

Osage Minerals Council Meeting 3/18/2015

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In My Opinion: Last Wednesday was not a very happy day for the Shareholders at the Minerals Council meeting. One of our most prolific Producers, CEP, has merged with Sanchez Energy out of Houston. They announced that they have made a corporate decision to divest themselves of all Osage county production properties. CEP has been our leading producer of natural gas, exploiting our many veins of coal-bed methane (natural gas). These coal-bed methane veins produce quite a bit of gas, but nothing like what the horizontal shale wells in other places are producing. In 2008, gas was bringing over \$8 per MCF, making the Osage a profitable venture. Now it's bringing less than \$3. Apparently CEP/Sanchez has decided to spend their money to drill where they can get a better return on their investment. Who can blame them?

Another unspoken reason for the Sanchez/CEP decision may have been the lack of a decision by the BIA to bring out the new Code of Federal Regulations relating to oil and gas production in the Osage. Without these, why would any Producer will be eager to commit millions of dollars to develop our Mineral Estate without knowing for sure what the rules will be for drilling and production? We were promised these well over a year ago, and we are still getting promises, but no CFR's. I am also told that Devon Energy has decided to sell their 60,000 acre concession. Their reasons were the Donelson law suit, the uncertainty of the CFR's, and the EPA problems. Now, the Minerals Council is also obviously resisting bringing out the new CFR's. This is not good! Their main reason seems to be that the Negotiated Rulemaking meetings were not done properly. They want to stop everything and start from scratch again. This is a ridiculous position for them to take. No way will everyone be perfectly happy with everything in the new regs, not even the BIA, but we've got to have rules to play by. They've worked on these rules for over 2 years now, and the MC was totally represented throughout the entire negotiations. Every person who attended the public meetings had an opportunity to speak. Many did, and their comments were recorded and fully considered by the Neg Reg committee. There's no reason to go back and start from scratch. That would certainly hold up our production even further. Not considering Chaparral's fabulous Burbank EOR production, we are down on our average daily production by nearly 4,000 bbl per day already. That's about \$30,000 (\$1,345 per Headright) per day in Osage royalties alone, not to mention the disastrous effect this is having on the economy of the entire region.

Low oil prices are bad enough. We must get the production back up.



Four other Producers, Spyglass, Iron Horse, Orion, and BGI spoke at the meeting, asking for extensions on their leases and drilling commitments. Their stated justification for the request for extensions was the latest environmental requirements imposed by the BIA. Little or no mention of the low oil prices was made, but this issue must surely be a part of the reason that these Producers are reluctant to invest further in \$40 p/bbl oil wells. These leases expire at various times in 2015, 2016, and 2017. **I think** that 1 year extensions on lease expirations **from the current date** would be reasonable and I hope the Council will approve this. A longer, 'blanket type' extension for 1 year beyond the already agreed upon expiration dates is unnecessary. No one knows what the situation will be in 2016 or 2017. We have enough "unknowns" to deal with already.

Much discussion was held about a letter to the U.S. Congress via Senator Jim Inhofe, asking that the BIA's EIS process be reviewed. In effect, this is asking Congress to change existing Federal environmental law. It will do absolutely no good at all. If the MC wants to write letters to Congress, they should be asking them to **lift the 40 year old ban on oil exports**. This ban was put in place by Richard Nixon at a time when all the now proven U.S. oil and gas reserves due to shale drilling were not known and OPEC's oil embargo was on. The reserves were looking critical at the time, and the purpose of the ban was to prevent the newly available Alaskan oil from being shipped overseas. It worked, but it has outlived its usefulness and purpose. **Allowing West Texas Intermediate oil to be exported would be a huge boost to WTI pricing nation wide** and it would start reducing the amount of oil in storage.

The BIA has developed a Memorandum of Understanding concerning the final language to be used in the Environmental Impact Statement rules. The BIA asked the MC to approve the MOU, and explained that a similar MOU was established with the Osage Producers Association and the landowners. Further, the BIA Deputy Superintendent explained that only those entities who agreed to adopt the MOU would be allowed a seat at the table for final negotiations. A motion to sign the MOU was made and the vote was 3 yes and 5 no. **The motion failed**. The result is that **the Council has failed** to make themselves available for these very important final negotiations. This means that the Shareholders will not be represented. I assume that they had a reason to refuse this opportunity, but I sure don't understand what it was. Maybe one of the 'no voters' will enlighten us.

Ray McClain, Osage Mineral Estate Beneficiary