Managing Federal Royalty Revenue --
Changes for the Future

COQG
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MMS Organization

- Admin and Budget
- Offshore Minerals Management
- Policy and Management Improvement
- Minerals Revenue Management
MRM Collections

- MRM collected and distributed approx. $10 billion dollars in royalties, rents, bonuses, etc. in 2000
- Oil royalties approx. $2.4 billion
- Gas royalties approx. $5.4 billion
MRM Initiatives

• Reengineering and RIK
  – RIK and RIV identified in MMS’s Reengineering Initiative as its future asset management options
  – Reengineering Initiative focused primarily on the RIV option
    • Reduce compliance business cycle time
    • Provide revenue recipients with early access to their money
  – Reengineering implementation provides basic process and systems infrastructure and property focus needed to support RIK and RIV
MRM Royalty in Kind Office

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RIK – It’s About Options

• Federal and Indian mineral leases provide access for development -- 80,000 leases currently under MMS administration; approx. 26,000 producing leases
• Leases include production royalty payment terms
• Oil and gas lease terms create asset options
  – Royalty in value (RIV) option -- cash
  – Royalty in kind (RIK) option -- production
• Same option not available for other mineral leases
Factors Important to RIK Approaches

- **Unique Position in Gulf of Mexico Unmatched by any Producer**
  - Commercially attractive volumes
  - Positioned across entire Gulf
- **Price Transparency**
- **Access to Markets**
- **Optionality in Processing**
- **Optionality in Transportation**
MRM’s Current RIK Program -- Overview for FY 2001

• **Crude Oil**
  – 34,800,000 barrels of oil sold
  – $757,600,000 realized from sale

• **Natural Gas**
  – 115,900,000 MMbtu of gas sold
  – $543,000,000 realized from sale

• **Federal oil and gas leases currently committed to RIK alternative: 1100**
Current RIK Oil Operations

- Gulf of Mexico Oil: 114,000 bbls/day currently -- 60,000 barrels/day for SPR and 44,000 for Small Refiner Program (45% of GOM royalty position)
- Pacific Oil: 9,000 bbls/day for Small Refiner Program (73% of Pacific royalty position)
- Wyoming Oil - 4,000 barrels/day beginning April 2002 (40% of Federal oil royalties in Wyoming) Wyoming State
Elements of the SPR Transfer

- Gulf of Mexico Outer Continental Shelf royalty oil to be used to accomplish fill of Strategic Petroleum Reserve
- Approximately 120 million OCS royalty barrels to be delivered by DOI to DOE for SPR fill
- Transfer of OCS royalty oil to be completed in about 3 years
- DOI to manage supply side logistics to market centers
- DOE to manage oil supply/exchanges beyond market centers
Upcoming Oil RIK Sales

- GOM Small Refiner Oil OCS Sale Planned for June 2002 with October 2002 Deliveries: 50,000 bbls/day
- GOM SPR Oil OCS Sale Planned for July 2002 with October 2002 Deliveries: Additional 40,000 bbls/day to raise fill rate to 100,000 bbls/day
- GOM SPR Oil OCS Sale Planned for January 2003 with April 2003 Deliveries: Raise fill rate to 130,000 bbls/day
- MRM taking 80% of oil royalty position in GOM in kind by April 2003
Upcoming RIK Oil Sales (Con’t)

- Pacific Oil OCS Sale Planned for October 2002 with January 2003 Deliveries
- Wyoming Oil Sale Planned for June 2002 with October 2002 Deliveries
Current RIK Gas Operations

• Gulf of Mexico Gas
  – 345 million/day total
  – 31 million/day Texas 8G
  – 15 percent of OCS royalty share