

From: Galen Crum [<mailto:gcrum@osagetribe.org>]
Sent: Tuesday, September 25, 2012 7:51 AM
To: Stockbridge, James R
Subject: Re: Notes from our call last Thursday September 20, 1012

I have two small changes to the report, one is semantics only. In 226.9 b I feel that extensions of a lease only to find a market (may be) too restrictive and should be studied further. Also I may have a solution to the second issue in this section about granting extensions without benefit to the mineral estate that may help both problems. Talk about that in Tulsa.

Also in 226.9 e I am not necessarily opposed to matching the new 30 day standard for termination for non production .

Sent from my U.S. Cellular® Android-powered phone
"Stockbridge, James R" wrote:

Galen: I promised I would put together some notes from our call last week to make sure I had captured our discussion.

Please feel free to edit these notes to reflect your understanding.

226.9 (a) We talked about the 12 month length of time the lessee was required to have the production in paying quantities. We decided that the language primarily dealt with keeping the lease in good standing. It is either kept in good standing by having production in paying quantities within 12 months, OR rental at the prescribed rate is paid.

- Some of the comments we received at the full committee meeting addressed the 12 month time frame as being too restrictive to get all the permits and inspections performed. But since this language deals with the continuity of the lease through either production OR rent, we were okay with the language as written.

226.9(a) We talked about the rental rate edit. You wanted it so that it adjusted rather than being a fixed price. The problem with fixed prices is that over the probable length of the term of the lease, a fixed price rental rate becomes virtually worthless if inflation continues at normal rates.

226.9 (b) The Superintendent can grant an extension of the term of the lease ... for the purpose of enabling Lessee to obtain a market for his oil and/or gas production.

- A couple issues were discussed. First is that according to the language proposed, the ONLY reason for extension of a lease was to obtain a market. If there were other circumstances that prevented the Lessee from putting the lease into paying quantities, since this language is so restrictive, the Superintendent would not be able to grant an extension. We suggested that more enabling language should be crafted.
- The second issue is the granting of additional time without any benefit to the mineral owners. Part of the discussion was about the need to formalize the terms under which an extension would be considered. In this way not only the Lessee, but also the mineral estate owners, would know the terms and expectations/requirements for the granting of a lease. Everything would be well established and open.

226.9 (c) A prudent operator will develop the minerals underlying the leasehold. This includes maximizing production...

- The issue of MAXIMIZING production was discussed. BLM currently has no provision that requires any production greater than in paying quantities. We talked about the desire to require maximization of production and the implications to potential lessees. If the desire is to continue with this requirement, it

will take some kind of creative writing to accomplish it. The provision will not only have to be knowable and enforceable. Plus there would have to be consequences if these terms are not met.

- The second point of discussion was the ability of the Osage Mineral Council to submit information to the Superintendent for consideration in the determination of diligent development. With a requirement for the Superintendent to advise the Osage Mineral Council of the determination within 90 days. The purpose of this is that as information is transmitted to the Osage Mineral Council electronically the Council will be able to perform data analysis and data mining on its own. These efforts may identify problem areas that the Superintendent hadn't identified and the efforts of the Council may help in administration of the leases.

226.9 (d) no discussion on this except to say it was standard operating procedure elsewhere for Federal and Trust leases.

226.9 (e) If the Superintendent determines a lease has not produced in paying quantities for two consecutive months the lease shall cancel the lease.

- A couple issues were discussed. The first is that elsewhere in Indian country the lease is cancelled if there has been no production for 30 days. You thought that two months was a sufficiently restrictive term.
- The second issue here is the necessity for the Superintendent to cancel the lease. Most language has something to the effect – "the lease will terminate of it's own terms." If the Superintendent has to cancel the lease, until such time as they do the lease is still in full force and effect. Under the "own terms" language the lease is terminated automatically and does not require any administrative effort on the part of the Supt. I think I recall that we agreed with something akin to "own terms" language.

226.9 (f) The Osage Minerals Council can ask for the termination decision by the Supt.

- As in 226.9 (c) I recall the purpose of this was to strengthen the administration of the lease. We both thought this would be advantageous.

226.9(g) Supt's ability to restrict drilling or production to the benefit of the natural resources or the Osage Tribe.

- This is standard operating procedure and requirement. We both thought this was advantageous.

Let me know if I have captured the discussions accurately.

Thanks for educating me and I look forward to working with you as we move forward.

Jim

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