



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

NEWS RELEASE

FOR RELEASE:

May 01, 2002

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Texas Royalty in Kind Gas Nets Market Price

Accepting natural gas in kind or in value can result in the same revenue for the federal government, according to a recently completed analysis by the Minerals Management Service. However, by negotiating a better price for transporting the RIK gas to market, the government can actually net more revenues if the RIK gas is sold in larger market centers.

In June 1999, in coordination with the State of Texas General Land Office, MMS began taking natural gas in kind rather than in value from leases in federal waters adjacent to Texas State waters. The report summarizes and analyzes the results of the first nineteen months of sales during which 28,565,503 million Btu of gas was sold for \$99,620,227. During this time, MMS sold RIK gas at market centers for slightly more than the agency received in value from nearby leases.

“This pilot builds on another RIK pilot completed last year in Wyoming, and successfully demonstrates that, in some circumstances, taking oil and natural gas production in kind is a viable alternative to the traditional method of taking royalties in value,” said MMS Director R.M. “Johnnie” Burton.

MMS has been conducting pilot RIK projects to test the circumstances under which taking oil and gas royalties in kind, rather than in value, makes sense. In the Texas pilot, MMS found that having the option to negotiate transportation contracts to move the RIK gas to market can result in increased revenues.

From the RIK pilots, the MMS has gained valuable information for evaluating future RIK programs. The agency has learned that:

- Selective use of RIK should be at least revenue neutral.
- Lessees can benefit from a reduced administrative burden.
- There is greater certainty for both the lessee and the government because valuation disputes can be avoided.
- RIK does not work in every situation.

The draft Texas 8(g) Gas Royalty In Kind Pilot Report is the result of a feasibility study published by the MMS in 1997 and has been posted on the MMS website where it can be viewed and downloaded. It may be accessed directly at www.mrm.mms.gov under the topic, Royalty-In-Kind. MMS is accepting comments on the report until June 20, 2002.

MMS is the federal agency in the U.S. Department of the Interior that manages the nation's oil, natural gas and other mineral resources on the outer continental shelf in federal offshore waters. The agency also collects, accounts for and disburses mineral revenues from federal and Indian leases. These revenues totaled nearly \$10 billion in 2001 and more than \$120 billion since the agency was created in 1982. Annually, nearly \$1 billion from those revenues go into the Land and Water Conservation Fund for the acquisition and development of state and federal park and recreation lands.

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MMS Internet website address: <http://www.mms.gov>