Office of Natural Resources Revenue
State and Indian Outreach

June 2017

Frequently Asked Questions From Indian Mineral Owners

Denver Office
1-800-982-3226

Oklahoma City Office
1-800-354-7015

Federal Indian Minerals Office in Farmington, NM
1-800-238-2839

www.onrr.gov

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What is the Department of the Interior doing to ensure 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 the Special Trustee for American Indians (OST) –play different roles in ensuring you are paid royalties.

- BIA assists mineral owners with issuing the lease, setting the royalty rate, and the setting rental amount. 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 Explanation of Payment (EOP) Report.
- BLM inspects your lease to ensure that the oil or gas is correctly measured, handled, reported, and to prevent theft. BLM checks to see if a nearby well is draining oil or gas from your lease. Land that is not leased but is being drained of oil and/or gas would be eligible to receive what is classified as Compensatory Royalties.
- ONRR collects the royalties from oil and gas companies. Each month, ONRR examines the oil and gas company's monthly royalty and production reports to detect errors and problems. Additionally, ONRR examines the timeliness of payments on your lease and issues a bill for interest if payments are late.
- ONRR performs compliance reviews and/or audits of Indian leases to verify that royalties are correctly paid. In addition, ONRR has an outreach group that specifically resolves Indian mineral interest owner problems and timely answers royalty questions. Toll free numbers can be found on the front cover.
- OST in partnership with BIA, prepares your royalty disbursement and EOP. This disbursement is based on payments and information received by ONRR from oil and gas companies. OST then mails or directly deposits your royalty disbursement.

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 Natural Resources Revenue (ONRR), and the Office of the Special Trustee for American Indians (OST).

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.

The very first royalty payment to your lease can be delayed by several months. There are various reasons as to why this occurs. For instance, companies must obtain production and pricing information to make the correct royalty payment. A Communitization Agreement (CA) requires a detailed review and approval of the leases that can also delay the payment several months.

COMPANIES NEED ONE TO TWO MONTHS

Oil and gas companies have between one and two months from when oil and/or gas are 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 and/or gas company would submit payment to 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?

Many different types of companies are involved in production, distribution, and processing. The various companies involved can include producers, operators of oil and gas fields, sellers, buyers, refiners, processors, and pipeline and trucking companies who transport the oil and gas. 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 royalty payments 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). ONRR notifies the Office of the Special Trustee for American Indians of the deposits so that they can immediately invest the funds in an interest-bearing account. In a process that takes two to four weeks, ONRR, BIA, and OST verify, reconcile, and exchange information.

Once this has been done, OST and BIA will disburse royalty payments on or about the middle of each month (in our example, your check would be mailed to you on or about July 14). Your EOP will then follow. Royalty payments and interest earned are listed on your EOP. Usually, you will receive only one payment and EOP per month. There is a second distribution near the end of the month for royalty lines that were not processed in time for the first distribution.

WHY DOES IT TAKE THE FEDERAL GOVERNMENT TWO TO FOUR WEEKS TO PROCESS ROYALTY PAYMENTS?

ONRR processes about 300,000 transactions per month from thousands of companies. Approximately 90 percent of these transactions are processed in about 10 workdays. While your money is earning interest, ONRR processes the company reported lease data and verifies the reporter number, lease number and whether the company submitted enough money for the royalty amount reported. Immediately prior to each bi-monthly distribution date, ONRR prepares lease-level reports for OST and BIA, who take a few days to reconcile lease information with individual ownership percentages. When reconciliation is complete, royalties are paid to you.

Who collects my royalty payments from oil and gas companies?

Office of Natural Resources Revenue (ONRR) receives royalty payments from oil and gas companies. ONRR collects and verifies these payments, then passes the information to the Office of the Special Trustee for American Indians and the Bureau of Indian Affairs for final processing and payment to individual Indian owners. ONRR, OST, and BIA work together to provide your EOP Report. The EOP is issued by OST. You can use this report to help understand your royalty payments. The three agencies work together to prepare the EOP and EOP is issued by the OST.

How are my royalties calculated on a single or "stand-alone" lease?

Total Monthly Sales Volume for the Lease	1,000 barrels
Price (per barrel)	$75.00
Total Monthly Sales Revenue for the Lease (1,000 x $75.00)	**$75,000.00**

Royalty Rate (per Lease Terms)	18%
Total Monthly Royalties for the Lease ($75,000 x .18)	**$13,500.00**

Individual Indian Mineral Ownership in the Lease	8.526%
Individual Indian Mineral Royalty for the month ($13,500 x .08526)	**$1,151.01**

How are my royalties calculated on a lease within a Communitization Agreement?

Total Monthly Sales Volume for the Agreement	4,000 barrels
Lease ownership in the Agreement	12.33%
Total Monthly Sales Volume for the Lease (4,000 x .1233 rounded)	**493 barrels**

Total Monthly Sales Volume for the Lease	493 barrels
Price (per barrel)	$75.00
Total Monthly Sales Revenue for the Lease (493 x $75.00)	**$36,975**

Royalty Rate (per Lease Terms)	18%
Total Monthly Royalties for the Lease ($36,975 x .18)	**$6,655.50**

Individual Indian Mineral Ownership in the Lease	8.526%
Individual Indian Mineral Royalty for the month ($6,655.50 x .08526)	**$567.45**

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

First contact the Bureau of Indian Affairs area or agency office that maintains your lease records. The BIA realty staff will either answer your question or refer you to the appropriate ONRR office.

Common reasons you may not get a check:

- The company may not have sold any oil or gas from your lease that month.
- The company may have made an error when making the payment or filing the royalty report.
- If your oil and gas royalty payment is less than $5, you will not receive a check. The royalty amount will be transferred to your Individual Indian Money (IIM) account. When your IIM account reaches a balance of $15 the money will be disbursed to you. However, if you are using Direct Deposit or a Chase Debit Card, there is no minimum limit and the money is automatically transferred to your account when it is received.
- The company may have made an adjustment which reduced your royalty payment to an amount less than $5.00.
- The lease operator or payor may have changed, which may delay reports and payments.
- You may have moved without informing the BIA and the Office of the Special Trustee for American Indians of your new address.

Why are my royalties lower now?

Royalty payments are based on the amount of sales volume and the sales price.
Oil and/or gas production may be decreasing or the price of oil and/or gas may be lower now.

LOWER PRODUCTION

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

LOWER PRICES

Royalties for oil and gas are based on market prices. Market prices go up or down depending on supply and demand in the energy market. For example, in North Dakota the average price of oil was as high as $125.00 per barrel in July 2008 and as low as $27.00 in December 2008. 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 amounts change from month to month?

Royalty amounts can vary from month to month. Multiple reasons exist as to why these amounts will go up or down. Fluctuating royalties can be attributed to changes in price and/or sales and corrections to previously reported sales periods.

CHANGES IN THE PRICE OF OIL AND GAS AFFECT YOUR ROYALTIES

Sale 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 sale prices go up or down.

CHANGES IN SALES VOLUME

The well(s) on your lease may not produce enough oil every month to sell; the lease operator may store small amounts of oil from your well until there is enough to fill up a truck and sell.

Trucks may not be able to pick up production due to inclement weather and poor road conditions.

The operator may temporarily stop production due to lower summer demands for natural gas and heating oil.

Repairs may be needed at the well site; this requires the well to be shut-in until a workover is complete.

CORRECTIONS TO PREVIOUS REPORTS AND PAYMENTS

The company may have previously paid you too little or too much in royalties. If an underpayment was made, your royalty payment will go up when the company pays you the difference. If an overpayment was made, your royalty payment will go down when the company deducts the difference from your current royalties. In this case, the company can only recoup up to 50 percent of your current monthly royalties until it regains the money you were overpaid. The company may have made an estimated payment. See Estimated Payments Example.

Overpayment Reduction Example:

- Original royalties for oil sold in April 2015. Below is how it appears on the June 2015 Explanation of Payment. A total of $1,440.00 went to the lease and your share amount is $90.00. ($8,000 x .18 = $1,440.00) ($1,440.00 x 0.0625 = $90.00)

Payor	Transaction	Adjustment	Product	Month Sold	Volume Sold	x	Price	=	Total	x	Allotment Share	x	Royalty Rate	x	Undivided Ownership	=	Your Share
QEP ENERGY COMPANY	Royalty		Sweet Oil	Apr-15	200.00		$40.00		$8,000		1.00000000		0.18000		0.0625000000		$90.00

- Royalties for oil sold in May 2015 and shown on July 2015 Explanation of Payment. $2,250.00 and your share of that amount is $140.00. ($12,500.00 x .18 = $2,250.00) ($2,250.00 x 0.0625 = $140.63)

Payor	Transaction	Adjustment	Product	Month Sold	Volume Sold	x	Price	=	Total	x	Allotment Share	x	Royalty Rate	x	Undivided Ownership	=	Your Share
QEP ENERGY COMPANY	Royalty		Sweet Oil	May-15	250.00		$50.00		$12,500		1.00000000		0.18000		0.0625000000		$140.63

Overpayment Reduction:

- April 2015 royalties overpaid by $1,000.00
- Company sets up a recoupable balance of $1,000.00
- Royalties recouped cannot exceed 50 percent of current month’s royalties.
- Recouped April 2015 royalties $62.50 (Recoupable balance $1,000.00 x .0625 = $62.50)

Payor	Transaction	Adjustment	Product	Month Sold	Volume Sold	x	Price	=	Total	x	Allotment Share	x	Royalty Rate	x	Undivided Ownership	=	Your Share
QEP ENERGY COMPANY	Overpayment Reduction			Apr-15	0.00		$0.00		-$1,000.00		1.00000000		0.00000		0.0625000000		(-$62.50)

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

Your uncle may have inherited other interests associated with the 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.

To verify your interest in this allotment, your first contact should be the BIA area or agency office. Ownership records are kept and maintained by the BIA. The BIA would review these records to fully answer your questions.

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

Your lease was probably issued at a different time than your neighbor's. 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 1/2 percent) royalty rate. Since then, most Indian leases have been issued for 1/6 (16 2/3 percent). 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 the BIA area or agency office. The BIA retains the original lease files and lease sale announcements. Your royalty rate is documented in these files.

Why does my Explanation of Payment Report show negative amounts?

Negative amounts on your EOP are usually adjustments or allowances. Oil and gas companies report these amounts to ONRR when they make royalty payments. At the bottom of your EOP there are Adjustment Reason Codes, Transaction Codes, and Product Codes to explain each transaction.

Adjustments

A company must correct any errors it makes on a royalty report. To do so, it reports the originally reported incorrect amount as a negative and then the correct amount as a positive on a later report. Adjustments are associated with the corresponding sales month allowing you to track each one. Both negative and positive entries appear on your EOP in the "Adjustment" column. The difference between the two adjustments can result in more or less royalties.

ONRR may also find errors in the company's reporting through one of its verification processes or through its audit and compliance program. ONRR directs companies to correct their errors which you can then view on your EOP.

Allowances

Oil and gas companies are allowed to deduct the costs of transporting oil or gas by pipeline or truck from royalties. Transportation costs are deducted using negative entries.

Likewise, companies can deduct processing or manufacturing costs to extract liquid gases such as butane or propane and to remove impurities from gas. Processing costs are deducted using negative entries.

Estimated Payments

Royalty payments are required by the end of the month following the month the product was sold, per the lease terms. However, companies may make an estimated royalty payment to avoid late payment charges and ensure that you **receive a payment when royalties are due**. An estimated payment **should equal or exceed** the actual royalties that would otherwise be due.

Once a company has established an estimated payment balance, the actual royalties report filed at the end of the second month can be used to adjust the estimated balance.

A company may adjust estimated balances at any time. However, negative adjustments cannot exceed 50 percent of the current month's royalties.

Estimated Payments Examples: These are not all following the same example.

- The company is estimating $30,000.00 in royalties for the month of May 2016. The owner has now been paid for May 2016 royalties. Your share is $15,000.

Payor	Transaction	Adjustment	Product	Month Sold	Volume Sold	x	Price	=	Total	x	Allotment Share	x	Royalty Rate	x	Undivided Ownership	=	Your Share
EOG RESOURCES INC	Estimate	Estimate		May-16	0.00		$0.00		$30,000.00		1.00000000		0.00000		0.5000000000		$15,000.00

Actual Example:

- ONRR receives a detailed report for May sales showing actual royalties were $24,012.00. This now makes your share $12,006.00.

Payor	Transaction	Adjustment	Product	Month Sold	Volume Sold	x	Price	=	Total	x	Allotment Share	x	Royalty Rate	x	Undivided Ownership	=	Your Share
EOG RESOURCES INC	Royalty		Sweet Oil	May-16	2,668.00		$50.00		$133,400.00		1.00000000		0.180000		0.5000000000		$12,006.00

Adjustment Example:

- Looking at the same August 2016 Explanation of Payment we notice a negative amount or recoupment for the June 2016 sales month. The company decided to lower the balance of their estimate.

Payor	Transaction	Adjustment	Product	Month Sold	Volume Sold	x	Price	=	Total	x	Allotment Share	x	Royalty Rate	x	Undivided Ownership	=	Your Share
EOG RESOURCES INC	Estimate	Estimate		Jun-16	0.00		$0.00		-$10,000.00		1.00000000		0.00000		0.5000000000		($5,000.00)

Why does my Explanation of 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 appear in the adjustment column of the EOP as negative entries. 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 (positive entry) is lower than what was previously reported, your overall payment may be smaller than what you would otherwise have received and vice versa.

Positive Adjustments Example:

- In this example, the original line would be found on the Explanation of Payment.

Payor	Transaction	Adjustment	Product	Month Sold	Volume Sold	x	Price	=	Total	x	Allotment Share	x	Royalty Rate	x	Undivided Ownership	=	Your Share
EOG RESOURCES INC	Royalty		Sweet Oil	Jul-15	2,000.00		$43.00		$86,000.00		1.00000000		0.18000		0.0200000000		$309.60

- The price per barrel was $43.00 and was adjusted to $44.50. The adjusted price changes the total and increases your share from $309.60 to $320.40.

Payor	Transaction	Adjustment	Product	Month Sold	Volume Sold	x	Price	=	Total	x	Allotment Share	x	Royalty Rate	x	Undivided Ownership	=	Your Share
EOG RESOURCES INC	Royalty	General	Sweet Oil	Jul-15	-2,000.00		$43.00		-$86,000.00		1.00000000		0.180000		0.0200000000		($309.60)
EOG RESOURCES INC	Royalty	General	Sweet Oil	Jul-15	2,000.00		$44.50		$89,000.00		1.00000000		0.18000		0.0200000000		$320.40

Negative Adjustments Example:

- In this example, the original line would be found on the Explanation of Payment.

Payor	Transaction	Adjustment	Product	Month Sold	Volume Sold	x	Price	=	Total	x	Allotment Share	x	Royalty Rate	x	Undivided Ownership	=	Your Share
EOG RESOURCES INC	Royalty		Sweet Oil	Jul-15	2,000.00		$43.00		$86,000.00		1.00000000		0.180000		0.0200000000		$309.60

- The volume sold was adjusted from 2,000 to 1,000. The adjusted volumes will change the total sales and your share from $86,000.00 totals sales to $43,000.00 and then will affect your share from $309.60 to $154.80.

Payor	Transaction	Adjustment	Product	Month Sold	Volume Sold	x	Price	=	Total	x	Allotment Share	x	Royalty Rate	x	Undivided Ownership	=	Your Share
EOG RESOURCES INC	Royalty	General	Sweet Oil	Jul-15	-2,000.00		$43.00		-$86,000.00		1.00000000		0.180000		0.0200000000		($309.60)
EOG RESOURCES INC	Royalty	General	Sweet Oil	Jul-15	1,000.00		$43.00		$43,000.00		1.00000000		0.18000		0.0200000000		$154.80

Why are companies allowed to deduct transportation costs from my royalties?

Oil and gas is moved from the lease by truck or pipeline. The lease terms may allow companies to deduct the reasonable and actual costs of moving oil and gas to markets.

ONRR monitors monthly transportation allowances taken by companies to ensure deductions are reasonable and within regulatory limits. ONRR also verifies the accuracy of these deductions in the course of their compliance reviews and/or audits.

Transportation Example:

Payor	Transaction	Adjustment	Product	Month Sold	Volume Sold	x	Price	=	Total	x	Allotment Share	x	Royalty Rate	x	Undivided Ownership	=	Your Share
XTO ENERGY INC.	Transportation		Sweet Oil	Apr-15	0.00		$0.00		-$228.04		1.00000000		0.00000		0.0215277800		($4.90)

Why is the 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.

Processing Example:

Payor	Transaction	Adjustment	Product	Month Sold	Volume Sold	x	Price	=	Total	x	Allotment Share	x	Royalty Rate	x	Undivided Ownership	=	Your Share
XTO ENGERGY INC.	Processing		Plant Liquids	Dec-16	0.00		$0.00		-$525.96		1.00000000		0.000000		0.0000578703		($0.03)

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 the 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 unitization. An operator who wants to drill an oil and gas well on Indian lands must apply to BLM for approval and comply with the spacing requirements.

HOW DO STATE SPACING REQUIREMENTS AFFECT MY INDIAN LEASE?

The State enforces spacing requirements before a well can be approved. This means there must be a certain amount of acreage surrounding the well before it can be drilled. If a lease does not meet the spacing requirement a well cannot be drilled. The BLM is responsible for 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 independent evaluation, the State requirements are not in the best interest of the Indian mineral owner. When this occurs, the 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.

What is a Communitization Agreement and how do spacing requirements lead to them?

If the acreage in your lease is too small to support an independent well according to either the BLM or the State spacing requirements, BLM may require that the lease join other leases in what is known as a Communitization Agreement (CA). A CA ensures that the producing reservoir is not damaged by over drilling. The CA also protects the rights of the participating mineral owners by providing for each to share fairly in the production from the well. Each lease's share is based on the amount of acreage the lease has contributed to the CA.

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 Indian mineral owner, a CA is formed. This agreement allows participating leases 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 CA. If your lease has 160 acres out of a 320 acre CA, it would be allocated 50 percent of production and sales. Royalties are based on sales volume allocated to your lease from the CA.

For example: If you and your neighbor each own a 160 acre lease in a 320 acre CA, you would each have 50 percent of the total acreage. If royalties for the month of May were $100 you would each receive $50, based on your lease's 50 percent interest in the agreement. However, if you share your lease with other owners, that $50 would be further divided according to each owner's percentage.

When leases participate in CAs, 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 from the communitized acreage. 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 older lease terms allow for the recoupment of rent. After you receive the rental payment, the company can recoup 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 until the entire rental amount has been recouped. After that, the company would send monthly royalty payments for any additional sales from your lease through the end of your lease year. Recoupments can only be taken within the current rental year.

If the total royalties for the year are less than the rental payment, 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.

This offsets the amount against the $2,000 already paid to you. At the end of the lease year John Doe Company would have recouped $1,200 of the $2,000 rental payment 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 payment for the next lease year and begin the process again.

Why and how do Unitization Agreements affect my Indian lease?

Your lease may be combined with other Indian, Federal, State, or private leases to form an oil and gas Unitization Agreement. Unitization 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 Unitization Agreements.

A Unitization 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 Unitization Agreement and designate a unitization operator to develop the overall unitization. There are two types of Unitizations: Exploratory and Secondary Recovery.

Exploratory Units

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

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 Units are based on acreage, Secondary Recovery Units are more complicated and are generally based on other factors, in addition to surface acreage.

Benefits of Unitization Agreements

Unitization Agreements offer Indian mineral owners several benefits:

- Production and royalties are shared from any well within the unitization'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 unitization 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 Unitization Agreements affect my Indian lease?

Unitization 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. Unitization Agreements combine 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 Unitization Agreement and designate a unitization 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 type such as Indian, Federal, State and/or private leases.
- Royalty payments are shared among the leases according to their acreage in the Unit's participating area.

ROYALTIES AND PRODUCTION ARE SHARED FAIRLY

Unitization 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 Unitization Agreement's participating area.

The Bureau of Indian Affairs (BIA) approves Unitization Agreements on Indian Trust land. If your property is within the area covered by a proposed Unitization Agreement, the BIA will ask the BLM to determine if you would benefit from your lease being included in a Unit.

How do Secondary Recovery Unitization Agreements benefit my Indian lease?

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

Unitization 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. Unitization Agreements may include Indian, Federal, State, and/or private leases and enable 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 Unitizations 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 Unitization, you will generally receive royalties for a longer period of time than if your lease had not been a part of a Unitization.

If your property is within a proposed Unitization Agreement, the BIA will have the BLM determine whether or not you will benefit from your lease being 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 Unitization is formed. If it is converted from the existing Exploratory Unitization, the production and royalties are generally shared on a surface acreage basis, the same as for the original Unitization.

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 Unitization Agreement will spell out how production and royalties will be shared.

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

You can contact the BIA to find out if your lease is part of a Unitization 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:

- What is a Communitization Agreement and how do spacing requirements lead to them? – Page 18
- How do Exploratory Unitization Agreements affect my Indian lease? – Page 21
- How do Secondary Recovery Units benefit my Indian lease? – Page 22

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

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:

- What is a Communitization Agreement and how do spacing requirements lead to them? – Page 18
- How do Exploratory Unitization Agreements affect my Indian lease? – Page 21
- How do Secondary Recovery Unitizations benefit my Indian lease? – Page 22

Do I have to wait until a scheduled bi-monthly distribution date to receive my royalties?

Yes. ONRR does not distribute royalties between scheduled bi-monthly distribution dates. For example, if royalties were received by ONRR and those royalties did not make the first bi-monthly distribution date, you will have to wait until the second scheduled bi-monthly distribution date to receive your royalties. ONRR and the OST in collaboration, prepare the distribution schedule.

Contact Information

Denver Office
1-800-982-3226

Oklahoma City Office
1-800-354-7015

Federal Indian Minerals Office in Farmington, NM
1-800-238-2839

www.onrr.gov

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