Minerals Management Service

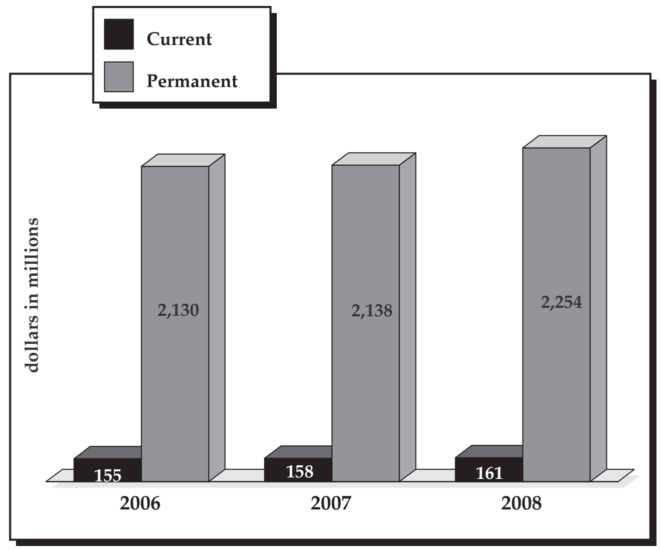
Mission — The Minerals Management Service was formed by Secretarial Order in 1982 to facilitate the Nation's mineral revenue collection efforts and the management of its Outer Continental Shelf offshore lands. The MMS manages energy and mineral resources, including alternative energy resources, on the 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 — A cornerstone of the National Energy Policy is securing energy for the Nation. The MMS plays a central role by managing 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. In addition, the Energy Policy Act of 2005 significantly broadened the scope of MMS' mission, with new responsibilities including oversight of alternate energy-related uses on the OCS, and the Coastal Impact Assistance program. These activities will provide substantial benefit to the American economy by diversifying the domestic energy portfolio and increasing energy-related revenues. On December 20, 2006, the President signed into law the Gulf of Mexico Energy Security Act of 2006. By opening new areas, the Act significantly enhances OCS oil and gas leasing activities and the potential for additional revenue from leases in the Gulf of Mexico.

Currently, MMS administers over 8,200 active mineral leases on 47 million OCS acres. 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 21 percent of the natural gas and 30 percent of the oil produced domestically. Since OCS leasing inception, through September 2006, OCS lands have yielded more than 223 trillion cubic feet of natural gas and 41 billion barrels of oil.

Revenues collected by MMS are one of the largest sources of non-tax revenue to the Federal government. In addition to Federal and tribal interests, MMS also supports States and local governments through statutorily-required revenue sharing. In 2006, MMS distributed $12.6 billion in mineral revenues to States, to the Office of the Special Trustee for American Indians for distribution to Indian Tribes and individual owners, to other Federal agencies in support of a variety of Federal programs, and to the U.S. Treasury. This figure is expected to increase to $14.0 billion in 2008.

MMS Funding



Since 1994, increasing OCS rental revenues have permitted MMS to use receipts to cover operating costs, for which funds would otherwise need to be appropriated. As a result, over $1.0 billion in cumulative discretionary budget authority was made available to address other Federal high priority programs. The 2008 budget request includes $135.7 million in offsetting collections.

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's 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.

Royalties on Deepwater Leases — Deepwater OCS development has thrived in recent years due to royalty relief. Incentives have paved the way for technological advancements and long-term infrastructure investments that have enabled deepwater growth in the Gulf of Mexico. This component of OCS production is now effectively established and economically viable. To ensure that American taxpayers are fairly compensated for the sale of Federal OCS minerals, MMS will raise royalty rates from 12.5 percent to 16.67 percent for all new deepwater Gulf of Mexico leases beginning in 2007. The MMS estimates that the increased royalty rate of 16.67 percent for new deepwater offshore Gulf of Mexico leases will increase OCS revenues by $3.4 billion over the next twenty years. The rate increase is incorporated into the revenue and offsetting collections projections in the 2008 MMS budget.

Deep Gas and Deep Water Incentives — The 2008 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 2008 budget also proposes to repeal Section 345 of the Energy Policy Act, which provided additional mandatory royalty relief for certain deep water 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 initiatives. The Department recently revised its five-year Strategic Plan for the period 2007-2012. Concurrently, MMS completed a review of its performance structure and made needed revisions to its 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. 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 uses cost data, gathered from the bureau's activity-based cost management model, in decisionmaking. For example, in developing the 2008 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.

The MMS also continues to implement strategies outlined in its workforce plan, used in conjunction with the Department's Strategic Plan. The Offshore Minerals Management program will use the results of a planned functional analysis, begun in 2006 and to be completed in 2007, to determine if and where opportunities are available to improve productivity by redirecting and reducing staffing levels, and refocusing resources away from lower priority activities, while maintaining or improving service quality. The 2008 budget assumes $2.0 million in anticipated savings related to the analysis.

On December 6, 2006, the Department of the Interior's Inspector General issued a final report on its audit of the MMS compliance review process. The IG audit concluded that compliance reviews can be an effective part of the MMS Compliance and Asset Management program and discussed areas that could be strengthened to improve results. On December 28, 2006, MMS responded to the report by issuing its *Action Plan to Strengthen Minerals Management Service Compliance Program Operations.* Strengthened procedures, improved administrative controls, and enhanced tracking systems represent just a few of the improvements that MMS is initiating in response to the audit.

The 2008 budget includes a program increase of $395,000 for implementation of the Financial and Business Management System, funded through the Department's Working Capital Fund.

Budget Overview — The 2008 MMS budget request is $297.2 million in current appropriations and offsetting receipts, an increase of $16.2 million above the 2007 continuing resolution and $4.9 million above the 2007 President's budget. The request includes a $5.3 million program increase in appropriated funding and a $6.0 million increase in offsetting collections to restore the priorities of the 2007 President's budget that are not included at the 2007 continuing resolution level, including fixed costs, eliminating unrequested congressional earmarks, and implementing other program enhancements and reduction proposals included in the 2007 President's budget. Four permanent appropriations totaling $2.3 billion will provide States with their statutory shares of mineral leasing revenues generated on Federal lands.

Offsetting receipts are estimated to be $135.7 million in 2008, an increase of $13.0 million over the 2007 continuing resolution and $7.0 million over the 2007 President's budget. The request for direct appropriations is $161.5 million, an increase of $3.2 million from the 2007 continuing resolution, and a reduction of $2.1 million from the President's budget.

The requested funding will enable MMS to facilitate OCS development and deepwater activities; continue hurricane recovery efforts in the Gulf of Mexico, including well abandonment; improve compliance and enforcement capabilities; and complete environmental analyses necessary for the 2008 OCS lease sales and the 2007-2012 Five-Year OCS Oil and Gas Leasing 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 $160.0 million in 2008 for OCS program activities, a net increase of $591,000 above 2007.

The Proposed 2007-2012 Five-Year OCS Oil and Gas Leasing program 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 Gulf of Mexico Energy Security Act, signed into law on December 20, 2006, requires that MMS open for leasing 8.3 million acres, including 5.8 million acres in the Central Gulf of Mexico Planning Area that were previously held under Congressional moratoria and 546 thousand acres in the Eastern Gulf of Mexico Planning Area that were not included in the proposed 2007-2012 Plan. These new areas will require supplemental environmental review. The Central Gulf of Mexico portion of the 181 Area was reviewed in a draft environmental impact statement, published in November 2006, and will be available for lease in Sale 205, scheduled for early fall 2007. The second additional sale area, 181 South, which includes approximately 5.8 million acres in the Central Gulf of Mexico Planning Area, has not yet been analyzed, but will receive an appropriate environmental review at a later date before any leasing occurs.

The 2008 President's request includes $4.0 million to fulfill MMS's environmental and oversight responsibilities under the 2007-2012 Five-Year Oil and Gas Leasing program. Specific components contained within this increase are: $2.5 million for environmental studies and required NEPA analysis in those areas previously included in the five-year program, where data either does not exist or is extremely outdated; $822,000 for workforce needs associated with the new and expanded leasing areas; and $678,000 for additional leasing and program support.

The MMS is witnessing a surge in exploration activity and development in the ultra-deepwater area of the Gulf of Mexico at water depths between 5,000 feet to about 10,000 feet. At the end of 2004, there were 2,300 active leases in ultra-deepwater, and in the five-year period 2001-2005, there were a total of 230 wells drilled, of which 148 were exploratory wells. This activity and the discoveries of oil and gas have now started to translate into development projects. Nine development projects began production in the ultra-deepwater area in 2003-2005. Several significant new ultra-deepwater discoveries also were announced in the Gulf of Mexico in the summer of 2006. The budget includes $1.3 million to acquire the required expertise and resources needed to facilitate and manage OCS ultra-deepwater development.

The MMS also proposes an $820,000 Gulf of Mexico hurricane recovery initiative to address well abandonment and pollution prevention. The MMS seeks the capability not only to address important outstanding issues from the devastation of recent hurricanes, but also to ensure the Gulf and other areas are as well prepared as possible for future events.

The 2008 OMM budget includes $8.9 million in decreases, including $3.0 million in savings that will be realized by requiring industry to share in the costs of environmental analysis needed for non-competitive renewable energy projects. As discussed under the MMS Management Excellence section, the OMM program is also undergoing a comprehensive workforce study to redirect resources to priority needs, and anticipates a $2.0 million savings by maximizing productivity and redirecting and reducing staffing levels. In accordance with the OCS Connect implementation plan, MMS proposes a $1.4 million decrease that reflects the transition from development and planning to implementation and maintenance. Other decreases include $1.0 million in Environmental Studies, and $1.0 million for methane hydrates research.

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 2008 budget request, the total MRM program is funded at $82.4 million, an increase of $3.2 million above 2007.

The MRM program'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 2008, MMS is proposing $2.4 million in MRM support system modifications, which will enhance compliance and enforcement efforts. The $940,000 adjustment line monitoring initiative would provide for systems improvements and staff support to ensure that required company adjustments are made only within allowable time frames. It is anticipated this capacity will provide a much larger return to the U.S. Treasury than the initiative will cost. With an increase of $1.5 million for the interactive payment reconciliation and billing initiative, MMS will automate the interface with its customer base on numerous activities, and enhance on-line reporting and verification capabilities. The funding will address an area of concern in the Bureau's 2006 financial audit, as well as provide a strong return on investment.

System upgrades to meet new requirements in the Energy Policy Act will be completed in 2007, allowing $750,000 to be redirected to other priorities. Technological advances will also allow MMS to eliminate dial-in service to access the MRM network and result in $250,000 in cost savings.

Net Receipt Sharing — The Administration proposes amending Section 35 of the Minerals Leasing Act to deduct two percent from the States' share of receipts from mineral leasing activities on public domain lands, beginning in 2008. This percentage will defray a portion of the administrative costs incurred in the management of onshore leasing activities, and would be deposited into the U.S. Treasury as miscellaneous receipts.

Royalty-In-Kind Program — The RIK program has demonstrated that under certain circumstances, taking royalties in-kind can be beneficial compared to taking royalties in-value. These advantages include: revenue enhancement, reduced administrative costs for MMS and the industry, conflict avoidance, 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 2008 estimate for RIK administrative costs is $19.6 million, an increase of $600,000 for fixed cost adjustments over 2007. When compared to RIV, MMS estimates that RIK resulted in administrative cost avoidance of $3.7 million in 2005, primarily due to decreased audit, compliance, and litigation costs. The MMS anticipates similar cost avoidance in future years.

Coastal Impact Assistance Program — The Energy Policy Act of 2005 authorized 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 (counties, parishes, or boroughs) for approved coastal restoration and conservation purposes. The CIAP Plan guidelines were published in the Federal Register on September 29, 2006. Under the statute, States must submit plans no later than July 1, 2008. The 2007 President's budget include d appropriations language authorizing MMS to use a share of the receipts to administer the program. This language is proposed again in the 2008 budget. It is critical that MMS receive this authority in 2008 in order to provide the resources needed for support of the program. These funds would allow MMS to receive State plans, complete environmental assessments, and allocate funding.

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 $6.4 million in 2008, which is $500,000 below 2007. The decrease is the result of the completion of a four-year phased replacement of equipment for the National Oil Spill Response Test Facility. Funding in 2008 reflects the return to regular operation and maintenance funding, while protecting the recent investment as well as funding increased operational costs. 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.

Fixed Costs — The 2008 budget request includes an increase of $5.9 million to fully fund fixed cost increases anticipated for the upcoming fiscal year.

SUMMARY OF BUREAU APPROPRIATIONS
(all dollar amounts in thousands)

Comparison of 2008 Request with 2007 Continuing Resolution:

	2007 CR		2008 Request		Change from 2007	
	FTE	Amount	FTE	Amount	FTE	Amount
Appropriations						
Royalty and Offshore Minerals Management	1,653	151,391	1,633	155,048	-20	+3,657
Oil Spill Research	18	6,903	18	6,403	0	-500
Subtotal, Direct Appropriations	1,671	158,294	1,651	161,451	-20	+3,157
Offsetting Collections	0	122,730	0	135,730	0	+13,000
Subtotal, Appropriations	1,671	281,024	1,651	297,181	-20	+16,157
Permanents and Trusts						
Mineral Leasing and Associated Payments	0	1,875,413	0	1,994,729	0	+119,316
Leases of Lands Acquired for Flood Control, Navigation, and Allied Purposes	0	2,435	0	2,608	0	+173
Nat'l. Forests Funds, Payments to States	0	6,405	0	6,803	0	+398
Geothermal Revenue, County Share	0	3,438	0	0	0	-3,438
Coastal Impact Assistance Program	0	250,000	17	250,000	+17	0
Subtotal, Permanents and Trusts	0	2,137,691	17	2,254,140	+17	+116,449
TOTAL, MINERALS MGMT SERVICE *(w/o OC)*	**1,671**	**2,295,985**	**1,668**	**2,415,591**	**-3**	**+119,606**
TOTAL, MINERALS MGMT SERVICE *(w/ OC)*	**1,671**	**2,418,715**	**1,668**	**2,551,321**	**-3**	**+132,606**

HIGHLIGHTS OF BUDGET CHANGES
By Appropriation Activity/Subactivity

APPROPRIATION: Royalty and Offshore Minerals Management

	2006 Actual	2007 CR	2008 Request	Change from 2007
Outer Continental Shelf Lands				
Leasing and Environmental Program				
Appropriation	15,505	22,004	17,595	-4,409
Offsetting Collections	22,206	23,206	27,606	+4,400
Total, Leasing and Environ. Prog.	37,711	45,210	45,201	-9
Resource Evaluation Program				
Appropriation	18,381	18,091	17,773	-318
Offsetting Collections	11,026	12,026	12,026	0
Total, Resource Evaluation Prog	29,407	30,117	29,799	-318
Regulatory Program				
Appropriation	33,023	33,565	35,020	+1,455
Offsetting Collections	18,449	20,449	21,049	+600
Total, Regulatory Program	51,472	54,014	56,069	+2,055
Information Management Program				
Appropriation	9,632	9,475	8,338	-1,137
Offsetting Collections	20,549	20,549	20,549	0
Total, Info. Mgmt. Program	30,181	30,024	28,887	-1,137
OCS Lands Appropriation	76,541	83,135	78,726	-4,409
Lands Offsetting Collections	72,230	76,230	81,230	+5,000
Subtotal, OCS Lands	148,771	159,365	159,956	+591
Impact of the CR *(non-add)*		[-10,594]		[+10,594]
Minerals Revenue Management				
Compliance and Asset Management				
Appropriation	25,488	25,899	26,229	+330
Offsetting Collections	17,235	17,235	19,235	+2,000
Total, Compliance and Asset Mgmt	42,723	43,134	45,464	+2,330
Revenue and Operations				
Appropriation	17,894	16,759	17,642	+883
Offsetting Collections	17,265	19,265	19,265	0
Total, Revenue and Operations	35,159	36,024	36,907	+883
MRM Appropriation	43,382	42,658	43,871	+1,213
Offsetting Collections	34,500	36,500	38,500	+2,000
Subtotal, Minerals Revenue Mgmt	77,882	79,158	82,371	+3,213
Impact of the CR *(non-add)*		[-1,276]		[+1,276]
General Administration				
Executive Direction				
Appropriation	1,100	1,533	1,615	+82
Offsetting Collections	1,000	1,000	1,000	0
Total, Executive Direction	2,100	2,533	2,615	+82
Policy and Management Improvement				
Appropriation	3,199	3,090	3,215	+125
Offsetting Collections	1,000	1,000	1,000	0
Total, Policy and Mgmt. Improve	4,199	4,090	4,215	+125

	2006 Actual	2007 CR	2008 Request	Change from 2006
Administrative Operations				
Appropriation	15,489	15,282	16,005	+723
Offsetting Collections	1,555	1,555	1,555	0
Total, Admin. Operations	17,044	16,837	17,560	+723
General Support Services				
Appropriation	11,680	10,953	11,616	+663
Offsetting Collections	12,445	12,445	12,445	0
Total, General Support Services	24,125	23,398	24,061	+663
GA Appropriation	31,468	30,858	32,451	+1,593
Offsetting Collections	16,000	16,000	16,000	0
Subtotal, General Administration	47,468	46,858	48,451	+1,593
Impact of the CR *(non-add)*		[+610]		[-610]
Net Appropriation Transfers	-3,343	0	0	0
TOTAL *(w/o hurricane supp. or CR)*	270,778	285,381	290,778	+5,397
Total Appropriation *(w/o h. supp. or CR)*	148,048	156,651	155,048	-1,603
Total Offsetting Collections	122,730	128,730	135,730	+7,000
Hurricane Supplemental	31,000	0	0	0
Impact of the CR-Appropriation	0	-5,260	0	+5,260
Impact of the CR-Offsetting Collections	0	-6,000	0	+6,000
TOTAL *(w/ hurricane supp. and CR)*	301,778	274,121	290,778	+16,657
Total Appropriation *(w/ h. supp. and CR)*	179,048	151,391	155,048	+3,657
Total Offsetting Collections	122,730	122,730	135,730	+13,000

Highlights of Budget Changes

	Amount
Fixed Costs	[+5,886]
Impact of the Continuing Resolution	-11,260
Outer Continental Shelf Lands Leasing and Environmental Program	-9

An increase of $3,863 is requested to implement the 2007-2012 Five-Year Program. The requested funding level will allow investment in environmental studies, environmental analysis, resource assessment, and leasing consultation, including some areas where no concerted oil and gas related data have been gathered in over 25 years. Decreases include a savings of $3,000 for alternative energy cost sharing; $1,000 for redirection of Environmental Studies to higher priorities; and $560 resulting from a comprehensive workforce study that will identify opportunities to redirect resources, maximize productivity, and reduce staffing levels. Fixed costs are budgeted at $688 and are fully funded.

Resource Evaluation Program — -318

Increases of $137 are requested to implement the 2007-2012 Five-Year Program and $411 for the Deepwater and Ultra Deepwater initiative. Decreases include $1,000 for Energy Policy Act Implementation — Methane Hydrate Research and $640 resulting from a comprehensive workforce study to redirect resources to priority needs. Fixed costs are budgeted at $774 and are fully funded.

Regulatory Program — +2,055

Increases of $889 are requested for the Deepwater and Ultra Deepwater initiative and $820 for additional Gulf of Mexico Hurricane Recovery to address proper abandonment, pollution prevention, and oversight of repairs to numerous platforms affected by the hurricanes. A decrease

	Amount
is requested of $800 resulting from a comprehensive workforce study to redirect resources to priority needs. Fixed costs are budgeted at $1,146 and are fully funded.	
Information Management Program	-1,137
A decrease of $1,394 is requested for the OCS Connect initiative. In accordance with the OCS Connect implementation plan, this requested reduction reflects the transition from development and planning to implementation and maintenance. Fixed costs are budgeted at $257 and are fully funded.	
Minerals Revenue Management	
Compliance and Asset Management	+2,330
An increase of $940 is requested for implementation of the adjustment line monitoring initiative. Fixed costs are budgeted at $1,390 and are fully funded.	
Revenue and Operations	+883
An increase of $1,450 is requested for the interactive payment reconciliation and billing initiative. Decreases requested include $750 for completion of Energy Policy Act implementation and $250 to eliminate IT Dial-in Service. Fixed costs are budgeted at $433 and are fully funded.	
General Administration	
General Support Services	+663
Funding of $395 is requested to help defray the expense of implementation of the bureau's new FBMS information technology system. Fixed costs are budgeted at $268 and are fully funded.	

APPROPRIATION: Oil Spill Research

	2006 Actual	2007 CR	2008 Request	Change from 2007
TOTAL APPROPRIATION	6,903	6,903	6,403	-500

Highlights of Budget Changes

	Amount
Oil Spill Research	-500
A decrease of $500 is the result of the completion of a four-year phased replacement of equipment for the National Oil Response Test Facility.	