

**U.S. Department of the Interior  
Minerals Management Service  
Office of Communications  
NEWS RELEASE**

---

**FOR RELEASE:** July 18, 1996

**CONTACT:** Tom DeRocco  
(202) 208-3983  
Michael L. Baugher  
(303) 231-3162

**MMS Pursues California Undervaluation Royalties**

The U.S. Department of the Interior's Minerals Management Service (MMS) announced today that it will pursue and collect underpayment of royalties on federal crude oil produced in and offshore California from 1980 forward. The plan is based on information presented in a May 1996 report by the interagency team commissioned by the Department. The team concluded that companies often received gross proceeds higher than posted prices and that royalties may have been substantially underpaid.

"This Department and Administration do not shy away from the tough issues, and we are moving forward to resolve this matter," said Assistant Secretary for Land and Minerals Management Bob Armstrong. "We asked the interagency team to tackle a difficult issue. With the cooperation of the State of California, and with access to previously court-sealed documents, the team was able to look at the issue in a way that had not previously been possible. We've studied their report. Now its time to deal with this once and for all. We believe this is the best course of action to make certain the American public and California get what is due."

Since 1980, more than 100 payors have made royalty payments to MMS for federal crude oil produced in and offshore California, though 20 payors accounted for nearly 97 percent of federal production. Collection efforts will specifically target these 20 payors for review.

"We believe the potential underpayment, including interest, for federal crude oil produced in and offshore California for the period 1980 to 1995 is approximately \$440 million," said MMS Director Cynthia Quarterman, "a sum lower than an interagency team maximum estimate of \$856 million, which was based on adjusted Alaska North Slope (ANS) crude oil prices from 1978 to 1993. That estimate must be discounted to exclude revenues for the years 1978 and 1979, volumes of royalty taken in-kind, crude oil production attributable to periods closed by settlement agreements, and for differences in valuation methods beginning March 1, 1988."

MMS expects to issue its first orders and bills within the next few months and conclude its audits and billing efforts within a year after all data are received.

"MMS will today issue audit or investigation engagement letters to the 20 companies involved and will immediately begin working with the State of California's Controller's office, and use information collected by the interagency team to determine the exact amount owed by the companies," said Quarterman. "We are committed to making certain all royalties owed are collected. We will continue to work towards that goal."

MMS is also actively pursuing similar oil valuation issues occurring in other states and on the Outer Continental Shelf (OCS), and will propose new oil valuation regulations by the end of the year.

MMS is the federal agency that manages the Nation's natural gas, oil, and other mineral resources on the OCS, and collects, accounts for, and disburses about \$4 billion yearly in revenues from offshore federal mineral leases and from onshore mineral leases on federal and Indian lands.

**-MMS-**

