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## U.S. Department of the Interior

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**U.S. Department of the Interior  
Minerals Management Service  
Office of Public Affairs**

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### *NEWS RELEASE*

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### **Allred Asks Congress for Additional Tools to Resolve Royalty Issue on 1998-1999 Leases in Gulf of Mexico**

**WASHINGTON** -- Interior Assistant Secretary Steve Allred today asked Congress for additional authority to help him renegotiate oil and natural gas leases signed in 1998 and 1999 for deep water production in the Gulf of Mexico. The leases omitted a clause that would have required the producers to pay the U.S. Government royalties when oil prices exceeded \$36 a barrel.

Allred said Congress and the Administration need to work together to solve this problem in order to avoid any action that could significantly reduce future production and revenue from energy development in the Gulf of Mexico that is vital to the U.S. economy and national interests.

"We share your frustration and appreciate your efforts to encourage companies to come to the negotiating table," Allred told members of the Senate Energy and Natural Resources Committee who are considering addressing this issue legislatively. "However, we must be mindful of unintended consequences, including potential new legislation that might result in litigation affecting future lease sales in the gulf."

Draft legislation in the House of Representatives would exclude from future lease sales companies that refuse to renegotiate their 1998-1999 leases or require them to pay additional fees on the oil and gas they produce from these leases.

"If an affected company went to court and a judge were to enjoin future lease issuance, the resulting impacts would be significant," Allred said. "A 3-year delay, for example, could reduce production over 10 years by 1.6 billion barrels of oil equivalent and cumulative revenue by \$13 billion."

"Litigation could take years to resolve," Allred noted. "We all can agree this would not be in the Nation's best interest. The Outer Continental Shelf is a significant supplier of oil and natural gas. We cannot afford major delays in offshore energy production due to unintended consequences."

Allred, who oversees land and minerals management agencies at Interior, said he is aggressively negotiating with companies to win agreements to apply price thresholds to the deep water leases issued in 1998-1999.

"We are focusing our negotiations on obtaining the much larger royalty amounts to be realized from future production, estimated to exceed \$9 billion," he said. "Our progress has included agreements reached in December 2006 with six companies -- a significant but first step. There is still much more work to do in reaching agreements with additional companies."

Allred said the companies that have not yet agreed to renegotiate their leases to add the price thresholds could be persuaded if he

was authorized to offer incentives that do not impact the U.S. Treasury, such as extensions on their deep water leases in the gulf. "I believe these companies would respond positively to this type of approach," he said.

Allred said his goal is to negotiate price thresholds in leases prospectively, to not give economic advantage to one company over another, and to amend the agreements in a way that will minimize the risk of litigation. "To achieve these principles, the Administration and the Congress must work together," he said, emphasizing that negotiation was the most promising and least risky approach to resolving the issue.

"I believe that these leases are contracts that can not be abrogated and the Federal Government must be a reliable business partner that honors its contractual obligations."

To spur domestic energy production during the mid-1990s, the Deep Water Royalty Relief Act waived royalty payments for energy companies as long as the price of oil was below \$36 a barrel. The 1998-1999 deep water leases, issued during the previous Administration, failed to include this price threshold. In the past several years, the price of oil has significantly exceeded \$36 a barrel.

To demonstrate the critical importance of off-shore oil and natural gas development in the Gulf of Mexico, Allred cited estimates of the U.S. Energy Information Administration that, despite increased efficiencies and conservation, U.S. energy consumption will grow more than 25 percent in the next 20 years.

"Even with more renewable energy production expected, oil and natural gas will continue to account for a majority of energy use through 2030," he said. "As energy demand continues to increase, Interior's domestic energy programs, particularly offshore oil and gas production, will remain vital to our national energy portfolio, our economy and our national security for some time to come."

One third of all energy produced in the United States comes from resources managed by the Interior Department, including those in the Federal Outer Continental Shelf. Within the next five years, the offshore areas will provide more than 40 percent of U.S. oil production and 20 percent of U.S. natural gas production, primarily due to deep water discoveries in the Gulf of Mexico.

The Bush Administration, which has included price thresholds in all deep water leases it has issued, is ready to support increased, environmentally responsible offshore production to meet the nation's increasing energy demand. The Minerals Management Service's Proposed 5-Year OCS Oil and Gas Leasing Program for 2007-2012 calls for 21 lease sales that would result in an additional 10 billion barrels of oil, 45 trillion cubic feet of gas, and \$170 billion in net benefits for the nation over 40 years.

Furthermore, the President has directed Interior to increase the royalty rate for new deep water leases in the gulf from 12.5 percent to 16.7 percent. That will increase revenue from royalty payments by \$4.5 billion over 20 years.

Allred also discussed Interior's efforts to ensure that it provides the American people a full, accurate and transparent accounting of all energy production activities on public and tribal lands. He submitted for the committee's review an "Action Plan to Strengthen the Minerals Management Service's Compliance Program Operations", which documents improvements MMS has made and other actions underway.

He also noted that he and Interior Secretary Dirk Kempthorne had determined that an independent panel should be convened to review the procedures and processes used by the MMS in managing oil, natural gas and mineral revenue. The new panel will operate as a subcommittee of the Royalty Policy Committee, an independent advisory board appointed by the Interior Secretary to advise on royalty management issues and other mineral-related policies.