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MMS PILOT PROJECT TO ASSESS MARKETING FEDERAL ROYALTY GAS  
Officials Seek to Simplify Process for Government, Industry  
(#40045)

The Interior Department's Minerals Management Service (MMS) is seeking natural gas industry volunteers in the Gulf of Mexico to participate in a Royalty Gas marketing pilot project, MMS officials have announced.

"This project will test whether we can simplify Federal royalty management procedures and achieve cost savings for MMS, the gas industry and American taxpayers," said MMS Director Tom Fry. During the project, MMS will take gas in kind in lieu of royalty payments from volunteering producers. The gas will be sold by MMS to competitively chosen marketing companies.

"We hope this new pilot will demonstrate that we can save accounting and administration time and money for MMS and the gas producing industry," Fry said.

The pilot project is in the spirit of the administration's National Performance Review (NPR), Fry said. The NPR is an effort by all executive departments to find methods that will simplify government procedures, streamline reporting practices, eliminate duplication and waste, and provide better services at reduced cost to taxpayers and other customers.

Unlike MMS's Oil Royalty In-Kind program, which is designed to assure an adequate supply of oil to small marketers and refiners, the Royalty Gas marketing effort will test an entirely new approach for collecting federal revenues.

The project, which affects only leases on the Outer Continental Shelf (OCS) in the Gulf of Mexico, will run for one year beginning in January of 1995. MMS will take the gas at the lease or at a centralized gathering point. Excluded will be gas produced from leases subject to Section 8(g) of the OCS Lands Act. MMS officials will examine the results of the project to assess the revenue impacts and to determine whether there are significant savings in reporting, valuing, tracking and auditing.

Companies interested in participating in the project should

contact MMS by July 22 by writing:

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## QUESTIONS AND ANSWERS ON THE ROYALTY GAS MARKETING PILOT

### 1. What does MMS hope to achieve with this pilot project?

The project is being undertaken in the spirit of the National Performance Review, which has been undertaken by this administration to find ways to simplify government procedures, streamline reporting practices, eliminate wasteful duplication and to provide better services at reduced cost to taxpayers and customers. In this pilot, the MMS is trying to reduce costs and complexity so that the public is more efficiently served by the DOI's gas royalty management program.

The gas royalty in-kind procedures employed in this pilot have been made possible by recent deregulation of the gas industry. Since the Natural Gas Policy Act of 1978, the gas industry has experienced several phases of deregulation including the decontrol of wellhead prices, the open access regulations for pipelines contained in Federal Energy Regulatory Commission (FERC) Order 436 and the formal separation of pipeline company sales and transportation services accomplished in 1993 by FERC Order 636.

These decontrol measures have transformed the U.S. gas market in at least two important ways. First, wellhead prices for gas are now determined by competitive forces to a much greater degree. Second, marketing companies have emerged which provide the services required by buyers and sellers in today's gas market. These changes have improved the efficiency with which gas is marketed and allow the MMS to take advantage of the competition between marketing companies for in-kind royalty gas offered at or near the lease.

### 2. What are the possible benefits of taking Federal gas royalties in kind?

Administrative cost should be reduced significantly. The taking of gas royalties in kind will simplify royalty collection and royalty reporting. For example, the simplified procedure would eliminate payor reports associated with gas valuation and allowances for transportation and processing. Also, audits will be simplified. Under the procedures that will be tested in the pilot, audit activity will be limited to gas volumes and the revenue received by Minerals Management Service (MMS) from the marketing company.

These changes will reduce costs for both the Department of the Interior (DOI) and the industry.

3. What are the revenue implications of taking Federal gas royalties in kind?

There may or may not be any significant impact on MMS royalty revenues as a result of the pilot. One of the purposes of the pilot is to measure and compare the net revenues of the in-kind gas sales against the net revenues of conventional in-value royalties.

4. What happens to the in-kind royalty gas once the MMS takes possession?

Actually, the MMS will not take physical possession of the gas. At the appropriate point, at the lease or at a centralized gathering point near the lease, the offshore operator will relinquish the in-kind royalty gas and transfer it to a competitively selected marketing company.

5. How will the marketing companies be chosen?

Marketing companies will respond to a request for proposal (RFP) by bidding on the in-kind royalty gas. The company(s) chosen will be those that meet certain qualifying criteria and that offer the highest price for the gas.

6. What is the legal authority for the taking offshore gas royalties in kind?

Offshore Royalty-in-Kind is governed by the Outer Continental Shelf Lands Act (OCSLA) (43 USC 1353).

7. Have any of the gas producing states taken royalty in kind on state leases? If so will this experience be helpful to the MMS in this pilot?

The states of Texas and Alaska collect gas royalties in kind. The Texas program includes the taking of gas royalties in-kind and the direct marketing of the gas to municipalities, colleges, State agencies, school districts, colleges and Texas correctional institutions. The program was undertaken in 1983 and has operated

successfully since its implementation. The example of the Texas gas royalty-in-kind program prompted MMS to examine this option for Federal offshore gas. The pilot has emerged from this initiative. In designing the pilot, MMS has been able to employ the most useful features of the Texas program while at the same time taking advantage of the recent changes in the U.S. gas market.

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Subject: PR-06/30/94 Royalty Gas Marketing Effort/MMS Pilot Project to Assess Marketing Federal Royalty Gas (#40045)