

## **Professional Standards of Care to Manage Natural Resource Assets**

The ownership of natural resource properties presents new challenges for managers in the ever evolving landscape of technology and liability. Owners of natural resources have found that there are basic standards of professional stewardship that make owning these resources a nice addition to any investment portfolio.

Gaddy Engineering Company has been assisting Natural Resource Owners with this professional care since 1967 and has learned a few things along the way that separate the firms that are successful as owners of these types of properties. This article attempts to list some of those standards of conduct that all natural resource owners should consider when they own or manage land.

Each type of natural resource is unique and requires specialized skills for proper management. When an owner of natural resources finds that they are entrusted with the responsibility to manage natural resources, they should look for and hire either an employee within their organization, if they manage enough property to justify it, or hire outside consultants to assist them in the management of the property.

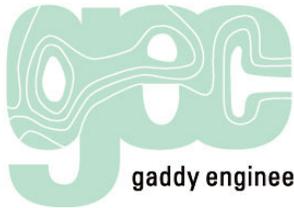
In order to provide the best services to a manager of natural resources, your experts should work as a team. This means you should not segment your mining and oil and gas engineers from your lawyers and accountants. All of these professionals must work together to ensure a proper standard of care for the properties. Each of these professions has necessary licensing and professional certification to ensure that the staff or consultants meet minimum requirements.

### **Natural Resource Attorneys**

In selecting or reviewing the qualifications of an attorney for your organization or land assets, be sure to select one who is knowledgeable about natural resource law in the state your property is located. These professionals and their firms can bring extensive experience to the land owners. Also, you should ask if they have any conflicts such as; do they represent your lessees, or do they represent others who may be adverse to your needs? Natural Resource law is sufficiently different from other real estate law. Therefore, choose carefully this member of your management team.

### **Professional Engineers**

You may have coal or natural gas on your property and if you do, you should make sure you have a knowledgeable team of engineers to assist you. Mining engineers and oil and gas engineers should be registered in the state wherein they work. Registration is your assurance that



these professionals have your best interests foremost in their activities. Professional engineers place service over profit, and promote the public welfare above all considerations. If they say they are engineers, check their registration, you do not want anything less than this type of commitment to you and your company.

### **Professional Foresters**

If you own any surface property in Appalachia that is greater than 100 acres, you should engage an organization that has a professional forester. These individuals can ensure your timber management is done not only to maximize your return but in addition can ensure you are managing your timber resources in a sustainable manner. By working with your timber contractors who harvest the timber from your property you can save money and protect your resources for the long haul.

### **Natural Resource Accountants**

Natural Resource income has specific tax consequences of which your tax accountant should be familiar. Each state where natural resources are produced has a different tax policy when it comes to these assets. You need to be aware of this as you try to maximize your return on this investment and steward these resources. Having a tax accountant work with the rest of the team will help you manage these resources.

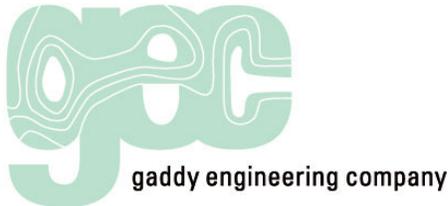
## **Resource Specific Items to Address**

### **Coal**

Coal is a unique resource in that it brings great returns to a natural resource investment but also can be an asset that can lay dormant for long periods of time. The first professional standard is to know what resources you have. A contemporary reserve study should be conducted on the property. This type of study should include geological and engineering data on the reserves present, those expected to be mined and those that need additional effort by the owner's team to make them more likely to be mined. This would also generate maps of the property by coal seam and may require some field work or core drilling and sampling. This information can be used by the resource team to manage the property going forward.

Also, title work should be undertaken to determine the extent of ownership. Leases should be cataloged and a file developed on all legal documents that encumber the property.

If the property is not being mined nor has active leases, then these two documents will provide the management team with the necessary base framework to add value to the property. Your



team can advise you of interested lessees, can help negotiate a lease and can explain the various options you have and what those consequences will mean in asset value, revenue stream and liabilities.

For property that is previously leased, the natural resource professionals will need to develop a financial model of existing coal leases. This will include such things as: coal revenue based on volume, sales prices, transportation wheelage and recoupable balances. It will also include expense and tax estimates to help you and your management team determine what issues need to be worked on that are unique to this property. These revenue models are necessary to predict future revenues and to check against actual payments to determine if correct payments are being made. Over the years, GEC has found millions of dollars for its clients using the financial models that it develops.

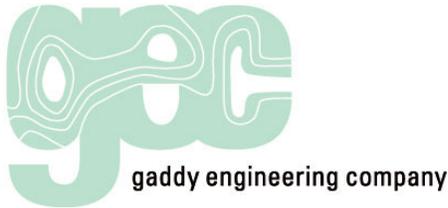
In addition to having the model, you need to ascertain the volume of coal that is being mined from the property. This is accomplished by having your engineer measure coal in the field, review mine maps of coal mined by your lessee, and by working with the reserve study that you have on the property. Using this information, your accountant and engineer can also audit the contracts that are being used to sell your coal to determine if you received all of the royalty due. All of these activities are done on an ongoing basis and require the management team to have access to each other throughout the year and to review these issues on a monthly basis.

Your team should be meeting with the coal operators periodically to look for opportunities where the owners may benefit by cooperating with their lessees. Quick response by the management team to opportunities as they arise can make a large difference in value of assets and in increasing short term revenues for the owners. Therefore, clear authority for each type of action should be discussed in advance of any opportunity.

## **Oil and Gas**

You and your management team should have information on the location, condition and lease status for every oil and gas well that is on the property. This information along with the coal and other land information allows your management team to work on the optimization of well sighting with coal and surface activities. In addition, pipeline and metering information should be gathered by your engineers to determine how the gas is marketed and to ensure your operator is performing to lease specification. If the property are not leased, a review of the reserve potential for the property should be developed to determine how best to proceed with development.

In areas where pooling is part of the options available, it is important that your engineer ensures your rights are protected when an offset well is drilled. If pooling is not available, your engineer can protect your interest by working with your lessee to get offset wells drilled.



## **Timber and Surface**

Like coal and gas, it is important to understand the quality and quantity of the timber resources. This is accomplished by a timber cruise. Many times a limited cruise can be undertaken to get an idea of which parts of the property you should prioritize. You will need to develop the cruise data in areas that are closer to harvesting first. However, a good timber management plan requires adequate data that is updated on an ongoing basis. Therefore, cruise data needs to be updated on a regular schedule based on the activities on the property. In addition to data collection, a timber management plan should reflect the financial needs of the client, along with what is best for the timber stand to add value. These sometimes can be conflicting and the management team needs to understand the long and short term goals of the owners.

The management team will also monitor and assist in the development of timber harvest agreements necessary to timber the property. These agreements can be done in various ways that reflect the owner's goals and management criteria.

In addition to timber, large surface tracts need to be monitored for trespassers, squatters and other activity that may take place on the property. These can be mitigated by various techniques that are employed by the management team. Whether it is leasing certain parts of the property to individuals to monitor the property or to provide a full time presence on the property, the owners need to be open to various arrangements that can be mutually beneficial.

## **Additional Things to Consider**

In addition to coordinating the activities of your management team, it is important that your management team coordinates the activities of the various tenets and lessees on your property. While you hope to maximize the returns from each of the assets you have, at times it will be necessary to postpone certain revenue for the long term value of the property. Sometimes it will be necessary to move oil and gas sites or pipelines, or maybe postpone timber harvest for mining operations. It may also be necessary to move wells and timbering up in the timeline to get ahead of mining. Or it may be that as mine plans are developed they take into account the future surface use of the property. Each of these activities requires that the management team understand the goals and the workings of the owners and tenets of the property.