



## The Facts

- Kerr-McGee has a long-standing, professional relationship with the Department of the Interior (DOI) and the Minerals Management Service (MMS). Both Kerr-McGee and the MMS worked in good faith to resolve this issue.
- The Deepwater Royalty Relief Act (DWRRA) was enacted by Congress in 1995. The statute included incentives for oil and natural gas companies to accept the high risks and costs of exploring the deepwater Gulf of Mexico.
- As an incentive to spur exploration and production, Congress guaranteed companies acquiring certain deepwater leases between 1996 and 2000 that, if they found commercial quantities of oil or natural gas, they would have the unconditional right to produce a specified volume of oil or natural gas free of royalty.
- Kerr-McGee accepted the risks at a time when oil and natural gas commodities prices were substantially lower and falling, and very few companies were exploring the deepwater Gulf of Mexico.
- Now, the government is seeking royalty on production before companies have produced the minimum volumes that were guaranteed by Congress to be royalty free.
- According to DOI's own estimates, the government received an additional \$2 billion in up-front cash bonuses from exploration and production companies for these mandatory relief leases.
- Since 1996, Kerr-McGee has invested more than \$3.5 billion to obtain, explore and develop its deepwater leases in the gulf, resulting in more than 95,000 barrels of oil equivalent per day (BOE/d) of net production from the deepwater gulf to help supply America's energy needs.
- After several meetings with the MMS, we were unable to resolve this matter administratively, and as a result, have asked the court to resolve it.

## Quote

*"Years ago, we made significant investments in high-risk opportunities in the deep waters of the Gulf of Mexico that are helping reduce the nation's dependence on foreign sources of oil and natural gas. Now, the government is trying to take away the guarantees that were enacted by Congress, before we have produced the minimum volumes that congress promised would be royalty free. We believe that by making royalty relief conditioned upon commodity prices for oil and natural gas remaining below price thresholds, the government has disregarded the clear terms of the DWRRA."*

**Gregory F. Pilcher**  
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Counsel and Corporate Secretary