



Tips to Better Communicate with Mineral Owners

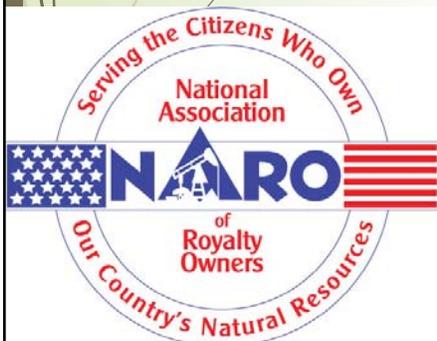
Denver Association of Division Order Analysts

Holiday Luncheon

November 12, 2018

Rob Prentice

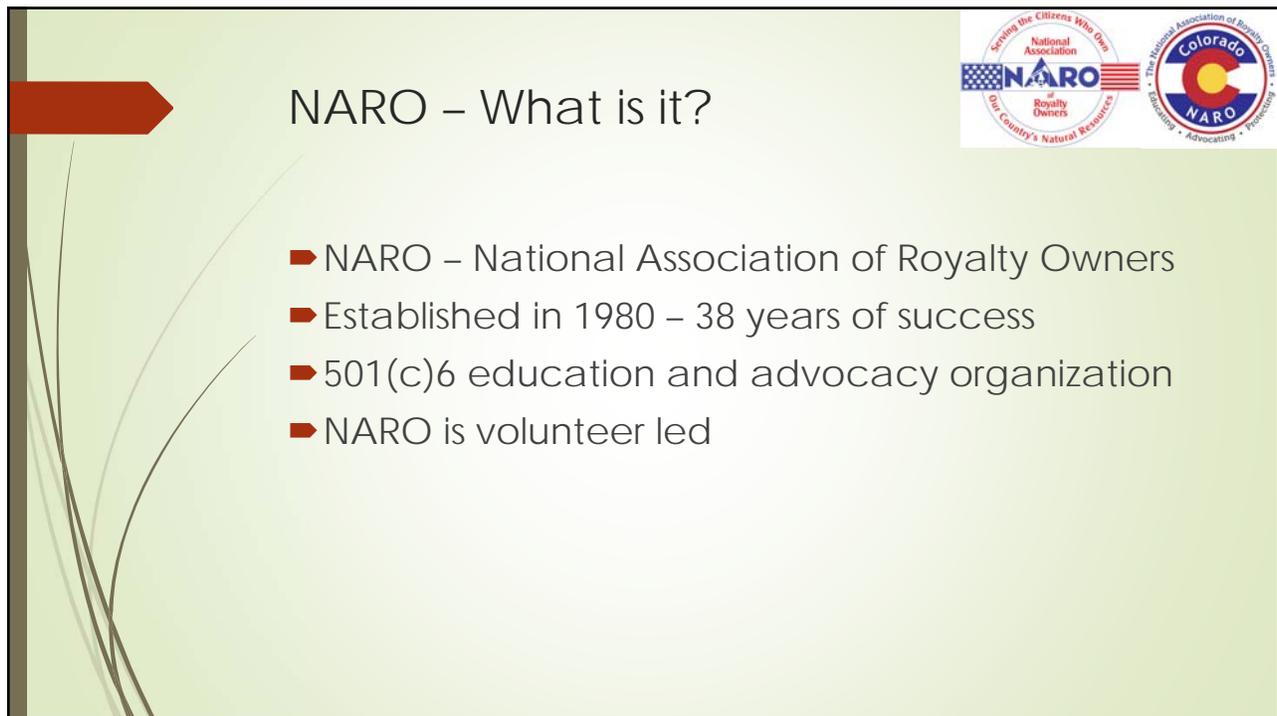
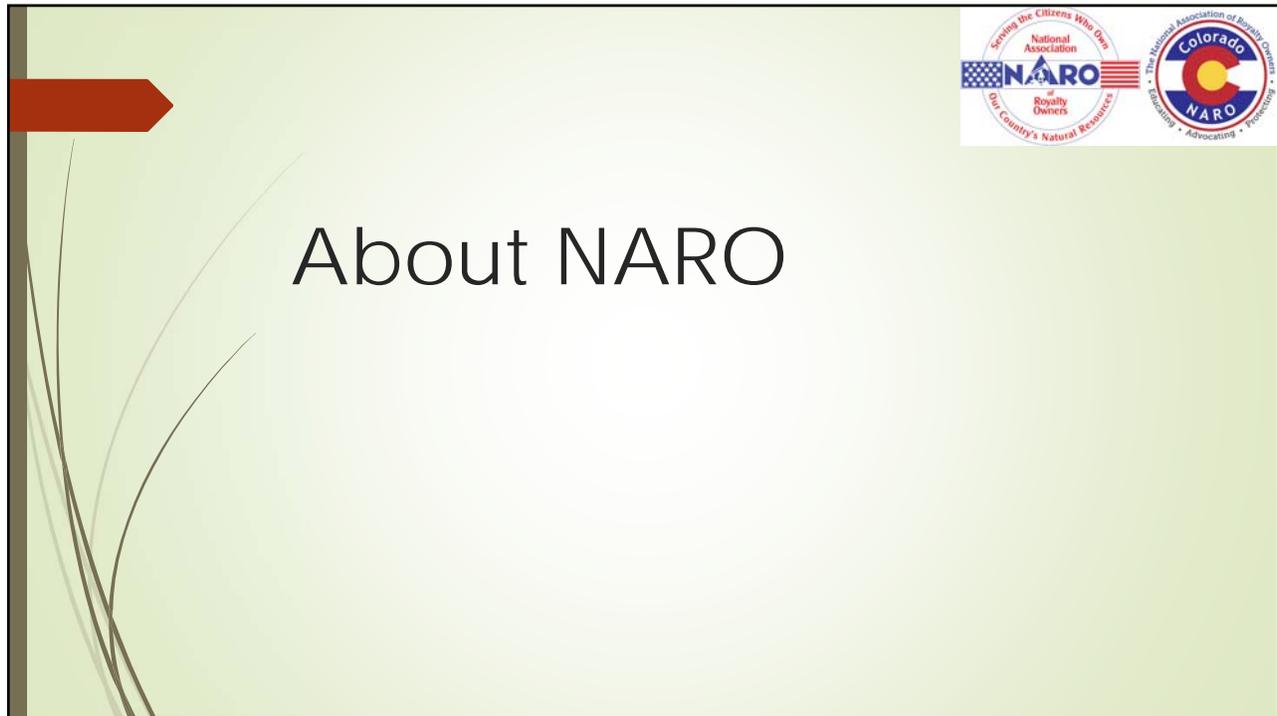
Colorado NARO President



My Background

- ▀ Second generation in the oil patch
- ▀ Colorado raised
- ▀ 18 years experience
- ▀ Worked on projects in all western states
- ▀ Worked on projects in over 30 countries worldwide
- ▀ Currently consulting with a firm called Turrett
- ▀ Live in Boulder





NARO – Mission Statement

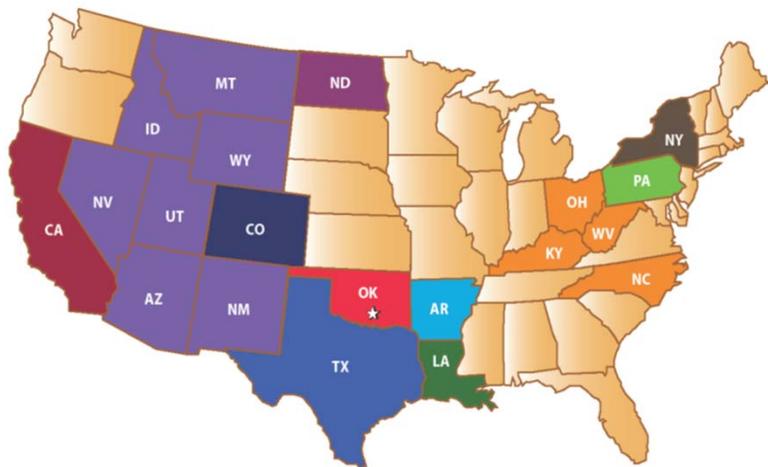


The mission of NARO is to encourage and promote exploration and production of minerals in the United States while preserving, protecting, advancing and representing the interests and rights of mineral and royalty owners through education, advocacy and assistance to our members, to NARO chapter organizations, to government bodies, and to the public.

NARO - Chartered Chapters



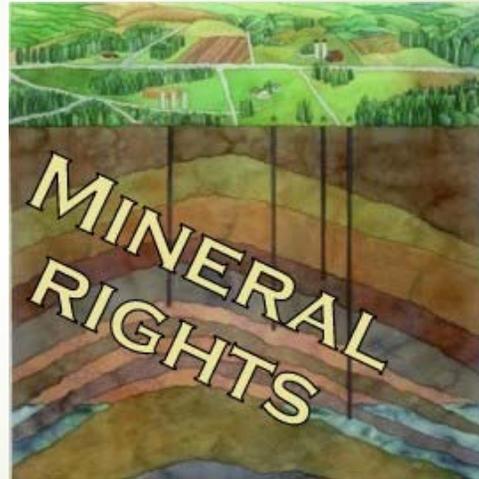
1. NARO-Texas
2. OK-NARO
3. NARO-Rockies
4. NARO-Arkansas
5. NARO- Appalachia
6. NARO-Pennsylvania
7. NARO-New York
8. NARO-Louisiana
9. NARO-California
10. NARO-North Dakota
11. NARO - Colorado



Mineral Ownership



- ▶ 8.5 million mineral owners
- ▶ Mineral ownership
 - ▶ 69% Private citizens, states, and local governments
 - ▶ 31% Federal Government



NARO Membership



- ▶ 1/3 Republican, 1/3 Democrat, 1/3 Independent
- ▶ The average NARO member is over 60 years old, widowed, and receives less than \$500 in monthly royalties as a supplement to their social security retirement income.
- ▶ Farmers, ranchers, family trusts, widows, charitable orgs. churches, hospitals, universities, etc.



What NARO Does



- Education
 - Hold town hall meetings to educate mineral owners about current events
 - Train mineral owners how to manage their minerals
- Networking
- Policy
- Counter half-truths and lies put forth by anti-oil and gas proponents with factual benefits of energy development
- Insert the voice of mineral owners in the media throughout Colorado and beyond
- Strong input on bill making process and legislative sessions
- Testify at the State Regulatory Hearings
- Train mineral owners to become storytellers about the benefits of the oil and gas industry
- Grow NARO's membership to include more defenders of industry on hand across the state for future battles



NARO Education



What We Teach Mineral Owners



- ▶ Mineral Management 101 is taught at almost every annual event
 - ▶ 1 hour course
 - ▶ Covers the basics
- ▶ CMM (Certified Mineral Manager)
 - ▶ 8 hour course
 - ▶ Two course lines
 - ▶ Associate requires 20 education credits
 - ▶ Professional requires 50 education credits
 - ▶ Three proctored exams

10 Duties of a Mineral Owner



- 1) **KNOW WHAT YOU OWN!**
- 2) Know what **information** you need and where to get it.
- 3) Know what is **going on** in your area of interest.
- 4) Know what the **future impact** the small print in the oil and gas lease/division order will have on your royalty payment.
- 5) Know **who has your lease**, your well, your production.
- 6) Know **what questions to ask**, and to whom to ask them.
- 7) Know **your limits**.
- 8) Keep **copies/originals** of everything and organize it.
- 9) Know that you must **remain vigilant** and DO something.
- 10) **PLAN.**

4 Major Mineral Owner Events



- 1) Ownership
 - 2) Leasing
 - 3) Division Orders
 - 4) The Check
-

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Division Orders



A Division Order is.....

- Issued by the company after production is established.
 - States the decimal interest on which you will be paid.
 - Is the link to information on your check stub.
 - Is NOT recorded at the county courthouse.
-

Division Orders

A Division Order is.....

an instrument which sets forth the proportional ownership in produced hydrocarbons, including crude oil, natural gas, and NGL's.

Sometimes the Division Order is referred to as a division of interest.

More often than not, a single well or lease will have multiple owners. In fact, it's not uncommon to have hundreds of parties owning an interest in a single well.



Division Orders

The main purpose of a division order is to protect the payor of the proceeds of production from double liability.

The company issuing the division order is requiring the royalty owner to

- (1) verify that the royalty owner's decimal interest set out on the division order is correct and
- (2) agree that the company can make payments based on that decimal interest until notified by the royalty owner that the ownership has been changed.



Division Orders

OIL & GAS DIVISION ORDER

Property Number: _____ Date Prepared: _____
 Operator: _____ Effective Date: _____
 Classification: _____
 Property Description: _____
 Production: Oil _____ Gas _____ Other _____

| | |
|-------------|-------------------|
| Owner Name: | Owner Number: |
| Address: | Type of Interest: |
| | Interest: |

The undersigned certifies the ownership of their decimal in production or proceeds as described above payable to:
 _____ (Payor)

Payor shall be notified, in writing, of any change in ownership, decimal interest, or payment address. All such changes shall be effective the first day of the month following receipt of such notice.

Payor is authorized to withhold payment pending resolution of a title dispute or adverse claim asserted regarding the interest in production claimed herein by the undersigned.

The undersigned agrees to indemnify and reimburse Payor any amount attributable to an interest to which the undersigned is not entitled.

Payor may receive proceeds until the total amount equals \$ _____ or pay _____, whichever occurs first, or as required by applicable state statute.

This Division Order does not amend any lease or operating agreement between the undersigned and the lessee or operator or any other contracts for the purchase of oil or gas.

In addition to the terms and conditions of the Division Order, the undersigned and Payor may have certain statutory rights under the laws of the state in which the property is located.

Special Clauses

Witness: _____

Owner(s) Signature: _____
 Owner(s) Tax IDSS No.: _____
 Owner(s) Daytime Telephone No.: _____
 Owner(s) Email Address: _____

FEDERAL LAW REQUIRES YOU TO FURNISH YOUR SOCIAL SECURITY OR TAXPAYER IDENTIFICATION NUMBER. FAILURE TO COMPLY WILL RESULT IN TAX WITHHOLDING IN ACCORDANCE WITH FEDERAL LAW, WHICH WILL NOT BE REFUNDABLE BY PAYOR.

•A Division Order is generally received by a mineral rights owner through the mail within 3 to 4 months after well completion.

•There isn't a deadline for returning your division order, but operators will be required to withhold taxes if it isn't received in a timely manner.

Make copies for your records and return the documents in a timely manner.



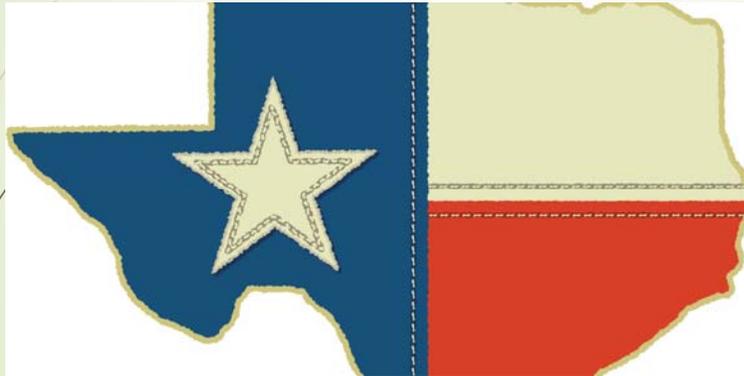
Division Orders

- It might be 3-6 months from the time a well is completed to the time you receive a division order.
- After that, it might be another 2-3 months before you receive your first check.
- Plan for up to nine months before receiving oil & gas revenue.



Division Order

Only Texas Requires a Division Order.



What we teach in the CMM Course

- Decimal Interest Calculations
- Send a W-9 to your Division Order Analyst to prevent automatic deduction of 28% sent to the IRS
- Use the NADOA Model Form Division Order to have an understandable, short, standardized form that meets all statutory requirements
- We cite the NADOA Model Form Division Order handbook (1995)

http://www.nadoa.org/forms/NADOA_Model_Form_DO_Booklet.pdf






Mineral Owner Communication

Gallup Poll of Industry Trust, 2018

Aug. 1-12, 2018

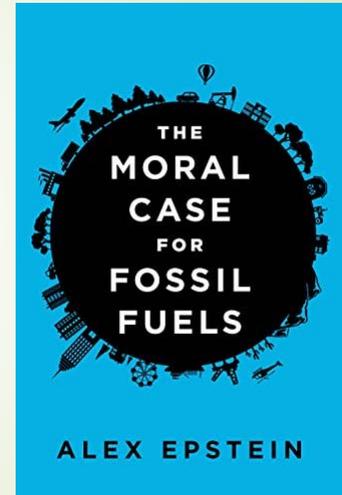
- 25 industries
- Oil and gas is 22nd of 25
- Oil and gas is one of four with a net negative ranking
- Good news: The 2012 Gallup Poll ranked Oil and Gas last place, so improvement has been made.

Source: <https://news.gallup.com/poll/12748/business-industry-sector-ratings.aspx>

| | Total positive % | Neutral % | Total negative % | Net positive |
|---|------------------|-----------|------------------|--------------|
| Computer industry | 60 | 28 | 10 | 50 |
| Restaurant industry | 58 | 31 | 10 | 48 |
| Farming and agriculture | 56 | 24 | 18 | 38 |
| Grocery industry | 53 | 27 | 18 | 35 |
| Travel industry | 50 | 35 | 13 | 37 |
| Retail industry | 48 | 31 | 20 | 28 |
| Automobile industry | 47 | 33 | 19 | 28 |
| Accounting | 39 | 46 | 12 | 27 |
| Real Estate industry | 46 | 32 | 21 | 25 |
| Publishing industry | 43 | 34 | 20 | 23 |
| Airline industry | 43 | 31 | 24 | 19 |
| Internet industry | 45 | 26 | 27 | 18 |
| Telephone industry | 41 | 34 | 25 | 16 |
| Electric and gas utilities | 42 | 28 | 29 | 13 |
| Banking | 42 | 28 | 29 | 13 |
| Sports industry | 42 | 27 | 30 | 12 |
| Movie industry | 40 | 28 | 29 | 11 |
| Television and radio industry | 40 | 26 | 32 | 8 |
| Education | 44 | 17 | 38 | 6 |
| Advertising and public relations industry | 35 | 31 | 32 | 3 |
| The legal field | 34 | 30 | 34 | 0 |
| Oil and gas industry | 31 | 23 | 44 | -13 |
| Healthcare industry | 34 | 18 | 48 | -14 |
| Pharmaceutical industry | 30 | 16 | 53 | -23 |
| The federal government | 26 | 19 | 53 | -27 |

Industry is Generally Perceived Unfavorably

- Proposition 112 made us look as if health and safety was not a priority
- We are judged harshly on our mistakes
 - Recent fire by Milton Reservoir
 - Tank battery fires
 - Firestone house
 - Spills
- The general public does not realize how prolific oil and gas products are in their lives
- The general public does not recall a time without living with an abundance of energy
- If public perception is dictating public policy – education and openness can help bridge the gap.
- The Moral Case For Fossil Fuels by Alex Epstein



Interactions with Mineral Owners

- Personal contact leaves a lasting impression
- Goal is to create a positive experience
- Golden rule still in effect: Treat the royalty owner how you wish to be treated
- Think of yourself an advocate for both the mineral owner and your company
- The image that the press represents is out of your control, but
- The reputation of your company through 1 on 1 dealings with people is 100% in your control







Helpful Information from you for Mineral Owners

- Website information availability
 - Very well done
- Accessibility via phone
 - OK, but the realities prevent getting a person every time
- Accessibility via email
 - OK, but the realities prevent immediate replies
- Regular mail
 - Works, but many people are unsure of what they have received and need help





Trust and Accessibility

- Mineral owners feel like the "small fry" up against the professional oil and gas companies
- They know they lack knowledge and feel like they can be taken advantage of
- Worry their small mineral interest is not significant to the overall mineral holdings of oil and gas companies
- Unclear who works for whom. Who do they trust? Are land managers contractors or employees?



Trust and Accessibility

- Client was asked to confirm his decimal interests. He had no idea and was untrusting.
- Recent case – members were calling to ask if there was a noticeable drop in revenues after operator change.
- Some things are out of your control
 - Industry is lumped together as a whole
 - Operators
 - Land Managers
 - Mineral Buyers



Working Together



How Can We Help You?



- ▶ More training on particular topics?
- ▶ Joint events "Mineral Owner Appreciation Day" to meet and greet with mineral owners?
- ▶ NARO Town Hall Meeting participation?
- ▶ Direct untrusting mineral owners toward NARO?

Save the Date – Colorado NARO Conference



Friday
June 14th, 2019

This is an excellent chance to meet
your mineral owners

Sponsorships are welcome

Get CPE credits!





Contact Information



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