

# THE FACTS ABOUT NYMEX ROYALTY OIL PRICING

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10/22/2013

**Councilman Galen Crum's explanation of why we need NYMEX pricing for our royalty oil is the most concise and comprehensive that I have heard. Since everyone couldn't be at the last meeting, maybe most will see it here.**

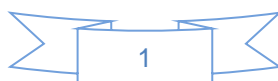
"Ray here is the power point you asked for.

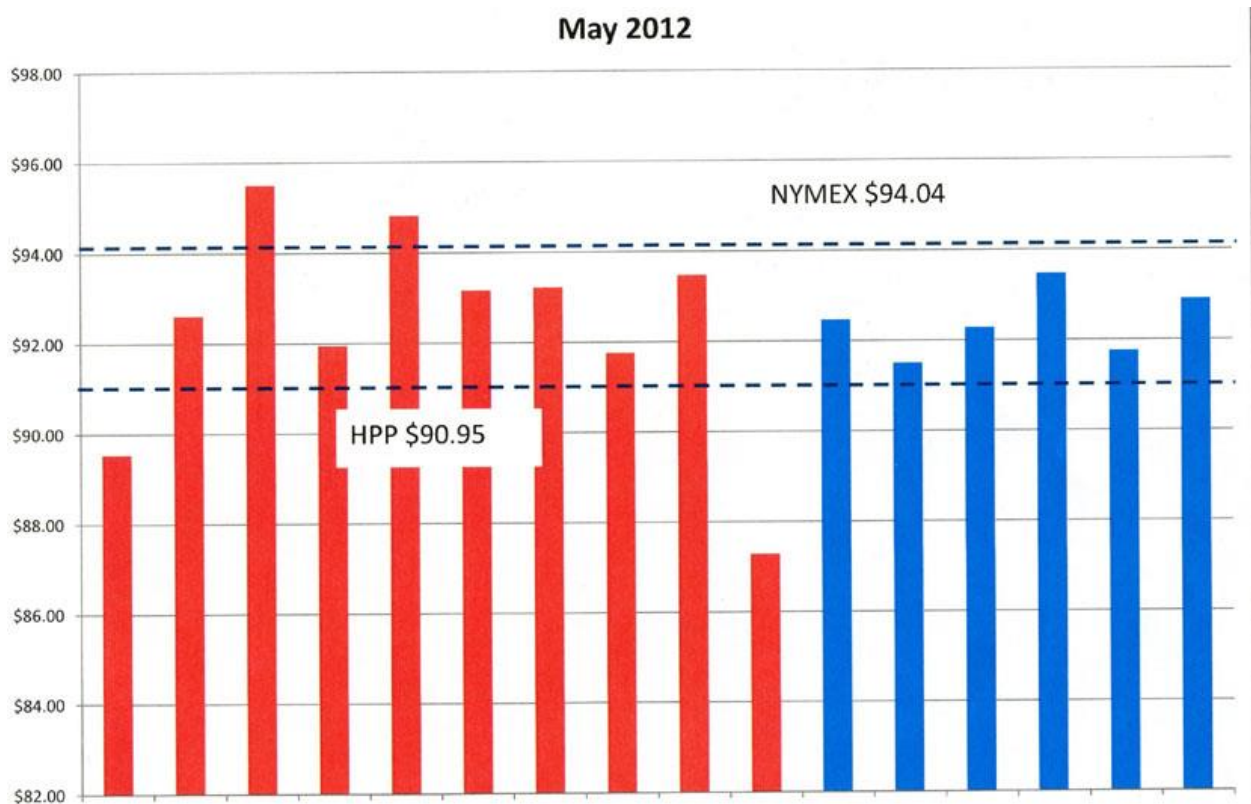
The purpose of this presentation was to inject a little truth into the misinformation campaign being waged by the Osage Producers association and some members of the Osage Minerals Council concerning the effects of the proposed CFR changes. They are spreading misinformation about many of the proposed changes, but this set of slides are concerning the true effect of the proposal of using the Cushing NYMEX average monthly price as the new base royalty price point.

In the bar graph slides, each bar represents a company doing business in the Osage. They are based on data from BIA Osage oil sales records and published NYMEX information. I removed the company names so as to not improperly release private company financial information. The companies depicted were picked at random except an effort was made to include a varied range from the largest to smallest sellers by volume. As you can see the graphs completely debunk the notion that Cushing NYMEX monthly average price is unattainable. Indeed they show multiple companies selling oil significantly higher than the proposed NYMEX reference price and many others consistently only a few cents per barrel behind. We told the producers about these findings nearly a year ago, yet they persisted in spreading the false claim that none of them could achieve the NYMEX monthly price. The graphs were also made available to all members of the Minerals Council at the same time, yet some of the Council have also persisted in spreading these false claims.

The slides following each bar graph show the actual percentage of oil sold above the NYMEX index during that particular month. They show that between 35% and 45% of the total oil sales volume was priced above the proposed NYMEX monthly average. It is important to remember that the historical method of setting the Osage oil royalty price was to use the "highest price paid or offered in the area" with no deduction for transportation. The Federal judge in our Trust case suit stated that the current royalty pricing method of using highest posted price rather than the highest price paid was improperly foisted upon the Osages. Take note in the graphs of how much lower this Highest Posted Price is than what is actually the top of the Osage oil market.

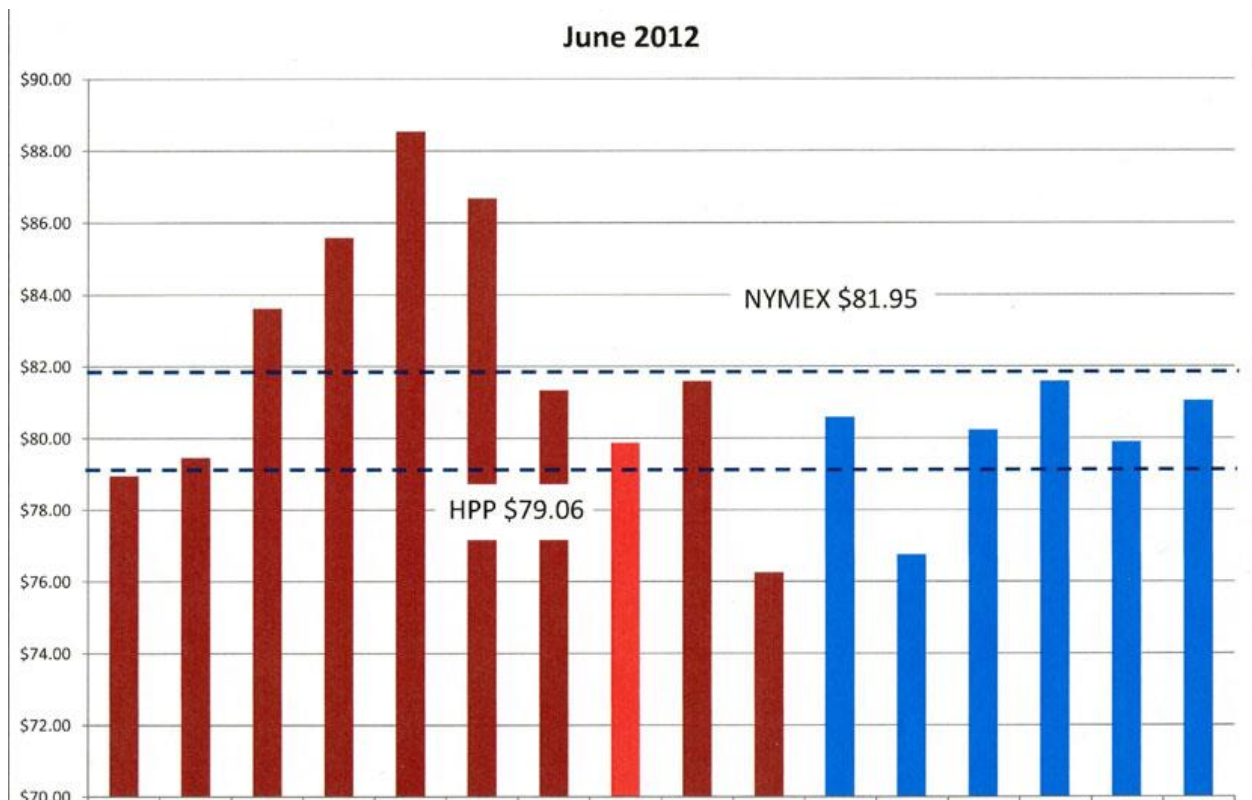
The next slides show the math on just exactly how much extra money per barrel using the Cushing NYMEX monthly average price will add to those producers selling below NYMEX. Again, the **false claims** by the Producers Association and some Minerals Council members of huge increases in the royalty price per barrel are completely debunked.





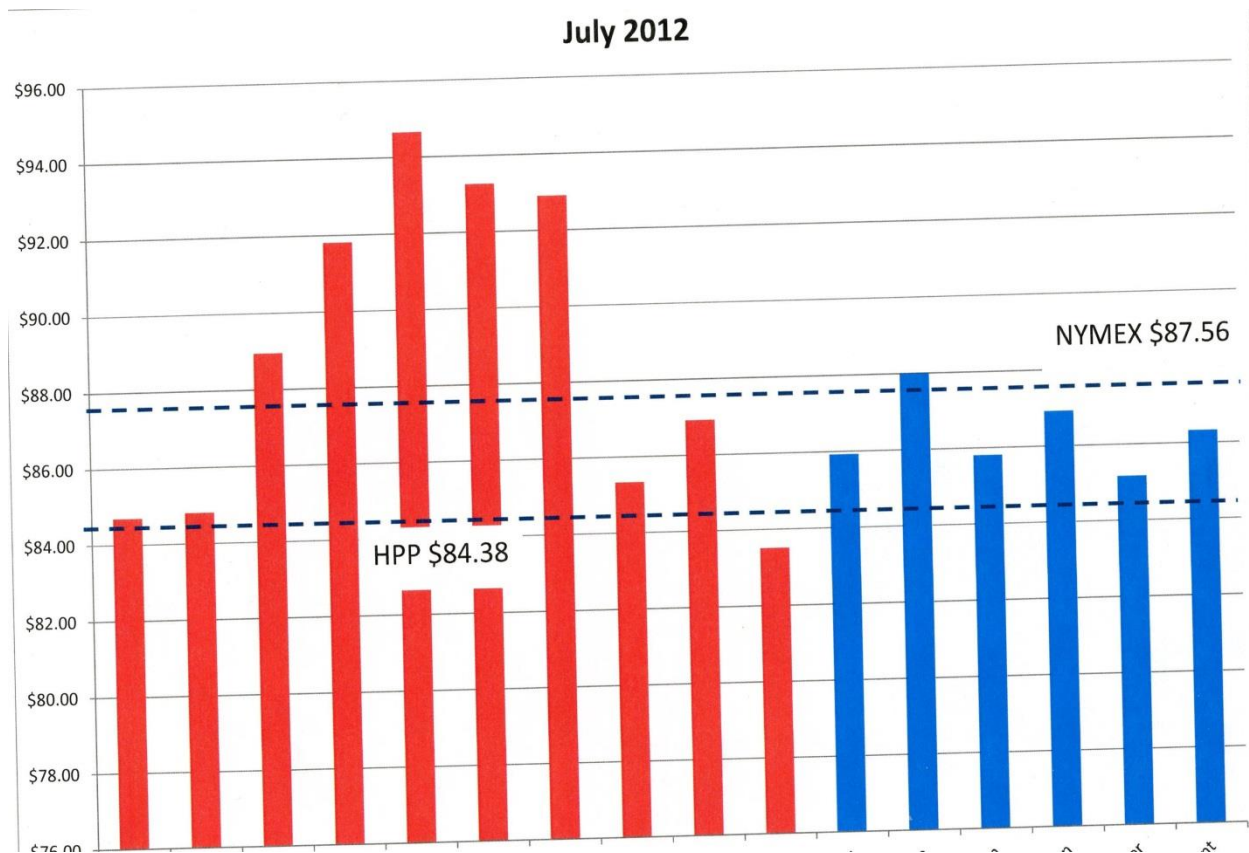
## Barrels Sold Above Cushing NYMEX Monthly Average Price

- May 2012 Total Volume of Osage Oil Sold was 402,291 barrels
- 140,699 barrels (35%) was sold at a price greater than the \$94.04 May Cushing NYMEX average monthly price.



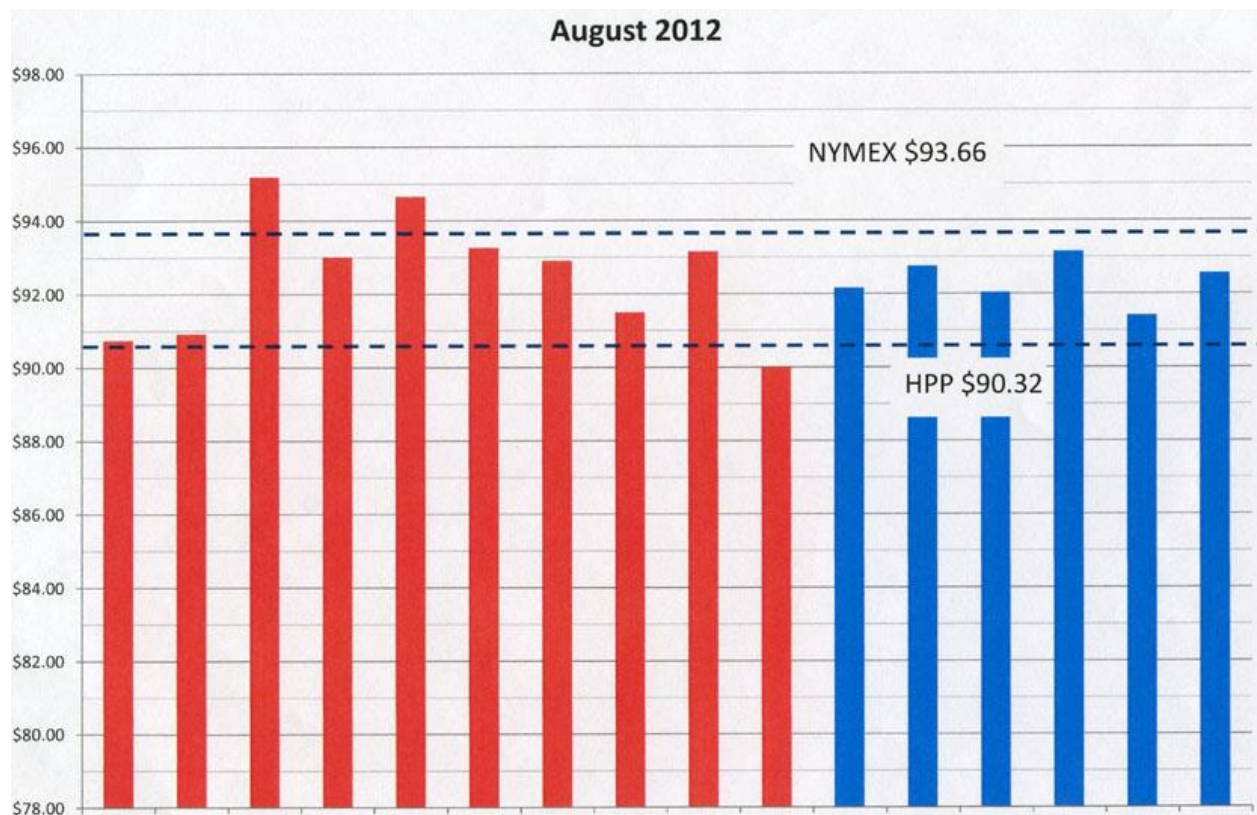
## Barrels sold above Cushing NYMEX Average Monthly Price

- Total volume of Osage Oil sold in June 2012 was 374,757 barrels.
- 138,581 barrels (37%) was sold at a price greater than the Cushing NYMEX monthly average price of \$81.95 per barrel



## Barrels of Oil sold above Cushing NYMEX average monthly price

- Total volume of Osage Oil sold in July 2012 was 369,758 barrels.
- 166,391 barrels (45%) were sold at a price greater than the Cushing NYMEX average monthly price of \$87.56 per barrel.



## Barrels of Oil sold above the Monthly average Cushing NYMEX price

- In August 0f 2012 a total volume of 343,391 barrels of Osage oil was sold.
- 120,629 barrels (35%) was sold at a price above the Cushing average Monthly price of \$93.66 per barrel.



Prior to 1995 the Osage  
Royalty price point was

**“The Highest Price Paid or  
Offered in the Area.”**

- The federal judge ruled that the 1995 change to the current royalty pricing method was improper.
- Osage oil sales records show that returning to the (pre-1995) historic “Highest Price Paid” royalty method would result in an average increase of more than \$3.00 per barrel over using the Cushing NYMEX average monthly price.

**2008 to 2012 Osage sales records show that NYMEX averages \$1.60 p/bbl. more than the average Osage Oil Price Paid and \$3.75 higher than the average Highest Posted Price.**

**Royalty difference \$100 per barrel PAID PRICE to a 101.60 NYMEX avg.**

- $1/8^{\text{th}}$  of \$100 = \$12.50
- $1/6^{\text{th}}$  of \$100 = \$16.66
- $3/16^{\text{th}}$  of \$100 = \$18.75
- $1/5^{\text{th}}$  of \$100 = \$20.00

$1/8^{\text{th}}$  of 101.60 = \$12.70  
 Diff. \$0.20  
 $1/6^{\text{th}}$  of 101.60 = \$16.93  
 Diff. \$0.27  
 $3/16^{\text{th}}$  of 101.60 = \$19.05  
 Diff. \$0.30  
 $1/5^{\text{th}}$  of 101.60 = \$20.32  
 Diff. \$0.32

**Royalty difference \$100 HPP to \$103.75 NYMEX**

- $1/8^{\text{th}}$  of \$100 = \$12.50
- $1/6^{\text{th}}$  of \$100 = \$16.67
- $3/16^{\text{th}}$  of \$100 = \$18.75
- $1/5^{\text{th}}$  of \$100 = \$20.00

$1/8^{\text{th}}$  of \$103.75 = \$12.97  
 Diff. \$0.47  
 $1/6^{\text{th}}$  of \$103.75 = \$17.29  
 Diff. \$0.62  
 $3/16^{\text{th}}$  of \$103.75 = \$19.45  
 Diff. \$0.70  
 $1/5^{\text{th}}$  of \$103.75 = \$20.75  
 Diff. \$0.75

The Osage delegation to this rule making process set three major objectives from the beginning----

1. That our oil and gas would be measured and properly valued as to quality.
2. That the royalty prices paid would be set at or near the top of the area market.
3. That all process's set in place would be simple and could be easily understood by the producers and easily administered by the BIA.

The NYMEX monthly price point met all of these objectives, but was picked largely to meet that third simplicity requirement. The NYMEX monthly price is published prior to when producers have to pay so there is no requirement for the BIA to continually bill them for the underpayments and no need for extra accounting staff by the BIA or producers. However since the NYMEX price is already discounting our royalty price point by several dollars per barrel less than the **actual** highest prices paid, there is no room for a transportation discount and still meet the second objective of royalties being paid at or near the top of the area market.

Galen Crum, Osage Minerals Council Member”

**In my opinion:**

**I would like to know who the genius was who initiated this HPP crap in the first place in 1995 (8 years ago). Whoever it was certainly did a huge disservice to the Osage Shareholders and has put millions of our royalty dollars into the coffers of the Producers. No wonder the Producers don't like changing it. Good job on this, Galen.**

**Ray McClain, Osage Shareholder**

**NOTE:**

**This document works well on a computer, but some of the charts may not display in their entirety on some smart phones.**