

Why Is It So Hard To Do The Right Thing?

SPEE Ethics Discussion

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or

Ivy League Problems & Cowboy Solutions

What does a Yale University
psychology professor know about
oil and gas reserves?

What does a reservoir engineer
know about psychology?

- Starting in 1961, Dr. Stanley Milgram devised a series of experiments to test obedience to authority.
- The basic experiment involved three people. The Experimenter directed the process using two volunteers, one who was picked to be the Teacher, and the other who would be the Learner.

- The purported goal of the experiment was for the Teacher to help the Learner improve their memory. The Learner was placed in a separate room and the Teacher would read a list of word pairs. Then the Teacher would repeat a word, and give the Learner four different possible answers. If the Learner did not choose the correct answer, the Teacher pushed a button that would administer an electric shock to the Learner.

- As the experiment progressed, the voltage was increased for each wrong answer.
- While the initial shock was mild, the higher voltage levels resulted in screams of pain from the Learner.

- The Experimenter's role was to prod the Teacher if they hesitated to administer the shock, using the four following commands:

- Please *continue...*

- The experiment requires that you *continue...*

- It is absolutely essential that you *continue...*

- You have no other choice, you *must* go on.

- In reality, the Experimenter and Learner were in collusion. The experiment was rigged so that the Teacher was pre-determined. There were no shocks other than the initial mild shock given to the Teacher to demonstrate the process. The Learner was an actor and the screams were tape recorded.

- So what do you think happened?
How many Teachers zapped the
Learner to the max?
 - Less than 10%
 - From 10% to 20%
 - From 20% to 30%
 - More than 30%

- What were the expectations at Yale?
- Prior to the experiment, Milgram's colleagues and students were polled. Both groups expected that only about 1.2% of the Teachers would inflict the maximum voltage.

- If this experiment would have occurred at College Station or Austin, would you change your guess?

- What were the actual results?
- 65% of the Teachers inflicted the maximum voltage.
- In follow up experiments, the level remains very consistent – between 61 and 66% of the Teachers inflict the maximum voltage.

- What about gender?
- This level is consistent regardless of gender.

- So what does that have to do with us?
- What can we draw from this experiment?

- That the majority of people, when confronted with a situation where there is no chance of retaliation, will jump at the chance to zap someone?
- **NO CERTIFICATE FOR YOU!**

- People have a hard time resisting authority even when directed to perform tasks that conflict with their value system.

- Milgram formulated two theories to explain these results:

- Theory of conformism:
- *“A subject who has neither ability nor expertise to make decisions, especially in a crisis, will leave decision making to the group and its hierarchy. The group is the person’s behavioral model.”*

- Agentic State Theory:
- *“The essence of obedience consists in the fact that a person comes to view himself as the instrument for carrying out another person’s wishes, and he therefore no longer sees himself as responsible for his actions. Once this critical shift of viewpoint has occurred in the person, all of the essential features of obedience follow.”*

- Please *continue*
- Weren't you a little hard on those wells? Could you take another look at those decline curves?

- The experiment requires that you *continue*.
- We really need 10 bcf to make this prospect work...

- It is absolutely essential that you *continue*.
- If this region doesn't meet the reserve addition goals this year, they'll probably just sell it.

- You have no other choice, you *must* go on.
- The CEO told analysts this morning that we would have at least 150% reserve replacement...

- Let's go back to Milgram's theory of conformism:
- *“A subject who has neither ability nor expertise to make decisions, especially in a crisis, will leave decision making to the group and its hierarchy. The group is the person's behavioral model.”*

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Cowboy Ethics

What Wall Street Can Learn
from the Code of the West –
James P. Owen

COWBOY ETHICS

What Wall Street Can Learn from the Code of the West

James P. Owen



PHOTOGRAPHY BY DAVID R. STOECKLEIN

Live Each Day with Courage

- Put aside your fear when there's work to be done.

Take Pride in Your Work

- Anything worth doing is worth doing well.

Always Finish What You Start

- Cowboys hate quitters, whiners, and complainers.

Do What Has to be Done

- The true test of a man's honor was how much he would risk to keep it intact.

Be Tough, But Fair

- Demand fairness in all dealings.

When You Make A Promise, Keep It.

- Your word should be your bond.

Ride For The Brand

- This principle is often misunderstood. The cowboy was obliged to put the outfit's needs ahead of his own....
- **BUT....**
- Riding for the brand did not mean blind, unquestioning allegiance...
- Give allegiance and respect where it is deserved and returned.

Talk Less and Say More

- Say what you mean.

Remember That Some Things Aren't For Sale

- Don't cheapen and dishonor the things you stand for.

Know Where to Draw the Line

- It doesn't take a big fall from grace for men to lose their integrity. It most happens by degrees, as corners are cut and minor misdeeds rationalized, each small step leading to another.

- Owen's ten point "Code of the West" is the focus of his book, but his most relevant comment in the whole book is this:

- *“...the fundamental problem is that we have confused rules with principles. Rules can always be bent, but principals cannot. So while bureaucratic rules may reinforce the ways we ought to behave, they are no substitute for personal principles.”*

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SEC Modernization of Oil & Gas Reporting

“... We agree with those commenters and, as suggested, have adopted a more principles-based disclosure requirement.”

From 3. Reserves estimate preparers and reserve auditors, *Modernization of the Oil and Gas Reporting Requirements*.

SPE-PRMS

1.0 Basic Principles and Definitions

The estimation of petroleum resource quantities involves the interpretation of volumes and values that have an inherent degree of uncertainty. These quantities are associated with development projects at various stages of design and implementation. Use of a consistent classification system enhances comparisons between projects, groups of projects, and total company portfolios according to forecast production profiles and recoveries. Such a system must consider both technical and commercial factors that impact the project's economic feasibility, its productive life, and its related cash flows.

SEC Modernization of Oil & Gas Reporting

“For example, commenters expressed varied opinions regarding whether we should adopt revisions that would result in a principles-based disclosure regime rather than a rules-based disclosure regime. Those who favored a principles-based approach noted that such an approach would be inherently more flexible than a rules-based approach and would allow for greater adaptability as technological advancements and changes occur in the industry. Other commenters, however, expressed concern that a principles-based model is more subjective than a rules-based approach and could result in less consistent and comparable disclosure in the filings made by oil and gas companies.”

From C. General Overview of the Comment Letters Received on Key Issues. Modernization of the Oil and Gas Reporting Requirements.

*Well, what shall I talk about? I ain't
got anything funny to say. All I know
is what I read in the papers.*

Will Rogers

Senators linked to mortgage deals

■ Both say they were unaware of any preferential Countrywide rates

By JULIE HIRSCHFELD DAVIS
ASSOCIATED PRESS

WASHINGTON — Senate Banking Committee Chairman Christopher Dodd, a leader of Congress' efforts to help homeowners ensnared in the subprime mortgage meltdown, reportedly got special treatment on his own mortgages from the CEO of Countrywide Financial Corp., a company whose practices he has called "abusive."

At least one other lawmaker, Sen. Kent Conrad, D-N.D., also benefited from the VIP treatment after placing a personal call to Countrywide CEO Angelo Mozilo seeking a mortgage.

Both senators say they weren't aware they were getting special deals.

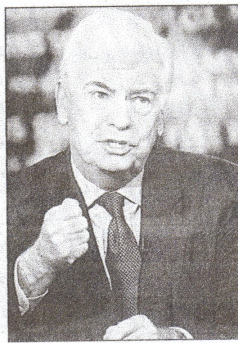
Still, their involvement in a special program that awarded discounts and waived fees for "friends" of Mozilo — first reported by Conde Nast Portfolio magazine's Web site — raised questions about whether lawmakers weighing a homeowner rescue themselves benefited from the actions of a leading offender in the mortgage meltdown.

It could be especially damaging for Dodd, D-Conn., one of four Senate Democrats who pursued his party's 2008 presidential nomination, given his high-profile role in crafting the housing rescue.

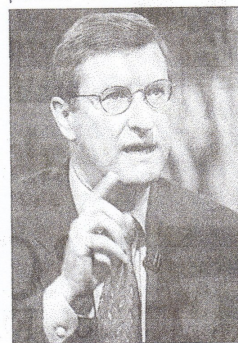
"I would never ask or expect to be treated differently than anyone else refinancing their home," Dodd said in a statement.

Similar revelations

Lawmakers' participation in the VIP program is coming to light just days after similar revelations about former Fannie Mae CEO Jim Johnson prompted Barack Obama, the presumptive Democratic nominee, to ax Johnson from his vice presidential vetting team.



FOX NEWS/GETTY IMAGES
CHRIS DODD: Connecticut senator has called Countrywide's practices "abusive."



ASSOCIATED PRESS
KENT CONRAD: North Dakota Democrat placed a call to Countrywide's CEO.

OTHER VIPs

According to Conde Nast Portfolio magazine, other participants in Countrywide's VIP program were:

- Former Secretary of Housing and Urban Development Alphonso Jackson
- Former Secretary of Health and Human Services Donna Shalala
- Former U.N. ambassador and assistant Secretary of State Richard Holbrooke

Conrad, the Budget Committee chairman, said it was Johnson who referred him to Mozilo in 2002.

"I called (Mozilo). I said, 'I'm buying this property. Would you be interested in the mortgage?', and he said, 'Yeah. Call these people, and we'll take a look,'" Conrad said.

"I did not think for one moment — and no one ever suggested to me — that I was getting preferential treatment," Conrad said.

Points knocked off

Portfolio cited internal Countrywide documents showing that the company made two loans at special rates to Dodd in 2003. It took three-eighths of a point off a \$506,000 loan to refinance a Washington townhouse — saving Dodd about \$2,000 a year in interest payments — and knocked a quarter-point off a \$275,042 loan to refinance a home in East Haddam, Conn., a savings of about \$700 a year.

Dodd said he and his wife "did not seek or expect any favorable treatment. Just like millions of other Americans, we shopped around and received competitive rates."

Mozilo reportedly instructed an employee to give Conrad a 1 percent discount off his interest rate on a \$1.07 million loan in 2004 to refinance his vacation home, a savings of about \$10,000 a year.

Conrad said the terms he received from Countrywide were no better than market rates. But his former loan officer has since acknowledged to Conrad that Countrywide dropped his rate a full percentage point.

"If they did me a favor, they did it without my knowledge and without my requesting it," Conrad said.

Countrywide also made an exception in lending Conrad \$96,000 in 2004 to buy an eight-unit apartment building from his brothers. The company had a policy of only providing loans for buildings of four units or fewer.

"They said they frequently made exceptions, especially for

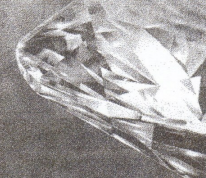
good customers," Conrad said.

In a statement Friday, Countrywide did not address questions about the VIP program. "Protecting customer privacy is of utmost importance, and we are aggressively undertaking measures to prevent further disclosure of private customer information," the company said.

A watchdog group, Citizens for Responsibility and Ethics in Washington, called Friday for House and Senate investigations of Dodd and Conrad.

Summer

Loose Diamonds & Diamonds
Anniversary Bands
Diamonds

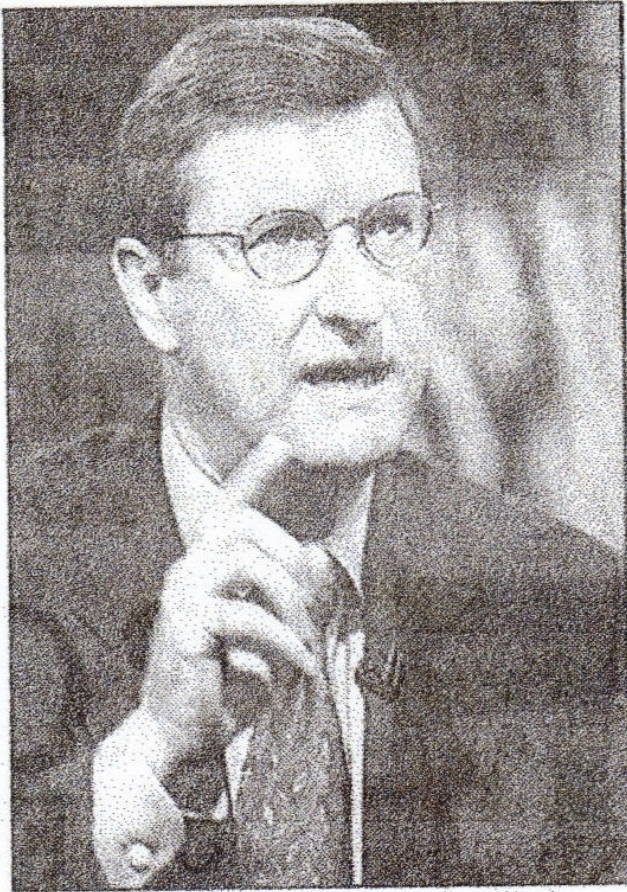


I W Mark
Houston's Largest Bridal Jeweler

LAS

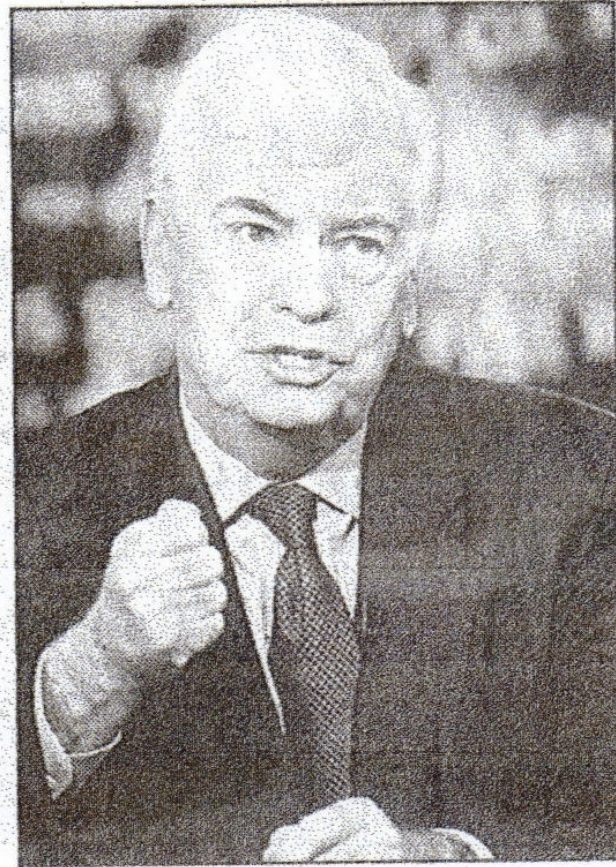
CUT

Sat. 10



ASSOCIATED PRESS

KENT CONRAD: North Dakota Democrat placed a call to Countrywide's CEO.



FOX NEWS/GETTY IMAGES

CHRIS DODD: Connecticut senator has called Countrywide's practices "abusive."

Senator Ted Stevens - Alaska

- 40 Years as Senator from Alaska
- Indicted for failing to report gifts from VECO Corp. in violation of the “Ethics in Government Act”
- Convicted of all seven counts

Excerpts from FoxNews report of 10/20/2008

- The Senate's longest-serving Republican, Stevens is charged with lying on Senate financial disclosure forms about \$250,000 in renovations and other gifts he received from oil services contractor VECO Corp.
- Stevens has said he never sought gifts and wouldn't even accept a free lunch, much less expensive remodeling services. But prosecutors say he had a history of accepting gifts — including an expensive massage chair from a friend — and omitting them from the financial disclosure forms.
- He said he considered that chair a loan.

Fox News, continued 10/20/2008

- "And the chair is still at your house?" prosecutor Brenda Morris asked.
- "Yes," Stevens said.
- "How is that not a gift?"
- "He bought that chair as a gift, but I refused it as a gift," Stevens said. "He put it there and said it was my chair. I told him I would not accept it as a gift. We have lots of things in our house that don't belong to us."

Fox News, continued 10/20/2008

- Playing to the jury, Morris appeared confused.
- "So, if you say it's not a gift, it's not a gift?" she said.
- "I refused it as a gift," Stevens replied. "I let him put it in our basement at his request."

*But wait,
there's more.....*

...the rest of the story...

- Steven's conviction overturned by US Attorney General due to "serious prosecutorial misconduct" by prosecutors' apparent withholding of exculpatory evidence...

*It's the fellow who knows
when to quit that the
audience wants more of.*

Will Rogers