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MMS Awards Second Phase of Contracts to Deliver Royalty in Kind Oil

To Fill the Nation's Strategic Petroleum Reserve

The Minerals Management Service today announced the award of two contracts for the exchange of royalty in kind crude oil for delivery to the Department of Energy as part of a joint initiative to fill the remaining capacity of the nation's Strategic Petroleum Reserve. The contracts supplement existing contracts awarded last February for exchange of some 60,000 barrels a day of royalty oil from federal offshore properties in the Gulf of Mexico.

Last November, President George W. Bush ordered that the SPR be filled to its capacity, calling the reserve "an important element of our nation's energy security." The SPR is estimated to require an additional 108 million barrels to bring it to its 700 million-barrel capacity.

The two additional contracts under this initiative were awarded to ChevronTexaco and Equiva, for a six-month term to exchange 38 packages involving about 44,000 barrels a day of offshore royalty oil in return for delivery at Gulf Coast market centers of similar quantities of crude oil to the Department of Energy. Combined with existing contracts, wellhead volumes involved in the project are expected to reach 104,000 barrels a day beginning in October.

The DOE, in a coordinated, two-phase contracting effort, announced yesterday its award of a contract to exchange crude oil delivered by MMS under the contracts for similar quantities of crude oil to be used to fill the SPR sites.

"These contracts demonstrate the continued cohesive teamwork between MMS and DOE. They also reflect the successful cooperation between government and industry in rapid response to President Bush's directive," said MMS Director Johnnie Burton. "We are pleased that this important national initiative has continued as planned."

In its role, MMS is taking its oil royalties in kind, rather than cash, from offshore federal lease operators and delivering it to onshore oil market centers where DOE takes custody of the oil. In turn, DOE is exchanging the RIK oil for oil of suitable quality delivered to three SPR sites located in Texas and Louisiana.

MMS is anticipating that RIK oil volumes dedicated to the SPR will increase to 130,000 barrels a day in 2003. Should this

occur, both agencies will issue new solicitations for the additional volumes.

MMS is the federal agency in the U.S. Department of the Interior that manages the nation's oil, natural gas and other mineral resources on the outer continental shelf in federal offshore waters. The agency also collects, accounts for and disburses mineral revenues from federal and Indian leases. These revenues totaled nearly \$10 billion in 2001 and more than \$120 billion since the agency was created in 1982.

--MMS-20 Years of Service to America--

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MMS Internet website address: <http://www.boem.gov>