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U.S. Department of the Interior
Minerals Management Service
Office of Public Affairs

NEWS RELEASE

FOR RELEASE: August 14, 2003

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MMS and Louisiana Launch 'Royalty-in-Kind' Pilot

A new chapter in Federal-State cooperation began this month when the Interior Department's Minerals Management Service awarded sales contracts for royalty volumes of crude oil produced from certain Federal offshore leases in the Gulf of Mexico.

The contracts were awarded August 8 as part of a joint pilot project between MMS and the State of Louisiana. The pilot project will test the potential for sales of royalty in kind (RIK) oil and gas to increase revenues and decrease administrative costs from managing mineral royalties resulting from production from leases within the 8(g) zone offshore Louisiana. In conjunction with the pilot project, MMS and the State of Louisiana have also signed a Memorandum of Understanding based on joint decision-making on all aspects of commercial sales of RIK energy commodities.

"This joint effort represents a true partnership between the Federal government and the State of Louisiana," said MMS Director Johnnie Burton. "It provides the State with a more active role in managing its oil resources while protecting State and taxpayer interests."

Burton's sentiments were shared by Louisiana Department of Natural Resources Secretary Jack Caldwell. "For many years the state had considered the potential for enhancing royalty revenues by taking royalty in kind," Caldwell said, "but had never devoted the resources required for an adequate test. Through this partnership with MMS, however, the state will gather both knowledge and experience at little cost." Caldwell added, "This experience will hopefully lead Louisiana to better-informed decisions regarding royalty in kind from state lands and water bottoms."

Sales contracts were awarded to ChevronTexaco and Shell Trading for royalty volumes from four offshore receipt points totaling more than 1,100 barrels per day of Heavy Louisiana Sweet grade crude oil. Physical deliveries will begin October 1, 2003, for an initial six-month term. Subsequent solicitations are anticipated for potential future sales transactions.

These contracts represent another milestone by MMS to more efficiently manage royalty revenues from crude oil and natural gas from Federal leases. Historically, most of those revenues have been received in the form of “royalty in value” cash payments made by those who lease and produce minerals on Federal lands.

Since the mid-1990s, MMS has been conducting feasibility studies and pilot projects to determine if RIK is in the Nation’s best interests. Based on these projects, MMS has determined that RIK will be an integral part of its approach to manage mineral royalties to be used in tandem with royalties in value. Among the objectives of the effort are maximization of taxpayer assets, reduction of regulatory costs and reporting requirements, and improvement of overall business efficiencies.

MMS is the federal agency responsible for managing the nation’s oil, natural gas, and other mineral resources on the Outer Continental Shelf in federal offshore waters. It also collects, accounts for, and disburses mineral revenues from federal and American Indian lands. Revenues collected by MMS from royalties, rents, bonuses and other sources from federal onshore and offshore leases are distributed to the U.S. Treasury; to the Land and Water Conservation Fund for the acquisition and development of state and federal park and recreation lands; to the National Historic Preservation Fund and the Reclamation Fund; to individual states where the leases are located; and to Indian tribes and individual allottees. Those revenues totaled more than $6 billion in 2002 and more than $127 billion since the agency was created in 1982.

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MMS Internet website address: **http://www.boem.gov**