafts or iterations of this document?

9 MR. SMITH: Objection to the form  
10 and foundation.

11 A. At that time I don't recall whether  
12 I saw this in early or later forms, or not.

13 Q. I would like to direct your  
14 attention to the second half of the document.  
15 There are numbered paragraphs. Number 2 states:  
16 "The," quote, "'high confidence areas' defined  
17 by SDS may not all fulfill the stringent  
18 requirements for defining 'proved areas' as used  
19 by SEPCO (Ref. 2)."

20 Is that statement consistent with  
21 your recollection of your review of the Angola  
22 Block 18 reserves team work?

23 A. Well, there's a problem of timing  
24 here that makes it difficult to answer that,  
25 because I saw the work in its work in progress

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1 RODNEY SIDLE

2 preliminary stages, and the comments that are  
3 being made here are -- are written at a time  
4 subsequent to that, perhaps based on the work  
5 that Anton saw in December, where I was not  
6 present.

7 So it is correct to note that the  
8 statement you made continues, "this should be  
9 verified in due course."

10 Work was ongoing when I saw it to do  
11 that verification, to limit the extent of the  
12 cherry-picked area to that that was in  
13 compliance with SEC regulations, Shell  
14 regulations, for high confidence. At what point  
15 that was concluded, I don't know.

16 Q. Do you know why this document  
17 references SEPCO's requirements concerning  
18 proved areas, as opposed to the group  
19 guidelines?

20 A. Yes, I do.

21 Q. Okay. And could you explain that?

22 A. The technique that SEPCO had

23 developed for use of high-quality calibrated  
24 seismic to define proved area was one approach  
25 that was being considered by the Angola Block 18  
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1 RODNEY SIDLE

2 team. So we had the SEPCO geologists and  
3 geophysicists familiar with that technique  
4 explain to the Angola Block 18 team what  
5 criteria were needed to analyze their data to  
6 determine if it was of a high-quality and high  
7 reliability, such that it would have met the  
8 SEPCO requirements. Because at that time there  
9 were no group requirements of the detail and of  
10 the nature that related to use of seismic.

11 Q. Just so I'm clear. This relates to  
12 the use of seismic data that we discussed  
13 previously in connection with the two SEC  
14 engineers, or that was the subject of discussion  
15 with the two SEC engineers at some point?

16 A. That's correct. For lowest known  
17 hydrocarbon purposes. Yes.

18 Q. Thank you. If I could ask you, sir,  
19 to turn to the next page in the document. Now I  
20 will note that there is a series of e-mails here  
21 in which you are indicated neither as the author  
22 or recipient, or cc. Do you recall if you've  
23 ever seen this series of e-mails?

24 A. No, I've never seen them before.

25 Q. Okay.

0362

1 RODNEY SIDLE

2 MR. SMITH: Are you finished with  
3 this document?

4 MR. MacFALL: We're done with this  
5 document. I'm sorry.

6 MR. SMITH: Are you finished with  
7 this document?

8 MR. MacFALL: I am.

9 MR. SMITH: I didn't want to  
10 interrupt your questioning, but I wanted to  
11 note something for the record.

12 MR. MacFALL: Sure.

13 MR. SMITH: The first page of this

14 document, that's my handwriting.

15 MR. MacFALL: Okay.

16 MR. SMITH: It should not have been  
17 produced. And we will send you a letter in  
18 due course requesting to have it returned,  
19 under the terms of the protective order in  
20 the case. Okay?

21 MR. MacFALL: That's fine with me.  
22 Thank you for identifying the handwriting.

23 MR. SMITH: I'll save you a few  
24 questions down the road.

25 ---

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1 RODNEY SIDLE

2 (Sidle Exhibit 20, e-mail, two  
3 pages, with attachment headed Bonga  
4 Southwest Combined VAR 1 & 2 - Project  
5 Initiation, Identification & Feasibility  
6 Terms of Reference, was marked for  
7 identification.)

8 ---

9 BY MR. MacFALL:

10 Q. Mr. Sidle, you've just been handed a  
11 document that has been marked as Sidle  
12 Exhibit 20 for identification. I would ask you  
13 to take a look at it, sir, and tell me if you  
14 recognize it.

15 (Witness reviewing document.)

16 A. All right. I've seen it.

17 Q. Do you recognize the document, sir?

18 A. Yes. I've seen this before.

19 Q. For the record, the document is an  
20 e-mail with attachment from Norman Read to  
21 various individuals, including yourself, dated  
22 September 6, 2001. The subject is Bonga  
23 Southwest VAR 1-2, Houston 10 to 13 September  
24 2001.

25 Mr. Sidle, did you participate in a

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1 RODNEY SIDLE

2 value assurance review in connection with Bonga  
3 Southwest?

4 A. Yes, I did.

5 Q. What was your role in that review?

6 A. I was part of the review team, and I  
7 represented the reservoir engineering  
8 discipline.

9 Q. Did you undertake any actions in  
10 connection with your role as part of the value  
11 assurance review team?

12 A. The actions I undertook were to  
13 participate with the team in reviewing the  
14 technical -- the information that was presented  
15 by the Bonga Southwest field team, ask questions  
16 of that to be able to ascertain the issues that  
17 we're charged to deal with in the terms of  
18 reference, and then work with the team, feed it  
19 back to Bonga Southwest and their managers what  
20 our assessment was, and the maturity of the  
21 project, in other words, whether they had  
22 satisfied the criteria for a VAR 1, VAR 2, or  
23 had not.

24 Q. Do you recall where the Bonga  
25 Southwest field team was located?

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1 RODNEY SIDLE

2 A. We had our meetings in Houston.

3 Q. Do you recall if there were members  
4 of SDS on that Bonga Southwest field team?

5 A. Could you say it again?

6 Q. I'm sorry. Were members -- were  
7 individuals employed by SDS, Shell Deepwater  
8 Services, part of the Bonga Southwest field  
9 team?

10 A. Field team. Yes, I believe they  
11 were.

12 Q. Are you familiar with what work SDS,  
13 if any, did in connection with Bonga Southwest?

14 A. Only in a very general way; that  
15 they assisted by bringing expertise in deepwater  
16 development to the team.

17 Q. Can you identify the members of the  
18 Bonga Southwest field team? Do you recall?

19 If it helps, in the -- if I can get  
20 you there.

21 A. You're referring to the field team

22 rather than the review or VAR team.

23 Q. Right. The fifth page of the  
24 document contains the VAR --

25 A. I'm sorry?

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1 RODNEY SIDLE

2 Q. I'm sorry. We're speaking over each  
3 other. The fifth page of the document  
4 identifies members of the VAR team.

5 A. Right.

6 Q. Was the field team a subset of the  
7 VAR team? No?

8 A. There was -- no, not at all.

9 Q. Okay.

10 A. This was the team that did the  
11 review, so we were the outside experts within  
12 the areas noted that were not associated with  
13 the project, who reviewed the work that the  
14 field team, the team that was working on the  
15 project, presented to us.

16 On the second page of this exhibit  
17 you'll see an agenda, and at the end of what  
18 appears to be a time and a topic there are  
19 names. I don't remember exactly the names, but  
20 I do associate certain of these names with  
21 people who I recall to be presenting on behalf  
22 of the field team.

23 Q. One of the names shown there is  
24 Charles Shotton. He's identified as being with  
25 SNEPCO. Do you recall if he was on the team?

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1 RODNEY SIDLE

2 A. I don't recall.

3 Q. Actually, instead of going through  
4 them, is there anybody who you specifically  
5 recall being on the Bonga Southwest field team  
6 in that list?

7 A. No. These are the people that  
8 presented the information to us. And again,  
9 exactly what affiliation they had at that time,  
10 I don't know.

11 Q. Okay. Fair enough. If I could ask  
12 you to just turn to the fifth page of that



13 exhibit, sir, where it identifies the members of  
14 the VAR team.

15 A. All right.

16 Q. And it lists yourself, among several  
17 others. The first individual shown is Norman  
18 Read. It says, "(lead, engineering and project  
19 management, SIEP.)"

20 The reference to lead, does that  
21 mean he led the VAR team?

22 A. Yes.

23 Q. There are various disciplines shown  
24 here. One of them is petrophysics, Justin  
25 Freeman, SEPTAR. Can you describe, if you know,  
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1 RODNEY SIDLE

2 Mr. Freeman's role in the VAR process?

3 A. Yes. He was a specialist in the  
4 subsurface science of making down-hole  
5 measurements using well logs, using core data,  
6 and interpreting those measurements to ascertain  
7 the conditions of and presence of oil and gas in  
8 the ground.

9 Q. Am I correct that he underutilized  
10 that expertise in connection with this  
11 particular review?

12 A. Yes.

13 Q. Thank you. You can put that aside,  
14 sir.

15 A. Can we take just a very quick break?

16 Q. Oh, absolutely.

17 VIDEOGRAPHER: The time is now  
18 2:19 p.m. Off the record.

19 ---

20 (Recess.)

21 ---

22 VIDEOGRAPHER: The time is now  
23 2:27 p.m. Back on the record.

24 ---

25 (Sidle Exhibit 21, e-mail dated  
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1 RODNEY SIDLE

2 September 12, 2001, was marked for  
3 identification.)

4

---

5 BY MR. MacFALL:

6 Q. Mr. Sidle, you've just been handed  
7 during the break a document marked as Sidle  
8 Exhibit 21 for identification. I would ask you  
9 to take a look at that, sir, and tell me if you  
10 recognize it.

11 A. Yes, I recognize it.

12 Q. For the record, it's an e-mail from  
13 John Church addressed to several individuals,  
14 including yourself, dated September 12, 2001.  
15 The subject is Brazil reserves.

16 Could you please identify Mr. Church  
17 for me?

18 A. Other than the fact that he's the  
19 author of the e-mail, I -- I'm not familiar with  
20 what part of the organization he's with.

21 Q. The e-mail addresses the booking of  
22 reserves in Brazil. Do you recall if you were  
23 involved with the booking of proved reserves in  
24 Shell Brazil?

25 A. Not at the time of this e-mail, or  
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1 RODNEY SIDLE

2 for the field of BS-4. No, I was not involved  
3 with booking those. I participated in technical  
4 discussions about BS-4.

5 Q. That participation, did it occur at  
6 or about the time of this e-mail?

7 A. It seems about right. I don't  
8 recall exactly when it occurred.

9 Q. Could you describe for me,  
10 generally, or summarize the nature of your  
11 technical discussions in connection with this  
12 particular field?

13 A. Yes. This was a time when BS-4 was  
14 being evaluated for possible development, and I  
15 was part of a team that looked at the status of  
16 the technical work and gave them recommendations  
17 for what additional technical work they would  
18 need to do to develop a confidence in the  
19 project, such that an investment could be made.

20 Q. There's a reference here to, and by

21 "here" I mean in the document to SDS. Do you  
22 recall if SDS performed the technical work that  
23 you reviewed?

24 A. I don't recall. No.

25 Q. Was Brazil -- withdrawn.

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1 RODNEY SIDLE

2 Was BS-4 a field within SEPCO? I  
3 realize it's Brazil, but was that part of SEPCO?  
4 A. Well, SEPCO is just US. Now, in our  
5 Houston operation, the -- when the EPW, or the  
6 Americas region was put in place, then the  
7 responsibilities for other Shell EP businesses  
8 within the western hemisphere came under the  
9 purview of staff in Houston. I don't  
10 remember -- I don't remember exactly at this  
11 time whether that would have occurred yet or  
12 not.

13 Q. Do you recall if BS-4 was a  
14 deepwater project?

15 A. Yes. Yes, it was.

16 Q. Did you do any other work in  
17 connection with Brazil?

18 A. During what time frame?

19 Q. 1999 to 2004.

20 A. Yes. There was other fields -- '99  
21 to 2004 that I worked at in Brazil. I mentioned  
22 in '99, while I was at SEPTAR, I was the  
23 reservoir engineer working on a deepwater Brazil  
24 field. I'm not sure I can even remember the  
25 name.

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1 RODNEY SIDLE

2 I also participated in some  
3 exploration reviews, VARs, for possible  
4 exploration programs, including on BC-10.  
5 And then later -- let's see. Was  
6 that 2004? Yeah, it would have been before  
7 2004.

8 When the Enterprise Oil Company  
9 acquisition was done, there was an asset  
10 acquired that was part of Brazil. That was the  
11 only one of the several that I've mentioned

12 where there were proved reserves booked.

13 Q. Going in reverse order. With regard  
14 to the Brazilian asset that was acquired as part  
15 of the Enterprise acquisition, what work did you  
16 do in connection with the proved reserves?

17 A. At the time it was acquired, I was  
18 the reserves manager for SEPCO/EPW, because at  
19 that time it was EPW. So when the reserves were  
20 brought into EPW, then I reviewed the basis for  
21 booking those reserves from the fields we  
22 acquired from Enterprise.

23 Q. Do you know if those reserves were  
24 also reviewed by Mr. Barendregt?

25 A. I remember at the time of the

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1 RODNEY SIDLE  
2 Enterprise acquisition, he did a special review  
3 of just those reserves, but he couldn't get to  
4 everything. And I don't remember whether he  
5 actually looked at Brazil or not. I know he  
6 didn't look at the Enterprise assets in the Gulf  
7 of Mexico. Those we handled within SEPCO. But  
8 I don't remember whether he looked at Brazil or  
9 not.

10 Q. With regard to the proved reserves  
11 that you looked at in Brazil, as a result of the  
12 Enterprise acquisition did you generate a report  
13 or other document memorializing your efforts as  
14 part of -- your efforts in that review?

15 A. Yes, I believe there was a document  
16 that -- that was created as a result of a visit  
17 of myself and two others, I believe it was two  
18 other technical staff, to Brazil to take a look  
19 at the status of the technical work on the  
20 field. And that document was noting work that  
21 had been done and the work that was still left  
22 to be done to have the completed technical work  
23 documentation for what we felt was the proper  
24 way to book for proved reserves. I think we had  
25 that meeting in, like, September of the year in

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1 RODNEY SIDLE  
2 which Enterprise was acquired. Which would have

3 been, I guess, 2003.

4 Q. The two individuals that accompanied  
5 you to Brazil, do you recall who they were?

6 A. Frank Gonzalez and Dan Schwartz.

7 Q. Were they members of SEPCO?

8 A. Frank was a member of SEPCO. I  
9 don't recall if Dan was a member of SEPCO or  
10 not.

11 Q. With regard to the VAR review that  
12 was done for BC-10, could you please briefly  
13 summarize the work that you did in that regard?

14 A. Yes. This was a service to our  
15 exploration organization. Exploration  
16 periodically asked for outside technical persons  
17 to look at their portfolio of opportunities, to  
18 provide feedback on the status of those  
19 opportunities, the quality of those  
20 opportunities, the reasonableness of their plan  
21 to explore. It was not related to proved  
22 reserves. It was related to exploration.

23 Q. When you say the exploration  
24 organization, are you referring to the group's  
25 exploration organization, or SEPCO's?

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1 RODNEY SIDLE

2 A. It varied from time to time.  
3 Sometimes the exploration organization for the  
4 Americas was within the Americas, and sometimes  
5 it actually was a part of an International Group  
6 that simply had an Americas division. So which  
7 status it had at that time, I don't recall.

8 Q. Fair enough. And I believe you  
9 referenced a '99 review, when you were in  
10 SEPTAR?

11 A. '99 was a different event.

12 Q. Right. I'm sorry. It wasn't a  
13 review. It was work in '99.

14 A. Right. I was assigned as the  
15 reservoir engineer working on a field where  
16 development operations were being studied.

17 Q. And could you just, again very  
18 generally, summarize the work that you did at  
19 that time?

20 A. Yeah. Yeah. One of the services  
21 that SEPTAR provided was the application of  
22 technologies. What I did was run the reservoir  
23 simulation model for a variety of different  
24 outcomes of potential developments of the field,  
25 to be able to ascertain what the likely result

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1 RODNEY SIDLE

2 would be for a variation in number of wells,  
3 placement of wells. Situations like that.

4 Q. And this was in connection with  
5 Brazil. Correct?

6 A. This was in connection with Brazil.

7 Q. During the time that you were in  
8 SEPTAR, do you recall doing work with regard to  
9 any other non-US OU, besides Brazil? And  
10 Bonga -- well, you hadn't done the Bonga work  
11 yet while you were in SEPTAR. I'm sorry.

12 A. No, at that time the only one that I  
13 recall working on was Brazil.

14 MR. FERRARA: Tim, was there an  
15 Exhibit 20?

16 MR. SMITH: Yes.

17 MR. FERRARA: Which one was that?  
18 Do you have an extra one of those?

19 MR. WEED: It's the Norman Read  
20 e-mail.

21 THE WITNESS: It's the Bonga  
22 Southwest.

23 MR. MacFALL: Do you need a copy of  
24 that, Ralph?

25 MR. FERRARA: I've misnumbered here

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1 RODNEY SIDLE

2 somehow. I would like to see it. Yeah.

3 ---

4 (Sidle Exhibit 22, e-mail, four  
5 pages, Bates number DB 07573 through  
6 DB 07576, was marked for identification.)

7 ---

8 BY MR. MacFALL:

9 Q. Mr. Sidle, you've just been handed a  
10 document marked as Sidle Exhibit 22 for

11 identification. I see you're reviewing it, sir.

12 Do you recognize this document?

13 A. Yes, I do.

14 Q. And for the record, this document is  
15 a series of e-mails, the last of which is from  
16 Mr. Roosch to yourself dated January 14, 2002.  
17 The subject is SNEPCO Reserves Questions.

18 The SNEPCO reserves questions  
19 involved potential booking of proved reserves in  
20 connection with Bonga Southwest. Correct?

21 A. Yes.

22 Q. I would like to direct your  
23 attention, if I can, sir, to the page ending  
24 with Bates numbers DB 07575, which is the  
25 next-to-the-last page of the document. Do you  
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1 RODNEY SIDLE

2 have that, sir?

3 A. Yes, I do.

4 Q. Okay. At the top of the page there  
5 is an e-mail from Mr. Roosch to you dated  
6 January 10, 2002. I would like specifically to  
7 direct your attention to what I believe is the  
8 third paragraph in that e-mail. The e-mail  
9 discusses, amongst other things, Bonga Main  
10 booking of -- possible booking of proved  
11 reserves.

12 Mr. Roosch writes, "It concerns me  
13 that we do not have the level of expertise here  
14 to come with a credible 2nd opinion, but I would  
15 expect, if we stick to the 'proved area'  
16 principle and could, in one way or another,  
17 argue for analogy," and then it continues.

18 Really, my question has to do with  
19 Mr. Roosch's statement that they do not have the  
20 level of expertise here to come -- or to have a  
21 credible second opinion.

22 In the context of this e-mail, do  
23 you know what he was referring to there, sir?

24 A. I believe his reference is to the  
25 first opinion, being that of Barry Knight and  
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1 RODNEY SIDLE



2 Keith Lewis, that there is the opportunity for  
3 booking some reserves at Bonga Southwest. And  
4 the reference to expertise and second opinion  
5 meant that there was no one present in his  
6 office, or his location, that knew the details  
7 of Bonga Southwest, to be able to judge whether  
8 that first opinion was indeed an accurate  
9 reflection of what was necessary for proved  
10 reserves or not.

11 Q. The very last line in that e-mail  
12 says: "Please do NOT" -- in caps -- "copy Anton  
13 Barendregt at this stage, as his role is to take  
14 a final view as the auditor."

15 Do you recall discussing that with  
16 Mr. Roosch at any point?

17 A. Specific to Bonga Southwest, I don't  
18 recall. There had been an ongoing interchange  
19 between myself and Jan Willem about the role of  
20 Anton and my ability to access him, that we  
21 discussed before.

22 Q. Do you believe that that sentence  
23 was a continuation of that same dialogue between  
24 you and Mr. Roosch concerning Mr. Barendregt?

25 A. I'm sure it was related.

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1 RODNEY SIDLE

2 Q. Prior to the dialogue with  
3 Mr. Roosch concerning Mr. Barendregt's role as  
4 auditor, and basically his advice or instruction  
5 not to have contact with Mr. Barendregt, you  
6 interacted with Mr. Barendregt in several  
7 contexts, not just the auditing context. Is  
8 that right?

9 MR. SMITH: Objection to form.

10 A. (No response.)

11 Q. I'll withdraw the question. Let me  
12 rephrase it.

13 Prior to the time that Mr. Roosch  
14 indicated that you shouldn't have direct contact  
15 with Mr. Barendregt, did you seek advice of  
16 Mr. Barendregt on any reserves-related issues?

17 MR. SMITH: Objection to form.

18 A. I'm not sure I could respond to

19 specific advice. Each of us had knowledge, and  
20 especially with situations that are complex and  
21 judgmental, one learns to consult other  
22 knowledgeable people to help make  
23 interpretations. So he and I, from time to  
24 time, would have discussions around  
25 interpretations, around experiences and thoughts  
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1 RODNEY SIDLE

2 on topics related to reserves.

3 Q. Were you aware if Mr. Barendregt  
4 participated in any meetings in which methods to  
5 establish technical or commercial maturity in  
6 order to book proved reserves were discussed?

7 A. No, I was not.

8 Q. Did you have any concern about  
9 Mr. Barendregt's objectivity as an auditor in  
10 light of your communications with him, and prior  
11 to Mr. Roosch's indication that you should have  
12 no direct contact with him?

13 MR. SMITH: Objection to form.

14 A. I had no concerns.

15 Q. During or subsequent to your  
16 participation in Project Rockford, did you see  
17 any information which caused you to question the  
18 objectivity of Mr. Barendregt in his role as  
19 auditor prior to 2004?

20 A. The materials I saw as part of  
21 Rockford gave me insight into the condition of  
22 certain of the reserves that the group had  
23 booked. I don't know that I saw anything that  
24 translated that condition into objectivity on  
25 the part of the auditor.

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1 RODNEY SIDLE

2 Q. I believe you previously indicated  
3 that certain of the information that you  
4 reviewed in connection with Project Rockford  
5 would have given you cause to look further if  
6 that information had come to light in connection  
7 with the SEPCO audit. Is that correct?

8 A. That's correct.

9 Q. Specifically with regard to that

10 information, are you aware if Mr. Barendregt  
11 conducted additional review, or a review, based  
12 on that same information?

13 MR. SMITH: Objection to form.

14 Q. I'll see if I can rephrase.

15 With regard to the information that  
16 you believed would have caused you to conduct a  
17 further look with regard to certain proved  
18 reserves bookings, are you aware if  
19 Mr. Barendregt actually did that, took a look,  
20 based on that same information?

21 MR. SMITH: Objection to form.

22 A. I don't know. He may have. I don't  
23 know.

24 Q. Did you ever discuss that with  
25 Mr. Barendregt?

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1 RODNEY SIDLE

2 A. No, I didn't.

3 Q. We discussed this a little bit  
4 during the course of the deposition. Did you  
5 ever have occasion to review the role of the  
6 external auditors, and by that I mean KPMG and  
7 Price Waterhouse, with regard to the proved  
8 reserves that were ultimately de-booked in  
9 connection with project Rockford?

10 A. No, I don't recall any specifics  
11 about the role of the external auditors with  
12 those volumes.

13 Q. Do you recall looking at the actions  
14 of the external auditors in terms of the audit  
15 process that was in place in the group, during  
16 the period of 1999 to 2004?

17 MR. SMITH: Objection to form.

18 A. No. I don't.

19 Q. Are you aware if anyone connected  
20 with Project Rockford did undertake such an  
21 inquiry?

22 MR. SMITH: Objection to form.

23 A. I'm not specifically aware of that.  
24 No.

25 Q. Only because you used the word

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1 RODNEY SIDLE

2 specifically, are you generally aware of that,  
3 sir?

4 A. Well, I recognize that part of the  
5 broad event that was Rockford, there was the  
6 Project Hugin team, the legal team that looked  
7 back at Shell's practices and made  
8 recommendations as to changes. I must assume  
9 that one of the things they would look at would  
10 be that relationship. But since the outcome of  
11 that has remained largely secret, I can't  
12 conclude -- I can't be conclusive as to whether  
13 or not that was reviewed or not.

14 MR. MacFALL: Could we go off the  
15 record for a minute.

16 VIDEOGRAPHER: The time is 2:52 p.m.  
17 We're off the record.

18 ---

19 (Pause in the record.)

20 ---

21 VIDEOGRAPHER: The time is 2:55 p.m.  
22 Back on the record.

23 BY MR. MacFALL:

24 Q. Mr. Sidle, you've identified work  
25 that you did in connection with Bonga and Angola

0385  
1 RODNEY SIDLE

2 Block 18 in Brazil while you were at SEPCO. Are  
3 there any other non-US OUs that you performed  
4 work in connection with or for during the period  
5 of 2000-2004?

6 A. First, let me correct your question.  
7 I worked on Bonga Southwest, which is a  
8 different field from Bonga Main.

9 Q. Thank you. I'm sorry. I did mean  
10 Bonga Southwest.

11 A. Yeah. In terms of proved reserves,  
12 Angola Block 18, Bonga Southwest, and the  
13 Enterprise acquisitions in Brazil, those are the  
14 ones I worked on.

15 Q. Just with regard to the group  
16 reserve auditor function, the position held by  
17 Mr. Barendregt, as a consequence of the work

18 that you did on Project Rockford, did you ever  
19 form a conclusion as to whether having a single  
20 individual in the group reserves auditing  
21 function, or position, was adequate for a  
22 company the size of the group?

23 MR. SMITH: Objection to form and  
24 foundation.

25 A. Not specifically to a single

0386

1 RODNEY SIDLE  
2 auditor. However, the assurance function, as we  
3 saw in some of my prior e-mails, I suggested  
4 needed more people to assist in that function,  
5 whether you called them auditors or gave them  
6 some other roles, but people beyond just one  
7 person providing the review and assurance I felt  
8 was something that would be advisable.

9 Q. Did you express that belief, or that  
10 opinion, to anyone within the group?

11 A. Within ...? I'm sorry. Can you --

12 Q. Within Shell.

13 A. Yes.

14 MR. SMITH: Objection to form.

15 Q. Are you aware of how many people  
16 provide that assurance, or work in connection  
17 with that assurance, in the auditing function  
18 with the group now?

19 A. I can give you an approximately,  
20 probably between fifteen and twenty. Some are  
21 Shell employees. Some are people we engage from  
22 outside. That's an approximate estimate.

23 Q. Was that change, and by that change  
24 I mean from a single position to the more  
25 expanded staff, a consequence of the review that

0387

1 RODNEY SIDLE  
2 was done as Project Rockford, or as part of  
3 Project Rockford?

4 MR. SMITH: Objection to form and  
5 foundation.

6 A. No, it wasn't Rockford. There was a  
7 related review called Project Hugin that made  
8 recommendations to the group, and among those

9 recommendations were changes to the overall  
10 review process, not just auditors, but others  
11 involved in review.

12 Q. Did you participate in Project  
13 Hugin?

14 A. No, I did not.

15 Q. Do you know who did?

16 A. The law firm of Davis Polk &  
17 Wardwell were the primary leads, with certain  
18 Shell staff, including my current supervisor,  
19 Jim Cooper, performed the study.

20 Q. Do you know of any other Shell  
21 individuals who participated?

22 A. There were others on it, but I don't  
23 recall who it was.

24 Q. Okay. That's fine. Do you recall  
25 the approximate time frame of Project Hugin?

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1 RODNEY SIDLE

2 A. It would have been early 2004.

3 Q. Thank you, Mr. Sidle. I have no  
4 further questions.

5 A. Thank you.

6 MR. SMITH: I have one or two  
7 things.

8 EXAMINATION BY

9 MR. SMITH:

10 Q. First of all, and this is a nitpicky  
11 little clarifications, during the questioning  
12 yesterday I think a question was presented to  
13 you, and I just want to make sure that you had  
14 clearly understood the question before you had  
15 offered your answer. And it appears, at least  
16 in the draft transcript that we received  
17 overnight on page 29, starting on line 14. The  
18 question is:

19 "Question: And could you please  
20 explain for me if the group guidelines did  
21 in fact permit the booking of proved  
22 reserves for projects that had not passed  
23 the VAR 4?"

24 And I believe in the context of that  
25 question, the date range was 1999 to 2000.

0389

1 RODNEY SIDLE

2 You had responded: "At that time

3 they did not," which is to say did not

4 permit the booking of proved reserves for

5 projects that had not passed VAR 4.

6 And I just wanted to make sure that

7 that was the correct answer, and that you had

8 correctly understood the question that had been

9 posed.

10 A. I did not understand the question.

11 The correct answer is they did not require

12 VAR 4. They did permit booking prior to VAR 4.

13 Q. The second thing I wanted to follow

14 up on. I think during the course of your

15 testimony yesterday, you talked about the

16 participation of SEPCO's outside auditors in the

17 assurance process with respect to proved

18 reserves during the time period when SEPCO -- or

19 I'm sorry -- Shell Oil Company separately

20 reported on its -- separately made public

21 filings. And I wanted to ask: Do you know

22 which office the, I think you said Price

23 Waterhouse or PricewaterhouseCoopers auditors

24 who performed that function had come from?

25 A. Yes. That was our Houston office.

0390

1 RODNEY SIDLE

2 MR. SMITH: That's all I have.

3 MR. MacFALL: That's all I have. I

4 have no redirect.

5 VIDEOGRAPHER: The time is now

6 3:03 p.m. This is the end of tape number 6

7 in the deposition of Rodney Sidle. The

8 deposition is concluded. Off the record.

9 (Time Noted: 3:03 p.m.)

10  
11 \_\_\_\_\_  
12 RODNEY SIDLE

13  
14 Subscribed and sworn to before me

15 this \_\_\_\_\_ day of \_\_\_\_\_, 2006.

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## I N D E X

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2  
3 WITNESS EXAMINATION BY PAGE  
4 RODNEY SIDLE MR. MacFALL 241  
5 MR. SMITH 388  
6  
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8

## E X H I B I T S

9  
10 PAGE  
11 Sidle Exhibit 10.....255  
12 E-mail string,  
13 Bates number DB 01376 through DB 01378  
14  
15 Sidle Exhibit 11.....261  
16 Document,  
17 Bates number LON00142065 through  
18 LON00142086  
19  
20 Sidle Exhibit 12.....281  
21 Series of e-mails with attached booklet,  
22 EP Global Processes - Hydrocarbon Resource  
23 Volume Management, April 2003  
24  
25

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1  
2 Sidle Exhibit 13.....296  
3 E-mail dated June 22, 2003, and attachment,  
4 Bates number DB 02027 through DB 02033  
5  
6 Sidle Exhibit 14.....307  
7 E-mail dated December 20, 2003,

8 two pages

9

10 Sidle Exhibit 15.....309

11 Series of e-mails,

12 Bates number RJW00780458 through

13 RJW00780461

14

15 Sidle Exhibit 16.....332

16 Document, four pages

17

18 Sidle Exhibit 17.....334

19 E-mail with attachment, Shell Visit

20 Programme - DPR Staff, four pages

21

22 Sidle Exhibit 18.....343

23 E-mails, two pages,

24 Bates number SMJ00040769 through

25 SMJ00040770

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1

2 Sidle Exhibit 19.....352

3 Packet of documents,

4 Bates number RJW01000797 through RJW01000801

5

6 Sidle Exhibit 20.....363

7 E-mail, two pages, with attachment headed

8 Bonga Southwest Combined VAR 1 & 2 - Project

9 Initiation, Identification & Feasibility

10 Terms of Reference

11

12 Sidle Exhibit 21.....368

13 E-mail dated September 12, 2001

14

15 Sidle Exhibit 22.....377

16 E-mail, four pages,

17 Bates number DB 07573 through DB 07576

18

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0394

## 1 CERTIFICATE

2 STATE OF NEW YORK )

3 : ss.

4 COUNTY OF NEW YORK )

6 I, FRANK J. BAS, a Notary Public

7 within and for the State of New York, do

8 hereby certify:

9 That RODNEY SIDLE, the witness whose

10 deposition is hereinbefore set forth, was

11 duly sworn by me and that such deposition

12 is a true record of the testimony given by

13 the witness.

14 I further certify that I am not

15 related to any of the parties to this

16 action by blood or marriage, and that I am

17 in no way interested in the outcome of this

18 matter.

19 IN WITNESS WHEREOF, I have hereunto

20 set my hand this 31st day of October, 2006.

22  
23 FRANK J. BAS, RPR

25

0395

## 1 ERRATA SHEET

2 NAME OF CASE: In Re: ROYAL DUTCH/SHELL TRANSPORT

3 DATE OF DEPOSITION: OCTOBER 31, 2006

4 NAME OF DEPONENT: RODNEY SIDLE

5 PAGE LINE(S) CHANGE REASON

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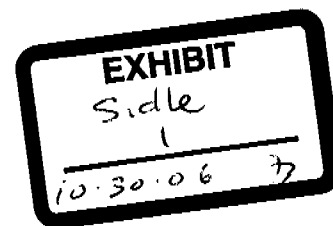
18 \_\_\_\_\_  
19 \_\_\_\_\_

20 RODNEY SIDLE  
21 SUBSCRIBED AND SWORN TO BEFORE ME

22 THIS\_\_DAY OF \_\_\_\_\_, 20\_\_.  
23

24 \_\_\_\_\_  
25 (NOTARY PUBLIC) MY COMMISSION EXPIRES:

**From:** Barendregt, Anton AA SEPIV-EPB-GRA  
**To:** VanDorp, Wouter WG SEPIV-EPB-P  
**CC:** Aalbers, Remco RD SEPIV-EPB-P  
**BCC:**  
**Sent Date:** 1999-08-09 10:37:33.000  
**Received Date:** 1999-08-09 10:37:33.000  
**Subject:** SPE Workshop on Probabilistic Reserves Assessment  
**Attachments:**



Wouter,

Herewith some notes I made on the SPE Workshop on Probabilistic Assessment of Reserves, which I attended in Houston on 27-28 July, 1999. I also add some notes I made during a subsequent discussion I had with Rod Sidle from SOC, who is, among his several roles, the Reserves Auditor for Shell Oil (including Pecten) E&P ventures.

#### SPE Workshop on Probabilistic Reserves Assessment

The workshop was the second in an intended series of three or more. The first one, which was attended by Wim Swinkels (EPT-AM), was held late last year and a next one is intended for the Houston OTC in May 2000. Further workshops, possibly also in Europe, are being considered.

The workshop was attended by some 80 participants, mostly from the US, and some 10 participants from other countries. The workshop was in the form of presentations of papers (case studies and overview/state-of-the-art), followed by a general discussion, questions from the audience etc. There was one practical exercise. The general discussions lost some of their effectiveness due to the large number of attendees, which prevented a true in-depth exchange of views.

Two papers gave an overview of the various reserves definition standards that are published to date. Apart from the US SEC standards (last updated in 1975), the most important were:

- SPE/WPC guidelines, last updated in 1997,
- Canadian CIM standards, still under development,
- Australian SE standards,
- London SE / OIAC standards, published in 1988/87 (only required for new entrants on the SE, recommendations for annual reports)
- Other standards, e.g. UN, Hong Kong etc.

Differences between the various standards were highlighted, e.g. in required confidence levels (mostly 90 and 50% for proved and probable, but with some variations), royalties to be included or excluded, oil/gas prices to be used (current, future or historical), probabilistic addition (allowed or not allowed), etc. A compilation of reprints of these various standards was issued at the workshop.

Main differences between the SEC guidelines and the SIEP/SEPIV guidelines for proved reserves appeared to be:

- SEC proved undeveloped reserves need to have evacuation facilities in place, the Shell guidelines do not insist on this
- Monetary royalties are excluded from SEC reserves, included in Shell's,
- IOR: SEC insist on a successful test in the reservoir itself (i.e. in the same 'pressure system'), the Shell guidelines accept a neighbouring analogue.

Discussions were ongoing between the SPE and the SEC regarding a possible update of the SEC

reserves definitions, perhaps also including allowance for probabilistic reserves estimation. SEC were said to have recently employed two petroleum engineers to look at reserves definitions and, although no movement in their position was as yet perceptible, this was not precluded in the future. The observation was made by Merrill Lynch that the SEC were mostly concerned with the smaller operators, where a misrepresentation in one or a few larger assets could have a significant effect on these companies' stock position. Another observation was that the IRS (US tax authorities) generally subjected companies' reserves to much closer scrutiny than the SEC and generally pushed for a more optimistic view than the SEC rules allowed.

Three papers, two by Mobil (Hunt) and one by Unocal (Alexander) gave examples how probabilistic reserves assessment had been implemented in their respective organisations. Both papers mentioned the need for adequate guidance and support (e.g. through written guidelines) to avoid unrealistic assessments by inexperienced reservoir engineers. The correspondence between deterministic SEC proved reserves and probabilistic estimates was seen as an area needing attention. Mobil stressed that they adhered strictly to the SEC guidelines for the externally reported reserves, whilst probabilistic reserves were used for internal reporting, particularly with respect to probable and possible reserves. Both papers agreed that probabilistic reserves gave a much better picture of the potential upside.

Statoil (Gibbons) gave a paper describing experience that prospect estimates before drilling tended to over-estimate volumes and under-estimate POS's (an experience that Chevron agreed with). GRV and HC-fill were stated as the parameters that were most often predicted wrongly. For more mature fields, it was stated that full field detailed 3D simulation models (based on geostatistical models) were often too cumbersome to generate and run in Low and High versions. The paper stated that simpler 3D models could be made to describe field performance equally well and thereby allow a wider range of model versions to be run. Details of this were not presented at the workshop and I have asked for more written documentation to be forwarded to me.

Chevron (Lederhos) presented an interesting paper on a Californian diatomite reservoir where reserves were largely determined by individual well performance. Independent probabilistic addition gave too steep a probability curve, whilst dependent addition gave too wide a range. A geostatistical approach, incorporating an areal distribution of well performance, provided a more realistic way of assessing dependence and thereby a more realistic total range. In spite of this, the SEC proved reserves were maintained as the arithmetic sum of the individual proved well estimates. Conclusion of the paper was that probabilistic reserves could give a better estimate of probable and possible reserves (upside) and thereby better asset management plans. Deterministic assessments should link up with the 'best fit' (i.e. expectation), not the most conservative one.

A practical exercise was handed out, discussed initially in smaller groups and later in full session. The impact of this exercise was severely hampered by the lack of a worked out solution (with the excuse that many solutions were possible). As it was, it left many non-experienced engineers with a lot of questions and no answers.

My conclusions of the workshop:

- An interesting meeting, particularly as it provided the opportunity of learning the way reserves estimation is practiced in the US. A number of Shell OUs, e.g. Philippines, Namibia, have had experience with US consultants providing a much more conservative estimate of prospects than the Shell estimate.
- Probabilistic estimation appears to be well established in some major oil companies (notably Chevron and Mobil), but the smaller operators and most of the consultants still have some way to go.
- Experience and prudence are essential in determining realistic ranges for parameters. The exercise gave an example of a low and a high map giving an unbelievably small range of \*5% for the GRV!

- - Most authors agreed that the benefit of probabilistic estimation laid in a better assessment of potential upside reserves in less mature fields and prospects. This is in line with Shell's perception, in which deterministic reserves are now in favour again for the more mature fields. This point should have been made more strongly by the workshop organisers, because many attendants appeared to be still confused about this.
- The issue of probabilistic addition of reserves was not resolved. The SEC are clearly opposed to it but some authors were expecting them to change their view in due course, which others doubted. The Shell approach (probabilistic within fields, arithmetic between fields) seems the most sensible.
- The SPE committee that organised the workshop are in the process of preparing written guidelines on probabilistic estimation. Wim Swinkels (EPT-AM) was said to be participating. Meanwhile, a monograph with SPEE guidelines seems to have been issued - this should perhaps be screened for usefulness.

#### SOC discussions

Rod Sidle explained that he had recently taken over the role of SOC reserves focal point from Lyle Henderson. This role included accumulating reserves updates booked quarterly by the SOC divisions and holding regular reviews/audits of these reported volumes as and when deemed opportune. The role therefore combined the aspects of auditor and technical advisor.

Review/audit support was only given to Shell/Pecten operated ventures, i.e. the two offshore groups (Deep and Shallow) in New Orleans, plus the onshore groups in Houston (Shell only in Michigan, West Texas, plus Shell/Amoco in West-Texas CO2) and Bakersfield (Shell/Mobil). Pecten groups supported included only the Shell operated Cameroon venture - the other (non-Shell operated) ventures were looked after by their Pecten business support focal points.

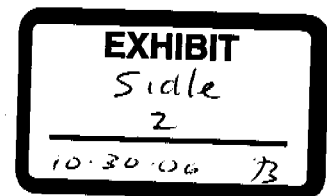
External 'spot checks' of reported reserves volumes were arranged through Price Waterhouse on an incidental basis.

SOC have reserves guidelines dating from 1976 (last updated 1985). SIEP/SEPIV should have a copy, but this may need to be checked. A further update of these guidelines is being contemplated, particularly focusing on proved reserves, where it was suspected that some of the reported volumes should perhaps be shifted to the unproved/SFR category.

Closer cooperation between SIEP/SEPIV and SOC, as part of the globalisation process, was briefly discussed. It was agreed that this was a matter for senior management of both companies to decide but the move was in principle welcomed. Further discussions (e.g. with EPB-P) could take place when RS would visit The Hague mid-September.



**From:** Sidle, Rod RE SEPCO  
**To:** Aalbers, Remco RD SEPIV-EPB-P  
**CC:** Koinis, Mike MT SEPCO; Van Dorp, Wouter WG SEPIV-EPB-P  
**BCC:**  
**Sent Date:** 1999-09-28 11:06:05.000  
**Received Date:** 1999-09-28 11:06:04.000  
**Subject:** RE: SEPCO Booking of Reserves  
**Attachments:**



Remco,

An interesting question. I would feel that passing VAR4 together with a senior management commitment to monetize (meaning either develop and produce or to sell) would be adequate to meet proved reserve requirements. Here I am expecting both sufficient technical and commercial maturity to meet Group definitions as well as to provide the detail needed for a deterministically based definition of proved reserve. In some (rare) cases, a "reasonable certainty" volume can be defined at a VAR3 setting, but I feel these are exceptions. The VAR3 reviews I have seen still have considerable uncertainty around both the subsurface picture as well as the development plan -- making it very hard to describe proved volumes, except perhaps on a probabilistic basis. Also management commitment would still be needed. This may be harder to secure for a project only at the VAR3 state. (This said, SEPCo is developing criteria to identify such rare exceptions (pre-VAR4 booking opportunities) and the situations in which such early bookings could be recommended. We will keep you advised of how this progresses.)

My reluctance to liberalise the booking mark on a general basis also draws from my experience with periods when we were "generous" with standards needed for booking. It was very painful in the early 1990's to remove the many barrels of proved, undeveloped volumes that had accumulated there over the late 1980's. Many of these cases were where we had volumes that were proved technically (and, at the time, commercially) that had been booked well ahead of actual development. As our outlook both in price premise and investment strategy changed, these volumes were no longer expected to be produced -- and were removed. Sadly our overbooked undeveloped reserves were not just an internal embarrassment but also the subject of unfavorable comments from market analysts.

At this point we changed to requiring major projects pass FID before being booked -- conservative perhaps. But the proof of this approach really came by tracking our revisions to prior estimates over the following years. As I showed you during your visit, recent years have seen only small net changes that generally balance (i.e. some years are positive, some negative). This balance says to me that over all we have a process that fairly represents our proved reserve position.

I would be happy to discuss this at greater length if you wish. For your information, I will be back in the Hague in late October and early November if discussing this or other topics would be useful.

Kind regards,  
Rod

-----Original Message-----

From: Aalbers, Remco RD SEPIV-EPB-P

Sent: Monday, September 27, 1999 11:16 AM

To: Sidle, Rod RE SEPCO

Cc: Koinis, Mike MT SEPCO; Van Dorp, Wouter WG SEPIV-EPB-P

Subject: SEPCO Booking of Reserves

Rod,

From further discussions with Mike the idea came to link booking of (proved) reserves in SEPCO with the VAR process to define technically and commercially mature rather than only at actual FID.

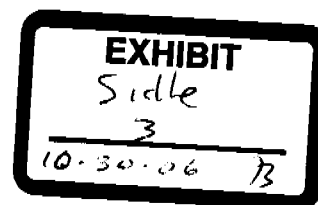
Initial suggestion was VAR4, but maybe VAR3 could also be a option?

Appreciate your thoughts on the above

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

**From:** Denning, Phillip PE SEPCO  
**To:** Deere, Bob RV SEPCO  
**CC:**  
**BCC:**  
**Sent Date:** 2000-04-07 18:05:24.000  
**Received Date:** 2000-04-07 18:05:24.000  
**Subject:** FW: USA - Operating Statistics  
**Attachments:**



Privileged and confidential

Bob,

I wanted to respond to you before I responded to Remco.

First, while SOC no longer files a SEC 10-K which reports well activity, we do use and provide this data for other reporting beside SEC activity. However, should we elect to provide Remco with what he is asking (which is to designate an indeterminate well as either dry or successful whether it has been completed or not), we are violating SEC rules since this same well count is used for Form 20-F purposes. If other Group companies are following suit, I again believe they are violating issued guidelines. Two wrongs don't make a right. This is really the same "flavor" as the EB2 well classifications. What came out of the teleconference anyway?

The new SOC annual reporting does not portray well count. However, I have been asked for it by some of those working on the Andersen benchmarking study. So it does find its way into the "system" and further becomes a part of the successful well or dry well statistics etc. There may be other government reporting requests that I am unaware of as prior data requests may have been retrieved from the 10-K. These groups may now start calling me for 1999 data.

One could argue that we could provide Remco with 2 different well counts: 1 for SEC purposes and 1 for reserve tracking which would coincide with the booking of SFR and Expectation reserves. However, the Group wants "one size to fit all". Further, those that prepare the well counts are unfamiliar with well determinations beyond dry, productive or indeterminate. If I read between the lines of Remco's e-mail, it would appear to me that any exploration wells with any trace of hydrocarbons, whether or not determined to be commercial, are reported as successful, thus misaligning Exploration activity. That's certainly one way of mitigating investor pressure for poor past exploration results!!! Is this EB2 classification and further exploration well results activity the mandated vehicle to pacify analysts and investors?

Phil

Shell Exploration and Production Company  
Financial Policy and External Reporting Advisor  
:: pedenning@shellus.com  
-: 4463 One Shell Plaza

(: 713-241-6858  
2: 713-241-4764

-----  
From: Aalbers, Remco RD SEPIV-EPB-P  
Sent: Friday, April 07, 2000 11:10 AM  
To: Denning, Phillip PE SEPCO  
Cc: Sidle, Rod RE SEPCO; Deere, Bob RV SEPCO; McKay, Aidan A SEPIV-EPB-P  
Subject: RE: USA - Operating Statistics  
Sensitivity: Confidential

Phil,

Many thanks for your reply, apologies for not getting back sooner but some other issues interfered.

On the wells drilling at year-end we seem to be in agreement - wells which have been spudded and year end have not completed drilling are counted as such.

The issue indeed seems to be on the interpretation of dry holes versus productive wells.

For development wells the issue is relatively straight forward the well was either dry or non-dry i.e productive and you installed the completion as per plan.

For exploration and especially offshore the issue is possibly slightly more complicated, if the well was dry i.e. no hydrocarbons at all it was dry but what if you did find hydrocarbons? If you found enough hydrocarbons and actually tested the well would you call it productive even if you subsequently abandoned the well as you would not re-use it for the field development?

The original rules from 1933/34 I would imagine related mainly to an "onshore" US-situation where any successful well would be completed and produced. The offshore situation is often more complicated.

Would it be possible for SEPco to report from 2000 onwards (plus wells left over as undetermined in 99) all wells in the year they are drilled either as dry or as non-dry as we would like to align expl. discovery reporting with SFR booking across the Group. The group basically reports wells as non-dry if at least SFR volumes can be booked which meet the UTC cut-off for non-com SFR (alternatively one could use SFR-com volumes). This way expl wells drilled in the year tie-in with reserves/SFR volume booked in the same year.  
In terms of tie-in with the SEC rules the Group basically has no indeterminate wells at year end - a choice is made for each well at year end. A revised view in subsequent years does not change the choice made at the time.  
The tie-in between Res/SFR volumes booked and exploration success (UFC and MMboe added) is greatly enhanced when fully linked through the resource process.

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 (fax: 2460)  
e-mail: remco.rd.aalbers@sepivbv.shell.com

-----Original Message-----

From: Denning, Phillip PE SEPCO  
Sent: 31 March 2000 01:57  
To: Aalbers, Remco RD SEPIV-EPB-P  
Cc: Sidle, Rod RE SEPCO; Deere, Bob RV SEPCO; McKay, Aidan A SEPIV-EPB-P  
Subject: FW: USA - Operating Statistics  
Importance: High  
Sensitivity: Confidential

Remco,

I wanted to follow up with you regarding the well count for indeterminate wells.

SEPCo has consistently not included these wells in the current year drilling activity until such time as the wells were completed or deemed dry. This is consistent with the required disclosures in Guide 2 of SEC Regulation S-K, Items 801 and 802.

One could argue that these wells could have been portrayed in a distinct category or presentation in the SEC filings since current year drilling activity and wells in the process of being drilled at year-end are SEC defined categories by which SEPCo has complied with the regulations. However, in the grand scheme of things, they are probably immaterial for SEC reporting purposes.

1999 drilling results did include some wells included as either dry or successful that were drilled in prior years and held as indeterminate in 1998 but were not included in the 1998 counts. They were included accordingly in 1999 because they moved out of the indeterminate category since they were either completed as producers or deemed dry.

A similar scenario is true for wells drilled as indeterminate during 1999. For example, there was 1 onshore well (gross) classified as indeterminate in September which was not included within the counts. We are trying to ascertain if like activity exists for offshore.

Phil  
Shell Exploration and Production Company  
Financial Policy and External Reporting Advisor  
:: pedenning@shellus.com  
-: 4463 One Shell Plaza  
(: 713-241-6858  
2: 713-241-4764

-----  
From: Denning, Phillip PE SEPCO  
Sent: Thursday, March 23, 2000 2:58 PM  
To: Aalbers, Remco RD SEPIV-EPB-P  
Cc: Sidle, Rod RE SEPCO; Deere, Bob RV SEPCO; McKay, Aidan A SEPIV-EPB-P  
Subject: FW: USA - Operating Statistics  
Importance: High

Sensitivity: Confidential

Remco,

This is a partial reply to the attached e-mail. I am waiting further replies from some people who prepare the regional well count; their e-mails indicate some people are out of the office until later next week. However, I will include the SEC definitions for well count for the present.

Source: SEC Regulation S-K, Items 801 and 802, reference to disclosure guides for certain specialized industries. Disclosure of Oil and Gas Operations under the 1933 and 1934 Act. Guide 2

## 6. Drilling Activity

### Instructions

A dry hole is defined as an exploratory or a development well found to be incapable of producing either oil or gas in sufficient quantities to justify completion as an oil or gas well.

A productive well is an exploratory or a development well that is not a dry hole.

The number of wells drilled refers to the number of wells (holes) completed at any time during the fiscal years, regardless of when drilling was initiated.

Completion refers to the installation of permanent equipment for the production of oil or gas, or, in the case of a dry hole, to the reporting of abandonment to the appropriate agency.

## 7. Present Activities

Present activities, such as the number of wells in process of drilling (including wells temporarily suspended), waterfloods in process of installation, pressure maintenance operations, and any other related operations of material importance by appropriate geographic areas. This description of present activities should be provided for an "as of" date as close to the date of filing the document as reasonably possible or as of the end of the most recent fiscal year. The disclosure of wells in the process of being drilled should include only those wells actually being drilled at the "as of" date and should be expressed in terms of both gross and net wells. The disclosure should not include wells planned but not commenced, unless there are factors which make such information material.

As you can ascertain from the above, successful exploration (and development) wells are reflected as such when the installation of permanent equipment for the production of oil and gas is made, not necessarily when reserves are booked. Rod, correct me if I'm wrong, but I could envision a situation where proved reserves could be booked (based on the SEC definition of proved reserves) before the installation of permanent equipment. If so, a company could reflect SFR reserves or discoveries in 1997, book proved reserves in 1999, but may not install permanent equipment for production until some period beyond that.

With respect to the 13 exploration wells reported during 1999, 4 of the successes were designated as EB2 wells.

As Rod mentions in his attached note, discoveries may not tie in to completed exploration wells.

I feel like SOC is consistent with the above SEC definitions for well count; however, let me get back with you later next week regarding some more specifics vis-a-vis our counts for 1999 once I've spoken to the folks who provide me the numbers in the regions.

Regards,

Phil  
Shell Exploration and Production Company  
Financial Policy and External Reporting Advisor  
:: pedenning@shellus.com  
-: 4463 One Shell Plaza  
(: 713-241-6858  
2: 713-241-4764



Sidle, Rod RE SEPCO

From: Aalbers, Remco RD SIEP-EPB-P  
Sent: Tuesday, October 31, 2000 9:35 AM  
To: Sidle, Rod RE SEPCO  
Cc: McKay, Aidan A SIEP-EPB-P; Van Nues, Hans JWF SIEP-EPF  
Subject: SEC clarifications - Gas Production

Rod,

received one other document from KPMG, Industry Guide - disclosure of oil and gas operations for which the reference  
s"

<http://www.sec.gov/smbus/forms/industry.htm#secguide2>

Under 3 production it has the following:

Production of natural gas should include only marketable production of gas on an "as sold" basis.  
Production will include dry, residue, and wet gas, depending on whether liquids have been  
extracted before the registrant passed title. Flared gas, injected gas and gas consumed in operations  
should be omitted. Recovered gas-lift gas and reproduced gas should not be included until sold.

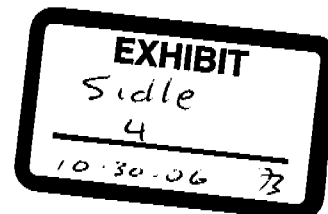
This SEC definiton aligns fully with the GPafS definition adopted by the Group and also aligns with our previous definition  
of Gas Sales.

Met vriendelijke groeten / With kind regards.

Remco D. Aalbers  
Group Hydrocarbon Resource Coordinator  
& Senior Planner

EPB-P SEPIV BV  
Tel. +31 (0)70 - 377 2001 (fax: 2480)  
e-mail: remco.rd.aalbers@sepivbv.shell.com

Where?



URL <http://www.sec.gov/offices/corpfin/acctdisc.htm>

**Division of Corporation Finance:**

**Current Accounting and Disclosure Issues**

*June 30, 2000*

*Prepared by Accounting Staff Members in the Division of Corporation Finance  
U.S. Securities and Exchange Commission  
Washington, D.C.*

The Securities and Exchange Commission disclaims responsibility for any private publication or statement of any of its employees. This outline was prepared by members of the staff of the Division of Corporation Finance, and does not necessarily reflect the views of the Commission, the Commissioners, or other members of the staff.

**Contents**

**Recent Financial Reporting and Disclosure Initiatives**

- (Various)

**Other Commission Rules and Proposals Affecting Registration and Reporting**

- (Various)

**Current Accounting and Disclosure Issues**

- (Various preceding below)
- **Issues in the Extractive Industry**

**Internationalization of the Securities Markets**

- (Various)

**Other Information About the Division of Corporation Finance and Other Commission Offices and Divisions**

Below appears the text for the "Issues in the Extractive Industry" section of this website.

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Treatment Requested

RJW00113490

## Issues in the Extractive Industry

### *Mining Exploration Costs*

Recoverability of capitalized costs is likely to be insupportable under FASB Statement No. 121 prior to determining the existence of a commercially minable deposit, as contemplated by Industry Guide 7 for a mining company in the exploration stage. As a result, the staff would generally challenge capitalization of exploration costs, and believes that those costs should be expensed as incurred during the exploration stage under US GAAP.

### *Definition of Proved Reserves*

Over the last several years, the estimation and classification of petroleum reserves has been impacted by the development of new technologies such as 3-D seismic interpretation and reservoir simulation. Computer processor improvements have allowed the increased use of probabilistic methods in proved reserve assessments. These have led to issues of consistency and, therefore, some confusion in the reporting of proved oil and gas reserves by public issuers in their filings with the Commission. This section discusses some issues the Division of Corporation Finance's engineering staff has identified in its review of such filings.

The definitions for proved oil and gas reserves for the SEC are found in Rule 4-10(a) of Regulation S-X of the Securities Exchange Act of 1934. The SEC definitions are below in bold italics. Under each section we have tried to explain the SEC staff's position regarding some of the more common issues that arise from each portion of the definitions. As most engineers who deal with the classification of reserves have come to realize, it is difficult, if not impossible, to write reserve definitions that easily cover all possible situations. Each case has to be studied as to its own unique issues. This is true with the Society of Petroleum Engineers' and others' reserve definitions as well as the SEC's definitions.

1. Proved oil and gas reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided by contractual arrangements, but not on escalations based upon future conditions.

The determination of reasonable certainty is generated by supporting geological and engineering data. There must be data available which indicate that assumptions such as decline rates, recovery factors, reservoir limits, recovery mechanisms and volumetric estimates, gas-oil ratios or liquid yield are valid. If the area in question is new to exploration and there is little supporting data for decline rates, recovery factors, reservoir drive mechanisms etc., a conservative approach is appropriate until there is enough supporting data to justify the use of more liberal parameters for the estimation of proved reserves. The concept of reasonable certainty implies that, as more technical data becomes available, a positive, or upward, revision is much more likely than a negative, or downward, revision.

Existing economic and operating conditions are the product prices, operating costs, production methods, recovery techniques, transportation and marketing arrangements,

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from  
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ownership and/or entitlement terms and regulatory requirements that are extant on the effective date of the estimate. An anticipated change in conditions must have reasonable certainty of occurrence; the corresponding investment and operating expense to make that change must be included in the economic feasibility at the appropriate time. These conditions include estimated net abandonment costs to be incurred and duration of current licenses and permits.

If oil and gas prices are so low that production is actually shut-in because of uneconomic conditions, the reserves attributed to the shut-in properties can no longer be classified as proved and must be subtracted from the proved reserve data base as a negative revision. Those volumes may be included as positive revisions to a subsequent year's proved reserves only upon their return to economic status.

2. Reservoirs are considered proved if economic producibility is supported by either actual production or conclusive formation test. The area of a reservoir considered proved includes that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, and the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limits of the reservoir. Proved reserves may be attributed to a prospective zone if a conclusive formation test has been performed or if there is production from the zone at economic rates. It is clear to the SEC staff that wireline recovery of small volumes (e.g. 100 cc) or production of a few hundred barrels per day in remote locations is not necessarily conclusive. Analyses of open-hole well logs which imply that an interval is productive are not sufficient for attribution of proved reserves. If there is an indication of economic producibility by either formation test or production, the reserves in the legal and technically justified drainage area around the well projected down to a known fluid contact or the lowest known hydrocarbons, or LKH may be considered to be proved. 118  
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In order to attribute proved reserves to legal locations adjacent to such a well (i.e. offsets), there must be conclusive, unambiguous technical data which supports reasonable certainty of production of such volumes and sufficient legal acreage to economically justify the development without going below the shallower of the fluid contact or the LKH. In the absence of a fluid contact, no offsetting reservoir volume below the LKH from a well penetration shall be classified as proved. }

Upon obtaining performance history sufficient to reasonably conclude that more reserves will be recovered than those estimated volumetrically down to LKH, positive reserve revisions should be made.

3. Reserves which can be produced economically through applications of improved recovery techniques (such as fluid injection) are included in the "proved" classification when successful testing by a pilot project, or the operation of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based. ||

If an improved recovery technique which has not been verified by routine commercial use in the area is to be applied, the hydrocarbon volumes estimated to be recoverable cannot be classified as proved reserves unless the technique has been demonstrated to be technically and economically successful by a pilot project or installed program in that

specific rock volume. Such demonstration should validate the feasibility study leading to the project.

4. Estimates of proved reserves do not include the following:

- oil that may become available from known reservoirs but is classified separately as "indicated additional reserves";
- ~~crude oil, natural gas, and natural gas liquids~~, the recovery of which is subject to reasonable doubt because of uncertainty as to geology, reservoir characteristics, or economic factors;
- crude oil, natural gas, and natural gas liquids, that may occur in undrilled prospects;
- crude oil, natural gas, and natural gas liquids, that may be recovered from oil shales, coal, gilsonite and other sources.

Geologic and reservoir characteristic uncertainties such as those relating to permeability, reservoir continuity, sealing nature of faults, structure and other unknown characteristics may prevent reserves from being classified as proved. Economic uncertainties such as the lack of a market (e.g. stranded hydrocarbons), uneconomic prices and marginal reserves that do not show a positive cash flow can also prevent reserves from being classified as proved. Hydrocarbons "manufactured" through extensive treatment of gilsonite, coal and oil shales are mining activities reportable under Industry Guide 7. They cannot be called proved oil and gas reserves. However, coal bed methane gas can be classified as proved reserves if the recovery of such is shown to be economically feasible.

In developing frontier areas, the existence of wells with a formation test or limited production may not be enough to classify those estimated hydrocarbon volumes as proved reserves. Issuers must demonstrate that there is reasonable certainty that a market exists for the hydrocarbons and that an economic method of extracting, treating and transporting them to market exists or is feasible and is likely to exist in the near future. A commitment by the company to develop the necessary production, treatment and transportation infrastructure is essential to the attribution of proved undeveloped reserves. Significant lack of progress on the development of such reserves may be evidence of a lack of such commitment. Affirmation of this commitment may take the form of signed sales contracts for the products; request for proposals to build facilities; signed acceptance of bid proposals; memos of understanding between the appropriate organizations and governments; firm plans and timetables established; approved authorization for expenditures to build facilities; approved loan documents to finance the required infrastructure; initiation of construction of facilities; approved environmental permits etc. Reasonable certainty of procurement of project financing by the company is a requirement for the attribution of proved reserves. An inordinately long delay in the schedule of development may introduce doubt sufficient to preclude the attribution of proved reserves.

The history of issuance and continued recognition of permits, concessions and commerciality agreements by regulatory bodies and governments should be considered when determining whether hydrocarbon accumulations can be classified as proved reserves. Automatic renewal of such agreements cannot be expected if the regulatory body has the authority to end the agreement unless there is a long and clear track



record which supports the conclusion that such approvals and renewal are a matter of course.

5. Proved developed oil and gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery should be included as "proved developed reserves" only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved. Currently producing wells and wells awaiting minor sales connection expenditure, recompletion, additional perforations or bore hole stimulation treatment would be examples of properties with proved developed reserves since the majority of the expenditures to develop the reserves has already been spent.

Proved developed reserves from improved recovery techniques can be assigned after either the operation of an installed pilot program shows a positive production response to the technique or the project is fully installed and operational and has shown the production response anticipated by earlier feasibility studies. In the case with a pilot, proved developed reserves can be assigned only to that volume attributable to the pilot's influence. In the case of the fully installed project, response must be seen from the full project before all the proved developed reserves estimated can be assigned. If a project is not following original forecasts, proved developed reserves can only be assigned to the extent actually supported by the current performance. An important point here is that attribution of incremental proved developed reserves from the application of improved recovery techniques requires the installation of facilities and a production increase.

6. Proved undeveloped oil and gas reserves are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage shall be limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Under no circumstances should estimates of proved undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir. (Emphasis added)

The SEC staff points out that this definition contains no mitigating modifier for the word certainty. Also, continuity of production requires more than the technical indication of favorable structure alone (e.g. seismic data) to meet the test for proved undeveloped reserves. Generally, proved undeveloped reserves can be claimed only for legal and technically justified drainage areas offsetting an existing productive well (but structurally no lower than LKH). If there are at least two wells in the same reservoir which are separated by more than one legal location and which show communication (reservoir continuity), proved undeveloped reserves could be claimed between the two wells, even though the location in question might be more than an offset well location away from any of the wells. In this illustration, seismic data could be used to help support this claim

ie lease boundary seen as a barrier.

by showing reservoir continuity between the wells, but the required data would be the conclusive evidence of communication from production or pressure tests. The SEC staff emphasizes that proved reserves cannot be claimed more than one offset location away from a productive well if there are no other wells in the reservoir, even though seismic data may exist. The use of high-quality, well calibrated seismic data can improve reservoir description for performing volumetrics (e.g. fluid contacts). However, seismic data is not an indicator of continuity of production and, therefore, can not be the sole indicator of additional proved reserves beyond the legal and technically justified drainage areas of wells that were drilled. Continuity of production would have to be demonstrated by something other than seismic data.

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In a new reservoir with only a few wells, reservoir simulation or application of generalized hydrocarbon recovery correlations would not be considered a reliable method to show increased proved undeveloped reserves. With only a few wells as data points from which to build a geologic model and little performance history to validate the results with an acceptable history match, the results of a simulation or material balance model would be speculative in nature. The results of such a simulation or material balance model would not be considered to be reasonably certain to occur in the field to the extent that additional proved undeveloped reserves could be recognized. The application of recovery correlations which are not specific to the field under consideration is not reliable enough to be the sole source for proved reserve calculations.

Reserves cannot be classified as proved undeveloped reserves based on improved recovery techniques until such time that they have been proved effective in that reservoir or an analogous reservoir in the same geologic formation in the immediate area. An analogous reservoir is one having at least the same values or better for porosity, permeability, permeability distribution, thickness, continuity and hydrocarbon saturations.

7. Topic 12 of Accounting Series Release No. 257 of the Staff Accounting Bulletins states:

In certain instances, proved reserves may be assigned to reservoirs on the basis of a combination of electrical and other type logs and core analyses which indicate the reservoirs are analogous to similar reservoirs in the same field which are producing or have demonstrated the ability to produce on a formation test.

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If the combination of data from open-hole logs and core analyses is overwhelmingly in support of economic producibility and the indicated reservoir properties are analogous to similar reservoirs in the same field that have produced or demonstrated the ability to produce on a conclusive formation test, the reserves may be classified as proved. This would probably be a rare event especially in an exploratory situation. The essence of the SEC definition is that in most cases there must at least be a conclusive formation test in a new reservoir before any reserves can be considered to be proved.

8. Statement of Financial Accounting Standards 69, paragraph 30.a. requires the following disclosure:

Future cash inflows. These shall be computed by applying year-end prices of oil and gas relating to the enterprise's proved reserves to the year-end quantities of those reserves.



This requires the use of physical pricing determined by the market on the last day of the (fiscal) year. For instance, a west Texas oil producer should determine the posted price of crude (hub spot price for gas) on the last day of the year, apply historical adjustments (transportation, gravity, BS&W, purchaser bonuses, etc.) and use this oil or gas price on an individual property basis for proved reserve estimation and future cash flow calculation (this price is also used in the application of the full cost ceiling test). A monthly average is not the price on the last day of the year, even though that may be the price received for production on the last day of the year. Paragraph 30b) states that future production costs are to be based on year-end figures with the assumption of the continuation of existing economic conditions.

9. Probabilistic methods of reserve estimating have become more useful due to improved computing and more important because of its acceptance by professional organizations such as the SPE. The SEC staff feels that it would be premature to issue any confidence criteria at this time. The SPE has specified a 90% confidence level for the determination of proved reserves by probabilistic methods. Yet, many instances of past and current practice in deterministic methodology utilize a median or best estimate for proved reserves. Since the likelihood of a subsequent increase or positive revision to proved reserve estimates should be much greater than the likelihood of a decrease, we see an inconsistency that should be resolved. If probabilistic methods are used, the limiting criteria in the SEC definitions, such as LKH, are still in effect and shall be honored. Probabilistic aggregation of proved reserves can result in larger reserve estimates (due to the decrease in uncertainty of recovery) than simple addition would yield. We require a straight forward reconciliation of this for financial reporting purposes.

10. We have seen in press releases and web sites disclosure language by oil and gas companies which would not be allowed in a document filed with the SEC. We will request that any such disclosures be accompanied by the following cautionary language:

Cautionary Note to U.S. Investors – The United States Securities and Exchange Commission permits oil and gas companies, in their filings with the SEC, to disclose only proved reserves that a company has demonstrated by actual production or conclusive formation tests to be economically and legally producible under existing economic and operating conditions. We use certain terms {in this press release/on this web site}, such as [identify the terms], that the SEC's guidelines strictly prohibit us from including in filings with the SEC. U.S. Investors are urged to consider closely the disclosure in our Form XX, File No. X-XXXX, available from us at [registrant address at which investors can request the filing]. You can also obtain this form from the SEC by calling 1-800-SEC-0330.

Examples of such disclosures would be statements regarding "probable," "possible," or "recoverable" reserves among others.

11. The SEC staff reminds professionals engaged in the practice of reserve estimating and evaluation that the Securities Act of 1933 subjects to potential civil liability every expert who, with his or her consent, has been named as having prepared or certified any part of the registration statement, or as having prepared or certified any report or valuation used in connection with the registration statement. These experts include accountants, attorneys, engineers or appraisers.

---

**From:** Barendregt, Anton AA SIEP-EPB-GRA  
**To:** Sidle, Rod RE SEPCO  
**CC:**  
**BCC:**  
**Sent Date:** 2001-12-20 14:55:34.000  
**Received Date:** 2001-12-20 14:59:59.000  
**Subject:** RE: Comparison SEC and Shell Interpretations  
**Attachments:**

Rod,

I do understand that this time of the year does not leave much slack. Any time that suits you will be fine.

The original reason for putting out my first draft at this stage was to show to people here that our Shell guidelines are in some respects already a little more relaxed than the SEC interpretations. Hence any pressure to move the limits even further should be resisted. I believe that message has been heeded now.

Anton

-----Original Message-----

From: Sidle, Rod RE SEPCO  
Sent: woensdag 19 december 2001 1:19  
To: Barendregt, Anton AA SIEP-EPB-GRA  
Subject: RE: Comparison SEC and Shell Interpretations

Anton,

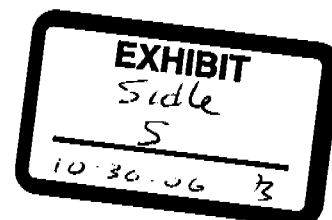
As I am deep in the midst of closing the books on 2001, I have not yet had time to collect my comments. When do you need them? Could this wait until after ARPR submittal or is it needed sooner? I will provide my thoughts, just trying to order my projects.

Kind regards,  
Rod

Rod Sidle  
Manager, Oil and Gas Reserves  
Shell Exploration & Production Company  
P. O. Box 576, Houston, TX 77001-0576, United States of America

Tel: +1 281 544 2063 Fax: +1 281 544 2067 Email: [residle@shellus.com](mailto:residle@shellus.com)  
Internet: <http://www.shell.com/eandp-en>

-----Original Message-----



From: Barendregt, Anton AA SIEP-EPB-GRA  
Sent: Monday, December 10, 2001 5:27 AM  
To: Sidle, Rod RE SEPCO; Ep Hydrocarbon Resource Coordinator SIEP-EPB-P  
Subject: Comparison SEC and Shell Interpretations

Jaap, Peter, Mark, Rod,

As discussed last week, herewith my first attempt at a more complete and up-to-date overview of our current interpretation of the SEC guidelines and those by the SEC themselves. I could see this overview replacing Appendices 3 and 4 of our current (2001) version of the reserves guidelines. Any comments and suggestions warmly welcomed.

Anton

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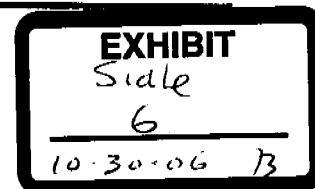
Anton A. Barendregt  
Shell Group Reserves Auditor  
Shell International Exploration and Production B.V.  
Carel van Bylandtlaan 30, Postbus 663, 2501 CR The Hague, The Netherlands

Tel: +3170 377 6085 Fax: +3170 377 7424 Other Tel: (+3170 3229452 home)  
Email: a.a.barendregt@sepiv.shell.com  
Internet: <http://www.shell.com/eandp-en>

**Unknown**

**From:** Sidle, Rod RE SEPSCO  
**Sent:** Tuesday, March 12, 2002 4:16 AM  
**To:** Roosch, Jan-Willem JW SIEP-EPB-P  
**Cc:** Pay, John JR DANSK-GT  
**Subject:** RE: Protocol for reserves questions and input

**Sensitivity:** Personal



Jan Willem,

My thanks for your explanation. Observing relationships and activities over the last two years left me with some confusion over what was the standard and what was the exception. You have provided the clarity needed so I can work within the intended rules. I am happy to support this in whatever way I can.

Regards,  
 Rod

Rod Sidle  
 Manager, Oil and Gas Reserves/Value Assurance  
 Shell Exploration & Production Company  
 P. O. Box 576, Houston, TX 77001-0576, United States of America

**Tel:** +1 281 544 2063 **Fax:** +1 281 544 2067 **Other Tel:** +1 281 924 1998

**Email:** [residle@shellus.com](mailto:residle@shellus.com)

**Internet:** <http://www.shell.com/eandp-en>

-----Original Message-----

**From:** Roosch, Jan-Willem JW SIEP-EPB-P  
**Sent:** Monday, March 11, 2002 1:32 AM  
**To:** Sidle, Rod RE SEPSCO  
**Cc:** Pay, John JR DANSK-GT  
**Subject:** RE: Protocol for reserves questions and input  
**Sensitivity:** Personal

Rod,

Shell's reserves definition guidelines are the responsibility of the HC Resource Coordinator in EPB. For the time being that is me, but John Pay has been nominated to that position and will take up his job for real some time late April or early May. After Leigh's inadvertent departure it proved impossible to fill the vacancy he left and Anton has kindly helped out to double as HCRC for a while, in addition to his duties as Group Reserves Auditor. He even reworked the Shell guidelines single-handed. This was not ideal, as Anton represents the outside auditor's perspective and not necessarily the Group's interest (notwithstanding Anton's long history in Shell).

The way Guidelines are agreed and operated is: The HCRC in cooperation with selected Shell experts reviews/re-drafts Guidelines. Anton B. will be invited to comment and debate from a SEC perspective. We as Shell aim for compliance with the spirit of SEC rule.

Compliance audits by the Group Reserves Auditor are against Shell Guidelines and not against the letter of SEC (FASB).

I think it would go a bit far if we would ban communication between yourself and Anton, but you should bear in mind, that Anton is supposed to take an outside auditor's perspective, where it concerns the making of Guidelines.

Hope this clarifies a bit.  
 Jan Willem

-----Original Message-----

**From:** Sidle, Rod RE SEPSCO  
**Sent:** 8. marts 2002 04:46  
**To:** Roosch, Jan-Willem JW SIEP-EPB-P  
**Subject:** Protocol for reserves questions and input

V00330512

**Sensitivity:** Personal

Jan Willem,

I have sent this note directly to you as I am not exactly sure to whom I should address this question. I would greatly appreciate your guidance.

In the past under Remco then Leigh, it seemed to me that Anton B. was a "part of the team" and an appropriate person to engage in discussion on Shell guidelines and learnings. I have recently noted that this may have changed. I have responded to email and issues Anton has presented to me but it seems that now I should not be doing this. As I greatly wish to assist Shell with what I hope is accepted as a learned perspective, I am happy to respond and anxious to be included – both to help find the best answer worldwide and to help SEPCo more easily fit into both the Shell model and USA specific requirements. As Remco and Leigh have both moved on, my only link with work in prior years has been Anton. Help me now with how I should interact with both him and the HC Resource Coordinator or other appropriate contact.

I ask this as more than just the SEPCo Reserves Manager. With Remco's support, I have pursued and accepted a three year position on the SPE Reserves Committee to bring Shell's perspective to this international technical organization's work on reserve definition and related issues. I have assumed I would have a contact within EPB-P who could advise me of global issues and to whom I could offer my learnings from direct dealings with SPE, SEC and others. I hope this is still possible but, here too, I am unclear if I should ask Anton for such guidance or the HC Resource Coordinator or someone else.

My thanks for whatever direction and clarity you can provide.

Kind regards,  
Rod

Rod Sidle  
Manager, Oil and Gas Reserves/Value Assurance  
Shell Exploration & Production Company  
P. O. Box 576, Houston, TX 77001-0576, United States of America

Tel: +1 281 544 2063 Fax: +1 281 544 2067 Other Tel: +1 281 924 1998  
Email: [residle@shellus.com](mailto:residle@shellus.com)  
Internet: <http://www.shell.com/eandp-en>

Incoming mail is certified Virus Free.  
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Version: 6.0.567 / Virus Database: 358 - Release Date: 24/01/2004

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PAY 0150

**Pay, John JR DANSK-GT**

**From:** Roosch, Jan-Willem JW SIEP-EPB-P  
**Sent:** 22 March 2002 10:40  
**To:** Evans, Stuart S PDO-DPVM  
**Cc:** Wharton, Mark M SIEP-EPB-P; Nauta, Jaap J SIEP-EPB-P; Van Dijk, Niels N SIEP-EPT.  
**Subject:** AR: Van Driel, Peter P SIEP-EPB-P; Pay, John JR DANSK-GT  
 RE: New PR Volumes Guidelines

**Importance:** High  
**Sensitivity:** Confidential

Stuart,

We have discussed your mail in EPB and offer following comments:

We agree with your summary of the situation we are in.

On the scorecard pressure issue:

RRR is now such an important external KPI, that Excom and CMD will always pay a lot of attention to it ("attention" occasionally translating in "pressure"), whether it is in the OU scorecards or not (for the same reason it will always be in the EP and Group scorecards). In fact, I would rather go through an auditable process to arrive at realistic OU targets and a clear roadmap to achieving them than to see the RRR targets/achievements becoming part of ad-hoc Excom attention again.

The challenge here is to keep the energy directed at project maturation, through good old analysis and design work. One fatal flaw in our guidelines was that as long as a notional project definition could be shown to yield a positive NPV against Group premises, the underlying volume could legitimately enter into (proved) reserves. The SEC notion, that proved reserves disclosures should only be in relation to projects that are 'reasonably certain' to go ahead was pushed to the background and valuable time and effort has been spent on a 'parallel industry' of virtual project definition with the sole purpose of underpinning volumes to be 'booked'. The new guidelines have addressed this flaw.

The low RRR's that we have reported over the past 3 years stand in stark contrast to the high numbers seen over 98-99-00 and has attracted due attention at senior levels (EXCOM). What has focused the mind even more is that a major source of the high replacement ratios over 98-99-00 was book keeping (booking expectation as proved for mature fields), which masked the underlying portfolio issue. In the recent ARPR exercise we have become aware of this and a number of cases where proved reserves were put on the accounts for disclosure prematurely. It is clear to all, that by being "liberal" with the implementation of guidelines one can prop up the numbers temporarily but there will be a moment where the portfolio (=reality) catches up with us and that is what we see happening now.

A key observation made by the external auditors was that we are now more aggressive than competitors in booking of new discoveries, and they are well qualified to have such an opinion. The latest feedback from John Bell is that Excom seemed to accept this view when it was presented to them again on their away day this week, however, with an LE for 2002 of ca. 55% (excluding strategic options) there will be continued pressure to (continue to) make bookings that prove difficult to monetize a few years down the road.

Finally: it is paramount that we issue the updated rules of the game expediently and share with Excom the roadmap to 2002 bookings, showing underlying activities commensurate with the updated guidelines.

As part of our plea for improved 'controls', I believe that 'a well thought out peer review process' could play a key role and would encourage rapid development of such process/activity.

Looking forward to see you next week,

Regards,

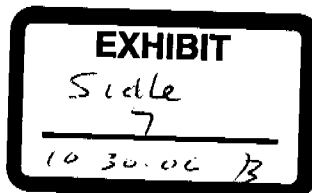
Jan Willem D. Roosch

Shell International Exploration and Production B.V.  
 Carel van Bylandtlaan 30, Postbus 663, 2501 CR The Hague, The Netherlands

Tel: +31 70377 7405 Other Tel: +31 621403855

Email: janwillem.roosch@ope.shell.com

Internet: <http://www.shell.com/eandp-en>



TT 000310

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## -----Original Message-----

From: Evans, Stuart DPVM  
 Sent: 21. marts 2002 08:45  
 To: Roosch, Jan-Willem SIEP-EPB P  
 Cc: Wharton, Mark SIEP-EPB; Nauta, Jaap SIEP-EPB; Van Dijk, Niels SIEP-EPT-AR  
 Subject: RE: New PR Volumes Guidelines

Jan Willem,

Thank you for the updated guidelines. Niels van Dijk has been in touch with me about your/Mark's analysis of the ARPR's 2001 and your identification of the underlying causes for the situation we find ourselves in today.

- a) Ambiguous guidelines. (whicch I presume your new guidelines addresses)
- b) Behaviours driven by scorecard compliance.
- c) Problems only becoming apparent years down the road from the original booking.

I certainly recognise these issues (i.e. b) and c)) from previous lives and from PDO today. I have reservations about the robustness of our (PDO and Group) current reserves portfolio. I stress "reserves": in many instances the current development will not realise the booked developed reserves, undeveloped volumes are fairly notional without a long term development plan and scope is something to worry about in the future (i.e. by someone else).

The immediate gut reaction is to put more structure and value assurance in place. But that will not address the mindsets and behaviours (at senior levels) that were the real cause of the problem in the first place (who sets the scorecard? who drives short term thinking and focus?). The drive for short term deliverables has meant that we trivialise uncertainty management. A big missing ingredient is reflection and learning: building learning loops into our way of working such that an asset group will regularly review its portfolio of opportunities, establish relative rankings, capture learnings (what was planned, what happened etc..) and above all ensure that resources and linked to activities/projects. If everybody is being driven to deliver now there is no place for reflection/learning.

There is probably the need for a well thought out hydrocarbon resource volume/value peer review process to establish a sort of OU?Group base-line (and executed in such a way to capture and embed a learning culture - not seek out scapegoats!!!). I'd see this as going hand in hand with embedding an RTL way of working/behaving - which means having the right leadership mindsets.

Your results and interpretation are key input to the Reserves Maturation syndicate at the T&OE workshop (27/3) which I am leading. I will be in Rijswijk afternoon 25/3 to finalise the design of the session but will keep in touch with you up to then.

Appreciate your thoughts.

Regards,

Stuart

## -----Original Message-----

From: Roosch, Jan-Willem JW SIEP-EPB-P  
 Sent: Tuesday, March 19, 2002 8:42 PM  
 To: Sidle, Rod RE SEPCO; Evans, Stuart S PDO-DPVM  
 Cc: Wharton, Mark M SIEP-EPB-P; Nauta, Jaap J SIEP-EPB-P  
 Subject: New PR Volumes Guidelines

Rod, Stuart,

Please find attached a draft guidelines document that strives to align better with SEC rule and also to be more 'user friendly' (less ambiguous) than the previous version.

<< File: 2002\_1100-Draft1.ZIP >> << File: SECvsShell.ZIP >>

Grateful any comments you may have,

Jan Willem D. Roosch

Shell International Exploration and Production B.V.  
 Carel van Bylandtlaan 30, Postbus 663, 2501 CR The Hague, The Netherlands

Tel: +31 70377 7405 Other Tel: +31 621403855  
 Email: janwillem.roosch@ope.shell.com

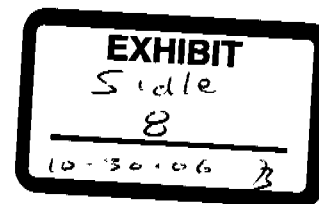
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**From:** Sidle, Rod RE SEPCO  
**To:** Pay, John JR SIEP-EPB-P  
**CC:**  
**BCC:**  
**Sent Date:** 2002-09-19 12:50:29.000  
**Received Date:** 2002-09-19 12:51:27.000  
**Subject:** RE: SPEE Forum on SEC Reserve Definitions - Houston, Oct 22  
**Attachments:**



John,

I understand. Easiest for me to reply within your comments below (in red).

Rod

Rod Sidle  
Manager, Oil and Gas Reserves  
Shell Exploration & Production Company  
P. O. Box 576, Houston, TX 77001-0576, United States of America

Tel: +1 281 544 2063 Fax: +1 281 544 2067 Other Tel: +1 281 924 1998  
Email: rod.sidle@shell.com  
Internet: <http://www.shell.com/eandp-en>

-----Original Message-----

**From:** Pay, John JR SIEP-EPB-P  
**Sent:** Thursday, September 19, 2002 7:16 AM  
**To:** Sidle, Rod RE SEPCO  
**Subject:** RE: SPEE Forum on SEC Reserve Definitions - Houston, Oct 22

Rod

Thanks for the information. I'm struggling to justify the long trip for a single day, especially since I'm hoping to take the preceding week off. If you are going, I think that should suffice, but I'll think on it over the week-end.

If I were to attend, my objectives would be to see how the land lies with the competition on their actual practice in interpreting the SEC rules. There seems to be the possibility for quite a gulf to persist between the SEC intent and the actual practice of producers. [Unfortunately our major competitors have not been very vocal at these sessions. BP & XOM did attend -- for XOM, their head reserves manager -- but said little. Best information is by inference from their questions] Also, literature tends to support the idea that large producers 'get away' with less tangible bookings compared with small to medium producers, who feel themselves to be under closer scrutiny. I would like to try and gauge whether this is really the case. [Actually this is sort of true ( in fact one of the 2001 SPEE SEC examples is exactly this case, where as partners in the same field with the same data, the major and the smaller produce handle booking differently) -- it depends on how one views reserve magnitude. If viewed as % of total reserves

in the context of materiality to company worth, then reserve issues must be of large volume to matter to the major but would be far smaller to matter to the small company. Also larger EP companies tend to audit reserves inhouse, using their own interpretation of SEC rules whereas smaller companies usually use third-party reserve audit consultants who must certify the SEC reserves and, thus, are very strict in interpreting the SEC rules.]

My Friday afternoon hobby is to try and find what sources of intelligence we have on the practices of competitors. Is there anything you can contribute (even if only hearsay)? Do you know of any engineers on our payroll that recently worked for competitors, and who might be able to give some insight? [Yes. Suggest Bill Merrick (former Exxon) SEPCo New Orleans, Carolyn Green (former BP) SIEP Houston as first thoughts. I will try to find others.]

I think there is a real danger that by a strict and dogmatic interpretation of the rules in Shell, we let the competition steal a day's march on us. It is right that we should have a clear understanding of our responsibilities, but if BP is reporting p50 as "proved", I want to know about it and I think ExCom should know about it too.

John Pay  
Group Hydrocarbon Resource Coordinator  
Shell International Exploration and Production B.V.  
Carel van Bylandtlaan 30, Postbus 663, 2501 CR The Hague, The Netherlands

Tel: +31 (70) 377 7405 Other Tel: +31 (0)6 5252 1964  
Email: [john.pay@shell.com](mailto:john.pay@shell.com)  
Internet: <http://www.shell.com/eandp-en>

**Unknown**

**From:** Sidle, Rod RE SEPCO  
**Sent:** 27 September 2002 05:26  
**To:** Pay, John JR SIEP-EPB-P  
**Subject:** Reviewed document  
  
**Importance:** High  
**Sensitivity:** Confidential  
  
**Contacts:** Produced By Microsoft Exchange V6.0.5762.3

John,

This is a very interesting document. I have provided comments both within the text of the document itself and as general thoughts in a separate text. I realize my comments are not as focused as they could be on a specific solution. Since the changes noted are a significant revision and come with out a chance to discuss this more, I am just a bit unsure just what the best answer may be. Thus I would consider how more discussion with knowledgeable parties could help find the best approach.

As noted in my text, I greatly appreciate both the need for solutions and the opportunity to provide my thoughts.

Regards,  
Rod



Delete Reserves  
Management Sum...



General Comments  
EP Pv Reserve...

Rod Sidle  
 Manager, Oil and Gas Reserves  
 Shell Exploration & Production Company  
 P. O. Box 576, Houston, TX 77001-0576, United States of America

Tel: +1 281 544 2063 Fax: +1 281 544 2067 Other Tel: +1 281 924 1998  
 Email: rod.sidle@shell.com  
 Internet: <http://www.shell.com/eandp-en>

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 Incoming mail is certified Virus Free.  
 Checked by AVG anti-virus system (<http://www.grisoft.com>).  
 Version: 6.0.567 / Virus Database: 358 - Release Date: 24/01/2004



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Note For Discussion (with comments as shown using "track changes" by Rod Sidle)

### EP PROVED RESERVES MANAGEMENT

The system that is used by EP for managing additions to the proved reserves inventory was last updated in 2000 with the introduction of monthly / quarterly tracking of performance during the year via EPMIS. This improved the predictability of the year-end result, but it did not remove the tendency of the OUs to report last-minute changes that either had not been foreseen or which, for various reasons, might have been suppressed in the EPMIS reporting.

This feature of the reporting system is unlikely to be completely overcome, since most OUs do not complete their annual review of reserves on producing assets until the final quarter of the year. Nevertheless, further improvements to the overall management system have been identified and are proposed below for consideration and approval where appropriate. These are elaborated below in the following categories:

- 1) Proved Reserves Replacement Management
  - 1a) Major or Unusual Reserves Changes
  - 1b) ExCom Review
  - 1c) Latest Estimate and "Road Map"
  - 1d) Reserve Opportunities Catalogue
  - 1e) Potential Reserves Exposure Catalogue
  - 1f) Scorecards
- 2) Reserves Administration System
  - 2a) Schedule of Authorities and Process Work Flow
  - 2b) Data Management
- 3) Corporate Experience
- 4) Competitive Intelligence

The primary internal EP customer for reserves information and performance monitoring is ExCom. The management system that accompanies it must ensure that an appropriate level of control exists with respect to external disclosure of proved reserves information and that, within the bounds set by the SEC rules and the delivery potential of the EP portfolio, performance is managed to the maximum benefit of shareholder value.

Following the introduction of the Technical and Operational Excellence (T&OE) drive within EP, the Hydrocarbon Maturation Forum (HMF) and in particular the Hydrocarbon Maturation Leadership Team (HMLT) will also have key roles to play both as customers for the information and as instigators of activities within the overall hydrocarbon maturation process that ultimately will yield proved reserves additions in the future. (See general comments at the end of the document for T&OE and HMF potential additional roles.)

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## 1) Proved Reserves Replacement Management

Recent years have witnessed dramatic swings in Shell's performance on proved reserves replacement, with poor performance lately being exacerbated by acceleration of additions into the period 1996 - 1998. Results in that period were higher than those of any of our main competitors. It is proposed that in future a greater, and earlier, level of management attention is given to this matter, ensuring that new bookings are made in full cognisance of the short to medium-term performance potential of the portfolio. This will be underpinned by the following:

## 1a) Major or Unusual Reserves Changes

It has been suggested that a system be introduced by which major or unusual reserves changes would be notified to the centre, for approval, in a manner analogous to the Group Budget Proposal. A suggested implementation would be for the OUs to submit a *pro forma* notification to EPB-P, for discussion with the OU, Reserves Auditor and Regional Business Advisers as appropriate and culminating in ExCom sanction, or otherwise, of the proposed change. Such a system would certainly help to underpin the Latest Estimate for major changes, but the following concerns are raised:

- it is not clear how the system could be enforced reliably (agree)
- many of the variances from plan that materialize at the end of the year emanate not from major plan elements (that can be tracked easily), but from revisions to previously registered estimates, usually made in the final quarter of the year. (basically agree but this can be more fully managed than currently - see general comments on reserve change ties to Business Plan)
- the adoption of such a system would help to ensure that the endorsed bookings would indeed be made at year-end, but could not guarantee it (see 2 below). (agree)

Consequently it is not clear how such a system would improve on the established role of EPB-P in maintaining contact with the OUs and regularly checking on developments in each OU's latest estimate. Thanks to the efforts of previous Hydrocarbon Resource Coordinators, it is already automatic practice in many OUs to seek the views of EPB-P on reserves changes that are being contemplated, with supporting documentation being either volunteered or provided on request.

On balance, it is recommended simply to reinforce the role of the Coordinator (how about the role of the OU Reserves Focal Point? - see general comments), rather than to impose further bureaucratic requirements on the OUs. It should suffice to "formalize" the arrangement by including in the Petroleum Resource Volume Guidelines a statement such as: "First-time proved reserves disclosures (confused - this is the first reference to a "disclosure" as part of the process or problem. Have OUs been making public announcements (disclosures) of project proved reserves without EPB-P involvement? If so, this is fine - I just was not aware of this issue. Or perhaps you mean "booking" (meaning to include in official company proved reserves estimate) - if this is so, consider the term "booking" as this is the standard term) for major new projects, or any other substantial change to proved reserves estimates, must be raised and discussed with the Group Hydrocarbon Resources Coordinator as far as possible in advance of the intended disclosure date so as to allow for adequate review and support of E.P. management and, if necessary, the Reserves Auditor."

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Action: EPB-P to reinforce contacts with OU Reserves Focal Points and senior development engineers on reserves maturation matters. Arrangements are to be in place to ensure that cover would be provided in the event of prolonged absence (e.g. by involving T&OE hydrocarbon resource maturation staff in the regular consultation of OUs).

## 1b) ExCom Review

In addition to the existing reviews which take place in January each year (at which point it is generally too late to materially influence the result of the previous year) and at other times *ad hoc*, formal reviews will be introduced during the reporting year itself. These will provide ExCom with the opportunity to guide the end result for the year (within the margins that can be accommodated by the SEC rules) and to identify actions required to control either under-performance or unnecessary new bookings.

January: EPB presents for approval the final results for the previous year (this review is already part of the established system and no changes are proposed).

July: EPB will present:

- The current Latest Estimate and "Road Map" (see 1c below)
- The outlook for the plan period (based on Capital Allocation)
- The Reserves Opportunities Catalogue (see 1d below)
- The Potential Reserves Exposure Catalogue (see 1e below)
- Recommended Actions

ExCom will review the outlook for the year with reference to the aspired performance target (or target range). ExCom will endorse or otherwise amend the Recommended Actions, implementation of which will generally need to be secured via the RBDs and new business development teams.

November: Similar format to the July review, but with increased emphasis on targeting a specific end-year result or range of results. The review will yield:

- An endorsed list of major year-end reserves additions
- An endorsed list of major reserves de-bookings to be made (with reference to the Potential Reserves Exposure Catalogue, see 1e below)
- To the extent that the portfolio will allow (i.e. generally in the more buoyant years), a clear and endorsed list of projects or potential bookings that can be used as a "float" with which to control the year-end result. EPB-P will direct OUs to include or exclude these from their final submissions as required.<sup>1</sup>

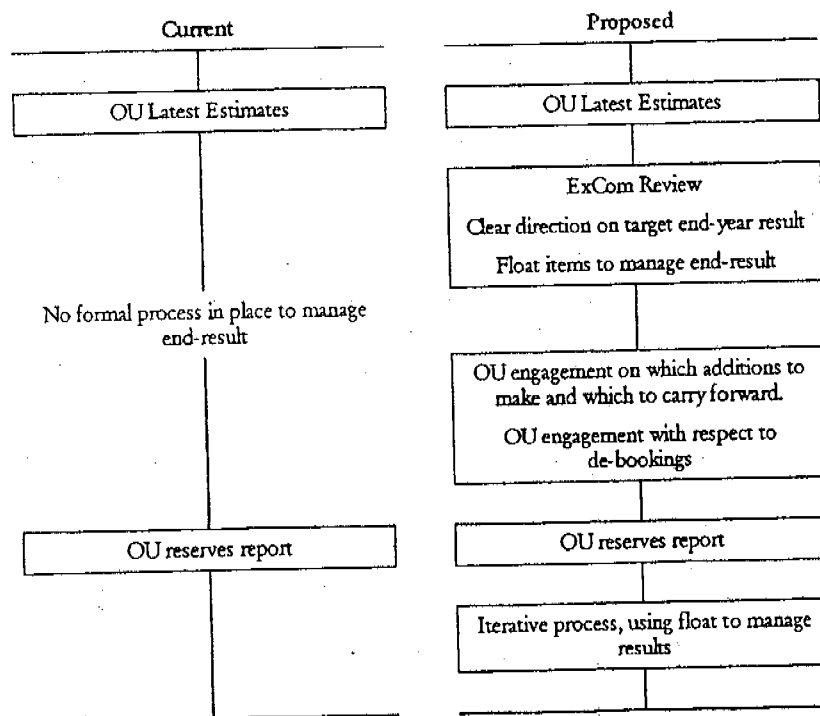
<sup>1</sup> Projects falling into this category will generally be those that are between VAR3 and FID, since for these there is latitude in the interpretation of the SEC rules on whether or not they should be disclosed. There may be other cases that could also be used in the float: these will be brought to ExCom attention as they are identified. Examples might include exploiting uncertainty in the proved reserves associated with licence extension, or gas sales volumes that are covered by the various shades of certainty leading up to the final signing of a sales contract.

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- Clear direction on the minimum and maximum levels of reserves replacement that are to be targeted.<sup>1</sup>
- Agreed actions required of OUs and EPB and EPF in preparation for the year-end reporting of reserves data.

Approval of the external auditors for such an approach will be required, in support of which it is noted that most, if not all, major competitors appear to have similar processes in place. For example: Enterprise routinely reviewed reserves replacement in November or December each year; it is understood that BP plans to book Angola Block 18 reserves in 2002 only "if required" (final project sanction will be in 2003); Texaco used to complete the process that was its equivalent of the OU reserves report in early December each year. (Competitor Intelligence on ExxonMobil from SEPCo interactions on Aera: EM carefully manages the reserve reporting process including annual review of every "OU" changes by corporate auditors (staffed by Reserves manager with several regional auditors) that are then further reviewed and "approved" by EM management. To accommodate this work, EM "closes their reserve books" on December 1 (using estimated December production to produce YE data).) These practices, together with the very stable performance history of ExxonMobil, suggest that competitors exploit the interpretive margin of the SEC rules and equip themselves with data early enough in the process to enable them to control the final result.

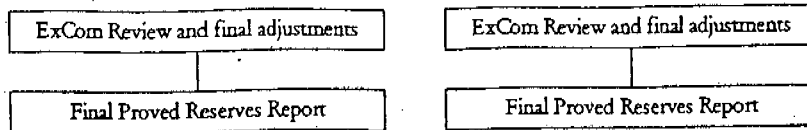
A schematic of the proposed system, compared with the current system, is as follows:



<sup>1</sup> It is suggested that clear justification would be required for "accepting" performance below 100% reserves replacement in any given year. 140% reserves replacement is generally accepted to be consistent with Shell's current 3% a.a.i. production growth target. Consequently it would be prudent to constrain reserves additions to this figure (when circumstances allow) and to assist performance in future years by carrying forward as much as possible of the surplus.



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Action: EPB-P to prepare material for the first ExCom review in November 2002. EPB-P to develop a procedure for ensuring consistency between ExCom decisions and year-end OU reserves reports, with early engagement of OUs that might be required to assist in the management of the results (i.e. through the inclusion or otherwise of certain bookings).

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## 1c) Latest Estimate and "Road Map"

EPB-P currently compiles the monthly Latest Estimate data provided by the OUs via EPMIS (although, in general, OUs do not significantly update their Latest Estimates in the months between quarter closing). This system, together with the dialogue between EPB-P and the OUs that goes with it, provides an adequate means of tracking progress made against plan on major reserves additions.

The reserves "Road Map" was introduced in 2002 to better quantify the uncertainties in the Latest Estimate data - specifically the potential impact of opportunities that are not yet incorporated in the LE and those elements of the LE that are under threat. As the year progresses the LE should be definable with increasing certainty and consequently the "Road Map" will become decreasingly significant. The current 2002 Latest Estimate and major "Road Map" items are summarized in Appendix C.

Starting with 2003, the Latest Estimate will be defined and tracked with reference to specific major elements in the plan, giving an increased level of transparency and resolution compared with the current system that is focussed on overall OU figures. This will be done by EPB-P in consultation with the relevant OUs, but without additional formal reporting requirements from the OUs (see also 1a).

## 1d) Reserve Opportunities Catalogue

EPB-P will maintain an inventory of opportunities for significant new reserves additions that may be realizable in the short to medium term (current year plus two). (This is a potentially problematic proposal, depending on the work required to deliver the "realizable" additions. If this is just to have ExCom agree with additions not yet approved from completed technical and operational (like drilling) work, this is fine. If this potential requires not yet done work to be completed (technical studies, operational work execution, etc.), then it is not clear how resources needed will be so quickly mobilized to accomplish this in a given year of reserve issues. If the realization is over the two year period, how is this different from just highlighting reserve addition contributions of proposed projects at CAF/Plan time?) This will help to focus attention towards corrective action that is required to underpin current and plan year performance. The catalogue will be presented periodically to ExCom for review (see 1b).

Input will be solicited at least quarterly from the RBDs, OUs, and from the T&OE, new business development and the Hydrocarbon Maturation Leadership teams.

**Action:** EPB-P to consolidate the initial draft of the catalogue in time for the November 2002 ExCom review proposed under (1b). A working draft is included as Appendix A.

## 1e) Potential Reserves Exposure Catalogue

EPB-P will maintain an inventory of all proved reserves that could be under threat of debooking in the event of failure to execute projects or failure of projects to deliver as expected. This will promote transparency on these issues and will be reviewed at least annually by ExCom (see 1b). Particularly in times of surplus reserves additions potential, pre-emptive action may be taken to remove the potential exposure from the inventory.

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The catalogue will be maintained in close consultation with the Reserves Auditor and the OUs as required. Each item will be reviewed at least once per year by EPB and the HMLT, recommended actions being put forward for ExCom consideration (see 1b).

(This proposal seems logical but may have legal problems either internally or with our external auditors. One could ask if you have such concerns about the likelihood of a booked project realizing reserve estimates, then it by definition does not meet the reasonable certainty standard and should be debooked immediately from proved. However, if we include a rule that the sum of all volumes in this category cannot exceed x% (the level needed to be "material"), perhaps we can argue that we are just keeping track of potential future "immaterial" changes.)

Action: EPB-P to consolidate the initial draft of the catalogue in time for the November 2002 ExCom review proposed under (1b). A working draft is included as Appendix B.

## 1f) Scorecards

When reviewing the end-2001 OU reserves reports, the Group Reserves Auditor observed:

*"The widespread use of reserves targets in score cards affecting variable pay is seen to affect the objectivity of staff in some OUs when proposing reserves additions. Reserves coordination staff in EPB-P have been alert to this and have successfully met the challenges with which they were faced. However, a shift in score card emphasis from reserves booking to successfully meeting project milestones is recommended."*

It is also observed that, under certain circumstances, OUs can in effect be penalized for accelerating reserves bookings from one year into the preceding year. The penalty arises if the scorecard ranges for both years are left unchanged: the benefit to the OU in the year that the reserves are booked can be severely curtailed (particularly if the OU was already close to the range maximum), whilst at the same time a below target score for the following year is almost guaranteed. Under such circumstances there is little incentive for the OU to volunteer to book reserves earlier than planned. The situation can be remedied if the Scorecard ranges are reset, but this introduces an unwelcome precedent and can also promote a lack of objectivity. The situation could be exacerbated by the introduction of more central control of overall EP performance on reserves replacement, as proposed in (1b) above.

It is recommended to remove Proved Reserves Additions from the OU scorecards with effect from 2003. In its place, higher weighting should be applied to milestones that are related to project delivery and in particular to those that can have reserves additions associated with them (i.e. VAR3, VAR4, FID and, if appropriate, confirmation of improved recovery performance). A mechanism should be found by which accelerated delivery of milestones will lead to a net benefit to the OU concerned in recognition of its achievement.

Reserves Replacement Ratio should remain on the EP Global Scorecard, and possibly those of the RBDs. There should be clear definition and understanding of the target with respect to "organic" additions and changes made through Acquisition and Divestment activities. Removing this measure from OU scorecards might weaken the incentive of OUs to seek

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positive reserves revision, however this might as effectively be addressed in the long term by actions to promote awareness of the issue generally within the EP population.

Action: EPB to propose detailed plans for OU Scorecards as part of the ongoing review of the scorecard system. EPB-P, in consultation with the Hydrocarbon Maturation Leadership Team, to define and implement a long-term action plan for promoting awareness of issues relating to the disclosure of proved reserves.

(I have mixed feelings on this one - while I completely agree with Anton's observations about the influence of reserve scorecards on OU staff objectivity, I really like that the scorecards focus attention on reserve additions. This has long been a creative tension in SEPCo that we manage by clearly communicating the standards required for reserve additions (everyone knows the rules) together with an thorough, frequent and detailed audit of every major change to assure all know the rules will be enforced. This is hard to duplicate at the Group-wide level as scorecards are annual but audits are less frequent - allowing "room" for the aggressive, non-objective bookings to possibly sneak by.)

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## 2) Reserves Administration System

The system for administering year-end reserves reporting is tried and tested and no significant changes are considered to be necessary other than to include the processes described in (1) above. The documentation describing the system has not been updated since 1996 and in the meantime numerous workflow and organizational changes have occurred. EPB-P will update and reissue the documentation in due course.

It is stressed that, whilst Latest Estimates may be prepared as the year progresses and investment decisions may be taken that will have an effect on the year-end results, no (MAJOR?) reserves changes can be considered "booked" until the annual submission, review, audit and approval cycle is completed. (this last statement, "no reserve changes can be considered booked until the annual... cycle is completed", could cause a significant amount of SEPCo capex activity to become expex. This is because SEPCo now will allow monthly (with quarterly validation) booking of proved reserves that are then immediately further developed by investment activity. For example, a well is drilled for a probable target, once logged and evaluated, proved reserves are documented and booked then completion costs can be capexed -- but only if the proved reserves have been booked before the completion costs are incurred (or at least if booked in the same month). If now booking is only annually, we would have to delay completions to the following year to be capexed. Another example is onshore tight formation drilling (Pinedale, Antrim) where we book proved reserves offsetting each new well thus allowing this neighboring location to be drilled with capex. Active drilling programs in Pinedale would use much more expex if these neighboring developments cannot be drilled for proved reserves except a year later. One possible solution is to set a limit on what sized changes require ExCom review and approval. It seems this document is focused on project-sized changes/additions rather than individual well sized changes. With a size limit on such ExCom annual approval required changes, the smaller items (most individual wells or completion zones) could still be booked as SEPCo now does.)

## 2a) Schedule of Authorities and Process Work Flow

The current schedule of authorities in relation to proved reserves disclosure is included as Appendix D. This summarizes the approval process commencing with the preparation of data within the OUs, compilation and review by EPB-P and the Group Reserves Auditor, through to final sign-off by EPB, EPF and the external auditors. It is considered that no changes to the schedule are required.

Appendix E details the flow of work and information in preparing proved reserves information for external disclosure, together with the revisions that would be necessary to implement the recommendations of section (1) above.

**Action:** EPB-P to reissue the finalized schedule of authorities and process documentation after approval by EPB and EPF, by the end of 2002.

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## 2b) Data Management

At present Shell has no consolidated database containing historical information of proved reserves and other resource categories. The information is available, but generally distributed between a variety of Excel files and utilities that only a few staff know how to navigate.

The current system of collecting information from the OUs via Excel spreadsheets works well, is understood by the OUs and offers great flexibility in evolving requirements from one year to the next. Consequently no changes to that system are proposed.

However, it is proposed to improve the systems for storing and retrieving historical data. It is currently envisaged that the existing information will be collected in a series of Oracle tables, updated annually, stored centrally and accessible to a wide selection of users by their method of choice (e.g. Business Objects or Microsoft Access).

Action: EPB-P to develop a prototype database in consultation with EPB data management experts, populated with all the data that is currently stored electronically by EPB-P, ready for migration to Oracle by the end of 2003.

## 3) Corporate Experience

Due to the relatively small number of individuals that have been working actively on the administration of reserves in the centre, and in particular on the development of Shell's Petroleum Resource Volume Guidelines, there is a relatively short and incomplete corporate memory on this matter. (comments on Shell corporate experience in general comments)

Action: EPB-P to create and maintain reference documentation (file note) of the development of Shell's reserves reporting guidelines over time. Version 1 by 31 December 2002.

## 4) Competitive Intelligence

Efforts will be redoubled to seek intelligence on the actual practice of competitors in disclosing proved reserves. This is likely to take the form of informal, off-the-record discussions by OU engineers and managers working on common projects with competitors. The current technical staff pool will be polled for recent experience, particularly where this has been gained by engineers working directly for competitors in recent years. The initial objective will be to understand the practices of competitors, before taking a view on whether there is a case for modifying Shell's interpretation of the SEC rules.

(This seems innocent enough and I know it is offered with the full intent of remaining within the legal limits of all regulatory requirements, but as it stands now it seems to suggest our process to improve performance is to find what others "get away with" and do it ourselves. I would certainly collect this data but my primary effort to "broaden" Shell's current interpretation would be based on appropriate methods of open dialogue with the SEC or those who can help clarify their rules (like external auditors or reserve determination consulting companies) while also working to increase industry (thus SEC) awareness of new

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technology or methods that fully support the reasonable certainty intent and actively participating in industry forums where reserve issues are discussed. This should be complemented by technical work specifically targeted to increase our proved reserves bookings (as a percent of expectation) based on tools or techniques that satisfy SEC intent/rules. An example here is the work done to define a standard allowing seismic in the booking of downdip proved reserves.

I expect that concept of "open discussion" (even done appropriately) with the SEC will cause concern but consider every other regulatory group we deal with - safety, environmental, operations - we actively engage in dialogue to assure a good working relationship and fully transparent compliance with the law. Then we can use this strong relationship to help direct gradual changes in policy or interpretations to appropriate win-wins matching legal intent with business practicality.

**Action:** EPB to develop a network of contacts, bearing in mind the sensitivities inherent to the issue. Target to include status reports in ExCom reviews (see 1b above) and to propose actions at other times as required.



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## Appendix A

## Appendix A: Reserves Opportunities Catalogue

Project	FID	PRA <sup>1</sup>	RRR <sup>2</sup>	Note
<b>Licence Extensions:</b>				
Nigeria SPDC		530	35%	3
Oman PDO		500	35%	4
Malaysia		450	30%	
Abu Dhabi		370	25%	
Denmark		80	5%	5
Norway		70	5%	
Venezuela		40	3%	
Syria		10	1%	
Brunei		0	0%	6
<b>T&amp;OE</b>				
"Quick wins"		150	10%	7
<b>Big Tickets and Strategic Options</b>				
Quota increase, Nigeria		0	0%	8
Retain Sakhalin consolidated and/or more aggressive booking		600	40%	9
Abu Dhabi Whale	2003	550	35%	A&D
Venezuela Cretaceous	2003	410	25%	
Kuwait OSA	2003	400	25%	organic? <sup>10</sup>
Central Asia Cygnat	2003	220	15%	A&D, dead?
Russia Salym success case	2003	120	8%	organic?
Iran Azadegan farm-in	2003	110	7%	A&D
Russia Zapolyarnoye Neocomian	2004	760	50%	
Libya Gas (Block 6 devt.)	2004	440	30%	
Iran Bangestan	2004	300	20%	
Qatar SMDS	2004	300	20%	A&D
Venezuela LNG	2004	250	15%	
Saudi Arabia CV1	2004	70	5%	
<b>Ranked out of the Base Plan 2002</b>				
Nigeria SNEPCO Bonga SW	2003	70	5%	
China Changbei Upstream	2003	55	4%	
Australia Sunrise	2004	340	20%	
Norway Ormen Lange	2004	160	10%	

<sup>1</sup> Approximate Proved Reserves Additions, million boe, unrisks.

<sup>2</sup> Approximate contribution to Proved Reserves Replacement Ratio in the year of reserves booking, assuming annual production of 1500 million boe total for EP, OA basis.

<sup>3</sup> Any new reserves bookings will need to be justified with reference to production growth targets, see also (8) below. Figure from 1.1.2002 ARPR: recent RBA advice suggests figure could be 600 MMboe.

<sup>4</sup> Based on the currently reported post-licence Expectation Reserves (550 million boe). Reserves to be booked when there is certainty that a deal will occur with no risk of detailed negotiations de-railing it.

<sup>5</sup> Not under Shell control: negotiation to be conducted exclusively by Concessionaires (A.P. Moller).

<sup>6</sup> Reserves already booked assuming that BSP's rights to two 15-year licence extensions will be exercised. Any reserves upside would be in relation to the negotiation of further extensions beyond the 30-year window, but this may be offset by potential equity reduction in the first two 15-year extensions.

<sup>7</sup> A more detailed inventory will be developed.

<sup>8</sup> A quota increase is necessary in any case to enable production to grow and thereby enable the currently booked Proved Reserves to be realized. No new within-licence reserves will be booked until clear evidence is available that the required higher production rate can be achieved and sustained.

<sup>9</sup> Bookings should in principle keep pace with "reasonably certain" market development and preferably with actual LNG sales contract fixtures.

<sup>10</sup> Cash-based Service Agreement with little or no exposure to oil price. Consequently it might not be possible to book reserves.

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## Appendix B

Appendix B: Potential Reserves Exposure Catalogue

Asset (Year booked)	Reserves at risk MMboe	Comment (reason not to de-book)
Australia Gorgon (1997)	560	Booked in 1997 in anticipation of imminent FID, subsequently deferred indefinitely by the downturn in Asian economies and the consequent reduction in demand for LNG. It is inevitable that a resource of this magnitude will be developed eventually.
SNEPCO Bonga IFO (1998, 2000)	128	IFOs (In-Field Opportunities) largely consist of unpenetrated reservoirs that would not qualify for inclusion in the Proved Area for reserves under the recently clarified SEC rules. They are retained pending the completion of appraisal, largely as part of the ongoing development of other Bonga reservoirs. Appraisal to date has generally confirmed the presence of hydrocarbons in these reservoirs as expected.
SNEPCO Bonga Main (1998) SNEPCO Erha (1999) SNEPCO Abo (1997) Angola Block 18 (2000)  Reserves potentially at risk estimated provisionally to be 75% of the current inventory.	up to 210 up to 125 up to 25 up to 55	Reserves rely on the successful implementation of water flood in reservoirs that have no, or at best tenuous, local supporting analogues. As such, the incremental recovery associated with water flood would not qualify for inclusion under the recently clarified SEC rules. However, given that the bookings have been made, they should be retained in the inventory pending acquisition of actual performance data.  The Bonga Main booking was queried by the SEC (along with many others) in its routine review and challenge of the 31.12.1998 Form 20-F submission. Although the challenge was not pressed strongly by the SEC, it was not specifically disputed.
Norway Ormen Lange (1999, 2000)	109	Reserves have been partially booked ahead of VAR3 and FID, whilst it appears that there are issues that could prevent it proceeding. De-booking will be considered only when and if it becomes clear that development definitely will not proceed.
Netherlands, Waddenzee (?)	25	Government-enforced moratorium on Waddenzee drilling, due to environmental concerns, could ultimately prevent development from proceeding.
Brunei legacy (Various)	20	Historical reserves bookings that can no longer be supported are inventorized and actively managed, with a view to cushioning the impact of their de-booking. It is expected that the remaining balance will be reduced to zero over the next two or three years, in consultation with national regulatory authorities.
Total	840 - 1260	The total proved reserves balance at 1.1.2002 was 19100 MMboe.

In addition, reserves in some OUs would be at risk if planned production rate increases do not materialize. The OUs thus affected are SPDC Nigeria and Abu Dhabi. For illustration, if production were to remain constant year-on-year, instead of growing as planned, the reserves that would be placed at risk each year would be some 70 MMboe and 15 MMboe in each case. Furthermore, Oman PDO must sustain current production rates throughout the remaining lifetime of the licence to ensure production of the booked proved reserves.

The SEC provides no specific guidance on reserves disclosure for novel or "innovative" contract structures. Shell currently has four bookings in this category: the Venezuela service agreement, Iran buy-back contract, Oman Gisco and the booking of NGL reserves in connection with interests in Abu Dhabi GASCO.

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## Appendix C

End-August 2002

Latest Estimate, Proved Reserves Additions

Million Boe	†1	Proved Reserves Additions Plan LE Data	Reserves Replacement Ratio Plan, % LE, %
Organic			
Kazakhstan	Kashagan Declaration of Commerciality + Arman	384	27.3
USA	Mare WT/Auger/Gloss/Oso Martin1 Shenhua, Creston/ask others	139 145 5	9.8 10.3
Brunei		67 66 0	4.7 4.7
Canada		50 50 0	3.5 3.5
Nigeria (SNEPCO)	Bonga SW challenge to reach VAR3 in 2002	116 49 -67	8.2 3.5
Angola	Block 18 FID 1 Risked pending check with SEC rules	33 45 12	2.3 3.2
UK	Carnock West/Curlew1, Shearwater/Commodore/MSL, Scoler deferred	68 36 -31	4.8 2.8
Denmark		24 32 8	1.7 2.3
Venezuela	Not a gain; Plan figure was inadvertently omitted from EP total	25 25 0	1.8 1.8
Netherlands		30 21 -9	2.1 1.5
Syria		13 15 2	0.9 1.1
Egypt		11 11 0	0.8 0.8
Gabon		7 7 0	0.5 0.5
Pakistan	Bahdra-3 well result(T). Query Plan figure.	10 5 -5	0.7 0.4
Australia (SDA)		0 4 4	0.0 0.3
Brunei (FCE)		3 3 0	0.2 0.2
Argentina		3 3 0	0.2 0.2
Germany	Changed / deferred drilling programme	17 2 -15	1.2 0.2
Thailand	Reduction pending completion of studies Q3/Q4	4 1 -3	0.3 0.0
Australia (WPL)		0 0 0	0.0 0.0
Russia	Deconsolidation deferred	-92	-6.5
USA (Ass Comp)	Area Included in USA LE	4 -4	0.3
Bangladesh	Changed / reduced activity level	4 -4	0.3
Brazil	BS-4 deferred	41 -41	2.9
Oman (PDO)	Production forecast exposure / uncertainty	78 -78	5.4
Namibia	Kudu appraisal	125 -125	8.8
Brazil (Pecten)		-3 -3	-0.2
Norway		7 -8 -15	0.5 -0.5
Oman (GISCO)	Virtual PSV / PSC effect	-23 -23	-1.7
Iran	PSV effect	-28 -28	-2.0
Malaysia	PSV/PSC effect, Tige Papan/Ubah/Raman1, DGS/1 Joseph1	31 -39 -70	2.2 -2.8
New Zealand	Pohokura	4 -51 -54	0.3 -3.6
Total Organic		796 754 -42	56 54
Production	Includes ExCom adjustment	1419 1403 -16	
A&D	Adjust total RRR so far for effect of A&D production		-2.4
ENTERPRISE (KMOC@46%)	KMOC = 131 m boe	1141 1141	77.7
Norway	Draugen	33 33	2.2
USA	Rockies	27 27	1.8
TOPCO NZ		9 9	0.6
UK	Goldeneye	7 7	0.5
DR Congo (Zaire)		-17 -17	-1.2
New Zealand	Portfolio rationalization + transfer to TOPCO NZ	-49 -49	-3.3
Iran	Farm out	-51 -51	-3.5
Total A&D		1100 1100	72
Total Organic + A&D		796 1854 1058	56 126
Production Organic + A&D		1419 1470 50	
Strategic Options			
Whale		154 -154	10.9
Namibia Gas (FLNG) Incremental		145 -145	10.2
Libya gas		80 -80	6.3
Venezuela light oil		86 -86	6.0
AIOC notional		81 -81	5.7
Libya Block 47		21 -21	1.5
Stephenson		13 -13	0.9
Albarkmola notional		13 -13	0.8
OU projects		-2 2	-0.1
Total Strategic Options		601 -601	42
Grand Total		1387 1854 457	98 126
Production Grand Total		1419 1470 50	

End-August 2002

Major Road Map Items

Million Boe		Proved Reserves Additions	Reserves Replacement Ratio %
Total LE Proved Reserves Additions		1854	126
Total LE Production		1470	
Downside:			
Enterprise	Comb. Tampa/Roske, Skarrv Area debooking	-134	-12.5
SNEPCO	Bonga SW fails to pass VAR3	-49	-3.3
Upside:			
Enterprise	Shell guidelines implementation upside	50	3.4
Whale	Deal secured in 2002; 50% Shell share, unrisks	450	30.6
Other SOs		33	2.2
Range	Minimum		110
	Maximum		162

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## Appendix D

## Appendix D: Proved Reserves Schedule of Authorities

Based on EP 86-0725, updated 1996 and 2002.

	Title of document	Responsible Preparation	Responsible Approval	Final submission for use to
1	Proved Reserves Replacement Target Setting	EPB-P, ExCom	ExCom	EPB-P
2	Reserves Audit Reports	GRA		EPB, RBD and OU
3	Resource Management and Reporting Guidelines			
	a) Process, responsibilities, definitions, requirements	EPB-P, GRA	EPB	OU
	b) Technical methodologies	EPB / EPT	EPT	OU
	c) Matters relating to proved and proved developed reserves estimating procedures	GRA, EPB-P	EPB	SI-FOGB and OU
4	Annual reserves return from OU.	OU Technical, Finance	OU TM / FM	GRA, EPB-P
5	Audit trail in support of annual reserves return from OU.	OU Senior RE	OU PE Manager	OU TM
6	Standardized Measure Report			
	- OU annual submission	OU Technical, Finance	OU TM / FM	EPB-P, GRA
	- Group submission to SEC Form 20-F	EPB-P, GRA	EPB, EPF	SI-FOGB
7	Preliminary report on year-end proved reserves to ExCom	EPB-P	EPB	ExCom
8	Reserves Auditor Report	GRA		Various
9	Proved reserves "Letter of Comfort" to external Group Auditors.	GRA	EPB, EPF	Group Auditors
10	Report to EP ExCom on year-end proved reserves	GRA		ExCom via EPB
11	Statement of crude oil and natural gas reserves for inclusion in Annual Report submission to the US Securities and Exchange Commission (Form 20-F) and other Parent Company publicly disclosed reports.	EPB-P, GRA	EPB, EPF	SI-FOGB

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## Appendix E

## Appendix E: Schematic of Reporting Procedure: Proved Reserves

## Part 1: Prior to the end of the Reporting Year

Action party	Activity	Comments
ExCom December, previous year	Establish target Proved Reserves Additions and target range for the reporting year	
OUs, EPB-P Monthly	Maintain Latest Estimate of Proved Reserves Additions and SFR Maturation during the reporting year	Via EPMIS. Report to ExCom monthly.
EPB-P, GRA September, October	Update Petroleum Resource Volume Guidelines (reports EP yyyy-1100 and EP yyyy-1101)	Distributed to all OUs during the reporting year by EPB
EPB-P October	Distribute pre-populated Reserves Reporting Workbooks to OUs	
ExCom, EPB July, November	Review I.E. Opportunities Catalogue and Potential Exposure Catalogue. Specify actions required for year-end reporting	ExCom to review outlook for the reporting year and to direct bookings strategy (within the bounds of the SEC rules) with a view to managing the end result.
EPB-P to OUs via RBDs November	Advise OUs on ExCom decisions regarding the management of Proved Reserves bookings	Advise on major bookings to be accelerated or deferred and debookings to be made.
EPB-P, OUs December	Agree detailed procedures for managing "float" projects reserves bookings	

Continued on the following page

New activities that are proposed are shown in shaded boxes.

A detailed timetable is prepared annually by EPB-P in consultation prepared annually by EPB-P in consultation with SI-PXX (External Affairs), SI-FCG (Group Reporting) and SIEP-EPF.

GRA: Group Reserves Auditor

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Appendix E

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## Appendix E

## Part 2: After the end of the Reporting Year

Continued from the previous page

OUs and RBDs  
January, weeks 1 & 2 (SEPCo  
cannot provide data this early if  
CERES match required)

Notification of reserves

Reserves Reporting Workbooks placed  
on EPB global server or e-mailed to  
EPB-P.

EPB-P, GRA  
January weeks 2 & 3

Clarify and challenge OU  
submissions as required

Verify that changes reported for the  
year can be supported.

EPB-P, OUs  
January week 3

OU submissions

Inclusion / exclusion of "floor"  
bookings to manage year-end result

EPB-P  
January weeks 3 & 4

Provide summary data to  
external auditors for review

EPB-P, GRA, FOGB  
January week 4

Agree final production data

Production reported in the Reserves  
Reporting Workbook must be  
consistent with Ceres reporting.

EPB-P, EPB  
January week 4

Preliminary report and  
presentation to ExCom

Note for Discussion plus presentation.  
Last opportunity for ExCom to  
influence the final result.

GRA, External Auditors  
End of January

Agree final proved reserves for  
external disclosure

GRA, EPB-P  
End of January

Present final reserves to EPB,  
EPF

Declaration of satisfaction with the  
figures to be reported at year-end for  
proved and proved developed reserves.  
EPB & EPF sign "Letter of Comfort"  
to external auditors, sent via SI-FOGB

EPB-P, GRA  
End of January

Reserves Meeting

Report and Presentation of proved  
reserves information to external  
auditors and Group Controller (FOGB).

KPMG  
End of January

Confirmation to PWC from  
KPMG

Letter to Group External Auditors.

EPB-P, EPB  
Early February

Final report to ExCom and  
CMD on year-end proved  
reserves

Note for Information plus presentation  
if required.

EPB-P  
Early February

Parent Company Annual Report

Reserves figures passed to SI-FOGB.  
Including copy of initial schedules  
from External Auditors.



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Appendix E

EPB-P, EPB  
End of May

EP Reserves and Scope For  
Recovery

Reference report describing changes in  
Group Hydrocarbon Resources during  
the reporting year.

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### **General Comments from Rod Sidle on "EP Proved Reserves Management" topics**

The above referenced document appropriately recognizes the need to "manage" the critical EP business metric, Proved Reserves. However there are more dimensions to the alternatives for this management than are discussed. The processes noted focus on EPB-P and ExComm interactions, which are quite important, but do not consider that OU interests in and experience with managing proved reserves is also worth discussing. For example, consider the following:

- T&OE, specifically the Discipline Leads for Reservoir Engineering and the Hydrocarbon Maturation Forum, have a strong interest in proper reserves management and (based on comments at the 26 Sept Global RE DL Leadership Team Workshop) agreed to work (along with the Group HC Resource Coord.) on improvements the reserve booking process.
- Certain OU's already have Proved Reserve Management practices that could be shared and potentially adapted in developing the Group practices. (Certainly SEPCo has reserve booking and management practices we would be very willing to share.)
- OU Reserve Focal Points have not recently (ever?) met to discuss reserve management issues – yet other business management groups do this annually, such as with CAF and Exploration Forum. Such sessions could include sharing Group-wide issues and local "best practices" to better define how an effective OU level management could be done. This then reduces (but not eliminate) the extent of the central management needed to achieve common goals. Clearly some elements of management are more effective done locally while others require corporate level control. One topic to address would be to clarify the role of the OU Reserves Focal Point – this now ranges from a (largely) full-time Reserves Manager to a part-time Coordinator. Responsibilities start at the minimum of proper data capture and reporting for the ARPR (at year end) up to year round tracking, reporting and "encouragement" to staff for complete, accurate and timely reporting of proved reserve additions/changes. This more active case also involves consultation to provide both case-by-case guidance on booking issues as well as annual training on proved reserve (and other HC Resource Volume) definitions and booking rules.

#### **Other thoughts:**

- Control of "low quality" proved reserves often requires active enforcement of booking rules by a frequent (at least near year end) audit of reserve bookings before they are accepted. We are the only major EP company that I know that only audits on a 4+ year basis, and then looking backward (so the errors are already reported). Should there be local/regional auditors to supplement the GRA? (This could also provide capacity to audit other than SEC volumes, further improving the quality and consistency of Shell resource volumes.) It will be interesting to hear the comments that come from Anton's presentation at the Stavanger SPE ATW.

- Any staff interpretation that ExCom may unhappily view technically valid downward reserve revisions will only worsen the problem. Ample experience has shown these leads to significant initial underbooking so staff can avoid at all cost any possible later reductions. If the even untended message that senior management will negatively react to negative reserve changes is conveyed, this will undermine the true intent of accurate reserves, accepting that both positive and negative changes will occur with the inherently uncertainty of reserve booking.
- Other options (as used by SEPCo in similar past situations) include accepting a large negative booking but recognizing the change in pieces over 2-3 years while further studies are being done.
- Currently technology development focused on needs for more proved reserve booking is limited (non-existent outside SEPCo?). Active consideration for technologies that both allow more proved and fully meet SEC standards are a good approach to help Shell differentiate themselves from others. (Example of success – SEPCo funded development of the technique that qualifies seismic to be used in defining the downdip water contact for the proved area determination.)
- While I agree additional documentation would be very valuable, we should also consider other ways to capture our knowledge. Our corporate experience with proved reserves determination is present but perhaps not all in the Centre. Likely this request for comment also went to Stuart Evans and Wim Swinkels. In SEPCo, we have Lyle Henderson, my predecessor as SEPCo Reserves Auditor. The point is simply we do have such corporate knowledge but we do not currently have a process to access this as needed (other than by email from the Resource Coordinator). If a better capture of this corporate knowledge is warranted, then perhaps an “ad hoc” reserves knowledge group should be formed to help assure this knowledge is accessed when needed. This would help me greatly as I sit on the SPE Reserves Committee and could use this group as a source and sounding board for new ideas of importance to Shell.

Thanks! – My comments above are intended to offer thoughts to consider – not as criticisms of our current practices. I am sure they are not a perfect, final answer, but I hope these thoughts (and those from others) along with continuing dialogue can lead us there.

The opportunity to share these thoughts is appreciated.....Rod

**Unknown**

From: Kennett, Chris C BSP-WPE  
 Sent: 20 October 2002 09:55  
 To: Sidle, Rod RE SEPCO  
 Cc: Chapman, Jim JW SIEP-EPGO-H; Lim, Min-Teong MT SIEP-EPGO-H; Hoppe, John E  
 SPDC-DPE-RES; Sieler, Jeffery JJ SIEP-EPT-DEC; Tan, Teck-Choon SARAWAK-EPS-PRO  
 Subject: RE: EP Proved Reserves Management--comments

Rod,

My comments below:

I would agree with John Pay that a more proactive level of management attention during the year in the area of reserve replacement would be worthwhile, and would to some extent help avoid the last minute end of year disappointment when people either do not deliver at all, or deliver lower than expected reserve numbers, or surprise with unexpected debookings. However the additional reporting and attention from EPB-P during the year should be largely confined to the key/major planned bookings and important decisions on new discoveries/undeveloped assets. It should not impose additional overhead on the myriad of small routine reserve bookings/studies carried out during the year.

1) Reserve Management Workload --already high:

It should be recognised that the current system for management of the annual reserves cycle (consisting amongst others of : quarterly MIS reports, quarterly corporate scorecard updates, end of year SEC reserve submission, annual developed reserve reviews, individual reserve change notes/reports, update and issue of annual ARPR, annual business plan volume 1 and volume 2 hydrocarbon maturation submissions, capital allocation sheets including reserves reconciliation, various annual reports and presentations to the Government shareholders) is already quite onerous, and represents a very significant expansion of the reserve management workload of just a few years ago. We should be careful of putting in place a system for interim formal reviews during the year which represents a further large expansion of the current workload. This may further distract the Discipline Heads and other key players-- too much time spent on managing/reporting the annual outlook and dealing with scorecards with less time to spend on indepth technical reviews which are aimed to look at the overall quality of the individual reserve bookings.

2) Last minute changes:

No amount of formal interim reserve progress reporting will avoid all last minute surprises as the prediction of future reserve changes is always going to be an uncertain business. In my experience the reason for a number of the late surprises in the final annual reserve numbers is that many of the changes depend on the outcome of reservoir studies, the results of which are difficult to predict until the study is finished. Sometimes studies that were originally forecast and targeted to increase reserves can even have the opposite result. In addition the expectation results of near field exploration wells are built into annual increase targets and if such wells are drilled late in the year, then last minute disappointments are always a possibility.

3) Smoothing or "steering" of annual reserve bookings to achieve a more consistent and reliable annual result:

This may make sense for the timing of bookings from new discoveries in new areas, but in the existing OUs there may be little room to manoeuvre. Once a study is complete or a well drilled, the results should in principle be reflected in the ARPR, regardless of whether we like the results or not--- alot of credibility may be at stake with host Governments if we are seen to be manipulating reserves simply to



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suit the Shell annual report.

4) OU scorecards:

The proposal to remove proved reserves from the OU scorecards and replace by achieving appropriate milestones would be helpful. It would remove pressure to find offsets for unexpected reserve disappointments --such offsets may impact adversely on the quality of the overall reserves portfolio and represent a future debooking

5) Proved Reserve Replacement performance

Reducing the historic conservatism in Shell reporting for mature assets has been a key area where alot of gains ( in proved reserves) have been made in recent years. This is however a "once off" gain now largely realised. With the exception of a few OUs ( e.g. BSP), the conservatism is no longer present ( mature assets reported on the basis of proved= expectation) and there is no longer large gains which can be easily realised by removing conservatism and more closely adopting SEC guidelines

Future proved reserve bookings will need to come from new discoveries including near field, from improved recovery processes, and from undeveloped assets. With respect to undeveloped assets Shell appears to have been very aggressive in the past both by booking before FID and also in many cases using probabilistic methodology for booking new discoveries ---- appendix C shows some rather large writedowns planned on bookings which were made prior to FID-e.g. Namibia.

If one discounts the windfall made in the last 5 years in removing conservatism from proved reserves in mature assets ( representing easy proved reserve bookings ), and also discounts the apparent historic excesses in proved reserve bookings in undeveloped assets, Shell proved reserve replacement performance has been poor for a period longer than suggested by simply the last couple of years performance.

A further alarming finding from appendix C is that we appear to be writing off substantial proved reserves in Assets which we recently acquired ( Fletcher NZ). I wonder how well the people who did the due diligence on this acquisition ( or other acquisitions for that matter) were acquainted with reserve methodologies and definitions? This would appear to be an important target audience for one of our planned "reserve" courses !

6) EPB-P contacts with OU reserve focal points:

Regular working contacts between the Group Reserves Coordinator and the OU reserves focal points would provide alot of clarity and insight into the issues which the individual OUs are dealing with. Such contacts should be encouraged and will likely provide more clarity on key issues to EPB-P than a large amount of additional interim formal reporting. It will also allow more input from EPB-P on issues such as timing of booking and methodology

7) Reserve Guidelines:

The existing guidlines need to be made clearer on issues such as for example:

- a) deterministic vs probabilistic --when to apply
- b) SEC guidelines for mature assets--when does proved = expectation?
- c) timing of bookings--under what circumstances can we book reserves before FID?
- etc etc

Regards  
Chris

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From: rod sidle  
To: M-T Lim; JOHN J.E. HOPPE / , , SPDCPHC; CHRIS C. KENNETT  
/ WPE, OPENMAIL, BRUNEI SHELL PETROLEUM SERIA; jeffery sieler  
; teck-choon tan  
Cc: Jim Chapman  
Subject: RE: EP Proved Reserves Management  
Date: Friday, 18 October, 2002 8:02PM

To all,

Happy to coordinate our review comments. Could I suggest  
comments are sent to me by EOB on Friday, 25 October so I can  
send on to Jim on Monday 28 October?

Regards,  
Rod

Rod Sidle  
Manager, Oil and Gas Reserves  
Shell Exploration & Production Company  
P. O. Box 576, Houston, TX 77001-0576, United States of America

Tel: +1 281 544 2063 Fax: +1 281 544 2067 Other Tel: +1 281 924 1998  
Email: rod.sidle@shell.com  
Internet: <http://www.shell.com/eandp-en>

-----Original Message-----

From: Lim, Min-Teong MT SIEP-EPGO-H  
Sent: Friday, October 18, 2002 4:24 AM  
To: Sidle, Rod RE SEPSCO; Hoppe, John E SPDC-DPE-RES;  
Kennett, Chris C BSP-WPE; Sieler, Jeffery JJ SIEP-EPT-DEC;  
Tan, Teck-Choon SARAWAK-EPS-PRO

Cc: Lim, Min-Teong MT SIEP-EPGO-H  
Subject: FW: EP Proved Reserves Management  
Importance: High

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Dear All,

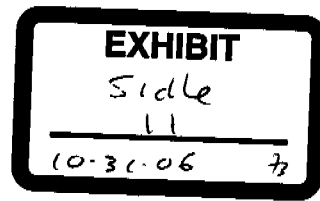
The attached may not be new to most of you, in your role as OU  
reserves focal point. Nevertheless, in line with your wish to  
be the "sounding board" to the HC maturation Leadership team  
on reserves issues, here's your first assignment. Attached is  
an Excom proposal for Reserves Management prepared by John  
Pay. Can you all kindly review and forward any significant  
comments to Rod? I will leave this for Rod to coordinate and  
forward final comments to Jim Chapman, copied myself.

Many thanks in advance,  
Min Teong

V00020615

ALL INFORMATION CONTAINED  
HEREIN IS UNCLASSIFIED

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# Things to Do

☐☐☐☐☐☐☐☐☐☐☐☐

NOTE - 31 January 2003

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From: Anton A. Barendregt Group Reserves Auditor, SIEP EPS-GRA

To: Frank Coopman Chief Finance Officer, SIEP EPF  
Lorin Brass Director, EP Business Development, SIEP EPB

Copy: Walter van de Vijver EP Chief Executive Officer, SIEP  
Excom Members SIEP EPA, EPB-X, EPG, EPM, EPN, EPT, EP-HR  
Malcolm Harper Vice Pres. Strategy, Planning, Portfolio and Economics, SIEP EPB-P  
Han van Delden Partner, KPMG Accountants NV  
Brian Puffer PriceWaterhouseCoopers

FIRST  
SEEN BY JGB  
ON 19 DEC 2003

## REVIEW OF GROUP END-2002 PROVED OIL AND GAS RESERVES SUMMARY PREPARATION

In accordance with prescribed US FASB accounting principles, SIEP staff have prepared a summary of Group equity proved and proved developed oil and gas reserves for the year 2002. The summary (Att. 3) forms part of the supplementary information that will be presented in the 2002 Group Annual Reports and has been prepared on the basis of information provided by Group and Associated companies. The submissions by these companies (excluding those by Shell Canada) are based on the procedures laid down in the Group 'Petroleum Resource Volumes Guidelines' which in turn are based on (but not fully identical to) the FASB definitions. Shell Canada's submissions are subject to their own procedures and reviews.

The end-2002 Group share Proved Reserves is summarised in the following table. The figures include the Canadian oil sands reserves (reportable as mining reserves) and the minority reserves in some consolidated companies (together 150 mln m3oe\*).

Oil mln m3 Gas bln m3	1.1.2002 Proved Tot'l	2002 Prod'n	1.1.2003 Proved Tot'l	Repl. Ratio (RR) Tot'l	1.1.2002 Proved Dev'd	1.1.2003 Proved Dev'd	Rep. Ratio Dev'd
Oil+NGL	1,601	138	1,707	177%	689	831	203%
Gas	1,580	97	1,513	30%	729	696	67%
Total Oil Equivalent *	3,132	232	3,172	117%	1,394	1,505	148%

\* 1 mln m3 oil equivalent (1 m3oe) = 1.03 bln sm3 of gas

I have reviewed the process of preparing the above summary of proved and proved developed oil and gas reserves in as far as these relate to companies outside Canada. This review included, where possible, a verification of the appropriateness of major reserves changes.

The most significant comment is that serious efforts have been made during 2002 towards further alignment of Group Proved reserves with SEC and Group reserves guidelines. Examples of these are the positive reserves revisions by BSP and SOAN, the negative revisions by SNEPCO and the corrections applied to ex-Enterprise reserves in the UK and Norway.

In spite of these significant efforts, there are a number of smaller items in the Group Proved reserves portfolio that are not (or not fully) supported by the present SEC or Group reserves guidelines. These include:

Russia (KMOC): 7.6 mln m3oe	'East Bank' fields are not economic and lack clear development funding sources.
Italy (Tempa Rossa): 3.9 mln m3oe	Phase 1 development is not yet mature (although FID is intended for 2003).
NAM (Waddenzee): 4.0 mln m3oe	Government moratorium on drilling is not likely to be lifted soon, if at all.
Iran (PDO): 10 mln m3oe	Proved forecast within-licence is unrealistic.
Kazakhstan: 5.6 mln m3oe	Best estimates of start-up and end-of-licence dates allow less volume produced.

Added together, these potential exposures would amount to 31 mln m3oe, or 1% of the Group Proved reserves portfolio.

Most of these items relate to new items that were either not carried or not known about last year. Only NAM's Waddenzee reserves were already recognised as a potential exposure before. In addition, it was found that SPDC Proved reserves had been significantly (some 100 mln m3oe) in excess of the production that could realistically be produced within the hitherto assumed licence duration. This historical overbooking has now been removed by the recent recognition that SPDC do possess a right to have the production licences extended upon their expiry in 2008 / 2019.

In previous years it was argued that any possible overstatements could be offset by possible understatements in areas like Brunei (BSP), but these understatements have now largely disappeared. Developments regarding the conditions surrounding these exposures should be closely followed in 2003 and their position should be reviewed if no material change is observed.

The presence of reserves addition targets in OU and departmental scorecards will require continued vigilance to preserve the integrity of reserves bookings. Suggestions are made to help tighten control in this respect.

During 2002 I made Reserves Audit visits to a total of nine Group OUs. Audit opinions on these varied between 'satisfactory' and 'good'. As far as observable, audit recommendations appear to have generally been followed in this year's submissions. In addition, reserves audits were made of all ex-Enterprise Oil assets. With some exceptions of premature bookings, the reported reserves were found to be in reasonable agreement with Group guidelines.

The overall finding from the audit visits and from the end-year review in SIEP is that there is a possibility of an overstatement of Group Proved reserves in cases where booked reserves are not fully in accordance with SEC or Group guidelines. The 2002 changes in the Proved Reserves can be fully reconciled from the individual OU submissions.

A more detailed list of findings and observations is included in Attachment 1.

FOIA Confidential  
Treatment Requested

LON00142067

Attachments 1-7

A.A. Barendregt

Attachment 1 Main Observations End-2002 Reserves

Attachment 2 Significant Reserves Changes

Attachment 3 Group Proved Reserves Summaries

Attachment 4 Production Reconciliation Ceres vs. Reserves Submissions

Attachment 5 Proved Reserves Maturity – by OU

Attachment 6 Main Observations 2002 Reserves Audits

Attachment 7 Reserves Audit Plan 2003