STATEMENT OF
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COMMITTEE ON NATURAL RESOURCES
SUBCOMMITTEE ON ENERGY AND MINERAL RESOURCES
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Mr. Chairman and members of the Subcommittee, thank you for the opportunity to appear here today to discuss the President's Fiscal Year (FY) 2009 Budget request for the Minerals Management Service (MMS) in the Department of the Interior (DOI).

MMS Background

The MMS manages the Nation's oil, natural gas, and other energy and mineral resources on the Federal Outer Continental Shelf (OCS) and the mineral revenues from OCS, Federal, and Indian lands. The MMS is one of America's leading mineral asset managers. From the gasoline that powers our cars, the oil and natural gas that heats our homes, to funds collected and disbursed from mineral leasing activities, the Nation and its citizens benefit from the efforts of MMS.

To carry out its mission, MMS manages two very important programs – Offshore Energy and Minerals Management (OEMM) and Minerals Revenue Management (MRM). Collectively, these programs manage activities that generate about 27 percent of America's domestic oil production, 15 percent of domestic natural gas production, and an average of $10 billion in annual revenue for the Nation, States, and American Indians. Both of these functions are important to the Nation's economic health and are key to meeting our energy needs.

Budget Overview

The FY 2009 budget request is $307.1 million in current appropriations, offsetting receipts, and cost recoveries, an increase of $10.3 million above the FY 2008 enacted level.

These are exciting and critical times for MMS and the Nation, as we take on new challenges and directions in offshore resource management and leasing, alternative energy development, and enhancement of revenue collection and auditing procedures and systems. MMS has major financial responsibilities for the implementation of the OCS Oil and Gas Leasing Program 2007-2012 (5-Year Program 2007-2012), continuing program development under the Energy Policy Act of 2005 (including the Coastal Impact Assistance Program), and continued implementation of the Gulf of Mexico Energy Security Act of 2006. The MMS request will fund fixed cost increases in the amount of $6.8 million, an amount that funds most fixed costs, to maintain core program capabilities. It also provides additional resources for MRM to improve audit and compliance review processes and to implement system enhancements for the Minerals Revenue Management Support System (MRMSS). These increases will complement our ongoing efforts to ensure the accurate and timely collection and distribution of royalties required by Congress and to implement recommendations of the Government Accountability Office and the Department of the Interior's Office of the Inspector General (OIG).

The FY 2009 request redirects existing resources to make us more efficient, and provides for important new leasing and energy management activities that are essential to America's energy supply, including enhancing our domestic production of oil and gas and the permitting of offshore wind, wave and current projects. Overall, the budget provides $14.3 million in program increases. Proposed reductions total $10.7 million, reflecting the completion of certain systems work, the completion of development funding for the OCS Connect system, and other anticipated savings through better use of technology.

FY 2009 Budget Priorities

The FY 2009 budget request advances MMS's top priorities of facilitating domestic energy production and ensuring that taxpayers are appropriately compensated for that production. The requested resources will enable MMS to fulfill its multiple-use mission in the most effective and efficient way possible. I will now briefly outline our request for specific program increases and discuss other actions we are taking to address our management challenges.

Offshore Energy and Minerals Management Program

Energy Policy Act Implementation – Alternative Energy
Section 388 of the Energy Policy Act of 2005 (EPAct 2005) increased MMS's responsibility for renewable energy sources on the OCS. The FY 2009 request proposes funding for review and analysis of alternative energy projects, such as wind, wave, and current energy projects. Coupled with the traditional energy development initiatives, the development of alternative energy resources on the OCS shows great promise for helping to meet America's energy needs in the coming decades. The Budget includes an additional $1 million to facilitate these projects in 2009.

Lease Sale Implementation
The OCS Lands Act requires the Secretary of the Interior to prepare and maintain an oil and gas leasing program that indicates the size, timing and location of leasing activity determined to best meet national energy needs for the five-year period following its approval. The Secretary issued the 5-Year Program 2007-2012 in June 2007.

The FY 2009 President's Request includes funding to support the Secretary's 5-Year Program 2007-2012 which significantly expanded the area offered for leasing and moves into areas that are new and considered frontier. This includes an 80 percent expansion of acreage for planning areas in Alaska; a 10 percent expansion in the Gulf of Mexico; and consideration of 2.9 million acres off the coast of Virginia for the first time since the 1980s. In FY 2009, a total increase of $8.5 million is requested for 5-Year Program 2007-2012 implementation.

The MMS held two lease sales in 2007 as scheduled in the 5-Year Program 2007-2012. For Sale 204, Western Gulf of Mexico (WGOM), MMS accepted high bids valued at $287,081,023 and awarded 274 leases to the successful high bidders. Sale 205, Central Gulf of Mexico (CGOM), generated $2,904,321,011 in high bids on 723 tracts. The $2.9 billion was the second highest bid amount for any sale in the history of the program. On February 6, 2008, MMS held Sale 193 in the Chuckchi Sea. Companies submitted 667 bids on 488 tracts with high bids of more than $2.6 billion.

Ensuring Fair Value for the Taxpayer

The FY 2009 Budget includes additional funding of $1.1 million for Geoscientific Interpretive Tools (GIT) that will enable MMS to acquire industry comparable analytical software for performing analysis, including lease sale bid adequacy decisions, and ensuring OCS resources are developed consistent with sound conservation principles. Bid adequacy determinations have historically provided a positive direct financial return to the federal government. A comparison of rejected bids and bids subsequently accepted for the same tracts in the next lease sale using existing GIT software indicates that MMS has been able to effectively increase bonus receipts, in aggregate by $373 million during the period 1997 through 2006.

Minerals Revenue Management Program

Compliance Strategy - OIG Report

At the request of the U.S. Senate Committee on Energy and Natural Resources, the OIG conducted an audit to determine whether compliance reviews are an effective part of the Compliance and Asset Management (CAM) program and whether the MMS is effectively managing the compliance review process. The audit concluded that compliance reviews can be an effective part of the MMS CAM program, though the audit "disclosed some weaknesses that may prevent MMS from maximizing the benefits of the compliance reviews." In addition, the OIG found that while MMS had audited and reviewed 72.5 percent of all revenues from Federal and Indian leases in FY 2006, only 9 percent of all properties and 20 percent of all companies were examined. The OIG recommended that MMS "consider modifying its CAM program strategy to ensure appropriate coverage of properties and companies within a reasonable timeframe even if this results in a reduction of the overall percentage of dollars covered."

In response, on December 28, 2006, MRM formally submitted an "Action Plan to Strengthen Minerals Management Service Compliance Program Operations" to the OIG. The Action Plan outlines steps to fully and effectively implement the OIG recommendations. These range from providing reliable data for managing and reporting on CAM program operations, to pursuing a more dynamic, risk-based approach to compliance. The FY 2009 request includes $2.0 million to implement one of the central components of our efforts to address the OIG's recommendations: fully implementing the risk-based compliance approach that we piloted this year and which was outlined in the OIG report.

MRM Support System Modifications

Since its formation in 1982, MMS has successfully adapted to industry changes and become more operationally efficient. The MRM's primary business of collecting, accounting, and assuring compliance for and disbursement of Federal and Indian mineral revenues is highly dependent on its information technology system, the MRM Support System (MRMSS). In FY 2009, MMS is proposing $1.7 million in MRMSS system modifications, which will improve the timeliness and efficiency of the interest assessment to companies. This initiative will fund the final phase of an improvement initiative begun within base funding in FY 2007, with the objective of transitioning from an extremely labor intensive process with significant backlogs to a highly effective and efficient business process. Currently, before invoices are finalized, automated draft invoices are manually verified and updated based on unique exceptions not programmed into the MRMSS system. Upon full implementation of this initiative, not only will recipients receive interest revenues sooner, but MRM will be able to redirect some staff resources to other priority areas.

Royalty-in-Kind (RIK) Program
The RIK program has demonstrated that under certain circumstances, taking royalties in-kind has many advantages over taking royalties in-value (RIV). These advantages include revenue enhancement, reduced administrative costs for MMS and industry, reduced incidence of valuation disagreements, and earlier receipt of royalty revenues. The Department of the Interior, Environment, and Related Agencies Appropriations Act, 2006, 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. Although RIK volumes are expanding, MMS anticipates that the administrative costs will remain relatively flat. The preliminary 2009 estimate for RIK administrative costs is $20.1 million, an increase of only $100,000 for fixed cost adjustments over the FY 2008 budget of $20 million. When compared to RIV, MMS estimates that RIK resulted in administrative cost avoidance of $2.3 million in 2006, primarily due to decreased audit, compliance, and litigation costs. The MMS anticipates similar cost avoidance in future years.

Coastal Impact Assistance Program (CIAP)

The Energy Policy Act of 2005 (Public Law 109-58) authorizes disbursement of $250 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 (counties, parishes, or boroughs) for a variety of uses, with an emphasis on approved coastal restoration and conservation. Congress subsequently approved a 3 percent appropriation of CIAP funds to be used by MMS to administer the CIAP program.

Major milestones to date include:

- Able to accept draft/final state Plans – February 16, 2007.
- Allotment amounts – Notice of Availability published in Federal Register April 17, 2007 (see below table for state allotments amounts).
- Approved Louisiana State Plan – November 29, 2007.
- Received first grant application (from Louisiana) – November 30, 2007.
- First grant award anticipated March 2008 (presuming state provides missing information in a timely manner
- Mississippi, Texas, and Alabama anticipated to submit final Plan in February 2008
- Alaska anticipated to submit final Plan in late spring 2008
- California anticipated to submit draft final Plan in mid-spring 2008

Key milestones established to implement the CIAP program were based on the availability of funds requested in the FY 2007 President's Budget Request. Development and implementation of the program assumed that funds would be made available for this purpose early in the fiscal year. The delay in receiving administrative funding affected MMS's original target dates for receiving plans, completing the EA, and readying the agency to accept grant applications.

	Original Target Date	Actual Date
Receive State Plans	October 2, 2006	February 16, 2007
Complete Final EA	December 31, 2006	June 5, 2007

Accept Grant Applications	Early May 2007	November 29, 2007

Subcommittee on Royalty Management Report

On March 22, 2007, Secretary Kempthorne appointed the Subcommittee on Royalty Management ("the Subcommittee") to conduct an independent examination of MMS's minerals revenue management program. Reports from the OIG and others questioned whether the Department's royalty programs were adequate to assure that the public received the royalties that Congress had intended. While the Assistant Secretary for Land and Minerals Management had concluded at the time that there were no major problems in the royalty program, he felt there were many opportunities to improve those operations. As a result, the Secretary determined that a fully independent examination of the program was warranted, both to restore credibility to this important revenue-generating program, and to focus on the improvements that were needed.

On December 17, 2007 the Subcommittee issued a draft report entitled, *Mineral Revenue Collection from Federal and Indian Lands and the Outer Continental Shelf*. The Subcommittee recommendations were developed by a bipartisan panel led by former U.S. Senators Bob Kerrey and Jake Garn. Secretary Kempthorne formed the panel last year, charging it to conduct a full and candid assessment of the Department's mineral revenue management system. He gave the panel a free hand to scrutinize all key processes, from production accountability and royalty collections to audits, compliance, and enforcement.

The Subcommittee concluded that MMS is an effective steward of the Minerals Revenue Management Program, and that MMS employees are genuinely concerned with fostering continued program improvements. The Subcommittee members unanimously agreed that MMS is the Federal agency best suited to fulfill the stewardship responsibilities for Federal and Indian leases. However, as we expected, the report identified many areas that warranted management attention to ensure public confidence. The report contains 110 recommendations, many of which require coordination among multiple Department of the Interior bureaus including MMS, the Bureau of Land Management, and the Bureau of Indian Affairs. Also, some of the recommendations will need to be explored further through consultations with State and American Indian officials, and in some cases, industry organizations, before they can be adequately implemented. Other recommendations would require legislative action.

As of February 11, 2008, 16 of the 110 recommendations are already complete. Of the remaining 94 recommendations, 29 are underway. The MMS has developed a Joint Action Plan to address all of the Report's recommendations.

Conclusion

The MMS's FY 2009 Budget redirects existing resources to make us more efficient, and supports offshore resource management and leasing, alternative energy development, and enhancement of revenue collection processes. Mr. Chairman, thank you for the opportunity to testify. I will be pleased to answer any questions you may have.