

# Oil Prices Still Falling

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January 6, 2015

## In My Opinion:

I was hoping that the drop in oil prices had bottomed out last week at \$50.03 on January 1. Well, that didn't happen. Yesterday, 1/05/15, oil started the day at \$50.80 and went to \$48.57 at one point during the day. Our HPP (on which our royalties are based) for the day wound up at \$46.50. This morning, 1/06/15, the Chicago Mercantile Exchange had oil at \$48.88. If it stays there, this will likely put our HPP somewhere around **\$44.50** for tomorrow, and the bottom may not be here yet. To clarify, today's HPP flows from the highest price posted by the purchasers buying 95% of the Osage oil yesterday. It is always one day behind when posted each day, but it doesn't matter because it is totaled and averaged at the end of each month and that one number is used to calculate the royalty due from each Producer, based on the volume of oil he sold.

During the little boom we had in oil prices in 2008, (caused by the OPEC embargo), we saw the average price of oil rise to \$99.64, with a spike at \$135.00. Then OPEC started pumping oil again in 2009 and the average HPP price dropped **40%** to \$59.70. It had started to stabilize after about 6 months. Our average HPP bounced around mostly in the \$70's thru 2010. In 2011, it jumped to \$93.42 and it stayed in the low to mid \$90's during 2012 & 2013. The first half of 2014 was great, averaging about \$100. Then we all know what happened. Disastrous Oil Prices, imposed by who else---OPEC. After the Donelson law suit and the BIA environmental requirements piled on, both holding up production, it became disaster to the N<sup>th</sup>-degree.

However, let's remember that the U.S. oil producers must shoulder some of the responsibility. Using the latest drilling technology, they have almost made the U.S. totally self-sufficient in oil and gas production. In fact, nation-wide, we can produce much more gas than we can use right now. Most high producing gas wells are radically choked back to produce much less than they normally could and many gas wells are simply shut in until a market develops. Once we become fully self-sufficient in oil production (in about a year maybe), I expect them to find a way to raise the oil price back up to a level that Producers **and** consumers can live with. I expect to see drilling for oil where gas is a coincidental product to continue, but on a much smaller scale until the oil price comes back up. Hopefully the major gas producers will find a way to get the price they receive up to at least \$4 or \$5 per MCF before too long. **The price we**

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Osages are receiving for dry, marketable gas is currently about \$1.25 per MCF. This is far less than we should be receiving and I think the MC has Ms. Forman leaning on the BIA as much as possible, to get this fixed. Gas and natural gas liquids and other by-products such as CO<sub>2</sub> and helium have, been ignored for years, primarily because the BIA had no one who understood how to count our chips and then collect them. We have been taking a real beating on the sales and reporting on the NGL's. The BIA says they are looking for qualified people to hire to fix this problem, too. I'm sure Ms. Forman is watching closely and will update the MC as necessary on the progress being made with gas accounting and collections.

On June 23, 2014, our HPP for oil was \$103.75. Yesterday, June 5, 2015, the HPP calculates at \$49.25, and for today, it looks like it will be **\$46.50. That is a 44.8 % drop in less than 6 ½ months.** Remember, it only dropped 40% on average for the entire year of 2009, when OPEC started pumping again. If this rate of decline continues, not only will the Osages and their producers be in trouble, producers all over the world will suffer. All except the Arabs and their 'cheap to produce' oil. It only costs them \$16 to \$20 per barrel to produce and prepare for shipment. I guess it just depends on how much of their earnings they have retained, and it takes a lot to maintain their current life style.

Our Minerals Council can't do much about the price of oil and gas, but there is certainly much they can do to insure that the BIA is accounting for and collecting our royalties. I think the BIA has the wheels turning now to set up the Office of Natural Resources Revenue (ONRR) Osage Specific System to do that. As soon as the new CFR's are in effect, the BIA must also have a program set up to assist the Producers with installing the necessary equipment on their end to measure and evaluate the product and transmit the data. There will be a lot to do and the MC needs to monitor the activities and assist where they can.

Today, the MC held a Special Called Meeting where they formally hired oil and gas attorney Tom Fredricks. Mr. Fredricks is also well versed in Indian law. He and Ms. Forman will no doubt work in tandem to monitor the BIA improvements, and make recommendations where necessary. This is a positive step forward for the 3<sup>rd</sup> Minerals Council and we should see a great improvement in monitoring BIA activity and getting better gas contracts for our Producers.

Ray McClain, Osage Mineral Estate Beneficiary

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