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Interagency Team Completes California Crude Oil Undervaluation Study

The U.S. Department of the Interior today announced the completion of a study regarding possible undervaluation of federal oil in California, and released the study overview and executive summary.

The study's final report, prepared by a team comprised of representatives from the Interior, Energy and Commerce Departments, suggests that some major oil companies undervalued the crude oil produced on federal lands during the last two decades. The report was presented today to Assistant Secretary for Land and Minerals Management Bob Armstrong and Minerals Management Service (MMS) Director Cynthia Quarterman for their immediate review of the team's findings and recommendations.

"The Interior Department's Solicitor and officials from the Justice Department and the State of California will assist us in our review of the recommendations," said Armstrong.

The concern for possible undervaluation of crude oil produced on federal lands paralleled longstanding allegations by the State of California and City of Long Beach. The State claimed that major oil firms acted to keep posted prices unreasonably low, and since oil revenues depend upon posted prices, they had suffered financial damages.

These allegations prompted further investigations. During the mid-1980's, MMS, the General Accounting Office, and the Internal Revenue Service independently analyzed the California oil value issue, but the information available to them at that time was inconclusive in proving that federal oil was undervalued at posted prices.

In 1993, after the State of California and Long Beach case was settled out of court by six of the seven involved oil companies, Armstrong and the MMS Director discussed the need for further review with California's Commissioner of Public Lands, Bob Hight.

"Previous Administrations had made a decision not to further pursue this issue based on the available information," declared Armstrong, "but we felt that it was important to assemble a team to pursue this issue to its conclusion, and to determine whether or not the possibility existed that additional revenues were due."

In 1994, the Interior Department formed the interagency team, and a breakthrough occurred when the State of California helped the federal government team obtain court-sealed company documents from its litigation. After examining those records, the team recommended specific test audits and retained two private consultants to provide additional information and insight.

"Working for nearly two years, the team reached several conclusions, most by consensus," said Quarterman, "but in a few cases, team members had different recommendations. They agreed to disagree and presented options for consideration.

"We appreciate the contribution of the team members from the Departments of Energy and Commerce representatives in this extraordinary effort," she said.

Kyle Simpson, Associate Deputy Secretary of Energy, commended the interagency team for their work and committed

additional support which the Interior Department may require as they pursue their recommendations.

"We are checking the remainder of the report to see that no privileged information is released," said Armstrong. "We expect to release the entire document by the end of May, perhaps sooner.

"This Administration and the Department of the Interior take its responsibility to manage public resources very seriously and will pursue whatever is entitled to the citizens of the United States and our partner-state, California," declared Armstrong. "We are already reviewing the team's recommendations and will decide on what action we will take as soon as possible."

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