MMS

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MMS RELEASES FINAL REPORT ON FEASIBILITY OF ROYALTY IN KIND PROGRAMS

Today, the U.S. Department of the Interior's Minerals Management Service (MMS) released the final report of its 1997 Royalty in Kind Feasibility Study Team, which assesses the potential for the United States to take its oil and natural gas "royalties in kind." The RIK study is part of MMS' continuing examination of potential improvements to the Nation's mineral royalty management program.

The U.S. has traditionally received most of its royalties "in value" as a cash percentage of the sales proceeds realized by producers. However, most federal mineral leases contain a provision that permits the government to receive its royalty share "in kind," that is, by taking volumes of oil or natural gas equal to the royalty percentage. MMS exercised this provision for the first time in history during a 1995 natural gas marketing pilot in the Gulf of Mexico.

Commenting on today's announcement, MMS Director Cynthia Quarterman stated, "We are excited about the potential for RIK programs to both streamline the royalty reporting and auditing process and to enhance revenues to the U.S. treasury. Adoption of RIK programs could be beneficial to producers, marketers, States, and, most importantly, the taxpayer. However, more detailed analyses are required before we can commit to the next step, which would be one or more pilot projects to test the hypotheses."

The study concludes that, if implemented correctly, RIK programs could be workable, revenue positive, and administratively more efficient for all parties, where appropriate. MMS may be able to realize value enhancements from aggregating and fully marketing gas production at down-stream production centers. The report also identifies unfavorable conditions that would reduce chances for successful programs, including legislation reversing any statutory or contractual RIK authorities the federal government currently has.

The report recommends further examining and developing detailed royalty in kind strategies in the following areas: (1) oil production in Wyoming; (2) natural gas production in the Gulf of Mexico; and (3) 8(g) production offshore Texas. The study concludes that an "in kind" program for natural gas from the Gulf of Mexico has the most potential for success because of the magnitude and concentration of supply and production and transportation infrastructures. By contrast, the report does not endorse widespread implementation of RIK programs for crude oil, due to uncertainty in revenue implications.

Before moving forward with the implementation of RIK programs, MMS will take certain steps to confirm that such programs are administratively feasible and fiscally sound. One of the first steps is to conduct a detailed revenue impact analysis that would assess the market risks and costs MMS would face in this new arena. Based on the analyses, decisions will be made on whether to proceed with implementation of a pilot program in a given area.

MMS anticipates working closely in the coming months with its constituents as we begin the practical examination of the feasibility of the report's recommendations.

MMS is the federal agency that manages the Nation's natural gas, oil and other mineral resources on the Outer Continental Shelf and collects, accounts for, and disburses over $4 billion in revenues each year from offshore federal mineral leases and from onshore mineral leases on federal and Indian lands.