



# Royalty In Kind Update

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Presentation to the Royalty Policy  
Committee

February 4, 2000

# Background

- Pilot projects to determine the circumstances under which RIK makes sense
  - Revenue neutrality or enhancement?
  - Reduced administrative costs for MMS and industry?
  - Accurate, simple and certain royalty collection?

# Background

- Test a variety of means for disposing of RIK
- Each project should last long enough to test a variety of market conditions
- Extensive consultations with interested parties in advance of each project

# Wyoming

- Cooperative effort with the State of Wyoming
- Crude oil in Powder River and Big Horn Basins
  - Sweet, general sour, and asphaltic sour crudes
  - Productive properties and stripper properties
  - Pipeline and truck transportation

# Wyoming

- Federal and State leases
- Competitive bidding at the lease
- Six-month term
- First deliveries were October 1, 1998

# Wyoming

- Current (third) term
  - 3250 barrels per day
  - Pipeline connected properties
- Fourth Offer
  - Issued February 1 for April 1 delivery
  - Over 5100 barrels per day

# Wyoming -- Next Steps

• Transfer project to RMP this spring

## • Issues

- Revenue analysis
- Trucked properties
- Alternative sale designs
- Additional basins/commodities

# Texas 8(g)

- Cooperative effort with Texas General Land Office
- Natural gas
- First deliveries on December 1, 1998, for transfer to the General Service Administration

# Texas 8(g)

- Competitive sales started for June, 1999 delivery
- Monthly competitive sales
  - Contact pre-qualified bidders during bid-week
  - Selling about 75 mmcf/d

# Texas 8(g) -- Next Steps

## • Continue sales

- Additional leases; term sales; electricity conversion

## • Issues

- Revenue analysis
- Not promising on all properties

# Gulf of Mexico Natural Gas

## • Great potential

- 2.5 billion cubic feet per day of royalty gas
- Well developed infrastructure and markets

## • First offer

- 5 pipeline systems offshore western Louisiana
- 260 million Btu's per day
- 4-month term (December 1 -- March 31)
- Bid by property, pipeline system, or all gas

# Gulf of Mexico Natural Gas

## • Results

- Winning bids on 3 pipeline systems
- ~ 165 mmBtu's per day

## • Winning bidder

- receives royalty gas at or near lease
- delivers gas at onshore delivery points to General Services Administration

# Gulf of Mexico Natural Gas

## • Agreement with GSA

- Can the Federal Government benefit from providing Federal (royalty) gas to Federal end-users?
- GSA guarantees MMS market center index price
- Share potential additional revenue from swing sales

# Gulf of Mexico Natural Gas

## • Current Invitation for Bids

- Same type of “exchange auction”
- Reoffering same pipeline systems, from which gas will continue to flow to GSA
- Offering two additional pipeline systems -- Bluewater and Sea Robin -- with about 200 mmBtu’s per day
  - MMS will sell gas at onshore pooling points.

# Gulf of Mexico -- Next Steps

- Continue to add volumes and test different means of disposal
- Issues
  - Measuring success
  - Transportation access
  - Processing
  - Balancing & production verification

# Summary

- Growing RIK program
  - Taking about 10% of Gulf natural gas royalties in-kind
  - Transfer of royalty oil to Strategic Petroleum Reserve
  - Small refiner program
- Transition successful projects to RMP