

FOR RELEASE: May 6, 1993

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#### MMS DETAILS CONTRACT SETTLEMENT POLICY (#30025)

The Department of the Interior's Minerals Management Service (MMS) announced today a more detailed interpretation of its policy on royalties due on contract settlements.

As a general principle, royalties are due on payments received under contract settlement agreements to the extent the payments are attributable to production from federal and Indian leases.

Contract settlements in the natural gas industry became common in the mid-1980's in response to changing market and regulatory conditions. Many companies negotiated modifications or terminations to solve contract disputes. These settlements, which are still occurring, have been expanded to other minerals.

"The Secretary of the Interior directed that MMS ensure a mineral royalty collection policy, in cases of contract settlements, be appropriately developed and fairly implemented," said MMS Acting Director Carolita Kallaur. "These guidelines will expedite resolution of royalties due the federal government and could result in the collection of millions of dollars in royalties."

MMS is responsible for collecting, accounting for, distributing bonuses, rents, and royalties from companies that lease and produce minerals from Indian and federal onshore and offshore lands.

In a letter sent to all federal lease holders, the MMS stated that "Lease terms require that royalties be paid on quantities produced, remove and sold. Royalty value is base don the gross proceeds accruing to the lessee for the disposition of products produced."

In the next few weeks, MMS may require lessees and other royalty payors to provide information regarding contract settlements related to federal and Indian leases.

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Subject: PR-5/6/93 Contract Settlement/MMS Details Contract  
Settlement Policy (#30025)