

Part 2

10:17:44 1

RODNEY SIDLE

10:17:47 2

MR. SMITH: Objection to form.

10:17:51 3

A. I'm not remembering -- I don't

10:17:53 4

remember exactly the feedback. I know that it

10:17:57 5

happened. The T&OE organization that was

10:18:01 6

responsible for this got together with

10:18:05 7

discipline leads for reservoir engineering, and

10:18:07 8

I was one of the discipline leads -- outside of

10:18:11 9

T&OE, but a disciplined lead -- and we organized

10:18:14 10

a meeting of the reserve focal points and other

10:18:17 11

key reserve staff around the world when we had

10:18:22 12

one of our global reservoir engineering

10:18:25 13

meetings, and at that time we talked about

10:18:26 14

sharing best practices, and we did that,

10:18:28 15

including SEPCO, and we talked about training

10:18:31 16

needs and putting together a training set of

10:18:35 17

slides that could be used by all OUs around the

10:18:37 18

world so they would have a standard resource to

10:18:42 19

build on, and we got together the focal points

10:18:43 20

to talk about efficiencies that they found and

10:18:46 21

how they did the work, and shared those with

10:18:46 22

others.

10:18:47 23

Q. Do you recall approximately when

10:18:50 24

that meeting occurred?

25

A. That was 2003. I think it was the

10:18:58 1
10:19:03 2
10:19:05 3
10:19:09 4
10:19:11 5
10:19:15 6
10:19:19 7
10:19:22 8
10:19:25 9
10:19:28 10
10:19:29 11
10:19:55 12
10:20:12 13
10:20:16 14
10:20:26 15
10:20:29 16
10:20:33 17
10:20:36 18
10:20:40 19
10:20:44 20
10:20:48 21
10:20:51 22
10:20:54 23
10:20:56 24
25

RODNEY SIDLE

spring of 2003.

Q. If I could ask you to turn to the next page, sir, Bates number 782. And specifically direct your attention to the first bullet point that appears on that page. The first sentence there states: "Any staff interpretation that ExCom may unhappily view technically valid downward reserve revisions will only worsen the problem."

Could you please explain for me what you were attempting to convey in that sentence?

(Witness reviewing document.)

A. Okay. The concept that I'm advancing here is one of perception, so when the people who make reserves determinations and bring forward numbers that are fully supportable by a technical case, they would bring forward numbers that, by the instructions, by the rules, are reasonably certain, not absolutely certain. And so although there's a -- the guidance is much more likely to have an upward revision than a downward, it doesn't say there should never be a downward revision. So it's anticipated, because of the uncertainties, and the nature of

10:21:00 1 RODNEY SIDLE
10:21:05 2 just determinations such as this, this will, on
10:21:08 3 occasion, although those occasions will be rare,
10:21:10 4 but there still are occasions when there will be
10:21:13 5 downward revisions. When the message is sent
10:21:15 6 that whenever those downward revisions may
10:21:17 7 occur, that is not viewed upon as just part of
10:21:20 8 the normal job, just recognizing that some
10:21:22 9 things are uncertain and sometimes they will go
10:21:28 10 down, then the staff will react in a way of
10:21:31 11 making sure there's never even a possibility of
10:21:34 12 it ever going down, absolutely certain. Which,
10:21:37 13 frankly, results in a reserves understatement.

10:21:40 14 And that paragraph is intended to
10:21:45 15 convey that we should avoid creating a situation
10:21:49 16 where that misinterpretation could be conveyed
10:21:51 17 to staff, such that they would react in a way
10:21:54 18 that deliberately understated reserves.

10:21:56 19 Q. Was that something, in your
10:22:00 20 experience, that was currently happening within
10:22:01 21 the group?

10:22:04 22 A. I was not aware of it within the
10:22:07 23 group. I had seen individual instances, on rare
10:22:11 24 occasions, in the past where there were
25 supervisors that simply didn't understand the

10:22:13 1

RODNEY SIDLE

10:22:16 2

nature of the uncertainties in booking reserves.

10:22:25 3

Q. When you write here "will only

10:22:28 4

worsen the problem," do you know what it is that

10:22:30 5

you were talking about there?

10:22:32 6

A. Actually I don't remember exactly

10:22:33 7

what that meant.

10:23:04 8

Q. Okay.

9

10

(Sidle Exhibit 10, e-mail string,

11

Bates number DB 01376 through DB 01378, was

10:23:05 12

marked for identification.)

10:23:05 13

10:23:05 14

BY MR. MacFALL:

10:23:08 15

Q. Mr. Sidle, you've just been handed a

10:23:09 16

document that has been marked as Sidle Exhibit

10:23:11 17

10 for identification. I would ask you to take

10:23:15 18

a look at it, sir, and tell me if you recognize

10:23:21 19

it.

10:23:52 20

(Witness reviewing document.)

10:23:57 21

A. This is a sequence of e-mails that

10:24:05 22

is -- that primarily is a response from Chris

10:24:10 23

Kennett on the document that we just reviewed in

10:24:15 24

Exhibit 9, the EP proved reserves management

25

draft, through the T&OE organization that we had

10:24:20 1

RODNEY SIDLE

10:24:26 2

mentioned, where we had a T&OE leader, who is

10:24:27 3

Min-Teong Lim. In the originating e-mail of

10:24:29 4

this sequence, he asked that I coordinate

10:24:35 5

comments from other reservoir engineering

10:24:37 6

leaders who were part of that leadership group

10:24:38 7

on that draft document.

10:24:44 8

Chris's is his response.

10:24:47 9

Q. Do you know what Mr. Kennett's

10:24:51 10

position in the group was at that time?

10:24:55 11

A. At that time I believe Chris was in

10:25:04 12

Shell Brunei -- Brunei Shell Petroleum, BSP, and

10:25:06 13

I believe he was either the chief reservoir

10:25:09 14

engineer or chief petroleum engineer.

10:25:10 15

Q. I would like specifically to direct

10:25:12 16

your attention to the second page of the

10:25:17 17

document, which is a continuation of

10:25:24 18

Mr. Kennett's various comments. With respect to

10:25:28 19

number 4, "OU scorecards that appears at the top

10:25:30 20

of the page." Do you see that, sir?

10:25:31 21

A. I see that.

10:25:34 22

Q. Mr. Kennett discusses the

10:25:36 23

possibility of removing preserved reserves from

10:25:40 24

OU scorecards and replacing it with appropriate

25

milestones and comments that it would remove

10:25:42 1

RODNEY SIDLE

10:25:45 2

pressure to find offsets for unexpected reserve

10:25:48 3

disappointments.

10:25:51 4

Were you aware of the practice of

10:25:59 5

using offsets -- or using reserves to offset

10:26:01 6

reserve disappointments, or other reserves which

10:26:06 7

were no longer properly classified as proved?

10:26:08 8

MR. SMITH: Objection to form.

10:26:12 9

A. I was at that time the reserves

10:26:14 10

manager for SEPCO, I was certainly aware of the

10:26:18 11

practices and processes in SEPCO. The intent of

10:26:23 12

this group of reservoir engineering leaders was

10:26:25 13

to share practices elsewhere. Those practices

10:26:27 14

were unknown to me, and I was not familiar with

10:26:31 15

what had or was occurring in Brunei at that

10:26:31 16

time.

10:26:36 17

Q. Directing your attention now with --

10:26:39 18

I'm sorry -- to number 5, Proved Reserve

10:26:41 19

Replacement Performance. Do you see that, sir?

10:26:41 20

A. Yes.

10:26:46 21

Q. Mr. Kennett writes about the effort

10:26:49 22

to reduce what he calls historic conservatism in

10:26:53 23

Shell reporting for mature assets, and then it

10:26:56 24

continues. He notes, and this is in about the

25

middle of the paragraph, "This is, however, a

10:26:59 1
10:27:03 2
10:27:04 3
10:27:09 4
10:27:13 5
10:27:15 6
10:27:16 7
10:27:17 8
10:27:30 9
10:27:33 10
10:27:35 11
10:27:39 12
10:27:45 13
10:27:50 14
10:27:57 15
10:28:01 16
10:28:05 17
10:28:07 18
10:28:11 19
10:28:14 20
10:28:20 21
10:28:23 22
10:28:27 23
10:28:32 24
25

RODNEY SIDLE

'once off' gain now largely realized," and then continues.

Were you aware of an initiative or an effort to remove conservatism in Shell's reporting practices that resulted in a reserve increase?

MR. SMITH: Objection to form.

A. Again, I wasn't aware of most of the international operation, and I wasn't aware of the general practice internationally. There was one example of this that I was aware of, and I had seen data from Shell's UK operation called EXPRO, where Shell and Exxon together owned assets. That study, as I recall seeing it, showed that for similar very mature fields within EXPRO -- 50/50 ownership, so theoretically the numbers should be exactly the same -- Shell's probabilistic methods led to a reporting significantly less than the deterministic methods that Exxon had used, and that then when Shell went back and looked at using a deterministic method for very mature assets, they were able to see why the probabilistic method really didn't work well for

10:28:35 1
10:28:39 2
10:28:42 3
10:28:47 4
10:28:48 5
10:28:49 6
10:28:53 7
10:28:55 8
10:28:56 9
10:28:58 10
10:29:00 11
10:29:01 12
10:29:04 13
10:29:07 14
10:29:09 15
10:29:16 16
10:29:23 17
10:29:25 18
10:29:27 19
10:29:31 20
10:29:34 21
10:29:40 22
10:29:46 23
10:29:54 24
25

RODNEY SIDLE

very mature assets. And they did make a, as mentioned here, one time correction by moving from probabilistic in their very mature assets, to deterministic, and then remained deterministic after that.

Q. Was that change a group-wide change or did it just relate to EXPRO?

A. That was specific -- the example that I saw -- I don't know what was done group-wide -- the example that I saw related to EXPRO, the UK assets.

Q. Do you recall approximately when that change occurred?

A. I believe it was in the late '90s.

Q. Going down to the next paragraph in number 5, the second sentence Mr. Kennett writes, "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," and then it continues.

At this time do you recall if the group guidelines specified a particular economic status, such as FID or VAR, that needed to be

10:29:58 1
10:30:01 2
10:30:13 3
10:30:15 4
10:30:20 5
10:30:23 6
10:30:27 7
10:30:30 8
10:30:32 9
10:30:34 10
10:30:36 11
10:30:39 12
10:30:49 13
10:30:49 14
10:30:55 15
10:30:55 16
10:30:59 17
10:31:03 18
10:31:04 19
10:31:05 20
10:31:14 21
10:31:19 22
10:31:22 23
10:31:24 24
25

RODNEY SIDLE

reached before proved reserves could be booked?

A. Let's see. This is 2002. In 2002, and in fact throughout the period where I had the opportunity to see the group guidelines, some form of technical and commercial maturity was required. We discussed that yesterday.

The VARs actually are a technical maturity method rather than a commercial maturity method. Although when you get to VAR 4, that's essentially the same timing as FID, and FID is a commercial measure.

So some form of requirement of technical and commercial maturity would have been in effect at this time. As I said, as we discussed yesterday, the benchmark, the milestone that was used to define that maturity did progress through the years, but at all times there was some requirement for technical and commercial maturity.

Q. Did you believe that booking proved reserves prior to FID was aggressive?

MR. SMITH: Objection to form.

A. The requirement for booking reserves was commercial and technical maturity. FID was

10:31:28 1

RODNEY SIDLE

10:31:31 2

a measure that would have been an indicator, but

10:31:33 3

it wasn't the only method. There were other

10:31:37 4

elements that could be looked at to fully

10:31:41 5

establish technical and commercial maturity.

10:31:55 6

Q. Do you know what Mr. Kennett meant

10:32:01 7

here, then, when he talks about Shell appears to

10:32:04 8

have been aggressive in the past by booking

10:32:05 9

before FID?

10:32:06 10

A. I don't know.

10:32:07 11

Q. Did you ever discuss it with him?

10:32:08 12

A. No, I didn't.

10:32:19 13

Q. You can put that aside, sir.

10:32:48 14

A. Okay.

15

16

(Sidle Exhibit 11, document, Bates

17

number LON00142065 through LON00142086, was

10:32:49 18

marked for identification.)

10:32:49 19

10:32:50 20

BY MR. MacFALL:

10:32:52 21

Q. Mr. Sidle, you've just been handed a

10:32:55 22

document marked as Sidle Exhibit 11 for

10:32:56 23

identification. I would ask you to take a look

10:33:46 24

at that, sir, and tell me if you recognize it.

25

(Witness reviewing document.)

10:36:02 1

RODNEY SIDLE

10:36:51 2

A. I reviewed the document.

10:36:53 3

Q. Have you ever seen this document

10:36:53 4

before, sir?

10:36:58 5

A. I have seen documents like this

10:37:02 6

during the Rockford period. I don't recall

10:37:05 7

having seen this specific one. I may have seen

10:37:07 8

it during that period.

10:37:11 9

Q. With that caveat, I would like to go

10:37:14 10

through some of the information in the document

10:37:17 11

and see whether or not you were aware of it at

10:37:19 12

the time, or subsequently became aware of it

10:37:22 13

during your review as part of the Rockford

10:37:22 14

project.

10:37:24 15

A. Well, I could categorically state

10:37:26 16

that the things in here that are not SEPCO, I

10:37:28 17

was not aware of at the time. But we can talk

10:37:30 18

about subsequent, if you wish.

10:37:35 19

Q. Okay. That's fine. If that's all

10:37:36 20

we can do, that will be appropriate. We might

10:37:39 21

as well do that now, since you have it in front

10:37:39 22

of you.

10:37:41 23

I would like first to direct your

10:37:42 24

attention to the first page of the actual

25

review, which is page 067.

10:37:50 1

RODNEY SIDLE

10:37:51 2

A. Page 067. Yes.

10:37:55 3

Q. There's a chart that appears toward

10:37:59 4

the middle of the page. I would like now to

10:38:01 5

direct your attention to the second paragraph

10:38:04 6

beneath that chart that starts with the words

10:38:06 7

"the most significant."

10:38:07 8

Do you see that, sir?

10:38:07 9

A. I see it.

10:38:10 10

Q. Mr. Barendregt wrote: "The most

10:38:12 11

significant comment is that serious efforts have

10:38:15 12

been made during 2002 towards further alignment

10:38:20 13

of Group Proved reserves with SEC and Group

10:38:21 14

reserves guidelines."

10:38:23 15

Now, I take it from what you said

10:38:27 16

before, at the time -- and this is January

10:38:30 17

2003 -- you didn't have any personal knowledge,

10:38:34 18

I take it, of any misalignment between the SEC

10:38:40 19

requirements and the proved reserves that were

10:38:46 20

booked at various OUs within the group?

10:38:47 21

MR. SMITH: Objection to form.

10:38:48 22

A. So you're talking about the

10:38:51 23

application of the rules to the volumes, rather

10:38:53 24

than the rules themselves. Is that correct?

25

Q. At -- yes.

10:38:54 1

RODNEY SIDLE

10:38:55 2

A. At that time.

10:38:56 3

Q. Yes.

10:38:56 4

A. That's correct, yes.

10:39:01 5

Q. Were you aware of any misalignment

10:39:04 6

between the group guidelines, at this time, and

10:39:06 7

the SEC requirements?

10:39:06 8

MR. SMITH: Objection to form.

10:39:08 9

A. I think we discussed this yesterday,

10:39:13 10

and as I had mentioned, as I laid down 4-10 and

10:39:17 11

the group guidelines, there were certain textual

10:39:19 12

difference, but within the group guidelines

10:39:23 13

there was a statement made that these did adhere

10:39:30 14

to the SEC requirements, and so again my focus

10:39:34 15

being on US things, which where we had rules we

10:39:37 16

knew were in alignment, I felt -- I believed

10:39:39 17

what was in the guidelines that they met the

10:39:43 18

requirements.

10:39:44 19

Q. Directing your attention to the

10:39:46 20

paragraph beneath that beginning with the words

10:39:47 21

"In spite of."

10:39:48 22

Do you see that, sir?

10:39:49 23

A. I see it.

10:39:51 24

Q. It says: "In spite of these

25

significant efforts there are a number of

10:39:53 1

RODNEY SIDLE

10:39:58 2

smaller items in the group proved reserves

10:40:00 3

portfolio that are not (or not fully) supported

10:40:03 4

by the present SEC or group reserves

10:40:03 5

guidelines."

10:40:06 6

And then Mr. Barendregt lists a few

10:40:12 7

projects. Again, I believe I know the answer to

10:40:14 8

this based on your prior statement, but at the

10:40:16 9

time of this document, or in or about the time

10:40:20 10

of this document, January 2003, were you aware

10:40:27 11

of any group proved reserves specifically

10:40:31 12

relating to the project shown as not being

10:40:35 13

supported or fully supported by SEC rules or

10:40:36 14

group guidelines?

10:40:37 15

A. At this time I was not even aware of

10:40:40 16

the existence of those projects.

10:40:46 17

Q. Did there come a time when you did

10:40:53 18

become aware of any of those projects and the

10:40:57 19

sentiment -- or the thought expressed by

10:40:58 20

Mr. Barendregt in that sentence?

10:41:01 21

A. As we got to the Rockford effort in

10:41:05 22

late 2003 and early 2004, yes, I did see some of

10:41:07 23

these names at that time.

10:41:10 24

Q. What was your role -- withdrawn.

25

Did you have a role in the Rockford project?

10:41:15 1
10:41:15 2
10:41:15 3
10:41:18 4
10:41:22 5
10:41:28 6
10:41:34 7
10:41:40 8
10:41:43 9
10:41:45 10
10:41:50 11
10:41:56 12
10:41:57 13
10:41:59 14
10:42:02 15
10:42:08 16
10:42:11 17
10:42:15 18
10:42:19 19
10:42:21 20
10:42:22 21
10:42:25 22
10:42:25 23
10:42:27 24
25

RODNEY SIDLE

A. Yes.

Q. Could you please describe for me briefly what your role was, sir?

A. Yes. Because of my familiarity with the US application of the SEC rules, I was asked to come to the group EP headquarters in Holland and be part of a team that looked at certain of these fields, and a variety of others, where there were questions about whether or not there was an exposure based on Shell requirements and SEC requirements.

Q. As part of your efforts in connection with project Rockford, did you review the various audit reports prepared by Mr. Barendregt for the fields at issue?

A. Certainly not all of them. As I said, I've seen forms like this before, but what years it was, I don't recall. It could have been this and it could have been others.

MR. SMITH: I thought his question was about audit reports.

A. Oh.

MR. SMITH: Did I misunderstand your question?

10:42:27 1

RODNEY SIDLE

10:42:29 2

MR. MacFALL: It was in fact about

10:42:29 3

audit reports.

10:42:31 4

A. I misunderstood your question. I

10:42:32 5

thought you were referring to this document.

10:42:32 6

Q. No.

10:42:35 7

A. No, I hadn't seen the audit reports.

10:42:38 8

With exception to the ones related to the US, of

10:42:40 9

course. I got those.

10:42:41 10

Q. Did you see a summary of the

10:42:44 11

conclusions reached by Mr. Barendregt in

10:42:46 12

connection with the audits of various OUs,

10:42:49 13

conducted between 1999 and 2004?

10:42:52 14

A. Only the US ones. I didn't have

10:42:58 15

access to any of the others.

10:43:01 16

Q. Did you have access to any documents

10:43:03 17

summarizing his conclusions?

10:43:04 18

A. No.

10:43:15 19

Q. Did you review, as part of your

10:43:19 20

efforts on Rockford, the proved reserve bookings

10:43:21 21

for various OUs in the group?

10:43:21 22

A. Yes.

10:43:28 23

Q. Generally, could you describe for me

10:43:31 24

what documents, if any, you reviewed as part of

25

your efforts in Project Rockford?

10:43:44 1
10:43:48 2
10:43:49 3
10:43:53 4
10:43:57 5
10:44:04 6
10:44:09 7
10:44:14 8
10:44:19 9
10:44:22 10
10:44:26 11
10:44:29 12
10:44:33 13
10:44:36 14
10:44:38 15
10:44:41 16
10:44:42 17
10:44:43 18
10:44:46 19
10:44:48 20
10:44:51 21
10:44:53 22
10:44:55 23
10:44:57 24
25

RODNEY SIDLE

A. In the early stages of Rockford, I'm trying to remember, I don't remember very much in terms of documents at all, there were staff that were brought in from the reserves managers, primarily, from certain of the more involved OUs -- Nigeria being one example -- that explained the circumstances of their current proved reserves situation and characteristics of some of the fields that were part of those reserves, especially those characteristics that would cause questions as to whether or not they met with Shell or SEC standards.

So most of that early discussions were not really documents, as much as descriptions and tables of data, things like that.

Q. Did there come a time when you actually reviewed documents in connection with the proved reserves of various OUs?

A. Later in the project I had the opportunity to read documents like this, perhaps this one, perhaps others, I just don't recall. But those were the things that I remember seeing.

10:44:58 1

RODNEY SIDLE

10:45:01 2

Q. As part of your efforts in Project

10:45:05 3

Rockford, were you called upon to opine as to

10:45:06 4

whether or not certain volumes of proved

10:45:11 5

reserves complied with the SEC requirements?

10:45:19 6

A. My opinions that I could express

10:45:21 7

then, of course, were only with the expertise

10:45:24 8

that I had developed within -- within the US.

10:45:27 9

Many of the things, as I've mentioned, in

10:45:29 10

international settings I simply had no

10:45:32 11

experience on, so all I could do was relate to

10:45:39 12

SEPCO's and US situations.

10:45:43 13

As, let's use Nigeria as another

10:45:44 14

example -- as the circumstances there were

10:45:46 15

brought forward, I could offer the view of,

10:45:51 16

well, were these situations present in the US,

10:45:53 17

you know, here are the things I would look at,

10:45:56 18

here are the questions I would ask to try to

10:45:58 19

determine whether or not I felt comfortable that

10:46:00 20

they did, or could conclude that they did not

10:46:03 21

meet SEC requirements, as I knew them applied in

10:46:04 22

the US.

10:46:06 23

So I would provide that type of

10:46:08 24

commentary, and then there were others who were

25

on the team that would bring in international