The NewsRoom
Release: #.3569
Date: October 23, 2006

RIK Gas Sale Nets 13 Contracts

Ten Companies Awarded Gulf of Mexico Gas

DENVER – More than 114 billion cubic feet of natural gas has been successfully sold in an unrestricted Royalty in Kind (RIK) gas sale conducted by the Department of the Interior's Minerals Management Service (MMS).

The sale, concluded in mid-October, provides for a total over the term of the contract of approximately 114.8 billion cubic feet of RIK gas, or some 340,150 MMBtu (Million British Thermal Units) per day, to be delivered over five-month or 12-month terms. The gas, to be delivered beginning Nov. 1, 2006, to 13 offshore pipeline systems originating in the Gulf of Mexico, is destined for consumer and industry use in the continental United States.

That volume of gas is enough to supply the average gas needs of nearly 1.5 million U.S. homes for one year.

Ten companies were awarded contracts for the 13 sales packages that were offered. Winning bidders included Sequent Energy Management, LP; Chevron Natural Gas; ConocoPhillips Inc.; Constellation Energy Commodities Group Inc.; National Energy and Trade, LLC; Conectiv Energy Supply Inc.; Total Gas & Power North America Inc.; Trammo Petroleum Inc.; United Energy Trading, LLC; and Williams Power Company.

The domestic gas market offered an enthusiastic response to the sale, with 15 companies aggressively tendering a record 155 offers for the RIK gas.

The gas sold in the unrestricted sale involves an aggregation of gas royalties taken "in kind," in the form of product, rather than in value or cash payments, from offshore Federal leases in the Gulf of Mexico. The gas is then sold competitively in the open marketplace. The Royalty in Kind program aims to improve government efficiencies, reduce regulatory costs and reporting requirements, shorten the compliance cycle, and ensure a fair return on the public's royalty assets. To date, the program has successfully reduced administrative costs and provided significant revenue uplifts in previous sales.

The October RIK sale also marked another chapter in Federal-State cooperation. For the first time, gas from leases offshore Alabama in the Federal 8(g) zone was included in the sale, as was gas from Federal leases offshore Louisiana and Texas.

MMS and the State of Alabama reached agreement last month to add the gas to this month's sale. Gas from the 8(g) zones offshore Louisiana and Texas has been included in previous RIK sales.

According to M. Barnett Lawley, Commissioner of the Alabama Department of Conservation and Natural Resources, "The State of Alabama has been considering the use of Royalty in Kind as a means to enhance our state revenues. With this MMS partnership," he said, "we will be able to gain more knowledge and experience while continuing to protect our state interests."

States are entitled to 27 percent of the royalties earned from production that occurs in the Federal 8(g) zone, a 3-mile-wide zone that lies adjacent to the state's seaward boundaries.

Relevant Web Site:
MMS Main Website

Media Contact:
Patrick Etchart 303/231-3162

MMS: Securing Ocean Energy & Economic Value for America
U.S. Department of the Interior