



# **Federal Royalty-In-Kind Pilot Programs**

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# Federal RIK Pilot Programs

- The Secretary reserves the right to take royalties in kind
  - he is ready to do so when it makes sense for the Treasury
  - and rarely has made sense in recent decades for value purposes
- RIK is explicitly permitted at the Secretary's discretion in:
  - The Mineral Leasing Act - 30 U.S.C. §192
  - The Outer Continental Shelf Lands Act - 43 U.S.C. §1353(a)
  - Formally stated in the lease and agreed to when signed
- MMS has the authority it needs to implement RIK
- unnecessary legislation introduced (H.R. 3334) only takes away the rights of the government and taxpayers and limits its ability to enhance value, and shifts costs from the industry to the taxpayer. -- *We have a better way for all involved....*

# Federal RIK Pilot Programs

- Our RIK pilot program sprang from the interest in RIK that developed over last 4 -5 years
- MMS's development of RIK sought to answer key questions:
  - is it economically efficient to take royalties in kind?
  - Where and when does it make sense to do so?
  - Can we identify the necessary conditions for it to generate benefits?
  - Is it accurate, simple and certain?- does it lower admin cost?
  - Is it revenue neutral?
    - Can we effectively market our production and enhance value?
- Consistent with main objective and responsibility of Federal resource management: "*maximize value to the taxpayer*"

# Federal RIK Pilot Programs

- MMS proceeded with RIK development
  - first with a gas pilot in the Gulf of Mexico in 1995
    - we lost 6% compared to what we would have received
  - it was followed with a Feasibility Study in 1997 - a top down look
  - we now have a better idea of how an RIK program would work
  - If net revenue is the basis for assessment, there is still cause for concern, still unanswered questions, risks, etc.
- 1997 Feasibility Study recommended three pilots be implemented - and implementation has begun
  - Onshore Oil pilot in Wyoming
  - small offshore gas pilot in 8(g) waters off Texas
  - Offshore Gulf of Mexico gas pilot

# Federal RIK Pilot Programs

- Wyoming pilot program has been successful so far
  - we've sorted out what we have to do, operationally, to take the RIK oil -- and its happened without a hitch
  - we've been able to integrate it into MMS's existing reporting system, while making reporting easier
  - we are now collecting 2500bbls/day of oil in payment for royalty
- But it's not perfect - it is a pilot - designed to try different approaches - it's learning by doing
  - we have further to go to reduce the burden on bidders
    - bonding, financial assurances, etc. other certifications
  - further refine our bidding and bid evaluation process
  - transportation/pipeline issues

# Federal RIK Pilot Programs

- Financial results of the Wyoming bidding are not yet known
  - wait for actual receipts for a accurate comparison
- Bid results, however, were interesting and informative:
  - large vs. small production
  - trucked vs. piped
  - package bidding
- Wyoming RIK Next Steps:
  - continue quantitative analysis of pricing and bid evaluation
  - discuss ways to remove disadvantages of smaller properties
  - test more propositions

# Federal RIK Pilot Programs

- Natural Gas pilot in the Texas offshore 8(g) area:
  - slightly behind schedule - but starting imminently
  - test new ideas, building as customers are identified
- Two main components to the Texas 8(g) pilot
  - Cooperative agreement with the Texas General Land Office
    - Texas RIK program a model -
    - move Federal gas to Federal customers in Texas
  - Interagency Agreement with the General Services Administration
    - Jointly form a “Federal gas utility” for Federal users
    - MMS “produces” the gas, GSA ensures it is delivered, managed, and properly billed to Federal end users.

# Federal RIK Pilot Programs

- TGLO and GSA agreements are complementary:
  - MMS with TGLO exploring the methods for moving gas within the *Intra-state* pipeline system and local/regional markets for gas
  - MMS with GSA exploring moving gas through the *Inter-state* pipeline system while concentrating on more distant end-use markets in the Northeast and Mid Atlantic.
  
- Slight delay in start is due to the same non-jurisdictional pipeline issues that arose in MMS's Gas pilot in 1995.
  - Before starting we assessed the costs of moving production, and ran into problems related to both access and pricing.
  - On Dec. 1 natural gas will be delivered to the Federal government in lieu of royalty payment

# Federal RIK Pilot Programs

- Gearing up for the large GOM natural gas pilot starting next October
  - Texas 8(g) is our proving ground
    - 8(g) will probably expand into the GOM
  - 800 million cubic feet is a lot for us to move
    - ample supply to try out different methods
    - currently devising our marketing strategy
      - we intend to compete and explore our competitive advantages
  - There is a lot of work to do over the next 12 months

# Federal RIK Pilot Programs

- What is clear is that we are working hard to make these pilots work - and give them every opportunity to succeed.
  - Developing new ideas
  - creatively solving the problems we have to deal with
  - committed to generating enhanced revenue for the treasury
  - and reducing the administrative costs of royalty collection for all
  
- We feel there can be a real *WIN - WIN* situation for the Federal gov't and industry if we put our heads together
  - we remain open and willing to work with industry and its representatives and believe that is the best way forward

# Federal RIK Pilot Programs

- Part of our success to date due to our interaction with industry
  - we have consulted with all segments of the oil and gas industry:
    - producers, marketers, refiners, pipelines, end-users, consultants
- Impossible for us to speak to everyone -
  - discussions are need-driven: questions, resolve issues and problems, expert guidance, etc.
  - we want to get to all the constructive ideas out there, but staff is small
- We need to hear from you
  - if you have ideas and suggestion for us - call me.
  - Bringing up problems and ideas after the the pilot is over doesn't help us or the industry - talk to us now.

# Federal RIK Pilot Programs

- We need you to provide us with the information, facts and analysis that will guide us to develop good programs
  - it's the job of Associations like RMOGA, IPAA, and API and other industry representatives
  - we often hear statements are made on issue “X” or “Y” but without any backing analysis we need to see
  - We can't build programs or policy on *hearsay*
    - demonstrate the “Why”s and “How”s
    - we need convincing evidence to proceed
- Firmly believe that good policy is developed in partnership
  - all interests need to be represented: States, industry, the public

# Federal RIK Pilot Programs

## ■ In Summary

- MMS pursuing RIK programs within our existing authority
- We believe there is potential for revenue enhancement in some cases, and administrative costs decreases
- We are committed to making the pilots work
- We've achieved some success to date, and new, innovative proposals are being implemented
- the pilots will help us make informed and effective decisions on royalty-in-kind
- the best way forward is to continue to try to bring industry and others into the development process