



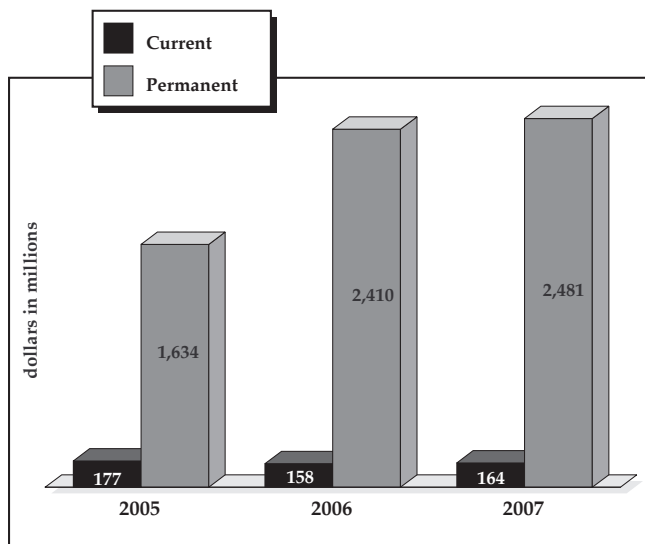
MINERALS MANAGEMENT SERVICE

Mission— The Minerals Management Service was formed by Secretarial Order in 1982 to facilitate the Nation’s mineral revenue collection efforts and the management of its Outer Continental Shelf offshore lands. The MMS manages energy and mineral resources, including alternative energy resources, on the Nation’s OCS in an environmentally sound and safe manner. The MMS is also responsible for the timely and accurate collection, distribution, accounting for, and auditing of revenues owed by holders of mineral leases on Federal onshore, offshore, and Indian lands.

Program Overview — The MMS programs contribute significantly to the Nation’s economic well-being and energy security. Annually, OCS leases produce over 600 million barrels of oil and 4.7 trillion cubic feet of natural gas. Oil production from the OCS helps to limit dependence on imported energy, while the natural gas produced will continue to play a key role in providing the Nation a reliable and clean-burning energy source. In 2007, MMS programs will collect an estimated \$14.0 billion in revenues from minerals produced from offshore and onshore Federal and Indian lands. This income contributes to the funding of numerous Federal programs. In addition to Federal and tribal interests, MMS also supports States and local governments through revenue sharing and by providing OCS sand and gravel for beach nourishment projects. Since 1994, increasing OCS rental revenues have permitted MMS to use receipts to cover over \$1.0 billion in previously appropriated activities, releasing the equivalent amount of limited discretionary budget authority to address other Federal high priority programs. The 2007 budget request will add another \$128.7 million to that total.

To ensure OCS development is carried out in a safe and environmentally responsible manner, MMS inspects all offshore facilities, reviews plans of exploration and development, analyzes statements of financial responsibility, and funds scientific and engineering research related to OCS mineral and alternative energy development. The MMS also utilizes a broad range of financial services, and pursues a comprehensive compliance strategy. This strategy includes an automated compliance verifica-

MMS Funding



tion program to validate the accuracy and timeliness of revenues paid, and an audit program staffed by MMS, State, and tribal auditors to ensure proper revenues are collected and disbursed.

Energy Policy Act — With the enactment of the Energy Policy Act of 2005, MMS faces a wide range of new and expanded responsibilities. Several sections of the Act add significant additional scope to the MMS mission, such as Section 388, Alternate Energy-Related Uses on the OCS, and Section 384, Coastal Impact Assistance program. In addition, several sections increase the scale of existing programs, such as new incentives for oil and gas production, and system modifications for processing royalty credits and incentives. While much of MMS’s current work and extensive expertise can be applied to these new programs, the provisions of the Act place significant new demands on MMS’s budgetary and human resources. However, the fulfillment of MMS’s responsibilities under the Energy Policy Act will provide substantial benefit to the American economy by diversifying the domestic energy portfolio and increasing energy-related revenues.

Management Excellence — The budget continues to support implementation of the President's management initiatives. In 2005, Interior began work on the next five-year Strategic Plan. In preparation, MMS completed a review of its performance structure and made needed revisions to the current plan based upon the analysis. The MMS has continued to make progress in improved budget and performance integration, human resource management, financial management, e-government, and competitive sourcing.

As of 2007, all MMS programs will have undergone a Program Assessment Rating Tool evaluation. The PART process has resulted in findings that support MMS fiscal and legislative priorities. For example, the findings from the review of the OCS Resource Evaluation and Leasing program recognized that MMS "...manages access to mineral resources with exceeding proficiency..." and supported legislation, now enacted as part of the Energy Policy Act of 2005, granting the bureau additional authority over alternative energy projects on OCS lands and the alternative use of OCS facilities. The MMS used information gathered in the PART review to develop the \$6.5 million budget initiative to support the alternative energy program.

The MMS uses cost data, gathered from the bureau's activity-based cost management model, in decisionmaking. For example, in developing the 2007 budget, ABC data was considered by management when establishing the agency's performance targets. In addition, ABC data was used to compare royalty in-kind and royalty in-value administrative costs. As the system matures, MMS anticipates using ABC data to re-engineer business processes, allocate resources, and project future funding requests.

Budget Overview — The 2007 MMS budget request is \$292.3 million in current appropriations and offsetting receipts. Four permanent appropriations totaling \$2.5 billion will provide States with their statutory shares of mineral leasing revenues generated on Federal lands.

Offsetting receipts are estimated to be \$128.7 million, an increase of \$6.0 million over 2006. The request for direct appropriations is \$163.6 million, an increase of \$5.3 million from the 2006 enacted budget, excluding the hurricane supplemental. The resulting \$11.3 million increase in overall funding will enable MMS to facilitate OCS development and deepwater activities; fund helicopter contract increases; implement the Indian oil valuation rule; recompile and transition MRM's operations and support contract; implement Energy Policy Act requirements; and complete the environmental analyses necessary for the 2007 OCS lease sales and the 2007-2012 Five-Year Lease program.

OCS Program — The goal of the OCS program is to provide for safe and environmentally sound energy and mineral development on the OCS and to ensure that the public receives fair market value for these resources. To carry out this goal, MMS activities include administration of OCS leases; review of new exploration and development plans; examination of pipeline right-of-way applications; environmental assessments; and annual safety inspections of mineral extraction operations on-site. The MMS requests \$159.4 million in 2007 for OCS program activities, a net increase of \$10.6 million above the 2006 enacted budget, when hurricane supplemental funding is excluded.

The MMS has acquired new program responsibilities with passage of the Energy Policy Act of 2005. The 2007 budget request includes an increase of \$7.6 million in support of the Energy Policy Act, including \$6.5 million to establish a comprehensive program to manage new and innovative alternative energy projects on the OCS, and \$1.0 million towards a coordinated Departmental effort to accelerate research, resource modeling, assessment, and characterization of gas hydrates in the Gulf of Mexico and the North Slope of Alaska.

Industry continues to move further offshore into ultra-deepwater to conduct operations. In the last three years, companies have made 24 significant discoveries in ultra-deepwater areas, requiring a significant increase in MMS inspections. The budget includes \$2.1 million to facilitate OCS development, by funding increased helicopter contract costs associated with transporting inspectors to offshore oil and gas facilities at greater distances. The increase will also allow MMS to keep abreast of the innovative developments and environmental concerns in deepwater technology.

The MMS also proposes a \$1.5 million OCS lease sales initiative to prepare National Environmental Policy Act analyses that are necessary for the Gulf of Mexico and Alaska. The next Five-Year Plan, Outer Continental Shelf Oil and Gas Leasing Program 2007-2012, will likely expand the number of scheduled OCS sales and increase seismic and drilling exploration, delineation, and development activities towards the goal of increasing domestic oil and gas production and reducing dependency on imports from foreign sources.

Minerals Revenue Management — The goal of the MRM program is to ensure that revenue from Federal and Indian mineral leases are effectively, efficiently, and accurately collected, accounted for, and disbursed to recipients. These revenues, which have historically averaged over \$6.5 billion per year, are distributed and disbursed to 38 States, 41 Indian Tribes, some 30,000 American Indian

mineral royalty owners, and to U.S. Treasury accounts. In the 2007 budget request, the total MRM program is funded at \$79.2 million, an increase of \$1.3 million above the 2006 enacted budget.

The MRM's primary business of collecting, accounting, and assuring compliance for Federal and Indian mineral revenues is highly dependent on its information technology system, the MRM Support System. In 2007, MMS is proposing a \$750,000 initiative for MRMS system modifications, to enable MMS to implement an automated credit system in support of the Energy Policy Act.

The MMS has a continuing objective to provide the highest quality services for Indian trust beneficiaries, and plans to publish a proposed Indian Oil Valuation Rule, which will add more certainty to the valuation of oil produced from Indian lands. The 2007 budget includes \$842,000 to fund system enhancements and staff support necessary for the implementation of the rule.

Royalty-In-Kind Program — The RIK program has demonstrated that under certain circumstances taking royalties in-kind has many advantages over taking them in-value. These advantages include revenue enhancement, reduced administrative costs for both MMS and industry, conflict avoidance, and earlier receipt of royalty revenues. The 2006 Interior, Environment, and Related Agencies Appropriations Act and the Energy Policy Act of 2005 granted MMS permanent authority to fund transportation and administrative costs for the RIK program through RIK revenue receipts. As MMS has made progress in optimizing RIK volumes and increasing Treasury revenues, it has examined its business practices and basic organizational structure. The 2007 budget includes a reduction of \$3.1 million related to the indirect costs more appropriately financed through RIK receipts collected in 2007.

Coastal Impact Assistance Program — The Energy Policy Act authorizes disbursement of \$250.0 million from OCS oil and gas revenues in each of the fiscal years 2007 through 2010 to producing States (Alabama, Alaska, California,

Louisiana, Mississippi, and Texas) and coastal political subdivisions (e.g., counties, parishes, or boroughs) for approved coastal restoration and conservation purposes. In 2007, MMS will continue the development of program guidelines begun in 2006, including development of an allocation model necessary to calculate the shares of revenue to be distributed annually to each recipient in accordance with a complex formula. The MMS will also review State CIAP plans, disburse funds to recipients, and monitor projects to ensure funds are used for the purposes outlined. In lieu of a program change to the annual Royalty and Offshore Minerals Management appropriation, MMS is proposing legislation to authorize the Secretary to retain up to one percent of CIAP funds, to remain available until expended. The funds will cover MMS's costs of administering the new program, including grant management and monitoring costs that will extend beyond the 2007-2010 disbursement period.

User Fees — In 2007, MMS is projecting additional fee revenues of \$6.0 million, generated from the full year's collection of the user fees proposed in the 2006 budget. These fees would be added to offsetting collections, for a total of \$128.7 million, allowing the reduction of annual appropriations by \$6.0 million.

Oil Spill Research Program — This program supports oil pollution research and other duties related to oil spill prevention, as authorized by the Oil Spill Pollution Act of 1990. The budget proposes total funding of \$6.9 million in 2007. The funding will allow MMS to continue a four-year phased replacement of equipment and increased operational costs at the National Oil Spill Response Test Facility, the only one of its type in the world providing full-scale equipment and methodology testing in a safe, controlled environment.

Fixed Costs — The 2007 budget request includes an increase of \$5.0 million for non-discretionary fixed cost increases, of which \$3.5 million are budgeted and \$1.5 million are absorbed.

SUMMARY OF BUREAU APPROPRIATIONS
(all dollar amounts in thousands)

Comparison of 2007 Request with 2006 Enacted:

	2006 Enacted		2007 Request		Change from 2006	
	FTE	Amount	FTE	Amount	FTE	Amount
Appropriations						
Royalty and Offshore Minerals Management.....	1,632	151,391	1,662	156,651	+30	+5,260
Oil Spill Research	22	6,903	22	6,903	0	0
Subtotal, Direct Appropriations (w/o hurricane supp.)	1,654	158,294	1,684	163,554	+30	+5,260
Hurricane Supplemental.....	0	16,000	0	0	0	-16,000
Subtotal, Direct Appropriations (w/ hurricane supp.)	1,654	174,294	1,684	163,554	+30	-10,740
Offsetting Collections	0	122,730	0	128,730	0	+6,000
Subtotal, Appropriations (w/o hurricane supp.).....	1,654	281,024	1,684	292,284	+30	+11,260
Subtotal, Appropriations (w/ hurricane supp.).....	1,654	297,024	1,684	292,284	+30	-4,740
Permanents and Trusts						
Mineral Leasing and Associated Payments	0	2,396,765	0	2,221,009	0	-175,756
Leases of Lands Acquired for Flood Control, Navigation, and Allied Purposes.....	0	3,061	0	2,764	0	-297
Nat'l. Forests Funds, Payments to States.....	0	7,914	0	7,279	0	-635
Geothermal, Payments to Counties.....	0	2,693	0	0	0	-2,693
Coastal Impact Assistance Program.....	0	0	0	250,000	0	+250,000
Subtotal, Permanents and Trusts	0	2,410,433	0	2,481,052	0	+70,619
TOTAL, MINERALS MGMT SERVICE (w/o h. supp.)..	1,654	2,691,457	1,684	2,773,336	+30	+81,879
TOTAL, MINERALS MGMT SERVICE (w/ h. supp.) ...	1,654	2,707,457	1,684	2,773,336	+30	+65,879

HIGHLIGHTS OF BUDGET CHANGES
By Appropriation Activity/Subactivity

APPROPRIATION: Royalty and Offshore Minerals Management

	2005 Actual	2006 Enacted	2007 Request	Change from 2006 Enacted
Outer Continental Shelf Lands				
Leasing and Environmental Program				
Appropriation.....	16,889	15,505	22,004	+6,499
Offsetting Collections	20,335	22,206	23,206	+1,000
Total, Leasing and Environ. Prog.....	37,224	37,711	45,210	+7,499
Resource Evaluation Program				
Appropriation.....	20,663	18,381	18,091	-290
Offsetting Collections	8,903	11,026	12,026	+1,000
Total, Resource Evaluation Prog.....	29,566	29,407	30,117	+710
Regulatory Program				
Appropriation.....	37,073	33,023	33,565	+542
Offsetting Collections	14,443	18,449	20,449	+2,000
Total, Regulatory Program.....	51,516	51,472	54,014	+2,542

	2005 Actual	2006 Enacted	2007 Request	Change from 2006 Enacted
Information Management Program				
Appropriation.....	12,423	9,632	9,475	-157
Offsetting Collections	17,549	20,549	20,549	0
Total, Info. Mgmt. Program	29,972	30,181	30,024	-157
OCS Appropriation.....	87,048	76,541	83,135	+6,594
OCS Offsetting Collections	61,230	72,230	76,230	+4,000
Subtotal, OCS Lands.....	148,278	148,771	159,365	+10,594
Minerals Revenue Management				
Compliance and Asset Management				
Appropriation.....	28,315	25,488	25,899	+411
Offsetting Collections	13,235	17,235	17,235	0
Total, Valuation and Operations	41,550	42,723	43,134	+411
Revenue and Operations				
Appropriation.....	20,602	17,894	16,759	-1,135
Offsetting Collections	13,265	17,265	19,265	+2,000
Total, Compliance	33,867	35,159	36,024	+865
MRM Appropriation.....	48,917	43,382	42,658	-724
MRM Offsetting Collections	26,500	34,500	36,500	+2,000
Subtotal, Revenue Management	75,417	77,882	79,158	+1,276
General Administration				
Executive Direction				
Appropriation.....	1,057	1,100	1,533	+433
Offsetting Collections	1,000	1,000	1,000	0
Total, Executive Direction	2,057	2,100	2,533	+433
Policy and Management Improvement				
Appropriation.....	3,132	3,199	3,090	-109
Offsetting Collections	1,000	1,000	1,000	0
Total, Policy and Mgmt. Improve. ...	4,132	4,199	4,090	-109
Administrative Operations				
Appropriation.....	15,409	15,489	15,282	-207
Offsetting Collections	1,555	1,555	1,555	0
Total, Admin. Operations.....	16,964	17,044	16,837	-207
General Support Services				
Appropriation.....	11,256	11,680	10,953	-727
Offsetting Collections	12,445	12,445	12,445	0
Total, General Support Services	23,701	24,125	23,398	-727
GA Appropriation	30,854	31,468	30,858	-610
GA Offsetting Collections	16,000	16,000	16,000	0
Total, General Administration.....	46,854	47,468	46,858	-610
Net Appropriation Transfers	3,343	0	0	0
TOTAL (w/o hurricane supplemental)	273,892	274,121	285,381	+11,260
Total Appropriation (w/o hurricane supp.) ..	166,819	151,391	156,651	+5,260
Total Offsetting Collections	103,730	122,730	128,730	+6,000
Hurricane Supplemental.....	0	16,000	0	-16,000
TOTAL (w/ hurricane supplemental).....	273,892	290,121	285,381	-4,740
Total Appropriation (w/ hurricane supp.)....	166,819	167,391	156,651	-10,740
Total Offsetting Collections	103,730	122,730	128,730	+6,000

Highlights of Budget Changes

	<u>Amount</u>
Fixed Costs	[+5,025]
Outer Continental Shelf Lands	
Leasing and Environmental Program	+7,499
<p>An increase of \$5,926 is proposed to establish a comprehensive alternative energy program on the OCS in support of the Energy Policy Act, including leasing, environmental, and regulatory requirements; a \$1,370 increase is proposed to prepare NEPA documents and information collection needs in support of OCS lease sales; an increase of \$180 is proposed to handle the rapidly increasing transfers of record title actions for oil and gas leases on the OCS; a decrease of \$232 is included for the Office of Public Affairs realignment; a \$172 decrease is included for the 2006 congressional fixed costs earmark. Fixed costs total \$610 of which \$427 are budgeted and \$183 are absorbed.</p>	
Resource Evaluation Program	+710
<p>An increase of \$1,000 is proposed for a coordinated effort in the Gulf of Mexico and Alaska North Slope to accelerate research, resource modeling, assessment, and characterization of gas hydrates; a \$274 increase is proposed to conduct resource assessments and evaluations and assure conservation of resources on the OCS, in support of the Energy Policy Act; a \$130 increase is proposed to prepare NEPA documents and information collection needs in support of OCS lease sales; a \$996 decrease is included for the Center for Marine Resources and Environmental Technology and the 2006 fixed costs earmarks; a decrease of \$179 is included for the Office of Public Affairs realignment. Fixed costs total \$687 of which \$481 are budgeted and \$206 are absorbed.</p>	
Regulatory Program	+2,542
<p>An increase of \$1,920 is proposed for OCS development, including a new GOM aviation contract, increased fuel and inspection costs, and staff to review and develop appropriate industry standards for deepwater; a \$437 increase is proposed for the implementation of Section 317 of the Energy Policy Act, establishing the liquefied natural gas Federal/State forum; a decrease of \$328 is included for the Office of Public Affairs realignment; a \$200 decrease is included for the 2006 fixed costs earmark. Fixed costs total \$1,017 of which \$713 are budgeted and \$304 are absorbed.</p>	
Information Management Program	-157
<p>A decrease of \$117 is included for the Office of Public Affairs realignment; a \$200 decrease is included for the 2006 fixed costs earmark. Fixed costs total \$228 of which \$160 are budgeted and \$68 are absorbed.</p>	
Minerals Revenue Management	
Compliance and Asset Management	+411
<p>An increase of \$842 is proposed for implementation of the Indian oil valuation rule; a reduction of \$1,124 is included for indirect royalty-in-kind costs that are recoverable from revenue receipts; a decrease of \$170 is included due to postponement of two Tribal cooperative audit agreements. Fixed costs total \$1,234 of which \$863 are budgeted and \$371 are absorbed.</p>	
Revenue and Operations	+865
<p>An increase of \$750 is included for the implementation of an automated credit system, which is part of the MMS overall funding proposal for implementation of the Energy Policy Act; a decrease of \$154 is included for the Office of Public Affairs realignment. Fixed costs total \$384 of which \$269 are budgeted and \$115 are absorbed.</p>	
General Administration	
Executive Direction	+433
<p>An increase of \$1,010 is included as part of the Office of Public Affairs realignment; a \$30 decrease is included for the 2006 fixed costs earmark; a decrease of \$598 is included for RIK indirect costs that are recoverable from revenue receipts. Fixed costs total \$73 of which \$51 are budgeted and \$22 are absorbed.</p>	

	<u>Amount</u>
Policy and Management Improvement	-109
A \$30 decrease is included for the 2006 fixed costs earmark; a decrease of \$156 is included for RIK indirect costs that are recoverable from revenue receipts. Fixed costs total \$110 of which \$77 are budgeted and \$33 are absorbed.	
Administrative Operations	-207
A \$250 decrease is included for the 2006 fixed costs earmark; a decrease of \$407 is included for RIK indirect costs that are recoverable from revenue receipts. Fixed costs total \$643 of which \$450 are budgeted and \$193 are absorbed.	
General Support Services	-727
A \$150 decrease is included for the 2006 fixed costs earmark; a decrease of \$787 is included for RIK indirect costs that are recoverable from revenue receipts. The 2007 budget includes an increase of \$172,000 for projects funded through the Working Capital Fund, including consolidation of diverse, separate messaging systems onto one enterprise system; a contracted effort to eliminate, over three years, the Department's backlog of nearly 2,000 appeals to Freedom of Information Act requests; the creation of an enterprise system that will improve the effective use of geographic information; and the Enterprise Services Network that became operational in 2005 and provides access to the Internet, a Department-wide intranet, and a technical support center. Fixed costs total \$39, of which \$38 are budgeted and \$1 are absorbed.	

APPROPRIATION: Oil Spill Research

	2005 Actual	2006 Enacted	2007 Request	Change from 2006 Enacted
TOTAL APPROPRIATION	7,006	6,903	6,903	0