

Compensation Issues 2010

Industry Review of the Marriott Report

Compensation Issues 2010

- Introductions
- Review 'Top 40' operator list
 - Special guests
- Complete attendance sign-in
- Written materials
 - Distributed throughout meeting
 - Written document of presentation content
 - Without detailed numbers
 - - available on website
- Survey Questionnaire
 - Review at end of presentation
 - Send to those who could not attend today

Overview of today - part 1

- Why are we here?
 - Overall objective and process
 - Today's goal and rules of engagement
- What are the DB products?
 - Need a Common Understanding
 - Objectives/principles, history/background
 - Current products and services beyond Field Tool
 - Usage levels – field tool
- Break (or 10:30)
- **What's wrong with the DB Field Tool?**
 - Shopping list with details
 - Principles or implementation?
 - Options to fix the problems
- What broader issues are facing industry?
 - Will a forum or DB analysis help?

Overview of today - part 2

- Obvious Improvements to the Field Tool
 - Improve accuracy and coverage AB, SK
 - Extensions eg. add BC, MB
 - How do we do it?
- New products/services based on the data
 - SRB dispute resolution package
 - Monthly field index
- Are there better ways to administer?
 - Branding and delivery
 - Governance and funding
- Next Steps
 - Walk thru the survey
 - Review ways to participate
- Adjournment

Overview of today - part 3

- **Rules of Engagement**
- Your time is precious
- There is a lot to cover please be patient
- Short presentations followed by
 - Discussion of the issues raised
- We want to fully understand the problems
 - Try to determine if valid or not
- We want to review possible solutions
- Please - only one topic at a time
- Please - speak up, don't be shy
- Any questions? – on content of each slide

Why a “Review” Now

- Timing is right
 - Industry going through major restructuring
 - 15 years evolution of the product
- Data coverage has been a disappointment
 - 60-70% companies/drilling support ‘in principle’
 - But only 30-40% takings coming in
- Why disconnect between ‘principle’ and ‘practice’?
- Product has evolved much in 15 years
 - Additional applications not well understood
- Start from scratch – everything open for discussion

Why are we here today?

- DB Field Tool has suffered much abuse
 - Just don't get no respect
- People either love it or hate it
 - Some of the hate is undeserved
 - But there are legitimate concerns
 - Detractors don't seem to want to fix it ???
- Those who love it
 - Treat it as one tool in the tool box
 - Also use word of mouth (WOM)
 - Find it superior for
 - 'going' rates, comparables, details, outliers
- When DB thin then they use WOM

Why are we here today?

■ Questions / Comments

Overall Objective and Process - part 1

- **To identify 'problems' with the DB**
 - Objectives & Principles – still valid?
 - Implementation Problems
 - What are they?
 - Options to correct
- **DB - continue or end?**
 - 'Waterloo' of the DB
 - **Decision is industry's to make**
- **If Continue**
 - Decide new features or administration
 - Implement new features
 - Re-market 'new and improved' to industry

Overall Objective and Process – part 2

- **Timeline for the review (tentative)**
 - April 13 – identification of ‘problems’ and possible solutions
 - May 11 – ‘Waterloo’ meeting (open)
 - Review report from issues raised on April 13
 - Review operator survey results
 - Decision to continue or cease made by paying customers
 - If continue – recommended changes
- **If the DB continues then:**
 - May 26 – Broker meeting to solicit co-operation
 - May 27 – This group meets again to review new DB
 - June 1 – Commence roll-out to industry
 - Sept. 1 – Go ‘live’ with new system

Overall Objective and Process – part 3

- **Deliverables of the “Review”**
- Open forum to review issues
- Survey of operators and brokers
- Report findings to industry (May 11)
- Decision to continue DB or not
- If continue, new product provides
 - Public list of operators committed to:
 - Supply data – to deal with coverage issue
 - Provide funding – to show the flag
 - Public list of brokers committed to:
 - Deliver data as directed by operators – will cooperate
 - Utilize DB as a research tool - will be easily informed

Overall Objective and Process

- Questions / Comments

Underlying Fundamentals – part 1

“As we all should know, going to the Surface Rights Board and other tribunals is getting more difficult, costly and risky in this environment, and so we agents have to be even more prepared for the questions we are getting and more prudent in the decisions we are making in the field.”

Underlying Fundamentals – part 2

“As we all should know, going to the Surface Rights Board and other tribunals is getting more difficult, costly and risky in this environment, and so we agents have to be even more prepared for the questions we are getting and more prudent in the decisions we are making in the field. **One or two bad deals can change a rate or pattern in an area because landowners are communicating better than we are.**”

Underlying Fundamentals – part 3

“As we all should know, going to the Surface Rights Board and other tribunals is getting more difficult, costly and risky in this environment, and so we agents have to be even more prepared for the questions we are getting and more prudent in the decisions we are making in the field. One or two bad deals can change a rate or pattern in an area because landowners are communicating better than we are. **So let's all do our research, talk to one another and see if we can collectively improve the perception of our business and the oil and gas industry in general, out in the communities in which we operate.**”

Underlying Fundamentals – part 4

“As we all should know, going to the Surface Rights Board and other tribunals is getting more difficult, costly and risky in this environment, and so we agents have to be even more prepared for the questions we are getting and more prudent in the decisions we are making in the field. One or two bad deals can change a rate or pattern in an area because landowners are communicating better than we are. So let’s all do our research, talk to one another and see if we can collectively improve the perception of our business and the oil and gas industry in general out in the communities in which we operate.”

IRWA Surface Rights Committee, Newsline, Nov 2005

Underlying Fundamentals – part 5

- **IRWA Position**
- ‘Preparation’ is key
 - (there is not enough)
- ‘More prudent’ (pricing) decisions
 - (there are too many bad deals)
- ‘Bad deals’ have wide ranging effects
- More sophisticated adversary
 - (with the help of government)
- ‘Let’s do our (price) research’
- Industry communication is paramount
- This is a ‘collective’, co-operative venture

Underlying Fundamentals – part 6

- **Pricing Research**
- Fundamentals – value within the ‘heads’
 - Real estate prices, crop yields/prices, farming impacts
- ‘Going’ established rates
 - Are they the same for all operators?
 - When and why did they change?
- Comparables for detailed variations
 - Reflects unique characteristics of each property
- Problem Cases
 - Where are they and why did they happen

Underlying Fundamentals

- Questions / Comments
- Agree/ disagree?
 - DB is superior for price research

DB Objectives/Principles – part 1

- **DB Objective # 1 - Market Efficiency**
- **Competitive pricing**
 - Prevent bad deals with easily accessible information
- **Consistent pricing**
 - Use ‘established’ rates, but
 - Understand the underlying compensation fundamentals
 - Understand detailed variations within an area
 - Understand exceptions, anomalies, outliers
- **Transparent pricing**
 - Full disclosure of bad deals
 - To allow adequate counter arguments

DB Objectives/Principles – part 2

■ DB Objective # 2 - Research Efficiency

- Cheap – for both data provider and user
- Accessible – available without restriction
- Detailed – that's where the devil is
- Comprehensive – nothing left out
- Objective – no human interpretation
- Fast – you need it when?
- Accurate – exact numbers

DB Objectives / Principles – part 3

- Cost problem is not you or your brokers
- **Escalating Costs driven by**
- Least organized
- Least responsible
- Least competent
- Least accountable
- Least informed
- Least professional
- Cost solution requires leadership
- Bad news – that leadership is you!

DB Objectives / Principles – part 4

- **Additional Principles**
- Landowners compensated for losses
 - No more no less
- Use ‘heads’ of compensation
- Equity
 - Same treatment for all landowners
- Full disclosure
 - All details, all leases
- Professionalism
- Co-operation

DB Objectives / Principles – part 5

- Questions / Comments
- Are the DB Objectives still valid?
- Are the DB Principles still valid?

DB History/Background – part 1

- **History snapshot**
- 1995 CAPP Surface Land Committee
- Pilot project 15 companies
- 75% commitment to provide data
 - Look at 1994 list
- CAPP did not wish to be administrator
 - Some brokers did, but
 - Seen as a conflict of interest
- Fax machine/paper reports evolves
 - to website DB queries
- Field tool expands to administrative/aggregate

DB History/Background – part 2

- **Initial Issues resolved**
- Competition Act
- Privacy concerns
- Alberta SRB review
 - Cec Purves – reports weak evidence for hearing
- Alberta FAO review
 - Paul Vasseur (Mr. out baby with bath-water)
 - If not 100% coverage, then 100% useless
- Sask SRB review
 - Data provided by staff
- SEPAC endorsement

DB History/Background – part 3

■ Development Milestones

- 1995 Pilot project
 - DB is feasible
- 1998 CAPP internal analysis of data
- 2001 Internet capability
- 2001 aggregate analysis - trends
- 2005 benchmarking – high level
- 2007 data exports from operators systems
 - Apache data not coming from brokers
 - iLand Tracker System
- 2009 discussions on export from CS Explorer

DB History/Background – part 3

- **Evolving Business Model**
- Operators pay to publish their data
 - Benefits are indirect
 - Brokers provide data
 - Brokers are free
 - Not much cash
- Operators start to drop out
 - Continue to supply data
 - Users of data are brokers
 - Brokers pay token fee
- **Brokers pay based on usage**

DB History/Background – part 5

- **Data Submissions - avg. over 3000/yr, 50-70 week**

Year	Data sets	Per week
2003	3468	67
2004	2569	49
2005	3673	71
2006	3830	74
2007	2857	55
2008	3741	72
2009	2112	41
2010 est.	2777	53

DB History/Background – part 6

- **Data sources table**

Sources %	2006 + prior	2007	2008	2009	2010
Brokers	98	85	57	45	53
In-house	0	0	0	15	25
Systems	0	13	41	39	22
SRB	2	2	2	<1	0

DB History/Background – part 6

■ Data Submissions – Company coverage

<u>Company</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
p1	728	732	607	757	438
other	624	533	418	655	261
p2	517	727	775	890	116
p3	416	255	2	2	0
p4	360	163	149	39	5
p5	246	60	44	153	27
p6	232	209	82	147	7
p7	229	98	164	137	73
p8	116	427	235	666	371
p9	48	1	0	0	0
p10	43	35	0	0	0
p11	40	156	60	25	0
p12	30	38	0	0	0
p13	27	35	45	4	18
p14	20	165	147	102	48
p15	13	63	48	85	55

DB History / Background

■ Questions / Comments

Current Product/Service – part 1

- Ensure a common understanding
- Traditional subscription marketed as:
 - **Field Tool**
 - complete information source for specific areas,
 - comprehensive information source when moving into a new area,
 - background information source prior to direct negotiations.
 - **Administrative Tool**
 - starting point for the preparation of evidence for the SRB,
 - information base for rent reviews,
- Special industry/aggregate analysis
 - **Management Tool**
 - Trend analysis
 - Benchmarking
 - Lobbying support

Current Product/Service – part 2

- Field /Administration tool - subscription
 - Reports include:
 - Wells, pipelines, facilities
 - Rent reviews and SRB decisions
 - Comprehensive report
 - Most recent five years of data
 - Detailed query report
 - More detailed and specific
- Management analysis – consulting projects
 - Trend analysis
 - How much change, where and why?
 - Benchmarking
 - Against Industry as a whole and against peers
 - In aggregate and in specific areas

Current Product/Service – part 3

- **Hands on Field Tool demo**
- **Access Code**
 - Username: waterloo
 - Password: doordie
- **Look at 2 specific areas**
- **Open up – any area you would like to see?**
- **Management Tool**
 - See ‘Price Determinants in Alberta Surface Compensation’
 - Nexus is on WDM website

Current Product/Service

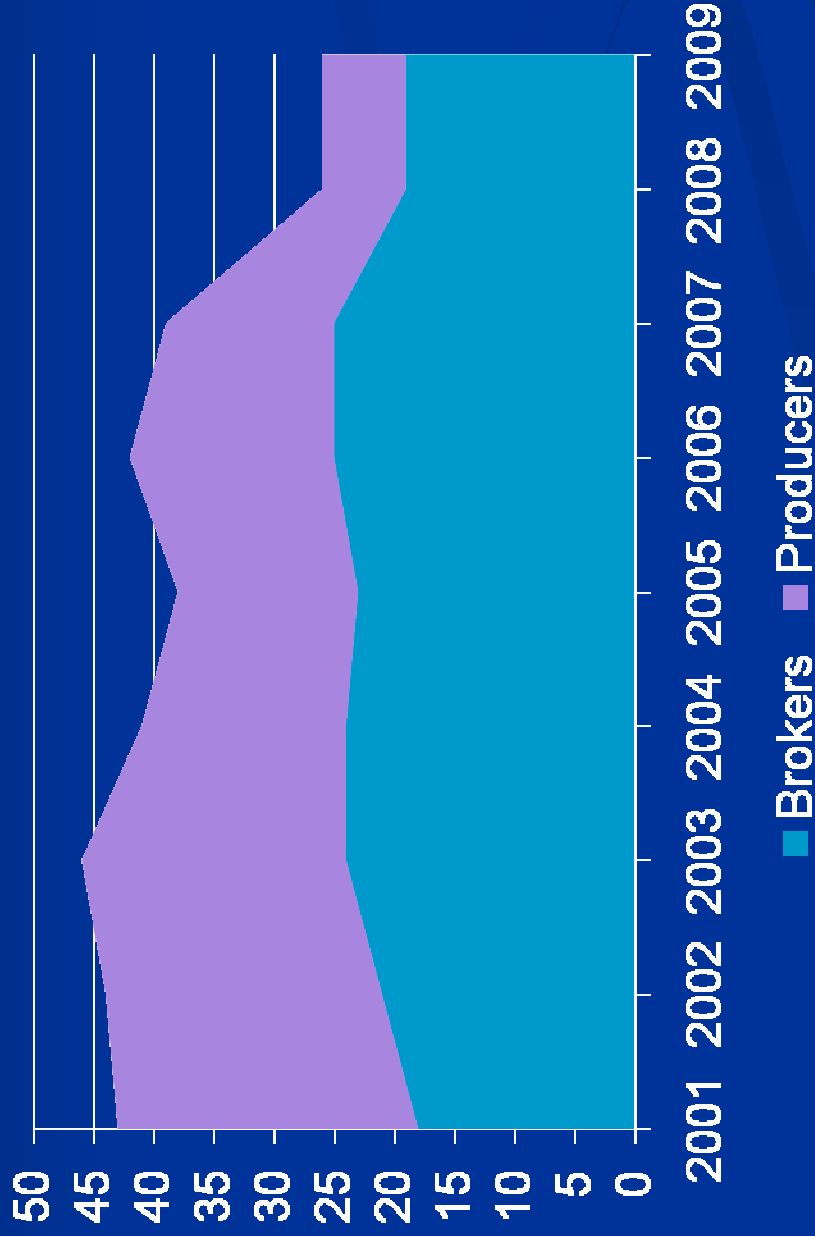
■ Questions / Comments

Actual Usage Statistics – part 1

- **Subscription Base - companies**
- Over 15 years - total
- Producers - 30
- Brokers – 35

Actual Usage Statistics – part 2

■ Subscription Base – companies



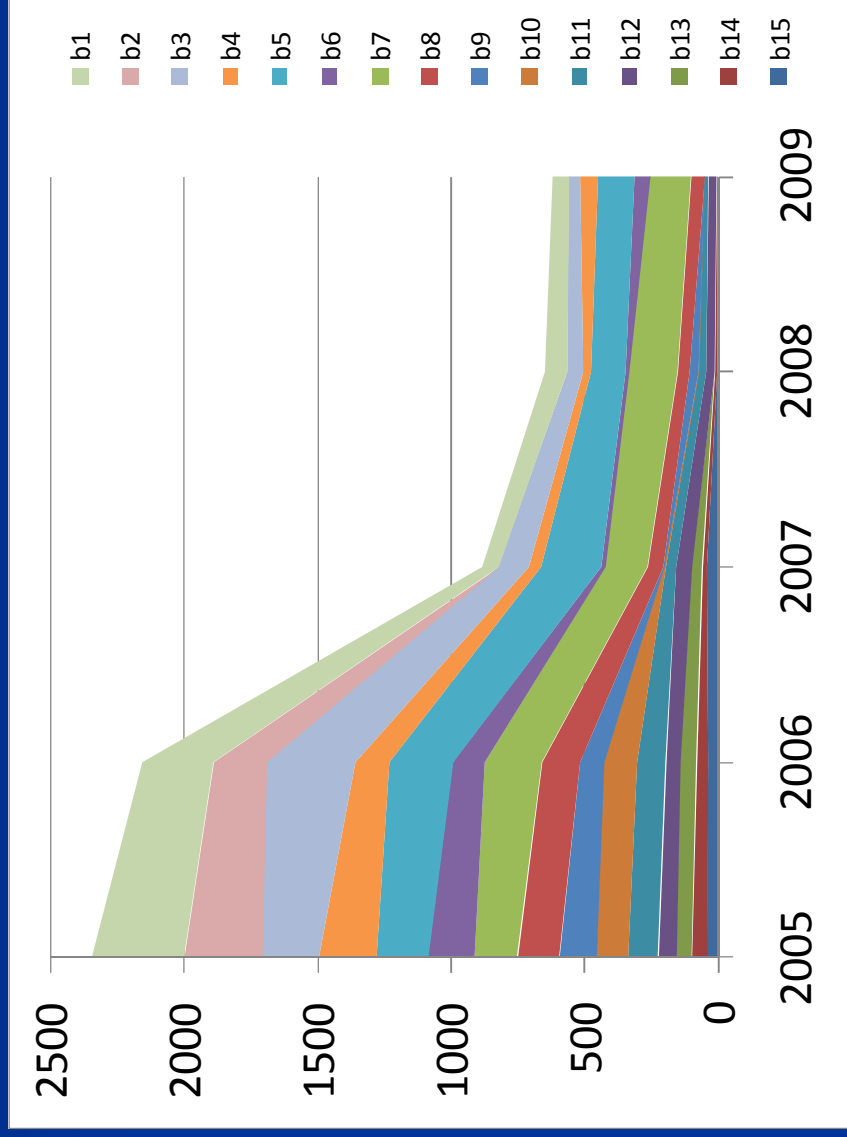
Actual Usage Statistics – part 3

■ Total Log-ins (DB searches)

Year	Log-ins	Per day	% Broker
2003	1901	7.5	92
2004	2824	11.3	91
2005	2808	11.2	92
2006	2105	8.4	89
2007	1121	4.5	92
2008	1085	4.3	90
2009	1125	4.5	75
2010 est.	1475	5.9	63

Actual Usage Statistics – part 5

■ Top 15 Log-ins – Brokers



Actual Usage Statistics

■ Questions / Comments

Break

What's wrong with the DB?

- Describe the problem
- Is it valid?
- If valid
 - What are options to correct
- **List to hand out**

Broader Industry Issues

- Will DB aggregate analysis help?
- **List to hand out**

Product Enhancements / Extensions

- Add Coverage
 - BC – FAO is coming
 - MB – necessary?
- Monthly Field Tool Index
 - Like a stock index or CPI
 - Aggregate price changes
- SRB Dispute Resolution Report
 - Not hearing ‘evidence’
 - Work with SRB for approval as credible source
 - Will require coverage and quality assurance
- **Questions / Comments?**

Administrative Alternatives – part 1

- Re-brand to emphasize cooperative
 - Dump ‘Marriott’ since the DB is industry’s
 - AIX (axe) – Access Information Exchange
- Delivery / Funding
 - Through Trade Association, CAPL or AASLA
 - Is it worth asking the question?
- Governance
 - To ensure accountability
 - Advisory Board + User group
- **Questions / Comments?**

Administrative Alternatives – part 2

- Funding
 - Who benefits
 - Who pays (ultimately?)
- Security is weak
- If operator funding then
 - Brokers essentially free
- **Questions / Comments?**

Very Last Word

- **Case for continuing DB**
- Field Tool superior to WOM for:
 - Going rates, comparables, details, bad deals
- Many of the 'problems' are misconceptions
- Substantive problems can be corrected
- Administration tool (rents) becoming more important
- Management tool (trends) important
- Lobbying ammunition critical
- Broker competition
 - Not based on access to data
 - Price, professionalism, effectiveness

Next Steps

- **Survey Questionnaire**
 - Walk through each question
- **Waterloo Meeting**
 - Review what we have learned
 - Paying Brokers will be invited
 - Decision to continue or cease
- **If Continue**
 - Specific concrete proposal
 - Action plan to implement
 - Includes progress reports and review