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Royalty-in-kind gas sale attracts top bids

Approximately 329,000 MMBtu (million British Thermal Units) of royalty-in-kind (RIK) gas produced from federal leases in the Gulf of Mexico was sold to eight companies during a March sale conducted by the Department of the Interior's Minerals Management Service.

The sale provides for the royalty-in-kind gas to be delivered to 11 offshore pipeline systems originating in the Gulf of Mexico, and destined for consumer and industry use primarily during this summer's cooling season. Deliveries under these sales began April 1, 2004.

"The competition for this sale was extremely strong," said Minerals Management Service Director Johnnie Burton, noting that 17 companies offered a total of 86 bids for the specific sales packages. "Taking this royalty gas in-kind," Burton added, "reduces administrative and operational costs and is a win-win for both industry and government."

Winning companies in this month's sale represented large integrated producers and affiliates of local distribution companies. Winners included Dominion Producers Service Inc., Houston Pipeline Company (HPL), Cinergy Marketing & Trading, Coral Energy, Louis Dreyfus, Bridgeline, BP Energy Co., and ConocoPhillips.

The gas "royalty-in-kind" effort, originally begun as a pilot program in the latter 1990s, continues to provide strong returns to the federal government and taxpayers. Historically, the government collected most royalty revenues in the form of "royalty-in-value" cash payments made by those who lease and produce gas on federal lands. Taking "royalty-in-kind," in the form of product when economics favor its use, allows the government to optimize taxpayer assets, reduce regulatory costs and reporting requirements, and improve overall business efficiencies.

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 American Indian lands. Between 1982 and 2003, MMS distributed more than \$135 billion in revenues from onshore and offshore lands, an average of more than \$6 billion per year, to the Nation, States and American Indians. Nearly \$1 billion from those revenues go into the Land and Water Conservation Fund annually for the development of State and Federal park and recreation lands.

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