Negotiated Rulemaking Committee Mtgs

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On Wednesday, March 13, 2013, the NRC meeting was a little late getting started, but finally got cranked up about 8:45 AM. It was well worth the wait. The changes made at the last meeting had been entered in the red-line version of the CFR's and were reviewed for errors. As they went through the whole thing again, several more changes were added. This was quite time consuming, and though also quite tedious, everyone seemed to remain focused, and much was accomplished.

Many Shareholders and Producers made up the audience, and after lunch, about a dozen land owners showed up. There were 3 or 4 public comment periods on this first day, and 15 or 20 of the audience gave their views on the various subjects being considered. I think the tone of these meetings has calmed a little, and almost every speaker stayed on the subject at hand. I could see evidence of a little trust building between the concerned parties, as everyone realizes that change is inevitably coming. Using the Cushing NYMEX oil prices for determining the royalty payments still seemed to be a major point of contention for the Producers, but the most time spent today was on the abandoned well plugging bond issue.

The current bond amount required was set at $5,000 per lease many years ago. This may have been adequate back in the day when a well could be plugged for a couple of thousand bucks, and maybe just for the salvage rights, but today, plugging costs have inflated along with everything else. Councilman Abbott stated that he could only find invoices on 4 wells recently plugged, but the least amount was $13,000, and the highest of the four was $42,000. The other 2 were in the twenties. The $5,000 per lease bond currently required won't even come close to plugging out a lease, and none of the money can be used for surface remediation. It is obvious that something must be done. At this point, the suggested change to this amount is $10,000 <u>per well</u>, with a maximum of 20 wells per operator, regardless of how many leases are involved. There is still no allowance for surface remediation.

The Producers are saying that it has become almost impossible to get bonded in Osage county, and only 2 companies will underwrite here. They say that it will cost 4% each year ($400) for each well to maintain a bond now and nothing is refundable unless a cash bond for the full $10,000 per well is put up, and that ties up operating capital very quickly.

This is outrageous, and it may inhibit future development of the Mineral Estate, while the insurance companies are getting rich[er.]

Wednesday's meeting ran until nearly 5 PM, and they were back it at 8 AM sharp on Thursday. After several, including yours truly, spoke more about the bonding and other things, this session of meetings ended just before noon, and the next and final (I think) public meeting will be held on April 2, 2013 at the Wha-Wza-zhi Cultural center in Pawhuska.

In My Opinion, I saw an approach to the bonding issue being proposed that no one in the building was comfortable with, and many just flat didn't like. No one ever said that a bond wasn't needed to protect the Mineral Estate from possible damage. Even the most radical Producer knows and would agree with that.

I got to thinking about what two long time Producers had said on Wednesday, about how "they wouldn't mind $100 per well per year, but $400 per well was just too much." These two guys graciously gave me a little of their time on a break Wednesday, and I think we may have come up with a plan that would replace the bonding system for about ½ the cost, or less, and would plug about 150 abandoned wells per year, and also finance any surface remediation necessary. I put the basic concept of a possible solution down on paper that night, and presented the following to the committee on Thursday as a formal comment and then I spoke briefly about it:

Comment for Osage NRC

March 14, 2013

BONDING PROBLEM SOLVED:

At Wednesday's meeting, long time Osage county producers Bruce and Lloyd Fadem suggested that the producers might be comfortable paying around $100 per well each year for a bond. Some say it will cost $200 to $400 for the $10,000 bond that was being suggested, and a few have said they were having trouble getting one at any price. That $100 looks pretty reasonable for a place to start negotiating. Once this mess that's been left is cleaned up, it may not even take that much for the future protection of the Minerals Estate and the surface area thereof to be assured.

We know that all insurance companies are ruthless, greedy companies who have a near monopoly going for themselves. If they don't make enough, they can raise their rates with very little concern for regulations, or they can refuse to insure, like many seem to have done with bonding for Osage county. Those that do still bond here, seem to be charging big time rates for premiums.

I think we can cut <u>all</u> insurance companies completely out of bonding the producers here in the Osage. The MC or the BIA can do some version of the following, very basic plan. We can accumulate cash to do the plugging, and the interest will help pay the operating expenses. The plan works as follows:

1. *Set up a revolving Fund for plugging abandoned wells and remediating surface damages caused by prior and current production in the county.*

2. *The Producers would contribute the $ value of **2 barrels of oil each year** for each active well in their control to this fund. If there really is 44,000 active wells as stated, and oil was $80, that would be 44,000 times $160, or === $3,520,000. That would allow $20,000 per well to plug 176 wells, EACH YEAR! And that may be well above the actual average cost to plug a well. Add to that, the funds that are normally put in each year from grants, etc., and you could plug a lot of wells each year, until all are plugged, and all remediation is complete. A Council member told us yesterday, that only 3 wells were plugged last year.*

3. *When finished, <u>as determined by the Minerals Council,</u> and probably several years later, then **<u>CUT</u>** the Producer's contribution to the $ value of **1 barrel of oil each year** for each active well.*

*There would need to be a formal Board of Directors and Officers, and a couple of office workers, and office space. The funding for expenses would come from the accumulating funds for plugging. The Producers would have seats on the Board, as well as the Minerals Council, and maybe the Chief could be allowed to nominate a Board Member. As it is done now, the bonding companies get twice that much, and very seldom ever are required to pay **ANYTHING** for plugging and remediation. And, there is <u>no hope</u> for the Producers to ever see their costs go down. Using bonding companies, costs can only go up and no* *wells get plugged. With this system in place, no bonding at all would need to be required.*

4. *Further, this would tie the Producers' plugging and remediation contribution directly to the price of oil. If oil goes down, so does their cost. Other than in emergencies, we are really in no hurry anyway. If oil goes up, <u>everyone</u> is still winning, and meanwhile, this Fund is growing. Where Hz wells are being drilled, due to higher anticipated plugging costs, it might be wise to not make such a drastic cut like to ½, but that is for the committee to decide. Once finished, some of this money could be used to improve and promote the further development of the Minerals Estate.*

5. *While all the Federal officials are still in town, they probably know some good ways to assure that the contributions from each Producer are made in a timely manner and the proper mechanics for collecting them. If it could be put into the CFR's, producers would have to pony up or face termination of their leases.*

6. *Producers should still plug any well they intend to not produce any longer at their own expense. If this responsibility is neglected, there maybe should be a way via the CFR's to terminate other Osage leases they may be operating.*

7. *2 barrels per year for an active oil well should not be a problem. They spill more than that. E.W. Carter ran more than 2 barrels of oil a year through the rear main seal of his old pickup when he was pumping his dad's leases back in the 50's. And it will become ½ of that when the plugging and remediation is finished.*

I think this is a basis for a solution to this bonding dilemma that everyone could live with. Neither the NRC nor the Producers seem to like what has been proposed so far. There will be many, many details to work out, but this could be a start.

I guess we'll see a final version of proposals at the next and final NRC meeting in April.

Ray McClain, Osage Shareholder