What's Our Oil Price Now?

http://www.Osages-You-Need-To-Know.com June 2, 2015

The following charts are examples of just one way the Osage Shareholders have been getting ripped off for many years and why a stable platform such as NYMEX for the basis of our oil royalty payment is necessary. First of all, this "Highest Posted Price" has been a fake from the start. As you will soon see, it has absolutely nothing to do with the true value of the oil being sold. This price per barrel is quoted and posted by each purchaser every day. The highest price posted from among those purchasers buying 95% of the oil on a given day is designated as the Highest Posted Price for that day. The HPP price is the floor or bottom price that Osage royalty can be based on, but if a producer sells at a higher price, only that specific Producer's royalty is paid on that higher price. The same will be the case when NYMEX is used as the floor price. One would think that this simple sounding process would be fair to all. And it would be, if that was the price that everyone's oil was based on, but that just doesn't happen.

In a sampling of the prices paid to 16 Producers over a period of four consecutive months in 2012, we can see just how unfair this has been. The names of these Producers have been redacted in respect of their private business dealings, but the Minerals Council and the BIA know who they are. I understand that the quality of the oil and different transportation issues will cause each Producer's oil to be of a slightly different value, but a $7 or $8 difference? Not likely. You will see that some are being paid as much as $4 per bbl more than the HPP we get for our royalty oil. A few are already getting prices well above NYMEX.

But that's not what bothers me the most. Notice that a couple of these Producers are being paid as much as $5 LESS than the HPP. This really causes my hackles to begin to rise. Please realize that these are astute business men who have been in the oil business a long time. These are some of the same Producers who are screaming about the new CFR's requiring them to pay royalty based on NYMEX when they don't receive NYMEX, but------they have been strangely quiet for years concerning this issue of not even receiving the HPP for their oil.
Wonder why-----?

The following scenario would be difficult to detect and prove, but what if---a Producer was buying his own oil at an artificially depressed price, by using a shell company set up for that purpose and registered with the BIA as a purchaser. Then that shell company buys the oil, on paper, but the oil never leaves the stock tank. Then, that shell company could resell the oil at market value (or above) to the regular purchaser. Only the first purchaser is required to account for the volume of oil purchased.

As far as I know, there are no rules in the old CFR's to prevent this. That would provide a sure fire way to evade paying royalties because there would be no way to verify the volume of oil bought by the first purchaser unless the BIA was there to gage each oil run. There could be numerous variations of this scheme. Money makes inventive minds sometimes.

In the charts below, the upper dotted line represents NYMEX pricing----

The lower dotted line is the HPP for the month.

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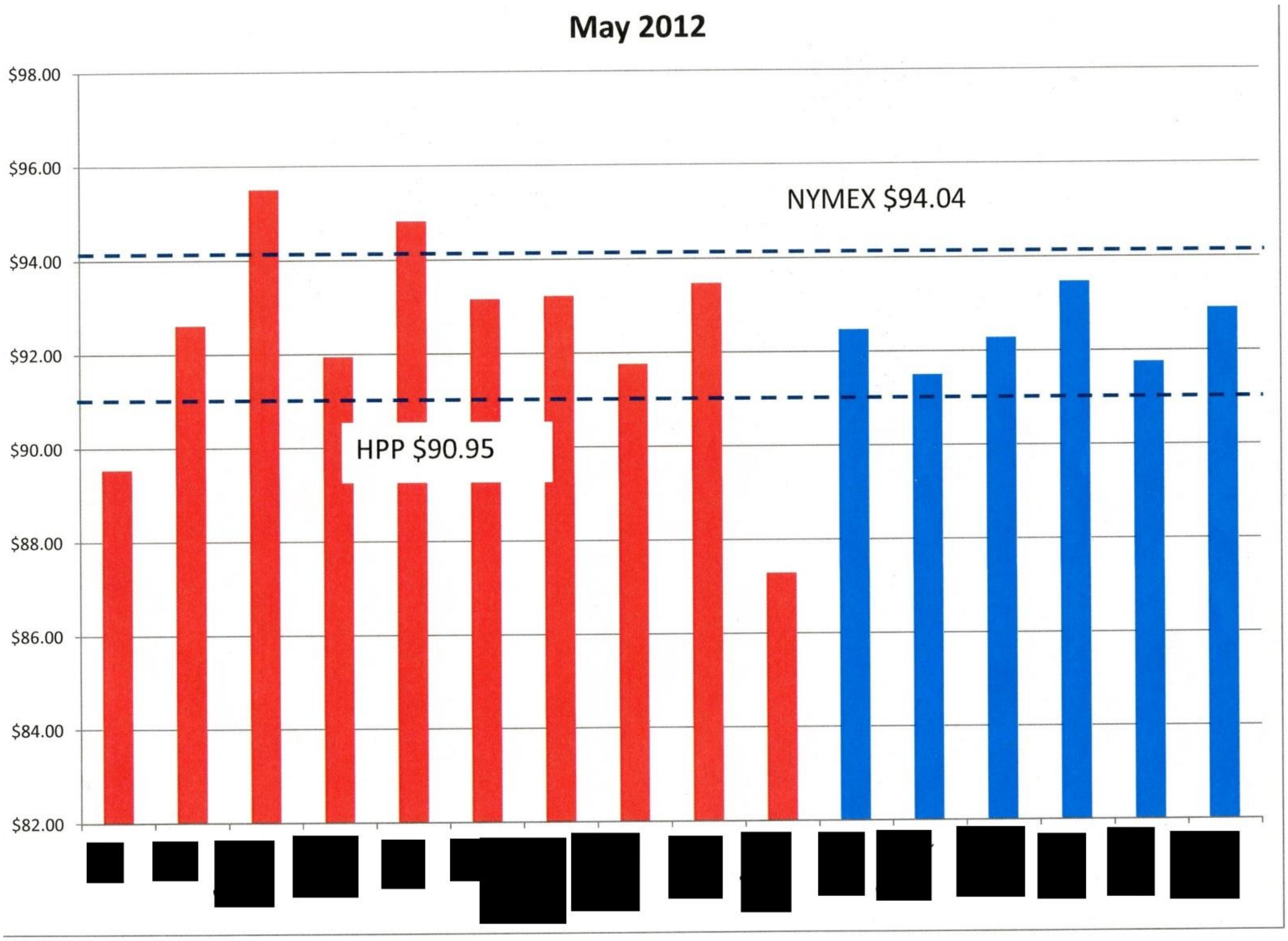

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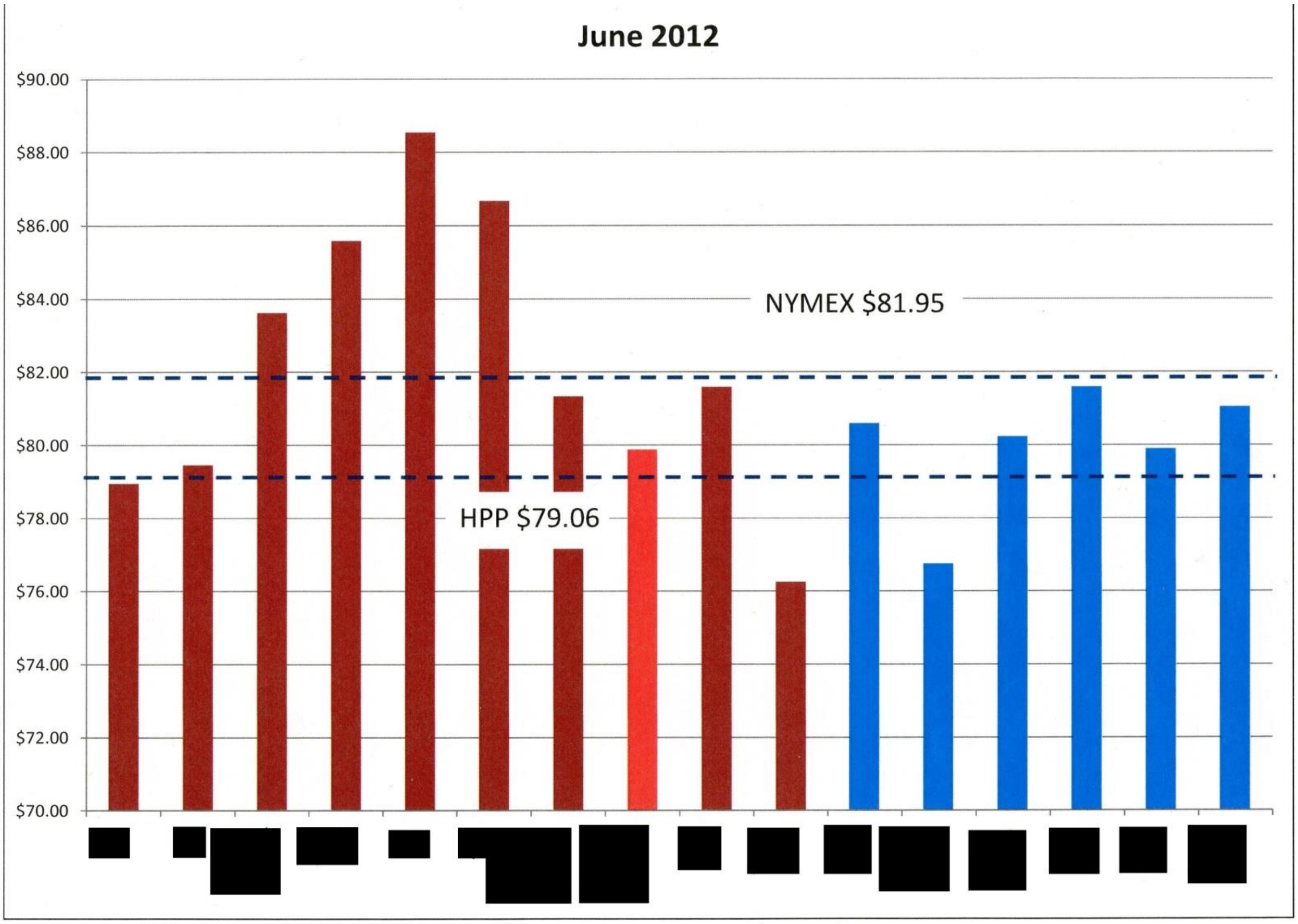

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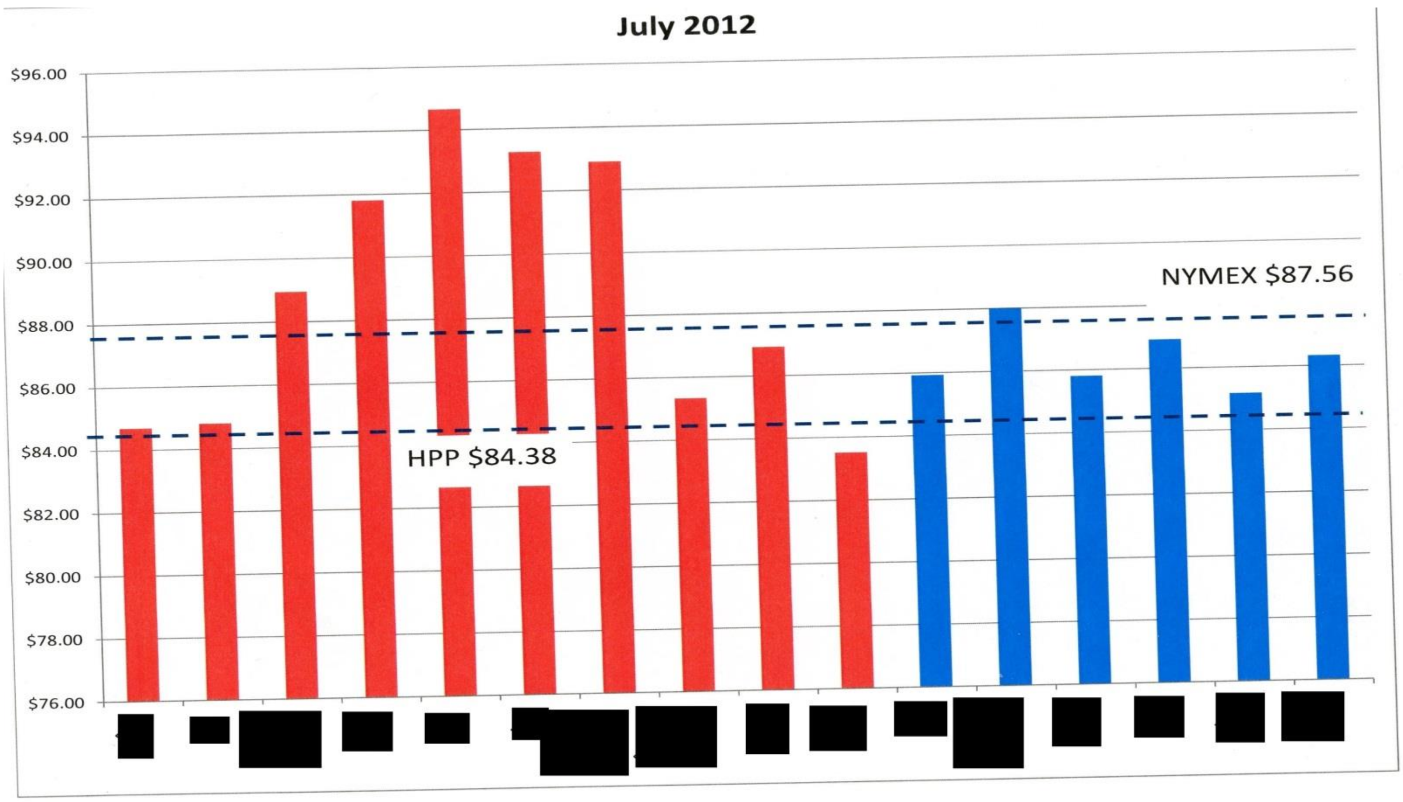

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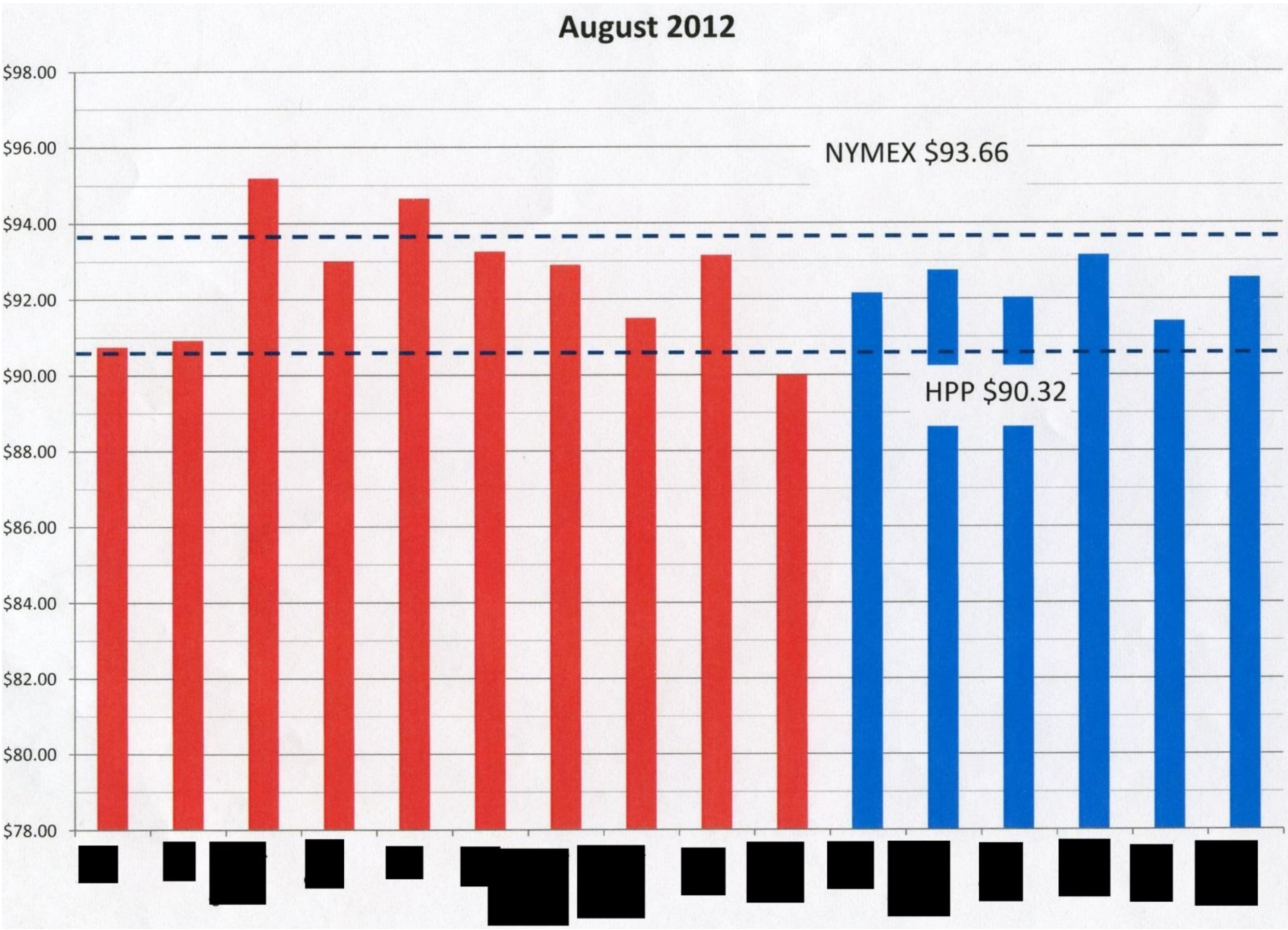

These charts represent oil only. I think we have been being shorted 5% to 10% on oil royalties for years, and if a similar analysis was done on gas sales, I think we would find that we, AND the Producers, have been losing 30% to 40% of the value of natural gas.

I'm not accusing anyone of stealing, but I am pointing out that we have allowed ourselves to be put in the position of giving away our resources when we should have been being paid for them. For the most part, it's our own fault.

Ray McClain, Osage Mineral Estate Beneficiary