
Managing Oil and Gas Interests



**FIRMA National Risk Management Training Conference –
Las Vegas, NV, April 28 – May 2, 2013**

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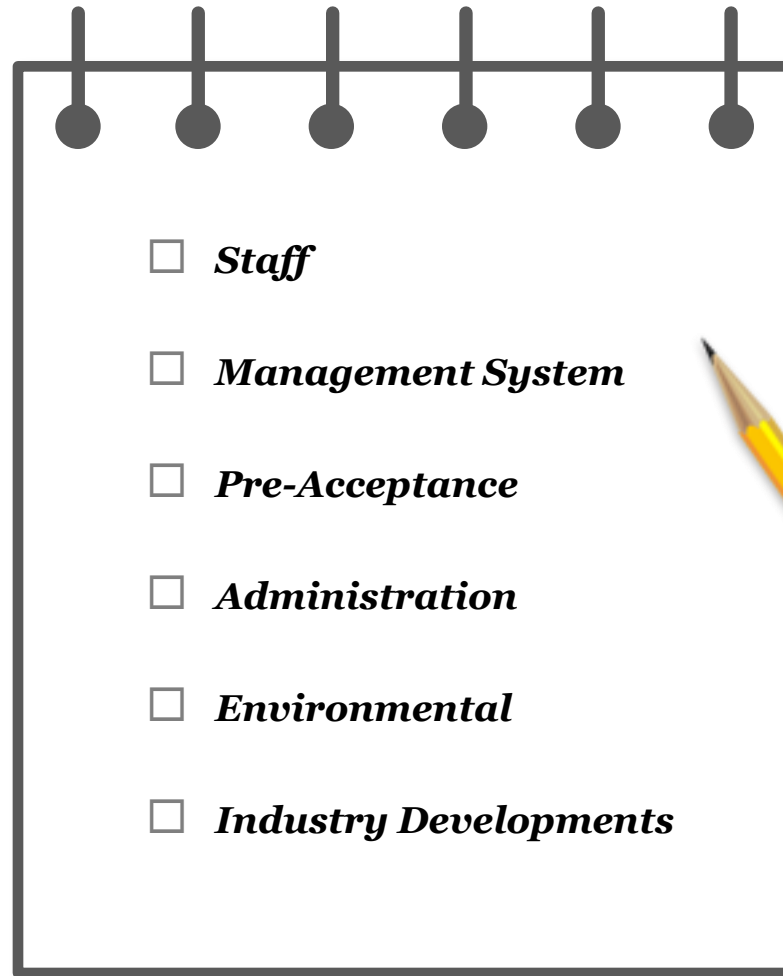
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Managing Oil and Gas Interests

Use a Checklist to Manage Risks



- Staff*
- Management System*
- Pre-Acceptance*
- Administration*
- Environmental*
- Industry Developments*



*It is important to have the **right people** (with the right skill set)*

- People who **understand** the industry
- People with **experience** in the industry
- People who have **industry recognized certifications**
- **Skilled, knowledgeable people are your first and best line of defense**

Samples of Useful Qualifications

- Certified Professional Landman (CPL)
- Petroleum Engineer (PE)
- Environmental Site Assessor (ESA)
- Certified Petroleum Lease Title Analyst (CPLTA)
- Certified Mineral Manager (CMM)
- Advanced Degrees (Master of Science of Business, Law)

Some Industry Trade / Professional Organizations

- National Association of Royalty Owners (NARO)
- National Association of Division Order Analysts (NADOA)
- American Association of Petroleum Landmen (AAPL)
- National Associates of Lease and Title Analysts (NALTA)

☑ Management System

It is important to have an oil & gas management system capable of oil & gas property management and accounting.

Specialized Mineral Management and Accounting System

- Provides specialized oil and gas plus fiduciary accounting (income/principal allocation)
- Complete property inventory
- Lease and Land Management records
- Interface to primary Trust System
- Electronic revenue processing capabilities (CDEX)

Reports used to monitor activity on accounts and assets

- Annual Review (Income, expenses, profitability)
- Lease and Division Order
- Payout report (for working interests)
- Check inventory and processing status
- Fee reports

☑ Pre-Acceptance

Evaluate Risk at Acceptance

- A well defined process of evaluating and inspecting (if applicable) these assets prior to acceptance
 - Use experts who understand these assets
 - Have pre-defined form and structure of review

Manage Risk after that

- Have a well designed set of policies and procedures to address the unique risks associated with these assets
- Have appropriate expertise to administer these
- Have a well defined review and escalation structure for issues around these assets

All available information relating to oil, gas and mineral assets should be reviewed prior to acceptance for the following:

- Type and number of interests (mineral, royalty, working interest)
- What type of records are available
 - Deeds, Leases, Division Orders, Tax returns, Ad Valorem Tax Statements/receipts are all evidence of oil, gas and mineral ownership
- Where are the interests located
 - Accounts with interests in multiple states typically present certain challenges (Ancillary Administration, Dormant Mineral Statutes, Prescription, etc.)
- Working interests should be inspected prior to acceptance to determine if any environmental issues exist
- Are there any operated working interests?
 - These would present unique challenges and significant risk
- Number of oil company payors should be noted

Property Management

- Contract Negotiation (leases, farmouts, utilization agreements, etc.)
- Title and Division Order services
- Property review and analysis
- Client interaction and reporting
- Safe keeping of account document records and files
- Coordination with legal counsel regarding ancillary administration and other probate issues relating to mineral properties

Engineering

- Appraisals of assets as needed
- Review of all Joint Operating Agreements, AFE's, new well proposals, plugging operations, etc.
- Review of Joint Interest Expenses on Working Interests
- Location inspections of working interests as needed
- Evaluate new oil & gas investment opportunities
- Analyze historical production and forecast future production, revenue and expenses

Accounting

- Timely processing and coding of all production revenue and expenses
- Working Interest revenue distribution services as needed
 - Includes 1099 reporting, filing and mailing
- Professional ad valorem tax rendition and payments

It is important to recognize the liabilities associated with client' ownership of Oil and gas assets

- As an Asset Manager, due diligence regarding environmental issues should be commensurate with the risks associated with certain types of assets.
- Operated working interests entail the highest risk and accountability.
- Non-operated working interest may also entail relatively high risk, depending on the decimal ownership, type of field operations being conducted, location of the property, and competency of the operator.
- Clients' working interest should be insured against potential environmental damage and other perils. (Property damage, personal injury, etc.)
- Periodic physical inspections should be conducted by an experienced individual for those properties which meet or exceed defined risk levels as previously discussed.
- Mineral and royalty interests entail relatively little associated environmental risk and liability to the owners.
- Environmental issues can potentially impact both the surface ownership and mineral ownership of a property, so in the case of severed minerals, there may be other internal or external parties which will need to be consulted.
- Surface real estate managers inspecting assets should inspect oil field operations and if evidence of environmental issues are found, work with the O & G team and contact operator for remediation plan.

☑ Industry Developments

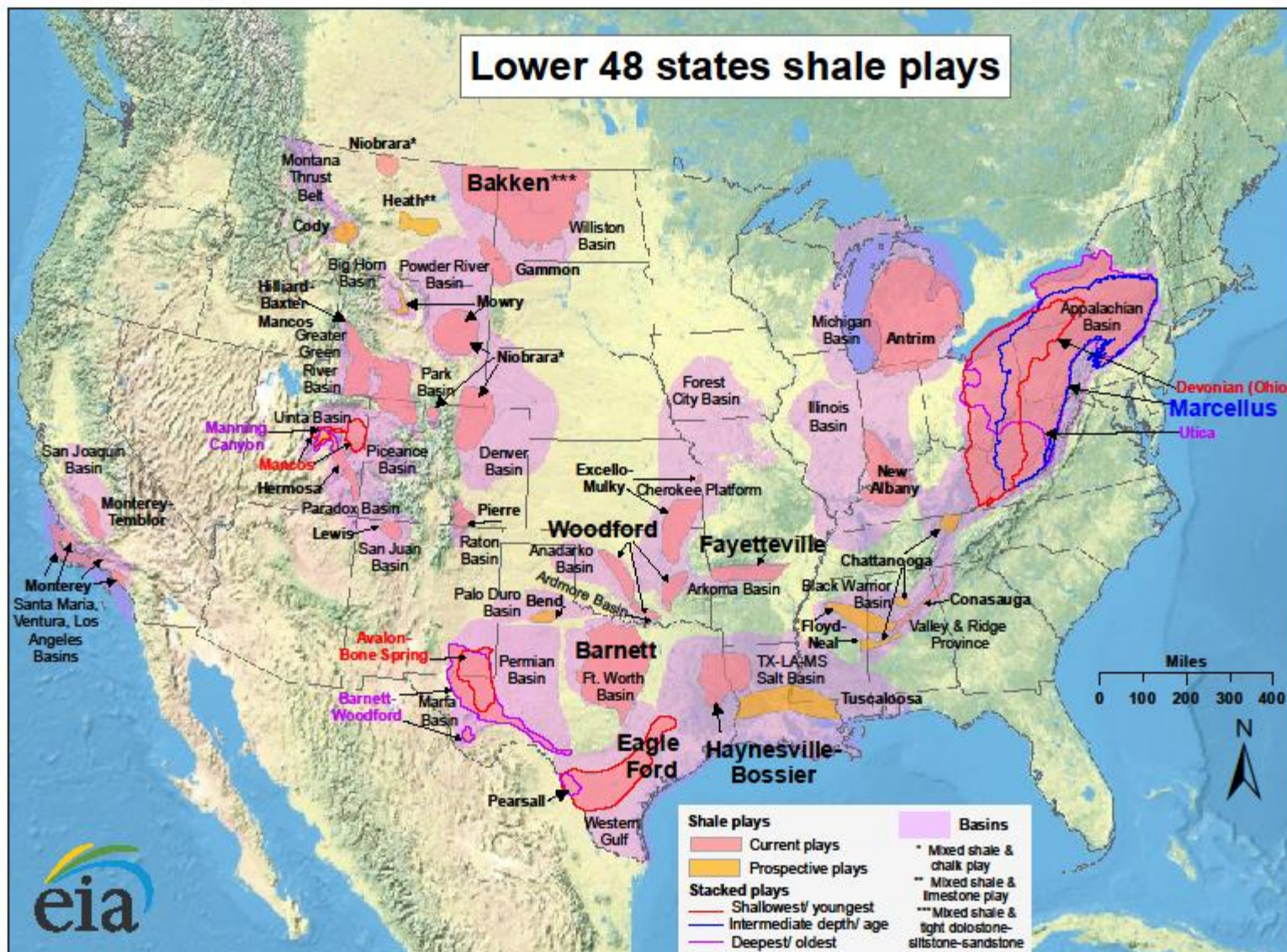
Oil and gas industry is constantly changing. New fields are discovered and new technology is developed . This can be seen with the various “shale” plays around the United States.

- Eagle Ford Shale
- Barnett Shale
- Haynesville Shale
- Bakken Shale
- Woodford Shale
- *See Attached Map*

With the amount of horizontal drilling and multi-stage hydraulic fracturing, many new areas of the country are seeing increased oil and gas leasing and drilling activity. How does “fracking” actually work? Here is a short animation.

Industry Developments

EIA Shale Map



Source: Energy Information Administration based on various published studies, Update May 2011