U.S. Department of the Interior
Minerals Management Service
Office of Communications

SPECIAL INFORMATION

FOR RELEASE: August 11, 1997

CONTACT: Michael L. Baugher
(303) 231-3162
Anne-Berry Wade
(202) 208-3985

MMS ON SCHEDULE WITH AUDITING CALIFORNIA OIL COMPANIES
BILLS ISSUED FOR $345.5 MILLION

The U.S. Department of the Interior's Minerals Management Service announced today that it has met its one-year commitment to complete audit and billing efforts, to the extent that records were made available, against major California oil producing companies for alleged underpayments of royalties. In July 1996, the MMS began the audit and collection effort in response to an inter-agency task force report which addressed longstanding undervaluation of Federal crude oil produced in and offshore California.

The MMS has billed 19 companies, for a total of $345.5 million in underpayment of royalties dating back to 1980. These bills are subject to adjustments for allowable transportation costs and are premised upon data contained within the MMS data systems. All of these bills have been appealed by the oil companies. Pursuant to the Royalty Simplification and Fairness Act, each appeal must be administratively settled within 33 months.

Summary information entitled *One Year Status Report: California Crude Oil Valuation and Audit Initiative*, is attached.

MMS is the federal agency that manages the Nation's natural gas, oil and other mineral resources on the OCS, and collects, accounts for and disburses about $4 billion yearly in revenues from offshore federal mineral leases and from onshore mineral leases on federal and Indian lands.

-MMS-

ATTACHMENTS: ONE YEAR STATUS REPORT
CALIFORNIA CRUDE OIL VALUATION AND AUDIT INITIATIVE

BACKGROUND

In June 1994, the Department of the Interior commissioned an interagency team to address possible underpayment of royalties on federal crude oil produced in and offshore California. The team issued its report in June 1996, and concluded that companies often received gross proceeds higher than the posted prices used as the bases for calculating royalties. This resulted in estimated underpayments of royalties and interest of as much as $856 million.

MMS analyzed the team's report and accepted its conclusions except it re-estimated the underpayments to be about $440 million. The reduction in estimated underpayments was primarily due to removing the substantial volumes that the federal government took as royalty in kind and those volumes included in previously negotiated settlements.

In July 1996, the MMS initiated an audit and collection effort targeting the top 20 producers in California, which collectively accounted for about 97 percent of the oil production in and offshore California, for the period from 1980 through 1995. Further, the MMS committed to complete the total project in one year.

The producers were divided into two groups--integrated, those who produced and refined oil; and non-integrated, those who only produced and sold oil. The valuation criteria used for the integrated producers was to apply the Alaska North Slope oil value, adjusted for transportation and quality at Los Angeles, for the period through early 1988 and gross proceeds thereafter. The non-integrated producers' oil was to be valued at the total gross proceeds for the entire period instead of the posted prices commonly used for royalty value.

Of the companies originally targeted, 15 audits are complete; one audit was canceled because the company was not an interest owner for California production; three audits are delayed due to litigation; and one company remains under audit by the State of California.

TOTAL ROYALTIES AND INTEREST BILLED--CURRENT BALANCE

The amount of the original bills totals $435.6 million. However, reductions of $90 million for adjustments and various other corrections leave a net outstanding balance of $345.5 million.

INTEGRATED COMPANIES

-For periods before March 1988, a comparison of posted prices (generally the basis these companies used to pay royalties) to Alaska North Slope prices has been completed. Bills totaling $381.8 million were issued to integrated companies in October and December 1996. These bills are subject to adjustment for allowable transportation costs and were premised upon data contained within MMS data systems.

-For periods after February 1988, a gross proceeds comparison has been completed. Bills totaling $45.5 million have been issued. These bills are also subject to adjustments for allowable transportation costs.

-All bills issued to integrated companies have been appealed.

-Net adjustments totaling $90 million have been made to correct or adjust for duplicate data, incorrect lease interest owner (s), reclassification of one company from integrated to non-integrated, and other miscellaneous corrections.

NON-INTEGRATED COMPANIES

An estimated bill subject to adjustments for transportation was issued to one company for $3.8 million. Most other non-integrated companies were in compliance--either they did not receive premiums or paid on those received.

SUBPOENAS ISSUED FOR RECORDS

Shell and MMS have agreed upon a schedule for Shell to comply with the records subpoena. The completion of the audit is scheduled for December 1997. Subpoenas issued to Mobil and Oxy have been referred to the Solicitor and the Department of Justice for enforcement proceedings.

LITIGATION

Mobil Exploration & Producing U. S. Inc. and Occidental Oil and Gas Corp. v. Babbitt, No. 96-C-790-K (N.D. Okla. filed 8/27/96).

This case contested MMS's letters and subpoenas for certain documents. The United States filed for dismissal because the actions being contested were not final agency actions and requested that in the alternative, the court enforce the subpoenas. Decision is pending.

Oxy USA, Inc. and Mobil Exploration & Producing U. S. Inc. V. Babbitt. No. 96-CV-1067-K (N.D. Okla. filed Nov. 19, 1996) and Shell Oil Co. V. Babbitt, No. 96-CV-1078-H (N. D. Okla. filed Nov. 21, 1996).

Plaintiffs challenged MMS's orders to pay additional royalties. The United States filed for dismissal because the plaintiffs had not exhausted their administrative remedies. Decisions are pending.

NATIONAL CRUDE OIL STRATEGY

In addition to the actions taken on the undervaluation issue in California, MMS is also actively pursuing similar oil valuation issues in other states and on the Outer Continental Shelf. Specifically, in June 1996, MMS issued revised valuation guidance to its auditors explicitly stating that premiums received by lessees or their affiliates are to be more aggressively sought out in determining gross proceeds to which royalty applies. Audit personnel have also been instructed to hold open the most recent audit period and to emphasize these oil valuation issues in all audits.

In August 1996, MMS began implementing its plan for federal and Indian leases in states other than California. Unlike the California effort, the National Strategy focuses on the more current periods but is not necessarily limited to only the most recent 6-year period.