Comment for Osage NRC

March 14, 2013

BONDING PROBLEM SOLVED:

At Wednesday's meeting, long time Osage county producers Bruce and Roy Fadem suggested that the producers might be comfortable paying around $100 per well each year for a bond. They say it will cost $200 for the $10,000 bond that was being suggested, and a few have said they were having trouble getting one at any price. That $100 looks pretty reasonable for a place to start negotiating. Once this mess that's been left is cleaned up, it may not even take that much for the future protection of the Minerals Estate and the surface area thereof to be assured.

We know that all insurance companies are ruthless, greedy companies who have a near monopoly going for themselves. If they don't make enough, they can raise their rates with very little concern for regulations, or they can refuse to insure, like many seem to have done with bonding for Osage county. Those that do still bond here, seem to be charging big time rates for premiums.

I think we can cut all insurance companies completely out of bonding the producers here in the Osage. The MC or the BIA can do some version of the following, very basic plan. We can accumulate cash to do the plugging, and make money off the interest while doing it! The plan works as follows:

1. Set up a revolving Fund for plugging abandoned wells and remediating surface damages caused by prior and current production in the county.

2. The Producers would contribute the $ value of **2 barrels of oil each year** for each active well in their control to this fund. If there really is 44,000 active wells as stated, and oil was $80, that would be 44,000 times $160, or === $3,520,000. That would allow $20,000 per well to plug 176 wells, EACH YEAR! And that is probably well above the actual average cost to plug a well. Add to that, the funds that are normally put in each year from grants, etc., and you could plug a lot of wells each year, until all are plugged, and all remediation is complete. A Council member told us yesterday, that only 3 wells were plugged last year.

3. When finished, as determined by the Minerals Council, and probably several years later, then **CUT** the Producer's contribution to the $ value of **1 barrel of oil each year** for each active well.

There would need to be a formal Board of Directors and Officers, and a couple of office workers, and office space. The funding for expenses would come from the accumulating funds for plugging. The Producers would have seats on the Board, as well as the Minerals Council, and maybe the Chief could be allowed to nominate a Board Member. As it is done now, the bonding companies get twice that much, and very seldom ever are required to pay **ANYTHING** for plugging and remediation. And, there is <u>no hope</u> for the Producers to ever see their costs go down. Using bonding companies, costs can only go up and no wells get plugged. With this system in place, no bonding at all would need to be required.

4. Further, this would tie the Producers' plugging and remediation contribution directly to the price of oil. If oil goes down, so does their cost. Other than in emergencies, we are really in no hurry anyway. If oil goes up, <u>everyone</u> is still winning, and meanwhile, this Fund is growing. Where Hz wells are being drilled, due to higher anticipated plugging costs, it might be wise to not make such a drastic cut like to ½, but that is for the committee to decide. Once finished, some of this money could be used to improve and promote the further development of the Minerals Estate.

5. While all the Federal officials are still in town, they probably know some good ways to assure that the contributions from each Producer are made in a timely manner and the proper mechanics for collecting them. If it could be put into the CFR's, producers would have to pony up or face termination of their leases.

6. Producers should still plug any well they intend to not produce any longer at their own expense. If this responsibility is neglected, there maybe should be a way via the CFR's to terminate other Osage leases they may be operating.

7. 2 barrels per year for an active oil well should not be a problem. They spill more than that. E.W. Carter ran more than 2 barrels of oil a year through the rear main seal of his old pickup when he was pumping his dad's leases back in the 50's. And it will become ½ of that when the plugging and remediation is finished.

I think this is a basis for a solution to this bonding dilemma that everyone could live with. Neither the NRC nor the Producers seem to like what has been proposed so far. There will be many, many details to work out, but this could be a start.

Ray McClain, Osage Shareholder