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Minerals Management Service

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NEWS RELEASE

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MMS, Alabama unveil new partnership

RIK Gas Sale to Include State's 8(g) Leases

DENVER – Another chapter in Federal-State cooperation was revealed this month with the announcement that the Minerals Management Service and the State of Alabama will join forces to offer Royalty in Kind (RIK) gas from certain Federal leases offshore Alabama in an upcoming RIK sale.

"This agreement represents a true partnership between the Federal government and the State of Alabama," said Johnnie Burton, Director of the Department of the Interior's Minerals Management Service (MMS). "It provides the state with a more active role in managing its gas resources while continuing to protect state and public interests."

As part of the agreement, up to 1,460,000 MMBtu (million British Thermal Units) of gas (or approximately 4,000 MMBtu per day) from three Federal leases in the Alabama 8(g) zone will be sold in an unrestricted sale scheduled in October. This represents the first time that Alabama 8(g) gas has been offered in a Royalty in Kind sale.

The gas sold in the unrestricted sale involves an aggregation of gas royalties taken "in kind," in the form of product, rather than in value or cash payments, from offshore Federal leases in the Gulf of Mexico. The gas is then sold competitively in the open marketplace. The Royalty in Kind program has been shown 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. The program has also successfully reduced administrative costs and provided significant revenue uplifts in previous sales.

The gas from the Alabama 8(g) leases will be combined with up to 124,100,000 MMBtu of RIK gas (or approximately 340,000 MMBtu per day) from other Gulf of Mexico leases that will be offered for sale in early October. "Invitation for offers" for the sale, which also includes gas from the State of Louisiana's 8(g) zone, were published Sept. 27 with sale results expected to be announced the week of October 16. States are entitled to 27 percent of the royalties

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earned from production that occurs in the Federal 8(g) zone, a 3-mile-wide zone that lies adjacent to the state's seaward boundary.

"The RIK program continues to offer positive and measurable returns to the Federal Government and the American people on their royalty assets," Burton said. "RIK sales generated increased receipts of $18 million and $32 million in Fiscal Years 2004 and 2005, respectively, over what would have been received if MMS had taken its royalties in value, or as cash payments." The program also resulted in a reduction of administrative costs of nearly 50 percent when compared to royalty in value, translating to a cost avoidance of $3.74 million in Fiscal Year 2005.

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