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Report to Congress highlights RIK successes *Increased revenues, reduced costs, improved efficiencies*

DENVER – Increased returns to the American people, reduced administrative costs, shortened compliance cycles, and a rigorous business planning program are just a few of the successes highlighted in a Royalty in Kind (RIK) report to Congress prepared by the Department of the Interior’s Minerals Management Service (MMS).

The Royalty in Kind report, mandated by the Energy Policy Act of 2005, was delivered to Congress on Friday, Sept. 29. The report highlights actions taken by MMS to develop business processes and automated systems to fully support the Royalty in Kind capability in managing Federal oil and gas revenues, and provides a look at future RIK plans and objectives.

Begun as a pilot program 10 years ago, the Royalty in Kind program has developed into “a well-developed program that demonstrates government can, indeed, perform more like a private business, improve government efficiencies, and increase receipts to the American people,” said MMS Director Johnnie Burton. In Fiscal Years 2004 and 2005, receipts to the Federal Treasury were increased by \$18 million and \$32 million, respectively, over what would have been received if MMS had taken its royalties in value or as cash payments.

Burton noted the RIK program also improved government efficiency by incurring administrative costs at a rate nearly 50 percent less than the cost to manage royalties received in value. That translates into a cost avoidance of approximately \$3.74 million for Fiscal Year 2005. And finally, Burton said, the RIK business operation markedly shortened the business cycle on transactions.

As part of its RIK program, MMS can take its royalties “in kind,” in the form of product, and competitively sell that product in the open marketplace. 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. MMS will continue to use RIK sales in tandem with royalty in value cash payments, depending upon the particular business case.

Approximately 82 million barrels of oil equivalent, valued at \$3.75 billion, were taken in kind by MMS during Fiscal Year 2005, primarily from offshore leases in the Gulf of Mexico.

The report concludes that RIK benefits result directly from MMS's deliberate, comprehensive and continuous process of strategic planning and disciplined program implementation.

Additional highlights of the RIK program noted in the report to Congress include:

- Increased energy security by providing oil to help fill the nation's Strategic Petroleum Reserve;
- Increased knowledge of energy infrastructure in the Gulf of Mexico that was used in formulating energy supply actions taken after Hurricanes Katrina and Rita in 2005;
- Full implementation of recommendations made by the Government Accountability Office (GAO) in its reports issued in 2003/2004;
- Successful development and implementation of business processes and new automated information technology systems with comprehensive internal controls and performance measurement capabilities; and
- A *Five Year Royalty in Kind Business Plan* published in 2004 to guide future RIK operations.

Recognizing the value of successful RIK implementation, the Congress included language in the Energy Policy Act of 2005 authorizing funding for the RIK program from RIK receipts, rather than appropriated funds.

In the future, the RIK program will move to expand its marketing strategies and capabilities, and anticipates a significant expansion of the natural gas RIK portfolio. Since publication of the 2002-2007 Five Year Plan, MMS has increased its natural gas RIK sales from 500,000 MMBtu/day (million British Thermal Units per day) to 700,000 MMBtu/day. By Fiscal Year 2009, it anticipates natural gas volumes of up to 1.3 billion cubic feet per day. The success of the RIK program also has led MMS to partner with certain states to increase RIK offerings, and to look to more onshore RIK sales in the future.

The full report can be accessed via the web at: <http://www.mrm.mms.gov/rikweb/Default.htm>

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