

# Update on Mineral Estate Activities

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09/28/2014

As many of you know, I have been laid up since September 3 from a bout with surgery. I have won the first two rounds, hands down, and now I'm scuffling with round 3, recovery. The prognosis from all the doctors couldn't be better, mostly thanks to the many prayers and well-wishes from all of you. (The doctors were pretty good, too.) This has slowed me down a little, and will continue to do so for several more months, so please just hang with me. I'll be back.

I hope to continue to bring any news worth knowing about our Mineral Estate to you as accurately as possible. Due to some limited mobility right now, it's harder to find out everything that's going on, but I have many very dependable sources I can rely on.

First of all, our average daily production for the reporting month of July, **2013** was **14,504 barrels per day**. In June, **2014**, it was down to **13,228 bpd** and still on the decline. That's a **1,276 bpd (8.79%) drop** in about 1 year. Thankfully, the price of oil, for the most part, has remained in the high \$90's lately, only very recently dropping below \$90. (*A bit of recent history here--- In 1990, the average daily production in the Osage was 17,254 bpd and the average oil price was \$23.73 per bbl. Kinda makes one wonder what happened, doesn't it?*)

Next, the BIA/DOI has been promising the new CFR's for over a year now, and we still haven't got them. Because of this delay, the new BIA Superintendent cannot be sure of exactly what rules she might enforce that wouldn't possibly be changed. The Producers are somewhat in limbo also, because they can't be sure of what the new rules will be either, and many are betting millions with every move they make.

Then, the Pawhuska BIA Superintendent, in July, 2014, sends out a letter to all Producers telling them that after August 12, all permits relating to drilling, frac'ing, work-overs, disposal wells, and a few other things, will not be processed until they are in full compliance with the 1979 National Environmental Policy Act (NEPA). Compliance includes a full environmental assessment of each lease involved. This is a time consuming and rather expensive procedure (\$6 to \$10K & 6 months). She was not necessarily wrong in doing this, it is Federal law, but it was terrible timing. It is possible that she was acting under orders from above, but one thing is for sure--- the BIA should have started at least 10 years ago to get this done, and phased it in

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gradually. Instead, BIA just ignored NEPA and went right ahead issuing permits. Quite a few Producers scrambled around and got a bunch of permits filed before the Aug 12 deadline, whether they were quite ready to do the work or not. I think the BIA is still wading through this backlog of permitting and probably won't catch up until the end of the year. Thank goodness the "2 year clock" doesn't start running on the permits until they are approved.

With this NEPA requirement suddenly thrust upon them, virtually all of our Producers immediately became very leery of making any further capital investment in their holdings, pending further evaluation, and it tended to totally stop the smaller Producers from expanding their operations in the short term. The larger Producers were a little further ahead of the game, and most were going ahead with their plans, which included the Environmental Assessment (EA) anyway.

Then along comes Osage Shareholder Martha Dee Donelson. Devon Energy had planned to commence drilling early last spring on 3 new Hz wells on her 2,000+-acre property, which is a part of Devon's 58,000 acre concession on the west side of the County. The exact location of the drilling pad and an access road could not be agreed upon, and I believe that the BIA made an attempt to reconcile the problem, but they too, failed to satisfy both parties. Mrs. Donelson then hired attorney Gentner Drummond to take Devon to District Court in Pawhuska to stop them from further development of their holdings (our Mineral Estate) on her property. The Pawhuska District Judge ruled that this was a Federal matter, and suggested that it be filed in the Federal District Court of Northern Oklahoma in Tulsa if they wished to pursue the issue further. The matter was then filed in the Federal Court, but by then, the suit had been expanded to include the BIA and to become a class action suit, inviting all Osage County landowners having production on their property to be included. (See: [Osages-YouNeed-to-Know.com/2014-08-13\\_The Enemy Within](http://Osages-YouNeed-to-Know.com/2014-08-13_The%20Enemy%20Within)) The defendants list includes the BIA and 20 or more of our strongest operators, and further includes in the defendant's class, each and every Producer in the Osage.

Further, the filing asserts that ALL drilling permits issued since 1979 are invalid and should be declared void unless the NEPA assessment had been done properly. Few, if any, have been done because the BIA did not address this NEPA process

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when issuing the permits. As a remedy, the filing then requests that **ALL PRODUCTION ACTIVITY** cease immediately until NEPA compliance is achieved.

The filing of this law suit immediately brought **EVERYTHING** to a screeching halt in the Osage. Even the large operators have pulled back now, waiting until the Donelson case is resolved. The case now languishes in the Tulsa Federal court awaiting the first, of no doubt many, hearings on the matter. And who can blame them. Only a fool would want to drill wells that he couldn't be sure he would be allowed to produce.

Meanwhile, all currently producing wells are still operating and minor maintenance of those wells is still allowed, but the daily production is probably going to remain on this slowly declining rate. It will take new drilling and workovers to maintain the production rates we have been used to seeing.

I'm sure it's too much to hope for, but it sure would be nice if the Judge would declare this a "frivolous lawsuit" and throw it out of court on its ear. That might make Mrs. Donelson and her co-plaintiff John Friend liable for causing this massive work stoppage for no good reason. I'd bet that our lawyers would know what to do then!

On a little brighter note, Chaparral Energy has been telling us for over a year now that their CO<sub>2</sub> Enhanced Oil Recovery program at Burbank will eventually give us an 8 to 10 thousand bpd boost in production, but that happening is going to take several more years to fully realize. At last report, they have about doubled their Burbank production in less than a year. That's up about 1200 bpd and they are expecting much more by the end of this year. We'll see. It's very hard to get current information out of Burbank.

A lease sale was held at the Osage Oil & Gas Summit last week. We were told about 2 months ago that 60 leases had been nominated. Then 3 or 4 weeks ago, the BIA told us that 40 of the leases had been found "not qualified" for sale yet. This left 20 leases up for auction. The sale only netted about \$90,000 (40 bucks per HR), with Chaparral buying most of them. All but 1 lease went for the minimum bid. Most of these leases were located in proven areas, and should have brought much more money. I guess we should appreciate Chaparral sticking their

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necks out and buying up these leases during these trying times, but I sure hate to see us giving our assets away for nearly nothing like that, with no competitive bidding. Maybe they were the only ones who had the where-with-all to be able to take a risk like this. The leases Chaparral bought are mostly located within the concession that they had released several months ago, so I'm sure they had been thoroughly evaluated for potential production. As for the next lease sale, it would be foolish to even have one until things get back to normal around here!

After speaking with several who attended the Oil and Gas Summit, it seems as though it was pretty well attended and very well done. With all the turmoil that's going on right now, it's a wonder that anyone showed up at all.

It's time for our Minerals Council to start functioning as a full, 8 person team. Any internal problems they may have going on must be put to the side and they must concentrate on defeating this ugly enemy to us all. This is much more important than tweaking up any petty, internal grievances they may have. Let's hope they will put any personal politics behind them and concentrate on beating back this **very real threat** to the very existence of our Mineral Estate.

Ray McClain, Osage Mineral Estate Beneficiary