



**Indian Oil and  
Gas Canada**

**Pétrole et gaz des  
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## **Information Letter**

### **Calculating Royalties Relating to Crude Oil Produced from Indian Reserves**

#### **A. Introduction**

The purpose of this Information Letter is to provide an overview of the oil royalty calculation process for companies (lessees) who have entered into subsurface contracts, normally lease agreements, with Indian Oil and Gas Canada (IOGC) and for companies who are paying oil royalties to IOGC (royalty payers) on behalf of these lessees. More detailed information on specific aspects of the calculation process can be found in other Information Letters referred to in this document.

#### **B. Background**

Indian Oil and Gas Canada is a Special Operating Agency within the Department of Indian Affairs and Northern Development responsible for administering the *Indian Oil and Gas Act* ("Act") and the *Indian Oil and Gas Regulations, 1995* ("Regulations"). The Regulations allow the Executive Director of IOGC to enter into contracts (a permit, lease, surface rights contract) with corporations or individuals. It is a condition of every contract that the lessee or royalty payer will comply with the applicable provisions of the Act and Regulations. Subsection 33(1) of the Regulations requires that a lessee "...pay a royalty on all oil and gas obtained from or attributable to a lease area in the preceding month, in an amount calculated in accordance with Schedule I." This is referred to as a "Regulation Royalty."

Subsection 33(1) also states that lessees may enter into "...a special agreement under subsection 4(2) of the Act." These subsurface agreements allow the parties (the lessee, the applicable Indian band and IOGC) to negotiate royalty terms which vary from those specified in the Regulations. These royalties are referred to as "Non-Regulation Royalties."

Lessees/royalty payers are required to calculate and pay either Regulation or Non-Regulation oil royalties to IOGC by the 25<sup>th</sup> day of the month following the month of production, unless otherwise specified within the terms and conditions of the lease.

### **C. Regulation Oil Royalties**

Regulation oil royalties are calculated in accordance with monthly production tables and royalty formulas contained in Schedule I of the Regulations. These tables and formulas are included as Appendix 1.

Subsurface contracts with Regulation Royalty provisions are a declining proportion of the total number of contracts negotiated in the past 20 years because the royalty payments under such contracts are significantly higher than those required by other jurisdictions for wells or units with the same production volumes and oil prices.

### **D. Non-Regulation Oil Royalties**

Subsurface contracts containing royalty provisions which vary from those contained in Schedule I of the Regulations have been the normal situation at IOGC for many years. These provisions are often based on either the province of Alberta or the Province of Saskatchewan provincial oil royalty regimes with or without modification. Where modifications occur, they normally relate to a percentage factor applied to the provincial royalty rate.

### **E. The Oil Royalty Submission**

An Oil Royalty Submission (ORS) is to be sent by a royalty payer to IOGC to report the oil royalty due and payable for a production month from an oil production entity (either a well or a unit) located on First Nation lands pursuant to the royalty terms of a subsurface contract. A separate submission is required to report gas and gas product royalties. All submissions are to be made in accordance with the Electronic Royalty Data Submission User Manual located on the IOGC Web site at [www.iogc.gc.ca](http://www.iogc.gc.ca).

IOGC will verify the information reported on the ORS and issue an assessment for any differences between the submitted and verified oil royalties payable.

An oil royalty submission is made for each oil royalty entity on First Nation lands where oil is produced in the month. An oil royalty entity is a code number (IOxxxxx) assigned by IOGC to each royalty payer to report the production and royalty relating to a particular well or unit.

## F. Basic Formulas for Calculating Indian Oil Royalties

The general formulas can be described as follows:

Gross Royalty = Total Oil Volume Produced from a well or unit x the Royalty Payer Indian Interest in the well or unit x the Gross Oil Royalty Rate x the Oil Price

Net Royalty = Gross Royalty less Any Allowed Deductions

## G. Calculating the Gross Royalty on Oil

**Total Oil Volume Produced** is the production volume reported by the royalty payer to the applicable provincial regulatory authority. These authorities are called the Petroleum Registry of Alberta, the Oil and Gas Commission of British Columbia and Saskatchewan Industry and Resources. IOGC receives the reported volumes from a third party on a monthly basis.

**Royalty Payer Indian Interest** is the First Nation interest in the production entity well or unit attributable to the royalty entity expressed as a percentage.

**Gross Oil Royalty Rate** is the rate calculated in accordance with the royalty provisions of the applicable subsurface contract. As noted in sections C and D above, these rates are either Regulation or Non-Regulation in nature.

**Oil Price** is the price, in dollars per cubic metre, specified in the subsurface contract. In most cases this is the actual sales price at the production battery.

Various types of costs cannot be deducted from the oil price to determine the price reported on the ORS. The most significant of these are as follows:

- a) marketing and commission fees
- b) financial or commodity hedging costs or losses
- c) oil trucking costs

For further information on oil prices, refer to the Information Letter entitled "[Calculating the Price of Crude Oil Produced on Indian Reserves.](#)"

## H. Calculating the Net Royalty on Oil

Deductions from the Gross Royalty can only be made if they are specifically permitted in the subsurface contract. As an example, some contracts state that no deductions from Gross Royalties are allowed while others allow the deduction of the cost of trucking clean oil from the production tankage to the nearest available pipeline.

**I. Failure to Comply**

Failure to comply with the requirements specified in this Information Letter or the related Appendix will result in the process specified in Section 46 of the Regulations being initiated. A Direction to Comply letter will be sent to the lessee. If the lessee fails to diligently remedy the deficiencies noted in the Direction to Comply letter, IOGC may take a range of actions, including cancelling the subsurface contract, based on the facts of each case.

**J. Contact Person at IOGC**

Any questions relating to this Information Letter should be directed to:

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