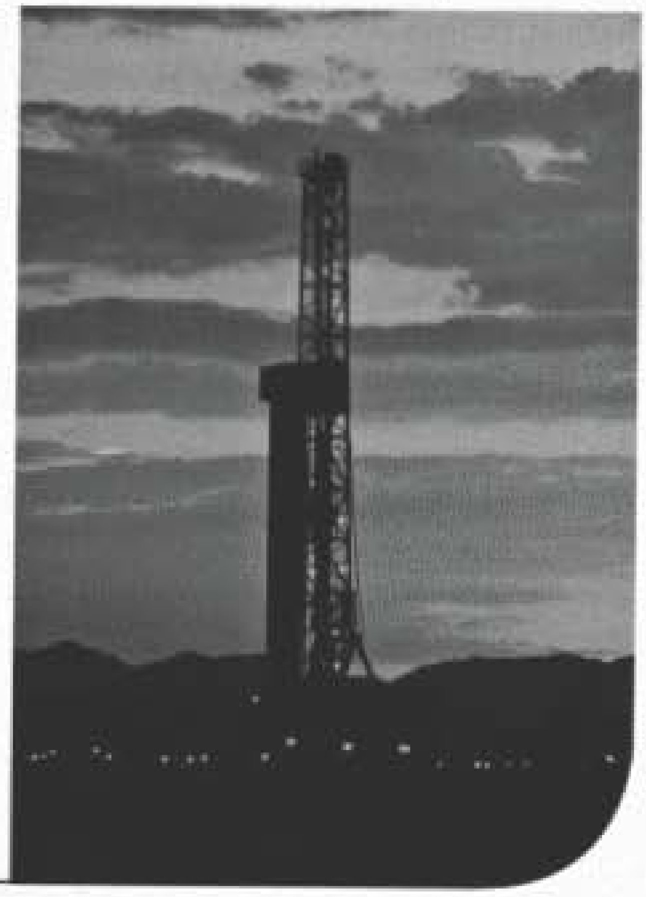
ROYALTY OWNERS



Is Colorado big enough for two royalty owner groups? Splinter group and national affiliate claim co-existence possible

BY DAN LARSON • FOR ENERGY PIPELINE

When the board of directors PDC of the Colorado chapter of the National Association of Royalty Owners declared last fall they were leaving to form an independent organization, there was dust kicked up and questions raised.

By this summer, the dust has settled. The new group, Colorado Alliance of Mineral Royalty Owners, was active in this year's legislative session and is forging its own path. The rump organization was reformed, with help from leadership at the national, and now operates as Colorado-NARO.

Neil Ray, president of CAMRO, said the former group's dissatisfaction with the national group had been brewing for several months.

"Our board decided the structure just wasn't working for us," Carpenter said. "When we met with the national directors in September, they said they could not accommodate us. That's when we decided to start CAMRO."

Craig Carpenter, elected in January as president of the reorganized Colorado chapter of NARO, says he is still puzzled by the decision to withdraw from the national group.

Carpenter, a cattle rancher and consultant for agriculture, water and wind-energy investors, observed that the CAMRO board of directors is the same cast as the NARO-Colorado board that claimed in September its members' interests were not being served by the organization.

"How can you say members are not being served by the chapter when the new group has the same board as the old; the same people?" Carpenter said. "It's disingenuous to say the chapter wasn't serving the needs of its members."

BONES OF CONTENTION

Under the national-and-affiliate structure, Ray said the board grew annoyed that notices and email blasts to Colorado members were required to be sent through the head office in Tulsa.

"We tried to work that out with them," Ray said of the board's discussion with the national. "Initially, we were sending out our own messages but they decided they needed to control messages for each state."

Carpenter noted that in his own experience and his conversations with other NARO chapter presidents, there were no complaints about message delays or filtering.

"When we send something to Tulsa for our members, it goes out within minutes," Carpenter asserts. "I have asked the other chapter presidents about it and they all say, 'No, that's not our experience.' I really don't know what they are talking about."

The other bone of contention was allocation of revenue from the annual dues paid by members. Both men agree the $150 annual member dues are reasonable; it is the fairness of the portion of dues returned to the state chapter where the disagreement comes in.

"Our board felt the national was holding too much back," Ray said. Under CAMRO, members "pay $75 for membership; all that stays in Colorado. As a volunteer-driven group, we can direct all but 14 percent of dues to programs that benefit our members. At NARO, their non-program expenses for running the Tulsa office were up around 62 percent. I think we offer a better bargain for mineral owners in Colorado."

Dues allocation is indeed a matter of fairness, Carpenter said.

"Every state chapter gets same slice of the pie," Carpenter said. "If you want to do more, you have to raise money. You can hold events like town halls and golf outings. I don't know why they thought they should be treated the differently."

Carpenter added that before the split, individual board members provided funds for additional services such as a contract lobbyist and public relations firm. That money went with the board when CAMRO was formed, he said.

"Let's just say that split left some hard feelings," Carpenter observed. "But our new board wants to move on. If we are going to work them down the road, it is best to let bygones be bygones."

Although it had to reform its nonprofit charter under the banner Colorado-NARO, the group has retained its member roster. "Our membership is about 300 and retention has been good," Carpenter said.

The new NARO chapter has already held a member education seminar: a town hall in Windsor, Feb. 16. On the agenda were an update on the chapter and a presentation on post-production deductions.

"In the end, we are here to serve our members," Carpenter said. "There are always new questions about mineral leases. There is no such thing as a perfect lease; it's a unicorn. Anyone who is considering a mineral lease should always consult an expert. NARO can help with that."

Looking out for Colorado mineral royalty owners is also front-and-center at CAMRO, Ray said. He noted CAMRO membership stood at about 200 individual members in early June and added that mineral owner interests are especially threatened for those along the Front Range, where growing suburban communities are confronting new oil and gas development.

Ray observed that Colorado's thousands of mineral royalty owners need an active, independent trade association to protect their interests, which generally run parallel to industry's exploration and production objectives.

Growing controversy over new wells and the shock over tragic accidents continue to drive opposition by community groups and local governments, Ray said. As a result, the ability to realize the ownership benefit of mineral resources faces real obstructions.

COST OF THE RUN

An example of that obstruction was highlighted in a study the group funded to quantify what was at stake.

In June 2014, NARO-Rockies, an affiliate of the Colorado chapter, released the results of a study conducted by a petroleum engineering firm that claimed Boulder County would be "on the hook" for more than $1 billion in takings claims if the county were to be successfully challenged over its ban on drilling.

Prepared by Netherland, Sewell & Associates, the study asserted that a typical 1/8 royalty owner of a square-mile section in Boulder County could realize $40 million in payments over the life of production. Ray acknowledged the study was built on then-current oil prices but he maintained that improved development techniques would today increase the volume of oil recovered from a typical section.

Ray concluded that if the county were judged to have improperly taken royalty revenue, it would be forced to "raise taxes so high very few could afford to live there."

CAMRO's board is considering raising funds to sponsor a follow up study to review possible impacts of Boulder County's withdrawal of its moratorium and newly enacted land-use regulations covering oil and gas development, he said.