

Crude Oil Transportation and the MMS Royalty in Kind Program



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Challenges for Deepwater Oil Transportation
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Minerals Management Service



- MMS Programs
 - Offshore Minerals Management -- leasing and mineral development activities on the OCS
 - Minerals Revenue Management -- mineral revenue collection, accounting, disbursement and verification for the OCS and onshore Federal and Indian lands
- Mineral revenue collections exceeded \$6.6 in 2002 and have reached \$10 billion
- Over 24,000 producing leases onshore and the OCS

The MMS RIK Program

- Federal oil and gas leases provide an option to the MMS for method of royalty payment:
 - In cash
 - In kind
- RIK option used to realize increased benefits
- With the RIK option, MMS:
 - Takes custody of crude oil/natural gas
 - Transports or arranges for transportation/processing
 - Markets the commodity
 - Competitively sells/disposes of the commodity

Current MMS Crude Oil RIK Program

- Over 190,000 OCS barrels/day taken in kind
- Strategic Petroleum Reserve Initiative dominates the program: 130,000 barrels/day
 - Third party exchanges deliver crude to onshore
 - Direct delivery of 15,000 barrels/day to Bryan Mound
 - 88 offshore receipt points
 - All crude types
 - All major Gulf of Mexico pipelines
- Small Refiner Program: 60,000 barrels/day combined for the Gulf and Pacific OCS (42 offshore receipt points)

Importance of Transportation Options to MMS RIK Program



- MMS RIK Program uses high degree of optionality in gas pipelines to:
 - Access different markets: optimize revenues
 - Access different gas plants: optimize revenues
 - Leverage large volumes to decrease rates paid
 - Provide outlets in force majeure situations
- Limited optionality in crude oil pipelines available to leverage reduced transportation costs

Crude Oil Transportation: A Look to the Future



- Options are increasing as deepwater project economics require responsiveness to markets
 - Cameron Highway
 - Shelf “Hub” connections to multiple pipes
- The shuttle tanker option has the potential to provide additional and important opportunities to optimize RIK revenues.
- Opportunities may exist for the shuttle tanker option to move barrels to SPR-connected terminals

Conclusions

- MMS RIK Program has become and will continue to be a significant transporter of crude oil in the Gulf of Mexico
- We welcome industry efforts to increase transportation options and thus augment efficiencies in crude oil commodity sales
- We will explore all reasonable methods of lowering transaction costs involved in royalty asset sales