



NEWS RELEASE

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

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FOR IMMEDIATE RELEASE
Thursday, June 28, 2007

RIK Report Details \$28.8 Million Revenue Gain

MMS Delivers FY 2006 Results to Congress

DENVER – Increased financial returns, decreased administrative costs, and shortened compliance cycles are among the highlights of a just-released annual report examining the Fiscal Year 2006 performance of the Royalty in Kind (RIK) Program, the Department of the Interior’s Minerals Management Service (MMS) announced today.

“The Report, delivered to Congress on June 26, demonstrates that the RIK Program’s performance continues to outpace the program’s goals,” said acting MMS Director Walter Cruickshank. The Royalty in Kind Program, now in its third year as a fully operational program, allows MMS to take its royalties “in kind,” in the form of product, and competitively sell that product in the open marketplace. Cruickshank noted the objectives of the program are 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.

“Those objectives were met in Fiscal Year 2006,” Cruickshank said, noting that the program generated a revenue gain of \$26.2 million over what would have been received if the government had taken its royalties “in value,” or as cash payments from the producers. Combined with a revenue gain of \$2.6 million in additional interest earned on RIK revenues received five to 10 days earlier than under the Royalty in Value program, a total revenue gain of \$28.8 million was achieved during the last fiscal year.

This follows previous revenue gains of \$18 million and \$32 million in Fiscal Years 2004 and 2005, respectively, over what MMS would have received if it had taken its royalties in value, or as cash payments during those years. Combined with the FY 2006 increase, that translates to a more than \$78 million increase in federal revenues that the RIK Program has generated since it became a fully operational program three years ago.

A total of 75,279,559 barrels of oil equivalent (BOE), valued at more than \$4 billion, was taken in kind and sold by MMS during the previous fiscal year.

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Cruickshank noted that the Gulf of Mexico remains the core source area for RIK sales. As of the end of FY 2006, MMS took in kind approximately 72 percent of the crude oil and 45 percent of the natural gas royalty volumes, produced daily in the Gulf of Mexico. He added that MMS began taking natural gas in kind for Federal gas production in Wyoming in April 2006, at the rate of 30,000 MMBtu (million British Thermal Units) per day.

The MMS and the Department of Energy also will utilize the RIK Program to begin filling the Strategic Petroleum Reserve in July 2007 with an initial 50,000 barrels per day to be taken from the crude oil portfolio.

Cruickshank said MMS will continue to use RIK sales in tandem with royalty in value cash payments, depending upon the particular business case, to ensure a fair return on the public's royalty assets.

The full report can be accessed via the web at:

<http://www.mrm.mms.gov/rikweb/PDFDocs/RIKPRPFY2006.pdf>

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R-07-3675