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Winter royalty gas sale draws top bids

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. Recently, more than 379,000 MMBtu (million British Thermal Units) of royalty-in-kind (RIK) gas produced from federal leases in the Gulf of Mexico was sold to seven companies during a winter heating season sale conducted by the Department of Interior’s Minerals Management Service.

The sale, unique in that it offered royalty gas for the first time from the 8(g) zone offshore Louisiana, provides for the royalty-in-kind gas to be delivered to 10 offshore pipeline systems originating in the Gulf of Mexico, and destined for consumer and industry use during this winter’s heating season. The sales are for five or 12-month terms with delivery beginning Nov. 1, 2003.

“The competition for this sale was extremely strong,” said Minerals Management Service Director Johnnie Burton, noting that nearly 70 bids were entered for the 10 pipeline-specific sales packages. “Taking this royalty gas in-kind,” she added, “improves government efficiencies, streamlines the cash-flow process, and reduces administrative and operational costs for both industry and government.” MMS determines whether to take royalty-in-kind or “royalty in value” cash payments based on which method will provide the greatest value to the nation.

Burton also noted that this particular sale demonstrates continuing federal-state cooperation since it marked the first time royalty gas was offered from leases within the 8(g) zone offshore Louisiana. Made possible by a cooperative Memorandum of Understanding between the State of Louisiana and the Minerals Management Service, a percentage of the proceeds from those specific sales packages in the 8(g) zone will be returned to the state to help fund crucial programs. Some of the sales packages also included royalty gas from the 8(g) zone offshore Texas, which also has a cooperative agreement with the Minerals Management Service.

Winning companies in this month's sale represented large integrated producers and affiliates of local distribution companies.

The Minerals Management Service is the federal agency responsible for managing 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. Those revenues totaled more than \$6 billion in 2002 and more than \$127 billion since the agency was created in 1982.

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