

# Osage Minerals Council Meeting 11/20/2013

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11/22/2013

Minerals Council Chairman Andrew Yates opened the meeting at 10:00 AM with an opening prayer by Councilman Curtis Bear.

Tribal accountants Leslie Young and Julia Roe were not at the meeting, therefore no accounting reports were available.

Minerals Council auditor Jim Swan reported that the September daily production average was 13,572 bbls and the daily average for July, August, and September of 2013 was 13,959 bl. That would bring the average for the first 3 quarters of 2013 to 13,913 bbls per day. (This is up from calendar year 2012 by 561 bbl p/day.)

BIA Supervisory Petroleum Engineer Charles Hurlburt reported that in the course of developing their new water survey program, the U S Geological Survey team was drilling a water well where Hwy 99 crosses Hominy Creek about 4 miles north of Hominy. They began getting oil and gas at about 500 ft. and were forced to abandon and prepare to plug the hole. He had no further information on this incident.

Acting Superintendent Robin Phillips gave a brief report on BIA administrative activities. Answering a question, she told us they currently have 6 field men working, one on leave, and they are advertising and taking applications for 3 open positions. These positions were in the old budget, but the sequester caused any hiring to require being approved at the top level of the DOI. This restriction has now been removed for the Pawhuska Agency. They are still developing the new positions allowed by the recent permanent addition of \$1,000,000 to their budget, plus another \$500,000 even more recently added.

Councilman Crum made a motion to hold a lease sale in February, 2014. Mr. Hurlburt advised that there would not be enough time to properly advertise or do some other things necessary. After discussion, Councilman Crum changed his motion to March, 2014, with a convenient date to be set soon. It was seconded by Councilman Red Eagle. The motion passed 8 yes, 0 no.

In executive session today, issues were discussed concerning Sullivan & Company, Wellco Energy, Linn Operating Company, Grand Resources, and Devon Energy. Brian Ross with the Office of the Special Trustee for Indians also had a brief issue to discuss in executive session. Cynthia Boone was also on the agenda for executive session, but she said this had been put on in error by someone.

Following executive session, Chairman Yates asked if anyone wished to motion to take action on Sullivan and Company's request. He noted that Councilpersons Boone and Whitehorn had been agreeing with Sullivan's proposal in negotiations, and specifically asked each if they wished to motion for Council action. Both indicated "no." Councilman Crum finally said that he had assured Mr. Sullivan that the Council would consider his request today. He stated that Sullivan had presented two options for extending their approximately 87,000 acre concession for 3 more years. The original concession does not expire until December of 2014. The offer in both options was something less than \$2.00 per acre for a concession bonus, to be paid in 3 annual installments, but some of the details were a little different for each option. One difference was that option #1 was for 3 years, and option #2 was for 4 years. The lease takedown price was about \$75 per acre in both. He said this made Sullivan's offer well over \$4,000,000 short on concession and lease bonuses, and further, it included far less in drilling commitments than what had been recently negotiated in neighboring concessions.

He further said that some of the Council had spoken in support of Mr. Sullivan's proposal during negotiations, but it didn't look like any of them were going to make a motion to approve anything, so, he was making the motion to approve option #1 because he had given Mr. Sullivan his word that the Council would take some action today. But, he said, he intended to vote "no" on the question because of the low prices in the offer. The motion was seconded by Councilman Whitehorn. The vote was 7 no and 1 yes, with Whitehorn voting yes. The motion failed.

Then, Cynthia Boone made a motion to accept option #2. Dudley Whitehorn seconded the motion. The vote was 6 no to 2 yes, with Boone and Whitehorn voting yes. The motion failed.

Linn Energy had requested to change several oil leases to combination oil and gas leases. It was agreed to do this and charge the additional appropriate rate for a combination lease, but the gas royalty would now be at the 20% royalty rate, plus, we got another \$34,100 in lease bonus for this deal. This proposal was approved 8 to 0.

Wellco had proposed to lease 2 tracts at the minimum lease rate. The Council decided to not lease these tracts, but instead, put them in the March lease sale, where they will bring at least the minimum offered, and possibly more. The vote was 4 to 4, with Boone, Whitehorn, Core and Bear voting yes and Crum, Red Eagle, Yates, and Abbott voting no. The motion to approve these leases failed.

Grand Resources was wanting to negotiate 3 new leases, but they agreed to nominate them and purchase at the lease sale in March. There was no action taken on Devon Energy and we were not told what Brian Ross had to say.

Kevin Blake with IHS came back today and filled in a little more information about his presentation last Friday. Most of the Council seemed genuinely interested in allowing IHS access to Osage production information for inclusion in their worldwide reporting system. No action was taken today.

The Coffeyville Refining representative was not at the meeting.

Chairman Yates reported on the Osage Oil and Gas Summit saying that in spite of a few Producers not showing up for their own party, the Summit went very well. There were a few less exhibitors this year, but it seemed that everyone thought that, all in all, it was very informative and very interesting. He thanked the committee for a job well done.

Chairman Yates did a very thorough job of filling us in on the meeting last week with DOI Secretary Washburn about the wind farm problem. My report on Chairman Yates' description of the meeting was posted on <http://www.Osages-You-Need-To-Know.com> on 11/20/2013.

One set of minutes of a previous MC meeting was approved, subject to several corrections.

Chairman Yates brought up an issue from last Friday concerning a contribution for the Osage Nation Foundation's Christmas celebration. It was suggested that \$2500 be donated for this event. Curtis Bear made the motion, and the vote was 6 yes and 2 no, with Boone and Red Eagle dissenting. The motion passed.

### **IN MY OPINION:**

Mr. Swan's report was once again very encouraging. It shows a constant rise in our production each quarter. Hopefully we will see a pretty good bump up next month from opening up the new CO<sub>2</sub> enhanced production in the Burbank field. Remember, they started opening up the valves Oct. 1, and it is supposed to create an extra 2500 bbl per day by the end of the year. It's too bad that our Highest Posted Price has been dropping since late September, and was down to \$89.76 on the Nov.20 meeting day. On September 9th it was \$107.00. Maybe the production rise will offset the lower oil price on our March check, but be advised, our March check could be down a little.

I believe that the Sullivan concession may have been the first concession done here in many years. It was negotiated in about 2001 when oil was less than \$25.50 p/bbl, and it was set to expire in 12 years. I guess maybe the Tribal Council was lucky to get what they did. But now, it is 11 years later, and times have changed. Sullivan has drilled quite a few wells and has had very good luck with most of them. It just seems to me that they have been drilling for maximum production, and in a very small part of their concession, instead of exploring the entire concession to confirm it's potential. There are high production leases on all sides of Sullivan's concession, producing several different zones, and there's every reason to think that this is prime real estate for oil production.

I believe that the Council has done the right thing by holding out for a fair price. They still have over a year to renegotiate, so what is Sullivan's hurry? Maybe they are concerned about dealing with an unknown Council after next June? And, some are speculating that there is an even darker reason why they want this concession re-negotiation to happen with this Council. Who knows?

I know I am happy to see the Council standing its ground. This \$4,000,000 plus drilling commitments is a lot for our Council to throw away when it's not necessary. If Sullivan doesn't want to keep some of the best oil acreage in the county, I'd bet that it wouldn't remain without a lessee very long. They have dibbees on it until December 31, 2014, and I hope to see them stay and produce our oil, but they should expect to pay us the going rate for it.

Have a happy and safe Thanksgiving-----

Ray McClain, Osage Shareholder