

Office of Natural Resources Revenue*

*formerly known as Minerals Management Service

Frequently Asked Questions From the individual Indian mineral owners

What is the Department of the Interior doing to make sure I am getting my entitled royalties? [Page 3](#)

Does the federal government deduct a fee for managing my mineral interests? [Page 3](#)

How much time will it take to get my royalty payment? [Page 4](#)

Who collects my royalty payments from oil and gas companies? [Page 5](#)

What should I do if I don't receive my royalty check as expected? [Page 5](#)

Why are my royalties lower now? [Page 6](#)

Why do my royalty checks change from month to month? [Page 6](#)

Why does my uncle receive twice as much royalty as I do on the same property? [Page 7](#)

Why is my royalty rate different than my neighbor's? [Page 7](#)

Why does my Oil and Gas Payment Report show negative amounts? [Page 7](#)

Why does my Oil and Gas Payment Report show adjustments that reduce my payment? [Page 9](#)

Why are oil and gas companies allowed to deduct the costs of transportation from my royalties? [Page 9](#)

Why is the oil and gas company allowed to deduct the cost of processing from royalties? [Page 9](#)

Why and how do spacing requirements affect my Indian lease? [Page 10](#)

Why is my rent payment paid, and then seems to be taken back? [Page 11](#)

Why and how do Unit Agreements affect my Indian lease? [Page 13](#)

How do Exploratory Unit Agreements affect my Indian lease? [Page 12](#)

How do Secondary Recovery Units benefit my Indian lease? [Page 14](#)

Why do I have to share the royalties from my well and lease with adjoining land owners? [Page 15](#)

Why do I get royalty payments even though I don't have a producing well on my allotment? [Page 15](#)

What is the Department of the Interior doing to make sure I am getting my entitled royalties?

Four federal agencies –the Bureau of Indian Affairs (BIA), the Bureau of Land Management (BLM), the Office of Natural Resources Revenue (ONRR), and the Office of Special Trustee for American Indians (OST) –play different roles in ensuring you are paid the royalties you deserve.

- The BIA assists the owners in issuing the lease and setting the royalty rates and rental amounts. The BIA ensures that the lease, allotment, and ownership records are correct. These records are used to determine the correct royalty payment and to create your Oil and Gas Payment Report.
- The BLM inspects your lease to ensure that the oil or gas is correctly measured, handled, and reported; and also to prevent theft. It also checks to see if a nearby well is draining oil or gas from your lease. If so, the BLM makes the operator drill another well on your lease or request that ONRR make the operator pay the royalties due on drained production.
- The ONRR collects the royalties from oil and gas companies. Each month, its Minerals Revenue Management Program examines the companies' monthly royalty and production reports to detect errors and problems. For example, ONRR examines the timeliness of the payment on your lease and issues bills for interest if the payment is late. The ONRR audits Indian leases to verify that royalties are correctly paid. Furthermore, ONRR has established an outreach group to specifically resolve Indian mineral interest owner problems and royalty questions in a timely manner.
- The OST Office of Trust Funds Management, in partnership with BIA, prepares and mails the royalty check and the Oil and Gas Payment Report to you after ONRR collects the royalties from the companies.

Does the federal government deduct a fee for managing my mineral interests?

The federal government does not deduct a fee for managing your mineral interests. The Secretary of the Interior has trust responsibility for managing Indian minerals and has delegated this responsibility to the Bureau of Indian Affairs (BIA), the Bureau of Land Management (BLM), the Office of Special Trustee (OST), and the Office of Natural Resources Revenue (ONRR).

How much time will it take to get my royalty payment?

It can take two to three months from the time oil or gas is produced and sold from your lease until you get a royalty payment. Legally, and because the industry is complicated, companies can take up to two months to make the payment to the federal government on your behalf. Usually, the federal government processes your payment within two to four weeks after receipt from a company.

Companies need one to two months:

Companies have between one and two months from when the oil is sold to pay the Office of Natural Resources Revenue (ONRR) on your behalf. For example, assume oil was produced and sold from your lease during the first week of May. The oil company would submit the payment to the ONRR by the end of the next month (June 30), as required by your lease terms. (Lease terms generally require companies to pay royalties by the end of the month following the month of production and sale.) This gives the company almost two months (most of May and all of June) to make the payment to ONRR.

Why do companies require this much time?

The oil and gas industry is very complicated. Many different types of companies are involved in production, distribution, and processing. Companies can be producers, operators of an oil and gas field, sellers and buyers, refiners or processors, and/or pipeline and trucking companies who transport the oil and gas. Because the industry depends on complex relationships among many companies, as much as two months is needed to gather, process, verify, exchange, and report information about oil and gas production and sales.

The federal government needs one month or less:

Within 24 hours of receipt of the royalty payment from companies, ONRR deposits the royalty payments into the U.S. Treasury. (In our example, the money would be deposited no later than July 1.) The ONRR notifies the Office of Trust Funds Management (OTFM) of the deposits so that OTFM can immediately invest the funds in an interest-bearing account. In a process that takes two to four weeks, ONRR, the Bureau of Indian Affairs (BIA), and OTFM verify, reconcile, and exchange information. Once these agencies are satisfied that the payment is yours, OTFM and BIA print and mail your Oil and Gas Payment Report and payment check on or about the middle of each month (about July 14). Your royalty payment and the interest you earned are reported on your Oil and Gas Payment Report. If errors or problems are discovered, the Agencies make another payment distribution at the end of the month (on or about July 28). Usually you will receive only one payment and/or statement per month.

Why does it take the federal government two to four weeks to process royalty payments?

The ONRR processes about 300,000 transactions per month from thousands of companies. The ONRR processes 90 percent of these transactions in about 10 workdays (July 1 to 10). While your money is earning interest, ONRR enters the company reported lease data into its computer. Then the computer verifies the payor number, the lease number, and that the company submitted enough money for the royalty amount. The ONRR then prepares the lease-level reports for OTFM and BIA, who take a few days (July 11 to 14) to determine the correct individual ownership and to reconcile the owner information and payments to the lease-level information sent by ONRR.

Who collects my royalty payments from oil and gas companies?

The Office of Natural Resources Revenue (ONRR) receives royalty payments from oil and gas companies. The ONRR collects and verifies the payments, then passes these payments to the Office of Special Trustee (OST) for American Indians and the Bureau of Indian Affairs (BIA) for final processing and payment to individual Indian owners.

The ONRR, OST, and BIA work together to provide your Oil and Gas Payment Report. This report can be used to help you understand your royalty payments.

What should I do if I don't receive my royalty check as expected?

You should first contact the Bureau of Indian Affairs (BIA) area or agency office that has your lease records. The BIA realty staff will either answer your question or refer you to the appropriate Office of Natural Resources Revenue office.

Common reasons you may not get a check:

- You may have moved and failed to inform the BIA of your new address.
- The company may not have sold any oil or gas from your lease that month.
- The company may have made an error in making the payment or filing the royalty report.
- Your royalty amount may be less than \$5.00, in which case a check is not prepared, but the amount is transferred to your Individual Indian Monies (IIM) account for later disbursement by the Office of Special Trustee for American Indians, Office of Trust Funds Management, and BIA.
- The company may have made an adjustment which reduced your royalty payment to an amount less than \$5.00.

Why are my royalties lower now?

Royalty payments are tied to both the amount of production and the sales price of oil or gas production may be decreasing or the price of oil and gas may be low.

Lower Production Each well has a limited amount of oil or gas. After years of production, less oil and gas is available and the amounts removed from the well will decrease. Since the amount of your royalties depends on how much oil and gas your well produces, your royalties will be reduced when production declines.

Lower Prices Royalties for oil and gas are based on market prices. Market prices will go up or down depending on supply and demand in the energy market. For example, in North Dakota the average price of oil in July 2008 was as high as \$125.00 per barrel, and as low as \$27.00 in December. Gas produced in Eastern Utah was \$8.92 per MMBtu in July 2008, but in December 2008 it was \$4.65 per MMBtu. Therefore, even if well production remains the same over the years, royalties may go up or down as market prices increase or decrease.

Why do my royalty checks change from month to month?

There are many reasons that your royalties may change from month to month:

Changes in the price of oil and gas affect your royalties

- Sales prices go up or down according to supply and demand in the energy market. Even if the production from your lease is the same from month to month, royalties will change as sales prices go up or down.

Changes in the amount

- The well on your lease may not produce enough oil every month to sell; the lease operator may store small amounts from your well until there is enough to fill up a truck and sell.
- Trucks may not be able to pick up production when weather and road conditions are bad.
- The operator may temporarily stop production to meet higher winter and lower summer demands for natural gas and heating oil.

Corrections to previous reports and payments

- The company may have previously paid you too little or too much royalty. Your check will go up when the company pays you the money it owes. Your check will go down when the company deducts the overpayment from your

- The company may have previously paid rents in advance, but is entitled to “recoup” or apply royalty payments that year against these advance rents. In such a case, you would receive a large rental payment at the beginning of the lease year and then nothing for several months until the advance rental payment is recouped.
- The lease operator may have changed, which may delay reports and payments.

Why does my uncle receive twice as much royalty as I do on the same property?

Your uncle may have inherited other interests from relatives associated with your allotment. Or, you may be sharing your father or mother’s interest in the allotment with others, while your uncle’s interest was not divided.

However, to verify your interest in this allotment, your first contact should be your Bureau of Indian Affairs (BIA) area or agency office. The ownership records are kept and maintained by BIA. They would have to review these records to fully answer your questions.

Why is my royalty rate different than my neighbor’s?

Your leases were probably issued at different times. The royalty rate depends on the world and domestic supply and demand of oil and gas at the time an Indian tract is advertised and leased for oil and gas development. Prior to 1959, the majority of Indian leases were issued at 1/8 (12 ½ percent) royalty rate. Since then, most Indian leases have been issued for 1/6 (16 2/3 percent). However, as the demand and price for oil and gas increases, Indian leases have been able to command royalty rates as high as 25 percent in some areas.

For more specific information about your lease, contact your Bureau of Indian Affairs (BIA) area or agency office. The BIA keeps the original lease files and lease sale announcements. Your royalty rate is documented in these files.

Why does my Oil and Gas Payment Report show negative amounts?

Negative amounts on your royalty statement are usually adjustments or allowances. Oil and gas companies report these amounts to the Office of Natural Resources Revenue (ONRR) when they make royalty payments. At the bottom of

your Oil and Gas Payment Report there are Adjustment Reason Codes, Transaction Codes, and Product Codes to explain each transaction.

Adjustments

A company must correct any error it makes on a royalty report. To do so, it reports the incorrect amount as a negative amount on a later report. It then enters the correct amount as a positive amount. Both negative and positive entries appear on your Oil and Gas Payment Report and on the “Adjustment” column of the report so that you can track these adjustments. Sometimes the sum of these two adjustments will result in more royalties for you; at other times, it may result in fewer royalties for you.

The ONRR may also, through its audit program or one of its verification processes, have found errors in the company’s reporting. The ONRR will then direct the company to correct the errors which show on your report.

Allowances

Oil and gas companies can deduct the costs of transporting oil or gas by pipeline or truck from royalties. They deduct these costs using negative entries.

Likewise, companies can deduct the processing or manufacturing costs to extract such liquid gases as butane or propane and to remove impurities from gas. They will deduct these costs of processing using negative entries.

Estimated Payments

Royalty payments are normally required by the end of the month following the month the product was removed or sold from the lease. However, companies who can not meet this deadline may make an estimated royalty payment to avoid late payment charges and insuring that you receive a payment for every month royalties are due. An estimated payment **should equal or exceed** the actual royalties that would otherwise be due.

When an estimated payment is established, actual royalties become due at the end of the second month following the month the product was sold.

Estimated balances may be recouped, i.e., adjusted downward at any time, however, estimated payment recoupments are limited to 50% of current royalties on an allotted lease.

Example:

Sales Month: May 2010 Company submits \$12,000 estimated payment on June 30, 2010 which is distributed on July 14, 2010.

Actual May 2010 royalties of \$9,354 received on July 31, 2010 and distributed on August 11, 2010

Actual June 2010 royalties reported on August 31, 2010 in the amount of:
\$7,280

Estimated Payment recoupment taken on August 31, 2010 in the amount of:
\$3,640

Actual Royalties paid on August 31, 2010 and distributed on September 8, 2010
\$3,640

Note: Current estimated payment balance is now \$8,360. (\$12,000 - \$3,640)

Why does my Oil and Gas Payment Report show adjustments that reduce my payment?

It is not uncommon for oil and gas companies to make correcting adjustments to previously reported royalty transactions. These adjustments show up in the adjustment column of the report as negative lines on the Oil and Gas payment Report. Companies will use a negative entry to subtract the incorrect amount and then replace it with the correct amount (shown as a positive entry). When the corrected amount (the positive amount) is lower than what was previously reported, your overall payment may be smaller than what you would otherwise receive.

Why are oil and gas companies allowed to deduct the costs of transportation from my royalties?

Oil and gas taken at the lease isn't worth as much as oil and gas taken closer to the consumer. Usually, oil and gas is moved from the lease by truck or pipeline. The federal government allows companies to deduct the reasonable and actual costs of moving oil and gas to markets.

The Office of Natural Resources Revenue (ONRR) monitors monthly transportation allowances taken by companies to ensure deductions are reasonable and within regulatory limits. The ONRR auditors also verify the accuracy of these deductions in the course of their audits.

Why is the oil and gas company allowed to deduct the costs of processing from my royalties?

Like many federal, state, and private fee lease contracts, many Indian lease contracts allow companies to deduct reasonable and actual processing costs.

Processing (manufacturing) costs are the costs of removing impurities and extracting liquid hydrocarbons, such as butane and propane, from natural gas. This deduction is allowed because these costs are normal and reasonable costs of producing these products. While the amount varies by well and lease, the Office of Natural Resources Revenue generally allows deductions of up to two-thirds of the marketable product's royalty value.

Why and how do spacing requirements affect my Indian lease?

Spacing requirements are a way to manage the number and location of wells in an oil and gas field. Spacing requirements differ for each reservoir since oil and gas reservoirs have varying geological and technical characteristics. To establish the spacing for a reservoir, the state or BLM examine available reservoir information and then determine the amount of space that must be maintained between wells. The state or BLM will issue a Spacing Order which specifies the amount of acreage allocated for one well. For example, a spacing order may limit the number of wells to one well for each 320 acres. This acreage is known as a spacing, drilling, or proration unit. An operator who wants to drill an oil and gas well on Indian lands must apply to BLM for approval and comply with these spacing requirements.

How do state requirements affect my Indian lease?

The BLM has responsibility of overseeing and monitoring the technical oil and gas operations on Indian leases. The BLM usually adopts or concurs with state spacing requirements unless BLM determines, after an independent evaluation, the state requirements are not in the best interest of the Indian mineral owner. When this occurs, BLM asserts its jurisdiction and establishes the spacing requirement or spacing order for Indian lands. Because different laws govern some Oklahoma Indian leases, the Oklahoma Corporation Commission sets spacing for District Court leases in Oklahoma.

How do spacing requirements lead to Communitization Agreements?

If the acreage in your lease is too small to support an independent well according to either BLM or state spacing requirements, BLM may require that the lease join other leases in what is known as a Communitization Agreement. A Communitization Agreement protects the rights of the participating mineral owners by providing for each to share fairly in the production from the well. Each participant's share is based on the amount of the mineral owner's acreage that is included in the agreement.

For example, if well spacing is 320 acres for a particular reservoir, the operator can drill only one well for each 320 acres. If your lease is 160 acres (too small to

support its own well) it must link up with other neighboring leases to total 320 acres. To protect the rights of each participating mineral owner, a Communitization Agreement is formed. This agreement allows participating leases in the agreement to share in the well's production and royalties. Each lease shares in the production based on the amount of its acreage included in the Communitization Agreement.

If you and your neighbor each have 160 acre leases in a 320 acre Communitization Agreement, you would each have 50 percent of the total acreage and receive 50 percent of the royalties. If one month's royalties were \$100, you would each receive \$50, based on your leases' 50 percent interest in the agreement. However, if you share your lease with others, that \$50 would be further divided according to the percentage each have 20 percent interest. You would receive \$20, 40 percent of the \$50. Your three cousins would each receive \$10, 20 percent of the \$50.

When leases participate in Communitization Agreements, a well is drilled in the best geological location regardless of who owns the land. Each participant in the agreement shares fairly in the production. Since fewer wells are drilled because of the spacing requirements, the overall management of the oil and gas resource is improved.

Why is my rent payment paid and then seems to be taken back?

Some Indian lease terms allow the "recoupment" of rents. Think of the annual rental payment as guaranteed, "prepaid royalties" for that year. After you receive the rental payment, the paying company will hold back, or "recoup," any monthly royalties earned from the lease until the royalties equal the rent amount you have already received. The company may do this for several months; you would not receive a payment during this time. After that, the company would send monthly royalty payments for any additional production from your lease through the end of your lease year.

If the total royalties for the year are less than the rental prepayment, you won't receive any additional royalty payments that lease year, but you do get to keep the difference. For example, John Doe Company pays you rent of \$2,000 on the first day of the lease year. John Doe then begins calculating royalties of \$100 per month. It offsets that amount against the \$2,000 it has already paid you. At the end of the lease year John Doe would have "recouped" \$1,200 of the \$2,000 prepayment and paid you \$800 more than the actual royalties due. You would keep the remaining \$800 for that year and John Doe Company would then make a new rental prepayment for the next lease year.

Why and how do Unit Agreements affect my Indian lease?

Your lease may be combined with other Indian, federal, state, or private leases to form an oil and gas Unit Agreement. Unit Agreements are commonly used in the oil and gas business to economically develop production from large underground petroleum reservoirs. Most Indian lease terms contain provisions for parties to agree to unit agreements.

A Unit Agreement combines individual leases that cover one or more common underground oil and gas reservoirs to make a larger area for development. Two or more operators will form a Unit Agreement and designate a unit operator to develop the overall unit. There are two types of units: exploratory and secondary recovery.

Exploratory units are formed in areas where the potential for oil and gas is suspected but not yet known. In an exploratory unit, when a producing well is drilled the acreage around the well is designated as a participating area. Royalties from the production are shared, based on acreage among all leases within the participating area regardless of where the well is located.

A secondary recovery unit is formed later in the life of the reservoir's production, when the reservoir's natural pressure has been depleted and production has slowed to the point that it is barely enough to cover the cost of operating the wells. In a secondary recovery unit the operator introduces a fluid, usually water, into the reservoir to drive some of the remaining oil to the wells where it can be produced. In a secondary recovery unit, leases within the unit share in the royalties in a manner agreed upon when the unit is formed. While shares in an exploratory unit are based on acreage, secondary recovery units are more complicated and are generally based on other factors, in addition to surface acreage. Because of this, each secondary recovery unit has a unique schedule of distribution.

Benefits of Unit Agreements

Unit Agreements offer Indian mineral owners several benefits:

- Production and royalties are shared from any well within the unit's participating area boundaries even if you don't own the land where the wells are located.
- Royalty payments are shared fairly because production from the Unit is divided according to the percentage share of each participating lease.
- A reservoir's life is extended, making full use of the oil and gas trapped in a reservoir and allowing wells to produce longer.
- Because the reservoir produces longer, royalty payments are extended.

How do Exploratory Unit Agreements affect my Indian lease?

Unit agreements are commonly used in the oil and gas business to economically develop potentially large underground petroleum reservoirs, which may include Indian, federal, state, and/or private leases. A unit agreement combines individual leases covering one or more common underground oil and gas reservoirs to make a larger area for development.

An Exploratory Unit is generally formed in areas where the potential for oil and gas is suspected but precise location and amounts are unknown. Two or more operators form a Unit Agreement and designate a unit operator to develop the overall unit. These agreements benefit both operators and mineral owners by allowing one operator to explore large areas that otherwise might not be developed.

Once an operator drills a producing well within the unit that produces enough oil and gas to make a profit, a participating area is formed around that well. Generally, the geology around the well determines the size of the participating area. Each time a new producing well is drilled, the participating area is expanded to include the area around the new well. Additional participating areas are formed when new formations are drilled and developed. Units can contain many participating areas. Production and royalties are shared from any well deemed to be producing within the participating area regardless of ownership.

Benefits of Exploratory Units

- Lands are explored and developed that would otherwise not be drilled without these agreements.
- Production and royalties are shared from any well within the unit's participating areas regardless of ownership.
- Royalty payments are shared among the leases according to their acreage in the Unit's participating area.

Royalties and Production Are Shared Fairly

Unit Agreements provide that each lease in the agreement share fairly in the production and royalties regardless of the location of the producing well(s). The operator will drill the well(s) in the best geological location(s), regardless of who owns the land. Generally, each lease shares in the production and royalties based on the amount of its acreage included in the exploratory unit agreement's participating area.

The Bureau of Indian Affairs (BIA) approves Unit Agreements on Indian lands. If your property is within the area covered by a proposed unit agreement, BIA will ask the Bureau of Land Management to determine if you would benefit by your lease being included in a unit.

How do Secondary Recovery Units benefit my Indian lease?

A Secondary Recovery Unit is another type of Unit Agreement used to increase oil and gas production. Unit Agreements are used by the oil and gas industry to develop large underground petroleum reservoirs in an efficient and orderly manner.

Unit Agreements combine individual leases covering an underground oil and gas reservoir (or several adjoining ones) into a larger area or “unit.” This allows an operator to develop the area efficiently and provides for maximum recovery of oil and gas. Unit agreements may include Indian, federal, state, and/or private leases and enables operators to recover oil and gas that might not otherwise be recoverable from individual leases.

What is “Secondary Recovery?”

When production first starts, natural pressure in the reservoir drives the oil to one or more wells in the field where it is brought to the surface. This is known as primary recovery.

As the reservoir is produced, the natural pressure eventually decreases to the point where it can no longer push the oil to the well by itself. The operator may increase the pressure in the reservoir, usually by injecting water or another fluid down some of the wells near the edge of the producing portion of the reservoir. The fluid drives some of the remaining oil to the other producing well(s) where it is then recovered. This is known as secondary recovery.

Benefits of Secondary Recovery

Secondary recovery units extend the life of the reservoir by allowing oil to be produced longer, increasing the total recovery of oil and gas from the reservoir. If your lease is part of a secondary recovery unit. You will generally receive royalties for a longer period of time than if your lease had not been a part of a unit.

If your property is within a proposed Unit Agreement, the Bureau of Indian Affairs (BIA) will have the Bureau of Land Management determine whether or not you will benefit if your lease is included in the unit.

How are Production and Royalties Shared?

Production and royalties can be shared in different ways depending on how the secondary recovery unit is formed. If it is converted from the existing exploratory unit, the production and royalties are generally shared on a surface acreage basis, the same as for the original unit.

If the secondary unit is formed from individual leases that were independently developed during the primary production phase, it is more complicated and is generally based on other factors in addition to surface acreage. The factors might include such things as:

- amount of oil left in the reservoir
- past production and the age of the wells
- number of usable wells per lease
- well depth
- amount of gas compared to oil in each well
- how much each operator has invested

Because of the many different factors, each secondary recovery unit has a unique schedule of distributions. The Unit Agreement will spell out how production and royalties will be shared.

How do I know if my lease is part of a Secondary Recovery Unit?

You can contact your BIA area or agency office to find out if your lease is part of any Unit Agreement and, if so, your share of production and royalties.

Why do I have to share the royalties from my well and lease with adjoining land owners?

You may need to share royalties because your lease may be part of a Communitization Agreement or a Unitization Agreement. For more information see:

- How do Exploratory Unit Agreements affect my Indian lease?
- How do Secondary Recovery Units benefit my Indian lease?

Why do I get royalty payments even though I don't have a producing well on my allotment?

It is likely that you are receiving royalties because your lease is part of a Communitization Agreement or a Unitization Agreement. Under these agreements, it does not matter where the well is located. For more information see:

- How do Exploratory Unit Agreements affect my Indian lease?
- How do Secondary Recovery Units benefit my Indian lease?