Chevron Announces Agreement on Royalty Payment Issue

SAN FRANCISCO, Jan. 13, 2000 -- Chevron U.S.A. Inc. announced today that it has reached agreement to resolve claims regarding the amount of royalties paid on oil produced from federal leases. Under terms of the agreement, Chevron will pay $95 million to the U.S. government.

Chevron agreed to the payment to close the dispute and avoid the expense of litigation and attendant risk, but does not acknowledge any wrongdoing or liability. The payment is to resolve the dispute over the amount of royalties owed; Chevron did not pay a civil fine or penalty as part of the agreement.

Chevron has paid royalties to the U.S. government consistent with a long-standing government practice of accepting Chevron's pricing as the appropriate value for royalties -- a practice that the government abruptly abandoned and sought to revoke retroactively for a 10-year period.

During the 10-year span covered by the agreement (1988-1998), Chevron, as one of the largest producers of oil from federal leases, paid the U.S. government more than $1.5 billion in royalties on oil. The $95-million payment represents about 6 percent of that total.

Chevron considers the issue to be a reasonable disagreement over the interpretation of complex and unclear legal language related to the valuation of oil for purposes of royalty payments.

"Publicity surrounding the agreement included harsh allegations that Chevron and other oil companies 'cheated' the government -- allegations which are totally unfounded," said Harvey Hinman, vice president and general counsel for Chevron Corp.

As a separate case in point, when Chevron was confronted with unclear and complex gas royalty valuation rules, the company paid approximately $30 million in royalties on gas contract settlement proceeds that the government agrees were overpaid.

The agreement resolves the question of proper valuation of oil for royalty payments for all federal leases held by Chevron nationwide. Chevron looks forward to closing this matter and working with Congress and the Department of Interior to develop clearer, less burdensome, and more appropriate rules for the valuation of oil, the company said.

Chevron supports the concept of the U.S. government taking royalty payments "in kind" to avoid future disputes and litigation.