

**Model for Improving The Osage Nation Mineral Estate & Other Osage Trust Accounts.
'The Oklahoma's Commissioners of Land Office' (aka Oklahoma School Land Trust)**

Oklahoma Commissioners of Land Office, (CLO) a State Agency managing surface and mineral acreage similar to BIA-Osage Agency. CLO is mandated by State Law to have charge of leasing State owned 1.1 million mineral acres of oil & gas royalty rights in 74 of 77 counties, plus management of proceeds derived. (Osage Mineral Estate is 1.47 million acres) CLO additionally manages and leases 758,000 surface acres in 74 counties owned by Oklahoma. CLO's oil and gas royalty income averages \$50 million annually, Osage Mineral Estate's annual royalty income for 2010-11 averaged \$ 73 million. The Osage Nation Mineral Estate is currently valued at \$ 4 Billion Dollars on *Net Asset Value*, its flawed management by BIA is well known.

Comparative Analysis of CLO Departments vs. BIA-Osage Mineral Estate Trust Departments:

CLO's Mineral Management Department [MMD] holds six lease auctions per year. All are 3 yr - 3/16th royalty '*paid up*' leases issued in less than sixty days. Before a tract can be leased, the mineral and leasehold inventories must be rechecked and researched to make sure that the Trust owns it and that it is not currently leased. CLO allows no margin for error. Once the research is done, a tract is advertised. The staff geologist monitors all drilling activity in the State to insure that the trust assets are protected from offset drainage. All properties are monitored to insure that any lease that ceases production is returned to production or plugged, cleaned up and released. Staff evaluates proposals for secondary recovery units and negotiates for terms optimal to the Trust.

OCL MMD Staff: 1- geologist, 3 - accountants, 1- CPA, 5 – Landmen, 1 – Surface Damage Appraiser, 3 – Support Techs. Total: 14 staffers.

Osage MMD Department: 1- Supervisory Petroleum Engineer, 7 -Field Petroleum Engineer Techs, 4 – support staff including archeologist and subsurface Tech... Total: 12 staffers.

CLO Royalty Compliance Department: Collects average annually \$2 million dollars from producers not in compliance with royalty payment requirements. They audit all deductions by operators prior to calculating royalty payments due. CLO has 'No Deductions Allowed' regulations with few exceptions, and collected \$20 million total in recent years: Pre-audit on every royalty paid is checked against producing well's area current oil and gas market prices. CLO has oversight on 5,000 wells and 4,000 leases.

Royalty Compliance Staff: Director & 3 gas and oil contract auditors, several are former industry gas and oil marketers (*that's smart management*) -3 Landmen and 1 support person.

Total Royalty Compliance staff: 7 plus 3 law firms retained for collections and related law suits.

BIA – Osage Agency, No separate Royalty Compliance Department. Its Supervisory Petroleum Engineer and one Gas Accounting Technician plus accounting techs, which are staff in other departments function as Osage Royalty Compliance auditors. Osage has estimated 19,000 wells many classified '*Stripper Wells*' and 4,400 Leases to monitor. Osage Trust without adequate auditors is primary reason behind Osage Rulemaking Committee's mission for better management.

CLO's Accounting and Investments Department: Uses a private Financial Consulting Firm and eighteen external Investment Managers for equity and income fixed assets investments in their \$ 1 Billion permanent trust fund. Its Accounting & Investments Department is responsible for all accounting and investment functions of the agency, including receipt of all funds, payment of claims, accounting for the fixed assets of the trusts and budgeting plus annual report to public. Oklahoma citizens counter-parts to Osage Nation shareholders. CLO's Accounting and Investment Department totals; 8 employees including CFO.

Osage Accounting and Investments Department's actual number of full time employees not available to this report, estimated – 5 BIA employees.

CLO Legal Department: The legal division gives advice and counsel to the Commissioners, Secretary, division directors and agency personnel. The legal division also represents the department and Commissioners in all legal matters before State and Federal Courts, administrative matters and other legal proceedings. Staffers: 3 Attorneys and 2 paralegal.

BIA-Osage Legal Department: Uses US Dept of Interior Solicitors Tulsa Office attorneys and one private attorney retained by Osage Mineral Management Council.

CLO Real Estate Management Department: Real Estate Management division responsible for lease, sale and management of 745,000 acres of Trust lands located in 44 counties. Annual income in excess of \$9,800,000 is derived from the leasing and management of these lands. While the majority of this income is from agricultural leases, the division experiences a greater financial rate of return with its commercial leasing program. Staffers: 9 with Commercial property plus 10 staffers covering 74 counties. Total: 19 employees.

BIA-Osage Agency Real Estate Management and Trust Department's number of employees not available to report. A fair comparison between Osage Agency and CLO in this section was difficult due to different acreage each manages, and trust accounts managed for individual tribal members

CLO Administrative Department includes Director, Asst. Director, Executive Asst. Personnel Director, Internal Auditor and Director of Communications. Total: 5 Administrators.

BIA – Osage Agency Administrative Branch is involved part time with Mineral Subsurface Leasing, Mineral Lease Management, and Mineral Field Operations. Total: 2-3 Administrators

Summary & Findings: Fair and balanced comparative analysis of different management models at Oklahoma Commissioners of Land Office (CLO) and BIA-Osage Agency was arduous, however several areas show concerned differences in management styles. Example: CLO employs higher numbers of staffers who are college graduate professionals, many having experiences in oil and gas industries. This is reflected in the following.

1. CLO's high collection numbers - \$ 2 million per year average of recovered unpaid royalty funds, where Osage Mineral Trust appears to have recovered zero past-due royalty collections, unless awarded or settled in Federal court.
2. CLO's annual rate of royalty returns from its smaller base of thirty-three percent less mineral acres and lower royalty rate of 18.75% vs. 20% for Osage Mineral Estate reflects CLO higher fiduciary duties standards. Combining royalty + leasing & concessions (Osage) bonus shows CLO & Osage similar in total annual incomes from managed mineral trusts.
3. CLO's Encumbrance: State of Oklahoma minerals scattered over 74 counties this creates thousands of different abstracts, legal records examined on 5,000 wells and 4,000 leases. Compared BIA-Osage Agency Trustee's 1.47 million acres estate having only one contiguous mineral owner to contend with.
4. BIA-Osage Agency Encumbrance: It's charged with administering both leasing and permitting drilling permits, CLO does not issue drilling permits. Plus BIA -Osage management splits their time with other trusts duties, and the daily on-going multi-million dollar petroleum exploration and development / production operations business.

5. CLO's major technical advantage in attracting potential lessees by availability of all digitized data accessible via internet to entire global petroleum industry, i.e. Oklahoma's thousands of well records including logs, production reports, geological maps & reports and seismic data. This comes from multiple public and commercial website sources including Oklahoma Geological Survey. Osage Agency operates an obsolete manual system for access to agency's large important library of Osage County geo-tech data: Data which must be reviewed by most operators prior to drilling and leasing. Digitized reports by quick and easy internet access are a must in 21st century.

Findings: BIA-Osage Agency's report card of poor performance is public knowledge from Federal Court awards and settlements. Among other things this low performance, and continuing, is attributed to (A) chronic understaffing. (B) Under-qualified personnel without petroleum industry business expertise in key positions managing Osage's massive Mineral Estate Trust. Executives with professional skills to manage a multi-billion dollar mineral estate are lacking at Osage Agency.

From this report's comparisons, outside observations and numerous creditable examples, one negative contributor is lack oil & gas experienced lawyers, petroleum engineers and petroleum geologists. Osage has one petroleum engineer and no petroleum geologist; shameful shortage of professional grade technical staff at BIA Osage, add differences between the two on uses, or lack of in-house professional auditors. Plus Osage Agency by not using national standard 'paid-up lease forms' will continue causing avoidable tension and problems, they are stuck in obsolete CFR regs creating a 'non-user friendly' atmosphere between many.

\$ 4 billion dollar active oil and gas estate ran with just one petroleum engineer is beyond words!

With change in the wind for BIA-Osage Agency from it not meeting its fiduciary duties, obviously current BIA Model must be changed, and a temporary fix by replacing some is not a long term solution. A new management model desperately needed - but why reinvent the wheel?

See oil and gas producing States of Texas, Oklahoma, New Mexico, Wyoming, and Alaska's Public Mineral Trusts using time-tested and proven management models, improving as they go. Beside Oklahoma's CLO, the Texas School Fund has 12.5 million acres of oil and gas mineral rights, FY 2006 income \$ 590 million for public schools.

Recommendation that officials of BIA-Osage Mineral Trust & Osage Nation's Mineral Management Council officials and Operator's Executives together visit one or more State Mineral Trusts for new productive management insights. See their websites' annual reports, audit disclosures plus officials' phones and email address. i.e. www.clo.ok.gov To further compare professional staffing, see Rockefeller Foundation (\$ 3.6 Billion) Trust's top management listed at www.rockefellerfoundation.org, it's one of US oldest and most successful private trusts. How come Rockefeller Foundation hires cream of the crop while they manage fewer assets than the Osage Nation Mineral Estate Trust?

Positive comments to Osage Mineral Management Council in facilitating potential financial boom to Osage Nation by strict and binding concessions negotiated to allow & encourage horizontal drilling of Mississippi Chat formation. A word of caution: Do not let big discoveries' income mask major management problems, its been the death knell of many an oil and gas operator.

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Notes: Report volunteered & by Robert 'Bob' Jackman Independent Oil and Gas Operator / Geologist OSU 57. Fifteen years of Osage County petroleum industry experiences. Info and figures compiled from websites and companies plus Osage Nation Officials, tribal members and others working in Osage oil and gas industry.

