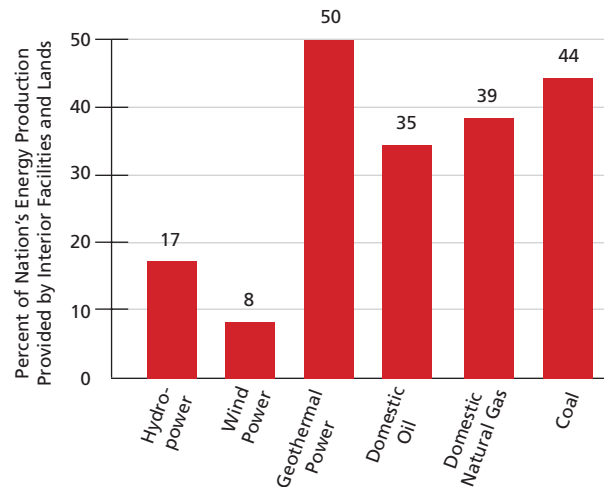


RESOURCE USE:
MANAGE NATURAL
RESOURCES TO
PROMOTE
RESPONSIBLE USE
AND SUSTAIN A
DYNAMIC ECONOMY

Recent headlines about high fuel prices have reminded Americans of our dependency on oil and gas to maintain our standard of living. According to the Energy Information Administration (EIA), one barrel of crude oil produces about 42 gallons of oil or 20 gallons of finished gasoline. In 2005, the United States used almost 20.7 million barrels of crude oil per day.

FIGURE 1-23

DOI Contributes to Nation's Energy Production



The Department of the Interior plays a vital role in maintaining the Nation's energy supply (Figure 1-23). Approximately 30% of the Nation's domestic energy is produced on Interior-managed lands and waters. Of this, nearly one third of America's domestic oil and 21% of our domestic natural gas were produced from the Outer Continental Shelf (OCS) prior to Hurricanes Katrina and Rita (August and September 2005). From a near-complete "shut-in" or precautionary discontinuation of OCS petroleum production after 2005 hurricanes, The Minerals Management Service (MMS) oversaw resumption of production to approximately 88% for oil and 91% for gas of pre-Katrina levels as of June 19, 2006.

At the same time, we increased renewable energy production on Federal lands. The Energy Policy Act of 2005 for the first time gave MMS authority over offshore renewable energy and alternative use projects, while providing BLM authority over geo-

thermal resources. We are also exploring alternative energy sources, such as petroleum extracted from oil shale and gas hydrates.

In FY 2006, we met 85% of our performance targets for our Resource Use Mission Area. We did not meet 15% of our targets. This compares with 80% of targets met and 15% of targets where we fell short in FY 2005. (see Figure 1-34 for more detail). We fell short of meeting targets in the area of Resource Use in part due to:

- additional time needed for revised administrative processes to mature before the benefits of reengineering efforts can be seen in terms of decreases in backlogs related to processing applications for permits to drill and lease energy minerals on BLM lands (Ref. #57, 58); and
- In some cases, we exceeded performance targets due to issues related to the manner in which funding is applied to water infrastructure and delivery projects (Ref. #78, 82). Revisions are expected to be made in future years that will address these issues, and enable us to set more refined targets.

FIGURE 1-24



BLM Oil Shale Research and Development Leases

The United States has the largest known concentration of oil shale in the world. Scientists estimate that our oil shale resources, which span a total area of 16,000 square miles underground, hold about the equivalent of 800 billion barrels of recoverable oil. More than 70% of this resource underlies Federal land, primarily in Colorado, Utah, and Wyoming.

BLM recently requested proposals for oil shale research development and demonstration (RD&D) leases for some of this public land. This is part of BLM's ongoing effort to provide the Nation with secure, reliable, affordable energy sources by boosting domestic energy production. Six proposals were selected among 20 nominations for leasing consideration. The next step involves an environmental analysis under the National Environmental Policy Act (NEPA) of each of these proposals before final decisions will be made to award the leases.

FIGURE 1-25

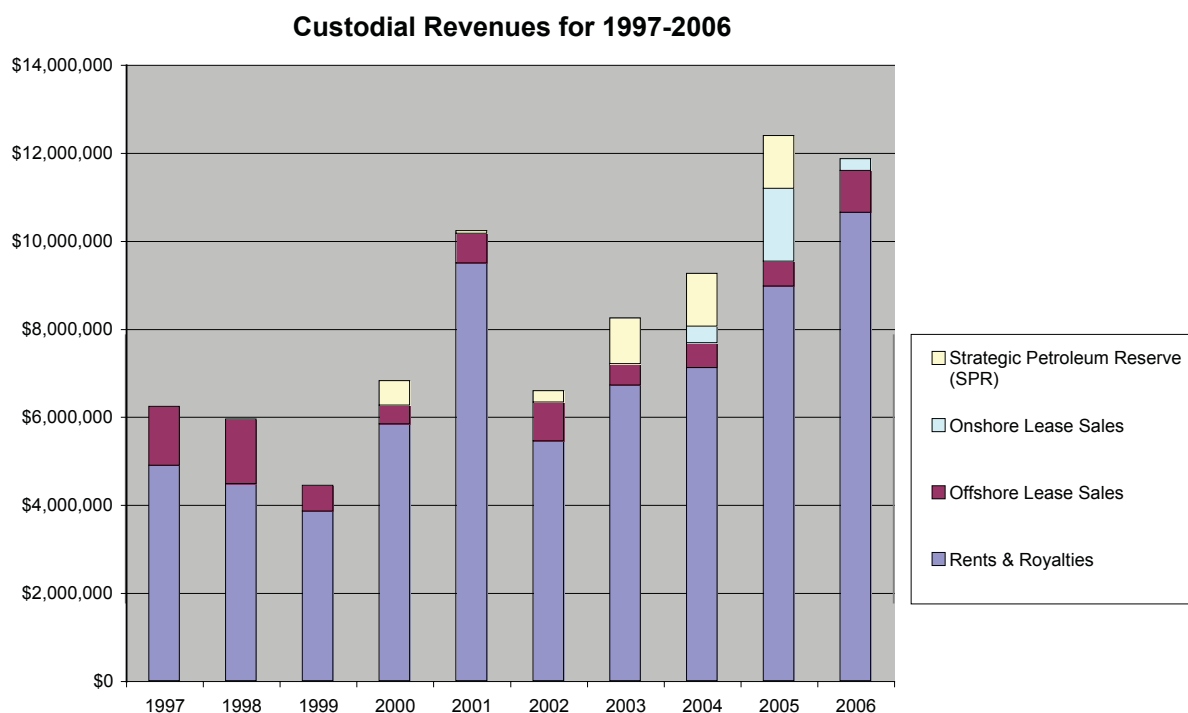


5-Year Outer Continental Shelf (OCS) Oil and Gas Leasing Program

In August 2005, the Department began its process for developing the OCS Oil and Gas Leasing Program for 2007-2012. The current program was effective in 2002 and runs through June 2007. It includes a total of 20 OCS lease sales in eight OCS planning areas in the Gulf of Mexico and offshore Alaska. About 40 million acres of Federal OCS are currently under lease for potential oil and natural gas exploration and development.

The 5-Year Outer Continental Shelf (OCS) Oil and Gas Leasing Program is governed by the OCS Lands Act. The Act requires MMS to specify the size, timing, and location of areas to be assessed for Federal offshore natural gas and oil leasing. The MMS is in the midst of developing a new 5-Year Program for 2007-2012. The proposed program, the third step in a multi-step planning process, was announced on August 24, 2006. It was accompanied by a draft Environmental Impact Statement. Once public comments are evaluated, a Proposed Final Program and Final EIS will be issued in 2007. The current program ends and the new program begins on July 11, 2007. Copies of the proposed program, the draft EIS, and instructions for commenting are available at: <http://www.mms.gov/5-year/>.

FIGURE 1-26



Note: Historical SPR revenues represent value of oil taken in-kind for delivery to SPR rather than actual dollars. Beginning in FY 2005 the Statement of Custodial Activity was revised to present an additional revenue category for onshore lease sale activity; FY 2004 was also revised to include this category. This chart reflects those revisions.

FIGURE 1-27

More Than Just Hot Air: Unique Helium Reserve Partnership Benefits Nation

In March 2006, the MMS successfully completed its fourth natural gas sale from the BLM's Cliffside Helium Enrichment Unit (CHEU) located near Amarillo, Texas.

Sometime after World War I, scientists discovered that helium is lost to the atmosphere if not separated from natural gas and somehow captured and stored. The United States prevented significant helium loss with passage of the 1960 Helium Amendment Act, which allowed helium to be stored at the Cliffside gas field. Today, the Cliffside gas field continues to hold much of the gas extracted during the last 45 years. Recently, the BLM oversaw development of the CHEU, an engineering marvel, which provides a means for separating helium from natural gas. Besides providing up to 6,500 thousand cubic feet (Mcf) per day of crude helium, the CHEU produces a residue stream of pipeline quality natural gas. Because MMS already had a well-developed natural gas sales program in place, BLM entered into an interagency agreement with MMS to sell this natural gas. Proceeds are returned to BLM, which uses revenue from both helium and gas sales to fund its Cliffside helium operations. Remaining revenues not used to fund operations are returned to the U.S. Treasury for the benefit of all Americans. The approximately 9,000 MMBtu per day of gas now entering the consumer market is enough to supply the gas needs of approximately 36,000 average homes in Colorado.



Providing America with Access to Energy and Minerals—Onshore and Offshore

We met our goal of supporting the President's National Energy Policy by holding two offshore oil and gas lease sales (Ref #50), offering access to some 42.17 million acres and attracting more than \$929 million in high bids for the Federal Treasury. This is consistent with the Secretary of the Interior's 5-Year Program.

USGS, our science bureau, contributed to the success of the energy policy by conducting resource assessments on six targeted onshore basins with oil and gas resources, meeting our target (Ref #61).

Onshore and offshore mineral- and energy leases managed by Interior's MMS and BLM generate revenues that are collected and disbursed to the general fund and the States, as well as to the Office of the Special Trustee for American Indians for disbursement to Tribes and individual Indian mineral owners. MMS mineral revenues over the last 10 years are shown in Figure 1-26.

In its FY 2006 Financial Statements, MMS reported

mineral revenues of about \$11.9 billion. It disbursed these in a timely manner, meeting performance goals (Ref. #56). About 60% of all MMS mineral revenues were from offshore leases and 40% from onshore leases. MMS collected an additional \$4.2 billion in revenues from BLM-managed energy on-shore leases.

The BLM manages over 300,000 leases and mining claims on public lands that have been designated as appropriate for mineral and energy development. In FY 2002, 2.1 trillion cubic feet (tcf) of natural gas were produced from Federal non-Indian lands. In FY 2003 and FY 2004, 2.2 tcf and 3.1 tcf, respectively, were produced from these lands.

BLM is experiencing a steady increase in the demand for natural gas drilling permits. In 2000, BLM received 3,977 applications for permits to drill (APDs). In 2005, this number swelled to 8,351 APDs. To address this need, BLM has taken numerous administrative steps to ensure that APDs are processed promptly, while at the same time ensuring that environmental protections are fully addressed during the review process. Together with increased funding, these administrative steps will help BLM make significant progress

FIGURE 1-28

GRAPH: Trends in Decreasing APD Backlog

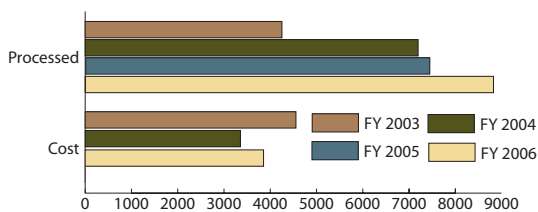
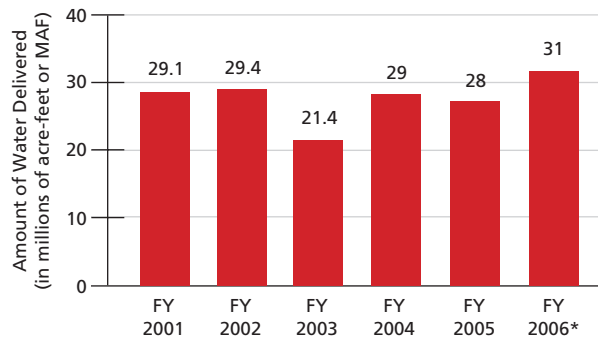


FIGURE 1-29

Delivering Water To Meet the Needs of the West



*Estimated data.

FIGURE 1-30

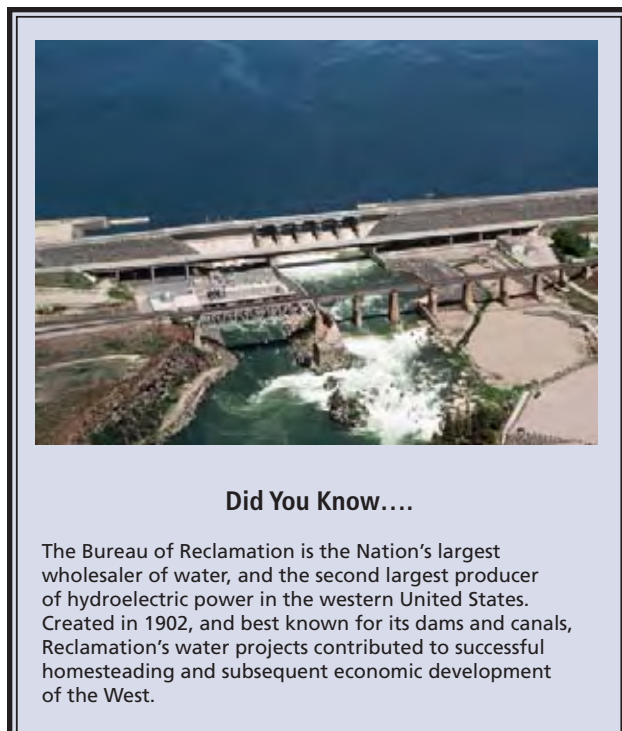
Flagstaff Rinses Smart

In February 2006, Interior's Bureau of Reclamation presented the City of Flagstaff, Arizona, with the 2005 Lower Colorado Region Water Conservation Field Services Program Award. The award recognizes Federal water users and partners for their innovative and effective water conservation programs. Flagstaff's water conservation program has been active since 2003 and includes water reuse, rebates for low water use products, an inverted rate structure, and a strict water conservation ordinance. Flagstaff also recently volunteered as one of the pilot areas for the new Arizona Rinse Smart Program. Within the program, older model pre-rinse spray heads used at food service establishments will be replaced with new units, each of which will save up to 50,000 gallons of water per year—a priceless savings for the thirsty West.

Potential Pre-Rinse Spray Valve Savings

	Water Savings		
	CCF	Gallons	Acre-Feet
Annually	66.4	50,000	0.153
5-year Life of PRSV	332	250,000	0.765

FIGURE 1-31



in processing APDs. In FY 2006, out of everything received, BLM reported 2,310 (Ref #57) pending applications (against a target of 1,226) in backlog status for fluid energy minerals such as oil and gas, and 33 (Ref #58) (against a target of 33) for solid energy minerals such as coal. The number of APDs in backlog over 60 days was 1,675. Although BLM was short of its performance targets, it did improve from FY 2005, when it reported 2,461 pending cases for fluid energy minerals and 35 for solid energy minerals. Changes in administrative processes will likely need some time to mature before benefits of these changes are manifested in terms of quantitative performance.

Providing Water and Hydropower

Interior is a major provider of water to the Nation's western States. The Department's Bureau of Reclamation manages 472 dams and 348 reservoirs that serve the water needs of over 31 million people and irrigate 10 million acres of farmland, contributing to the production of 25% of the Nation's fruits and nuts and 60% of our vegetables. This water is also used to

FIGURE 1-32

How Interior Performed at a Glance: FY 2005-2006		
Selected Performance Measures from Resource Use Mission Area		
Performance Measure	FY 2005	FY 2006
Legend: □ = No Report ■ = Target Not Met ■ = Target Met ■ = Target Exceeded		
#50: Implement National Energy Policy by holding 17 offshore sales consistent with the Secretary's 5-Year Program (MMS)	4	2
#56: Percent of revenues disbursed on a timely basis per statute (MMS)	98%	95%
#57: Number of pending cases of permits and lease applications that are in backlog status for fluid energy minerals (APDs) (BLM)	2461	2310
#58: Number of pending cases of permits and lease applications that are in backlog status for solid energy minerals (Leased Backlog Applications or LBAs) (BLM)	35	33
#61: Number of targeted basins with oil and gas resource assessments available to support management decisions (USGS)	7	6
#78: Water infrastructure area in fair to good condition as measured by the Facilities Reliability Rating (FRR) (Reclamation)	96%	98%
#83: Reclamation base operation and Maintenance (O&M) costs for power, expressed as \$/MW, will not increase annually beyond the 5-year rolling average percent increase in cost, +/-5% (Reclamation)	New for 2006	7.15% E
#84: Percent of time in forced outage equal to or better (lower) than the industry average (Reclamation)	.40%	1.2%
#86: Hydropower facilities are in fair to good condition as measured by the FRR (Reclamation)	98%	100%
#87: Percent of time that Bureau of Reclamation hydroelectric generating units are available to the interconnected Western Electrical System during daily peak summer demand periods (Reclamation)	93%	93%

generate enough hydroelectric power to make BOR the second largest producer in the western United States.

Ongoing drought and burgeoning western populations have made the Bureau of Reclamation’s job of delivering water throughout the western States more challenging in recent years. Despite these challenges, Reclamation is finding ways to improve water delivery systems through better water management strategies and operations. For instance, through its Water 2025 Challenge Grants, Reclamation is funding a variety of projects to make more efficient use of existing water supplies through water conservation and marketing. The projects focus on effective, low-cost options for increasing water.

Projects funded in FY 2006 include effective, low-cost options for increasing water supplies such as on-the-

FIGURE 1-33

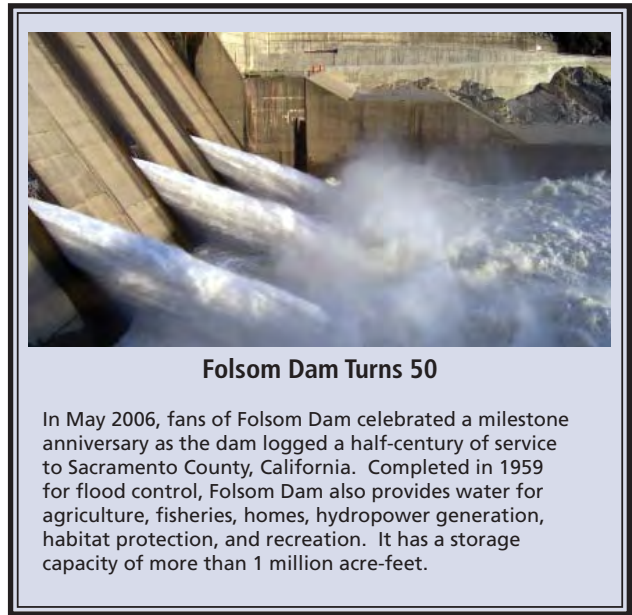


FIGURE 1-34

Resource Use—Manage natural resources to promote responsible use and sustain a dynamic economy				
Performance and Cost Scorecard				
End Outcome Goal	Number of Goals Met	Number of Unmet Goals	Number of No Reports*	Goal Activity Costs (rounded to thousands)
Goal #1: Energy—Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value	13	1	0	\$2,518,666
Goal #2 Non-Energy Minerals—Manage or Influence Resource Use	4	1	0	\$172,823
Goal #3: Forage—Manage or Influence Resource Use	2	0	0	\$76,834
Goal #4: Forest Products	1	3	0	\$75,826
Goal #5: Water—Deliver Water Consistent with Applicable Federal and State Law, in an Environmentally Responsible and Cost-Efficient Manner	8	1	0	\$898,153
Goal #6: Hydropower—Generate Hydropower Consistent with Applicable Federal and State Law	5	0	0	\$200,337
TOTAL	33	6	0	3,942,639
Percentage of Total Number of Measures Out of 39	85%	15%	0%	

* For the purpose of this chart, preliminary data are considered a “no report.”

ground improvements to existing irrigation facilities and installation of water management tools such as computerized water measurement and canal control devices; increasing water marketing opportunities; and making water purification more affordable. Increasing the efficiency of existing water delivery systems across the West is one strategy that will help reduce crises and conflicts and help make more water supplies available for farms, cities, people, and the environment.

In addition to its core mission to deliver water, the Bureau of Reclamation is among the lowest-cost hydropower producers. On the average, Reclamation generates about 44 billion kilowatt-hours of hydroelectricity, enough to meet the annual needs of 9 million people.

In FY 2006, Reclamation's power operation and management (O&M) costs did not increase annually beyond the 5-year rolling average increase in cost plus 5% (Ref #83). Reclamation estimates that it met the target of 7.15% for the year.

The Bureau of Reclamation operates and maintains reliable, safe, and secure power facilities. In FY 2006, 98% of Reclamation's water infrastructure was in fair to good condition as measured by the Facilities Reliability Rating (FRR), exceeding its target (Ref #78). One hundred percent of its hydropower facilities were in fair to good condition against a target of 95% (Ref #86).

Reclamation has an outstanding record of reliable power delivery, with a forced outage factor equal to or better than the industry average of 2.5% (Ref #84). In FY 2006, Reclamation's forced outage rate was lower than the industry average at 1.2%, in part because of its focus on preventive maintenance. Forced outage refers to the number of hours that hydropower facilities are out of service per 8,760 total operating hours in the year, weighted for plant size and capacity. Reclamation's hydroelectric generating units are available to the interconnected Western Electrical System during daily peak summer demand periods 93% of the time (Ref #87).