

How Much Will My March Payment Be?

<http://www.Osages-You-Need-To-Know.com>

January 17, 2015

Most of us are extremely concerned about our March, 2015 Head Right payment. We really should be concerned. It looks to me like March could be down a couple of thousand dollars, and June may be even worse if the oil price doesn't correct it's self very soon. The 4th quarter, 2014 numbers are mostly in, but they won't become official until mid February. I have put together a rather crude chart of numbers that show a trend developing, and I don't like what I see.

HPP		Head Right Check	
		9/1/2013	\$9,035.00
6/1/2013	\$88.50		
9/30/2013	\$99.29	12/1/2013	\$10,265.00
12/31/2013	\$96.00	3/1/2014	\$9,275.00
3/31/2014	\$99.01	6/1/2014	\$9,335.00
6/31/2014	\$98.25	9/1/2014	\$9,445.00
9/30/2014	\$91.00	12/1/2014	\$9,490.00
12/31/2014	\$50.54	3/1/2015	?
These HPP numbers are for the dates shown.			
1/17/2015	\$45.11	Jan. thru March, 15 will be on the June'15 pymt.	

Many times in the past, there have been lease sales and concession fees that were added to the amount received for oil, along with the usual fees for rock quarries, etc., and royalties on natural gas and the NGL,s. There have been no lease sales or concessions to be added to March, and there probably won't be any until the Donelson lawsuit is resolved and the oil prices stabilize. Our checks are definitely going to suffer in March from the \$40+ drop in oil prices from September thru December of 2014. Also, notice that the most recent post by the purchasers for

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the HPP on Jan.17 is \$45.11, down another \$5 bucks. If this doesn't turn around, the June check will be even worse.

Our Minerals Council seems to be trying to make things better, but there's nothing they can do about the price of oil. The United States is producing more oil now than we have in a long time, causing an over-supply of oil, and we Osage Mineral Estate Shareholders have been riding right along on that band wagon with a big smile on our faces. I'm not saying that we should have done anything differently, but now it's time to re-adjust and be ready to deal with the things we can't control. Our daily production rate came up a little bit last month, but I think we can expect it to start dropping a little. Since we are not drilling any new wells, it will be impossible to defeat the inevitable decline caused by the gradual depletion of the producing wells.

Another big problem is the 1979 National Environmental Policy Act (**NEPA**) regulations that the BIA has decided to enforce. Some simple maintenance can still be done, but nearly all oil wells occasionally require more extensive maintenance, known as a workover. Much of this more extensive maintenance on a lease will not be allowed by the BIA until the NEPA regulations are complied with for each lease concerned. The BIA may be technically correct in requiring this, but they sure picked a bad time to start enforcing these regulations which were established in 1979. Most of the large Producers have planned for this, and for the most part, are already in compliance. However, many of the mid-size and smaller Producers were caught by surprise, and it is causing them much grief.

Then, we have the Donelson lawsuit. The Minerals Council is not named in this suit, but our Mineral Estate manager, the BIA, is the primary defendant. And, if the class action is allowed, every Producer in the county is also a potential defendant, via an attempt to make this a class action suit. If successful, this suit will shut down every lease that is not in full compliance with NEPA. This means that the currently pumping wells would be shut in. Then we would have disaster. The suit, filed in the Federal District Court in Tulsa, is due it's first hearing sometime this month. This is the most important issue that the Shareholders have to worry about, and there's really not much our Minerals Council can do to help. We are totally dependent on the BIA's lawyers to defend the case.

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Then, we have the wind farm problem. The Minerals Council does have attorneys working on this, but they really can't tell us much about what's going on without divulging litigation strategy. So, even though we'd like to know what's going on, I guess it's better that they keep this quiet for now.

Finally, all of our Producers are very worried about the new Code of Federal Regulations (**CFR,s**), which is due out any time now. With the price of oil down like it is, this is a terrible time for our Producers to have to deal with this. For the most part, the new things being required should have been done years ago, and they are going to cost the Producers some time and some money. Let's hope that the Agency Superintendent will cut them a little slack and provide some temporary relief as these new regulations are implemented.

This gives us, and our Minerals Council, 5 major things to worry about:

1. The price of oil
2. Enforcement of the NEPA regulations
3. The Donalson law suit
4. The Wind Farm litigation
5. Implementation of new CFR's

Let's all get behind our Minerals Council and show our support. They have a lot on their plate, and we need to offer our help if they can use us in some way.

Ray McClain, Osage Mineral Estate Beneficiary