



Highlights of [GAO-04-448](#), a report to Representative Nick J. Rahall, Ranking Minority Member, House Committee on Resources, and Representative Carolyn B. Maloney

MINERAL REVENUES

Cost and Revenue Information Needed to Compare Different Approaches for Collecting Federal Oil and Gas Royalties

Why GAO Did This Study

In fiscal year 2003, the federal government collected \$5.6 billion in royalties from oil and gas production on federal lands. Although most oil and gas companies pay royalties in cash, the Department of the Interior's Minerals Management Service (MMS) has the option to take a percentage of the oil and gas produced and sell this product—known as “taking royalties in kind (RIK).” MMS has taken royalties in kind continuously since 1998 with the goal of achieving administrative savings while maintaining revenue. GAO attempted to (1) quantify the administrative savings that may be attributable to the RIK sales and (2) compare the sales revenues from RIK sales to what would have been collected in cash royalty payments.

What GAO Recommends

GAO reported on MMS's RIK Program in 2003 and recommended that MMS identify and acquire key information to monitor and evaluate the RIK Program prior to expanding the program further. While MMS has made some progress, it has yet to implement these recommendations. Should the Congress seek more assurance of the level of success of the RIK Program, it might consider directing MMS to establish a systematic evaluation of the revenue impacts of all future sales and to quantify overall changes in the administration of royalty collections. In commenting on the draft report, Interior generally agreed with GAO's observations.

www.gao.gov/cgi-bin/getrpt?GAO-04-448.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Jim Wells at (202) 512-3841 or wellsj@gao.gov.

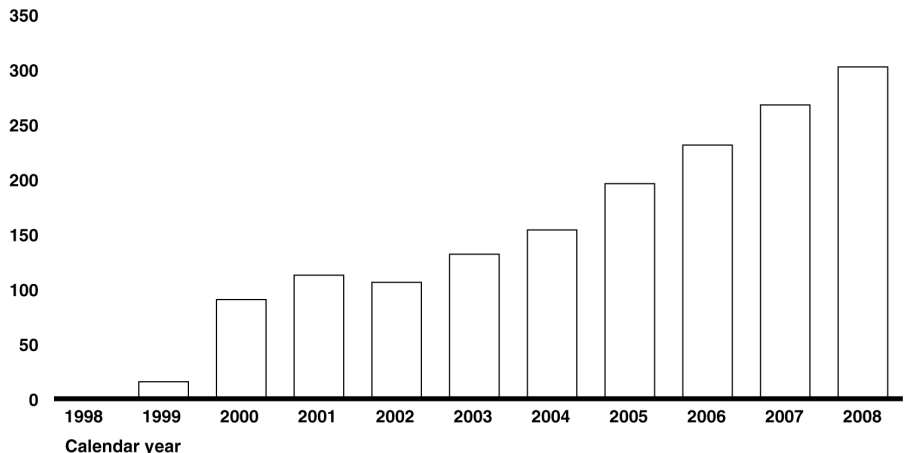
What GAO Found

Although data on administrative savings are limited, there are substantial audit savings attributable to RIK sales, but there are no quantified savings in the overall administration of royalty collections. MMS has anticipated savings in auditing and litigation expenses. While MMS data showed that auditing costs for RIK sales were less than auditing costs for cash sales on a per lease basis, MMS redirected the resources it saved to auditing additional leases. At this time, MMS cannot quantify the benefit from additional auditing. The costs of litigation, which the Solicitor's Office in the Department of the Interior performs for MMS, are not tracked. However, officials with the Solicitor's Office were unable to attribute any savings in litigation to the increased use of RIK and said that future litigation costs are difficult to predict. Finally, MMS must weigh these benefits against additional costs required to conduct RIK sales.

Despite limitations in MMS's analyses and revenue data that prevented a more comprehensive assessment of all RIK sales, our estimate of the revenue impacts from RIK sales in three areas indicates a mixed performance. Specifically, RIK oil sales in Wyoming increased revenues by 2.6 percent, for a gain of \$967,000 on sales of \$37 million. RIK oil sales in the Gulf of Mexico decreased revenues by \$7.2 million, for a loss of 5.5 percent on sales of \$131 million. RIK gas sales in the Gulf increased revenues by \$4 million, for a gain of 2 percent on revenues of \$210 million. However, these sales only represent 11 percent of the gas and 57 percent of the oil that MMS took in kind from inception of the pilots through November 2003. MMS does not analyze all sales because there is no requirement to do so, staff considers existing information on sales sufficient, few staff are assigned to analyzing sales, and MMS management has a lengthy review process for finalizing sales analyses.

Actual and Projected RIK Gas Sales in the Gulf of Mexico

Billions of cubic feet



Source: GAO analysis of MMS data.