The NewsRoom
Release: #3472
Date: March 13, 2006

MMS Commits to New Rockies Gas Pipeline Expansion of RIK Program to Benefit U.S. Taxpayers

DENVER – The Minerals Management Service (MMS) has signed a long-term agreement to transport natural gas through the Rockies Express Pipeline, a new pipeline that originates in Wyoming and is scheduled to become fully operational in 2009.

MMS Director Johnnie Burton announced the 10-year agreement that commits MMS to transport more than 18 billion cubic feet (bcf) of gas per year (or 50,000 thousand cubic feet per day) through the Rockies Express Pipeline, which is being constructed by Kinder Morgan Energy Partners, L.P., and Sempra Pipelines and Storage, a unit of Sempra Energy. The 1,323-mile pipeline will transport gas from Wyoming and Colorado to markets in eastern Ohio, which connect with other pipelines serving markets in the eastern United States.

“Natural gas production in the Rocky Mountain Region is increasing substantially,” Director Burton said. “With this pipeline commitment, MMS will be able to expand its Royalty-in-Kind program in Wyoming. In addition, this will provide MMS more flexibility to transport gas to markets where demand is highest.”

Historically, MMS has collected royalties from minerals produced on Federal and Indian lands “in value,” or as cash payments. In the mid-1990s, MMS began exploring the potential to take its royalties “in kind,” in the form of product, and competitively sell that commodity on the open market.

MMS has determined that the Royalty-In-Kind program improves overall business efficiencies, reduces regulatory costs and reporting requirements, shortens the compliance cycle, and returns a fair value to the public. Taking royalties “in kind” in the form of oil or, in this case, natural gas greatly simplifies the auditing process.

In addition, recent analyses indicate that taking royalties in kind can generally increase returns to taxpayers by 1 percent to 2 percent over what would have been received if royalties were taken in-value, or as a cash payment.

“We signed this commitment following months of intensive economic analysis,” Burton said. “Based on that analysis, MMS is convinced there is a strong business case for taking more gas in-kind, and transporting that gas to markets where higher prices could potentially provide greater returns to taxpayers.” Burton compared the deal to an insurance policy, which provides the government additional options to effectively mitigate its commercial price risk.

The agreement, which will require final approval from the Federal Energy Regulatory Commission, will become effective when the pipeline becomes fully operational in 2009.

Relevant Web Site:
MMS Main Website

Media Contact:
Patrick Etchart (303) 231-3162