Osage Minerals Council Meeting   4/17/2013

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The 4/12/13 meeting last Friday was pretty mundane, so a few things from Friday might be included in this report.   This meeting was opened with a prayer by Councilman Curtis Bear.

The Tribal accountants gave their reports. Accountant Leslie Young reported that we were now 50% through the fiscal year and had used only 38.9% of the drawdown. This is always good.

Accountant Jim Swan was on medical leave for a quadruple bypass, but expects to be back next month. BIA head accountant Earl Arnold gave an abbreviated report. Gross daily production was 13,190 bbl for February, down about a thousand bbl per day from January. No explanation was given.

Chairman Galen Crum stated that he had just received information about a new BIA regulation concerning gross production taxes on revenue earned on Indian lands. He said that he would look into this to understand it better before commenting further.

BIA Supervisory Petroleum Engineer Charles Hurlbert said that permit applications were down a little this week, and that this department was pretty well caught up for now. He said that it was too soon to tell yet if this was a trend, or whether just an incidence of the producers pausing to catch their breath. He also spoke a little about a proposal by a Company called Ener Gen, LLC. In an effort to revitalize depleted wells, this company has a system whereby the exhaust from an engine running on propane, is processed and the CO_2 and nitrogen contained in the exhaust gases are extracted and injected into the annular area of a well under pressure. These gases are forced down hole and into the producing formation. They are saying that after about 48 hours of gas injection, the system is disconnected and the well resumes pumping. The CO_2 reduces the viscosity of the oil somewhat, and the nitrogen re-pressures the formation, thus moving the oil into the well bore. For a few days, they claim that the well usually produces at about the same rate as when it was first drilled. After that, the production rate begins to decline, and within 30 days or so, the process can be repeated. The system is trailer mounted as a single unit, and is available for rent, lease, or on a profit sharing basis.

Acting Superintendent Rhonda Loftin spoke briefly. She also mentioned the new BIA regulation concerning gross production taxes. She said that she had not been made aware of the regulation until yesterday, but would look into it right away to see how it might effect the Osage Minerals Council and the Producers.

Three producers were received in executive session today, and between 10 and 15 new leases were executed. I lost count.

Following executive session, the March 2013 minutes were approved, subject to a couple of minor corrections.

In new business, Councilwoman Boone proposed a resolution to permit all 8 of the Council to attend a conference in Oklahoma City on water in May. The estimated cost per person is near $1,000 for this 2 day meeting. The resolution was passed 7 yes, 1 no, with Councilman Abbott dissenting.

Ms. Boone then proposed a resolution that the Council get a legal opinion from the staff attorney concerning the eligibility of an Osage Nation employee to hold a seat on the Minerals Council. Chairman Crum reminded the Council that the attorney had given the Council his advice on this subject well over a year ago. The vote was 5 yes, 3 no, with Crum, Yates, and Abbott voting no.

Ms. Boone then proposed a resolution to get a legal opinion from the staff attorney to review and advise on how to appeal the negotiated rulemaking. Much discussion was done on this subject. The vote was 5 yes, 3 no, with Crum, Yates, and Abbott voting no.

Councilman Red Eagle proposed a resolution to approve the re-hiring of Reta Lintner to work in the permitting department for the BIA. After discussion, this issue was tabled.

The meeting was adjourned about 2:00 PM.

IN MY OPINION:

I would like to thank Osage Shareholders' Association bloggers **Remote Name:** 99.100.60.117 and **Remote Name:** 24.124.106.168, for bringing the new BIA regulation to everyone's attention. It just goes to show, everyone can be of help if you will just let your thoughts be known. Thanks to you two, the MC Chairman and the BIA Supt. are now aware and I'm sure they will check this out thoroughly.

I really missed Jim Swan and his monthly report. This guy does a great job for the Shareholders and he is always available with any information anyone may ask for. Get well quickly, Jim. I may need some more numbers any time now.

Charles Hulbert's report on the secondary recovery system was very interesting. I visited with the Company representative briefly about this, and it looks to me like this could work very well on depleted wells and it might be effective on some of the abandoned wells, bringing them back to life. Lord knows, we have plenty of them. This should be of interest to a great many of our producers.

Two of the producers in executive session were horizontal drillers and I think we made some money today. Sorry, I didn't get the numbers.

Cynthia Boone had a box full of resolutions today. I don't expect it to happen, but if all 8 of the Council decides to go to this water conference in OKC, it could cost us over $8,000. That's pretty pricy, for no more good than they could do. Two persons who would understand what they were seeing and hearing probably would have been plenty.

She also seems to have a problem with an ONG employee having a seat on the MC. This issue was addressed by this same attorney about 2 years ago, as I recall. There was nothing wrong then, and I don't see anything wrong now. Nothing has changed. This maneuver could cost us $1,000 in attorney fees, to get the same advice they got 2 years ago.

Then, she proposed a resolution to hire the staff attorney to tell the Council how to appeal the Negotiated Rulemaking Committee's recommendations. I can't figure out just what it is she wants to appeal. These aren't the final rules. These are only recommendations or suggestions, and I doubt they carry much more weight than any of the public comments, including hers, that were made following the proper procedures. Councilmen Yates, Crum, and Abbott each made a gallant effort to list the many areas where the recommendations were solely for the benefit of the Shareholders, and much time was taken to do this. In a conversation with Yates, Crum, and Abbott after the meeting, Councilman Abbott stated that: *"The five that voted for appealing NRC are not looking out for the shareholders but evidently are concerned more for the producers! The CFRs we want changed deal with accountability of our gas (which for a 100 years we haven't had) and a closer watch on the oil taken out of our estate. Also, we want the price paid for our oil (Nymex) to be a little more than it is now. These 3 changes alone can impact shareholder* *checks. The five [other Councilpersons] were asked why they don't want these changes but none would give a reason. When one Councilman did say Nymex would hurt the producers, he was told the producers didn't elect us, the shareholders did!"*

But it didn't help. The resolution passed 5 to 3, with Crum, Abbott, and Yates voting no. So I guess they will be spending another $1,000 to hire the lawyer to tell them you can't appeal a suggestion.

At the risk of continuing to "beat a dead horse," we should all understand that much of the oil produced here only provides a 1/8th royalty to the Shareholders. That's 12 ½%. NYMEX can be around $3.00 p/bbl higher than HPP, however, earlier this week, the difference between Cushing NYMEX and the Highest Posted Price was only $0.93. <u>At this rate</u>, royalty based on <u>Cushing NYMEX would cost the 12 ½% producer almost $0.12 per barrel</u> on his total production. On February 1, 2013, the HPP was $94.00 p/bbl. On April 17, 2013, HPP was $85.25. That's a serious drop of $8.25 per barrel right off the top. Yet we don't see any of these 12 ½% producers standing out on the street corners trying to get someone to buy them out. I just don't see where this 12 cents would matter much. Nor do we see any of the 20% royalty producers out there, either. The most important point is, even if the HPP and NYMEX were equal, NYMEX will provide a much more stable and dependable platform for setting a daily price per barrel. HPP is concocted each day by the local purchasers, who, with no relevant regulation, can set the price where ever they like. If the price the purchasers pay must be a little higher for royalty barrels, it should make it easier for the producers to negotiate an equally higher price for their share of the oil. The worst that could happen would be the local gasoline price going up a penny or two.

As far as accountability for the natural gas that has been disappearing daily from our Mineral Estate goes, it's about time we start getting paid for our share of it. The gas producer is faced with a near monopoly for their sale of gas. Pipelines are the only way gas can be efficiently transported, and pipelines are expensive to build, therefore competition for our product is virtually zero. The purchasers must provide the metering for sales of gas, and these meters must be maintained properly. If they are not maintained, more and more gas will go through them without being counted. This hurts the producer even more than it hurts the royalty holder, but the producers have no way to enforce this accountability and we Shareholders certainly have had no way to enforce it. Until now, anyway. Once the new CFR's are in place, it will still take several years for the BIA to check out each purchasing system and then see to it that the proper equipment is in place and is being properly maintained. But now the BIA will have the teeth in the regulations and the tools they need, and hopefully the motivation to get started.

The rental rate for holding non-producing leases went from $1 to $3 per acre, and the fines and penalties were raised somewhat. As per the Federal code, the fines and penalties go to the Federal coffers, but the 300% raise in the rental rates goes the Shareholders. Even so, the rental rate is less than the average in the area. We had really been getting the shaft on this issue for many years. Any raise in the fines and penalties only serve to further enforce compliance, no matter who gets the money.

So you see, virtually every proposal for changing the CFR’s is designed to help the Shareholders and none of them are of much serious consequence to the producers. Maybe those on the MC who made this futile vote to appeal the NRC suggestions are considering a run for the Board of Directors of the Osage Producers’ Association. At least it’s beginning to look that way.

One thing for sure, we certainly don’t see any mass exodus of any producers as predicted by the nay-sayers. There are leases for sale, and there have always been leases for sale in the Osage, for a variety of reasons. For those who think it’s too expensive to produce oil here now, just leave it there in the ground. Someone will produce it sooner or later, maybe when oil is $150 per bbl. Our grandkids will appreciate it more then than we do now anyway. But when it is produced, we want our fair share.

Ray McClain, Osage Shareholder