

The NewsRoom

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Record RIK Gas Sale Nets 14 Contracts

DENVER – A record volume of Royalty in Kind (RIK) gas produced from Federal leases in the Gulf of Mexico was sold to nine companies during a spring gas sale conducted by the Department of the Interior's Minerals Management Service (MMS).

The sale, concluded in mid-March, provides for approximately 118 billion cubic feet of RIK gas to be delivered over seven-month or 12-month terms. The gas will be delivered to 14 offshore pipeline systems originating in the Gulf of Mexico and equates to 509,800 Million British Thermal Units (MMBtu) per day, or, enough to supply the heating needs of approximately 1.6 million homes in the Midwest for one year. The gas is destined for consumer and industry use in the continental United States; delivery began April 1, 2006.

"This sale represents a record in terms of the total volume of RIK gas sold, the number of bids received, and the total number of companies that made offers," said Johnnie Burton, Director of the Minerals Management Service. A total of 21 companies submitted 127 offers for the 14 sales packages during this sale. The previous record volume occurred one year ago when 485,400 MMBtu of RIK gas per day drew 126 offers.

Winning bidders included Atlanta Gas & Light, Virginia Power, ConocoPhillips, National Energy and Trade (NET), Louis Dreyfus, Shell Trading, Chevron USA, Williams Power, and Total.

"The Royalty in Kind program," Burton said, "continues to demonstrate that the Federal Government can, indeed, improve its efficiency and increase taxpayer returns in the process."

Historically, the MMS collected royalties from energy production on Federal lands and offshore waters "in value," or as cash payments. In the mid-1990s, MMS began exploring the potential to take its royalties "in kind," or as product, and competitively sell that product on the open market. Based on the success of those earlier efforts, MMS developed a fully operational RIK program that is being used in tandem with royalties in value when economics indicate that is the best approach.

In addition, the RIK Program improves government efficiencies by reducing regulatory costs and reporting requirements, shortening the compliance cycle, and greatly simplifying the auditing process. Recent analyses also indicate that taking royalties in kind can generally increase returns to taxpayers by 1 percent to 2 percent over what would have been received if royalties were taken in value, or as a cash payment.

Combined with packages sold in an earlier sale last year, with production recovery from the 2005 hurricane season, and with a recent Wyoming RIK gas sale, this latest sale means that MMS will be delivering more than 700,000 MMBtu of federal

royalty gas every day starting April 1, 2006.

Relevant Web Site:
[BOEM Main Website](#)

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[MMS: Securing Ocean Energy & Economic Value for America](#)
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