

FOR FURTHER INFORMATION CONTACT: John Beck, Realty Specialist, at the above address or by phone at (916) 985-4474.

Dated: January 27, 1998.

D.K. Swickard,

Field Manager.

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DEPARTMENT OF THE INTERIOR

Minerals Management Service

Announcement of Minerals Management Service Public Meeting on Oil Royalty-In-Kind Pilot Program in Wyoming

AGENCY: Minerals Management Service, Interior.

ACTION: Notice of public meeting.

SUMMARY: The Minerals Management Service (MMS) will hold a one-day public meeting to discuss issues involved in developing and implementing a royalty-in-kind (RIK) pilot program for crude oil produced from Federal leases in Wyoming. The meeting will be open to the public without advance registration.

DATES: The meeting will be held on February 24, 1998, from 9:00 a.m. until 4:00 p.m., Mountain time.

ADDRESSES: The meeting will be held at the Hilton Inn Casper, 800 North Poplar Road, Casper, Wyoming 82601, telephone (307) 266-6000.

FOR FURTHER INFORMATION CONTACT: Mr. Bonn J. Macy, Minerals Management Service, 1849 C Street, NW, MS 4230, Washington, D.C. 20240-000; telephone number (202) 208-3827; fax (202) 208-3918; e-mail Bonn.Macy@mms.gov.

COMMENTS: Written comments on the meetings or the issues discussed below should be addressed to Mr. Bonn J. Macy at the address given in the **FURTHER INFORMATION** section above.

SUPPLEMENTARY INFORMATION: MMS is developing three RIK pilot programs based on the recommendations in our 1997 RIK Feasibility Study, including an onshore crude oil RIK pilot in the State of Wyoming, an offshore natural gas RIK pilot in the 8(g) waters off the State of Texas, and an offshore Gulf of Mexico natural gas RIK pilot. The subject of this notice is MMS's planning process for the oil RIK pilot in Wyoming. The objective of the Wyoming crude oil pilot program, as with all three pilots, is to test the effectiveness of the RIK concept for collecting Federal oil and gas royalties.

MMS seeks to produce an RIK structure that reduces the administrative burden of royalty collection for both industry and government without creating a negative impact on Federal royalty revenue.

MMS, in collaboration with the State of Wyoming, intends to develop and implement a pilot program to take Federal crude oil royalties from Federal leases within the boundaries of the State of Wyoming as a share of production (i.e., "in-kind"). MMS intends to sell in the oil markets the production it receives in the pilot. MMS is currently planning to begin the pilot on October 1, 1998. The duration of the pilot program will be at least 2 years. Federal lessees in Wyoming will be directed to deliver royalty volumes in-kind for leases and associated communitization/unit agreements MMS selects to be involved in the pilot program. For all other leases or agreements, payors will continue paying royalties based on current requirements.

The MMS implementation team is currently studying production and marketing issues relevant to Wyoming crude oil. Based on this study and our previous work on the RIK concept, we will shortly develop a few specific RIK models for possible implementation. MMS believes that timely public comment and input on the issues in Wyoming are critical to the development of a successful pilot that realizes the full potential of the RIK concept. We therefore strongly encourage the public to participate in the February 24 public meeting in Casper, Wyoming and comment both on material discussed at the public meeting and the content of this Notice.

The MMS implementation team seeks to assess, through the design of the pilot, the impacts of a number of different lease variables such as gravity, sulfur content, transportation method, royalty rate level, and lease productivity. The team also intends to test the effectiveness of different strategies for RIK production. MMS seeks to quantitatively isolate the effects of these variables on Federal revenues realized and administrative burden.

Written public comment on MMS's implementation of a crude oil RIK pilot in Wyoming should be sent to the contact name and address given in the **FURTHER INFORMATION** section. Written statements submitted to MMS will become part of the meeting record and can be read, by request, at the Casper, Wyoming, public meeting.

In addition to general comments on the implementation of a crude oil RIK

pilot in Wyoming, MMS specifically requests comments on the following issues and questions:

1. Through the pilot, we plan to isolate and assess the effects of the lease variables such as gravity, sulfur, transportation method, royalty rate level, and lease productivity. Are there additional variables we should study?

2. Are there any circumstances that would mitigate against a starting date of October 1, 1998?

3. How much advance notice would lessees require before MMS takes royalties in-kind?

4. Should we set a minimum volume threshold for leases below which the RIK approach is not advisable?

5. Should we set a royalty rate threshold below which the RIK approach is not advisable?

6. Are there any special considerations when including large communitization and unit agreements in an RIK program?

7. Are there any special considerations for leases with trucked crude?

8. To compare RIK pilot performance, should we continue to audit the producers' shares or use receipts from leases that pay royalties on value that are located in the same geographic areas as pilot RIK leases?

9. How should MMS address imbalances with operators? Is it a potential problem?

10. What are the relevant valuation benchmarks (i.e., spot prices, indices, other?) that could provide MMS with a reasonable measure of Wyoming oil RIK pilot revenue performance?

11. What should be the duration of a sales contract for marketing Federal RIK oil?

12. What would be the minimum advisable volume for an RIK oil sales contract?

At the public meeting, MMS may present its plans for the Wyoming oil RIK pilot program as a draft "work-in-progress." One or more potential models for RIK may be offered for public discussion and comment as to their feasibility and effectiveness. MMS urges the public to participate in these important discussions.

Dated: January 29, 1998.

Walter D. Cruickshank,
Associate Director, for Policy and Management Improvement.

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