

## **Performance Measurement**

As an integral part of its commercial Royalty in Kind (RIK) oil and gas sales program, MMS maintains a sophisticated performance measurement system that supports competitive offering and sales decisions and tracks operational accomplishments against established business goals and objectives. Because the MMS is authorized by statute and lease terms to collect oil and gas royalties either in cash (royalty in value) or in production (royalty in kind), performance measurement is critical to determining that utilization of the RIK strategy is providing benefits to the Government through revenue enhancement and administrative cost reduction.

### **Revenue Performance**

Under the RIK program, the MMS is required by law to achieve both fair market value and at least the value that MMS would have received under a comparable royalty in value (RIV) program. To ensure that it meets its statutory mandates, MMS conducts ongoing systematic evaluations to identify and confirm opportunities for utilization of the RIK strategy to benefit the Government's business objectives. Once production royalties are converted to the RIK approach, MMS conducts ongoing evaluations of the actual RIK revenue receipts against fair market value benchmarks. These benchmarks are calculated by MMS using principles establishing that the calculations:

- Define market value as a range of values rather than an absolute number;
- Must be well-defined, repeatable, and statistically accurate;
- Apply across different time periods and groupings of properties/portfolios;
- Reflect reasonable labor requirements;
- Use as much royalty in value data as possible; and
- Use transparent market data as much as possible when accurate in value data are not available.

Actual revenue performance information is used by MMS to support and monitor its business decision-making regarding whether royalties on given properties and portfolios will continue to be collected in kind rather than in value. Strong internal MRM controls are maintained over all of the revenue performance measurement and decision-making processes including independent oversight by the MMS Chief Risk Officer.

### **Administrative Cost Performance**

An important business objective for MMS is the reduction of administrative costs incurred in meeting its mission objectives. MMS closely monitors its administrative costs of managing production royalties collected in kind and in value. Continuous performance monitoring has demonstrated that the RIK approach offers an inherent advantage to the MMS in reducing its administrative costs when compared to the RIV strategy. The RIV activities cost more than RIK primarily due to the necessity to audit the value and transportation costs associated with sales and movement of Federal mineral production. These audit requirements are inherently labor intensive due to the complexity

of the interrelationships between the business practices of hundreds of mineral lessees and a set of valuation regulations that prescribe royalty payment standards applied to complex, dynamic market conditions. In RIK situations, valuation and transportation are determined by unambiguous contract terms, thus providing for efficiencies and minimal conflict. Additional administrative efficiencies are gained through reduced administrative appeals of agency actions and reduced business cycle times needed to close accounting periods.

### **Annual Performance Report**

The MMS publishes an **annual report** of the performance of its RIK program activities. The report, published on a fiscal year basis, addresses revenue and administrative cost performance as well as progress made by the MMS in executing its *Five Year Royalty in Kind Business Plan*.