

# Osage Minerals Council Meeting 9/18/2013

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9/20/2013

Chairman Yates opened the meeting at 10:00 AM today with a prayer by Curtis Bear. Councilwoman Cynthia Boone was recognized. She asked that a police officer sitting in the lobby be invited into the meeting. Chairman Yates told her that the officer was welcome to sit anywhere he wanted, but he declined to try to tell the officer where he should sit.

Tribal accountants Leslie Young and Julia Roe gave their reports. Nothing out of the ordinary was mentioned. Cynthia Boone asked Ms. Young if any receipts had come in for the Osage Oil and Gas Summit yet. Ms. Young told her "no."

In his report, Minerals Council auditor Jim Swan told us that the average barrels per day of oil production was 14,504 for July, 2013 (the reporting month) and it seemed to be continuing in an upward trend. He said that he doesn't remember seeing this much oil produced per day in the Osage since he has worked here. Also, the 20% royalty oil now made up 16.46% of the total production.

BIA Acting Superintendent Rhonda Loftin was not present today. Acting Deputy Supt. Carla Norman was filling in. Last week I told you that Ms. Loftin intended to stay until a new permanent Superintendent was in place. That was incorrect. Ms. Loftin will be leaving soon, and Robin Phillips, the current Superintendent at another agency, will step in as Acting Supt. until a permanent Superintendent is hired here. Ms. Loftin said she plans to stay around as long as the new Acting Supt. thinks she is needed, and she will be readily available by phone anytime.

Representatives from Stewart Stone Company and Spyglass Energy were heard in executive session today, and a pay raise for the staff was discussed.

After intermission, a Resolution approving Stewart Stone's proposal was passed, 8 yes and 0 no. Fifty one cents per ton was agreed upon.

The pay raise for the staff was passed 6 yes and 2 no, with Cynthia Boone and Dudley Whitehorn dissenting.

No mention of Spyglass was made, so we must assume that negotiations with them are ongoing.

Councilman Red Eagle motioned that the Council approve travel and expenses for the Council to attend the Oklahoma Oil and Gas Exposition to be held at OKC soon. The vote was 6 yes and -0- no.

A motion was passed to approve a request made by OST's Brian Ross in executive session, 7 yes and -0- no.

Following executive session, a motion was made and passed to approve the Council's meeting minutes from June 14 thru July 17. There were still corrections to be made to the August minutes.

Councilwoman Cynthia Boone brought up the subject of the Nation's access to the MC check register. She stated that "Previously our attorney had given us several reasons why we [MC] didn't have to follow the Osage Nations Open Records Act." She said that a resolution was "in our note books" for a vote to approve, asking the Council attorney to review the ON Attorney General's opinion and to recommend what could be done to protect our records. Councilman Crum stated that the records became a matter of public record when the checks were signed and approved and to pay a lawyer to tell us that again was wasting money. The resolution was presented anyway and failed with a 5 (Crum, Yates, Abbott, Core, and Red Eagle) no and 3 (Boone, Bear, and Whitehorn) yes vote.

Councilmen Bear and Core left the meeting at this point and Councilman Bear did not return.

A motion, made by Galen Crum and seconded by Melvin Core, was passed 7 to -0- for a Resolution in Support of GeoPower Partners, LLC's proposal to set up a pilot project for their Co-generation System. The Minerals Council's contribution to this project will be to allow the H<sub>2</sub>S contaminated gas to be used to fire the boiler, with no charge for royalty on this pilot project. The Producer has agreed to furnish the raw gas at no cost for the pilot project. Currently, this gas is being flared or incinerated to allow production to continue, and has no value to anyone, anyway. Royalty will be paid on the sale of the dry salt produced. It is expected that a rate will be established for use of H<sub>2</sub>S gas on future installations, and market rates will be used for the good gas in other locations.

A motion by Councilman Sonny Abbott to renew the contract with attorneys Akin and Gump to continue to pursue the wind farm issue, with no changes to the base contract, was passed 7 yes and -0- no.

Much discussion was held about putting out a special edition of the newsletter to better explain each of the Councils' personal position on the CFR revision. Ms. Boone had proposed a resolution to not send out a special edition. Apparently the resolution was a little ambiguous, and after much wrangling about whether a yes vote meant yes or no, a vote was taken on whether or not to send out the special edition. The special edition was approved by a 4 yes (Crum, Abbott, Yates, Red Eagle) to 3 no (Boone, Core, and Whitehorn) vote.

Congresswoman Maria Whitehorn gave a presentation on a resolution she has proposed to the ON Congress recommending an amendment to the ON Constitution she hopes to be put on the ballot next year. It is too lengthy to put here, but it can be found at:

<https://www.dropbox.com/s/wlvk3a4otogd63m/Constitution%20p%2016%2C%2034%2C%2035%20pages%202%2C%203.pdf>

and <https://www.dropbox.com/s/pfhk9c159fle68c/ONCA13-22.REVISED.pdf>

Shareholder/Landowner Eugene Bowline was recognized. He thanked the Council, the BIA, and Chaparral Energy land man Jon Godsey for making sure that landowners' concerns were now being given more consideration as Chaparral moves ahead with development of their leases. He said there has been a huge improvement in the last few months in the way Chaparral deals with the landowners. He also thanked land man Tom Lackey and new Chaparral field man Pete Kelly for their efforts to cooperate better with the landowners.

Budget Committee Chairman Sonny Abbott presented the budget for FY 2014 for approval. The vote was 6 yes and 1 no, with Cynthia Boone dissenting.

This meeting adjourned about 1:00 PM.

## **In My Opinion:**

In my comments last week, either Mary Johnson had misspoken or I misunderstood her about the contributions and receipts coming in for the Osage Oil and Gas Summit. Today, she told me that the usual pledges of support have been received, but none are in the bank yet. She said this is normal, and she had every confidence that they would start coming in soon.

The report Jim Swan gave today was very encouraging. Our average daily production just keeps rising. If the trend continues, and considering the higher oil prices throughout July, August, and so far September, this should give our December payment check a pretty good bump up. There were also a couple of fairly decent lease takedowns during this period. It all adds up.

Also, don't forget, the spigots on the re-pressured old Burbank Field are supposed to be opened up by Oct 1, 2013. If this stays on schedule, we are supposed to be seeing an extra 3,500 barrels per day by December 31, 2013 added to our current 14,500 plus barrels per day. This should begin impacting our headright income in a good way in March, 2014. We only get 12 ½ percent of the Burbank production, since the royalty rate is grand-fathered in from the 1920's, but it will still be great for us. History tells us that the Osages did pretty good over there the first time around, and not so bad the second time with the water flood. It may not be quite that good this time, but, if oil prices hold, it should be a extra \$3.9 million into the pot each quarter. That's an additional \$1800 per headright. And Chaparral says it will eventually get up to over 10,000 barrels extra per day and last for about 20 years. Life is good in the Osage, huh?

The BIA is sure taking a long time to appoint a permanent Superintendent. Maybe this means they are being pretty picky. I hope so. As I said last week, the additional \$1M in their budget will give them a good start on fixing their problems, but I think it will take another \$2M or more to beef up everything. Reservoir engineers and experienced geologists don't come cheap. A good geologist can sometimes retain a small interest in anything he finds when working for a private company. Not so working for the BIA. They have no such trinkets to offer, so it must all be done with cash to get the good ones.

A raise for the staff was a good thing. I don't know how much it was or how much they are paid, but I do know that we must make working for the MC a good job, with wages that make people want to stay. Working for 8 different bosses, sometimes going in 8 different directions at once is not easy at best. In the end, only money will keep them interested, if they can keep from having a nervous breakdown over the aggravation.

The letter of support for the co-gen people could turn out to be a very important link toward further development of the Mineral Estate. We, and I believe the producer of the lease where this pilot project is located, are giving them the H<sub>2</sub>S laden gas at no charge. It is worthless as a marketable commodity in its current, very deadly form, and must be carefully and properly incinerated to render it harmless. If they can neutralize it by firing a boiler with it and use the ever abundant salt water as feedstock to make sorely needed 3 phase electricity to run more submersible oil well pumps, and make 200 tons of dry salt every day to sell for road salt, and still have 4,000 barrels of reasonably clean, potable water left over every day to frac more wells with and for the land owners use for their livestock, who loses here? We will get a royalty on sales of salt now, because that is a mineral. If everything works as advertised, on subsequent installations, a value can be negotiated for the bad gas, and a royalty can be assessed on that, and the producer will finally make something on it. This is progress, using the innovative, state-of-the-art technology of the day. Good job, MC2.

Shareholder Eugene Bowline's recount of his recent experience with Chaparral Energy was a breath of fresh air. It hasn't been but about 3 months since they were in court with a landowner for using the bulldozer approach to access private property, and had several more dates scheduled with the judge and some other land owners with the same complaints. Just reading between the lines, I'd say that Chaparral has put a new field representative in for the Osage, and may have decided that a different approach might be wise. I certainly appreciate Mr. Bowline stepping up and letting everyone know that things can and do get better when reason and common sense is used. And thank you, Chaparral, for taking a second look. Chaparral has a great future ahead of them in the Osage, and we Osages are fortunate to have such a forward looking operator on our Mineral Estate.

Ray McClain, Osage Shareholder