

# Negotiated Rulemaking Committee Meetings

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It's been a long, tedious climb to the top of this mountain of work that was facing the Osage Negotiated Rulemaking Committee when they started, but it's looking like they are over the hump now and starting down the other side where the road is not quite so bumpy and they can see the end of this road in the not too distant future.

Two or three of the team representing the Feds were delayed by weather and couldn't make the first day, but that didn't stop the committee from working on the issues. Everyone made it in for the second day of deliberations and they were able to review and touchup the 1<sup>st</sup> day's work, and still get the 3 day session done in 2 days. I don't know who wound up paying his expenses, but Mr. Stockbridge made it in, and, as expected, he had tons of input. Had it not been for him, they would have completely overlooked at least one important issue involving purchasing and shipping oil using "electronic gaugers," whereby when a tank is full of oil, this is sensed electronically, and valves open and pumps start automatically, thus shipping oil through a recording meter and into a pipeline system. This system has been used for several years on some of our more modern leases, but had been overlooked as this section of the CFR's was being revamped. This guy is worth his weight in gold to us, and that was certainly obvious Wednesday.

The Public Broadcast System, KOED Ch 11 out of Tulsa, was there and requested to film the proceedings. The Solicitor from the DOI explained to the meeting that it was possible to allow for filming, but only if all of the members of the committee voted "yes" to do that. Curtis Bear and Melvin Core voted yes, then Sonny Abbott voted "no." That ended the vote. I later asked him why he would do that. He explained that this issue had come up before one of the previous meetings. He said that the Council had discussed the matter and it was the general consensus of the Osage side of the committee, that since KOED had refused to allow the Council to review and help edit the tape, they would have no input in the determination of what was a well balanced point of view on the issues. I think they were split 3 to 2 on that decision, and had the seating order been different, the 1<sup>st</sup> vote could have been "no." I have a similar problem with them. It can take a long time to get answers sometimes.

On day one, the producers were well represented and they had many suggestions and much constructive criticism to offer. Their main point of contention was the proposal to base the royalty paid to the Shareholders for our oil, on the daily Cushing NYMEX oil price. On day two, the larger land owners and ranchers were there in force, and many had a lot to say. These guys are really speaking from the heart. They aren't simply a bunch of real estate speculators. The value of their property is a natural consideration, but, for most of them, this land is the core of their entire being; their lifestyles, and their living. They and their property have been ecologically abused for over 100 years by more than a few outlaw operators who never cleaned up their messes. Now, there is the threat of H<sub>2</sub>S drifting over their property. They have very legitimate concerns.

The vast majority of the approximately 500 operators currently producing oil in the Osage are doing everything reasonably possible to run their leases in an ecologically sound, safe, and economically profitable way. Now it will be the only way. We will still run into an outlaw occasionally, and these new CFR's are the tools needed to keep them running, and if they don't straighten up, they will still be running when they hit the county line. If they can't do it right, we don't need them here. It's a shame that the good producers will have to bear the brunt of the ecological disasters these few outlaws leave behind, but that is just the way it will have to be. A few things will require immediate attention but I'm sure the BIA and the Osage Minerals Council will work with all of the producers to make any transitions as painless as possible. With a little help, the scars we are left with will heal over and the grass will grow again, and we sure don't need any more new ones. Generally speaking, these operators are our partners here, not our adversaries. We can work together.

The proposed changes to date are far too numerous to list here, but you can find them at the link noted below. One important area of concern is the recently discovered Helium on the Mineral Estate. I was happy to see that they have begun to address this, and we were assured that the helium will be given even further attention in the new red-line version of the CFR's.

The next meetings of this committee are tentatively scheduled for March 13<sup>th</sup> and 14<sup>th</sup>, 2013. The notice will be found at: <http://www.bia.gov/osageregnet> Several versions of the latest proposed CFR updates will also be posted there when they have been prepared. The “several versions” will be displayed comparing the latest product of the committee to each of several earlier sets of proposed changes and they have promised to include the reasons for each change.

Also, the Minerals Council and upper level BIA personnel hold 2 meetings each year to discuss remedies for the previous inattention in recent years by the BIA to deliver adequate service to the Shareholders. These discussions have nothing to do with revamping the CFR's, and in the recent past, many good things have flowed from those meetings. Another of these meetings is scheduled soon. These meetings are closed to the public. I hope these meetings will continue until the MC can one day walk in and say, “We don't have any problems, let's go home.”

IN MY OPINION, the Shareholders are coming out the big winners here. The Cushing NYMEX pricing structure should bring in a little extra money. The producers will suffer a little here at first, but this new royalty price base can be used by them when they renegotiate their new purchasing contracts. The Shareholder's MC and the BIA has never been invited to participate in these negotiations that I am aware of, therefore we have never before had any direct involvement in setting the amount of dollars for royalty we will actually receive. The amounts the producers receive varies wildly from one to the next. Now, we will receive the same amount for every barrel produced and sold. This only amounts to about \$0.40 per barrel to the average producer, but when all clumped together at the end of a quarter, it will be a sizeable little pile of money. For example, in the 3<sup>rd</sup> quarter of 2012, this 40 cents would have given the Shareholders an extra \$77,000, give or take a little. This is 3/10<sup>ths</sup> of 1 percent of the gross production for the quarter. The Producer's Association says this will drive smaller producers away. I guess it's their job to say this, even for 1 penny, but in the past, when the world oil price drops \$10 or \$20 dollars per barrel, I don't see any producers throwing in the towel. How could only 40¢ per \$90 barrel could cause a decision like that? It won't!

Until very recently, I have been undecided about NYMEX, but in light of this thinly veiled threat of a mass exodus, and seeing how unrealistic this really is, I'm willing to call their bluff. 1.) Having only one entity to deal with for leasing; 2.) having guidelines set by Cushing NYMEX for use in negotiating with the purchasers; 3.) having the huge advantage of contiguous acreage available for horizontal drilling; 4.) having the endless capacity for salt water disposal available at zero pressure; 5.) still having probably fewer regulations on their operations to deal with than anywhere else, and; 6.) having our vast amount of historical production and seismic information at their disposal, they still have the best place in the world to produce oil. We sure don't hear of many dry holes any more, do we? Some producers even own the land and live on the leases they produce. They ain't go'in nowhere. Our own management system has been lax for several years and our producers have become a little spoiled. We are cleaning our house now and we are standardizing some of the procedures instead of running this show in the willy-nilly fashion of the past. We love our producers, and they must all be treated equally, and along with that, we must demand respect for the rules of the house.

The big increase in the Shareholder's income will come from proper measuring and accounting for the oil, gas, and other valuable commodities produced here. It could take as long as 4 or 5 years to identify and correct the deficiencies in this area, particularly with the methane gas, but it is being addressed already. The new CFR's will give the BIA some new tools to work with to do this, and they will more clearly define the responsibilities of the BIA to get it done.

In my opinion, there are 2 new, exciting things about to happen. Electricity is about to come to western Osage County, from at least 2 sources. This will enable producers to drill virtually hundreds of new wells, and they are setting on "go" right now. Also, the advent of Helium in the north-western part of the county could open up a whole new horizon for production. Gas found in the Mississippi Lime gas contains 0.75% helium. There's going to be lots of it produced. Then, the Wha-Zha-Zhi #1 Deep well shows a very high percentage of helium content, however, further treatment of this well will be necessary to increase the total flow of gas. If this treatment works, well, that's another whole story. Have you tried to buy any helium lately? Boy, will you be surprised. Ray McClain