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Royalty in Kind Report Highlights '05 Performance

Revenues up, Administrative Costs and Conflicts Down

DENVER -- Decreased administrative costs and increased revenue of more than $32 million are among the highlights of a recently completed government analysis that examined the Fiscal Year 2005 performance of the Minerals Management Service's Royalty in Kind (RIK) program.

"The Royalty in Kind program continues to deliver solid and measurable benefits to the American taxpayer," director of the Department of the Interior's Minerals Management Service (MMS), Johnnie Burton said. "Through this program, we've been able to improve government efficiency, reduce conflicts with industry, and increase taxpayer returns."

The report, available on the Minerals Revenue Management web site at http://www.mrm.mms.gov, highlights the RIK program's performance during Fiscal Year 2005, the second full year the program was in an operational status after six years of pilot testing.

Historically, the MMS collected the majority of its royalties in the form of cash, or royalty in value (RIV), payments. In the mid-1990s, MMS began exploring whether it was in the nation's best interest to take royalties in kind--in the form of product--and then competitively sell that product in the marketplace.

MMS conducted a series of feasibility studies and pilot projects to test that approach, and in 2004 released the *Five Year Royalty in Kind Business Plan* and moved the program to an operational phase. The business plan incorporated suggestions of the Government Accountability Office and a commercial consultant, and included clear program objectives. The plan also emphasized MMS's commitment to measure program performance and report to Congress on progress in achieving the plan's goals.

During Fiscal Year 2005, a total of 82,364,035 barrels of oil equivalent were taken in kind and sold or exchanged under the RIK program. The RIK oil and gas were valued at approximately $3.7 billion, a 39 percent increase over the FY 2004 value, attributable to markedly higher energy prices in 2005.

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The bulk of the RIK activity occurred in the Gulf of Mexico, where the MMS took in kind approximately 75 percent of the crude oil and approximately 30 percent of natural gas royalty volumes produced daily.

According to Burton, measurement of the RIK revenue performance for Fiscal Year 2005 indicated a revenue gain of $30.8 million related to both the natural gas and crude oil business units. Combined with an additional revenue gain of $1.5 million in additional interest earned by receiving RIK revenues five to 10 days earlier than under the royalty in value program, a total revenue gain of $32.3 million was achieved, she said.

Burton also noted that the MMS, in conducting its RIK program, reduced its administrative costs by more than $3.74 million. That is, without the RIK program, MMS would have needed to spend an additional $3.74 million for royalty compliance. Taking royalties in kind in the form of product simplifies the auditing process for these transactions, which is one reason the oil and gas industry generally supports the government's RIK efforts.

In addition to increased revenue and improved government efficiencies, Burton noted that the RIK program was instrumental in helping fill the nation's Strategic Petroleum Reserve to support energy security and provided a reliable supply of crude oil to support small refiner operations in the United States.

The RIK program grew from MMS's responsibility to ensure that all revenues from Federal and Indian mineral leases are efficiently and accurately collected, accounted for, and disbursed to recipients. These revenues totaled approximately $10 billion in 2005 and more than $156 billion since MMS's inception in 1982. The funds are disbursed to the U.S. Treasury, five Federal agencies, 35 states, 41 American Indian tribes, and some 30,000 individual American Indian mineral owners.

-- MMS –

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