

Office of Natural Resources Revenue State and Indian Outreach



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

 @DOIONRR

 facebook.com/doionrr

www.onrr.gov

Table of Contents

What is the Department of the Interior doing to ensure I am getting my entitled royalties?	4
Does the Federal Government deduct a fee for managing my mineral interests?.....	4
How much time will it take to get my royalty payment?.....	5
Who collects my royalty payments from oil and gas companies?	6
How are royalties calculated on a single or “stand-alone” lease?	7
How are royalties calculated on a lease within a Communitization Agreement?	7
What should I do if I don’t receive my royalty check as expected?	8
Why are my royalties lower now?	8
Why do my royalty amounts change from month to month?	9
Why does my uncle receive twice as much royalty as I do on the same property?.....	10
Why is my royalty rate different than my neighbor’s?	10
Why does my Explanation of Payment Report show negative amounts?	10
Why does my Explanation of Payment Report show adjustments that reduce my payment?	12

Why are companies allowed to deduct transportation costs from my royalties?	13
Why is the company allowed to deduct the costs of processing from my royalties?	13
Why and how do spacing requirements affect my Indian lease?	13
What is a Communitization Agreement and how do spacing requirements lead to them?	14
Why is my rent payment paid and then seems to be taken back?	15
Why and how do Unit Agreements affect my Indian lease?	16
How do Exploratory Unit Agreements affect my Indian lease?	17
How do Secondary Recovery Units benefit my Indian lease?	18
Why do I have to share the royalties from my well and lease with adjoining land owners?	20
Why do I get royalty payments even though I don't have a producing well on my lease?	20

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 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, and reported; and also 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 companies' 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 lease data to make the correct royalty payment amount. A Communitization Agreement will require a detailed review and approval of the leases included.

COMPANIES NEED ONE TO TWO MONTHS

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 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?

The oil and gas industry is very complicated. Many different types of companies are involved in production, distribution, and processing. The various companies involved can include producers, operators of an oil and gas field, 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 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). ONRR notifies the Office of the Special Trustee for American Indians (OST) of the deposits so that OST 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 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 and report would be mailed to you on or about July 14). Your Explanation of Payment (EOP) Report will then follow. Royalty payments and interest earned are listed on your EOP. Usually, you will receive only one payment and statement per month. There is a second distribution near the end of the month for royalty lines that could not be 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 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?

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

provide your Explanation of Payment (EOP) Report. The EOP is issued by OST. You can use this report to help understand your royalty payments.

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?

You should first contact the Bureau of Indian Affairs (BIA) area or agency office that maintains 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:

- 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 may have changed, which may delay reports and payments.
- You may have moved without informing BIA and the Office of Special Trustee for American Indians (OST) 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 that require the well 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 royalty. If an underpayment was made, your check will go up when the company pays you the difference. If an overpayment was made, your check will go down when the company deducts the difference from your current royalties. In this case, the company can only hold back up to 50 percent of your monthly royalties until it regains the money it overpaid you.
- The company may have made an estimated payment. For more information see: Why does my Explanation of Payment Report show negative amounts?

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.

To verify your interest in this allotment, your first contact should be your Bureau of Indian Affairs (BIA) area or agency office. Ownership records are kept and maintained by BIA. They 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 your Bureau of Indian Affairs (BIA) area or agency office. 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 Explanation of Payment (EOP) Report 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 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 for you.

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. 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 from the lease. 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% of the current month's royalties.

Example:

Sales Month: May 2010 (Royalties due June 30 to ONRR)

- June 30 ONRR receives an estimated payment of \$12,000 for May 2010 sales.
- July 14 OST & BIA distribute \$12,000 estimated payment to the mineral owners. The owners have now been paid for May 2010 royalties. Details of those royalties will be reported at the end of July.
- July 31 ONRR receives a detailed report for May sales showing actual royalties were \$9,354. The company uses that report to replenish the estimated balance back to \$12,000 by paying an amount equal to the actual, calculated royalties for May. In this case \$9,354.
- Aug. 11 OST & BIA distribute \$9,354 to the owners. The owners again have \$12,000 as an estimated balance against June royalties. June royalties have been paid on time based on this payment and balance.
- Aug. 31 ONRR receives a detail report of June 2010 sales showing that actual royalties were only \$5,292. On this report, the company also decides to lower the balance of their estimate. They are limited to a maximum adjustment of 50% of the current reported royalties ($\$5,292 \times 50\% = \$2,646$), so they reduce the estimated balance by that amount and submit a payment to replenish the balance to the new, adjusted balance of \$9,354. ONRR receives a payment of \$2,646. July royalties have been paid and the company is estimating that they will not exceed \$9,354 when the detail is reported at the end of September.
- Sept. 8 OST & BIA distributes \$2,646 to the mineral owners.

Note: Current estimated payment balance is now \$9,354 ($\$12,000 - \$5,292 + \$2,646$). The recoupment is 50% of the royalties paid in the current month. The estimated payment balance is now equal to or greater than the estimated July royalties.

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 Explanation of Payment Report as negative lines. 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.

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

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 where the price of oil and gas is higher than at the well site.

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

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. 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 the Bureau of Land Management (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 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. BLM is responsible for overseeing and monitoring the technical oil and gas operations on Indian leases. 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, 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 BLM or State spacing requirements, BLM may require that the lease join other leases in what is known as a Communitization Agreement (CA). A CA will ensure that oil and gas lands are produced so 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 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. Your lease has 160 acres out of a 320 acre CA, so it would be allocated 50% 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 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 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 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 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

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 Unit are based on acreage, Secondary Recovery Units are more

complicated and are generally based on other factors, in addition to surface acreage.

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. Unit 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 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 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

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 will have the Bureau of Land Management 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 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 Bureau of Indian Affairs area or agency office to find out if your lease is part of a 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:

- What is a Communitization Agreement and how do spacing requirements lead to them?
- 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 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?
- How do Exploratory Unit Agreements affect my Indian lease?
- How do Secondary Recovery Units benefit my Indian lease?

*****NOTES*****
