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## Royalty-in-Kind: Making Every Penny Count for America

On behalf of all Americans, MMS collects, accounts for, and disburses mineral revenues from Federal and American Indian leases one of the largest sources of revenue to the U.S. Federal Treasury. Revenues from mineral leasing on public lands – on or offshore - average more than \$8 billion annually. A key aspect of the revenue collection process is the Royalty-in-Kind (RIK) program, which provides an effective means of realizing the benefits of mineral royalties for the American people in many ways.

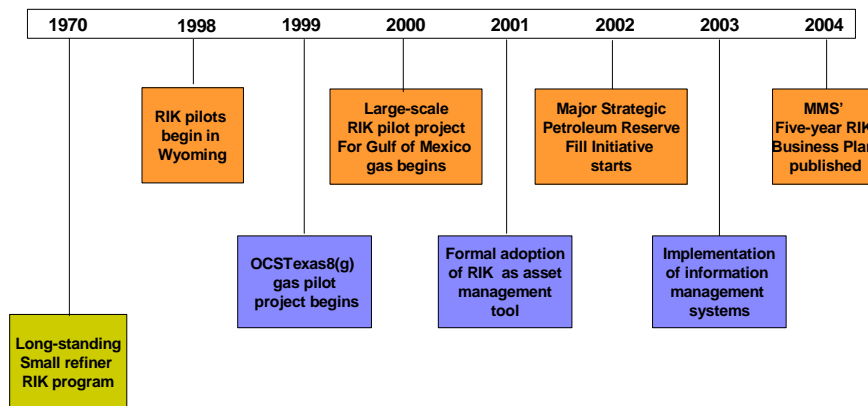
In the RIK program, energy companies pay royalties to MMS in the form of oil or gas production rather than cash. MMS can then sell the oil and gas in the marketplace and disburse the revenues or provide it to the Department of Energy for the Strategic Petroleum Reserve (SPR). The RIK

program provides a cost-effective method of filling the SPR – and keeping it filled – in support of national security and to reduce the impact of any supply interruption. RIK deliveries in 2005 met the goal of filling the SPR to 700 million barrels.

***The overarching goal of the RIK program is to return net revenue of \$50 million to the Federal treasury over a 5-year period.***

In 2004, MMS released its Five-Year RIK Business Plan for fiscal years 2005 to 2009. The plan is designed to actively manage Federal oil and gas royalties in a manner that optimizes returns for the taxpayer and reduces administrative and transactional costs as well. A key aspect of the program is near constant, economic analysis of RIK program performance and sales to make certain that the government receives fair market value.

### Historical Context of RIK in MMS



Changes to the RIK Business Plan include:

- Expansion of natural gas volumes in the RIK program. RIK gas volumes in the program are expected to expand at a rate that is consistent with – or exceeds – the estimated fair market value of natural gas.
- Shortened revenue collection time. RIK revenues are collected in 25 days, compared to 30 days for royalties paid in cash. It is estimated that this “time value of money” saving will result in a benefit to the government of \$2.2 million by FY 2008.
- Speedier transaction cycle time. In FY 2004, MMS estimated that about 80 percent of RIK transactions were reconciled within 180 days. MMS has set a goal of increasing to 89 percent the number of transactions that are completed within 180 days by FY 2008, in the face of increasing RIK sales volumes.

Ongoing, significant, positive aspects of the RIK program are:

- Additional revenue flowing to the Federal Treasury as proven by measurements that consistently indicate increases of 1 to 3 percent over a comparable royalty-in-value program.
- Reduced audit requirements and reduced resource requirements for administrative appeals and litigation.
- Improved working relationships with the oil and gas industry through increased number of reporting requirements and through increased certainty in meeting royalty obligations.

For more information on MMS's Five-Year RIK Plan, contact the Office of Public Affairs at (202) 208-3985 or visit [www.mms.gov](http://www.mms.gov).

