

Minerals Council Meeting---2/15/2013

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February 17, 2013

After a 3 hour delay to attend a funeral, the Minerals Council meeting of February 15, 2013 got under way at 1:02 PM. There was nothing new from the BIA today. Acting Supt. Rhonda Loftin had been ill for over a week. She was back on the job today, but had a 1 PM appointment and couldn't attend this rescheduled meeting. The BIA was represented by Charles Hurlbert and Richard Winlock.

Coming out of an executive session concerning several different issues, only one resolution was ready to be voted on. A motion was made to approve a resolution to grant a request by Spyglass Energy Group, LLC for a waiver of their obligation to drill 2 new wells remaining to be drilled in one of their concessions. In return, Spyglass would add 2 wells to a 7 well program underway a couple of miles north. The vote to approve the waiver was 8 yes, 0 no. The reasoning for this is explained below.

Myron Red Eagle had requested time to speak in executive session on "personnel issues," but no decisions were announced today.

Under "Committees", Councilman Core suggested a change to the policy and procedures concerning bereavement days off and other benefits for the staff. Much discussion was held and no one could agree, so the issue was tabled and the meeting was adjourned.

Other Things Going On---

I recently told you that **Spyglass Energy Group, LLC**, one of our more aggressive producers, was about to kick off a drilling program for 9 new Hz's and 3 disposal wells, to be completed in September of 2013. Well, there's far more to that story than I was aware of at the time. That's nothing unusual for me, though.

It seems that they could have drilled these 2 wells that were the subject of today's resolution in the area originally intended and on the schedule promised, but electricity was no longer available to run the pumps once the wells were completed. Not only was there no electrical infrastructure in place, the power company that services the area had literally run to the limits of it's power available and could no longer add commercial customers to their already overloaded system.

Not ones to just sit down and start wringing their hands, Spyglass decided to do something about the problem. They have located another electricity supplier, Kay Electric Coop, over in Kay County, and reasonably close to the area where they intend to drill 7 new wells plus the 2 wells they were asking to, in effect, transfer several miles to the north, and they have made arrangements to purchase electricity

from this new source. The new source will be very high voltage (which means lots of power) and will require an electrical substation to break it down to more useable voltages.

Spyglass is spending nearly a million bucks to build the new 26 mega-watt substation and several miles of transmission lines themselves. When completed, sometime in July, 2013, they will have enough additional power to run pumps in 200 new wells. They don't have anywhere near this many wells of their own in the area yet, but very soon there will be literally hundreds of Hz wells drilled near here as our Mississippi Lime oil field is developed. Meanwhile, nothing says that they couldn't sell their surplus electricity to other nearby producers to run their Hz pumps, also. Hopefully, when the new co-generation plants planned for western Osage County start coming on line, the electricity shortage for the region will begin to disappear. Until that happens, a great many of the Hz producers in this area will continue to pump their oil with huge portable, diesel powered generators. This is a very expensive way to do it. We could be furnishing that electricity much cheaper for these producers with the co-gen plants that Osage Nation Energy Services is trying to get built, while making a substantial profit for the Osage Nation at the same time.

Encana Oil and Gas (USA) is finishing up drilling the last of the 7 exploratory wells committed for in their concession. They plan to complete these 7 wells and put them through several months of testing. They wouldn't say it today, but it sounds like once their reservoir engineers complete their evaluation of the play, if things still look as good as they do now for production prospects, they plan to bring back a much larger drilling program, maybe in late summer of this year.

I see that construction of a gas pipeline from the Encana wells recently shut in on the west edge of Pawhuska has begun. When this is put in service, these high potential wells can all 3 be put on stream. This is the lease where the first 1 of the 3 wells drilled and completed was put on test, and it filled the tank battery with oil in 36 hours. Then, since numbers had not been stenciled on the tanks, the oil could not be sold. This shut them down another day or two. Once that problem was identified, Acting Superintendent Rhonda Loftin had her people out there, and the problem was solved. Then, Encana decided to stop flaring away perfectly good natural gas, gas that they were paying us royalty on, and they shut the lease in again, presumably until the gas pipeline was built. Who could blame them? Shortly thereafter, construction began on the gas pipeline, also. That must mean that the "access problems" are being worked out, also. Maybe some of our problems at Pawhuska BIA weren't such big problems after all. All it took was a little reasoning, common sense, and a willingness to get the job done at BIA. Either that, or we've got "superwoman" in there now.