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Houston

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Ryder Scott 2007 Reserves Conference
Ethical Issues in Reserve Evaluation

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Importance of Ethics



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Quote from Teddy Roosevelt:

“... to educate a person in mind,
and not in morals, is to
educate a menace to society.”

Importance of Ethics



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Amazon.com on January 15, 2007 – 166,424
books on ethics

11,918 books on “Business Ethics”

One of top selling books is “There’s No Such
Thing as Business Ethics” by John C. Maxwell

Directly from Maxwell's book

Three reasons we make unethical Decisions

- We do what' most convenient (easy thing vs. right thing)
- We do what we must to win (ethics limits our options)
- We rationalize our choices with relativism (situation ethics)

Importance of Ethics



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Maxwell's primary thesis for his views

There is only one rule – THE GOLDEN RULE – that governs all level of ethical behavior and cuts across all cultures. The Golden Rule is repeated in the ancient writings of most religions – Christianity, Islam, Judaism, Buddhism, Hinduism, Zoroastrianism, Confucianism, Bahai and Jainism.

Paraphrased: "Treat others as you would expect to be treated"

Importance of Ethics



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One further thought from Maxwell “Ethics is about how we meet the challenge of doing the right thing when that will cost more than we want to pay.”

The two aspects that ethical behavior is predicated upon are:

- The ability to discern right from wrong, good from evil and propriety from impropriety.
- The commitment to do what is right, good and proper.

IEWS on ETHICS



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A 2007 public opinion poll

Type of Leader

Congress

The Press

Law Firms

Organized Labor

Major Companies

Television News

Teachers

Ministers, priests, clergy

Petroleum engineers

**Percent who hold
Great deal of
Public's confidence**

10%

12%

13%

15%

16%

20%

22%

27%

??%

(Source – Harris Poll [03/01/07])

IEWS on ETHICS



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Ethics, integrity and reservoir engineering “best practices” are inseparable – It’s called professionalism

Professionalism is “characterized by or conforming to the technical and ethical standards of a profession.” — *Webster’s Ninth New Collegiate*

Ethics is “the discipline dealing with what is good and bad with moral duty and obligation.” — *Webster’s Ninth New Collegiate Dictionary*

SPE Guide for Professional Conduct (approved 2/25/85)



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- Understand consequences of work, societal issues and seek to promote societal understanding
- Be truthful, honest, and fair in presenting information and in making public statements on professional matters.
- Perform as professional without bias related to race, religion, sex, age, national origin or handicap
- Act on behalf of employers or clients as faithful agents or trustees without disclosure of any proprietary matter without specific consent.
- Disclose any known or potential conflicts or other circumstances that may have appearances of influence or impairment of performance

***SPE Guide for Professional Conduct
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Continuation of activities to enhance professional competence throughout career

Accept responsibility and acknowledge criticism of performance, offer honest criticism of work of others and do not accept credit for work by others

Remain aware of consequences of professional performance on health and safety and continue full disclosure as warranted

Act in accordance with all applicable laws and canons of ethics as stated in any laws and regulations governing the practice of engineering.

Ethical Responsibility of Company Employee



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- Pursue the best estimate possible considering all available data
- Maintain compliance with the appropriate reserve definitions
- Avoid manipulation of data to support a preconceived idea
- Support your work with well documented back-up

Ethical Responsibility of Company Employee



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- Request assistance for work in areas that you feel unqualified to undertake
- Peer review your work
- Openly discuss differences of opinion
- Advise your supervisor of potential problems with assignment – need more data or unexpected results
- Present your results even though it may not be the desired or popular answer

Ethical Responsibility of Company Employee



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Be extremely cautious in “bonus-reserve add” scenario

- Evaluate in consistent manner to your other work
- Avoid temptation to take “high” side on all data
- Avoid the temptation to “bend” the reserve definitions

Ethical Responsibility of Company Employee



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Avoid unrealistic time schedules. Advise that an adequate analysis cannot be completed in such a short time

- Be prepared to address time needed

Bad answers lead to bad decisions and bad results.

- Impacts company
- Impacts company stock owners

Ethical Responsibility of Client to Consultant



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Provide the following:

- Complete disclosure and purpose of the engagement.
- Full and timely access to all pertinent data permitting use of supporting non-confidential data obtained by the consultant.
- Full and timely access to all personnel most knowledgeable about subject properties.
- Cooperation in meeting agreed-to project schedule including timely responses to report drafts.
- Warnings of any known or potential conflicts.
- Opportunities to openly discuss differing opinions and interpretations in a forum designed to reach consensus on the most reasonable conclusions and report results.
- Openness to obtain additional data when such additional information is material

Ethical Responsibility of Consultant to Client



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- Never accept an assignment for which he is not fully qualified or has ample time to complete
- Brochures and resumes should not overstate competence of firm or individuals
- Maintain absolute independence from any undue influences from any individual or firm
- Do not accept any material gifts in any form from any client or service provider
- Accept no assignments with outcome-based compensation
- Always keep data and interpretative results strictly confidential even without a formal confidentiality agreement. Client name may be confidential in some cases.

Ethical Responsibility of Consultant to Client



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- Know your client; be prepared to decline an assignment if there are unanswered concerns.
- Be prepared to decline an assignment unless ample data and time are provided.
- Always be alert to potential conflicts of interest or the perception of a conflict of interest. May require personal contact with ongoing clients to ascertain or clear conflicts.
- Agree with client in advance about report timing and costs in an attempt to avoid surprises.
- Remain available for communication or additional instruction from client at any time.
- Consultant should fully disclose all assumptions and keep the evaluation as transparent as possible.

Ethical Responsibility of Consultant to Client



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- Maintain clear, complete work notes and maps in legible and accessible forms.
- Agree in advance with clients about their access to copies of maps and other consultant work product materials.
- Consult with client frequently about preliminary study results so that client may be able to timely alter or possibly cancel assignment.
- Advise the client ASAP about any unexpected time delays or cost overruns.
- Provide professional and support staff ample opportunities for continued education to maintain and expand skills and abilities.
- Remain aware that our ultimate responsibility is to shareholders and investors, public and/or private

Ethics in Litigation



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- Avoid conflicts of interests – Carefully investigate to uncover any clients not listed as named parties in the conflict.
- Never accept a litigation assignment for which you are not fully qualified.
- Never accept a role as an advocate for any party.
- Look upon litigation as an opportunity to complete an engineering assignment and to subsequently explain your work to the judge/jury/arbitrators.
- Understand your role in assisting the court to understand technical issues.

Ethics in Litigation



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- Be aware of the affect of your role in litigation on business relationships and friendships.
- Never accept a role as an expert unless you are provided ample data and time to prepare your report.
- Do not accept a litigation assignment if you cannot perform effectively in a hostile and confrontational environment.



Conclusions

- Impossible to separate good business and employee practices from ethical behavior.
- Advice to clients: Treat your consultant as you would choose to be treated under a similar circumstance.
- Advice to consultants: Treat your clients as you would expect to be treated under a similar circumstance.