

# GETTING YOUR OWNER RELATIONSHIPS RIGHT



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The relationship between operator and owner is one of the cornerstones of the U.S. oil & gas market today, and yet often little attention is paid to this crucial business process that can have a tangible impact on the bottom line and staff productivity.

In this paper, we look at some of the challenges of operator/owner relations; whether to look to in-house or to external solutions to address them; and how Enverus is helping operators take back control of this vital business process through strengthening owner relationships, increasing staff efficiencies, and lowering the cost of owner support.

## THE CRITICAL OPERATOR/OWNER RELATIONSHIP

One of the most important – but sometimes understated relationships – in the oil & gas sector is between the operator and mineral rights owners, vendors, and working interest partners. Today, according to the National Association of Royalty Owners (NARO), there are between 8 and 12 million mineral rights owners in the United States with 80% of drilling in the country taking place on private land.<sup>1</sup>

These owners play an integral role in the domestic oil & gas industry, allowing the first step in the development of assets. The current boom in shale plays, such as the Permian and Eagle Ford, has only increased these numbers with landmen competing to secure leases under thousands of homes.<sup>2</sup> The attractiveness of many owners' assets has also led to a number of investors buying up these rights.<sup>3</sup>

The framework of the relationship and the rights and responsibilities between mineral rights owners and operators are relatively straightforward – having been in place since the early 1900s. In such cases, a typical lease contract consists of an up-front lease bonus payment plus a royalty percentage of production to the owner in return with the operator's right to drill and produce. This is the start of the relationship.

<sup>1</sup>National Association of Royalty Owners (NARO) Mission Statement - <https://www.naro-us.org/page-1863718>

<sup>2</sup>In Permian land rush, oil companies knock, call and hope for divine intervention', Houston Chronicle, Nov 12 2016, <https://www.houstonchronicle.com/business/energy/article/In-Permian-land-rush-oil-companies-knock-call-10610795.php>

<sup>3</sup>As Drillers Struggle, Shale Investors Seek Safety in Mineral Rights', Wall Street Journal, July 22 2019, <https://www.wsj.com/articles/as-drillers-struggle-shale-investors-seek-safety-in-mineral-rights-11563814128>

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From streamlining payments to coordinating incomes for the IRS, managing check runs, drawing up acquisition letters, and coordinating Automated Clearing House (ACH) activities, operators today must commit to providing the highest level of service to owners and working interest partners. They must ensure that all inquiries regarding ownership and payments are met and address the increased complexities and challenges of today's operator/owner relationship. Such challenges include:

- **Managing Owner Activities Efficiently** — There is a need to provide real-time support to owners and working interest partners as efficiently as possible, while ensuring that such activities don't impinge on operator staff productivity.

Unfortunately, however, such activities – from taking owner calls to handling emails, royalty checks and answering a vast array of questions (see some typical questions below) – can be a time-consuming and potentially disruptive process that often falls on accounts and land management teams. Such staff would be more productive and of greater value if they could focus on more strategic tasks, such as identifying new lease opportunities or preparing quarterly reports to drive business decisions.

### **A Wide Variety of Questions**

What happens when the interest owner of a property passes away?  
Are income taxes automatically withheld from my royalty payments?  
What should I do if I do not receive a check that was issued to me?  
What should I do if I ever lose my check, it is stolen, or I forget to cash it?  
Will the royalty check vary?  
Why am I not getting paid for the current month of production?

- **Managing Costs** — This decline in employee productivity and the diversion from more strategic activities outlined above can have an inevitable impact on costs, especially in the case of smaller operators with limited resources and a growing list of mineral rights owners. Other costs include training personnel to take calls and mailing costs.
- **A More Complex Relationship** — The last few years has also seen increased complexity in the owner/operator relationship with more documents needing to be transferred, information sourced, and tax data filed, as well as a growth in the number of owners.

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The shale boom over the last few years has also led to mineral and property rights “increasing significantly in value and becoming a significant source of income,”<sup>4</sup> as well as complex tax requirements across state lines. If an owner lives in Texas and has a royalty interest in Louisiana, for example, they may have to file a Louisiana income tax return.

From revenue check details to Joint Interest Billing (JIBs) or 1099s, there are a wide variety of documents to be accessed and acted upon. In regard to tax treatment, there are also a number of different payments that need to be reported including bonus payments, installed bonus payments, delay rentals, royalty income, advance royalties, shut-in payments, and damage payments. Such complexity puts increased pressure on the operator.

- **Transparency and Consistency** — The highest levels of transparency, consistency, and professionalism are required when it comes to managing the operator/owner relationship.

Regarding consistency, there is a need for real-time call monitoring and reporting for quality compliance and service consistency. There is a danger, however, that people from multiple departments will handle calls from owners, leading to mixed messages and sometimes inaccurate information. It's essential for there to be high levels of transparency and customer communications.

- **IT Infrastructure** — IT is an issue as well, with many operators – in particular the smaller ones – struggling to adopt user-friendly portals that can be accessed 24/7. The lack of a good portal also leads to increased print and mail costs and the dangers of fraudulent activity. The Governor of Texas recently signed into law new protections designed to safeguard mineral owners from fraudulent activity due to a growth in falsified lease offers that cause minerals owners to unknowingly sell a majority of their royalty interests.<sup>5</sup> A personalized portal and secure communications prevents such threats with there being a need for industry-standard controls to ensure the confidentiality, integrity, and availability of operator/owner data.

<sup>4</sup>Oil and Gas Tax and Wealth Planning Considerations for Landowners, Deloitte, <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/Tax/us-tax-pcs-oil-and-shale-100913.pdf>

<sup>5</sup>Texas Expands Protections for State's Royalty Owners', Texas Independent Producers and Royalty Owners Association, June 25 2019, <https://www.tipro.org/newsroom/tipro-news/texas-expands-protections-for-state-s-royalty-owners>

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- **Scalability** — As operators grow and increase their owner network, there is also the issue of scalability with a need to scale up or scale down operator relations due to external circumstances, such as the run-up to the end of the tax year, volatile oil prices, or acquisitions. According to Enverus' analysts there were \$65 billion in M&A deals during the second half of 2019<sup>6</sup> in the U.S., many of which are likely to lead to a transfer of owners and put more pressure on owner relations processes.
- **Next Generation Demands** — Finally, many mineral owners are looking to pass on ownership rights to the younger generations. In addressing the needs of these new generations – from millennials to generations x and y – communications will need to get better, smarter, and faster.

### An Essential Business Process

It's crucial for operators to have a high-quality relationship with their owners. Any weaknesses and vulnerabilities in that relationship directly impact the bottom line as well as employee productivity.

The next part of this paper will examine whether you can put in place the necessary processes for a successful operator/owner relationship in-house or whether it is advisable to look to the expertise of third-party providers.

## BUILDING UP CAPABILITIES IN-HOUSE

One option in handling the new array of challenges in the operator/owner relationship and the accompanying communications is to build up capacity in-house. Bringing in internal contractors or call centers, for example, would help free up crucial accounting and land staff to focus on more strategic activities.

Such an approach, however, comes with its disadvantages. Newly recruited staff and contractors in this area often have high turnover, leading to the need to get new people up to speed and increasing training costs. There is also a danger that this could impact the service provided to owners.

<sup>6</sup>Oxy-Anadarko Deal Anchors Muted M&A Rebound in 2Q; Rigzone, July 3 2019, [https://www.rigzone.com/news/oxyanadarko\\_deal\\_anchors\\_muted\\_ma\\_rebound\\_in\\_2q-03-jul-2019-159220-article/](https://www.rigzone.com/news/oxyanadarko_deal_anchors_muted_ma_rebound_in_2q-03-jul-2019-159220-article/)

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Another issue is the ability to access a suitable talent pool in what is a tight labor market. According to the 2019 Global Energy Talent Index, 40% believe a skills crisis already exists in the oil & gas sector and 28% expect the situation to 'take hold' within the next five years<sup>7</sup> – not an ideal environment for recruitment.

Finally, it's required to have an effective IT infrastructure and owner portal with all the accompanying costs, security, and scalability concerns that come at a time when the majority of IT costs are directed at revenue-generating parts of the business.

## THE BENEFITS OF OUTSOURCING – ENVERUS' OWNER RELATIONS MANAGEMENT SERVICES

The second option is to look to outsource owner relations management.

The benefits of outsourcing include flexibility with the ability to only pay for what you use, and ramp up activities only during busy times of year such as the end of the tax year; a consistent service with access to experienced accounting and land professionals that are up and running almost immediately; and reduced costs and greater productivity through a decline in training and other infrastructure costs and a freeing up permanent staff time to focus on higher value activities.

It's with these benefits in mind that Enverus offers Owner Relations Management Services, helping operators strengthen owner relationships, increase staff efficiencies, and lower the cost of owner support.

Our solutions provide operators with turnkey support options including:

- **An Owner Portal** — The fully supported service provides operators and partners with secure, convenient 24/7 access to virtually any statement or other document via a custom-branded owner portal accessible from any web-enabled device. Backend security, data encryption, portal input validation protections, and robust security access are also in place to protect owner data. An effective portal will also lead to lower printing costs.

<sup>7</sup>Oil and Gas Industry 'Facing Impending Skills Crisis', Oil Industry News, 23 January 2019, <https://www.oilandgaspeople.com/news/common/post.asp?postId=17796>

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- **Call Center Services** — While support calls can be reduced through an effective web portal and mailing services, there will always be a need for support call capabilities. Enverus provides a call center service that consists of experienced staff, many with more than 15 years of direct land or accounting experience that can either handle all calls or act as an overflow option for existing staff.
- **Print and Mail Services** — Let us improve staff productivity by helping operators print and mail checks, statements, acquisition letters, ACH sign-up forms, and more. Such a service is on-demand with the operator paying for what they use.

### How Strong Owner Relations Can Deliver Straight to the Bottom Line

With Enverus' Owner Relations Management Services, operators can:

- Eliminate up to 75% of owner relations support time and costs
- Reduce owner and partner call volume by up to 80%
- Resolve up to 80% of callers' issues on the initial call, without ever involving the operator

The service is flexible, scalable, and available as needed, with operators only paying for the service they require based on their businesses. More resources can be provided, for example, during times of peak demands such as the 1099 season (at the beginning of the year prior to the February 28 or April 15 deadlines), during significant oil price fluctuations, or through the result of acquisitions.

There is also a significant reduction in costs with no need to maintain in-house staff and dedicated technology and infrastructure to cost-effectively support owners and partners.

The Enverus owner portal can reduce owner relations time and costs by up to 75%; our call center services can reduce call volumes by up to 80%; and operators can free up existing staff for more strategic, higher-value tasks (see the Utah Gas Corporation Case Study).

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### Utah Gas Corporation – Freeing Up a Month's Worth of Time

Utah Gas Corporation (UGC), a private diversified energy development company headquartered in Rangely, Colorado, needed help with their owner relations. Managing the monthly check run process took three staff members two full days to manually process statements and checks for mailing.

Using the Print and Mail managed service as part of the Enverus Owner Relations Management Services, improved UGC's operations to such an extent that the company Treasurer, Land Manager, and Accounts Payable Manager gained a whole month time to focus on higher priority tasks for the company.

## A 'MUST HAVE' IN BUSINESS OPERATIONS TODAY

As this paper has demonstrated, effective owner relations can directly impact your business and is a 'must have' rather than a 'nice to have' in business operations today.

Get your owner relations right and you can look forward to greater productivity, reduced costs, and even stronger relationships with a vital stakeholder.

To learn more about Enverus Owner Relations Management Services or to request a demo, visit <https://www.oildex.com/products/owner-relations/>.