



# MINERALS MANAGEMENT SERVICE

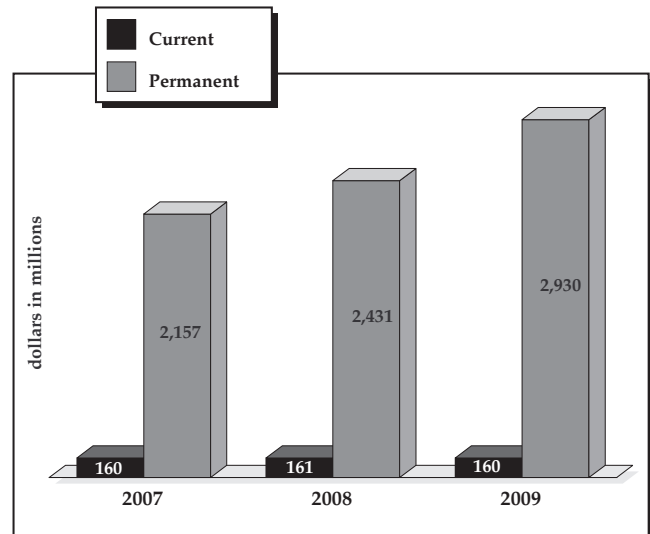
**Mission** — The Minerals Management Service was formed by Secretarial Order in 1982 to facilitate the Nation's mineral revenue collection efforts and the management of its Outer Continental Shelf offshore lands. The MMS manages energy and mineral resources, including alternative energy resources, on 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** — One of the cornerstones of the National Energy Policy is the role MMS plays in securing ocean energy for the Nation. The MMS manages access to the mineral resources of the OCS to help meet the energy demands and other needs of the Nation while balancing such access with the protection of the human, marine, and coastal environments. Currently, MMS administers about 8,500 active mineral leases on 44 million OCS acres, and oversees production from nearly 4,000 facilities on the OCS. Production from these leases generates billions of dollars in revenue for the Federal Treasury and State governments while supporting thousands of jobs. The MMS oversees production of about 15 percent of the natural gas and 27 percent of the oil produced domestically. To date, OCS lands have yielded about 173.5 trillion cubic feet of natural gas and almost 17 billion barrels of oil for U.S. consumption.

Revenues collected from onshore and offshore Federal lands by MMS are one of the largest sources of non-tax revenue to the Federal government. In 2007, MMS disbursed about \$11.7 billion in mineral revenues to States, the Office of the Special Trustee for American Indians for distribution to Indian Tribes and individual owners, other Federal agencies, and U.S. Treasury accounts. This figure is expected to increase to \$15.6 billion in 2009, contributing to the funding of numerous Federal programs.

Since 1994, a portion of OCS rental revenues have been used to offset MMS appropriations. The 2009 budget request proposes to use \$133.7 million in rental receipts to offset the MMS appropriation. In addition, the request

## MMS Funding



assumes that MMS will collect and retain \$13.0 million in cost recovery fees from OCS permitting activities.

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 comprehensive compliance strategy includes an automated compliance verification 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** — The fulfillment of MMS responsibilities under the Energy Policy Act of 2005 will provide substantial benefit to the American economy by diversifying the domestic energy portfolio and increasing energy-related revenues. Section 388 of the Act provided MMS with additional responsibilities for managing alternative energy uses of the OCS, and Section 384 established a four-year Coastal Impact Assistance grant program, which MMS is responsible for administering. In addition, several sections increased the scale of existing programs,

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such as new incentives for oil and gas production, and system modifications for processing royalty credits and incentives. The 2009 budget request includes resources to continue MMS activities to implement Energy Policy Act requirements.

**Gulf of Mexico Energy Security Act of 2006** — On December 20, 2006, the President signed into law the Gulf of Mexico Energy Security Act of 2006. The Act significantly expanded OCS oil and gas leasing activities in the Gulf of Mexico, adding to MMS responsibilities. The 2009 MMS budget request includes funds to support the additional leasing areas now included in the 2007-2012 OCS Five-Year Plan.

**Royalties on Deepwater Leases** — Deepwater OCS development is now effectively established and economically viable. To ensure that American taxpayers are fairly compensated for the sale of Federal OCS minerals, in 2007, MMS announced an increase in the standard royalty rate—from 12.5 percent to 16.67 percent—for all new deepwater Gulf of Mexico leases. The MMS recently announced a further increase in the royalty rate—to 18.75 percent—for its next Gulf of Mexico lease sale scheduled for March 2008. The rate increase is incorporated into the revenue and offsetting collections projections in the 2009 MMS budget.

**Deep Gas and Deepwater Incentives** — Consistent with the 2008 budget, the 2009 budget proposes to repeal Section 344 of the Energy Policy Act of 2005, which extended existing deep gas incentives in two ways. First, it mandated an increase in the royalty suspension volumes from 25 to 35 billion cubic feet of natural gas in a third drilling depth category (greater than 20,000 feet subsea). Second, it directed that incentives for all three drilling depth categories also be applied to leases in 200-400 meters of water. The 2009 budget also proposes to repeal Section 345 of the Energy Policy Act, which provided additional mandatory royalty relief for certain deepwater oil and gas production. Additional royalty relief for oil and gas exploration is unwarranted in today's price environment. A legislative proposal will be transmitted to the Congress to propose repeal.

**Management Excellence** — The budget continues to support implementation of the President's management agenda. Concurrent with the completion of the Department's 2007-2012 Strategic Plan, 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.

All MMS programs have undergone a Program Assessment Rating Tool evaluation. Overall, the PART process has resulted in findings that support MMS' fiscal and legislative priorities. As part of the process, the Minerals Revenue Management program was evaluated in 2007. The assessment found the program to be moderately effective. In particular, the review found that MMS has made improvements in developing and implementing performance measures for the Minerals Revenue Management programs. The PART review cites the 2006 Office of Inspector General audit of the Bureau's compliance review process and notes the need for an improved basis for making decisions about audit priorities to ensure the focus is on the properties with the highest risk of royalty underpayment. The 2009 budget includes a \$2.0 million increase for MMS to improve its compliance and audit program through the implementation of recommendations from the Office of Inspector General.

The 2009 budget includes a reduction of \$400,000 for travel and \$113,000 resulting from savings achieved by converting contracts to performance-based contracts. The reductions enable the direction of resources to higher priority programs and activities.

**Budget Overview** — The 2009 MMS budget request is \$307.1 million, including \$160.4 million in current appropriations and \$146.7 million in offsetting collections from rental receipts and cost recovery fees. Current appropriations are reduced by \$660,000 below 2008.

The MMS Royalty and Offshore Minerals Management account has traditionally been credited with offsetting collections to help defray the cost of MMS operations. Prior to 2009, appropriations bill language included a fixed amount for the offsetting collections credited from rental receipts and cost recovery fees, regardless of the amount collected. Beginning in 2009, the budget separates offsetting collections (comprised of \$133.7 million in rental receipts) from cost recoveries. Cost recoveries are no longer capped, so MMS can retain 100 percent of the fees collected. Cost recoveries are estimated at \$13.0 million in 2009.

**Offshore Energy and Minerals Management** — The goal of the Offshore Energy and Minerals Management 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 \$164.0 million in 2009 for Offshore program activities, \$2.7 million above 2008.

The 2007-2012 Five-Year Outer Continental Shelf Oil and Gas Leasing program, which took effect July 1, 2007, is a major component of the Nation's overall energy strategy. The program has the potential to open up new offshore areas for leasing and development, and expand activities in current planning areas. The 2009 President's budget request includes an increase of \$8.5 million for implementing the Five-Year Plan. The MMS estimates that lease sales included in the Five-Year Plan could produce as much as 10 billion barrels of oil and 45 trillion cubic feet of natural gas over the next 40 years. Funding will be invested in environmental studies, environmental analysis, resource assessment, and leasing consultation, some in offshore areas where no concerted oil-and-gas-related data gathering has occurred in over 15 years. Included in those frontier areas are the Beaufort Sea, Chukchi Sea, and Cook Inlet and the North Aleutian Basin in Alaska, where scientific study is both time and resource intensive. In addition, the Gulf of Mexico Energy Security Act, signed into law in 2006, requires oil and gas leasing in new areas of the Central and Eastern Gulf of Mexico. These expanded areas require new resources for presale environmental analysis and review, among other activities.

The Department has significantly increased responsibility for renewable and alternative energy development as a result of Section 388 of the Energy Policy Act of 2005. To assist in fulfilling that responsibility, MMS proposes a \$1.0 million increase in funding for alternative energy leasing activities. Part of the funding would go toward the oversight, coordination, and conduct of environmental studies and environmental assessments for noncompetitive and competitive lease sales.

The MMS also requests an increase of \$1.1 million for the acquisition and maintenance of geoscientific interpretive tools. Fulfilling these critical technological needs will allow MMS to keep pace with industry as it reviews and analyzes industry applications, plans, and requests; makes fair market value determinations on new leases; conducts analyses for royalty relief; and develops reserve and resource estimates.

The MMS is able to partially fund the offshore and energy minerals management program increases in 2009 with a reduction of \$8.6 million for the OCS Connect system, which provides an electronic interface between MMS and its customer base. By 2009, the system will move from the development, modernization, and enhancement phase to a stage requiring ongoing operations and maintenance. Sufficient funding remains for the ongoing operations and maintenance of the system.

**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 averaged about \$10 billion per year over the last five years, 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 2009 budget request, the total MRM program is funded at \$86.0 million, an increase of \$4.3 million above 2008.

An increase of \$2.0 million is requested for MMS to improve its compliance and audit program through the implementation of recommendations from the Office of Inspector General. Changes to the program will be guided by the Minerals Management Service Action Plan to Strengthen MMS Compliance Program Operations. This plan was prepared in response to the OIG report. Of the amount requested, \$1.5 million will be used to develop a risk-based compliance tool. Instead of focusing mainly on properties with the highest royalty dollars, which is its traditional approach, MMS will select properties for compliance reviews by considering additional risk factors such as chronic erroneous reporting and the possibility of fraudulent reporting. Additionally, the 2009 request includes an increase of \$1.7 million to continue the commitment begun in 2007 and 2008 to improve the timeliness and efficiency of the interest assessment to payors by implementing system enhancements to the MRM Support System interest module.

**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 National Oil Spill Response Test Facility is the only one of its type in the world providing full-scale equipment and methodology testing in a safe, controlled environment. The budget proposes total funding of \$6.1 million in 2009 which is \$180,000 below 2008. Recent operational efficiencies will allow this reduction.

**Fixed Costs** — Fixed costs are estimated at \$7.7 million, of which \$6.8 million are budgeted and \$949,000 will be absorbed through cost savings. The request funds most pay and health care costs and fully funds costs paid to other agencies and the Department's Working Capital Fund. Additionally, \$2.7 million is included in this amount to address rent increases at GSA-leased facilities, primarily in the New Orleans area.

**Net Receipts Sharing** — The 2009 President's budget proposes amending Section 35 of the Minerals Leasing Act to implement net receipt sharing whereby two percent is deducted from the States' share of receipts from Federal leasing activities under the Minerals Leasing Act. The two percent defrays a portion of the administrative costs incurred by Federal agencies, and would be deposited into the U.S. Treasury as miscellaneous receipts. In 2008,

Congress enacted a two percent net receipt sharing deduction through the Interior appropriations bill, effective for fiscal year 2008. A permanent authorization of this deduction is proposed in 2009.

**SUMMARY OF BUREAU APPROPRIATIONS**  
(all dollar amounts in thousands)

*Comparison of 2009 Request with 2008 Enacted:*

	2008 Enacted		2009 Request		Change from 2008	
	FTE	Amount	FTE	Amount	FTE	Amount
<b>Appropriations</b>						
Royalty and Offshore Minerals Management.....	1,565	154,750	1,575	154,270	+10	-480
Oil Spill Research .....	18	6,303	18	6,123	0	-180
Subtotal, Direct Appropriations.....	1,583	161,053	1,593	160,393	+10	-660
Offsetting Collections .....	0	122,730	0	133,730	0	+11,000
Cost Recoveries .....	0	13,000	0	13,000	0	0
Subtotal, Appropriations.....	1,583	296,783	1,593	307,123	+10	+10,340
<b>Permanents and Trusts</b>						
Mineral Leasing and Associated Payments* .....	0	2,145,584	0	2,644,361	0	+498,777
Leases of Lands Acquired for Flood Control, Navigation, and Allied Purposes.....	0	3,328	0	3,443	0	+115
National Forests Funds, Payments to States .....	0	7,779	0	8,019	0	+240
Qualified OCS Revenues to Gulf Producing States.....	0	0	0	18,941	0	+18,941
National Petroleum Reserve - Alaska .....	0	15,500	0	5,500	0	-10,000
Geothermal Revenue, County Share .....	0	9,300	0	0	0	-9,300
Coastal Impact Assistance Program .....	22	250,000	22	250,000	0	0
Subtotal, Permanents and Trusts .....	22	2,431,491	22	2,930,264	0	+498,773
<b>TOTAL, MINERALS MGMT SERVICE (w/o OC&amp;CR) ...</b>	<b>1,605</b>	<b>2,592,544</b>	<b>1,615</b>	<b>3,090,657</b>	<b>+10</b>	<b>+498,113</b>
<b>TOTAL, MINERALS MGMT SERVICE (w/ OC&amp;CR) ....</b>	<b>1,605</b>	<b>2,728,274</b>	<b>1,615</b>	<b>3,237,387</b>	<b>+10</b>	<b>+509,113</b>

\* Includes royalty payments to Oklahoma.

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## HIGHLIGHTS OF BUDGET CHANGES

### By Appropriation Activity/Subactivity

#### APPROPRIATION: Royalty and Offshore Minerals Management

	2007 Actual	2008 Enacted	2009 Request	Change from 2008
Offshore Energy and Minerals Management				
Leasing and Environmental Program				
Appropriation.....	18,323	18,797	19,380	+583
Offsetting Collections .....	23,206	27,606	34,506	+6,900
Total, Leasing and Environ. Prog.....	41,529	46,403	53,886	+7,483
Resource Evaluation Program				
Appropriation.....	16,607	18,381	18,602	+221
Offsetting Collections .....	12,026	12,026	14,126	+2,100
Total, Resource Evaluation Program	28,633	30,407	32,728	+2,321
Regulatory Program				
Appropriation.....	32,180	34,720	36,114	+1,394
Offsetting Collections .....	20,449	21,049	21,049	0
Total, Regulatory Program.....	52,629	55,769	57,163	+1,394
Information Management Program				
Appropriation.....	9,449	8,208	700	-7,508
Offsetting Collections .....	20,549	20,549	19,549	-1,000
Total, Info. Management Program ...	29,998	28,757	20,249	-8,508
OEMM Appropriation.....	76,559	80,106	74,796	-5,310
OEMM Offsetting Collections .....	76,230	81,230	89,230	+8,000
Subtotal, OEMM.....	152,789	161,336	164,026	+2,690
Minerals Revenue Management				
Compliance and Asset Management				
Appropriation.....	25,799	25,820	25,847	+27
Offsetting Collections .....	17,235	19,235	21,500	+2,265
Total, Compliance and Asset Mgmt .	43,034	45,055	47,347	+2,292
Revenue and Operations				
Appropriation.....	17,804	17,367	18,663	+1,296
Offsetting Collections .....	19,265	19,265	20,000	+735
Total, Revenue and Operations.....	37,069	36,632	38,663	+2,031
MRM Appropriation.....	43,603	43,187	44,510	+1,323
Offsetting Collections .....	36,500	38,500	41,500	+3,000
Subtotal, Minerals Revenue Mgmt.....	80,103	81,687	86,010	+4,323
General Administration				
Executive Direction				
Appropriation.....	1,691	1,590	1,641	+51
Offsetting Collections .....	1,000	1,000	1,000	0
Total, Executive Direction .....	2,691	2,590	2,641	+51
Policy and Management Improvement				
Appropriation.....	3,374	3,165	3,226	+61
Offsetting Collections .....	1,000	1,000	1,000	0
Total, Policy and Mgmt. Improvmt ..	4,374	4,165	4,226	+61

	2007 Actual	2008 Enacted	2009 Request	Change from 2008
Administrative Operations				
Appropriation.....	16,432	15,755	16,051	+296
Offsetting Collections .....	1,555	1,555	1,555	0
Total, Administrative Operations .....	17,987	17,310	17,606	+296
General Support Services.....				
Appropriation.....	10,953	10,947	14,046	+3,099
Offsetting Collections .....	12,445	12,445	12,445	0
Total, General Support Services .....	23,398	23,392	26,491	+3,099
GA Appropriation.....	32,450	31,457	34,964	+3,507
Offsetting Collections .....	16,000	16,000	16,000	0
Subtotal, General Administration.....	48,450	47,457	50,964	+3,507
TOTAL .....	281,342	290,480	301,000	+10,520
Total Appropriation .....	152,612	154,750	154,270	-480
Total Offsetting Collections .....	128,730	135,730	146,730	+11,000

### *Highlights of Budget Changes*

#### Fixed Costs

Fixed costs for this appropriation total \$7,730 of which \$6,781 are budgeted and \$949 are absorbed.

#### Offshore Energy and Minerals Management

##### Leasing and Environmental Program

A net increase of \$7,483 is proposed for this subactivity. An increase of \$6,172 is requested to the 2007-2012 OCS Five-Year Program. The requested funding will enable MMS to conduct an ambitious lease sale schedule. The funding will support assessment of environmental impacts, protecting the coastal environment and protecting the OCS through compliance with guiding statutes. An additional \$858 is requested for alternative energy to meet demand for wind energy development on the OCS in the Northeast, mid-Atlantic, and Florida. The 2009 budget includes a decrease to reduce travel and relocation expenses (-\$59) and a decrease resulting from savings achieved by converting contracts to performance-based contracts (-\$18). Fixed costs total \$670, of which \$530 is budgeted and \$140 is absorbed.

##### Resource Evaluation Program

A net increase of \$2,321 is proposed for this subactivity. An increase of \$1,086 is requested for the acquisition of geological and geophysical data, and development and implementation of the Resource Modeling program. An increase of \$1,560 is requested for resource assessment and estimation, tract evaluation, field reserves inventories, and economic analysis to implement the Five-Year Program. An increase of \$142 is requested for implementing alternative energy. The MMS proposes savings of \$886 by eliminating funding for CMRET. The 2009 budget includes a decrease to reduce travel and relocation expenses (-\$55) and a decrease resulting from savings achieved by converting contracts to performance-based contracts (-\$15). Fixed costs total \$619, of which \$489 is budgeted and \$130 is absorbed.

##### Regulatory Program

A net increase of \$1,394 is proposed for this subactivity. An increase of \$768 is requested to support expanded regulatory activity resulting from the Five-Year Program. The 2009 budget includes a decrease to reduce travel and relocation expenses (-\$82) and a decrease resulting from savings achieved by converting contracts to performance-based contracts (-\$23). Fixed costs total \$1,024, of which \$731 is budgeted and \$293 is absorbed.

##### Information Management Program

A net decrease of \$8,508 is proposed for this subactivity. A decrease of \$8,630 is proposed to the OCS-Connect program to allow MMS the opportunity to review and evaluate its original approach to the project. The 2009 budget includes a decrease to reduce travel and relocation expenses (-\$16) and a decrease resulting from savings achieved by converting contracts to performance-based contracts (-\$5). Fixed costs total \$181, of which \$143 is budgeted and \$38 is absorbed.

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Minerals Revenue Management

Compliance and Asset Management

A net increase of \$2,292 is proposed for this subactivity. An increase \$2,000 is requested to ensure the MRM ability to address recommendations by the Office of Inspector General in its December 2006 report regarding Compliance Review activities. A decrease of \$420 is requested for the adjustment line monitoring process, which does not require further expenditures in 2009. The 2009 budget includes a decrease to reduce travel and relocation expenses (-\$92) and a decrease resulting from savings achieved by converting contracts to performance-based contracts (-\$26). Fixed costs total \$1,050, of which \$830 is budgeted and \$220 is absorbed.

Revenue and Operations

A net increase of \$2,031 is proposed for this subactivity. Increases of \$1,700 are requested to improve automated interest billing to companies. This initiative continues the MRM commitment begun in 2007 and 2008 to improve the timeliness and efficiency of the interest assessment to payors by implementing system enhancements to the MRMS interest module. The 2009 budget includes a decrease to reduce travel and relocation expenses (-\$43) and a decrease resulting from savings achieved by converting contracts to performance-based contracts (-\$13). Fixed costs total \$489, of which \$387 is budgeted and \$102 is absorbed.

General Administration

A net increase of \$3,507 is proposed for this activity, which includes a decrease of \$98 for IDEAS redirect to FBMS hosting. The budget includes a decrease to reduce travel and relocation expenses (-\$52) and a decrease resulting from savings achieved by converting contracts to performance-based contracts (-\$14). Fixed costs total \$3,795, including an increase of \$2,728 for GSA building leases in New Orleans and other locations, of which \$3,671 is budgeted and \$124 is absorbed.

**APPROPRIATION: Oil Spill Research**

	2007 Actual	2008 Enacted	2009 Request	Change from 2008
TOTAL APPROPRIATION .....	6,903	6,303	6,123	-180

***Highlights of Budget Changes***

Oil Spill Research

A decrease of \$180 is requested as MMS continues to focus on the highest priority research and increase efficiencies.