PROJECT ON GOVERNMENT OVERSIGHT

WITH A WINK AND A NOD:

How the Oil Industry and the Department of Interior Are Cheating the American Public and California School Children

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REPORT

FOREWORD

With all the talk in Washington about government reform and cutting waste --- corporations are making out like bandits. Government acquiescence to industry is becoming even more prevalent, and corporate welfare is rampant --- at a time when the political push is to eliminate oversight and safeguards in the rush to deregulate. The Project On Government Oversight (POGO) is a non-partisan non-profit organization that for fifteen years has been working as a government watchdog. Our mission is to investigate and expose abuse of power, mismanagement, and acquiescence to corporate interests by the federal government. The organization aims to refocus public policy from protecting the powerful to pursuing public and environmental justice. Our goal is to change the way the government works by revealing examples of systemic problems, offering possible solutions and initiating change.

POGO's methods include networking with government investigators and auditors whose findings have received little attention, working with whistleblowers inside the system who risk retaliation for exposing waste and fraud themselves, and performing independent investigations into areas we suspect are problematic.

According to an internal Department of Interior report, the federal government is owed as much as **$856 million** from ten oil companies -- Texaco, Shell, Mobil, ARCO, Chevron, Exxon, Unocal, Phillips, Santa Fe, and Oryx. The money in question has accrued from uncollected royalties and interest owed to the federal government for their production of crude oil from federal lands in California from 1978 to 1993. Incredibly, despite the estimate of $856 million calculated by an independent consultant hired by the DOI, the agency is actually still considering whether to collect any of this money! (Appendix A) And every day that passes with no action taken only increases the amount that is owed to the government.

In April 1995, the Project on Government Oversight (POGO) released a report that estimated the total uncollected royalties and interest, going back to 1960, collected from only the first seven of these companies would total $1.5 billion.[1] This was based on DOI's own numbers. What are they waiting for? How many times does the DOI need to be told that it is being robbed?

The government is already writing off collecting the royalties and interest owed between 1960 and 1978. Now, there is even evidence that the government is trying to write off the money from 1978 up to 1990! What right do they have to give away this money?

If the $856 million is collected, approximately **$165.50 million** would actually be earmarked to go back to the California public school system. This is a system that is so strapped for funds that three of its school districts have gone bankrupt. If the federal government did collect this money, it would pay for the education of over **35,000** students for a year, or pay for over **4,100 teachers,** at California's rate of expenditure.

Why is the DOI more comfortable running a corporate welfare program for the oil industry, than doing its job and collecting what is due to the American people?

HOW THE SCAM BEGAN

Crude oil is produced on federal lands by both "integrated" and independent producers. Seven of the companies are actually responsible for creating the unusual environment in California that allows this scam to take place. Texaco, Shell, Mobil, ARCO, Chevron, Exxon and Unocal are "integrated" in California -- which means they produce crude, in all but one case (Exxon) they own the pipelines that transport the crude to the refineries, and they own the refineries themselves. The only way for any oil producer to transport the crude to refineries efficiently is through the intrastate pipelines owned by these integrated oil companies. For decades, these companies have artificially depressed the price of crude oil, though their refined product prices are comparable to those in the rest of the nation. It makes economic sense for the

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[1] For more information, please see the April 1995 POGO Report, "Department of Interior Looks the Other Way: The Government's Slick Deal for the Oil Industry." All footnoted sources in this March 1996 report that are not included as appendices are included in the April 1995 POGO report.

integrated companies to push their profits downstream to the refinery end. This way the integrated companies squeeze out competition from the smaller independent producers and refiners, and pay the government less in royalties, as royalties are based on the price of the crude oil.

This California oil market is not a free-market with open competition. The "posted" price -- the price integrated companies (as pipeline owners) offer to pay for crude oil at the well-head -- does not reflect the market value of the crude oil. By law, federal royalties are to be based on the market value of crude oil. In practice, however, the federal royalties are based on the "posted" price of crude. This price is artificially low. As pipeline owners, and as major purchasers of crude oil, the integrated companies set the posted prices. They do not risk losing access to the crude oil by offering too low a price, because they control the only efficient means of transporting the crude oil to refineries. Moreover, when they actually buy crude, they usually pay bonuses over their own "posting", but the production end pays royalties only on the posted price. The integrated companies are interdependent, as none of them have sufficient pipelines to move all of their oil to their own refineries. They cooperate with each other and move each other's oil to the refineries. Today, posted prices are primarily used only to compute royalties and to pay independent producers who have no alternative method of transporting the crude.

Of the three other companies, Phillips and Oryx are primarily offshore producers in California. They are not pipeline owners and have simply responded to the market that had already been created by the integrated pipeline owners. Santa Fe is a very large independent producer on federal land. It has openly asserted in its Annual reports that it is paid more for its crude oil than the posted price.

These ten are not the only oil companies that have come to take advantage of this system and were underpaying their royalties to the federal government. They have been targeted because the combined royalty payments from these ten oil companies makes up 90% of the total royalties paid to the federal government.

For decades, the independent producers had no alternative but to sell their crude at the posted price, as they do not own an alternative economic means of transport. By the late 1980's, posted prices became so meaningless, that even some of the larger independent producers began to be paid more than the posted prices for their crude. It is because of the unwillingness of the Department of Interior to recognize that it was the only defender of the system of posted prices -- despite evidence that these prices do not reflect value -- that the federal treasury has lost out on at least $856 million in uncollected revenues.

THE DEPARTMENT OF INTERIOR HAS LOOKED THE OTHER WAY

The DOI, the agency responsible for collecting these royalties, has been a willing partner in this corporate welfare program. The DOI has been warned again and again that it is looking the other way, as the oil industry makes off like bandits. At some point, the government bureaucrats have got to be held responsible as accomplices. Until now, DOI has ignored the following:

- The General Accounting Office -- **The average posted price of crude oil in California** was **about 20% lower than the price in the rest of the** U.S. (for a sampling of 16 years between 1950 and 1985), **yet the average price of refined oil products in California was almost exactly the same as the average price in the rest of the U.S (0.38% higher) during those years.** In other words, the margin between the price of crude and the total value of the refined product was almost 90% larger for California oil refiners than for refiners in the rest of the country. Even when accounting for the "gravity" -- roughly meaning "quality" -- of oil, the six-year average posted price of California Ventura was still 13% lower than West Texas Sour Oil.[2]

- The U.S. Department of Commerce -- "It seems that all we have seen to this point clearly establishes that **there is a problem.** The companies themselves testified that posted prices did not represent value and that was why the exchanges were necessary. . . . Finally, there is certainly a prima facie case that a problem exists, which MMS (DOI's Mineral Management Service) initially quantified as in excess of $400 million, exclusive of interest and penalties, from information from the California litigation. **MMS needs to do something now to avoid creating the impression that these events have not occurred!"**[3]

- These oil companies have already settled for over $350 million with the State of California for royalties owed to the State for the same reasons money is owed to the Federal Treasury. However, all the evidence used by the State to retrieve this money has been sealed by the courts at the request of the oil companies who feared **"potentially prejudicial pretrial publicity."**[4]

- The U.S. DOI Office of Policy Analysis -- "I suggest that the Department proceed immediately to ascertain the amount of additional royalties due, including interest and criminal penalties, if any, and **initiate collection procedures.**"[5]

THE DEPARTMENT OF INTERIOR'S CHANGE OF HEART

As a result of the aforementioned August, 1993 DOI Office of Policy Analysis letter, DOI's Minerals Management Service assessed the totals owed to the federal treasury.

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2 "California Crude Oil", General Accounting Office Report GGD 88-114, Sept. 1988, pp. 30-32.

3 "California Royalty Valuation Study", Bernard Kritzer - Department of Commerce, to Dave Hubbard - Department of Interior, September 20, 1994, p.2.

4 ORDER RE PROTECTION OF CONFIDENTIAL MATERIAL OF DEFENDANT TEXACO INC., THE PEOPLE OF THE STATE OF CALIFORNIA, et al. v. CHEVRON CORPORATION, et al., Superior Court of California, County of Los Angeles, Case No. C-587912, September 8, 1988.

5 "California Common Carrier and Crude Valuation", DOI internal memo from Bob Berman to Brooks Yeager, August 6, 1993, p.1.

"We have evidence that the major California oil producers may have undervalued California oil production by keeping posted prices low and thus underpaying the royalties based on them. . . .The various available court documents, out-of-court settlements, discussions with attorneys, and the work of consultants lead us to conclude that **we should pursue potential Federal royalty underpayments.**"[6]

That memo concluded that the low estimate of **unpaid royalties is $199 million and the high estimate is $422 million without considering interest.**

This was too good to be true, however. In typical DOI fashion, the government looked for a way not to collect the money. A March 1994 internal MMS memo then completely reversed that decision, asserting:

"1. There is **no clear or convincing evidence that oil posted prices were below market value** or that they were invalid for royalty valuation purposes. 2. There is no clear or convincing evidence that the California oil market is noncompetitive."[7]

DOI ASKS PERMISSION NOT TO HAVE TO LOOK FOR THE MONEY

Finally, an Executive Order reportedly drafted by the Department of Interior for President Clinton's signature circulated in February 1996, reveals DOI's true position. The DOI was asking the President to establish "a time limit for completing audits of federal lease royalty payments" so that DOI auditors would not have to look into oil companies' records -- and thus collect money -- for royalties owed from crude oil production earlier than 1990. (Appendix B)

When revealing this document, Representative Ken Calvert (R-CA) remarked:

"Just a few days ago it was brought to my attention that a draft Executive Order establishing a statute of limitations on oil and gas royalties was wending its way through channels in the Department, and perhaps OMB. Guess what? That draft order would provide for a six-year limitations period, not the seven-year statute which the MMS Director insisted she must have in order to do her job well. Not only that, it more narrowly defines the lessee actions which would cause the limitations clock to toll than does the provision we negotiated with MMS. I want to give the agency the benefit of the doubt, but **these revelations are making it very difficult for me.**" (Appendix B)

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6 "Potential Undervaluation of California Crude Oil" DOI Minerals Management Services internal memo, undated, p.l.

7 "Transmittal of California Valuation Study", Memorandum from Associate Director for Royalty Management, undated, p.i.

OUR OPTIONS

The December 6, 1995 internal Department of Interior options paper identifies as Option 1, the possibility of collecting $856 million for the federal treasury. In fact, this figure only accounts for money owed through 1993 -- therefore the oil industry owes even more to the American public. And each additional day that goes by with bureaucratic inaction only increases the amount the oil industry is being allowed to keep for themselves. The government should have begun collecting at least the $856 million already.

Option 1, however, is only one of seven options being presented to the Assistant Secretary for Land and Minerals Management. Each option is based on different characterizations of the transactions at issue. While Option 1 is by far the most lucrative for the U.S. taxpayer, the amounts collected quickly drop down finally to Option 7 -- where nothing is collected from the oil companies. It appears that the inclination of the decision-maker at DOI will determine which course the government will take. This may not be good news for the American public.

It is pointed out in the "Notes to the Option List" that some of the money may not be able to be collected because the DOI has been in the process of completing "Global Settlements" with many of the oil companies in question. These Global Settlements cover a wide array of legal disputes that are largely unrelated to the royalty question. Three have been signed to date -- with Exxon, Chevron and Mobil. (Appendix C)

The Chevron settlement only absolves the company from having to pay royalties and interest before 1980, so that the vast majority of Chevron's share would still be collectable.[8] In Exxon's settlement, the issue of royalties is not specifically discussed, but the structure of the agreement absolves Exxon of all further claims without special reservations. The fact that the DOI has already potentially waived the government's right to collect some of this money indicates the seriousness with which they have taken this issue. In the Mobil settlement, the government did reserve its full right to collect unpaid royalties from the company.

WHAT WOULD CALIFORNIA GET? $165.5 MILLION

According to Section 35 of the Mineral Leasing Act as amended, 50% of all royalties accrued from oil produced on federal land is earmarked to be returned to the State from which the oil came. As can be seen through the charts from DOI's Annual "Mineral Revenues: Report on Receipts from Federal and Indian Leases" (Appendix D), typically, onshore production accounts for approximately 1/3 of total royalties. In this case, 1/3 of $856 million is $285.33 million. The half of that due back to California from onshore production would be $142.67 million.

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[8] Section 6(b) in the government settlement with Chevron provides that the government can collect royalties owed after 1980 if the posted prices are established "through collusion with third parties, fraud, or improper conduct which violates the lease obligations or the Mineral Leasing Act. . . ." The fact that Chevron does not operate all its pipelines as common carriers would qualify as "improper conduct which violates. . . the Mineral Leasing Act."

According to the Outer Continental Shelf (OCS) Lands Act Section 8(g), 27% of all royalties accrued from the production of oil within three miles of the seaward boundary of the State (or within 3-6 miles from the coastline) is earmarked for the State. While MMS does not release figures on the percent of OCS production that qualifies as 8(g), one can compare the total OCS royalties collected to those that were dispersed back to California. California generally receives roughly 4% of the total OCS royalties. The remainder of OCS royalties are kept entirely by the federal government.

In other words, approximately 2/3 of total oil production is accrued from OCS drilling, and 2/3 of $856 million is $570.67 million. Based on the segment of those OCS royalties dispersed back to California, approximately 4%, one can estimate that the total money owed from OCS production would be about $22.83 million. Combining onshore and OCS production, California would be entitled to about $165.5 million if the U.S. Department of Interior goes with Option 1.[9]

IMPACT ON CALIFORNIA PUBLIC SCHOOL SYSTEM

Beyond the obvious impact of losing more than $856 million that is owed to the federal treasury, this sweetheart deal with the oil industry has even more direct harms. By federal law, one half of all money collected by the federal government from onshore oil royalties is to be returned directly to the state from which the oil has been pumped. The State gets a smaller percentage of royalties from certain offshore leases.

In the case of California, there is a particularly ironic twist. California State law Sec. 12320 requires that "All money derived from bonuses, royalties, and rentals under the act of Congress referred to in this section and apportioned under the act to the state, **shall be received by the State Treasurer and by him credited to the State School Fund.**" (emphasis added) (Appendix E)

It is this public school system in which there are currently three school districts that are officially and formally bankrupt -- Richmond, Compton and Coachella.[10] In 1993, California reported that 27 school districts were in serious financial trouble, and nearly half the districts were engaged in deficit spending.[11]

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[9] One caveat is that the State is only entitled to royalties from 8(g) leases that were signed since 1978. This might create a small reduction in the amount of royalties being directed to California from OCS production.

[10] Letter from Jean Ross, California Budget Project to Danielle Brian, Project on Government Oversight, January 23, 1996.

[11] "School Districts in Financial Bind -- 6 in Bay Area", San Francisco Chronicle, January 23, 1993, A13.

According to the National Center for Education Statistics, in 1992, the California school system ranked 35 in the country in expenditures per pupil in average daily attendance. A report on 1993-1994 California School Finance shows that per pupil spending in California was not improving.[12] In 1992 dollars, the State spends about $4,700 per student annually. In 1993, the average salary of public elementary/secondary school teachers was $40,000. In other words, if the federal government were to collect its fair share of oil royalties, the State of California would get enough to educate 35,000 students for an entire year, or pay 4,100 teachers.

CONCLUSIONS AND RECOMMENDATIONS

Obviously, the first step is for the Minerals Management Service of the Department of Interior to START COLLECTING THE MONEY NOW. The DOI should at least accept Option 1 as its first course of action. That would allow the government to collect at least $856 million of the potentially $1.5 billion owed to the government. The Interagency Task Force that drafted this Options Paper was first assembled nearly two years ago. It is high time the DOI stopped "deliberating" about this corporate welfare program, and begin collecting from these companies.

Secondly, the Department of Interior must produce clearer regulations and enforce the Mineral Leasing Act's provision requiring pipelines crossing federal lands to be operated as common carriers. This would begin to create a more open market for crude oil, where prices would more closely reflect value. In itself, however, this change is not enough.

Perhaps the most important, although the most difficult, change will be to convince the DOI to reverse its mind-set from trying to find reasons **not** to collect money from the big oil companies, to trying, instead, to figure out how to retrieve this money owed to the American people as required by law.

The most effective way of accomplishing this is to hold the responsible decision-makers responsible. Specifically, Secretary of Interior Bruce Babbitt, Assistant Secretary of Interior Bob Armstrong, Interior Solicitor John Leshy and Assistant Director for Royalty Management Programs James Shaw should not be allowed to hide behind the bureaucracy any longer. They should be made to explain why they think they have the right to redistribute our wealth to the oil industry. If any of them continue to resist collecting this money aggressively, they should be replaced.

The ball is now in the Department of Interior's court. If they want to, they can enforce existing law and pursue the public's right to this huge sum of money. The DOI's actions in the near future will show to whom they are allied -- the American public or the oil industry.

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[12] Lawrence 0. Picus. "California School Finance 1993-1994: Schools on Shaky Ground", Annual Meeting of the American Educational Research Association, April 12-16, 1993.

Appendix A:

United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Royalty Management Program
P.O. Box 25165
Denver, Colorado 80225-0165

IN REPLY REFER TO:
MMS-VSD-EVB
Mail Stop 3151

DEC - 6 1995

Memorandum

To: Assistant Secretary for Land and Minerals Management
Director, Minerals Management Service

From: Interagency Team Leader, California Oil Valuation Issue David A. Hubbard

Subject: Option list

As requested by the Director in our meeting of October 31, the team has developed the attached list of proposed options for addressing potential oil royalty underpayments in California. The list is not necessarily all-inclusive; there are many possible permutations.

Also attached are estimates of potential collections (royalty and interest) for the various options. Obviously there are many assumptions and qualifications attendant with these estimates; they are best used as a measure of relativity among the options.

Attachment

Attachment

Notes to Option List

1. The option list on the folowing pages contains estimated potential royalty and interest collections if the Federal Government were successful in applying the various options to the ten largest royalty payors. These companies make up about 90% of the California royalty volume for the years 1984 to 1993. (But for each option where dollar estimates are given, a certain amount may not be collectable due to the MMS/EXXON global settlement. Similar problems may exist for Chevron.)

2. Some of the options presented could be applied in combination with one another. For instance, Option VI might be applied where audit demonstrates premia on individual arm's-length sales at the lease level, and another option might be applied to the lessee's non-arm's-length transactions.

Option I. California Crude Oil Valuation based on Alaskan North Slope (ANS) Crude Oil Market Prices

DESCRIPTION

By using market prices for ANS crude oil delivered to Los Angeles, estimate the extent to which posted prices understate the California crude oil royalty prices MMS could have received. This approach, based on computations provided by Micronomics (one of MMS' consultants), would yield premia of about $2.85 per barrel offshore and $6.00 onshore in 1980, almost $3.00 for all production in 1984, and $1.00 to $1.40 for all production in the late 1980's and 1990's. The premia would apply to all Federal royalty volumes of the companies for whom MMS might pursue underpayments.

JUSTIFICATION

Under the pre-1988 regulations, this procedure might be justified as the "...reasonable value of the product determined by the Associate Director..." based on the highest price paid for a part or majority of like-quality field production, price received by the lessee, posted prices, regulated prices (offshore only) and other relevant matters.

Under the 1988 regulations, the justification would have to be that none of the first three Benchmarks are applicable for valuing non-arm's-length transfers of Federal lease crude oil. This would depend on two arguments:

- Exchanges (both pure exchanges and buy/sells) make up perhaps as much as 90% of overall trading, and are not contracts between companies with opposing economic interest. Therefore, they are not arms-length contracts for valuation purposes.
- The remaining outright purchases and sales amount to only a small portion of the overall volume traded, and are not sufficiently "significant" to employ as a basis for valuation.

Then royalty values might be established by applying "other relevant matters" (Benchmark (4)).

POTENTIAL REVENUE COLLECTION

Under the assumption that unpaid royalties on 90% of the onshore production and 100% of OCS production potentially would be collectable, estimated unpaid royalties and accrued interest would total $856 million for the period 1978 to 1993 inclusive.

Option II. Apply Innovation & Information Consultants (IIC) Premia to All Royalty Production

DESCRIPTION

This option would apply the average premia above posting estimated by IIC for Shell and Texaco (and validated in part by the interagency team) during the 1980's to most California royalty production. (Estimated premia for 1978-80 and 1989-1993 were extrapolated from these data.)

Premia were estimated using companies' purchase and sales contracts. The premia are lower then the method used in Option I because they don't capture as much of the refiners' margin as does the Option I methodology. For most years prior to 1986, premia are in the $1.00-$1.85 range; in 1986 and beyond, they are between $0.45 and $0.78 per barrel. The premia would apply to all Federal royalty volumes of the companies for whom MMS might pursue underpayments.

JUSTIFICATION

Under the pre-1988 regulations, this procedure might be justified as "... reasonable value of the product determined by the Associate Director..." based on the highest price paid for a part or majority of like-quality field production, price received by the lessee, posted prices, regulated prices (offshore only) and other relevant matters. In addition, it may be said to represent a value not less than the reasonable unit value determined by the Secretary, including the highest price paid for a part or majority of production.

Under the 1988 regulations, either Benchmark (3) or (4) might be cited as the valuation method. Benchmark (1), using the lessee's posted or contract prices, might be bypassed because relatively little production apparently is sold at arm's-length at posted prices. Benchmark (2) might be bypassed for the same reason and because the posted prices of persons other than the lessee apparently are used mostly in exchanges, which may not pass the competing economic interest test.

POTENTIAL REVENUE COLLECTION

Under the assumption that unpaid royalties on 90% of the onshore production and 100% of OCS production potentially would be collectable, estimated unpaid royalties and accrued interest would total $280 million for the period 1978 to 1993 inclusive.

Option III. Apply premia estimated by MMS audit to all volumes of Federal crude produced by large royalty payors.

DESCRIPTION

This method would apply the approach employed by MMS auditors to Texaco and Shell during this study. That is, booked crude oil costs would be subtracted from booked sales revenues with transportation costs disallowed. Using this procedure, MMS auditors calculated premia for 1989 of $0.89 per barrel.[1] If similar records are not available for other companies, the procedure would simply use contract premia applied to all federal royalty production. Using the latter method, MMS auditors found premia for Shell of $1.31 per barrel in 1984.

Depending on individual company circumstances and further audit, lessees might be permitted to demonstrate that actual transportation costs are associated with these premiums (allowing all transportation costs would reduce the $0.89 premium above to about $0.16). MMS would decide which costs are appropriate and thus how much the premia may be reduced.

JUSTIFICATION

Justifications for this approach would be similar to those discussed for Options 1 and 2 for periods before and after the 2/1/88 oil valuation rules were implemented. Further, the net revenues might be said to approximate the lessee's gross proceeds.

POTENTIAL REVENUE COLLECTION

Estimating potential revenues is difficult because the MMS audit work is not complete. Nor can one state with certainty how many of the companies would be assessed using contracts (per the procedure for Shell) or by the crude cost and sales revenue method (as for Texaco). If the premium derived for Shell ($1.31/bbl) is applied before 1986 and the Texaco premium of $0.89 is applied thereafter, collection estimates are $316 million.[2] Of that amount, $97 million is estimated using the

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[1] In addition to outright purchases and sales, buy/sell exchanges, most of which were simply employed to transport oil for others, were used as valid transactions for royalty valuation purposes in estimating this premium.

[2] January 1, 1986, is used as the"break" point because a dramatic, long-term drop in crude oil prices occurred about that time.

booked cost and revenue methodology applied by the MMS auditors to Texaco's transactions. If all transportation costs are allowable, the premium drops to $17 million. The total would then be $236 million for this option; however, most of that estimate is derived using contract data just as in Option II.

Option IV. Assume that some fixed percentage of Federal production is sold at a premium and apply a selected premium to that volume.

DESCRIPTION

MMS would assume that the lessee only received legitimate gross proceeds additions for some percentage of its production from Federal leases and apply a selected premium as in Option II or III to that volume. The percentage could be calculated, for example, by dividing the company's total sales and purchase volume at a premium by its total arm's-length transaction volume. (The latter could include all arm's-length outright sales/purchases, all arm's-length outright sales/purchases plus buy/sell exchanges, or all outright arm's-length sales/purchases plus all exchanges.) Selection of the denominator may depend on interpretations of which types of transactions are at arm's length, including "opposing economic interest" considerations. For example, buy/sell exchanges might not be considered to involve opposing economic interests.

The derived percentage could then be multiplied by (1) the selected premium and (2) production from each Federal lease to calculate royalties due by lease. The estimates provided here give a range based on data for Texaco and Shell applied to all the largest payors' Federal production.

JUSTIFICATION

The first valuation benchmark under the 1988 rules for oil not sold under arm's-length contract applies either the lessee's contemporaneous posted or contract prices for arm's-length purchases or sales of significant quantities of oil. If the lessee's arm's-length purchases/sales are at different postings or contract prices, then the volume-weighted average price for such transactions is to be used. Likewise, the third benchmark would apply the arithmetic average of other contemporaneous arm's-length contract prices for purchases or sales of significant quantities of like-quality oil. Thus if the lessee buys and sells significant quantities at arm's-length, it could be argued that the weighted average premium from these transactions could be applied to all of its non-arm's-length production. This option follows the same general logic.

Under the pre-1988 rules, this procedure might be justified as the reasonable value determined by the Associate Director, the highest price paid for a part or majority of production, or "other relevant matters."

POTENTIAL REVENUE COLLECTION

Four different cases are presented, all using Texaco's 1989 volume data to estimate the percent of production sold at a premium. The first and second estimates apply the IIC premia; the first considers all arm's-length sales and purchases plus exchanges in estimating the percentage of Federal production sold at a premium, and the second uses all arm's-length sales and purchases plus buy/sell exchange volumes. The third and fourth estimates apply premia from the MMS audits; the third considers all arm's-length sales and purchases plus all exchanges in estimating the percentage of Federal production sold at a premium, and the fourth uses all arm's-length sales and purchases plus buy/sell exchange volumes. Collection estimates range from $31.3 million for the first case to $83.2 million for the fourth.

Option V. Bill additional royalties only for specific volumes where MMS audit demonstrates third-party sales by lessee or its affiliate are at premium above posting--do company/lease apportionments based on field-level transactions.

DESCRIPTION

This approach would assess additional royalties where MMS audits show the lessee or the lessee's affiliate received premia above posting for specific field-level sales, but lease royalties for those fields were paid on postings. The allocation could involve, for example, the company's total field sales and purchases at a premium divided by its total field sales and purchases. This percentage could then be multiplied by (1) the weighted average premium and (2) production from each Federal lease in that field to calculate royalties due by lease. (For Texaco, because the numerous exchanges and complicated pipeline movements result in loss of identity of production, MMS auditors feel it would be difficult to discern specific field-level sales at premia and allocate them to specific Federal lease production. But this may not be the case for Shell or subsequent auditees where less complicated transactions occur.)

JUSTIFICATION

The MMS can make a case that premiums received by the lessee or its affiliates in specific sales represent gross proceeds to the lessee and should therefore represent royalty value.

POTENTIAL REVENUE COLLECTION

No dollar estimates can be provided until MMS audits demonstrate specific instances of sales at premia by field; any estimates would be speculative. Potential returns, however, likely would be somewhat less than those for Option IV., where a fixed percentage of Federal production is assumed to be sold at a premium.

Option VI. Bill additional royalties only for specific lease volumes where audit demonstrates third-party sales by lessee or its affiliate are at premium above posting.

DESCRIPTION

This approach would assess additional royalties where MMS audits show the lessee or the lessee's affiliate received premia above posting for specific sales traceable directly to the lease, but royalties were paid on postings. (For Texaco, because the numerous exchanges and complicated pipeline movements result in loss of identity of production, MMS auditors feel it would be difficult or impossible to assign sales at premia to specific Federal lease production. But this may not be the case for Shell or subsequent auditees where less complicated transactions occur.)

JUSTIFICATION

The MMS can make a case that any premiums received by a lessee or its affiliates in specific sales represent gross proceeds to the lessee and should therefore represent royalty value.

POTENTIAL REVENUE COLLECTION

No dollar estimates can be provided until MMS audits demonstrate specific instances of sales at premia by lease; any estimates would be speculative. The returns, however, likely would be somewhat less than those under Option V., where "premia" sales at the field level would be allocated to Federal lease production rather than establishing a direct link between specific contracts and leases.

Option VII. No attempt to collect additional royalties for past periods; instead, revise the MMS oil valuation rules.

DESCRIPTION

MMS would not try to collect additional royalties for past periods in California. Rather, it would pursue revising its oil valuation rules for prospective application. (It is assumed that regardless of the option chosen, MMS will actively pursue revising the rules.)

JUSTIFICATION

MMS would have to decide that the current rules don't provide enough flexibility to attempt to collect additional royalties.

POTENTIAL REVENUE COLLECTION

No additional royalty collections would result until the regulations were revised, and then only prospectively.

Appendix B:

EXECUTIVE ORDER

ESTABLISHING A TIME LIMIT
FOR COMPLETING AUDITS OF FEDERAL
LEASE ROYALTY PAYMENTS

Since the Federal Oil and Gas Royalty Management Act of 1982, the Department of the Interior's (Department) Minerals Management Service substantially increased audits of royalty payments to assure that statutory and lease terms were met. These audit activities resulted, in many cases, with orders issued to royalty payors that covered periods more than 6 years old. Recently, the Minerals Management Service established a goal to conduct all audits of Federal lease royalty payments within 6 years of the royalty payment due date.

With this Executive Order, the timely completion of audits is required. This will provide greater certainty to the minerals industry who are developing Federal resources. They can now be assured that they can expect the timely closure of audits. This also makes good business sense because royalty payors will have a clear time period beyond which they no longer need to maintain records or be subject to audit. Such practice furthers the Federal Government's objective of sound resource management while at the same time providing it with a reasonable period to assure the correct and proper payment of royalty.

Accordingly, by the authority vested in me as President by the Constitution and the laws of the United States of America, it is hereby ordered that:

Audits by the Department of royalty payments on all minerals produced from Federal leased lands after issuance of this order, including issuance of enforcement documents, will be completed within 6 years of the royalty payment due date, except in those instances (1) when a lessee/agent refuses or delays access to the records necessary to determine the accuracy of royalty payments, (in which case the general 6-year period will be extended by the amount of extra time required to obtain the necessary records); (2) when mutually agreed to by the Department and the payor; or (3) when there is evidence of fraud, collusion or concealment of pertinent facts.

Opening Statement of
The Honorable Ken Calvert
Chairman, Subcommittee on Energy & Mineral Resources
Committee on Resources

Mark-up of H.R. 1975

The Federal Oil & Gas Royalty Simplification & Fairness Act of 1996

February 28, 1996

The Subcommittee meets today to mark-up H.R. 1975, a bill to improve the management of royalties from Federal and Outer Continental Shelf oil and gas leases for other purposes. The "Royalty Fairness Act" was introduced in June of last year, a legislative hearing was held July 18, 1995, and a revised version of the bill was incorporated in Chairman Young's mark during full committee action leading to passage of H.R. 2491, the Balanced Budget Act of 1995 vetoed by President Clinton. Afterwards, in the context of budget deliberations the details of this bill were further negotiated between Congress and the Administration over a period of several weeks, leading us into today's mark-up.

At the proper time I will introduce an amendment-in-the-nature-of-a-substitute which fully reflects the consensus reached during the good-faith negotiations which we and our Senate counterparts entered into with officials of the Minerals Management Service, Department of the Interior and the White House. With the exception of one very important issue - the proper role of the States in managing royalty collections for onshore federal oil and gas leases within their borders under authority delegated by the Secretary of the Interior - my substitute is word-for-word the language agreed upon by those Administration officials who where charged with the responsibility to work out our differences.

I have called this mark-up today, despite the lack of Administration support on the State delegation issue, to keep the legislative process on track, moving toward passage of a bill the President will sign, and I firmly believe we can get there. The provisions on delegated authority to the States in my substitute are not set in stone. I believe I have struck a very reasonable Federal/State balance in the substitute, one that is modeled after several federal environmental statutes whereby the States are delegated the authority to protect air and water resources and to regulate coal mining within their borders while at the same time the feds retain ultimate regulatory jurisdiction and oversight of the States' performance.

My substitute envisions a similar program with respect to those States which elect to seek the delegation of the Secretary's authority to collect and enforce onshore oil and gas royalties due and owing to the United States - and because such States share 50/50 in the monies so collected it is absolutely in their best interests to do an efficient and aggressive job of it. I have no reason to believe otherwise and, indeed, have plenty of reason to believe States will

do a better job of policing production accounting and royalty management. One need look no farther than the great State of Texas and its Land Commissioner who is aggressively pursuing alleged underpayments of royalties on school lands, which if proven true will have an impact upon onshore Federal royalties in Texas and the substantial Section 8(g) royalties from the OCS shared with the State.

Before I recognize Mr. Abercrombie for any opening statement he may have I wish to make absolutely clear that my bill in no way attempts to turn federal mineral estate into state-owned minerals or otherwise promote the transfer of ultimate jurisdiction over federal lands to the States. The Secretary of the Interior will retain his authority to decide whether to lease federal lands for mineral development, and if so, where to permit the drilling of oil and gas wells on the leased tracts. No environmental decision-making responsibility is contemplated for delegation to the States in this bill. Only activities "downstream" from that point, which are related to royalty collection activities are available to be delegated to the States which seek the responsibility. No more, no less.

Given the Secretary's past support for devolution of MMS's royalty collection functions to the States as part of the Re-invent Government II proposal of last March, I simply do not understand his reluctance to even talk about the delegation language I have proposed in this substitute, let alone pass back a marked-up version. After arduous negotiations on the issues of defining lessee liability, the proper term for a statute of limitations and the events which toll the limitations clock, and the requirement for cost-effectiveness in auditing - to now come to an impasse on provisions which follow many other Federal/State models of cooperation is very disturbing to me. In large measure, we agreed with the Department's concerns on the issues negotiated in the last two months and we therefore backed off positions taken by the Congress in the conference report on the Balanced Budget Act. We negotiated in good faith to get a bill which will provide equity to oil and gas lessees and increase receipts to the Treasury.

I thought the Department was likewise sincere in its wishes to come to closure, but now I'm not so sure. Just a few days ago it was brought to my attention that a draft Executive Order establishing a statute of limitations on oil and gas royalties was wending its way through channels in the Department, and perhaps OMB. Guess what? That draft order would provide for a six-year limitations period, not the seven-year statute which the MMS Director insisted she must have in order to do her job well. Not only that, it more narrowly defines the lessee actions which would cause the limitations clock to toll than does the provision we negotiated with MMS. I want to give the agency the benefit of the doubt, but these revelations are making it very difficult for me. Nevertheless, for the purposes of this Subcommittee mark-up I intend to stand by my commitment to the negotiated text. I do this emphasize the Subcommittee's good faith in trying to reach consensus on all the issues in this bill, including the state delegation provisions. I trust that before full committee mark-up the Administration will demonstrate a parallel commitment so that we might actually enact the reforms to which the Administration has agreed at one time or another.

Appendix C:

COMPROMISE AND SETTLEMENT AGREEMENT

AGREEMENT made October 1, 1993 between Exxon Company U.S.A. ("Exxon") and the United States Department of the Interior ("DOI") and its Minerals Management Service ("MMS")

RECITALS

A. DOI has completed two audits of Exxon's accounts, covering production of oil and gas through September 30, 1989. DOI has ordered Exxon to perform certain actions regarding reporting, computation and payment of additional royalties and late payment interest ("royalties"), and has asserted claims as to Exxon's payments under various oil and gas leases of federal and Indian onshore lands and submerged lands on the outer continental shelf ("OCS"). DOI has had full and complete access to Exxon's records related to Exxon's oil and gas production through September 30, 1989, with the explicit exception of certain records concerning payments to resolve contractual disputes with purchasers, which are excluded from this settlement (see paragraph number 6 below).

B. DOI has also instituted several claims through its automated verification processes and has ordered Exxon to perform other actions regarding reporting, computation and payment of additional royalties for oil and gas production and associated late payment interest ("royalties"), and has asserted claims as to Exxon's payments under various oil and gas leases of federal and Indian onshore lands and submerged lands on the OCS.

C. These oil and gas royalty claims of DOI against Exxon are the subject of on-going administrative proceedings, which are included in Exhibit A attached hereto.

D. Exxon has filed requests for refunds of overpaid royalties in connection with certain OCS production.

E. DOI has utilized the assistance of various states and Indian tribes in connection with certain audits associated with production that is subject to the Exhibit A proceedings. It has consulted with those states and at its discretion with other affected parties in connection with this settlement.

F. DOI, in good faith, contends that Exxon is liable with respect to the royalty computations and payments involved in the Exhibit A proceedings. DOI, in addition, has identified certain other matters, which have not yet resulted in orders to pay or perform for production for the period ending September 30, 1989.

G. Exxon, in good faith, contends that it is not liable with respect to DOI's claims that are involved with the Exhibit A proceedings, and has not determined the extent to which it would contest any additional matters identified by DOI which have not yet resulted in orders to pay or perform.

H. The parties are willing to accept a compromise and settlement of the disputes now existing with respect to production on Exxon's federal and Indian oil and gas leases for the period ending September 30, 1989 and certain other matters covering production after that date as specified in Exhibit A. This Agreement is made for the purpose of compromising and settling any and all claims, disputes, and matters between the parties involving Exxon oil and gas production through September 30, 1989, except as specifically excluded herein.

AGREEMENT

In consideration of the above recitals and the mutual covenants herein, the parties agree as follows.

1. Exxon agrees to pay the sum of [redacted] dollars) by wire transfer to the Minerals Management Service by October 1, 1993. If Exxon is unable to complete the transfer by that date, late payment interest shall be added to that sum. Late payment interest shall be computed according to the requirements of the Federal Oil and Gas Royalty Management Act (30 U.S.C. § 1721) and the implementing regulations found at 30 C.F.R. §218.54 beginning on the effective date of the Agreement.

2. With respect to oil and gas production by Exxon attributable to federal or Indian leases through September 30, 1989, all accountings, audits, claims, rights, recalculations , refunds, credits, offsets, duties, obligations and liabilities existing between the parties as to Exxon's royalty obligation and all other financial computations, refunds and payments, whether of not listed in Exhibit A hereto, and excepting only those matters identified below in paragraph 6, are satisfied, released, discharged and terminated ("Settled Claims"). Accordingly, Exxon is released from record maintenance requirements for periods prior to September 1, 1987, except as they may pertain to those matters identified below in paragraph 6.

3. Nothing in this Agreement shall prevent either DOI or Exxon from asserting or reopening any of its claims against the other as to royalty and other financial computations and payments for reasons of fraud, malfeasance, concealment or misrepresentation of material fact on the part of the other.

4. Upon execution of this Agreement, the parties authorize and direct their attorneys to execute withdrawals or dismissals with prejudice of all administrative or judicial proceedings with respect to all Settled Claims. MMS agrees to process and release all valid outstanding refund requests (as listed in Exhibit B, attached hereto) in

accordance with the provisions of Section 10 of the Outer Continental Shelf Lands Act (43 U.S.C. §1339) and Exxon agrees to withdraw all "tolling" requests.

5. DOI releases Exxon from its obligations to maintain any bonds or other security for payment of any Settled Claims, and Exxon may reduce the amount of coverage under any comprehensive bonds accordingly.

6. The parties expressly agree that the following cases, proceedings, issues or matters are not Settled Claims under this Agreement:

   a. Any royalty or other obligation, if and when DOI may assert there is one, related to revenue, payments or other consideration received by Exxon with respect to any and all settlements, litigation or other resolutions of contract disputes between Exxon and purchasers of oil or gas ("Contract Settlement Payments").

   b. Any and all royalty obligations, if and when DOI may assert there is one, related to the payment of Major Portion values for any Indian leases, except to the extent they have already been settled in a settlement agreement dated March 31, 1993, for leases on the Navajo Nation's lands.

7. It is understood and agreed that by executing this Agreement, Exxon in no way admits liability to DOI of any kind, and that DOI, by executing this Agreement, admits no liability to Exxon. It is specifically understood and agreed that this agreement is executed for the sole purpose of settling the issues described herein. Neither Exxon nor the DOI (including the MMS) shall be deemed to have approved, accepted, or consented to any concept, method, theory, principle, or statutory or regulatory or contractual interpretation, underlying or supposedly underlying, any of the matters agreed to herein or raised in connection with the issues settled herein. This agreement shall have no precedential value and shall not be binding on either

party as to any issues, or any time periods, other than those specifically addressed herein.

8. Nothing in this or any other agreement shall be construed so as to deprive a federal official of the authority to revise, amend or promulgate regulations. Nor shall anything in this Agreement be construed to commit a federal official to expend funds not appropriated by Congress. Nor shall anything in this Agreement bar any party from seeking judicial relief enforcing this Agreement in any court having jurisdiction over the parties to, and the subject matter of, this Agreement.

9. This Agreement embodies the entire agreement of the parties respecting the settlement of Exxon's royalty obligation with respect to its oil and gas production attributable to federal onshore and OCS leases and Indian leases through September 30, 1989 except as excluded in paragraph 6 (and with respect to other matters listed in Exhibit A). DOI has raised in this Agreement all matters about which it has any question regarding Exxon's compliance with its royalty obligation for its oil and gas production for the period ending September 30, 1989, except as excluded in paragraph 6. There are no promises, terms, conditions, or obligations other than those contained in this Agreement. This document supersedes all previous communications, notices, representations, denials or agreements, either verbal or written, between the parties regarding the royalty and other financial computations and payments for the Settled Claims.

10. With the payment specified in paragraph 1, above, for production from the properties covered herein, Exxon's methodologies for computing its royalty obligation are in substantial compliance with applicable DOI rules, regulations and guidelines for oil and gas production for the period ending September 30, 1989, except as excluded in paragraph 6.

11. This Agreement is effective on October 1, 1993.

12. This Agreement is executed in duplicate, each of which is to be treated as an original, and one of which is to delivered to each party upon its execution by both.

IN WITNESS WHEREOF, the parties have executed this Agreement on the dates indicated below.

EXXON COMPANY U.S.A.

By: _____

J. H. Steele
Operations Manager
Production Department

Date: 10/25/93

UNITED STATES DEPARTMENT OF THE INTERIOR, and its MINERALS MANAGEMENT SERVICE

By: _____

Tom Fry, Director,
Minerals Management Service

Date: DEC 6

GLOBAL SETTLEMENT AGREEMENT

AGREEMENT made and effective this March 22, 1994, between Chevron U.S.A. Inc. ("Chevron") and the United States Department of the Interior ("DOI") and its Minerals Management Service ("MMS")

RECITALS

A. DOI has completed audits of Chevron's leases and accounts, covering production of oil and gas through September 30, 1989. DOI has ordered Chevron to perform certain actions regarding reporting, computation and payment of additional royalties and late payment interest ("royalties"), and has asserted claims as to Chevron's payments under various oil and gas leases of federal and Indian onshore lands and submerged lands on the outer continental shelf ("OCS").

B. DOI has also instituted several claims through its automated verification processes and has ordered Chevron to perform other actions regarding reporting, computation and payment of additional royalties for oil and gas production and associated late payment interest ("royalties"), and has asserted claims as to Chevron's payments under various oil and gas leases on federal and Indian onshore lands and submerged lands on the OCS.

C. Most of these oil and gas royalty claims of DOI against Chevron are the subject of on-going judicial or administrative proceedings, which are included on Exhibit A attached hereto. Also listed on Exhibit A are certain disputed matters that are not yet the subject of judicial or administrative proceedings.

D. Chevron has filed requests for refunds of overpaid amounts in connection with certain OCS production.

E. DOI has utilized the assistance of various states and Indian tribes in connection with certain audits associated with production that is subject to the Exhibit A proceedings.

F. DOI, in good faith, contends that Chevron is liable with respect to the royalty computations and payments involved in the Exhibit A proceedings. DOI, in addition, has identified certain other matters, which have not yet resulted in orders to pay or perform for production for the period ending September 30, 1989 and for later periods.

G. Chevron, in good faith, contends that it is not liable with respect to DOI's claims that are involved in the Exhibit A proceedings, and has not determined the extent to which it would contest any additional matters identified by DOI which have not yet resulted in orders to pay or perform.

H. Except as expressly reserved and provided herein, the parties are willing to accept a compromise and settlement of any and all disputes, presently known or unknown, with respect to production on Chevron's federal and Indian oil and gas leases for the period ending September 30, 1989, whether or not such disputes are listed on Exhibit A, and certain other matters covering production after that date as specified in Exhibit A.

AGREEMENT

In consideration of the above recitals and the mutual covenants herein, the parties agree as follows:

1. Chevron agrees to pay the sum of $150,000,000 (one hundred fifty million dollars) by wire transfer to the MMS, in accordance with MMS instruction, as follows:

(a) $75 million on or before March 31, 1994; and

(b) $75 million on the earlier of

(i) within five business days after DOI and Chevron terminate the reservation contained in paragraph (6) (b) below, referred to as the "California reserved issue"; or

(ii) December 31, 1994.

(c) MMS will provide Chevron with instructions to simplify reporting of the above-specified amounts. The payment of the amount provided in this paragraph 1 shall mean that payments of royalties by Chevron for the matters settled herein are deemed to be made in compliance with MMS orders and regulations. Chevron shall not be required to revise previously submitted reporting of royalty payments, including but not limited to, Form MMS-2014.

If Chevron is unable to complete the transfers by the specified dates, late payment interest shall be added to that sum. Late payment interest shall be computed according to the requirements of the Federal Oil and Gas Royalty Management Act (30 U.S.C. §1721) beginning on the date the payment was due.

2. With respect to oil and gas production by Chevron attributable to federal and Indian leases through September 30, 1989 and to oil and gas production after that date as provided in paragraph 7, all accountings, audits, claims, rights, recalculations, refunds, credits, offsets, duties, obligations and liabilities existing between the parties as to Chevron's royalty obligation and all other financial computations,

refunds and payments, whether or not listed in Exhibit A hereto, excepting only those matters identified below in paragraph 6, are satisfied, released, discharged and terminated ("Settled Claims"). Accordingly, Chevron is released from record maintenance requirements for periods prior to March 31, 1988, except as they may pertain to those matters identified below in paragraphs 6 and 7. Chevron agrees not to file any credit adjustments or effect any other form of refund or credit for any Settled Claim.

3. Nothing in this Agreement shall prevent either DOI or Chevron from asserting or reopening any of its claims against the other as to royalty and other financial computations and payments for reasons of fraud, malfeasance, concealment or misrepresentation of material fact on the part of the other.

4. Upon execution of this Agreement, the parties authorize and direct their attorneys to execute withdrawals or dismissals with prejudice of all administrative or judicial proceedings with respect to all Settled Claims, specifically including Chevron v. Lujan, No. CV90-0699 (W.D. La.) and Chevron v. Fry, No. 93-2163 (D. D.C.). Chevron agrees to withdraw its outstanding refund requests made in accordance with the provisions of Section 10 of the Outer Continental Shelf Lands Act (43 U.S.C. §1339) that are the subject of the Settled Claims as listed in Exhibit A, and it is agreed that MMS shall retain the monies that were the subject of the refund requests. DOI agrees that with respect to any refund requests filed by Chevron which are filed subsequent to the date of this Agreement and not included in the Settled Claims, DOI shall process those refund requests in a non-discriminatory manner relative to other federal royalty payors.

5. Upon payment of the amount prescribed in paragraph (1) (b), MMS will release Chevron's bonds and letters of credit. Chevron agrees to keep all such sureties in effect until released by MMS.

6. The parties expressly agree that the following cases, proceedings, issues or matter are not Settled Claims under this Agreement:

   (a) Any royalty or other obligation, if and when DOI may assert there is one, related to revenue, payments or other consideration received by Chevron with respect to any and all settlements, litigation or other resolutions of contract disputes between Chevron and purchasers of gas ("Contract Settlement Payments").

(b) Potential claims DOI may assert against Chevron for additional royalties and interest on crude oil production from federal leases in and offshore California between January 1, 1980 and September 30, 1989 due to posted prices being used to determine royalty value which do not represent reasonable value as a result of such posted prices being established through collusion with third parties, fraud, or improper conduct which violates the lease obligations or the Mineral Leasing Act ("California reserved issue"); provided, however, any and all defenses to such claims based on any applicable statute of limitations, other law, or in equity are expressly reserved to Chevron.

(c) For production from wells in the Rangely Weber Sand Unit in Rio Blanco County, Colorado, for which Chevron has applied on or before March 3, 1994, for a royalty rate reduction and have been or are subsequently determined to qualify for a royalty rate reduction, recoupment by Chevron of amounts paid in excess of the Bureau of Land Management ("BLM") approved reduced royalty for a period of six years preceding the month Chevron applied for such reduction.

7. DOI and Chevron shall release and discharge the other for the same type of claims, offsets, reductions, etc., described in paragraph 2 for oil and gas production after September 30, 1989 as follows:

(a) DOI claims for payment of additional royalty and interest for gas sold by Chevron and its predecessor Gulf Oil Corporation under the Texas Eastern Gas Transmission Corporation and Southern Natural Gas Company warranty-type contracts through termination of those contracts in 1989 and 1993, respectively;

(b) For MMS orders contained on Exhibit A directing Chevron to recalculate and pay to current date, such claims through the date such order was issued; and

(c) Any other claims, demands, bills, appeals, offsets, etc., contained on the list entitled Global Settlement Common Listing jointly prepared by Chevron and DOI, and attached as Exhibit A, as of the effective date of this settlement.

8. It is understood and agreed that by executing this Agreement, Chevron in no way admits liability to DOI of any kind, and that DOI, by executing this Agreement, admits no liability to Chevron. It is specifically understood and agreed that this Agreement is executed for the sole purpose of settling the issues described herein. Neither Chevron nor the DOI

Enclosure

COMPROMISE AND SETTLEMENT AGREEMENT

AGREEMENT made _____, 1995, between Mobil Exploration and Producing U.S. Inc. (Mobil) as agent for Mobil Oil Corporation, Mobil Exploration and Producing Southeast Inc., Mobil Exploration and Producing North America Inc. (as partial successor-in-interest to the Superior Oil Company), Mobil Producing Texas and New Mexico, Inc. (as partial successor-in-interest to the Superior Oil Company), Mobil Rocky Mountain Inc., their predecessors-in-interest, successors-in-interest and affiliated companies, and the United States Department of the Interior (DOI) and its Minerals Management Service (MMS), hereinafter collectively referred to as DOI.

RECITALS

A. DOI has conducted audits of Mobil's accounts, covering production of oil and gas through September 30, 1989. DOI has ordered Mobil to perform certain actions regarding reporting, computation and payment of additional royalties and late payment interest (royalties), and has asserted claims as to Mobil's payments under various oil and gas leases of federal and Indian onshore lands and submerged lands on the outer continental shelf (OCS).

B. DOI has also instituted several claims through its automated verification processes and has ordered Mobil to perform other actions regarding reporting, computation and payment of additional royalties for oil and gas production and associated late payment interest, and has asserted claims as to Mobil's payments under various oil and gas leases on federal and Indian onshore lands and submerged lands on the OCS.

C. Most of these oil and gas royalty claims of DOI against Mobil are the subject of on-going judicial or administrative proceedings, which are referenced on Exhibit A attached hereto. Listed on Exhibit B are certain disputed matters that are not yet the subject of judicial or administrative proceedings.

D. Mobil has filed requests for refunds of overpaid royalties in connection with certain OCS production.

E. Mobil has provided MMS with assurances that Mobil's policy and practice was to pay royalties on any payments Mobil received from gas purchasers to settle disputes concerning whether the purchasers had paid the full price contractually required for gas produced in the past by Mobil from Federal and Indian leases (past pricing disputes). MMS auditors had access to Mobil's records and agree that it was Mobil's policy to pay royalties on settlement proceeds relating to past pricing disputes.

F. Various states and Indian tribes have assisted DOI in performing audits leading to issues that are identified in Exhibits A and B. DOI has consulted with those states and at its discretion with other affected parties in connection with this settlement.

G. DOI, in good faith, contends that Mobil is liable with respect to the royalty computations and payments involved in the Exhibit A proceedings. DOI, in addition, has identified certain other matters involving production for the period ending September 30, 1989, and for later periods, which have not yet resulted in orders to pay or perform. These other matters are specified on Exhibit B.

H. Mobil, in good faith, contends that it is not liable with respect to DOI's claims that are involved in the Exhibit A proceedings, and has not determined the extent to which it would contest any additional matters identified on Exhibit B.

I. The parties are willing to accept a compromise and settlement of the disputes now existing with respect to production on Mobil's federal onshore and OCS oil and gas leases for the period ending September 30, 1989, and certain other matters, as specified on Exhibits A and B (some of which cover production after that date). This Agreement is made for the purpose of compromising and settling any and all claims, disputes, and matters between the parties, whether known or unknown, involving Mobil's oil and gas production through September 30, 1989, except for those matters specifically identified as exclusions in paragraph 7 below, and of compromising and settling certain issues for later periods as expressly provided herein.

J. By separate agreement, DOI and Mobil recently have settled DOI's claims for royalties due on reimbursements for production-related costs paid to Mobil under § 110 of the Natural Gas Policy Act (NGPA) and the implementing Federal Energy Regulatory Commission Order 94 series (production related cost settlement). Those matters therefore are not addressed in this Agreement, nor does the Agreement amend the production related cost settlement.

AGREEMENT

In consideration of the above recitals and the mutual covenants herein, the parties agree as follows:

1. Mobil agrees to pay the sum of $ ← X-4 → ← X-4 → by wire transfer to the MMS within ten working days after the effective date of this Agreement.

MMS will provide Mobil with instructions to simplify reporting of the above-specified amount.

If Mobil is unable to complete the transfer by the date specified above, late payment interest shall accrue on the above-stated amount. Late payment interest shall be computed at the rate established under the Federal Oil and Gas Royalty Management Act (30 U.S.C. 1721) and the implementing regulations at 30 C.F.R. § 218.54 beginning on the effective date of the Agreement.

2. With respect to oil and gas produced by Mobil and attributable to Federal onshore and OCS leases through September 30, 1989, all accountings, audits, claims, rights, recalculations, refunds, credits, offsets, duties, obligations and liabilities existing between the parties as to Mobil's royalty obligations, excess royalty or related production payments, interest or late payment penalties and all other financial computations, refunds and payments, whether or not listed on Exhibits A and B hereto, and excepting only those matters identified below in paragraph 7, are satisfied, released, discharged and terminated (Settled Claims). Accordingly, Mobil is released from record maintenance requirements for periods prior to January 1, 1989, except as they may pertain to those matters identified below in paragraph 7. Mobil agrees not to file any credit adjustments or effect any other form of refund or credit for any Settled Claim.

3. All royalty obligations arising from proceeds received by Mobil from gas purchasers for settlement of past pricing disputes are satisfied, released, discharged, and terminated for the contract settlements listed in Exhibit C, except to the extent that these past pricing disputes affect royalties on Indian leases, in which case they are excluded from this settlement agreement. Mobil warrants that any dollar amounts received under pipeline settlements listed in Exhibit C which were categorized by Mobil, on or before the effective date of this agreement, as buyout, buydown, take-or-pay, litigation expense, or other, will not be reclassified by Mobil after this settlement as a pricing issue upon which Mobil would not owe additional royalties. DOI warrants that any dollar amounts received under pipeline settlements listed in Exhibit C, which were classified by Mobil as buyout, buydown, take-or-pay, litigation expense, or other, will not be reclassified after this settlement by DOI as a pricing issue upon which DOI would claim additional royalties.

4. Nothing in this Agreement shall prevent either DOI or Mobil from asserting or reopening any claim or potential claim against the other as to royalty and other financial

computations and payments for reasons of fraud, concealment, or misrepresentation of material fact on the part of the other.

5. Upon execution of this Agreement, the parties agree to execute withdrawals or dismissals, with prejudice, consistent with the terms of this Agreement, of all administrative proceedings with respect to all Settled Claims. This Agreement shall govern, control, and take precedence over any proceeding related to the Settled Claims. The parties further agree to jointly move the Court for the issuance of an order dismissing Mobil Exploration & Producing U.S., Inc. v. Babbitt, Civil No. 93-0184 (SSH) (D.D.C.), that dismissal to be without prejudice to Mobil's right to raise statute of limitations as a defense in any other presently pending or future judicial or administrative proceeding. In the case of MMS-92-0493-OCS the parties will execute an appropriate amendment to dismiss issues other than the issue of gas transportation allowances under leases governed by section 6 of the OCS Lands Act, 43 U.S.C. 1335, as referenced in paragraph 7(e) below.

6. Upon Mobil's payment of the amount agreed to under paragraph 1, MMS will release Mobil's bonds and letters of credit related to the Settled Claims within 30 days. Mobil agrees to keep all such sureties in effect until 30 days after payment.

7. The following matters are expressly excluded from this Agreement:

(a) Any claim or potential claim of DOI arising from revenue or consideration, in any form, received by Mobil due to the resolution of contract disputes between Mobil and purchasers of oil or gas (Contract Settlement Payments), excepting those past pricing disputes specified in paragraph 3 and excepting those claims for royalties due on reimbursement for production-related costs that were settled pursuant to the agreement referenced in paragraph J. This exclusion applies, inter alia, to the administrative appeal docketed as MMS-94-0151-OCS (except to the extent that DOI has claimed royalty on reimbursement for production-related costs or past pricing disputes).

(b) Any claim arising from facts indicating that the prices used or paid for crude oil produced from Federal leases in and offshore California do not reflect accurately the value of the crude oil. This exclusion does not cover claims based on matters other than crude oil valuation; specifically it will not include disputes as

to measurement discrepancies, accounting errors, erroneous gravity of oil, or oil run time issues.

(c) Any potential claim for compensatory royalty against Mobil resulting from failure to protect against drainage of onshore or offshore Federal and Indian leases.

(d) All claims, issues, or matters, whether currently pending or not, involving Indian leases, other than those specifically identified on Exhibit A (for which the assessment is being paid in full by way of this Agreement). The parties acknowledge the existence of prior settlements between Mobil, DOI, and various Indian tribes and allottees. Nothing in this Agreement amends, supersedes, or vitiates those prior agreements.

(e) The issue of whether MMS should grant transportation allowances in determining royalties due for natural gas production from leases validated under Section 6 of the OCS Lands Act (43 U.S.C. § 1335). This issue is the subject of administrative appeals (MMS-92-0493-OCS, in part, involving $ X-Y in principal claimed by MMS, and MMS-93-0905-OCS, involving $ X-Y in principal claimed by MMS) and of Mobil's claims in the case styled Oxy, USA, Inc., et al v. Babbitt, et al, Civil No. 93-1186 (LC) (W.D.La.).

(f) The issue of whether MMS may require Mobil to calculate the transportation allowance for transportation of carbon dioxide produced from the McElmo Dome unit (Montezuma and Dolores Counties, Colorado) on the basis of actual costs. This issue is the subject of an administrative appeal docketed as MMS-93-0997-O&G and of the case styled Mobil Exploration & Producing U.S., Inc. v. Babbitt, Civil No. 94-0387 (SSH) (D.D.C.).

(g) The issue of whether MMS should grant Mobil an extraordinary cost allowance for removing hydrogen sulfide from the natural gas produced from its leases in the Mobile Bay area of the OCS. This is the subject of an administrative appeal docketed as MMS-93-0884-OCS and of Mobil's claims asserted in paragraph 8(e) of the complaint in the case styled Mobil Exploration & Producing U.S., Inc. v. Babbitt, Civil No. 94-0393 (RCL) (D.D.C.).

(h) The issue of how Mobil should calculate the royalty value for diamondoids produced from its leases in the Mobile Bay area of the OCS. This is the subject of an administrative appeal docketed as MMS-93-0831-OCS.

With respect to issues which are not settled claims, neither Mobil nor DOI waive any claims or defenses, including without limitation any defenses based on any applicable statute of limitations, other law, or in equity.

8. MMS agrees to allow Mobil to recoup all amounts in the refund requests listed in Exhibit D, once : 1) such amounts were requested in accordance with the provisions of Section 10 of the OCS Lands Act (43 U.S.C. § 1339); 2) MMS has submitted to Congress a report specifying the amounts and facts associated with the refund requests; and 3) the waiting period specified in 43 U.S.C. § 1339 (b) has expired. These refund requests are allowed subject to DOI's right to audit the underlying transactions, except to the extent that they are for payments made on oil or gas produced prior to September 30, 1989, in which case they will be deemed to be correct.

9. It is understood and agreed that by executing this Agreement, Mobil in no way admits liability to DOI of any kind, and that DOI, by executing this Agreement, admits no liability to Mobil. It is specifically understood and agreed that this Agreement is executed for the sole purpose of settling the issues described herein. Neither Mobil nor the DOI (including MMS) shall be deemed to have approved, accepted, or consented to any concept, method, theory, principle, or statutory or regulatory or contractual interpretation, underlying or supposedly underlying, any of the matters agreed to herein or raised in connection with the issues settled herein. This Agreement shall have no precedential value and shall not be binding on either party as to any issues, or any time periods, other than those specifically addressed herein.

10. Nothing in this or any other agreement shall be construed so as to deprive a federal official of the authority to revise, amend or promulgate regulations. Nor shall anything in this Agreement be construed to commit a federal official to expend funds not appropriated by Congress. Nor shall anything in this Agreement bar any party from seeking judicial relief enforcing this Agreement in any court having jurisdiction over the parties to, and the subject matter of, this Agreement.

11. This Agreement embodies the entire agreement of the parties respecting the settlement of Mobil's royalty obligation with respect to its oil and gas production attributable to federal onshore and OCS leases and Indian leases through September 30, 1989. With respect to all settled claims, DOI has had access to all records it requested from Mobil related to Mobil's Federal oil and gas production and Federal royalty payments attributable to the period ending

September 30, 1989, and DOI has raised, prior to this Agreement, all matters about which it has any question regarding Mobil's compliance with its royalty obligations for its oil and gas production for the period ending September 30, 1989, except as provided in paragraph 7. There are no promises, terms, conditions, or obligations other than those contained in this Agreement. Except as to prior settlement agreements whether enumerated herein or not, this document supersedes all previous communications, notices, representations, denials or agreements, either verbal or written, between the parties regarding the royalty and other financial computations and payments for the Settled Claims. This Agreement cannot be amended except by written agreement executed by the parties thereto. Subsequent audit closure letters issued by the MMS, relating to the issues settled herein, shall have no effect if they are contrary to the terms and conditions of this agreement.

12. This Agreement is executed in duplicate, each of which is to be treated as an original and one of which is to be delivered to each party upon its execution by both. This agreement is effective as of the last date on which it is executed by a party to the agreement.

13. Except for the U.S. Department of Justice's submission with Mobil of a joint motion to dismiss in Mobil Exploration & Producing U.S., Inc. v. Babbitt, Civil No. 93-0184 (SSH)(D.D.C.), no other governmental authority is required for the execution, delivery, or performance by DOI of this Agreement. DOI also represents that this Agreement when executed and delivered constitutes a valid and binding obligation upon the United States Department of the Interior. Mobil represents that this Agreement has been duly and validly authorized by Mobil and when executed and delivered constitutes a valid obligation upon Mobil.

IN WITNESS WHEREOF, the parties have executed this Agreement on the dates indicated below.

Mobil Exploration & Producing U.S. Inc.

By: _____
R. W. White
President

Date: _____

United States Department of the Interior, and its Minerals Management Service

By: _____
Cynthia Quarterman,
Director
Minerals Management
Service

Date: 9/25/95

United States Department of Justice

By: _____

Date: September 22, 1995

Appendix D:

Table 10.--Summary of volume, market value, and royalties by State and commodity from Federal onshore mineral leases, 1920-89 (cont.)

	1920-79	1980	1981	1982	1983	1984
California						
Oil in Barrels						
Volume	1,243,064,488	17,582,943	20,544,840	21,702,000	20,650,000	20,065,310
Market Value	$ 3,028,575,727	$ 411,036,298	$ 487,056,185	$ 518,258,800	$ 454,300,000	$ 427,536,380
Royalties	$ 372,783,866	$ 50,435,845	$ 55,445,428	$ 57,124,100	$ 56,787,500	$ 53,446,459
Gas in Mcf						
Volume	1,566,346,813	7,889,193	6,293,799	6,050,000	5,750,100	8,770,616
Market Value	$ 280,209,817	$ 13,949,590	$ 13,927,177	$ 16,892,500	$ 18,802,827	$ 30,753,749
Royalties	$ 48,024,861	$ 3,110,719	$ 2,982,241	$ 3,231,400	$ 3,595,100	$ 3,718,648
Coal in Tons						
Volume	1,257	0	0	0	0	0
Market Value	$ 3,190	0	0	0	0	0
Royalties	$ 299	0	0	0	0	0
Other Products						
Market Value	$ 1,319,985,930	$ 114,215,427	$ 180,939,574	$ 164,521,234	$ 47,455,875	$ 180,457,994
Royalties	$ 58,182,724	$ 6,110,397	$ 9,541,043	$ 8,850,801	$ 4,156,176	$ 14,664,423
Total Royalties						
All Minerals	$ 478,991,750	$ 59,656,961	$ 67,968,712	$ 69,206,301	$ 64,538,776	$ 71,829,530

1985	1986	1987	1988	1989	1920-89	
						California
						Oil in Barrels
24,710,939	20,826,447	19,884,609	18,712,811	17,721,457	1,445,465,844	Volume
$ 528,544,151	$ 252,362,151	$ 257,417,946	$ 194,252,318	$ 225,160,396	$ 6,784,500,352	Market Value
$ 55,194,237	$ 30,908,583	$ 31,791,870	$ 23,950,409	$ 28,644,835	$ 816,513,132	Royalties
						Gas in Mcf
6,111,398	6,524,243	5,156,771	4,174,018	6,502,489	1,629,569,440	Volume
$ 18,960,223	$ 15,239,086	$ 10,174,615	$ 7,556,939	$ 12,838,485	$ 439,305,008	Market Value
$ 4,041,505	$ 3,065,423	$ 2,126,547	$ 1,656,985	$ 2,073,986	$ 77,627,415	Royalties
						Coal in Tons
0	0	0	0	0	1,257	Volume
0	0	0	0	0	$ 3,190	Market Value
0	0	0	0	0	$ 299	Royalties
						Other Products
$ 209,134,018	$ 237,903,911	$ 215,299,231	$ 218,097,810	$ 234,664,845	$ 3,122,675,849	Market Value
$ 18,735,038	$ 22,042,944	$ 19,188,719	$ 18,474,034	$ 19,076,470	$ 199,022,769	Royalties
						Total Royalties
$ 77,970,780	$ 56,016,950	$ 53,107,136	$ 44,081,428	$ 49,795,291	$ 1,093,163,615	All Minerals

Table 19.--Summary of volume, sales value, and royalties by State and commodity from Federal onshore mineral leases, 1920-90

	1920-85	1986	1987	1988	1989	1990	1920-90
California							
Oil in Barrels							
Volume	1,368,320,520	20,826,447	19,884,609	18,712,811	17,721,457	19,624,911	1,465,090,755
Sales Value	$ 5,855,307,541	$ 252,362,151	$ 257,417,946	$ 194,252,318	$ 225,160,396	$ 311,786,456	$ 7,096,286,808
Royalties	$ 701,217,435	$ 30,908,583	$ 31,791,870	$ 23,950,409	$ 28,644,835	$ 38,091,745	$ 854,604,877
Gas in Mcf							
Volume	1,607,211,919	6,524,243	5,156,771	4,174,018	6,502,489	8,404,740	1,637,974,180
Sales Value	$ 393,495,883	$ 15,239,086	$ 10,174,615	$ 7,556,939	$ 12,838,485	$ 18,513,659	$ 457,818,667
Royalties	$ 68,704,474	$ 3,065,423	$ 2,126,547	$ 1,656,985	$ 2,073,986	$ 2,602,005	$ 80,229,420
Coal in Tons							
Volume	1,257	0	0	0	0	0	1,257
Sales Value	$ 3,190	0	0	0	0	0	$ 3,190
Royalties	$ 299	0	0	0	0	0	$ 299
Other Products							
Sales Value	$ 2,216,710,052	$ 237,903,911	$ 215,299,231	$ 218,097,810	$ 234,664,845	$ 268,628,713	$ 3,391,304,562
Royalties	$ 120,240,602	$ 22,042,944	$ 19,188,719	$ 18,474,034	$ 19,076,470	$ 20,588,191	$ 219,610,960
Total Royalties							
All Minerals	**$ 890,162,810**	**$ 56,016,950**	**$ 53,107,136**	**$ 44,081,428**	**$ 49,795,291**	**$ 61,281,941**	**$ 1,154,445,556**

Table 22. Summary of sales volume, sales value, and royalties by State and commodity from Federal onshore mineral leases, Calendar Years 1920-94 (cont.)

	1920-90	1991	1992	1993	1994	1920-94
California						
Coal						
Sales Volume	1,257	—	—	—	—	1,257
Sales Value	$ 3,190	—	—	—	—	$ 3,190
Royalties	$ 299	—	—	—	—	$ 299
Gas						
Sales Volume	1,637,974,180	7,934,997	16,183,012	13,610,169	13,437,248	1,689,139,606
Sales Value	$ 457,818,667	$ 19,642,045	$ 36,924,214	$ 32,780,922	$ 28,790,115	$ 575,955,963
Royalties	$ 80,229,420	$ 2,471,113	$ 3,972,359	$ 3,180,890	$ 2,839,614	$ 92,693,396
Oil						
Sales Volume	1,465,090,755	17,070,862	18,512,657	19,453,141	18,759,045	1,538,886,460
Sales Value	$7,096,286,808	$233,311,282	$241,564,289	$224,725,212	$191,771,001	$7,987,658,592
Royalties	$ 854,604,877	$ 28,534,889	$ 28,617,302	$ 23,816,735	$ 22,546,232	$ 958,120,035
Other						
Sales Value	$3,391,304,562	$272,709,294	$269,792,384	$247,453,694	$292,872,652	$4,474,132,586
Royalties	$ 219,610,960	$ 22,061,314	$ 20,802,447	$ 19,757,312	$ 25,148,022	$ 307,380,055
Total Royalties	**$1,154,445,556**	**$ 53,067,316**	**$ 53,392,108**	**$ 46,754,937**	**$ 50,533,868**	**$1,358,193,785**

Table 13.--Summary of volume, sales value, and royalties by area and year from OCS mineral leases, 1953-90

Offshore California	Oil in Barrels		Oil Royalties
	Volume	Sales Value	Received
1953-80	201,142,958	$ 862,032,346	$ 143,764,469
1981	19,605,027	477,803,916	86,004,705
1982	28,434,202	679,293,086	160,992,461
1983	30,527,487	717,395,945	165,001,067
1984	30,254,306	645,004,111	122,270,587
1985	29,781,465	628,442,977	123,056,974
1986	29,227,846	358,544,517	63,973,110
1987	33,556,686	423,213,631	75,690,692
1988	32,615,118	322,221,171	53,723,584
1989	33,072,161	401,679,836	69,618,869
1990	33,312,719	540,919,648	94,552,896
1953-90	501,529,975	$6,056,551,184	$1,158,649,414

Table 16. Summary of sales volume, sales value, and royalties by area and year from OCS mineral leases, Calendar Years 1953-94 (cont.)

Offshore California	Sales Volume	Sales Value	Royalties
Oil			
1953-84	309,963,980	$3,381,529,404	$ 678,033,289
1985	29,781,465	628,442,977	123,056,974
1986	29,227,846	358,544,517	63,973,110
1987	33,556,686	423,213,631	75,690,692
1988	32,615,118	322,221,171	53,723,584
1989	33,072,161	401,679,836	69,618,869
1990	33,312,719	540,919,648	94,552,896
1991	29,146,090	359,942,223	64,141,789
1992	41,222,801	475,004,760	71,952,589
1993	50,078,144	500,723,181	70,532,436
1994	57,229,464	530,007,444	78,969,744
Total	**679,206,474**	**$7,922,228,792**	**$1,444,245,972**

Table 32. Summary of mineral revenues distributed to States by the Bureau of Land Management and Minerals Management Service from Federal onshore mineral leases, Fiscal Years 1920-94

	State Shares in Thousands of Dollars					
	1920-84	1985	1986	1987	1988	1989
Alabama	$ 1,372	$ 200	$ 252	$ 152	$ 89	$ 221
Alaska	230,125	23,937	18,143	13,044	8,042	9,429
Arizona	22,805	1,129	723	529	386	242
Arkansas	24,919	718	624	309	517	7,775
California	317,010	41,833	33,080	27,829	25,526	24,412
Colorado	412,716	42,751	41,847	37,033	31,176	32,616
Florida	853	73	91	28	4	186
Idaho	31,249	3,766	2,106	1,364	2,340	1,935
Illinois	—	—	—	—	—	—
Kansas	9,142	761	874	1,359	929	830
Kentucky	—	—	—	—	—	—
Louisiana	9,691	795	555	517	545	452
Michigan	640	44	40	56	173	668
Minnesota*	2	2	3	3	2	—
Mississippi	8,309	1,073	513	184	104	74
Missouri	—	—	—	—	—	—
Montana	168,566	21,140	17,998	27,407	26,068	19,958
Nebraska	1,423	320	269	170	156	115
Nevada	72,371	9,903	7,020	5,136	6,266	9,287
New Mexico	1,102,349	149,878	107,313	75,478	91,698	88,306

Table 32. Summary of mineral revenues distributed to States by the Bureau of Land Management and Minerals Management Service from Federal onshore mineral leases, Fiscal Years 1920-94 (cont.)

State Shares in Thousands of Dollars						
1990	1991	1992	1993	1994	1920-94	
$ 991	$ 129	$ 996	$ 808	$ 296	$ 5,506	Alabama
8,048	9,953	7,745	6,940	5,377	340,783	Alaska
174	173	124	97	94	26,476	Arizona
876	2,109	2,556	1,538	1,201	43,142	Arkansas
28,583	27,936	24,311	22,084	21,544	594,148	California
36,356	57,944	44,558	35,916	34,372	807,285	Colorado
56	49	79	102	81	1,602	Florida
1,969	1,893	1,625	2,237	2,509	52,993	Idaho
—	—	—	191	207	398	Illinois
1,226	921	1,113	1,325	1,057	19,537	Kansas
—	—	—	87	70	157	Kentucky
542	328	376	782	532	15,115	Louisiana
724	669	764	698	753	5,229	Michigan
—	—	—	2	25	39	Minnesota*
86	115	10	739	486	11,693	Mississippi
—	—	—	475	599	1,074	Missouri
20,318	23,227	18,998	22,378	23,995	390,053	Montana
127	—	—	—	6	2,586	Nebraska
9,283	9,228	7,957	8,316	7,542	152,309	Nevada
100,120	107,844	102,594	135,117	143,174	2,203,871	New Mexico

Table 28.--Distribution of OCS rents, bonuses, royalties, escrow funds, and settlement payments under the provisions of the OCS Lands Act Amendments of 1985, Public Law 99-272, Fiscal Years 1986-90

	1986	1987	1988	1989	1990	1986-90
California						
Rents	$ 217,447	$ 71,178	$ 94,003	$ 93,958	$ 89,455	$ 566,041
Bonuses	---	---	---	---	9	9
Royalties	---	687,637	2,154,559	2,039,740	2,665,468	7,547,404
Section 8(g) Escrow	338,000,000	---	---	---	---	338,000,000
Settlement Payments	---	8,670,000	8,670,000	8,670,000	8,670,000	34,680,000
Total	$338,217,447	$ 9,428,815	$ 10,918,562	$10,803,698	$11,424,932	$ 380,793,454

Table 30.--Distribution of OCS rents, bonuses, royalties, escrow funds, and settlement payments under the provisions of the OCS Lands Act Amendments of 1985, Public Law 99-272, Fiscal Years 1986-91

	1986-87	1988	1989	1990	1991	1986-9
California						
Rents	$ 288,625	$ 94,003	$ 93,958	$ 89,455	$ 189,529	$ 755,570
Bonuses	---	---	---	9	---	9
Royalties	687,637	2,154,559	2,039,740	2,665,468	2,364,655	9,912,059
Section 8(g) Escrow	338,000,000	---	---	---	---	338,000,000
Settlement Payments	8,670,000	8,670,000	8,670,000	8,670,000	8,670,000	43,350,000
Total	$ 347,646,262	$ 10,918,562	$10,803,698	$11,424,932	$11,224,184	$ 392,017,63

Table 33. Distribution of OCS rents, bonuses, royalties, escrow funds, and settlement payments under the provisions of the OCS Lands Act as amended, Fiscal Years 1986-94

	1986-91	1992	1993	1994	1986-94
California					
Bonuses	$ 9	$ —	$ —	$ —	$ 9
Rents	755,570	23,889	7	15,643	795,109
Royalties	9,912,059	2,947,246	4,164,806	3,961,747	20,985,858
Section 8(g) Escrow	338,000,000	—	—	—	338,000,000
Settlement Payments	43,350,000	20,230,000	20,230,000	20,230,000	104,040,000
Total	**$392,017,638**	**$23,201,135**	**$24,394,813**	**$24,207,390**	**$463,820,976**

Appendix E:

Cross References:

Deposits into Surface Mining and Reclamation Account: Pub Res C § 2795.

§ 12307. Requirement of deposit of payments in district general fund

The payments shall be deposited in the general fund of the districts and shall be in addition to any other moneys paid or credited to the districts.

Enacted Stats 1976 ch 1010 § 2, operative April 30, 1977.

ARTICLE 2

State Treasurer

[Title 1, General Education Code Provisions—Division 1, General Education Code Provisions—Part 3, Participation in Federal Programs and Interstate Agreements—Chapter 3, Administration of Federal Programs—Other Agencies—Article 2, State Treasurer; Enacted Stats 1976 ch 1010 § 2, operative April 30, 1977.]

§ 12320. State assent to a federal act; Money credited to the state school fund

The assent of the state is given to the provisions in the act of Congress entitled "An act to promote the mining of coal, phosphate, oil, oil shale, gas and sodium on the public domain," and approved by the President, February 25, 1920.

All money derived from bonuses, royalties, and rentals under the act of Congress referred to in this section and apportioned under the act to the state, shall be received by the State Treasurer and by him credited to the State School Fund.

Enacted Stats 1976 ch 1010 § 2, operative April 30, 1977.

Cross References:

State Treasurer: Gov C §§ 12300 et seq.

CHAPTER 4

Participation in Federal Programs

[Title 1, General Education Code Provisions—Division 1, General Education Code Provisions—Part 3, Participation in Federal Programs and Interstate Agreements—Chapter 4, Participation in Federal Programs; Enacted Stats 1976 ch 1010 § 2, operative April 30, 1977.]

Collateral References:

Am Jur 2d Schools §§ 109 et seq.

Attorney General's Opinions:

Borrowing of federal funds by school district to abate asbestos hazards does not require electorate approval under provisions of Calif. Const. Art. XVI § 18, where such abatement is required by law, thereby making debt involuntarily incurred and exempt from constitutional requirement. (1987) 70 Ops Atty Gen 198.

§ 12400. Authority to receive and expend funds; Agreements

The Board of Governors of the State Nautical School on behalf of the State Nautical School, the governing board of a school district on behalf of any school or community college maintained by the district, and any county superintendent of schools is vested with the necessary power and authority to perform all acts necessary to receive the benefits and expend the funds provided by any act of Congress heretofore or hereafter enacted, and with all necessary power and authority to cooperate with, or enter into agreements with, the