Annual Oil and Gas Summit at New Location Well-Attended

With Skiatook’s beautiful Osage Casino/Hotel being the site of the 15th Oil & Gas Summit, a location that was not only easy to get to, staying away from the heavy Tulsa downtown traffic of summits past, the opening prayers by the Osage Minerals Council Chairman, the posting of colors, the drum and the singers, along with the Osage Princess signing of “The Lord’s Prayer” opened the one-day summit on December 7, 2016. Reports are that twice as many people registered and attended the 15th summit than the year before.

Chairman Everett Waller’s opening remarks were directed to the producers and shareholders alike. “You think this is a business? It is, but it’s also your livelihood, and our livelihood...Look at this room. This is the last group. Believe me, all the shirkers have gone. We had a filter come through our estate that decimated you and, together, I lost thousands of barrels (of oil) for my people. I’m overregulated, now. So, I am the man that filed that case against the United States of America.” He continued, “The Chief of the Nation, the Chairman, the Council, the Congress, we got a job to do. It’s going to be tough. You have a job to do. Now that you have survived the boom and bust that we all know, that your parents knew, your grandparents knew...it’s time for a comeback.”

Principal Chief Geoffrey Standing Bear’s opening remarks reminded us when he took the office of Assistant Principal Chief, back in 1990. He said, after his election, he was so optimistic about the change and that his council was going to get the Bureau of Indian Affairs to step aside, develop this oil and gas estate, get our shareholders alike. “We had a filter come through our estate, and it sure doesn’t say that the Bureau of Indian Affairs does.” He continued that “(the BIA, the Bureau of Land Management, the Solicitor of the Department of Interior, the United States of America recognizes the Osage Minerals Council has the power to develop, administer and manage the Osage Mineral Estate.”

Those who spoke at the Summit included Scott DuCharme, President of Performance Oil Company (“(Continued Efforts for Success in the Osage”); Peter Clark, Ph.D., Professor and Samson Investment Chair in Petroleum Engineering, Oklahoma State University, (“Fracking and Earthquakes-What are the Facts?”); Shane Matson, Manager, Blue Jacket Energy, LLC (“Drilling Activity and Production".

Go to our website, click “Summit” for many of the videos discussed in this article.

Results on the Cherokee Platform, Northeast Oklahoma”;
Mark Ballard, Field Liaison Engineering, Tertiary Oil Recovery Program (TORP), University of Kansas (“University of Kansas Research Overview and Joint Industry Project Details”);
Stefan Miska, Ph.D. and Jonathan Detwiler, Endowed Chair Professor of McDougall School of Petroleum Engineering & Director of the Tulsa University Drilling Research Projects (TUDRP) at the University of Tulsa (“Effect of Oil and Gas Production on Induced Seismicity”);
Phil Dellinger, Chief, Ground Water/Underground Injection Control Section, EPA Region 6 (“EPA Region 6 Tribal Affairs Overview”);
Jann Hayman, Director, Osage Nation Environmental & Natural Resources (“Osage Nation Environmental & Natural Resources Program”);
Craig Walker, Environmental Project Specialist, Osage Nation Environmental & Natural Resources (“American Burying Beetle”);

In the afternoon, a Tribal Round Table allowed everyone a chance to discuss issues on several topics. Councilman Talee Redcorn started the discussion regarding leasing problems, and asked for brainstorming and dialogue on what’s been on their mind and how they can get moving toward getting these “minerals that are still trapped” and what Osages can do to improve the return for the shareholders.

Jill Jones with the Osage Nation Energy Services (ONES), LLC began her response by her board agreeing with “the collaboration aspect...involving Executive, Congress, Minerals Council, all of the Osage Nation government and (their) board working together.” She went on to say that even though they cannot do any of the regulatory or policy work that falls within the government, they have an excellent structure in place that is able to operate as a “business entity as the conduit to do whatever business cycle needs to be done to begin operating our own oil and gas”. Osage elder and shareholder, George Shannon, said that the point of his plan that he described earlier that afternoon, if they were successful in obtaining a million-acre lease in Osage County, primarily, they step into the shoes of the BIA from the standpoint of subletting, which is issuing a lease on their lease to whomever wants to come in, and drill, or whomever wants to work over the well.

(See “Summit” on page 3)
QUARTERLY REPORT - MARCH, 2017

Data for this report is provided from and compiled by Jim D. Swan, the Minerals Council Auditor. He is responsible for ensuring our accounts are maintained in strict accordance with Federal law. Jim is also responsible for preparing Monthly Oil and Gas Production Reports. Most importantly he calculates the Quarterly Payment. This is accomplished by auditing data provided from Office of the Special Trustee in Albuquerque, New Mexico.

Payment for the first quarter (March 2017) is $3,675.00 per headright.

Computation: Total Revenue $8,197,898.79 for the fourth quarter production and collections. ($8,197,898.79 divided by 2,228.97393 headrights equals $3,675.00 rounded back to the nearest $5.00.)

Major Details of the $8,197,898.79

Oil and Tank Bottoms Production: 1,090,535 gross barrels or 163,459 royalty barrels

Gas Production: 1,414,387 gross Mcf or 247,695 royalty Mcf and 2,600,370 gallons

Water Use Royalty: $53,478.75

Miscellaneous Revenue: $2,679.69

Gross Production Tax Paid to the State of Oklahoma: $424,104.19

In the upcoming Summer 2017 edition of the Osage Minerals Council Newsletter...

ENEL Hearing at the 10th Circuit Court of Appeals (Decision Forthcoming) - Denver, CO
November 16, 2016


Scheduled Osage Minerals Council
Meetings for 2017
All beginning at 10:00 A.M. in the Council Chambers

Apr 13 & 19 May 12 & 17 Jun 16 & 21
Jul 14 & 19 Aug 11 & 16 Sep 15 & 20
Oct 13 & 18 Nov 9 & 15 Dec 15 & 20

Osage Minerals Council Newsletter
Vol. III, No. 4
An official monthly publication of the Third Osage Minerals Council, updating news as it becomes available and published with the permission of the Chairman. All materials must be reviewed by the Media Committee and Chairman, voted on by the Council and may be edited for space and content.
Osage Minerals Council Newsletter

RESOLUTIONS

Note: Only Council Members who voted ‘No’, ‘Absent’ and ‘Abstain’ appear due to space constraint.

12/21/16

3-116A - Motion to correct a site location original completed on Res. 3-116; BY: Boone SECOND Erwin; 8 Aye 0 No 0 Abs PASSED

3-183 - Motion to advertise for Minerals Director with effective beginning and closing date and send to HR; BY: Crum SECOND: T. Redcorn; 8 Aye 0 No 0 Abs PASSED

3-184 - Motion to accept data conversion requirement; BY: Crum SECOND: T. Redcorn; 7 Aye 1 No (Boone) 1 Abstain (Erwin) PASSED

3-185 - Motion to approve Performance 24-mo. Lease with $6,000 bonus @1/5th royalty, NW/4 13-24-9 O&G Less CBM; BY: Crum SECOND: T. Redcorn; 8 Aye 0 No 0 Abs PASSED

3-186 - Motion to cancel Lease Sale #21 (only 1 lease) dated February 13, 2017; BY: Boone SECOND: Erwin; 7 Aye 1 No (T. Redcorn) 0 Abs PASSED

3-187 - Motion to determine whether to change Chairperson; BY: T. Redcorn SECOND: Yates; 4 Aye 4 No (Cheshewalla, Crum, Waller, Yates) 0 Abs FAILED

3-188 - Motion to add 2nd Chairperson and duties; BY: Yates SECOND: T. Redcorn; 5 Aye 3 No (Crum, Erwin, Waller) PASSED

3-189 - Motion to approve GSI and waive permit; BY: Crum SECOND: K. Red Corn; 6 Aye 0 No 1 Abstain (T. Redcorn) 1 Absent (Erwin) PASSED

1/18/17

3-190 - Motion to allow Mr. Fredericks to review taking oil and gas in kind within the Osage Mineral Estate BY: Erwin SECOND: T. Redcorn; 8 Aye 0 No 0 Abs PASSED

3-191 - Motion to have Chairman will attend ON Court with Minerals Council Atty. David McCullough in the event that the ON Attorney General gives OMC no assistance; BY: Boone SECOND: Erwin; 5 Aye 3 No (Crum, T. Redcorn, Yates) 0 Abs PASSED

2/15/17

3-192 - Motion to accept Dr. Rebeiro’s offer for new oil lease in the amount of $3,650 and Salt Water Easement; BY: Erwin SECOND: Boone; 7 Aye 0 No 1

3-193 - Motion to offer an agreement to Casey Hindman 10% royalty on rock on sale price that goes across the scales; BY: Crum SECOND: Yates; 8 Aye 0 No 0 Abs PASSED

3-194 - Motion to pay for travel going to Denver on presentation; BY: Erwin SECOND: T. Redcorn; 8 Aye 0 No 0 Abs PASSED

3-195 - Motion to request DOI to stop the review of the 25 CFRs Sec. 26, until the new administration is in place until such time that the Osage Minerals Council is confident in the DOI’s ability to act in the Osage Headright Owner’s best interest; BY: Erwin SECOND: Boone; 5 Aye 3 No (Crum, Waller, Yates) PASSED

3-196 - Motion to authorize travel to Washington, D.C. for the Minerals Council; BY: Erwin SECOND: T. Redcorn; 8 Aye 0 No 0 Abs PASSED

3-197 - Motion to approve Spring 2017 Wahtiankah Scholarships for Blake Evans, Bret Fugate, Gabriel Pelayo and Branden Edwards; BY: Yates SECOND: T. Redcorn; 7 Aye 0 No 1 Abstain (Crum) PASSED

Wah-Tiah-Kah Scholarship Award Recipients for Spring 2017 have been announced. Congratulations go to Blake Evans, Braden Edwards, Brett Fugate and Gabriel Pelayo. The members of the Osage Minerals Council and Media Committee congratulate the scholarship recipients and wish them the best in their academic career.

Deadline Date for Spring 2017 Semester is June 30, 2017
Oil Industry Field of Study * Four $1,000 Awards Per Semester
To apply, contract (918) 287-5346, or download the information from our website. Apply Early!
http://www.osagenation-nsn.gov/who-we-are/minerals-council

“Summit” (cont’d from pg. 1)

That part, more or less, relieves the BIA of their job. He would take it a step further by the new entity seeking funding from the government to handle keeping track of the money, all of the division orders, making sure things were correct, our records were well kept and up-to-date.

Osage Nation Congress Speaker Angela Pratt respects the Minerals Council’s position, and has been to the ONES, LLC meetings and heard what they talk about. She is educating herself and will continue to do that, as well as willing to sit at the table. What she said she would commit to, is the Congress is ready and willing anytime someone does have a plan, as well as being open to communication and assistance in any way they can.

Osage Nation Congresswoman Alice Buffalohead, shareholder and prospective landowner, spoke on her role as being a legislator, and wants the plan to come from the experts, particularly the Minerals Council. She said if the Minerals Council is in need of some money on certain issues, she is in favor of appropriation to help them, if they have the money available and depending on what’s going on with the government.

Summit moderator, Dr. Cameron Rumsey, weighed in on the conversation. He told the audience that he knew little about the oil industry. The best comparison that he could make is that the Nation compacted the health clinic in October, 2015. He said, “You’re asking a tribal government or entity to take over something previously managed by a Federal entity…”

Osage Nation Congressman Kugee Supernaw spoke on this issue and said, “Congress has no money...We have to be really cautious to take risks or I don’t feel like we can...We have to be really cautious about committing the Nation’s people’s money into oil business, especially at this time.”

Osage Nation Congressman John Maker, then, addressed the group. He said that he liked hearing about the history of the Osage people and the oil industry and the Bureau of Indian Affairs, as we’re all tied in here, as he said, and probably for a few more years to come. What he also liked was people working together to make money. Congressman Maker has lived in Osage County and Hominy area all his life, and remembered “as a young kid” seeing those rigs looking like Christmas trees. Someone had told him during the summit that there’s still an abundance of oil available in Osage County. His father, who worked on offshore oil rigs in Louisiana, said whenever you see oilmen leaving, it means there’s no oil left, but not here, and there’s money to be made. He said that we need to work together, asking what are the challenges that we are faced with.

Next, Principal Chief Standing Bear, in regards to Oklahoma’s Attorney General, Scott Pruitt, who had just been appointed head of the EPA by, then, President-Elect Donald Trump, said, as an Osage, he was concerned about Mr. Pruitt’s comments in the ruling process where he believes that the Federal Government and the Osage Nation does not have jurisdiction over the Mineral Estate and has promoted the Oklahoma Corporation Commission and the Water Resources Board to take that over. He went on to say that, “as a part of a changing world, that we need to be aware of these personalities that have shown adverse interest to us...We bought this land in 1872. This is our land and wasn’t given to us. In fact, the Government still owes us money after that.”

(See “Summit” on page 4)
“Summit” (cont’d from pg. 3)
Eddy Red Eagle, Jr. was next to speak. “We’re vulnerable. The chairs you sit in, Minerals Congress, Executive, you have a higher calling when this estate goes dormant...George (Shannon)’s program is ideal for the day after those three houses come together and decide to work together. It doesn’t work under the umbrella of the BIA.”
Osage Minerals Councilwoman Kathryn Red Corn spoke next. “We haven’t lost heart.” she said. “There’s a lot to think about, here. There’s an elephant in the room that we have to look at, and that’s the 1906 Allotment Act that only recognizes certain members of the tribe...We have to protect our rights as Osage (annuitants).”
Paul Revard told the audience, “(A)s a producer, our problem isn’t with the Minerals Council or our lack of funds, now that the price of oil is recovering a bit...but the problem was in the room next door, with the Superintendent. I don’t know how many of you were in the room when she was speaking. It’s still adversarial. If you’re going to have a lease sale, I suggest that you extend the term to at least three years, like it used to be, because it takes so long to get a permit...You’re losing a quarter of your lease before you can do the study. So, either tie your primary term to at least an effective date of the day you get a permit or throw a year or so onto the lease so that we can get what we’re paying for. If you’re going to be able to sell a lease, that operator ought to be able to step on it the next day and drill a well.”
Osage Minerals Councilman Andrew Yates then spoke, saying that he’s seen several people go broke several times. “If there’s one thing I’ve seen, oil business is the quickest way to get rich, and also the quickest way to go broke...and I’ve seen several people in here go broke several times in the oil business. I would be careful about investing the oil business.” He mentioned that the Minerals Council is facing NEPA (National Environmental Policy Act) as a problem, and that they don’t know how to “fight that monster”. He continued, “If we could somehow get around NEPA, I wish we could...Until we know how to deal with that, that’s the elephant in the room,” NEPA, in developing this Mineral Estate.” Osage Nation Congresswoman Maria Whitehorn spoke next by saying, “I think, now, we don’t have the money nor the sustainability to stay in the oil business...Do I think it’s totally off the table to look into the oil business? No, I don’t. But I think, right now, we do have some ‘elephants in the room,’ and one of them is the CFRs (Code of Federal Regulations) but they’re going to work on a rewrite.” She continued, “If the Nation doesn’t come together on this one issue, the Executive and Congress, following the lead of our Council that we’re not going to get the best deal for our Nation, nor are we going to get the best deal for our producers from the Federal Government.”
Osage Minerals Councilman Galen Crum asked, “...(H)ow many of you like the idea, right now, that the Osages are the only tribe in America that’s forced to sell their oil from the bottom of the current market, that we are forced to accept the royalty? Anybody like that?” No one raised their hand, at that point. "Would you rather have the regulation prior to HPP (highest posted price) going into effect? The...royalty value was determined...as being the highest paid or offer anywhere in the Mid-Continent, and it was reduced down to Oklahoma, Texas and Kansas and it eventually come down to the highest paid anywhere in Osage. That was what the royalty paid for everybody. The Osages got the top of the fair market and there was a lawsuit that went to the IBIA and HPP come out of it... (On the HPP), there’s no control on what they can put out by that. That’s not a free market, and nobody actually sells their oil on a given day what the highest posted price is at. They can’t. They have to have a contract to begin with...and very few people that are very knowledgeable sell their oil anywhere near highest posted price within those reg is called NYMEX (New York Mercantile Exchange), and a lot of people said, ‘Oh, no, we don’t get NYMEX...It’s unreachable. Well, we showed at that time, and it’s still the same, that approximately 45% of our oil is sold above NYMEX price...The average price...within the Osage was 32 cents lower than NYMEX...What I’d like to see is more pipelines where we can get a little competition within the gas purchase in the county. Right now, these guys are being held up, and when they hold up the purchasers on it, they’re also holding up the Osages, because our purchasers are sales representatives for both oil and gas, the way the situation is now. Whatever deal they make, we don’t get to be a part of, but we have to accept that as our royalty. It’s completely true with the gas, because there’s not even a price, as we say, is the cheapest we will accept. So, many of the gas purchase contracts, even the good ones, are giving away 25% off the top to the purchaser. That’s the good news. Now, that’s giving away 25% of the Osage part, too, and then the price is not governed in any way by the BIA or the Osages on what their actual price will pay, or whether we get paid for the liquids or anything else. It’s all within that purchase contract that the BIA cannot be a part of,

(See “Summit” on pg. 5)
Owed claims, finding that the claims are barred by drilling contracts entered into by the oil company and the property owner’s predecessors-in-interest.

**NEPA Allegations**

In 1978, oil company Ceja Corp. entered into a blanket oil mining lease with the Osage Tribe of Indians in Oklahoma pertaining to property owned by Lyman Gilbert Lenker, as trustee for the Virginia Lenker Irrevocable Trust. A blanket lease confers on the holder the exclusive right of producing oil in an entire region, which in this case is the Osage Reservation. The lease merged several pre-existing oil and gas leases for further development by hydraulic fracturing. The superintendent of the Osage Agency, a division within the U.S. Bureau of Indian Affairs (BIA) that oversees land in the Osage Nation, approved the lease. Lenker sued the secretary of the Interior, currently Kevin Haugrud, the BIA and its director, Michael Black, in the District Court, asserting that at the time the superintendent approved the lease, the BIA knew that it was violating the National Environmental Policy Act of 1969 (NEPA), 42 U.S.C. § 4321 et seq. Lenker says that at the time the superintendent approved the lease, the BIA was preparing a court-ordered environmental assessment pertaining to Osage County, Okla. However, instead of waiting until the assessment was completed, the BIA approved the lease without conducting any site-specific NEPA analysis beforehand, he adds. Lenker brought the suit under the Administrative Procedure Act (APA), 5 U.S.C. § 701 et seq., seeking declaratory judgment that approval of the lease and drilling permits for two wells violated NEPA, so the lease and permits are legally inoperative. Lenker further sought to enjoin Ceja from entry upon his land without a valid oil and gas lease or permit and argued that he was entitled to rent payments under their appeal rights.

Two Motions

On Sept. 30, Ceja filed a motion for summary judgment on the grounds that Lenker’s claims are barred by the statute of limitations and the doctrine of consent. On Nov. 23, the federal defendants moved for dismissal under Federal Rule of Civil Procedure 12(b)(1), Fed. R. Civ. P. 12(b)(1), on seven grounds, including lack of subject matter jurisdiction due to failing to exhaust administrative remedies. In granting both motions, Judge Eagan first held that she lacks jurisdiction to decide the claims against the federal defendants because Lenker did not exhaust his administrative remedies with the BIA. The judge rejected Lenker’s argument that he was not required to exhaust his administrative remedies because neither he nor his predecessors-in-interest received notice of their appeal rights.

Judge Eagan said that under Section 2.7(a) of the Code of Federal Regulations, 25 C.F.R. § 2.7(a), “if the BIA fails to properly notify an interested party, the time to appeal the decision is extended, but plaintiff’s obligation to pursue an administrative appeal before filing suit in federal court is unchanged.” The judge also did not accept Lenker’s characterization of the lease approval as a final agency action subject to court appeal. Only decisions made by the BIA assistant secretary are subject to court review, so the Osage superintendent’s lease approval had to be appealed to the BIA first, the judge held. “Because the Superintendent’s decisions were subject to appeal [to the BIA], plaintiff must exhaust his administrative remedies by fully availing himself of the BIA’s appeal procedure before he may bring a suit under the APA,” Judge Eagan said.

Predecessor Payments

After finding that she has jurisdiction to decide Ceja’s motion for summary judgment, the judge ruled that the acceptance by Lenker’s predecessors-in-interest, Virginia Lenker, of two payments by Ceja to compensate her for any damages caused by drilling activities constitutes implied consent for Ceja to be on the property. “Even if the lease and permits were invalid, Plaintiff has presented no evidence that Ceja knew about the NEPA violations or induced consent through its misrepresentations. Plaintiff has failed to do so, and thus its trespass claim cannot survive summary judgment.” The judge said Lenker’s claim for rent payments under Oklahoma law also fails under Exch. Bank of Commerce v. Meadors, 184 F.2d 458, 465 (Okla. 1947) because Ceja was present on his land based on contracts with the BIA and Virginia Lenker’s implied consent contracts with Ceja for drilling payments.

Counsel

Lenker is represented by Donald A. Lepp, Garry M. Gaskins II, Gentner F. Drummond and Logan L. James of Drummond Law Firm in Tulsa. The federal defendants are represented by Jody H. Schwarz of the Department of Justice in Washington, D.C. Ceja is represented by Randall G. Vaughan and Robert Mitchener III of Pray Walker in Tulsa.
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