Oklahoma-NARO

National Association of Royalty Owners Oklahoma Chapter
PO Box 18791 • Oklahoma City, Oklahoma 73154-0791
http://www.naro-us.org/oklahoma

Winter 2017

PRESIDENT'S REPORT

OKLAHOMA OIL, OKLAHOMA EVENTS AND THE OKLAHOMA CONVENTION

The price of oil is up, oil companies are increasing their drilling efforts and Baker Hughes reported Oklahoma's rig count at 102 rigs up from 80 rigs a year ago. The hottest area in Oklahoma continues to be the STACK followed closely behind by the SCOOP. Both areas continue to produce exciting and consistently good results. Leasing remains strong and a number of my clients have recently received offers to purchase their minerals and those offers are definitely up from a year ago. The oil industry is certainly improved over this time last year and I believe you could say that there is a resurgence in Oklahoma Oil Optimism.

OK NARO has several events coming up that all Oklahoma mineral owners should place on their calendars. On Thursday, February 23rd at the Canadian Valley Technology Center in El Reno beginning at 6:00 p.m., we will hold a Town Hall meeting. Jay Freede will be discussing and updating everyone on the ongoing STACK play activity in the area. And, Jared Boehs' presentation is entitled "Leasing! The Inside Track." He will be providing the mineral owners with knowledge on how to handle the negotiation of oil and gas leases. Both presentations will not only be educational but helpful to mineral owners. Dinner will be served at 6:00 with the presentations following. For NARO members, there is no cost and for non-members, the cost is only $15.00.

On Tuesday, February 28th Terry Stowers will be making a presentation in Tulsa at the Hardesty Regional Library beginning at 6:30 p.m. His presentation concerns "Production Costs versus Post Production Costs." The meeting is part of the NARO's post production deductions initiative. This meeting with be free to the public but you will need to register with the NARO office so that we have sufficient seating.

Finally, OK NARO's Annual Convention is set for April 19th through April 21st at the Embassy Suites in Norman, Oklahoma. The 2017 convention chair, Kim McCullough, has commitments from outstanding speakers on a variety of topics that will provide mineral owners an educational experience second to none.

For additional information and to register for any of these events, please contact the national office at www.naro-us.org/events or 918-794-1660. I hope to see you at one or all of them.

This will be my final article for the OK-NARO newsletter as my term as president will come to an end after the 2017 annual convention in April. With the help of my state board and officers as well as the national office and staff, I feel that a noble effort has been attempted to increase the awareness and knowledge of our Oklahoma Mineral Owners to understand the legacy these great assets affords us.

Rick Howell will be taking over as president after the convention. There is no question that Rick will do an outstanding job and I look forward to working with him the next two years. It has been an honor to serve as your president and I wish this organization nothing but the best.

Dick McCalla, OK-NARO President

OK NARO Lease Report

Recent Oil and Gas Lease Offers In Oklahoma

Atoka County	**9-2N-12E:**	$250/acre, 3+2 years, 3/16 royalty
Atoka County	**8-1N-12E:**	$250/acre, 3+2 years, 3/16 royalty
Caddo County	**11-10N-10W:**	$200/acre, 3/16 royalty
Caddo County	**12-10N-9W:**	$1250/acre, 3 years, 3/16 royalty
Canadian County	**3-11N-5W:**	$250/acre, 3 years, 1/6 royalty
Custer County	**17-13N-14W:**	$2500/acre, 3 years, 3/16 royalty or $1500/acre and 1/5 royalty
Custer County	**23-14N-14W:**	$2500/acre, 3 years, 1/5 royalty or $500/acre and ¼ royalty
Dewey County	**18-18N-16W:**	$1300/acre, 3 years, 3/16 royalty or $1000/acre and ¼ royalty
Dewey County	**29-19N-15W:**	$950/acre, 3+2 years, 1/5 royalty
Dewey County	**19-18N-18W:**	$600/acre, 3 years, 3/16 royalty
Dewey County	**34-16N-18W:**	$1250/acre, 3 years, 3/16 royalty
Grady County	**33-4N-6W:**	$3500/acre, 3 years, 1/5 royalty
Grady County	**1-8N-5W:**	$1200/acre, 3 years, 3/16 royalty or $1000/acre and 1/5 royalty
Grady County	**5-8N-7W:**	$2500/acre, 3+2 years, 3/16 royalty
Grady County	**32-9N-7W:**	$2750/acre, 3 years, 1/5 royalty
Hughes County	**13-6N-8E:**	$350/acre, 3+2 years, 1/5 royalty
Pittsburg County	**33-3N-13E:**	$300/acre, 3 years, 3/16 royalty
Pottawatomie County	**31-7N-5E:**	$100/acre, 3 years, 3/16 royalty
Stephens County	**31-1N-4W:**	$1000/acre, 3+2 years, 3/16 royalty
Washita County	**7-10N-20W:**	$500/acre, 5 years, 3/16 royalty
Woods County	**24-25N-15W:**	$500/acre, 3 years, 3/16 royalty

What's Worse than an Oklahoma Drive-by Pooling?

by Frederick M. "Mick" Scott CMM, RPL
Manager: The Mineral Hub

First, for those of you not familiar with the phrase "drive-by pooling", it is used in Oklahoma to describe the scenario in which an oil company applies to the Oklahoma Corporation Commission for a forced-pooling without first fulfilling the requirement of making a "bona fide effort to reach an agreement" with affected mineral owners, in the form of an oil and gas lease, prior to their application.

Though rare, there have been instances where companies have skipped this necessary step altogether and headed straight to the pooling hearing because they were in a hurry, for whatever reason, to force consent before negotiations with their mineral owners had been completed, or in some cases before they had even begun; knowing full well that most mineral owners will not protest at a hearing because most are not even aware they can protest. The truth is, mineral owners have a valid reason and right to protest a forced-pooling (either by phone or in person) if they feel they were not given an opportunity to negotiate a lease prior to being listed as a respondent on a pooling application.

Once approved, an Oklahoma forced-pooling order gives the applicant oil company the right to drill a well even without the consent of the mineral owners they could not locate or reach an agreement with. Since a pooling requires that a diligent and meaningful search be made for mineral owners prior to approval, and requires testimony, under oath, that a good-faith effort was made to negotiate a lease with those they did locate, the forced-pooling process in and of itself is not a bad thing as it facilitates drilling in our state, but skipping over (or "driving by") either or both requirements indicates a lack of respect for the process, and the law, on the part of the applicant.

What's worse than a drive-by? How about being missed altogether? There have been more than a few instances where companies do not take the time or effort to properly search for current mineral owners prior to applying for a forced-pooling order. This can mean some owners will receive neither a lease offer or a forced-pooling notice, and their first indication that something is "wrong" may be when they see a well being drilled on their property. If an oil company drills and completes a producing well without permission (in the form of a lease or forced-pooling order) it would likely be seen as trespassing, which, if found to be true could open a big bag of worms for the company, and a potentially much bigger bag of cash for the trespassed mineral owner if the well turned out to be a prolific producer.

Companies can avoid trespass by diligently researching ownership prior to applying for a forced-pooling order, and can apply for a second, or "cleanup" pooling if they become aware (or are made aware by a mineral owner) that they missed someone initially. Unfortunately, the cleanup pooling is sometimes used as a convenient method for rectifying a lack of due diligence prior to an applicant's initial pooling.

Actual trespass by oil companies can put an affected mineral owner in the proverbial catbird seat, and could result in the company being forced to carry the mineral owner, without penalty, as a working interest owner until the well pays out in order to satisfy the trespass. Great for the mineral owner assuming the well continues to produce without major issues after payout, but bad for the oil company, because "carrying" a mineral owner as above is much more expensive than leasing or force-pooling them would be. Alternatively, the owner may be able to lease

the trespassed mineral rights to the company at well above market value rather than be "carried" in the well. Neither is something a company would wish for.

Since the forced-pooling process is supposed to benefit everyone, including mineral owners (per the Oklahoma Corporation Commission's own website), I would assume an administrative law judge presiding over a forced-pooling hearing would agree that if it's obvious an applicant failed to do a "diligent and meaningful" search to locate mineral owners prior to an initial pooling, the company should be denied, on those grounds, the opportunity for a second (or cleanup) pooling that would serve only to whitewash its lack of respect for the pooling process.

Companies need to ensure they do what is required prior to applying for a forced-pooling order, and the Oklahoma Corporation Commission should be willing to deny a second pooling application when it is made apparent to them (perhaps by a protesting mineral owner) that these requirements were not initially met. In this way, Oklahoma mineral owners can continue to have faith in the integrity of the forced-pooling process.

Become an OK-NARO Contributor!

We would like to invite those of our readers who may be interested in doing so to submit articles they've written for possible publication in our quarterly newsletter. While we set no strict limits, we would prefer articles of between 600 and 800 words in length. Articles should include subject matter that will be of interest to owners of Oklahoma mineral rights. For more information on our editorial guidelines please send an email to **oklahomanaro@aol.com.**

Hey everybody! It's almost time for the

2017 OK-NARO state convention!

The 37th Annual OK-NARO Convention -
"Charting The Course Understanding the Present, Navigating the Future"
will be held April 19th - 21st at the
Norman Embassy Suites Hotel and Conference Center.

This year we have an optional pre-convention social event planned for Wednesday April 19th. We will be traveling from the convention hotel via charter bus to downtown Oklahoma City to enjoy lunch at the highly acclaimed Vast restaurant, located on the 50th floor of the Devon Energy Tower. This world-class skyscraper was completed in 2012 and offers breathtaking views of OKC. After dining among the clouds, we will visit the beautiful Myriad Botanical Gardens and Crystal Bridge, before the bus returns us to Norman. What a wonderful way to commemorate such a special day in Oklahoma history. Seats are limited, so reserve your place today!

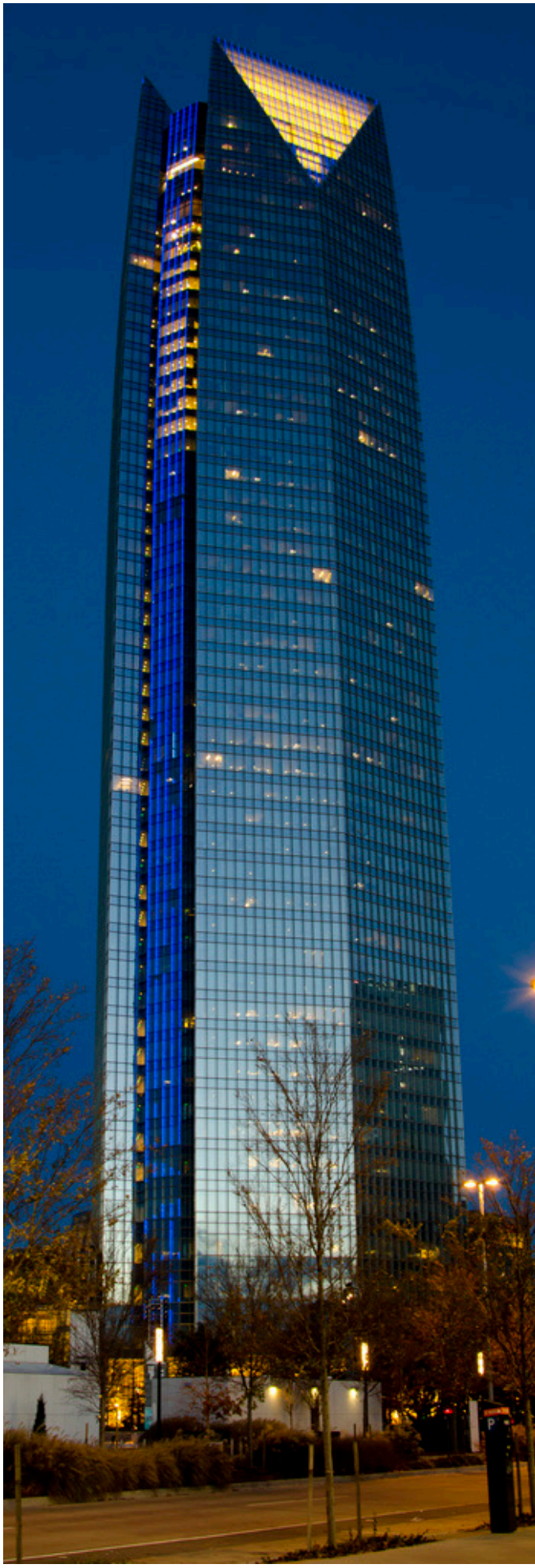
The convention officially takes place Thursday and Friday with scheduled guests to include Dr. Jeremy Boak, Director of the Oklahoma Geological Survey, Commissioner Dana Murphy of the Oklahoma Corporation Commission and engineer Steve Slawson, V.P. of Operations for the Slawson Companies- one of the ten largest privately held exploration and production companies in the U.S.

Other fun sessions include the always informative "Mineral Management 101" taught by a couple of expert NARO Certified Mineral Managers, "Lease clauses" with Attorney George Wilson, "How To Check Title in Your Pajamas" with Attorney Tim Dowd, hear about the latest issues facing mineral owners at the State Capital during the "Oklahoma Legislative Review" with Attorney Terry Stowers; and who could forget our Thursday evening Cocktail Reception and our 90 minute "Expert Legal Panel" to close out the convention on Friday.

Plus some other special guests yet to be announced. You definitely don't want to miss out on this year's convention!

The hotel and convention center is located 18 miles from Will Rogers World Airport and within the University North Park shopping district which offers all sorts of dining options.
We hope to see you April 19th - 21st at the Embassy Suites Hotel and Conference Center in Norman for the 37th Annual OK-NARO State Convention!!!

Kim McCullough- Convention Chair
Jay Freede- Agenda Chair
Cynthia Simonds- Sponsor and Exhibitor Coordinator



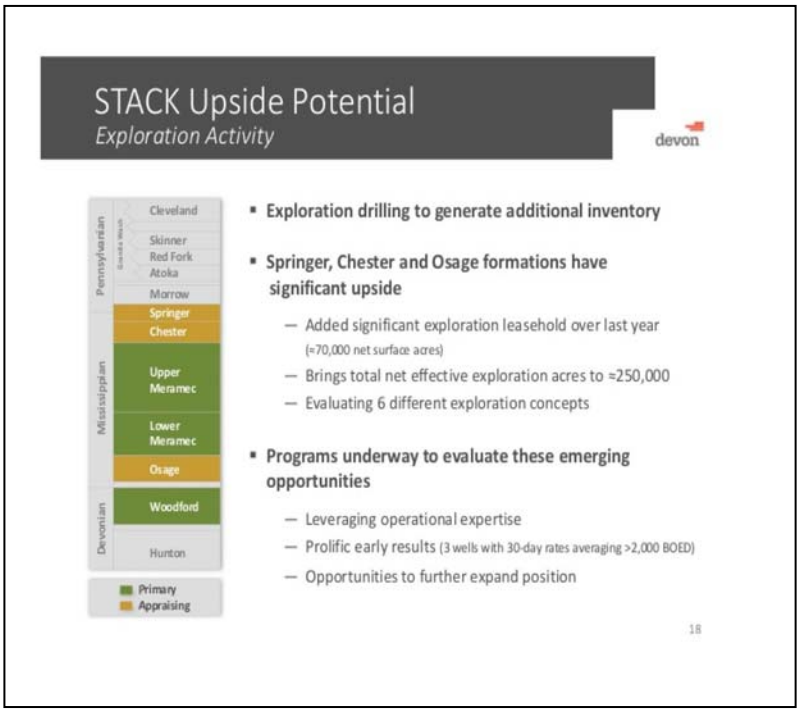
February 2017
Royalty Owner Advocacy Report

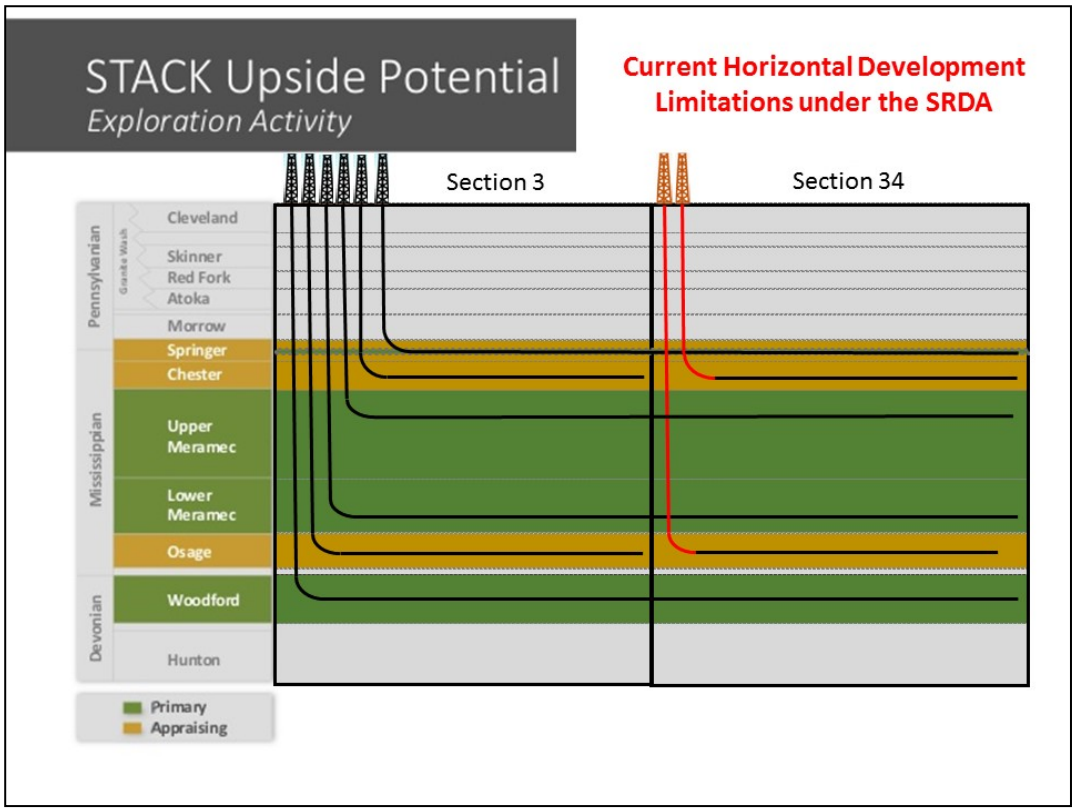
The STACK play is one of the hottest oil and gas fields in the United States and is being driven by operators such as Continental Resources, Devon, Newfield, Unit, Chesapeake, and others (as well as a host of relative new hedge-fund back companies). But, the success of the STACK can be directly linked to the use of **Multi-Unit Horizontal Wells** (7,500' to 10,000' lateral wells that extend across two or more traditional units, i.e. **"MUHW"**); a new "tool" that was created in 2001 for shale development by a law crafted by COSMO (including OK-NARO and OMOA), the companies mentioned above, as well as other industry leaders, and with the direct involvement of Commissioner Dana Murphy – the Shale Reservoir Development Act ("SRDA").

> **"Continental was again an industry leader in gaining legislative approval to drill multiple-unit spaced wells in Oklahoma."** (Continental's 2011 Annual Report) **"For those in the industry, the importance of HB 1909 [SRDA] could not be understated.** 'Changes in regulations will help Oklahoma compete with other states,' Muncrief [Continental's President in 2012] said, "because if we don't, (Continental) will take those capital dollars to another state." . . . Continental Resources CEO and Chairman Harold Hamm spoke at Eischen's Bar in Okarche, **praising the work of the Oklahoma corporation commissioners, legislators and fellow industry colleagues for their work to pass HB 1909 [SRDA].** "I know these things can get contentious," he said. "We were able to do this in a manner that didn't hurt anyone." Citing the production in North Dakota and Montana, **Hamm said these new regulations will allow Oklahoma oil and gas production to rise to an entirely different level.** (Journal Record, Continental first in state to use cross-unit oil and gas well, 3/2/2012) "Mark Fisher, southern region land manager for Continental, said Oklahoma is among several states with drilling and spacing unit rules designed to promote horizontal drilling . . . **'When I fight for drilling dollars against the Bakken, this statute levels the playing field,'** he said." (Journal Record, 3/4/2014)

The MUHW concept has proven to be an extremely successful tool for horizontal development. However, the SRDA was limited to shale formations, and **as noted by Corporation Commissioners Dana Murphy and Todd Hiett in a recent OCC decision, *"for the special tool known as the MUHW, the Commission's jurisdiction is limited to provisions of the SRDA, and the legislative intent expressed therein. Unless and until the Legislature removes the shale formation limitation from the SRDA . . . the Commission's and the producers' options shall be constrained and limited as herein determined by the Commission."*** (In re. Continental Resources vs. Fairfield Minerals, CD No.s 201406590 and 201406591, Decision Sheet, 1/27/2017)

To demonstrate some of the limitations alluded to by Commissioners Murphy and Heitt, COSMO has prepared the following graphic (see Slide 2 below) based upon a presentation by Devon to investors (see Slide 1 below) of the "STACK Upside Potential", specifically, that the "Springer, Chester and Osage formations have significant upside". However, those formations (the Springer, Chester and Osage) are not shale formations and cannot be developed with a MUHW under the SRDA. ***The inability to drill the non-shale portions of Springer, Chester and Osage formations utilizing a MUHW results in increased costs to the producer by doubling surface locations and vertical boreholes required to develop those formations, and inevitably leaving valuable oil and gas reserves stranded and undeveloped - - - thus, costing producers, royalty owners, the Commissioners of the Land Office and the State of Oklahoma, through significant increased costs and/or loss of revenues.***





Coalition of Oklahoma Surface and Mineral Owners

COSMO will continue working with Legislators, Continental Resources, Devon, Newfield, Unit, Chesapeake, Marathon, BP, the Oklahoma Oil & Gas Association (OKOGA), Oklahoma Independent Petroleum Association (OIPA) and Oklahoma Energy Producers Alliance (OEPA) to find a solution that promotes development while best protecting the rights of Oklahoma's royalty owners and producers.

CURRENT BILLS BEING ADVANCED OR MONITORED BY COSMO

HORIZONTAL DEVELOPMENT:

SB284; SB669; SB680; SB768; (SHELL BILLS - HB1375; HB1391; HB1398; HB1613)

ROYALTY PAYMENT ISSUES:

SB731 (as introduced, COSMO cannot support SB731, but will be working with Senator Marlatt to modify SB731 to strengthen the Production Royalty Standards Act to assure accurate and timely royalty payments to Oklahoma's Royalty Owners)

PRODUCED WATER/WATER REUSE/SKIM OIL:

SB285; SB475; SB743; HB1130; HB1900; HB2190

GAS PIPELINES/PROCESSING:

HB1672; SB760

WIND ENERGY DEVELOPMENT:

HB1170; HB1422; HB1489; HB2200; HB2201; HB2299; HB2300; SB593; SB675

SURFACE USE ISSUES:

HB1356; HB1639; HB1902; HB2187; SB193

Sincerely,

Your Questions Answered

Frederick M. "Mick" Scott CMM, RPL
www.mineralhub.com

Q: Why are my royalty payments always late? For over a year, I've been receiving "consistently" late checks. At present, it's been over 100 days since my last check. I'm tired of all the excuses from the oil company's CEO. What are my options?

A: Could be that the operator of the well is not receiving payments in a timely manner from other purchasers of the well's production, and thus would not have anything to forward to you until they are paid. This happens sometimes when the operator is not the only purchaser of the production from a well. It could also be that the production has slowed down to a point where your royalty needs to reach a minimum amount (i.e. $100) before a check is sent out. You may be able to ask them to adjust it down to $25/month if that is indeed what's happening, and then you'd get more frequent checks.

The royalty owner relations department of the company who is sending you the checks should be able to tell you which is the case, or if it is indeed simply them being late as you say.

Q: Should I consider a "top lease"? I have been offered a top lease by a third party with a 10% advancement. My original lease expires in 18 months. Is this a good percentage?

A: I'm not a big fan of "top leasing". When approached with these offers I usually tell them I'd prefer they just contact me again when my current lease expires and then we can talk. It's likely they think lease prices will rise over the next 18 months or they wouldn't be offering to pay you 10% of the bonus now (likely reflecting current prices per acre) for a lease that won't start for another year-and-a-half.

That said, you could also look at the offer as a "bird-in-the-hand" if in fact what they are offering obligates them (not gives them simply an option) to pay you the remaining 90% of the bonus in 18 months, assuming of course that your current lessee doesn't drill a producing well before then. If lease prices go down before then rather than up, the bonus they are offering you 10% of now and 90% of later could end up being above what everyone else is paying by then. It could also mean you could definitely lease your minerals again in 18 months even if no other companies are buying leases in the area then.

Depending on how much money is involved here there may also be tax consequences to consider. Check with your accountant before doing anything, especially if the money involved is substantial. I would also suggest seeking an oil and gas attorney's advice before agreeing to anything, since a lease (or top lease) can affect your rights for literally decades if a well is drilled during its primary term.

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