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Interior Department Announces Plan to Use Royalty-In-Kind Oil to Refill Strategic Petroleum Reserve

The Department of the Interior announced today that it will assist in an Administration initiative to collect royalties-in-kind from companies producing oil from Federal leases in the Gulf of Mexico and transfer the oil to the [Department of Energy](#) to refill the Strategic Petroleum Reserve (SPR). The Interior Department's Minerals Management Service (MMS) usually collects cash royalties of 12.5 percent or 16.67 percent of the value of oil produced from these leases, but under this initiative it will collect the royalties in the form of oil (i.e., "in kind") rather than "in value."

"This is a very important energy initiative that will benefit the American people and our national security," said Interior Secretary Bruce Babbitt. "We look forward to working with the Department of Energy and our lessees to rebuild America's Strategic Petroleum Reserve."

Out of a total of about 1.1 million barrels of oil per day produced from Federal leases in the Gulf of Mexico, the Government's royalty share is about 160,000 barrels per day, of which up to 100,000 barrels per day will be dedicated to filling the SPR. The initiative will end once a total of 28 million barrels has been added to the SPR. The 28 million barrel quantity corresponds to the amount of non emergency sales from the SPR in recent years. MMS will continue to dedicate part of the royalty oil in the Gulf of Mexico to sales to small refiners under existing contracts and does not intend to divert to the SPR oil from the near shore leases from which the Federal Government pays 27 percent of the revenues to the adjoining states. MMS also will continue to collect royalties in value from some leases in the Gulf of Mexico to test new procedures under its royalty reengineering program.

"We want to ensure that the income generated from production of these public resources is put to good use", said Babbitt. "The President's budget calls for spending more of the income from these resources on preserving our natural heritage and supporting smart growth and green spaces. But we also were able to help out with this initiative to restore the SPR to its former level while minimizing the cost to the taxpayer."

Acting Assistant Secretary of the Interior for Lands and Minerals Management Sylvia Baca welcomed the opportunity to support this Administration initiative. "Especially given today's low oil prices, we are able to put oil into the SPR while still able to meet the Administration's other high priority initiatives."

The Minerals Management Service has initiated efforts to determine the specific leases from which it will accept the royalties in kind and will soon begin to notify producing companies so that they can make arrangements to deliver the oil to the Department of Energy.

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