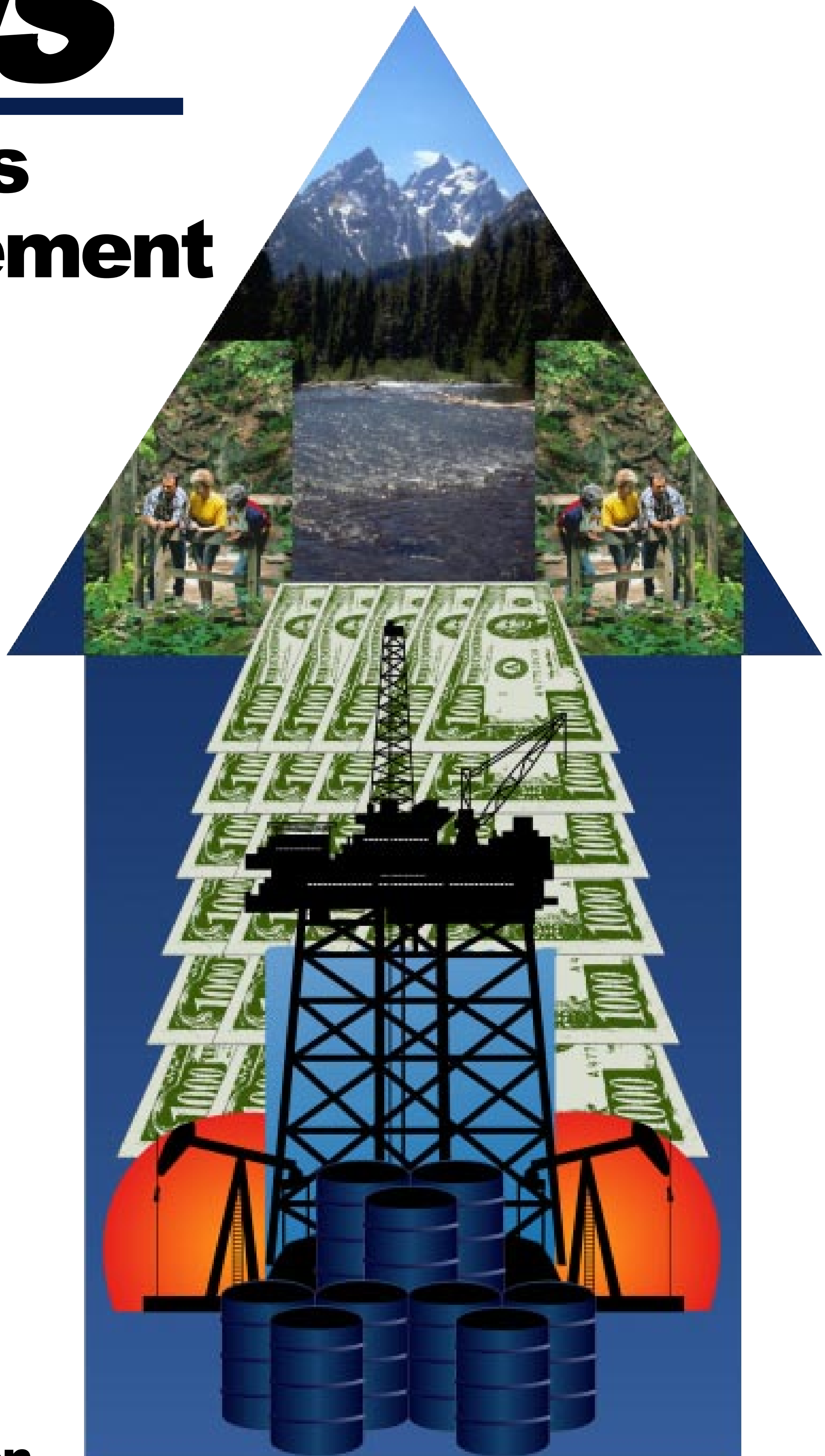
MMS

Minerals Management Service



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Who is the Minerals Management Service (MMS)?

MMS is an agency within the United States Department of the Interior. The mission of MMS is:

- to manage the mineral resources on the Nation's Outer Continental Shelf (OCS) in an environmentally sound and safe manner; and
- to collect, verify, and distribute, in a timely fashion, mineral revenues generated from Federal (onshore and offshore) and Indian lands.

To carry out that mission, MMS manages two very important programs—the Offshore Minerals Management Program and the Royalty Management Program.

MMS programs provide major economic and energy benefits to the Nation, taxpayers, States, and the Indian community—benefits that have both national and local significance. This booklet describes these benefits and provides information on 1) MMS's programs; 2) more recent MMS achievements; and 3) challenges and opportunities facing the agency as it moves into the next millennium.

What does MMS do and why is it important?

To better understand what MMS does and why it is important, it is necessary to put the responsibilities of the agency into a broader context. As you may know, the Federal government owns a vast amount of land—both onshore and offshore—and these lands are managed for various purposes, including mineral production. Offshore lands are known as "OCS lands" and are located outside of State coastal waters. Generally speaking, OCS lands begin 3 geographical miles offshore coastal States, except in the case of Texas and the west coast of Florida, where OCS lands begin 3 marine leagues (or approximately 10.3 miles) offshore. A myriad of laws have been enacted that govern leasing, development and production on Federal lands used for mineral production. These laws require that certain environmental standards be maintained and that the Federal government receive a fair monetary return for the public resources it leases. In addition, Federal law also requires that a portion of the monies received by the Federal government from mineral production be shared with affected States, and that, in the case of Indian lands, all monies collected from mineral production go back to the Indian Tribes or individual Indians who own the lands. Finally, Federal laws dedicate some of the monies generated from OCS leasing and development for special uses that benefit all 50 States.

MMS's role is to help carry out these Federal laws by ensuring that all monies derived from mineral leasing and production activities on Federal and Indian lands are collected, properly accounted for, and distributed. In addition, MMS is both the resource manager **and** fiscal manager for the Nation's important OCS mineral program. In that role, MMS handles everything from collecting and accounting for OCS revenues to leasing OCS lands, regulating development activities to protect the coastal and marine environment, and ensuring that when operations are completed, the site is properly abandoned.

Federal onshore and offshore (OCS) mineral leases generate over $4 billion annually and are one of the Federal government's greatest sources of non-tax revenue.

- Almost $3.5 billion per year, on average, is collected and distributed by MMS from bonuses, rents, and royalties from ***offshore*** (OCS) mineral leases.

  This effort provides about—

  - $2.5 billion per year to the Federal Treasury and to State treasuries.
  - $900 million per year to the Land and Water Conservation Fund.
  - $150 million to the National Historic Preservation Fund

- About $1 billion per year, on average, is collected and distributed by MMS from bonuses, rents, and royalties from Federal ***onshore*** mineral leases, of which about $500 million is distributed to the States. The remainder is distributed to the Federal Treasury and the Reclamation Fund.

- In Fiscal Year (FY) 1998, MMS distributed a total of nearly $6 billion ($4.6 billion from OCS activities and $1.4 billion from Federal onshore and Indian activities).

- $98.3 billion has been distributed by MMS to the Federal Treasury, States, Tribes and Indian allottees from mineral activities on Federal lands since 1982; or roughly—

  - $61.3 billion (62.4%) to the Federal Treasury.
  - $23.4 billion (23.7%) to the Land Water Conservation, National Historic Preservation, and the Reclamation Funds.
  - $10.9 billion (11.2%) to 38 States, from both onshore and offshore sources.
  - $2.7 billion (2.7%) to 41 Indian tribes and 20,000 Indian allottees.

The OCS has played, and will continue to play, a significant role in our Nation's energy picture.

- On a per-day basis, the OCS currently produces about 13.9 billion cubic feet of natural gas and about 1.3 million barrels of oil, which accounts for about 27% of the Nation's domestic natural gas production and about 20% of its domestic oil production.

- By the end of the year 2000, MMS estimates an increase in oil production to as much as 1.8 million barrels per day. Natural gas production is projected to remain steady, but could increase to as much as 17 billion cubic feet of gas per day.

- On a BTU basis, about 67 percent of the energy currently produced offshore is natural gas—an environmentally preferred fuel.

- The OCS contains about 19% of the Nation's proven natural gas reserves and 15% of its proven oil reserves.

- The OCS is estimated to contain more than 50% of the Nation's remaining undiscovered natural gas and oil resources.

- To date, the OCS has produced about 131 trillion cubic feet of natural gas and about 12 billion barrels of oil.

- The Federal OCS provides the bulk—about 89%—of all U.S. offshore production. Five coastal States—Alaska, Alabama, California, Louisiana and Texas—make up the remaining 11%.

Just about everyone benefits from MMS programs.

- The majority of OCS revenues go into the Federal Treasury, where they help pay for Federal programs and reduce the deficit. Also, a portion of those revenues goes into two special-purpose accounts:

  - ***The Land and Water Conservation Fund (LWCF)***.

    - The LWCF is a two-pronged program. First, it is a *50/50* matching grant program that provides monies to States and Territories (and, through the State, to local units of government) for the acquisition and development of public outdoor recreation areas and facilities. Second, LWCF monies contribute to the purchase of Federal park and recreation lands.

    - Historically, the OCS natural gas and oil program has provided over 90% of the monies that fund the LWCF.

    - Through FY 1997, over $4.3 billion has been appropriated from the LWCF to purchase Federal park and recreation lands.

    - Through FY 1997, the LWCF State Grant Program has funded more than 37,000 park and recreation projects, with a total Federal investment of about $3.2 billion.

  - ***The National Historic Preservation Fund (NHPF)***.

    - The NHPF is a *50/50* matching grant program that provides grants to States and Territories (and, through the State, to the local governments) for historic preservation purposes, including, identification and nomination of properties to the National Register of Historic Places; protection of listed properties; and establishment of rehabilitation standards for properties.

    - **Until its authorization expired in 1997, the NHPF received all of its funding—$150 million per year—from the OCS natural gas and oil program**. Since 1969, over $520 million was spent from the NHPF for State projects.

Cumulative Totals to States from the LWCF and the NHPF (in millions through FY 1997)

Alabama	$92.3	Montana	$74.2
Alaska	$79.8	Nebraska	$48.1
Arizona	$104.8	Nevada	$145.6
Arkansas	$145.8	NewHampshire	$58.7
California	$1.2 billion	New Jersey	$215.3
Colorado	$112.0	New Mexico	$71.6
Connecticut	$84.2	New York	$275.6
Delaware	$37.7	North Carolina	$175.9
Florida	$504.1	North Dakota	$36.5
Georgia	$211.3	Ohio	$262.5
Hawaii	$86.9	Oklahoma	$62.3
Idaho	$115.9	Oregon	$156.9
Illinois	$171.5	Pennsylvania	$274.5
Indiana	$163.2	Rhode Island	$51.2
Iowa	$59.7	South Carolina	$158.9
Kansas	$51.0	South Dakota	$42.6
Kentucky	$69.5	Tennessee	$86.9
Louisiana	$162.3	Texas	$378.5
Maine	$76.1	Utah	$64.5
Maryland	$164.9	Vermont	$79.5
Massachusetts	$163.7	Virginia	$218.3
Michigan	$256.6	Washington	$238.6
Minnesota	$162.8	West Virginia	$126.1
Mississippi	$94.7	Wisconsin	$118.2
Missouri	$106.1	Wyoming	$76.7

Note -Totals include: 1) LWCF grants to States; 2) LWCF Federal acquisitions; and 3) NHPF grants.

States affected by Federal leasing and development share in the revenues generated from those activities

Federal Onshore Mineral Leases

- Under the Mineral Leasing Act (MLA), States whose boundaries encompass Federal mineral leases are entitled to receive a portion of the revenues generated from those leases.

- The amount a State receives can vary by land category. Generally, States receive half of all bonuses, rents and royalties collected from public lands located within their respective borders. Under the MLA, the State of Alaska receives 90 per cent of all such revenue. Further, the State of Alaska receives 50 per cent of all mineral revenues generated from the National Petroleum Reserve.

- MLA monies are used as the States deem necessary, without Federal restrictions. Oftentimes the monies are used for schools, roads, public buildings, or general operations.

- In FY 1998, MMS distributed to the states $550 million in shared onshore mineral receipts.

- In total, MMS has distributed about $8.2 billion in shared onshore mineral receipts.

Offshore section 8(g) Natural Gas and Oil Leases

- 1986 amendments to section 8(g) of the OCS Lands Act mandated the Federal government to share prospectively with affected coastal States 27% of revenues generated from the leasing and development of natural gas and oil resources in the "8(g)" zone. This zone is three-miles wide and is located directly adjacent to a State's seaward boundary. The amendments also mandated that a one-time payment be made to certain coastal States from funds held in escrow and that another specified payment be made to these same coastal States in installments over 15 years beginning in FY 1987.

- Currently, seven coastal States receive monies under the section 8(g) provisions of the OCS Land Act.

- Through 1998, these States have received over *$2.7* billion, and these funds are used by States as they deem necessary, without Federal restrictions:

Alabama	**$132.7 million**
Alaska	**$477.0 million**
California	**$578.0 million**
Florida	**$2.4 million**
Louisiana	**$849.2 million**
Mississippi	**$18.4 million**
Texas	**$648.4 million**

Indian Tribes and individual minerals owners benefit from a range of MMS programs.

All of the mineral revenues generated from the leasing and production of Indian lands go directly to Tribes or individual Indians who own the lands. MMS, along with the Bureau of Indian Affairs (BIA) and the Bureau of Land Management (BLM), provides services that help fulfill the Secretary's trust responsibility to the Indian minerals community—

- MMS collects, verifies, and distributes mineral revenues and supporting data to Native American mineral lessors from almost 7,700 Indian leases.

- Through 1998, MMS has distributed over $3.6 billion to 41 Indian tribes and over 20,000 individual Indian mineral owners.

- MMS staffs three service-oriented Offices of Indian Royalty Assistance near Indian tribes and allottees. These offices are in Farmington, New Mexico; Oklahoma City, Oklahoma; and Denver, Colorado. To improve service to Indian customers, the functions of MMS, BLM, and BIA are combined under one office in Farmington, N.M., thus enabling the Federal government to be more responsive, effective, and accountable to Navajo mineral owners by providing outreach, inspection and enforcement, lease administration, and royalty compliance activities.

- Indian Tribes are actively involved in MMS royalty collection activities—currently, MMS contracts with seven Tribes to help it audit Indian mineral leases. Participating Indian Tribes include: Blackfeet, Jicarilla Apache, Navajo Nation, Shoshone and Arapaho, Southern Ute, Ute, and Ute Mountain Ute. In FY1998, MMS spent over $1.8 million to fund these cooperative audit efforts.

- In 1997, MMS instituted an Indian Royalty Internship Program. The goal of this program and other efforts is to help the Tribes better prepare to assume royalty management services.

Principal Indian Tribes Served by the Minerals Management Service

- Alabama-Coushatta
- Arapaho
- Assiniboine Sioux
- Blackfeet
- Caddo
- Cherokee
- Cheyenne-Arapaho
- Chickasaw
- Chilocco Indian School
- Chippewa-Cree
- Choctaw
- Colorado River
- Cook Inlet Region, Inc.
- Creek
- Creek-Thlopthlocco
- Crow
- Delaware
- Ft. Mohave
- Gila River Indian Community
- Hopi
- Jicarilla Apache
- Kiowa
- Wichita
- Morongo Band Mission Indians
- Navajo
- Otoe Missouri
- Pala Band Mission Indians
- Pawnee
- Ponca
- Pueblo of Sandia
- Pueblo of San Ildefonso
- Pueblo of Zia
- Pyramid Lake Paiute
- Quechan
- Sac and Fox
- Salt River-Pima Maricopa
- Santa Ana Pueblo
- Seminole
- Shoshone
- Shohone Bannock
- Soboba Band Mission Indians
- Southern Ute
- Tohono O'Odham
- Ute
- Ute Mountain Ute

The Royalty Management Program

The Royalty Management Program (RMP) is headquartered in Washington, D.C. but has its primary operations located in Denver, Colorado. In addition, there are field offices located in Texas, Oklahoma, and New Mexico. With its computerized accounting systems, RMP processes more than 200,000 transactions each month—totaling about $300 million—from over 75,000 Federal and Indian leases. The RMP's role, however, goes well beyond simply receiving and distributing funds. In order to administer its minerals revenue functions fairly and efficiently and to ensure American people a fair return on the minerals produced on public lands, the RMP—

- **Conducts an extensive compliance program that has collected nearly $2 billion since its inception.** In addition to its own audit staff, including permanent audit sites at 11 major oil companies, RMP has contracts with ten States and seven Indian Tribes, which conduct Federally-funded audits. These states include California, Colorado, Louisiana, Montana, New Mexico, North Dakota, Oklahoma, Texas, Utah, and Wyoming. In FY 1998, MMS spent about $4.6 million to fund State audit efforts and $1.8 million to fund Indian Tribal audit efforts.

- **Develops, through extensive public processes, regulations necessary to implement royalty management legislation** such as the Indian Mineral Development Act; the Mineral Leasing Act; the Federal Oil and Gas Royalty Management Act; and the Federal Oil and Gas Royalty Simplification and Fairness Act.

- **Coordinates its mineral revenue collection activities with the relevant agencies responsible for oversight and regulation of mineral development and production.** These include the Bureau of Land Management and the U.S. Forest Service, as well as States, the Bureau of Indian Affairs, Indian Tribes and allottees, and the MMS Offshore Program.

- **Establishes standards and procedures for determining the fair market value of minerals.** These include natural gas, crude oil, coal, uranium, phosphate, potash, and zinc, as well as geothermal resources.

- **Trains payors to ensure that they know how to calculate their royalty payments and remit the amounts owed with correctly completed royalty payment forms.** In FY 1998, over 96.7 % of payors paid correctly.

- **Processes financial and production data submitted by companies** through computer systems that contain automated edits to assure the data's reasonableness and its internal consistency with information on file.

- **Disburses on a monthly basis monies collected** to various U.S. Treasury accounts and State and county government. For Indian Tribes and allottees, disbursements are handled on an even more expedited basis.

The Offshore Minerals Management Program

The Offshore Minerals Management Program (OMM) is headquartered in Washington, D.C., with regional offices located in Louisiana, California, and Alaska. The program is responsible for all phases of OCS mineral resource management—from the initial offering of OCS lands for lease through the regulation of mineral development and lease abandonment activities. To properly manage OCS mineral resources (natural gas, oil, and hard minerals such as sand and gravel), the OMM—

- **Analyzes geologic, geophysical, and other geo-scientific data to support OCS program decisions including:**
    - Periodically assessing the nature and extent of undiscovered OCS natural gas and oil resources;
    - Estimating current discovered natural gas and oil reserves by fields;
    - Developing overall resource estimates for proposed OCS lease sales; and
    - Determining specific values for individual tracts offered for lease to ensure "fair market value" for OCS mineral rights.
- **Assesses the likely effects of OCS activities on the marine, coastal, cultural, and human environments, including:**
    - Rigorous environmental assessment of each proposed lease sale and of all proposed OCS exploration and production activities. This entails preparing Environmental Impact Statements or other environmental analyses.
- **Conducts research specific to issues associated with OCS mineral leasing and development.**
    - The *Environmental Studies Program* assesses the potential environmental risks of offshore development and provides information necessary to minimize any adverse risks;
    - The *Oil Spill Research Program* provides information on oil spill response capabilities and conducts studies on spilled oil and its effect on the marine environment; and
    - The *Technology Assessment and Research Program* investigates and assesses safety-related technologies. The results support the technology basis for MMS's permitting of drilling and production operations as well as other regulatory requirements.

- **Develops and implements natural gas and oil leasing programs to achieve national economic and energy policy goals while protecting the environment,** including—

  - Developing comprehensive OCS 5-Year Oil and Natural Gas Programs that, among other things, lay out a schedule of proposed lease sales in various OCS areas. To date, MMS has developed four such programs. The current approved program covers the time frame 1997-2002; and

  - Conducting individual natural gas and oil lease sales. Since 1982, MMS has held 53 such lease sales.

- **Regulates all exploration, development, and production activities on about 8,000 active leases to ensure that these activities are conducted safely and in an environmentally sound manner, including:**

  - Reviewing and approving industry exploration and development plans before allowing any operations to commence; and

  - Monitoring all lease operations to ensure that industry is in compliance with relevant requirements. This includes conducting scheduled and unscheduled inspections. In 1997, MMS conducted over 12,000 inspections on OCS facilities.

- **Evaluates the potential of the OCS as a domestic supply source for marine minerals.** MMS is focusing on integrating geologic and environmental information, developed through partnerships with eight coastal States, to identify and make available sand deposits from Federal waters for potential beach nourishment purposes.

- **Provides scientific information and technical assistance (on a cost-reimbursable basis) to other nations regarding offshore mineral leasing, development, environmental protection, and mineral revenue management.**

- **Participates in international working groups to develop guidelines and standards that may directly affect the U.S. domestic offshore industry.**

In 1994 and 1996, MMS received the President's Council on Environmental Quality and National Association of Environmental Professionals' Federal "Environmental Quality Award" for successfully integrating environmental values into its agency mission and decision-making.

MMS is committed to ensuring safe and environmentally sound OCS development

While the development of OCS mineral resources has already brought in more than $125 billion in revenues to the United States, MMS remains especially mindful of safety and environmental concerns—striving for the proper balance between providing a domestic energy source for the American people and protecting sensitive coastal and marine environments.

MMS places a high priority on environmental, oil spill, and safety-related research and has devoted significant funding to it. This research gives MMS the most up-to-date and relevant data about the effects of OCS activities on the marine, coastal, and human environments.

- Since 1974, the Environmental Studies Program (ESP) has spent over $650 million and completed over 900 research projects. These studies encompass biological, physical oceanographic, ecological, and socioeconomic issues associated with offshore mineral leasing and development.
- MMS has established Coastal Management Institutes (CMI's) in Alaska, California, and Louisiana. Through them, MMS can leverage some of its ESP funds with State funds. This funding helps both MMS and the States address scientific needs regarding the impact of OCS leasing and development. To date, more than 100 research projects have been initiated, representing more than $37 million in research, on a *50/50* matching basis.
- MMS is one of the Federal governments leading agencies for oil spill research. On average, the agency spends more than $6 million per year on research into oil spill prediction, prevention, and response technologies.
- MMS also spends about $1 million per year to manage the National Oil Spill Response Test Facility (known as "Ohmsett"), a unique facility that evaluates full-scale oil spill cleanup equipment technologies under various conditions and using various types of oil.

MMS incorporates sound science into all its OCS decisionmaking and makes that information available to interested parties.

- The National Environmental Policy Act (NEPA) and other environmental mandates are fully coordinated and rigorously enforced for all OCS leasing and exploration/development activities.
- All MMS environmental studies information can be accessed on-line through the ESP Information System (ESPIS). ESPIS makes the results of more than 20 years of scientific research available through the MMS Internet Home Page—*www.mms.gov*
- Also, more than 232 abstracts of offshore engineering and safety-related research, as well as oil spill research, are available on-line.

Preparing for the Next Millennium

By Federal government standards, MMS is still a young agency. For example, in 1999, MMS will celebrate 17 years within the Department of the Interior. In contrast, in 1999, the Department will be celebrating its 150th birthday. However, during its relatively short tenure as an agency, it has experienced dramatic and profound changes, both in response to a desire to continually improve but also in response to rapidly changing business, energy and governmental climates. Arguably, the most dramatic changes are being made in response to external forces challenging MMS everyday to keep pace. These challenges come from many sources, such as—

- **Evolving offshore technology**
- **Changing energy markets**
- **Emerging global markets**
- **Compelling safety and environmental challenges**
- **Transforming legislation**
- **Increasingly sophisticated constituencies**
- **Advancing information technology**
- **Challenging governmental initiatives**

It is likely these forces will continue to have a profound effect on MMS. In responding to those forces and the challenges they present, MMS will continue to be driven by its commitment to operate in the collective best interest of its many customers, including U.S. taxpayers, States, Indian Tribes and mineral owners, and the energy industry. The agency also will continue to seek to set the standard for other resource management agencies—that is, to be "the best in the business."

Although that goal is a lofty one, it has challenged the agency to make steady progress over the years. And because of MMS's desire to be the best, it can point to significant achievements, particularly in the past several years. Those achievements have earned the agency important recognition.

However, MMS has never been satisfied to rest on its past successes and achievements. In fact, one of the hallmarks of MMS's past achievements is that they have been springboards to identifying and responding to the significant challenges that still lie ahead for the agency. Although daunting, MMS is looking forward to not just meeting these challenges but to transforming them into achievements.

Highlights of some of MMS's more notable and recent achievements are described on the following pages, as well as a discussion of the challenges the agency faces as it moves into the next millennium.

In Recognition of Excellence

- 1991: Award of Excellence from the President's Council on Management Improvement
- 1993: Finalist Federal Quality Institute's Quality Improvement Prototype Award
- 1994: Finalist Federal Quality Institute's Quality Improvement Prototype Award
- 1994: Federal Environmental Quality Award from the President's Council on Environmental Quality and National Association of Environmental Professionals
- 1995: Vice President's Hammer Award
- 1996: Federal Environmental Quality Award from the President's Council on Environmental Quality and the National Association of Environmental Professionals
- 1997: Vice President's Hammer Award
- 1997: Department of the Interior's Steve Kelman Award for Procurement Franchising
- 1998: Outstanding Partnership Award (for its work with BLM on NPRA)

Royalty Management Program (RMP) Achievements

The Federal government has been collecting revenues associated with mineral production on Federal onshore lands since 1920 and from offshore lands since 1953. However, it was not until 1982, with the establishment of MMS and the enactment of the Federal Oil and Gas Royalty Management Act (FOGRMA), that a comprehensive system was put into place for properly collecting, accounting for, distributing and valuing this mineral production. Since 1982, MMS has worked hard to develop systems, policies and procedures to respond to the mandates of FOGRMA as well as the expectations of its constituencies and numerous oversight organizations. In 1996, the Act was substantively amended by the Federal Oil and Gas Royalty Simplification and Fairness Act (RSFA). The proper implementation of these two Acts forms the core of the RMP mission. In particular, RSFA significantly changed many historical RMP operating assumptions and revenue processing methods. That, combined with changing energy markets, constituent needs, and government streamlining has caused the RMP to totally rethink and retool its various business processes so they are more responsive to the constituents they serve. Some more recent achievements include:

- **Finalizing a Design for Reengineering RMP -** In early 1997, the RMP began a Business Process Reengineering Initiative to prepare itself for the challenges of today and the future. Over the past year and a half, the RMP has been engaged with its customers to design future business processes and support systems to provide the best royalty management services at the least cost. In March 1998, MMS published its Preliminary Design Document outlining RMP's future business processes, information needs and support systems. During 1998, MMS piloted various aspects of the future processes and testing the information technology needed to support the future RMP. This work led to an implementation plan, or "Road Map to the 21st Century." MMS has begun a three-year journey of change for the RMP.

- **Conducting Comprehensive Royalty-in-Kind (RIK) Pilot Programs -** Based on the results of a 1997 Feasibility Study, MMS established an implementation team in early 1998 to create detailed program specifications to pilot the taking of oil production in-kind from onshore leases and gas production from the OCS. Specifically, the three pilots—which include 1) oil production in Wyoming; 2) OCS Lands Act section 8(g) natural gas production offshore Texas; and 3) natural gas production in the Gulf of Mexico OCS—are structured to be consistent with existing lease terms and to examine where, when, and under what conditions RIK can reduce some of the administrative burdens and uncertainties associated with taking royalties in-kind.

    - Federal crude oil was taken by MMS in October 1998 under the Wyoming pilot program. A second Invitation for Bids was issued January 4, 1999, and will offer, beginning April 1999, RIK crude oil from both State of Wyoming leases along with RIK oil from Federal leases located in Wyoming.

    - The State of Texas section 8(g) natural gas pilot began in late 1998 when MMS began taking natural gas from the Texas 8(g) zone. This gas is being delivered to the General Services Administration for use in Federal agencies. Discussions are also underway with the State of Texas to mutually explore ways to cost-effectively market Federal and State natural gas production.to States and Tribes.

- The third pilot, taking natural gas from the Gulf of Mexico OCS, is scheduled to begin in late 1998.

- **Implementing RSFA -** Since passage of the Act in 1996, MMS has worked aggressively to implement its many provisions. Of note, the State delegation provision of the Act has already been implemented by regulation, and MMS is paying the interest to lessees for royalty overpayments, as provided for by the Act.

  While the agency has made significant progress in implementing this legislation, there is still much to be done. In 1999, further rulemakings are scheduled that will further contribute to our success in this effort. These include:

  - Marginal Properties Relief - to allow reporters to seek accounting, reporting and auditing relief for their marginal properties.

  - Revised State Delegation - to amend the already published delegation rule that allows States to perform certain royalty functions for Federal leases within their boundaries. The amended rule would allow States to select certain leases to audit instead of having to select all of them.

  - Appeals - to further restructure and shorten the appeals process.

  - Reporting and paying royalties on federal leases - Explains which leases the lessee must report and pay royalties for based on the amount they actually took and sold from the lease or on the amount they were entitled to take based on their percentage ownership in the lease. Also provides an exception to entitled reporting for marginal properties.

  - Chronic Erroneous Reporting - to define chronic erroneous reporting and applicable assessments.

- **Providing Relief to Small Oil Refiners** - In 1998, MMS began reviewing amounts billed small oil refiners because of questions regarding undervaluation of the oil provided by producers to MMS for purchase by the small refiners. MMS realized that billing the refiners for these additional amounts would create economic hardships and jeopardize the program that allowed them to purchase oil for refining. Therefore, MMS worked closely with the 105th Congress to resolve the issue retroactively through the FY 1999 Omnibus Appropriations Act (P.L. 105-277). Section 139 of the law provides for the ratification of payments made under preexisting onshore and offshore RIK contracts. Also, MMS addressed the issue prospectively by renegotiating contracts with the small refiners to assure that future deliveries would be billed at fair market value.

- **Revising Indian Gas Valuation Regulations** - In early 1999, MMS will publish a regulation to revise the way that gas taken from Indian leases is valued. This regulation is the product of a negotiated rulemaking involving MMS, Indian Tribes, the Bureau of Indian Affairs and industry. The regulation is a step forward for MMS in meeting its trust responsibility to the Indian community and in complying with the unique terms contained in Indian leases.

- **Ensuring Year 2000 Compliance** - MMS began its planning effort for Y2K remediation in late 1996 and completed the testing and implementation of all mission-critical systems in November 1998. This effort provides assurance of RMP's mission-critical Y2K readiness more than a year ahead of the millennium. In addition, some 158 non-mission critical systems are being modified, retired or rebuilt to ensure Y2K readiness. As of December 1998, 85 of these applications have been retired, replaced, upgraded or otherwise certified as Y2K ready. The remaining 73 are under repair or evaluation, and all will be completed by June 1999.

  All affected equipment has been certified or will be by March 1999. Likewise MMS has completed coordination with its reporting partners to assure smooth operations in 2000.

- **Recent Innovations** -

  - High Tech Imaging - One-stop shopping is now available to customers who need information on solid minerals. More than 100,000 solid mineral lease and logical mining unit documents are easily and immediately retrievable from RMP's optical library.

  - Resolution of Royalty and Production Volume Inconsistencies - Dramatic improvements have been made in the process to resolve discrepancies in royalty and production volume data submitted by industry by reengineering front-end system software and follow-up procedures. Since 1996, MMS has resolved 50,000 inconsistencies and collected an additional $54 million in royalties, some of which goes to the Federal treasury, and some to States and Tribes.

  - New Sales Reporting Software - Free software is now available from MMS to industry which offers on-line help and incorporates certain edit routines to ease preparation of royalty sales reports, reduce reporting errors and lower costs associated with manually entering the data. This is one step closer to MMS' goal of 100 percent electronic reporting.

- **Compliance Accomplishments** - Since the late 1980's, MMS, including its State and Tribal audit partners under the FOGRMA Section 202 and 205 audit cooperative and delegated agreements, has pursued a company-based single and multi-year audit strategy that focused on selected companies' portions of leases and properties. This strategy has provided a high percentage of coverage for a particular company's royalty obligations and has resulted in the collection of over $1.5 billion in underpaid royalties. Other compliance efforts apart from audits have produced an additional $500 million. In the past 5 years alone, MMS collected $1 billion as a result of audit and compliance actions—as much as had been collected in the agency's entire previous life.

Future Challenges and Opportunities for the Royalty Management Program

- **Reengineering the Royalty Management Program** - The RMP's number one priority is to reengineer its business processes. This comprehensive overhaul is necessary because of new legislative mandates, changing energy markets, the need for more cost-effective operations and outdated computer systems. The future RMP will be process centered, focused on outcomes, less costly and hopefully, viewed as the best by others. The reengineered program will be organized around two core business processes - the *financial management process* which will focus on financial accounting and receiving and rapidly distributing revenues; and the *compliance and asset management process* which will focus on the entire realm of activities related to producing properties, instead of focusing on actions by individual payors that might be active on a particular property. For the customer, the result will mean "one-stop shopping" and better customer service. Other benefits will be a dramatically shortened time frame to ensure compliance -- from 6 to 3 years and a 40 percent reduction in reporting requirements.

  To test the latter process, which is a dramatic change from current operations, teams have been established to conduct three operational models - oil and gas leases offshore in the Gulf of Mexico, onshore leases in the Uintah Basin of Utah/Colorado, and solid mineral leases in Utah, Wyoming, Colorado, and Montana. A sub-group within the solids team will focus on geothermal issues. These pilots will be conducted in a live environment beginning in early 1999 with the offshore model.

  As part of furthering the reengineering initiative, MMS has put several partnerships into place with our customers in order to actively involve them in further defining future business processes, refining planned changes in reporting requirements, and developing the best information technology solutions for the future: Amoco, Texaco and Chevron are participating in the model for the oil and gas leases offshore the gulf of Mexico; the states of Utah, Colorado and the Ute Tribe will participate in the similar onshore model; industry representatives on the solids team are BHP, New Mexico Coal, Cyprus Amax Minerals Company, Kennecot Energy Company, PacifiCorp, Peabody Group and Westmoreland Resources Inc. They join Colorado, Montana, Utah and Wyoming and the Navajo Nation and Crow Tribe on the team.

- **Devising an Improved Audit Strategy** - One of MMS's reengineering goals is to complete lease royalty compliance within three years, but that goal is not possible in the current operating environment. Therefore, beginning in Fiscal Year 1999, MMS will utilize a *new* audit strategy that will concentrate on a property rather than company basis consistent with MMS's reengineering effort. This strategy will emphasize the use of special teams to audit specific producing properties and other targets such as collection and distribution terminals, gas plants and crude oil refineries. Future audits will be highly integrated, with the compliance processes being tested and developed by the reengineering operational model teams. The new strategy provides for full audit coverage of OCS royalties on a property basis, 80 percent coverage of onshore and tribal royalties, and reserves significant resources for a continued high level of coverage of individual Indian mineral revenues. These audit goals will be integrated into the reengineering environment by 2003.

- **Finalizing the Federal Crude Oil Valuation Rule** - For the past three years the MMS has been engaged in efforts to update its Federal crude oil valuation regulations to better reflect current crude oil marketing practices. However, just prior to publishing a final rulemaking, a prohibition was added to the FY 1998 Emergency Supplemental Appropriations Act (P.L. 105-174) that barred MMS from implementing the rule until the end of FY 1998. This prohibition was extended by the FY 1999 Omnibus Appropriations Act (P.L. 105-277) until June 1, 1999, or until a negotiated agreement is reached.

  While we have reached consensus in many areas, there are still remaining areas of disagreement -- areas that have been thoroughly reviewed during the course of the rulemaking. Nevertheless, to the extent industry has new, not-previously considered ideas or concepts to resolve the issues that divide us, consistent with our criteria and statutory responsibilities, further discussion may be beneficial. In order to facilitate discussions, MMS published a Federal Register Notice on March 12, 1999 to reopen the comment period for 30 days on the rulemaking. Three workshops are scheduled -- in Houston, Albequerque, and Washington D.C. -- to take additional comments.

- **Finalizing the Indian Oil Valuation Rulemaking** - Following extensive input from the Indian community, MMS published a proposed rule in the “Federal Register” on February 12, 1998, and conducted two public hearings to obtain additional comments. MMS then reviewed the comments submitted and met with the Indian community to discuss them. MMS plans to publish a supplemental proposed rule in early 1999 to get public comment on changes made to the rule in response to comments received.

  However, when the FY 1999 Department of Interior Appropriations Act (P.L. 105-277) prohibited MMS from publishing before June 1999, a final rulemaking on crude oil valuation, it included a prohibition on publishing the Indian oil rule as well. MMS remains committed to assuring that Indian lessors receive market value for their crude oil resources and to finalizing the rulemaking in a timely manner.

- **Meeting Electronic Reporting Goals** - MMS is aggressively pursuing more electronic reporting because it is cost effective. A proposed rule was published in April 1998 that moves the agency closer to 100% electronic reporting. MMS plans to issue a final rule in early 1999 that will include exclusions for hardship cases and small reporters. MMS also plans to convert the remaining paper reporters in the near future.

- **Increasing Franchising Opportunities** - The demand for, and interest in, cross-servicing enterprise franchising activities is increasing in conjunction with downsizing, streamlining, reinvention and other National Performance Review initiatives. The Department of the Interior franchise fund provides a variety of administrative systems and support services on a reimbursable basis under the Government Management Reform Act of 1994. MMS is among those Interior agencies that comprise the fund. RMP is currently exploring franchising opportunities. There is a potential that RMP’s financial management and auditing expertise could be extended to other agencies both within Interior and outside at a cost savings.

- **Implementing the Government Performance and Results Act (GPRA) -** RMP's overall GPRA goal is to provide timely, accurate, and cost-effective mineral royalty collection and disbursement services. Its strategic plan includes four mission goals and several long-term goals that directly link and support this goal.

  Mission goal: Improve the timeliness and accuracy of payments to recipients

  The MMS is committed to ensuring that all revenue due is paid on-time. On time disbursements are those made by the end of the month following the month of receipt, as mandated by FOGRMA.

  Mission goal: Improve the cost effectiveness of mineral royalty collection and disbursement services

  As noted earlier, the MMS is aggressively pursuing more electronic reporting, which is a major key to achieving this mission goal.

  Mission goal: Improve reporters' compliance with lease terms, rules, regulations, and laws

  The MMS calculates the percentage of royalty and production report lines submitted correctly the first time by industry. Accurate reporting ensures that money is disbursed more quickly to States and Indians. Reengineering will also contribute to this goal by significantly reducing and simplifying reporting requirements.

  Mission Goal: Provide Indian tribes with increased opportunities for education and for assuming functional responsibilities with respect to the Royalty Management Program

  Educational opportunities include participating in the royalty internship program, taking part in joint audit work, or accessing on-line royalty data. Assumption of functional responsibilities include participating in the cooperative audit program and entering into self-determination contracts or self-governance contracts. MMS has offered a number of opportunities to help the Tribes prepare to assume royalty management services. They include on-line monitoring of royalties and accounts, learning MMS royalty collection processes through a new internship program for tribal employees, and handling royalty audit work through cooperative agreements.

Offshore Minerals Management Achievements

The Federal OCS program has been ongoing and active since 1953. During that time, the program has changed dramatically in response to changing technology, national energy priorities, and environmental considerations. Today, the OCS program has matured into a focused leasing program, with concentrated emphasis on safe and sound development of about 8,000 leases.

Recent achievements include:

- **Developing a major safety initiative for offshore oil and gas operations.** MMS has made safety its highest priority during the past several years. The movement of industry into deeper waters and the overall increased industry activity in the Gulf of Mexico have increased both the level and complexity of monitoring and ensuring safe OCS operations. Likewise, there has been a significant rise in the number of operators on the OCS, some without the same level of experience as the more seasoned operators. To address these concerns, MMS has supplemented its existing safety regime with new measures to determine safety and performance of operators—and using this information to improve offshore activities. The major components of this initiative include 1) annual performance reviews of all offshore operators; 2) assessment of appropriate civil penalties; and 3) disqualification of unacceptable operators.

- **Managing the safe and environmentally sound leasing and development of offshore resources on nearly 8,000 active leases in the Gulf of Mexico.** Despite declining oil prices, interest remains strong in leasing and developing natural gas and oil resources in the Gulf of Mexico. Total high bids received in recent sales have been 20% higher than the totals in 1993 sales, and the number of participating companies has increased steadily since 1993. Further, from 1993 to 1997, oil production rates have risen more than 32% (to 1.3 million bpd) and natural gas production has risen nearly 12% (to 13.9 bcf/day).

- **Providing international leadership on offshore oil and gas issues.** Through its regulation of offshore operations in the United States, MMS has recognized how important it is for industry and government regulators around the world to share information and expertise with the goal of achieving clean and safe operations on a global scale. Some examples of MMS leadership in this area include—

  - Developing and/or extending MOU's with various countries to exchange scientific and technical information related to offshore mineral leasing and development activities such as resource assessment, administrative procedures and practices, safety, environmental protection, and royalty accounting assistance. In 1998, MMS expanded its cooperative efforts and developed working arrangements with several new foreign nations, including Australia, Norway, and the Republics of Kazakhstan and Turkmenistan.

  - Organizing and convening the first-ever Panel of International Regulators at the 1998 Offshore Technology Conference. The panel was comprised of industry representatives and government regulators from nine countries and addressed the challenges and opportunities for industry and government regulators in achieving clean and safe operations around the world.

  - Helping organize an international workshop in Indonesia on the decommissioning of offshore oil and gas platforms. The workshop was conducted under the auspices of the Asia Pacific Economic Cooperation Marine Resources Conservation Working Group, and included representatives from MMS, universities, U.S. oil and gas companies, and other industry organizations.

- **Implementing financial responsibility requirements for "offshore facilities" under the Oil Pollution Act of 1990 (OPA 90), as amended.** In October 1996, Congress amended the original language of OPA 90 pertaining to financial responsibility requirements for offshore facilities. The amendments made it possible for MMS to develop a fair and reasonable rule that did not negatively impact the industry but still ensured that responsible parties maintain the financial capability to pay for an oil spill, should it occur. In August 1998, MMS published a final rule that was the result of extensive consultation with all affected parties. It specified the amounts of financial responsibility required; the types of facilities covered; and the methods for demonstrating financial responsibility. In addition to OCS facilities, the rule covers facilities in certain State waters. Implementation of the new rule began in October 1998, and financial responsibility coverage must be in place for all affected facilities by April 1999.

- **Implementing all relevant provisions of the Deep Water Royalty Relief Act (DWRRA).** The DWRRA of 1995 provided that, under certain conditions, royalty relief would be given to: 1) new leases located in the Central, Western, and a small portion of the Eastern Gulf of Mexico; and to 2) existing leases located in these same areas. In 1998, MMS finalized its regulations pertaining to existing leases (it had previously finalized regulations on new leases), and held outreach efforts with industry to explain the regulations. Since passage of the Act, MMS has held a total of six lease sales in the Central and Western Gulf of Mexico, and three of those sales were record-breaking sales. Approximately 4,400 tracts were leased and over $3.6 billion were received in bonus bids for the Federal government. Also, to date, MMS has approved three DWRRA applications on existing leases, and a fourth application is pending. Finally, in 1998, the Gulf of Mexico saw its first production from a lease issued under the DWRRA with the automatic royalty relief provision.

- **Expanding opportunities for States, localities and other Federal agencies to use OCS sand for beach restoration purposes.** For several years, MMS has worked cooperatively with coastal States interested in identifying and assessing the viability of using OCS sand for State and local beach restoration purposes. In 1998, MMS completed a negotiated agreement with the U.S. Army Corps of Engineers and the National Park Service for the use of OCS sand for restoration of the northern portion of Assateague Island, MD. Also in 1998, MMS completed a non-competitive lease agreement with the City of Virginia Beach to use OCS sand to construct a beach restoration and hurricane protection project along a 5-mile stretch of Sandbridge Beach, Virginia. Of note, this was the first project where a fee was assessed for the Federal sand resource (roughly $198,000). MMS substantially discounted the fee (65%) off the estimated value of the sand to reflect the public interest served by the project.

- **Assisting in efforts to gain ratification of the United States/Mexico maritime boundary.** The U.S./Mexico maritime boundary treaty was ratified in November 1997. MMS worked closely with the Department of State to explain the importance of the treaty, the necessity of timely ratification, and its impact on domestic energy activities in the Gulf of Mexico. Ratification established a permanent boundary to resolve U.S. and Mexican overlapping claims for offshore lands within 200 miles of the coastline. This recognized boundary will provide certainty to U.S. oil and gas operators pursuing exploration and development activities in areas adjacent to the boundary. Furthermore, ratification set the stage for further delimiting areas beyond 200 miles. At present, negotiations are focused on the area known as the "Western Gap."

- **Approaching first development on the Alaska OCS.** Although leasing has occurred offshore Alaska since 1976, to date there has been no production from Federal leases due to remote locations, harsh operating environments, and the significant finds that would be required to justify the substantial development costs. However, in 1998, British Petroleum (BP) filed a proposed Development and Production Plan for its "Liberty" prospect in the Beaufort Sea. BP estimates that the prospect contains about 120 million barrels of recoverable oil. The plan is currently undergoing the necessary reviews and approvals. If those approvals are given, it is expected that first production could occur in late 2002.

  When complete, this would be the first stand-alone OCS development project in the Alaskan Beaufort Sea, and under section 8(g) of the OCS Lands Act, the State would receive 27 percent of the monies generated from production from the "Liberty" facility.

- **Developing cooperative efforts with States and local governments, industry and others to address various OCS-related safety and regulatory issues.** By working with its constituents, MMS has been able to find program efficiencies while continuing to improve the effectiveness of its safety and environmental program. Examples include—

  - Finalizing a Memorandum of Understanding (MOU) in December 1998 with the U.S. Coast Guard concerning shared responsibilities under the OCS Lands Act. The two agencies based the MOU on input from affected groups.

  - Developing an MOU in conjunction with the Special Programs Office of the Department of Transportation governing the regulation of offshore pipelines. With help from the regulated groups, the two agencies arrived at an agreement that gives pipeline owners a role in determining which agency will regulate a given pipeline.

  - Implementing a series of agreements with other Federal agencies and coastal State governments to cooperatively develop Federal/State boundaries, describing data relevant to leasing as well as State regulatory and enforcement actions. Many of the agreements with coastal States will lead to fixing of the Federal/State boundary by Joint Motions filed with the United States Supreme Court. The latest effort has lead to a Supplemental Decree fixing the Offshore Boundary with the State of Texas.

  - Working in close association with the American Petroleum Institute to develop industry standards and with the Offshore Operators Committee to develop performance measures for operators and contractors working on the OCS.

Future Challenges and Opportunities for the Offshore Program

- **Continuing to ensure safe and clean operations.** Interest in exploring and developing the deep water areas of the Gulf of Mexico remains strong. In the past 3 years alone, about 4,400 additional tracts have been leased (many of them in deeper waters), bringing MMS's lease monitoring responsibilities to about 8,000 leases and over 3,900 platforms. As industry continues to move into deeper waters, MMS must be prepared to meet the technical, safety, and environmental challenges associated with deep water operations while still ensuring safe and clean operations in other areas of the OCS. To meet this challenge, the agency will continue to work proactively to find ways to effectively manage an increased workload while ensuring proper stewardship of OCS resources.

- **Effectively managing the OCS program in times of low oil prices.** In 1998, oil prices fell to dramatic lows. While no one can predict how long this low price scenario will continue, the general belief is that prices will not rise in the near future and that a low price scenario could continue for up to 4 years. This scenario can have dramatic implications for the OCS program. Low prices over an extended period of time can be devastating for small independents who do not have the deep pockets necessary to survive financially in these difficult periods. Likewise, even the very large companies are finding it necessary to cut costs through corporate mergers. The potential of small operators leaving the OCS and large companies getting even bigger can have an effect on the level of participation and competition in the OCS.

  In addition, MMS will likely see increased requests for royalty relief and lease extensions if companies do not have the resources available to explore and develop them. How to best address these issues may not be as clear cut in areas subject to leasing restrictions. There also is concern that companies maintain high safety standards.

  Finally, there may be other ramifications which are not yet identified. Due to the importance of the OCS in terms of energy and economic benefits to the Nation, it is essential that MMS understand the effects and develop appropriate policies and actions to deal with them. A proactive approach will also allow the agency to better respond to congressional or other initiatives that may arise in response to current economic conditions.

- **Maintaining a viable OCS program that is consistent with the President's decision to administratively withdraw certain areas of the OCS until 2012.** As MMS begins the process of developing its next 5-Year Program (which covers the timeframe 2002-2007), it must factor into the decisionmaking process the President's leasing restrictions and still look for ways to continue having a dialogue with coastal States and other constituencies in areas where offshore oil and gas activity is currently not underway. One of the agency's core responsibilities in managing OCS leasing and development is to ensure that leasing decisions fully consider the possible risks to coastal communities and environments of offshore development and that regulatory efforts ensure the highest degree of safety and environmental protection possible in day-to-day offshore operations. A major part of the debate surrounding moratoria is how people perceive the risks of offshore oil and gas activity to their coastal environment. MMS will work on finding ways to identify the important issues, attempt to address them, and find a forum where all parties can engage in constructive discussions.

- **Regulating a domestic oil and gas industry that is becoming increasingly global in scope.** During the past several years, numerous foreign nations have stepped up their efforts to offer their mineral resources for exploration and development, particularly their offshore oil and natural gas resources. While those decisions have positive aspects, the Administration also has recognized that there is a growing need to ensure that those offshore operations are conducted in an effective and environmentally safe manner since the mineral leasing and development policies of other countries can have a profound impact on the United States.

  For that reason, MMS is helping to develop a comprehensive set of internationally recognized technical standards through active involvement with technical and trade associations in the U.S. and international standards-setting organizations. The agency participates in information-sharing fora to disseminate information on the best practices utilized by the domestic oil and gas industry as well as to learn about best practices from other offshore regulators around the globe. In addition to maintaining U.S. leadership in developing international standards, as offshore petroleum operations are expanding around the globe, MMS is increasingly being called on to participate in international projects that further U.S. foreign policy goals. The agency is developing relationships with other regulatory bodies around the world and assisting, when asked, to develop in-country expertise in nations with both emerging or developed oil and gas programs.

- **Supporting increasing needs by States, localities and other Federal agencies for access to OCS sand and gravel resources.** With the passage of amendments to section 8(k) of the OCS Lands Act (P.L. 103-426), OCS sand has become easier to obtain for beach nourishment, shoreline protection, and wetlands enhancement projects that benefit the public. In addition, during the past several years, States, localities and others have seen their needs for OCS sand increase due to adverse weather and diminishing suitable sources located either onshore or in state coastal waters. MMS expects requests for Federal sand for beach restoration and hurricane protection to significantly increase in the future from current levels.

  In anticipation of these needs, the agency’s current and future activities are laying the groundwork for effective regional management of OCS sand resources. Through its Marine Minerals Program, MMS will continue to work cooperatively with interested States, focusing its efforts on integrating geologic and environmental information to identify sand deposits in Federal waters suitable for beach nourishment. Past and ongoing partnerships with States along the East Coast and the Gulf of Mexico are designed to collect and analyze in an organized and cost-effective fashion the information needed to make decisions on beach restoration projects. This proactive approach will help ensure that when OCS sand resources are most needed, the necessary groundwork will have already been accomplished—thereby expediting the overall beach restoration process.

Photo by Mieko Mahi

The Minerals Management Service Mission Statement

To manage the mineral resources on the Outer Continental Shelf in an environmentally sound and safe manner and to timely collect, verify, and distribrute mineral revenues from Federal and Indian Lands.

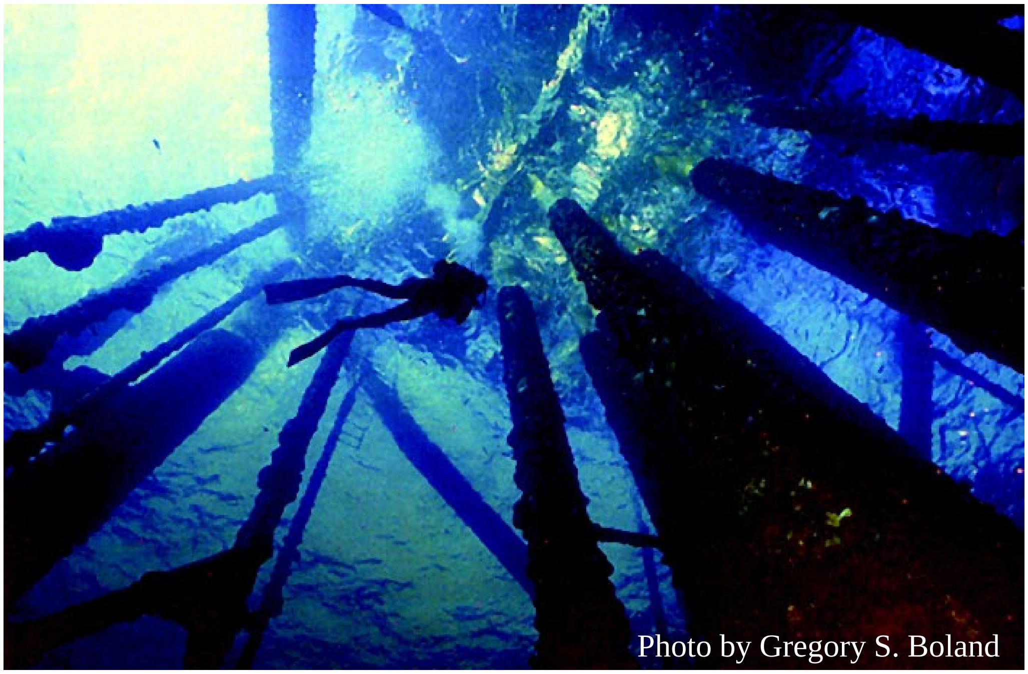

Photo by Gregory S. Boland

MMS staff photo

Two principles guide MMS in the fulfilling its mission

- Be responsive to the public's concerns and interests
- Work to enhance the quality of life for all Americans

MMS staff photo

Photo by Gregory S. Boland

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