

The NewsRoom

Release: #3268

Date: April 7, 2005

RIK Sales Add \$18 Million to Taxpayer Receipts MMS Report Details FY 2004 Gains

DENVER - Sales of royalty oil and gas through the Minerals Management Service's Royalty-in-Kind program generated more than \$18 million in additional revenue for the U.S. Treasury in Fiscal Year 2004. This is an increase in revenue above estimates of what would have been received if the government had taken the oil and gas royalties in value, or as cash payments.

The additional revenue gain of \$18,135,290 in FY 2004 is detailed in a new report prepared by the MMS and released to the public today. Copies of the report can be accessed on the MMS web site at: <http://www.mrm.mms.gov/rikweb/PDFDocs/RIKPRPFY2004.pdf>  (60Kb).

"This report demonstrates that the Royalty in Kind program is generating solid, measurable returns that benefit all U.S. taxpayers," said MMS Director Johnnie Burton. She called the FY 2004 revenue performance of the RIK program "exceptional," adding that MMS is exploring additional opportunities in 2005 to build off the successes of the previous year.

Historically, MMS collected royalties from energy production on Federal lands and offshore waters "in-value," or as cash payments. In the mid-1990s, MMS began exploring the potential to take its royalties "in-kind," or as product, and competitively selling that commodity on the open market. Several pilot projects were initiated to test the approach for crude oil and natural gas, and for onshore and offshore production volumes. Based on the successes of the earlier pilot projects, MMS concluded that the RIK program would be a viable tool to manage the nation's oil and gas royalty assets, to be used in tandem with royalties in value.

Among the objectives of the RIK program are to return a fair value on the public's royalty assets, reduce regulatory costs and reporting requirements, shorten the compliance cycle, and improve overall business efficiencies. In addition, taking royalties "in-kind" in the form of product simplifies audits and reduces conflict associated with valuation of mineral royalties.

In 2004, MMS finalized its *Five Year Royalty in Kind Business Plan* to provide a blueprint to successfully increase revenues and decrease administrative costs associated with managing oil and gas royalty assets. The Business Plan incorporated suggestions of the Government Accountability Office and recommendations from commercial consultant Lukens Energy Group to clearly outline RIK program objectives and comprehensively measure RIK program performance. The report released today provides a comprehensive measurement of program RIK revenue.

The report noted that, in addition to revenue gains of \$17.2 million in natural gas and oil sales, an additional gain of nearly \$900,000 was achieved through incremental interest earned on revenues received 5 to 10 days earlier than under the royalty-in-value program. In the area of gas sales, 13 of the 15 portfolios demonstrated revenue gains. Within the four oil sales conducted in FY 2004, all showed revenue gains. The returns are generally consistent with past reviews that showed MMS is achieving revenue increases of generally 1 to 3 percent more than would have been received through royalty-in-value receipts. MMS is exploring additional opportunities to build off the successes achieved in FY 2004, including the potential for a modest program expansion.

MMS, part of the U.S. Department of the Interior, oversees 1.76 billion acres of the Outer Continental Shelf, managing offshore energy and minerals while protecting the human, marine, and coastal environments through advanced science and technology research. The OCS provides 30 percent of oil and 23 percent of natural gas produced domestically, and sand used for coastal restoration. MMS collects, accounts for, and disburses mineral revenues from Federal and American Indian lands, with Fiscal Year 2004 disbursements of approximately \$8

billion and more than \$143 billion since 1982. The Land and Water Conservation Fund, which pays for cooperative conservation, grants to states, and Federal land acquisition, receives nearly \$1 billion a year.

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