

Report of Royalty Management and Delinquent Account Collection Activities Fiscal Year 1997

Royalty Management Program



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United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

JUL 23 1998

Honorable Albert Gore, Jr.
President of the Senate
Washington, D.C. 20510

Dear Mr. President:

The enclosed annual report addresses royalty management and delinquent account collection activities for Federal and Indian mineral leases. The report is submitted under the provisions of section 302 of the Federal Oil and Gas Royalty Management Act of 1982 and section 602 of the Outer Continental Shelf Lands Act Amendments of 1978.

A similar letter has been sent to each Member of Congress on the enclosed list.

Sincerely,

Bob Armstrong
Assistant Secretary, Land and
Minerals Management

Enclosure

**Report of Royalty Management and
Delinquent Account Collection Activities
Fiscal Year 1997**

Royalty Management Program

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Please visit our Internet site at <http://www.mms.gov>.
For a copy of this report and other mineral statistical publications, please see:
<http://www.rmp.mms.gov/library/statroom/statsrm.htm>

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Fiscal Year 1997 Report of Royalty Management and Delinquent

Account Collection Activities

INTRODUCTION

This report consolidates two separate reports previously submitted to members of Congress under section 302 of the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA) and section 602 of the Outer Continental Shelf Lands Act (OCSLA) Amendments of 1978.

Section 302 of FOGRMA requires the Secretary of the Interior to submit an annual report to Congress addressing efforts to implement the provisions of FOGRMA for mineral leases on Federal and Indian lands. The Secretary, in consultation with the Senate Committee on Energy and Natural Resources and the House Committee on Natural Resources, determined that the Minerals Management Service (MMS) Royalty Management Program (RMP) would prepare an annual report addressing the following subjects:

- RMP accomplishments;
- Mineral revenue collections and disbursements;
- RMP underpayment detection programs;
- Inspection and enforcement;
- RMP organization, functions, and structure; and
- Status of recommendations submitted by the Commission on Fiscal Accountability of the Nation's Energy Resources (the Linowes Commission).

Section 602 of the OCSLA Amendments of 1978 requires a similar report addressing delinquent royalty account collection efforts and new auditing and accounting procedures designed to ensure accurate and timely payment of royalties and net profit shares. The report addresses activities during the preceding 2 fiscal years for leases issued under any Act that regulates the development of oil and gas on Federal lands.

Consolidation of the FOGRMA and OCSLA reports eliminates redundancy in RMP accomplishment and audit narratives, provides a more concise document for review by members of Congress, and reduces preparation and printing costs.

I. ROYALTY MANAGEMENT PROGRAM ACCOMPLISHMENTS

The Department of the Interior and MMS continued efforts in Fiscal Year (FY) 1997 to improve accountability for the Nation's mineral revenues and to improve service to the States, the Indian community, and industry. This report highlights significant program accomplishments and initiatives implemented during the year.

A. Federal Oil and Gas Royalty Simplification and Fairness Act

President Clinton signed the Federal Oil and Gas Royalty Simplification and Fairness Act (RSFA) on August 13, 1996, to improve the management of revenues from Outer Continental Shelf and Federal onshore mineral leases. This law amended FOGRMA, OCSLA, and the Mineral Leasing Act of 1920. The RSFA introduced a variety of new requirements, including:

- Delegation of certain additional RMP functions to interested States;
- Specific royalty reporting standards for Federal oil and gas leases and pooling agreements;
- Payment liability standards and a new statute of limitations for Federal oil and gas leases;
- Reporting options for marginal oil and gas properties; and
- Payment of interest on all Federal oil and gas overpayments.

The provisions of RSFA materially changed many of RMP's historical operating assumptions and revenue processing methods. The MMS has made significant progress in implementing RSFA. Over 20 outreach workshops have been conducted with State and industry representatives addressing specific provisions of the law. The MMS has completed the following initiatives:

- Publication of a final rule expanding the list of delegable royalty management functions to States;
- Publication of an interim final rule regarding payment designations for persons making royalty and other payments on behalf of operating rights owners or lease record title holders;
- Implementation of the repeal of section 10 of OCSLA addressing time limits on refunds;
- Streamlining of RMP billing and follow-up processes for production from oil and gas leases after September 1, 1996, to comply with RSFA payment liability requirements;

- Modification of software to enable MMS to accept interest reports from companies and to begin payment of interest to companies who overpay royalties; and
- Development of software to report interest payments to all industry recipients on Internal Revenue Service Form 1099.

The MMS will publish at least six more regulations required by RSFA by the end of the year 2000. The RMP will continue consultations with constituents on a number of complex issues, including payment liability and appeals.

B. RMP Reengineering Project

The RMP undertook a compliance reengineering initiative in April 1996 to examine the current compliance strategy to determine the best approach for accomplishing future goals and objectives. The principal objective was to define and implement a cost-effective strategy to ensure that Federal and Indian mineral lease revenues are paid to MMS in an accurate, timely manner.

Enactment of RSFA in August 1996 materially changed many historic RMP operating assumptions as well as some fundamental Federal oil and gas financial activities. Although immediate changes in processes and systems must be made to implement the law, it is apparent that long-term strategies, business processes, and aging systems must be addressed for RMP to be cost-effective and responsive to customer requirements.

The MMS announced on April 1, 1997, that the effort would expand beyond compliance reengineering to a comprehensive reengineering of all RMP core business processes. A Program Reengineering Office was established in RMP to manage and coordinate the initiative. The MMS assembled a group of senior RMP managers from diverse disciplines to administer the project.

The initial redesign work, including prototype development and testing, will be accomplished through a multidisciplinary team of MMS, State, and Tribal representatives, with technical contract assistance. Consultations with customers are expected to better define future business approaches and processes, and to encourage participation in prototype development, testing, and implementation.

The principal objective of the expanded initiative is to design, develop, and implement new core business processes, with supporting systems, for the 21st century. The systems and processes must be flexible and capable of meeting customer needs, including:

- Supporting the collection of royalties both in cash and in kind;
- Supporting delegated activities related to royalty administration;
- Empowering RMP to provide related financial services for other customers through franchising agreements; and
- Employing a variety of methodologies to value production.

The initiative will include:

- Mapping core business processes as they now exist;
- Benchmarking with other organizations to determine optimal practices;
- Identifying customer needs and expectations;
- Redesigning business practices for improvement;
- Developing and testing new prototype designs; and
- Implementing redesigned processes.

The RMP will be guided by the following stretch goals in the development of new business practices:

- Provide revenue recipients with access to their funds within 24 hours of the due date; and
- Assure compliance with applicable laws, lease terms, and regulations for all leases in the shortest possible time, under a 3-year statutory limit from the due date.

The RMP will pursue proactive communication to build consensus, obtain feedback and suggestions, and demonstrate progress in achieving goals. The strategy will be directed toward employees, companies, and organizations with a vested interest in the royalty management process. Communication will be fostered through electronic media such as the Internet, the Intranet, and E-mail bulletin boards, and through meetings with employees, the State and Tribal Royalty Audit Committee, Indian Tribes and allottees, royalty payors, and industry trade associations. The MMS is committed to cost reduction and improved service in the royalty program.

C. Royalty-In-Kind Pilot Programs

The Federal Government, under the provisions of the Mineral Leasing Act of 1920 and OCSLA, may take part or all of its oil and gas

royalties "in kind" (a volume of the commodity) as opposed to "in value" (money). The MMS conducted a pilot program in the Gulf of Mexico in 1995 to assess taking the Federal share of natural gas royalties "in kind" rather than "in value." The 1996 Final Report on the Royalty Gas Marketing Pilot indicated that a loss of revenue resulted.

An MMS Feasibility Study in 1997 concluded that, under the right conditions, royalty-in-kind (RIK) programs could generate additional revenues and be more efficient for government and industry. The 1997 study further concluded that a mandatory across-the-board RIK program would reduce Federal and State royalty revenues. The MMS Director established an RIK Study Team in 1997 to study these issues. The team, based on the 1997 study recommendations, is pursuing the following initiatives:

- A 2- to 3-year RIK pilot program for oil from Federal onshore leases in Wyoming, beginning in October 1998;
- A 2- to 3-year RIK pilot program for gas from Federal offshore leases off the coast of Texas under the provisions of section 8(g) of the OCSLA Amendments of 1978, beginning in October 1998; and
- A 3-year RIK pilot program for gas from Federal offshore leases in the balance of the Gulf of Mexico, beginning in October 1999.

The 3-year program in the balance of the Gulf of Mexico will involve the largest production volumes and require a longer period to complete. The MMS has solicited participation from States affected by the pilot programs. The MMS is further evaluating the feasibility and efficiency of providing RIK production directly to other Federal agencies for consumption.

The three pilot programs are designed to demonstrate conclusively if RIK programs are viable options for the Federal Government. The following criteria have been established to evaluate the success of the three pilots:

- Improved simplicity, accuracy, and certainty for industry and the Federal Government;
- Revenue collections for the Federal Government and the States remain the same or are increased;
- Administrative costs for industry and the Federal Government are reduced; and
- The RIK program provisions are consistent with the terms of existing leases.

D. Royalty Policy Committee

The RMP established a 29-member Royalty Policy Committee (RPC) in FY 1995 as part of the Minerals Management Advisory Board to provide recommendations and guidance on royalty management policies and procedures. The RPC is composed of representatives from the Western Governors Association, Western States Land Commissioners Association, States, Indian Tribes and allottee organizations, the minerals industry, other Federal agencies, and interested members of the general public. The RPC designated nine subcommittees to study the following issues:

- Royalty reporting and production accounting;
- Valuation;
- Audit;
- Appeals, settlements, and alternative dispute resolution;
- Nonconventional alternatives;
- Disbursements and net receipts sharing;
- Coal;
- Phosphate, trona, and other leasable solid minerals; and
- Lessee-Designee requirements.

The subcommittee for valuation disbanded in the summer of 1996. Five subcommittees submitted final reports to the RPC on the following issues:

- Report streamlining;
- Audit;
- Appeals, settlements, and alternative dispute resolution;
- Coal; and
- Phosphate, trona, and other leasable solid minerals.

The recommendations from the five subcommittees were approved by the RPC. The MMS completed implementation of work associated with two of the reports. Work on the remainder of the reports is in process or under study in conjunction with efforts to implement RSFA and the RMP reengineering project.

The MMS is committed to reinventing RMP core business practices and serving the needs of customers by working closely with

constituents. The RPC believes implementation of the recommendations will create significant administrative savings for both government and industry.

E. Automated Systems Initiatives

Information technology provides access to RMP information from individual workstations to enhance performance, productivity, and support RMP program initiatives. A brief description of some of the systems initiatives in FY 1997 follow.

1. Network Enhancements

Networks allow information to be shared among people. The goal of the RMP network is to ensure a reliable means to move information quickly and to permit growth to meet the changing requirements of a dynamic organization.

The RMP completed the installation of its high-speed metropolitan area network that connects its offices in Denver and a wide-area network that connects remote Compliance, Indian Royalty Assistance, Tribal, and State offices in FY 1998. The RMP network currently provides services to over 1,200 attached workstations.

The RMP further completed consolidation of local area networks and network support throughout the program in FY 1998. Centralization has resulted in significant cost savings, improved efficiency, and will ensure effective support to employees. The consolidation standardizes hardware and software, minimizing the cost and disruption of network and personal computer maintenance and software upgrades.

All MMS employees, as well as participating State and Tribal representatives, have received state-of-the-art telecommunications equipment. The RMP has upgraded all personal computer workstations to Windows 95 and related desktop software, developed imaging and workflow applications, and enhanced database access. Internet and Intranet use has been expanded and enhanced.

2. Complementary Metal Oxide Semiconductor

The RMP completed replacement of its mainframe processor with a Complementary Metal Oxide Semiconductor (CMOS) during FY 1998. This will reduce costs and improve efficiency by providing mainframe power with personal computer technology. The CMOS will employ the IBM OS/390 operating system to accommodate both mainframe and client/server applications. The CMOS operates at room temperature without special cooling requirements. The new equipment will

facilitate the RMP transition to reengineered business processes and automated systems.

3. Year 2000 Project

When the year 2000 arrives, many computer programs will interpret the last two digits of the year "00" as the year 1900. Mainframe systems software, mainframe hardware, workstation vendor products, workstation hardware, and business applications may begin to fail as the year 2000 approaches.

The RMP has assembled a team to identify and resolve potential concerns with date-related processing in hardware, systems software, and applications on both client/server and mainframe platforms. The project is scheduled for completion in the first quarter of FY 1999. The RMP is committed to the successful operation of data applications and client/server applications in the year 2000 and beyond.

4. Document Integration System

A document integration system has been introduced into the RMP work environment to improve access to information, reduce paperwork, and enhance individual productivity.

- **Computer Output to Laser Disk (COLD) System.** This system provides for online storage of mainframe generated reports. Many reports generated by the mainframe computer are now automatically transferred to COLD where they are immediately accessible to employees through personal computers at their individual workstations. The information may then be printed, stored as text data, placed in word processing or spreadsheet applications, or routed to other employees through E-mail. The COLD system has been in operation since October 1995 and has the capacity to store up to 5 years of report information.
- **Source Document Imaging System.** This system, employing an open standards based imaging system known as Viewstar, scans and stores all RMP source documents into electronic file folders or libraries. Employees and individuals authorized to use the system by RMP may access the source document libraries from their personal computer or through the Internet using a standard browser. The system has been in operation since July 1995.
- **Workflow.** The Viewstar system provides the capability to develop complex workflow applications. The RMP has placed three workflow systems in operation: source document imaging addressed above, solid minerals document imaging and electronic storage addressed below, and the oil and gas payor information form. The RMP is developing new workflow systems involving oil and gas imaging and

electronic storage, electronic Freedom of Information Act data, and exceptions information associated with RMP underpayment detection programs.

5. Solid Minerals Document Imaging and Electronic Storage Project

The project began in January 1997. The primary goal of the project is to provide RMP employees and clients at remote locations with immediate access to approximately 100,000 solid mineral source documents. The project involves the design and implementation of a system application using existing RMP technology to achieve the following results:

- Allow immediate retrieval of source documents from the optical library via personal computers;
- Provide maximum flexibility in document retrieval and use; and
- Function as part of an integrated workflow process.

6. Automated Clearing House Payments

The MMS has established arrangements to receive payments through a commercial banking payment exchange process known as Automated Clearing House (ACH). The Department of the Treasury (Treasury) contracted with several banks to collect and deposit RMP collections of royalties, rents, bonuses, and assessments. The banks then provide an electronic file of the payment details.

The MMS developed an automated process to handle ACH payment files. The RMP received approximately 240 messages associated with \$480 million in collections during FY 1997. Future initiatives for ACH collections include a pilot with one of our commercial banks and the mining industry to collect royalties using ACH Electronic Data Interchange standards.

7. Production Accounting and Auditing System

The Production Accounting and Auditing System (PAAS) collected and processed monthly production data from the following leases in FY 1997:

- All Federal and Indian oil and gas leases;
- All Federal solid mineral leases; and
- Most Indian solid mineral leases.

Development of the automated front-end enhancement (AFEE) continued in FY 1997. The AFEE will reduce the manual Auditing and Financial System (AFS)/PAAS exceptions identification effort, permitting employees to process more exceptions and to devote more time to correspondence followup with operators and payors. The exceptions involve discrepancies between sales volumes that payors report to AFS and production sales and transfer volumes that lease and agreement operators report to PAAS.

The AFEE will detect discrepancies and generate correspondence to operators. The correspondence will ask operators to verify production reports and to allocate production sales and transfer volumes to respective payors. The RMP will use the information to identify payors who may be underreporting royalties. The AFEE will materially reduce the time required to manually research discrepancies and prepare correspondence.

The AFEE project consisted of three phases. Phases I and II were completed in FY 1997 and Phase III was completed on March 12, 1998. Phase I included the redesign of exception detection system programs and the reconstruction of royalty data within the PAAS database. These modifications improved the AFS/PAAS exceptions identification effort by reducing the volume of invalid exceptions.

Phase II automated a large volume of correspondence processing. Prior to Phase II, RMP employees produced routine letters and statements with a manual online request system. The new automated system generates most of these letters and statements. Modifications to the online system further simplified use, corrected inaccurate data, and reduced the amount of time required to produce routine correspondence.

Phase III consisted of inquiry and update features in a client/server environment that allowed RMP employees to access the database and make comments that were not posted on the mainframe computer.

8. MMS Internet Home Page

The MMS continues to enhance its Internet site on the World Wide Web (<http://www.mms.gov>) to provide current information to the public about MMS activities. The MMS home page expanded in FY 1997 to include press releases, statistical information, environmental studies information, oil and gas resource information, Federal Register notices, statutes and regulations governing MMS activities, policy documents, and appeals decisions. There are separate sub home page locations for RMP, the Offshore Minerals Management (OMM) Program, and OMM Regional Offices.

F. Improved Services to Indian Tribes and Indian Mineral Owners

The Department continues to emphasize its trust responsibilities in administering revenue collections from Indian mineral leases. The RMP continued efforts in FY 1997 to improve communications and the delivery of mineral services to Indian Tribes and individual Indian mineral owners (lessors of allotted leases).

1. Indian Minerals Steering Committee

The Department chartered the Indian Minerals Steering Committee (IMSC) in January 1995. The IMSC is composed of members from the five Department bureaus that manage Indian mineral leases, as well as members from the Office of the Secretary. The MMS is represented by the RMP Associate Director, the Office of Indian Royalty Assistance (OIRA) Chief, and the Policy and Management Improvement Chief in Denver. The MMS also provides the executive secretary to the IMSC.

The IMSC members conducted quarterly meetings in FY 1997 in Phoenix, Denver, Santa Fe, and Washington, D.C., to address the following lease management issues:

- Fractionation, a problem involving multiple owners with increasingly smaller ownership percentages in allotted leases as a result of lease heirship;
- Pre-leasing processes and requirements;
- Post-leasing problems, including dual taxation that is common on Indian lands;
- Cost of marginal wells; and
- Management of a pilot program to provide representatives from the Bureau of Indian Affairs (BIA), the Bureau of Land Management (BLM), and MMS at a single location under one MMS manager in Farmington, New Mexico.

The pilot program evolved from a National Performance Review Reinvention Laboratory to test new techniques to manage Indian allottee minerals, and to improve services and departmental cooperation. The scope of work has been narrowed to offer assistance and resolve problems for only the Navajo lessors of allotted leases.

The office conducted an oil and gas lease sale in July 1997. If individual owners of the allotted tracts sign the lease agreements, Navajo allotted lands under lease will double. Oil and gas development will subsequently increase in the next few years.

The MMS provided support to the following IMSC initiatives during the year:

- The BIA, BLM, and MMS formed a training team to develop materials to educate the Indian community about the royalty program. Indian mineral owner concerns are often based on misunderstandings and misinformation about the work performed by the Federal Government. Under MMS leadership, the team developed educational materials to familiarize Indian mineral owners with lease administration and royalty processes, including a poster and slide presentation for use in outreach meetings entitled "Your Indian Mineral Trust Services Provided by the Department of the Interior." The presentation is a concise description of services provided by BIA, BLM, MMS, and the Office of Special Trustee for American Indians (OST).
- The IMSC developed a training course for Department minerals managers entitled "Indian Trust Responsibilities and Federal Obligations." Ten RMP managers attended the initial course in Phoenix in December 1997. The course will be provided during FY1999 in Denver, Tulsa, and Washington, D.C.
- An IMSC subcommittee submitted recommendations in March 1998 to redesign the explanation of payment (EOP) reports that individual Indian mineral owners receive each month with their royalty payment. The BIA, MMS, and OST are assessing costs and timeframes to implement the recommendations within each bureau's automated systems. The MMS further provides an insert with each EOP report addressing "Frequently Asked Questions." The MMS placed a directory of these questions and the IMSC minutes on the Internet for immediate access by members of the Indian community.
- The IMSC developed and sponsored a conference in September 1997 addressing the competitive nature of Indian mineral leases. The conference was designed to explore whether Indian mineral leases remain attractive to industry following recent legislation enacted to reduce administrative costs on Federal leases. The conference was attended by Tribal officials, individual Indian mineral owners, industry representatives, and officials with Federal agencies.

2. Office of Indian Royalty Assistance

The OIRA is responsible for coordinating and communicating with Indian mineral lessors, and for advocating action or change. Customer service is provided through offices located in Denver and Oklahoma City. The OIRA fulfills its responsibilities through the following efforts:

- Aggressive outreach programs in locations with Indian minerals;

- Review of policy and regulatory development; and
- Development and implementation of Indian royalty management initiatives.

The OIRA completed the following initiatives in FY 1997:

- Field personnel conducted 53 outreach meetings with Tribes or groups of individual Indian mineral owners. Representatives from BIA and BLM often attended these sessions facilitating the Department's seamless delivery of services.
- The OIRA resolved 800 formal inquiries from individual mineral owners during the year. Many inquiries required interbureau coordination to resolve complex issues, again demonstrating the seamless delivery of services to the Indian community.
- The OIRA's toll-free lines in Denver and Oklahoma City provide Indian mineral owners with immediate access to OIRA personnel. The toll-free numbers are published in "Frequently Asked Questions," which is distributed with EOP reports.
- The OIRA worked with the IMSC to develop two training programs in FY 1997:
 - "How Can I Understand My Oil and Gas Report?"; and
 - "What is the Department of the Interior Doing to Ensure My Correct Royalties?"

The Office of the Solicitor reviewed and approved both programs.

- The RMP, in conjunction with the BIA Muskogee Area Office, developed a computer program to improve the administration of payments made by companies directly to Indian mineral owners. The payments are not routed through the Department. The program includes automated programs and reports, and manual review of discrepancies or exceptions. The program will be implemented in FY 1998.
- The RMP inaugurated a Royalty Internship Program in FY 1997. The program is designed to assist mineral-producing Tribes who are considering self-governance or self-determination contracts, or Tribes who want to become more familiar with royalty management. The program consists primarily of work assignments in one or more of the RMP operating divisions. Several Tribes continue to express interest in the program; however, the Tribes had difficulty identifying qualified candidates for the training.
- The OIRA has a lead role in RMP implementation of the Tribal Self-Governance Act of 1994. The OIRA met informally with

two Tribes in FY 1997 to discuss their interest in assuming RMP functions.

- The OIRA participated in a workgroup composed of officials with the Department, the Department of Health and Human Services, and selected Tribes to draft a self-determination procedural manual. The OIRA also participated in the Department's negotiated rulemaking committee that proposed self-governance regulations in February 1998 in the Federal Register.
- The OIRA, in conjunction with industry and the MMS Office of Enforcement, continued to pursue payment agreements resulting from audits and appeals. The process allows Indian mineral owners to receive their revenue in an expedient manner.
- Representatives from OIRA, BIA, BLM, and OST attended a public forum conducted by a new Indian mineral owner group in Oklahoma. The forum provided the opportunity to discuss oil and gas issues affecting royalty collections for the Cherokee, Chickasaw, Choctaw, Creek, and Seminole Tribes.

3. Indian Nonstandard Lease/Agreement Accounting

The MMS Director initiated accounting responsibility for Indian nonstandard leases and agreements in March 1988 in response to a systems improvement recommendation from the Royalty Management Advisory Committee. Nonstandard leases and agreements, issued under the Indian Mineral Development Act of 1982 (IMDA), include net profit share, joint venture, and any other arrangements negotiated by the Tribes that have a different structure from the standard bonus, rental, and royalty rate arrangement.

The nonstandard provisions of IMDA leases and agreements make it impractical to include them in AFS at this time. Personnel in the RMP Accounting and Reports Division use a microcomputer-based system to analyze and account for the unique accounting transactions negotiated by the Tribes. To ensure accurate reporting, employees in the RMP Compliance Verification Division manually sample nonstandard IMDA leases and agreements to compare oil and gas sales volumes reported to AFS by payors with production reported to PAAS by lease operators. The RMP continues to explore methods to convert nonstandard lease accounting from the current microcomputer-based system to AFS.

G. Valuation Guidance

The RMP Royalty Valuation Division (RVD) continued to provide valuation guidance for fluid and solid minerals to Federal, State, Indian, and industry representatives in FY 1997.

1. RVD Valuation Guidance

The RVD reviewed and approved 96 transportation and processing allowance requests in FY 1997 and completed 201 formal valuation guidance documents, including technical opinions and assistance on compliance issues. Some of the more significant valuation issues addressed during the year include:

- Valuation of oil provided by lessees in kind to small refiners under the MMS RIK program;
- Valuation of oil and transportation of oil under a buy/sell arrangement;
- Valuation of gas produced from the Swanson River and Soldotna Units in Alaska;
- Recision of prior valuation guidance concerning oil exchange agreements;
- Recision of valuation policy memoranda pertaining to non-arm's-length benchmarks;
- The use of Federal Energy Regulatory Commission tariffs in lieu of a lessee's actual costs for computing offshore oil transportation allowances; and
- The development of a policy for allowable transportation costs for coalbed methane production through the RPC.

2. Federal Gas Valuation Negotiated Rulemaking Committee

Informal discussions addressing gas valuation were initiated in December 1993, at the request of MMS constituents. The Secretary subsequently chartered the Federal Gas Valuation Negotiated Rulemaking Committee (Federal Committee) on June 27, 1994, to review policies and procedures used to value natural gas. The Federal Committee included representatives from MMS, States, major oil and gas companies, large and small independent producers, and marketing firms. Decisions and recommendations were reached by consensus, which required the support of each member for approval. The Federal Committee operated under the Federal Advisory Committee Act but generally followed the guidelines of the Negotiated Rulemaking Act. Meetings were held in a public forum, a record of each meeting was prepared, and a final report addressing Federal Committee recommendations was made available to the public.

The Federal Committee completed negotiations in February 1995 for payment of natural gas royalties produced from Federal leases. The

negotiations focused on improving gas valuation under the following circumstances:

- Gas sold to affiliates;
- Gas produced from unitized and communitized leases; and
- Gas sold away from the wellhead under the new marketing environment created by Federal Energy Regulatory Commission (FERC) Order 636.

The MMS published a proposed rule in the Federal Register on November 6, 1995, containing the recommendations from the Federal Committee to improve and simplify the payment of royalties and to reduce administrative costs for both the Federal Government and industry.

The comment period for the proposed rule ended February 5, 1996. Following review of the comments, MMS reconvened the Federal Committee on June 12-14, 1996, in Denver to evaluate five options for proceeding with further rulemaking. The MMS also reopened the public comment period to consider the options.

Federal Committee members evaluated the five options and developed five additional options for consideration. The Federal Committee reached agreement on several issues; however, a few major issues remain unresolved, including the comparison of index prices to gross proceeds and applying index prices to the wellhead volume of gas. The extended comment period closed August 19, 1996.

In February 1997, MMS completed a cost benefit analysis of the following three gas valuation options:

- Continued use of gross proceeds;
- Adoption of the Federal Committee consensus; or
- Development of an index factor.

The index factor would be a percentage computed on the difference between the average index price and the average gross proceeds received by index payors, including affiliate resales. The index factor would be computed after a deduction for transportation allowances in each index zone. The index factor could subsequently be either positive or negative due to the transportation deduction.

The results of the cost benefit analysis indicated that the Federal Committee consensus option would result in an annual loss of approximately \$20 million. The index factor would result in an annual increase of \$1 million.

The MMS decided not to issue a final rule based on the Federal Committee consensus for the following reasons:

- The natural gas market continues to experience significant change. The FERC conducted a conference in May 1997 to address market direction and regulation as a result of this change.
- The MMS believes its existing regulations are flexible and remain the appropriate means to address continued change in the natural gas market.
- The MMS does not believe that published indices for natural gas, with deductions for transportation allowances to the lease, are sufficiently developed to represent gross proceeds actually received for lease production.
- The results of the MMS cost benefit analysis indicate that the proposed rule does not achieve revenue neutrality, a primary goal MMS and the Federal Committee established in developing new regulations.

The MMS published a Notice in the Federal Register on April 22, 1997, explaining its decision and requesting comments on new options to value Federal gas. The options include the index factor and an option based on the royalty collection practice in Norway, where royalty values for crude oil are established by government price board. The Department would establish its own pricing board to determine prices for Federal gas and other appropriate commodities similar to the process used in Norway.

Personnel from MMS met March 3-5, 1998, in Denver, in a renewed effort to revise the existing gas valuation regulations based on comments and views expressed by interested constituents. The MMS remains committed to working with its constituents to explore alternative means to value natural gas.

3. Indian Gas Valuation Negotiated Rulemaking Committee

The MMS published a Notice in the Federal Register on February 7, 1995, to establish the Indian Gas Valuation Negotiated Rulemaking Committee (Indian Committee). The goal of the Indian Committee was to publish regulations that would maximize royalty revenues for Indian Tribes and allottees consistent with the Secretary's discretion to establish value. The regulations would further satisfy industry concerns by clarifying and reducing information requirements to compute royalty in an accurate, timely manner.

The Indian Committee included representatives from MMS, BIA, Indian mineral owners, and the oil and gas industry. The representatives met 13 times and concluded negotiations in May 1996. The

negotiations focused on improving gas valuation under the following circumstances:

- Gas sold under arm's-length and non-arm's-length contracts subject to the major portion requirements of Indian lease terms; and
- Gas processed and subject to the dual accounting requirements of Indian lease terms.

The Indian Committee agreed on a formula to value gas produced from Indian lands using available public spot market index prices and a factor for transportation. The price, derived from the formula, would be applied to wellhead gas volume and would satisfy the gross proceeds and major portion calculations required by Indian lease terms. Transportation allowance forms would no longer be required. The Indian Committee designed a method that would provide lessees with an option of performing dual accounting in its current form or applying a percentage increase to the index formula value to satisfy the dual accounting requirement in Indian leases.

Lessees would continue monthly reporting of gross proceeds under the 1988 regulations for Indian lands with no valid spot market index. The MMS would calculate and provide the major portion value to lessees.

The MMS published a proposed rule in the Federal Register on September 23, 1996. The proposed rule represents recommendations from the Indian Committee and also contains two new forms for information collection on dual accounting and safety net values. The comment period on the proposed rule closed December 3, 1996.

The comment period was reopened to address the gross proceeds requirements in the proposed rule dealing with the issue of gas contract settlements. The subsequent comment period closed on April 4, 1997.

The Indian Committee met on March 26, 1997, and did not reach agreement on the rule's treatment of contract settlement proceeds. The MMS has conducted a cost-benefit analysis of the new rule. The MMS expects to publish a final rule in the Federal Register in the fourth quarter of FY 1998.

4. Revision of MMS Oil Royalty Valuation Rules

The MMS continues to pursue effective oil valuation regulations on both Federal and Indian lands.

Federal

The current MMS Federal oil valuation rules rely heavily on posted prices, particularly in non-arm's-length situations. A number of analysts believe, however, that posted prices now substantially understate market value. The MMS published an Advance Notice of Proposed Rulemaking in the Federal Register on December 20, 1995, requesting comments to determine if posted prices still represent market value, and suggestions for alternative valuation bases.

The MMS published a proposed Federal crude oil valuation rule in the Federal Register on January 24, 1997. The MMS conducted public meetings in Denver and Houston in 1997 to receive comments addressing the rule.

The MMS refined the proposal in a supplementary proposed rulemaking on July 3, 1997. The changes responded to concerns from small independent producers who believed the original rule was too restrictive in categorizing arm's-length sales. The producers contended that the original rule would require some legitimate arm's-length sales to be valued other than arm's-length, requiring the producers to pay index prices.

The MMS received a substantial number of comments to the January and July proposals. The MMS subsequently reopened the public comment period on September 22, 1997, requesting comments on alternative proposals before proceeding with the rulemaking. The MMS conducted seven public meetings across the country to solicit comment on the alternatives.

The MMS published a second Supplementary Proposed Rulemaking in the Federal Register on February 6, 1998, and scheduled five public meetings across the country to invite public comment on the proposal.

The MMS has adhered to the following five basic principles in developing the proposed rule:

- Royalty must be based on the value of production from the lease.
- Royalty obligations should be based on gross proceeds for arm's-length contracts.
- Index prices are the best measure of value in most areas of the country for non-arm's-length contracts.
- The lessee has a duty to market the product at no cost to the lessor.
- Customized regulations for unique producing areas are preferable to a "one size fits all" approach.

Oil royalty will continue to be measured by gross proceeds received by the lessee or its affiliate in true arm's-length transactions under the proposed Federal oil rule. For non-arm's-length transactions, value will be based on spot prices with appropriate location and quality adjustments, except in the Rocky Mountain region, where a new series of benchmarks will apply.

The oil and gas industry has unanimously opposed all of the proposals to amend the current regulations for the valuation of oil produced from Federal leases. The Congress has introduced legislation that would mandate the Secretary to take all oil and gas production in-kind. Two similar versions of this legislation were introduced in early 1998. States generally have been supportive of the various valuation regulation proposals, however, and favor alternatives to posted prices for establishing the royalty value of crude oil. The Supplemental Appropriations Bill for 1998 included language prohibiting MMS from publishing a final rule until October 1, 1998.

Indian

The MMS initially planned to develop an Indian oil valuation rule that was separate but comparable to the Federal rule. The MMS elected to develop an independent rule in 1997, however, for valuing oil produced from Indian leases due to MMS trust responsibilities and the unique lease terms contained in Indian leases, particularly "major portion" provisions. The MMS convened a diverse group of Indian representatives to solicit their views before drafting the rule. The proposed Indian rule would value crude oil at the higher of the following:

- A New York Merchantile Exchange-based system;
- The lessee's or the affiliate's gross proceeds; or
- A 75 percent major portion value using royalty values reported for the area.

The MMS published a proposed Indian oil valuation rule in the Federal Register on February 12, 1998. The MMS conducted two public hearings, one in Albuquerque and one in Denver, to obtain comments on the rule in the spring. The Supplemental Appropriations Bill for 1998 included language prohibiting MMS from publishing a final rule until October 1, 1998. The MMS has received written comments on the proposed oil valuation rule. After reviewing these comments, MMS will decide whether to publish a final rule or to publish another proposed rule.

5. Impact of FERC Order 636 on Transportation and Gas Marketing

The MMS published a final regulation in the Federal Register on December 16, 1997, to clarify royalty implications of FERC Order 636. The proposed regulation identifies which cost components or other charges are deductible, or related to transportation, and which costs are not deductible, or related to marketing. Deductible transportation costs include firm demand charges, commodity charges, banking fees, parking fees, and wheeling costs. Non-deductible marketing costs include long-term storage, aggregator fees, and intrahub title transfer fees.

The FERC issued Order 636 in April 1992 to enhance competition among suppliers and improve the industry's ability to compete effectively for new markets. The Order mandated that interstate pipelines separate their sales and transportation services, negating the advantage that a particular pipeline company would have in the sale of its own gas as opposed to the gas of other suppliers. Pipelines must provide open access transportation services equal in quality whether the gas is purchased directly from the pipeline company or from another source. Each pipeline was required to complete restructuring of its services by November 1, 1993.

The rulemaking modified the gas valuation regulations in conjunction with the proposed changes to the transportation allowance regulations. The MMS recognizes that certain lessee gas transportation arrangements result in financial transactions that are not directly associated with the gas value. Such transactions may not have royalty consequences. The proposed rulemaking encourages lessees to request valuation guidance from MMS if the lessee is unsure if transactions result in additional royalty obligations.

The final rulemaking applies to both arm's-length and non-arm's-length situations for valuing gas production and calculating transportation allowances. The final rulemaking became effective February 1, 1998.

The Independent Petroleum Association of America and the American Petroleum Institute filed suit against the Department in March 1998. The suits allege that the rule is illegal because it requires lessees to pay royalties based on more than the value of the gas at the wellhead and unilaterally changes the terms of the oil and gas lease.

6. Major Portion Initiatives

Indian lease terms and valuation regulations require the value of gas to be the higher of either gross proceeds or the highest price paid or offered for a major portion of gas produced from a field or area. Major portion prices are calculated and compared with prices

reported by payors. The RMP issues "Orders to Pay" for additional royalties where appropriate. A summary of major portion initiatives completed through FY 1997 follows:

- **Oklahoma Indian Allottees.** The RMP performed a major portion analysis for allotted Indian leases under the jurisdiction of the BIA Anadarko Area Office. The effort resulted in the collection of additional royalties from 130 payors for the period 1986-92. The RMP also calculated major portion prices for Eastern Oklahoma for the period 1988-95 and for allotted Indian leases under the jurisdiction of the BIA Anadarko Area Office for the period 1993-95. The RMP is currently pursuing the collection of additional royalties for these periods.
- **Southern Ute Tribe and Allottees.** The RMP performed a major portion analysis for the Southern Ute Indian Reservation, resulting in the collection of additional royalties from 46 payors for the period 1987-91. The RMP performed a major portion analysis for the period 1984-86 and is currently performing a corresponding analysis for the period 1992-95. The RMP is assisting efforts of the Southern Ute Tribe to collect additional royalties for major portion analyses in various settlement negotiations.
- **Blackfeet Tribe and Allottees.** The RMP and the Blackfeet Tribe have agreed on a method to calculate major portion prices for the Blackfeet Reservation. Calculations are complete, and the effort resulted in the collection of additional royalties for the period 1986-94. The RMP is assisting efforts of the Blackfeet Tribe to collect additional royalties in settlement negotiations.
- **Navajo Nation.** The RMP and the Navajo Nation agreed on a method to calculate major portion prices for gas produced on Tribal leases for the period January 1987 through February 1989. Calculations are complete, and RMP collected additional royalties from 16 payors for the period. The Navajo Nation agreed to perform a major portion analysis for the period March 1989 through the current date.
- **Ute Mountain Ute Tribe.** The RMP calculated major portion prices for the Ute Mountain Ute Tribe involving both the Aneth and San Juan Basin Areas for the period 1987-95. The Ute Mountain Ute Tribe approved the methodology, and RMP will pursue the collection of additional royalties.
- **Northern Ute Indian Tribe.** The RMP and the Northern Ute Indian Tribe have agreed on a method to calculate major portion prices for Northern Ute Indian Tribal leases. The RMP calculated major portion prices and collected additional royalties for the period 1987-95.

- **Shoshone and Arapaho Tribes.** The RMP worked with the Shoshone and Arapaho Tribes to analyze the methodology used by the Tribes to calculate major portion prices for the period 1988-94. The RMP will continue to assist the efforts of the two Tribes to collect additional royalties for major portion analyses.

7. Valuation Guidance Papers for Gas and Coal

The RVD developed the following guidance papers addressing the valuation of gas and coal:

- Valuation Guidance for Auditing Affiliate Sales of Natural Gas, December 5, 1996; and
- Valuation Guidance for Auditing Affiliate Sales of Coal, December 5, 1996.

A "Dear Payor" letter, dated December 19, 1996, informed payors of the availability of these papers. The papers are located on the MMS Internet home page (<http://www.rmp.mms.gov/library/readroom/Dearpay/inetpayr.htm>).

H. Other Regulatory Initiatives

1. Marginal Property Relief Under Section 7 of RSFA

Section 7 of RSFA provides that lessees may seek to either prepay future royalties or obtain accounting relief on marginal properties. The law requires that accounting relief be made available within 1 year from enactment and that prepayment of royalty be available within 2 years. The RMP will develop implementing regulations for both marginal property alternatives.

The MMS conducted three marginal property workshops, in October 1996, January 1997, and November 1997 with representatives from industry associations and State government organizations to obtain input on marginal property regulations. Representatives from RMP, OMM, and BLM also participated. The representatives addressed the following issues:

- Defining criteria for marginal property status;
- Determining requirements to be addressed in regulations and agency guidelines; and
- Determining an effective way to establish criteria to be specified in the regulations and guidelines.

The MMS intends to issue a proposed rulemaking for accounting relief in the summer of 1998. A proposed rulemaking for prepayment of royalty is scheduled for May 1999.

2. Liability for Royalty Due on Federal and Indian Leases

The MMS published a proposed regulation in the Federal Register on June 9, 1995, in conjunction with a National Performance Review initiative, to develop a uniform policy to address liability issues. The proposed rulemaking would amend regulations to establish and clarify who is liable for unpaid or underpaid royalties, compensatory royalties, or other payments on Federal and Indian mineral leases. The MMS would amend the Payor Information Form (Form MMS-4025) to expressly provide that the payor agrees to pay any additional royalties owed on production from the lease. The rulemaking also clarifies circumstances when operators and other individuals are liable for underpayments and when liability is shared among other parties.

The clarification is required because payors, whom MMS has historically billed for unpaid or underpaid royalties, have sometimes refused or been unable to pay these bills. This has occurred due to bankruptcy or when an interest in the lease may be assigned between the time the royalty obligation accrued and the time MMS discovers an underpayment and orders corrective action. The current payor often denies liability for the deficiency, asserting that MMS should identify and collect from the individual responsible for the original underpayment.

The proposed rulemaking is limited to the following types of leases:

- Leases that are in 100 percent Federal and Indian agreements with the same lessor, royalty rate, and fund code for distribution; and
- Leases that are not in approved Federal or Indian agreements.

The RMP extended the comment period for the rulemaking several times to accommodate interested parties. The RSFA addresses the liability concept. The RMP is currently evaluating the effect of RSFA provisions on existing processes and procedures prior to amending the proposed regulations.

3. Delegation of Royalty Management Functions to States

The MMS published a final regulation in the Federal Register on August 12, 1997, with an effective date of September 11, 1997, to authorize delegation of the following Federal royalty management functions to the States:

- Conducting audits and investigations;
- Receiving and processing production and royalty reports;
- Correcting erroneous report data;
- Performing automated verification; and
- Issuing demands, subpoenas, and orders to perform restructured accounting, including related notices to lessees or their designees, and entering into tolling agreements.

The RSFA amended portions of FOGRMA. Prior to RSFA, section 205 of FOGRMA provided for the delegation of only audits, inspections, and investigations to the States for oil and gas leases. The Budget Act of 1992 expanded the scope of audits and investigations performed by the States to include geothermal, solid minerals, and offshore leases subject to section 8(g) of OCSLA. The final regulation provides that States may continue to audit all commodities and lease types. The RSFA amendments provide that MMS may delegate the remaining four functions, identified above, to the States for oil and gas leases only.

The regulation identifies requirements for a State's delegation proposal and the procedures MMS will follow to approve or disapprove the request. Approved delegation agreements are effective for 3 years, and the State may request renewal of the delegation for an additional 3 years. A new delegation agreement will be required after that period. States will receive compensation for actual costs incurred to perform the delegated function; however, the costs may not exceed the expenses that MMS would be expected to incur to perform the same function.

The regulation defines a State's general responsibilities and the standards a State must meet when performing specific delegated functions. Officials with MMS will annually review the State's performance and compliance with the delegation agreement and performance standards. Officials will further verify costs submitted by the State for reimbursement.

The regulation addresses the steps MMS may take if a State does not adequately perform a delegated function. The regulation further identifies the procedure MMS will follow to terminate a delegation for inadequate performance, including the opportunity for a hearing.

A State may voluntarily elect to terminate a delegation agreement with 6 months notification prior to the proposed termination date. The MMS will determine the termination date based on the number of delegated functions and the impact of the termination on all affected parties.

4. Designation of Payor Recordkeeping

The MMS published an interim final regulation in the Federal Register on August 5, 1997, to authorize the collection of information from lessees and payors concerning designations by lessees of other persons to make royalty and other payments on their behalf. The regulation is applicable to all royalties and other payments due on production from Federal oil and gas leases after September 1, 1996. The regulation does not apply to Indian leases and leases of minerals other than oil and gas.

The RSFA amended portions of FOGRMA to provide that an owner of operating rights in a Federal oil and gas lease is primarily liable for royalty payments owned on its portion of the lease, and that the owners of record title are secondarily liable. The regulation allows lessees, which include both operating rights and record title owners to designate by written notice to MMS another person, or designee, to pay royalties on their behalf. The Designee may then make payments, file reports, offset and credit revenue, make adjustments to reports, and request and receive refunds on behalf of the lessee. The Designee, however, is not liable for payment under the lease.

The MMS designed a database to match lessees with their Designees. The MMS sent a letter to approximately 2,500 oil and gas payors on January 9, 1997. The term payor includes both lessees, who are reporting and paying their own royalty, and Designees, who are reporting and paying royalties on behalf of lessees other than themselves. In many cases, a payor may be both a lessee and a Designee on the same lease, reporting their own payment and the payments of lessees who designate them on the same royalty line.

An attachment to the January 9 payor letter provided a listing of all leases on which MMS believed the payor was reporting and making payment. The payors were requested to voluntarily complete missing information, listing lessees for which they were reporting and making payments to MMS. The action was required because neither MMS nor BLM have information necessary to match lessees with their payors. The MMS will request data from time to time from parties who are payors in the MMS accounting system. The MMS will use that data to send reports to lessees for confirmation of the designation of payment responsibility to the payor.

The purpose of this interim regulation is to make it mandatory for payors to respond to a request for missing information in the MMS database. Although RSFA is not applicable to Indian leases and leases of minerals other than oil and gas, the regulation provides MMS with authority to collect information necessary to match the lessee with the payor for those leases in the event MMS requires that information in the future.

5. Gas Reporting

The MMS published a proposed regulation in the Federal Register on April 4, 1997, to require operators in the Gulf of Mexico Region to report gas at standard conditions of 14.73 pounds per square inch absolute. Operators were previously required to report gas at 15.025 pounds per square inch absolute. The change was designed to standardize gas reporting requirements in the Gulf of Mexico with other Federal onshore and offshore properties.

The rule further eliminated the requirement to submit the Gas Analysis Report (GAR) to MMS on a semiannual basis. The GAR addresses the composition and quality of gas produced from offshore properties. The MMS will require submission of the GAR only in circumstances where the quality of gas cannot be determined by other means. The reduction in reporting requirements is designed to ease the burden on industry.

The final rule is scheduled to be published in the third quarter of FY 1998.

6. Collection of Mineral Revenues

The Treasury published a rule on January 31, 1994, requiring Federal agencies to use electronic funds transfer (EFT) as the principal collection and disbursement system. The Treasury will allow other payment methods to be used whenever it is cost-effective, practical, and consistent with current statutory authority.

The MMS has used EFT since September 1984, and has increased EFT use throughout the past few years. Although MMS actively encourages EFT, the agency acknowledges that some collection and disbursement activities do not lend themselves to electronic commerce.

The MMS issued proposed rulemaking on April 19, 1996, to incorporate Treasury requirements and to clarify instructions to mineral payors for royalty, rent, bonus, and other revenue payments. The proposed rule affects only RMP collections. The proposed rulemaking addressed a number of issues, including:

- Definitions of relevant terms in the payment process;
- General instructions for EFT payments and for non-EFT payments for each category of payment;
- Submission of payment documents using EFT, the U.S. Postal Service, courier, and overnight mail;
- Due dates for mineral payments; and

- Interest charges and assessment of civil penalties for late payments.

The final rule was published in the Federal Register on April 22, 1997, with an effective date of May 22, 1997.

7. Geothermal Payor Handbook

The RMP published a Geothermal Payor Handbook on February 20, 1997, providing a definitive explanation of valuation regulations that became effective January 1, 1992. The handbook further provides examples of different valuation situations.

8. Solid Minerals Payor Handbook

The RMP published a revised Solid Minerals Payor Handbook on March 12, 1997. The handbook contains instructions on how to report and pay solid mineral royalties, and how to use the Solid Minerals Payor Information Form and the Report of Sales and Royalty Remittance. The handbook further provides valuation information for coal, sodium, phosphate, and other commodities.

9. Phosphate Valuation

The MMS recalculates phosphate value each year to compute phosphate royalty payments. The procedure, adopted in 1981, is based on index adjustments of the Gross Domestic Product – Implicit Price Deflator. An index was used because most of the phosphate production on Federal leases is consumed internally without open-market sales.

The MMS became concerned that the index may no longer reflect current market conditions. In March 1995, MMS solicited participation from representatives from the State of Idaho, BLM, and industry to examine phosphate valuation. The representatives agreed that the phosphate valuation procedure should be reviewed.

The RPC established a Phosphate, Trona, and Other Leasable Solid Mineral Subcommittee in September 1995. A Phosphate Subcommittee was segregated from the original subcommittee in February 1996. The Phosphate Subcommittee, composed of representatives from industry, and Idaho State and county governments, met in April 1996. Personnel from MMS and BLM provided technical assistance. The representatives conducted a comprehensive analysis of phosphate economic and market trends, concluding that the current index procedure was not representative of phosphate values.

A revised methodology was submitted to the Phosphate Subcommittee on November 19, 1996. Subcommittee members reviewed the proposal and

reconvened on January 22, 1997. The representatives were unable to reach unanimous agreement and forwarded their recommendations to the RPC.

The RPC reviewed the material and subsequently approved a recommendation on March 21, 1997, to revise Federal phosphate valuation procedures using a weighted composite of three phosphate-related indices published by the Bureau of Economic Analysis. The RPC forwarded the recommendation to the Secretary on April 10, 1997 and the Secretary approved the recommendation on October 16, 1997. The proposal was published in the Federal Register for comment on March 24, 1998.

10. Sodium/Potassium Subcommittee of the RPC

The RPC agreed to form a Sodium/Potassium Subcommittee (S/P Subcommittee) on September 25, 1997, to assist MMS in drafting revised regulations that would govern royalty valuation procedures for these leasable minerals. Significant changes in the sodium and potassium industries have occurred since existing regulations were developed in 1978. Sodium and potassium lessees now produce many different chemical products from lease production, and most producers supply these products to international markets, often through foreign affiliates. Current regulations provide no guidance for valuing production under these circumstances.

The S/P Subcommittee is composed of State representatives from Colorado, New Mexico, and Wyoming; and industry representatives from California, Colorado, and Wyoming as well as a member of the National Mining Association. The S/P Subcommittee met originally in December 1997 and has conducted three meetings in 1998. The S/P Subcommittee intends to complete its work and make recommendations to the RPC by December 1998.

11. Coal Subcommittee of the RPC

The RPC chartered the Coal Subcommittee in late 1995 when the RPC was formed. The Coal Subcommittee has met 11 times to address existing non-arm's-length coal valuation procedures and whether those procedures are adequate to address situations now occurring due to changes in the marketplace. The changes relate to the deregulation of the electric power market, permitting new arrangements between coal producers and power generators that were not possible in past years.

The Coal Subcommittee has solicited the views of a number of experts concerning deregulated electric power markets. The MMS intends to analyze the information that has been gathered to make a recommendation to the RPC concerning revision of non-arm's-length coal valuation criteria to address the deregulated markets.

I. Civil Penalties

Section 109 of FOGRMA provides for civil penalties to ensure the prompt collection of all oil and gas revenues due from Federal and Indian mineral leasing. Civil penalties were first assessed in FY 1985.

The RMP opened 40 civil penalty cases in FY 1997 and closed 23 of those cases during the year. There were 27 cases open at the end of FY 1997. Seventeen of those cases were opened in FY 1997, and 10 cases were opened in prior fiscal years. The RMP continues efforts to resolve these actions.

J. Training Programs

The RMP continued a series of training programs in FY 1997 for RMP employees and constituents. The training is designed to increase awareness of regulatory and procedural requirements and to familiarize participants with issues affecting the minerals industry.

1. Payor Training

The RMP continued to provide 2-day training sessions to update industry payors concerning royalty reporting requirements, royalty payment requirements, automated and manual exception processing programs, and product valuation for oil, gas, and geothermal resources. The RMP conducted five payor training seminars in FY 1997 attended by 322 participants representing 168 firms.

2. Operator Training

The RMP continued PAAS training for industry operators to explain Federal regulations, policy changes, and the proper method of reporting production. The RMP conducted nine operator training sessions during the year attended by 242 participants representing 175 firms.

3. Solid Minerals Reporter Training

The RMP conducted 16 solid minerals seminars in FY 1997 attended by 128 participants representing 67 firms. These seminars addressed valuation issues, royalty and production reporting requirements, and exception processing for coal, sodium, phosphate, and other solid minerals resources. Thirteen of the seminars were conducted for specific companies to address issues unique to the firms. The remaining three seminars were 3-day presentations addressing the

valuation and reporting processes in a comprehensive manner for all solid minerals.

4. Allowance and Valuation Training

The RMP conducted six seminars in FY 1997 attended by 200 MMS and Tribal auditors. The training addressed specific valuation policies and issues, including quality banks, BBB bond rate changes, crude oil premiums, sales to affiliates, section 6 leases, compression, extraordinary processing costs, coalbed methane, FERC Outer Continental Shelf (OCS) oil tariffs, FERC Order 636, and U-accounts/cash-outs. The RMP also provided geothermal valuation training to auditors in the California State Controller's Office.

5. Workforce Training

The RMP established a Training Advisory Committee in FY 1995 to satisfy the following objectives:

- Analyze the training requirements of the general workforce to meet strategic business goals;
- Outline both short- and long-term training plans; and
- Develop in-house courses presented by current employees and commercial vendors.

The RMP conducted a number of training programs in FY 1997 attended by over 500 employees. Technical mineral courses included:

- Unitization and communitization agreements;
- Locating reference and production data through RMP automated systems;
- Life of a lease;
- Orientation to the mineral functions of BIA and BLM; and
- Indian culture.

Training courses provided through Federal and commercial vendors included:

- Business process reengineering;
- Transformation -- Organization of the future;
- Effective writing;

- Teambuilding;
- Leadership skills for supervisors;
- Federal Indian trust responsibility; and
- A tour of ARCO's Sheep Mountain Carbon Dioxide facility.

The RMP participated in a 360-Degree Supervisory Assessment Process designed to gather confidential information from supervisors, peers, and employees who report directly to an individual. The information helps the individual understand how others perceive supervisory skills, strengths, and weaknesses. Results of the assessments indicate that RMP supervisors are knowledgeable in technical areas; however, additional attention should be devoted to communication, motivation, and interpersonal skills. The RMP established a Training Advisory Supervisory Skills Subcommittee in February 1997 to develop a training curriculum to emphasize leadership skills. Courses were conducted for RMP supervisors in both FY 1997 and FY 1998.

The Accountant Occupational Training Plan was implemented in FY 1997. The training plan consists of accounting, communication, writing, and technical mineral courses for accountants and auditors. The training is provided to accountants in field offices and audit residencies in addition to Headquarters staff in Denver. Most of the RMP audit staff is located in cities where many of the top royalty payors maintain accounting centers.

The Training Advisory Committee is currently developing a second Occupational Training Plan for the Administrative Staff series.

II. MINERAL REVENUE COLLECTIONS AND DISBURSEMENTS

A. Mineral Revenue Collections

The Department collected nearly \$6.2 billion in mineral rents, bonuses, and royalties in FY 1997 from 76,500 Federal and Indian leases. This represents an increase of nearly \$1.3 billion, or 25.6 percent, from \$4.9 billion in collections in FY 1996 (table 1). The increase was primarily due to higher oil and gas prices during the year and additional revenues from offshore oil and gas competitive lease sales. Indian revenues addressed in this report are collected and processed by MMS from leases on Tribal lands and allotments, or collected by the Indian community and reviewed by MMS for accuracy.

Offshore oil and gas royalties increased 13.1 percent, or nearly \$404.9 million, in FY 1997 (table 1). Domestic oil prices are materially influenced by the international market. The Department of Energy (DOE) advises that low world inventories and high demand in the United States, Europe, and the developing nations of Asia caused oil prices to rise to \$23.50 per barrel in the first quarter of FY 1997. Prices fell over the next three quarters; however, the net effect for the year was a price increase over corresponding levels in FY 1996. Higher prices and demand stimulate production. The Gulf of Mexico reported a significant rise in oil sales volume during the year as a result of the start of production in the Mars Field in July 1996 and the completion of new production facilities in the Auger Field.

Domestic gas prices are governed by competition in U.S. and Canadian energy markets because gas, unlike oil, is not easily transported between countries outside North America. The DOE reports that unusually cold weather in October 1996 lowered underground storage levels, which caused a dramatic increase in prices through January 1997. Ironically, weather in January and February, the coldest months of the year, was warmer than normal. Prices remained high, however, because gas inventories entered the primary winter heating season at such low levels. Gas sales volume rose in the Gulf of Mexico and offshore California to replenish inventory stocks.

Federal onshore royalties rose 24.2 percent, and Indian royalties jumped 34.9 percent in FY 1997 (table 1). Most of the increase was associated with natural gas although modest increases were also observed for coal and oil. Gas royalties rose for the same reasons as gas revenues on offshore lands.

Offshore bonuses and rents rose 81.8 percent, from \$698.7 million in FY 1996 to nearly \$1.3 billion in FY 1997 (table 1). The growth in revenues from competitive lease sales is attributed to advances in three-dimensional seismology, innovations in horizontal drilling,

improved underwater techniques, recent subsalt discoveries in the Gulf of Mexico, and increased competition by independent producers in shallow water properties in the Gulf.

Federal onshore bonuses and rents increased \$23.6 million in FY 1997 (table 1). The increase was attributed to additional revenues from oil, gas, and coal competitive lease sales during the year. The largest increase in Federal onshore bonus collections was in Wyoming.

Collections from rents on Indian leases totaled \$950,000 in FY 1997 (table 1). Indian rent collections have averaged approximately \$1 million in recent years.

**Table 1. Comparison of mineral revenue collections, FY 1996-97
(in thousands)**

	<u>FY 1996</u>	<u>FY 1997</u>	<u>Difference</u>	<u>Percent</u>
Offshore Federal Lands				
Royalties.....	\$3,086,402	\$3,491,279	\$ 404,877	13.1
Bonuses and Rents...	698,685	1,270,364	571,679	81.8
Subtotal.....	\$3,785,087	\$4,761,643	\$ 976,556	25.8
Onshore Federal Lands				
Royalties.....	\$ 858,577	\$1,066,662	\$ 208,085	24.2
Bonuses and Rents...	120,779	144,403	23,624	19.6
Subtotal.....	\$ 979,356	\$1,211,065	\$ 231,709	23.7
Indian Lands				
Royalties.....	\$ 144,878	\$ 195,512	\$ 50,634	34.9
Rents.....	913	950	37	4.1
Subtotal.....	\$ 145,791	\$ 196,462	\$ 50,671	34.8
TOTAL.....	\$4,910,234	\$6,169,170	\$1,258,936	25.6
Total Royalties.....	\$4,089,857	\$4,753,453	\$ 663,596	16.2
Total Bonuses & Rents.	\$ 820,377	\$1,415,717	\$ 595,340	72.6

Bidders in offshore competitive lease sales must deposit one-fifth of the bonus payment into an escrow account pending award of the lease. The one-fifth deposit and accrued interest are returned to unsuccessful bidders. Interest in the escrow account from accepted bids totaled more than \$5.5 million in FY 1997 (table 2). Settlement payments to offshore States under the provisions of the OCSLA Amendments of 1978 totaled \$65 million (tables 2 and 5).

**Table 2. Mineral revenue collections, escrow release, and settlement payments, FY 1997
(in thousands)**

	<u>Royalties</u>	<u>Bonuses & Rents</u>	<u>Other Revenues</u>	<u>Total</u>
Collections				
Offshore Federal Lands.	\$3,491,279	\$1,270,364	\$ ---	\$4,761,643
Onshore Federal Lands..	1,066,662	144,403	---	1,211,065
Indian Lands.....	195,512	950	---	196,462
Subtotal.....	\$4,753,453	\$1,415,717	\$ ---	\$6,169,170
Offshore Payments				
Escrow Release.....	\$ ---	\$ ---	\$ 5,524	\$ 5,524
Settlement Payments....	---	---	65,000	65,000
Subtotal.....	\$ ---	\$ ---	\$70,524	\$ 70,524
TOTAL.....	\$4,753,453	\$1,415,717	\$70,524	\$6,239,694

B. Mineral Revenue Disbursements

Revenues are generally reported to RMP on the last business day of the month. The RMP generally disburses revenues in the month following receipt. Collection and disbursement totals for a fiscal year will vary because revenue collected in September, the last month in a fiscal year, will not be disbursed until October, the first month of the next fiscal year.

The Department disbursed over \$6.2 billion from mineral leasing in FY 1997 to the States, to a number of designated special-purpose accounts administered by Federal agencies, and to the General Fund of the Treasury (table 3). The BIA distributed Indian lease revenues to the appropriate Indian Tribes and allottees. Formulas for these disbursements are governed by legislation and regulations.

States share in revenues collected from Federal mineral leases within their respective boundaries or from lands within 3 miles of the seaward boundary of their coasts. Nearly \$685.6 million in royalties, rents, bonuses, and settlement payments were distributed to the States from offshore and onshore mineral leasing in FY 1997 (tables 3, 4, and 5). Payments to the Historic Preservation Fund, the Land and Water Conservation Fund, and the Reclamation Fund special-purpose accounts amounted to nearly \$1.5 billion. The General Fund of the Treasury received nearly \$3.9 billion. Indian revenues directed to Tribal governments and individual allotment owners totaled nearly \$196.5 million (table 3).

**Table 3. Disbursement of mineral lease revenues, FY 1997
(in thousands)**

Offshore Federal Revenues		
Historic Preservation Fund.....	\$ 150,000	
Land & Water Conservation Fund.....	896,979	
State Shares (7 States).....	116,132	
U.S. Treasury: General Fund.....	<u>3,669,056</u>	
Subtotal.....		\$4,832,167
Onshore Federal Revenues		
Reclamation Fund.....	\$ 442,834	
State Shares (33 States).....	569,422	
U.S. Treasury: General Fund.....	<u>198,809</u>	
Subtotal.....		1,211,065
Indian Revenues		
Tribes and Allottees.....		<u>196,462</u>
TOTAL.....		\$6,239,694

**Table 4. Distribution of onshore mineral revenues
to 33 States by the Minerals Management Service
and the Bureau of Land Management, FY 1997
(in thousands)**

Alabama.....	\$ 599	Nebraska.....	16
Alaska.....	5,515	Nevada.....	5,707
Arizona.....	69	New Mexico.....	188,840
Arkansas.....	1,000	North Dakota.....	3,894
California.....	20,336	Ohio.....	153
Colorado.....	37,424	Oklahoma.....	2,144
Florida.....	4	Oregon.....	45
Idaho.....	2,211	Pennsylvania.....	21
Illinois.....	68	South Dakota.....	566
Kansas.....	1,329	Texas.....	637
Kentucky.....	123	Utah.....	34,317
Louisiana.....	817	Virginia.....	85
Michigan.....	712	Washington.....	818
Minnesota.....	13	West Virginia.....	327
Mississippi.....	952	Wisconsin.....	1
Missouri.....	1,273	Wyoming.....	<u>239,027</u>
Montana.....	20,379		
		TOTAL.....	\$569,422

Section 8(g) of the OCSLA Amendments of 1978 provided that the States were to receive a "fair and equitable" division of revenues generated from the leasing of lands within 3 miles of the seaward boundary of a coastal State that contains one or more oil and gas pools or fields underlying both the OCS and lands subject to the jurisdiction of the State. The States and Federal Government, however, could not agree on the meaning of the term "fair and equitable." Revenues generated in the 3-mile boundary were subsequently placed into an escrow fund beginning in August 1979. Revenues from the Beaufort Sea in Alaska were placed in a second escrow fund under section 7 beginning in December 1979.

Congress resolved the dispute over the meaning of "fair and equitable" in the OCSLA Amendments of 1985, Public Law 99-272. The law provided for the following distribution of revenues to the States under section 8(g):

- Escrow funds disbursed during the period FY 1986-87;
- A series of annual settlement payments to be disbursed to the States over a 15-year period from FY 1987 through FY 2001; and
- Recurring annual disbursements of 27 percent of royalty, rent, and bonus revenues received from each affected State's 8(g) zone.

Congress passed a second law, Public Law 100-202, permitting distribution of section 7 escrow funds to Alaska in FY 1988. Seven States received over \$116.1 million in FY 1997 under the provisions of the two acts, including \$51.1 million in OCS royalties, rents, and bonuses, and \$65 million in settlement payments (table 5).

Table 5. Distribution of offshore royalties, rents, bonuses, and settlement payments to seven States, FY 1997
(in thousands)

	<u>Royalties, Rents, & Bonuses</u>	<u>Settlement Payments</u>	<u>Total</u>
Alabama.....	\$12,738	\$ 700	\$ 13,438
Alaska.....	3,931	13,400	17,331
California.....	3,696	28,900	32,596
Florida.....	12	---	12
Louisiana.....	18,231	8,400	26,631
Mississippi.....	523	200	723
Texas.....	<u>12,001</u>	<u>13,400</u>	<u>25,401</u>
TOTAL.....	\$51,132	\$65,000	\$116,132

III. RMP UNDERPAYMENT DETECTION PROGRAMS

The accurate determination and collection of mineral revenues require both voluntary compliance by payors and sophisticated RMP audit and exception identification programs designed to detect the underpayment of revenues. Collections from audits, refund denials, and exception programs remained relatively stable at \$72.9 million in FY 1996 and \$76.5 million in FY 1997. Collections from the RMP audit program were at record levels in FY 1994-95. The decline in revenues in FY 1996-97 is primarily attributed to fewer settlements of outstanding audit issues during the year. Contract settlement audit activity has been reduced due to recent litigation and to difficulties acquiring records associated with royalties from oil and gas affiliate sales.

Cumulative collections from the inception of the first of the underpayment detection programs in October 1981 through the end of FY 1997 totaled nearly \$2 billion.

A. Determination of Royalties Owed to the Federal Government

Multiple lease ownership, the complexity of royalty calculations, and erroneous payor reporting contribute to difficulties in determining the amount of royalties owed to the Federal Government.

1. Multiple Lease Ownership

The number of producing and nonproducing oil and gas leases on the RMP database increased 5.3 percent, from 70,536 at the end of FY 1996 to 74,266 at the end of FY 1997 (table 6). The increase is primarily associated with recent Federal offshore and onshore competitive oil and gas lease sales. The number of producing oil and gas leases on the AFS database remained relatively stable at 25,493 at the end of FY 1996 and 25,409 at the end of FY 1997 (table 6).

Ownership of many oil and gas leases is often divided and subdivided, resulting in multiple payors for a single lease. The average number of active oil and gas payors reporting each month to AFS remained relatively stable at approximately 2,150 payors during the period FY 1996-97 (table 6).

The average number of oil and gas royalty lines processed each month reflected, in part, the increase in total oil and gas leases during the 2-year period. The RMP processed 280,936 lines per month in FY 1996 and 289,164 lines per month in FY 1997 (table 6).

Revenue sources and selling arrangements establish the source of the product sold and the buyer or seller of the product. Both the number of active revenue sources and the number of active selling arrangements remained relatively stable during the period

Fy 1996-97. Active revenue sources totaled 55,176 in FY 1996 and 57,084 in FY 1997. Active selling arrangements equaled 145,689 in FY 1996 and 146,141 in FY 1997 (table 6).

The RMP must adjust payor database records each time there is a change in payor responsibility. The RMP averaged 3,219 adjustments per month in FY 1996 and 5,084 adjustments per month in FY 1997, reflecting the fluid nature of the energy industry (table 6). The RMP developed an automated report in FY 1997 to more accurately reflect adjustments in payor database records.

Table 6. Factors associated with multiple lease ownership, FY 1996-97

	<u>FY 1996</u>	<u>FY 1997</u>
Oil and Gas Leases at End of Fiscal Year		
Producing Leases.....	25,493	25,409
Nonproducing Leases.....	45,043	48,857
Total.....	<u>70,536</u>	<u>74,266</u>
Active Oil and Gas Payors Each Month.....	2,128	2,166
Average Oil and Gas Lines Processed Each Month.....	280,936	289,164
Active Revenue Sources.....	55,176	57,084
Active Selling Arrangements.....	145,689	146,141
Average Payor and Lease Database Changes Each Month.....	3,219	5,084

2. Royalty Determinations

The amount of royalty due is determined by applying the proper royalty rate to the volume and value of the commodity reported by the payor. Royalty rates may be expressed as flat rates or variable rates, such as step-scale and sliding-scale. Royalties may be paid in value (cash) or in kind (a volume of the commodity), in accordance with lease contract terms, mineral leasing laws, and attendant Federal regulations.

The nature of oil and gas production commingling, processing, and marketing makes it difficult to determine if the sales reported represent the full royalty liability. It is often difficult to allocate production to the various leases and to determine the

effects of processing and transportation allowances on the royalty liability.

Unit agreements, in which holders of different leases agree to develop the area as a single entity and to allocate production, account for a substantial percentage of the oil and gas produced from Federal leases. These agreements introduce additional problems due to the potential imbalance between a payor's entitled share of the production and actual sales.

3. Erroneous Reporting

Industry complexities contribute to difficulties associated with royalty and account status determination. The AFS edits industry-reported information and rejects certain incorrect data. The rejected information is not processed until the mistake is corrected. Employees with RMP contact the payor to correct errors whenever possible.

An aggressive RMP training program with industry representatives, in conjunction with individual assistance provided to industry reporters, has resulted in a relatively low AFS error rate. The annual average AFS error equaled 2.4 percent in FY 1996 and 2.7 percent in FY 1997.

B. Audit Initiatives and Programs

Effective audit programs are essential to the proper identification and collection of royalties. The RMP continued aggressive audit programs to pursue unpaid and underpaid royalties in FY 1996 and FY 1997.

1. Contract Settlements

Price volatility occurring since the early 1980's caused many gas purchasers and a few coal purchasers to negotiate settlements of existing sales contracts with mineral producers. The settlements may include price reductions for sales, changes in quantity commitments and other contract terms, or contract termination.

Producers often receive cash payments from the purchasers as an incentive to settle the contract. The settlement payments raise complex valuation issues. Audit determinations are necessary to verify that Federal and Indian leaseholders accurately calculate and pay royalties attendant to revenues from contract settlements.

The MMS has identified over 3,500 contract settlements totaling nearly \$18 million. Approximately two-thirds of the settlements involve Federal and Indian lands, and require audit. The MMS began

auditing these settlement contracts in FY 1993. The audits are scheduled for completion by FY 1999 although completion may be affected by recent litigation.

2. Crude Oil Pricing

An interagency team, including MMS representatives, completed a report in May 1996 addressing California crude oil pricing. The report concluded that companies often received premiums and bonuses higher than posted prices for California crude oil production; however, the companies continued a practice of calculating crude oil royalty payments based on posted prices.

Under the gross proceeds concept for determining royalties due on Federal and Indian leases, royalty should have been paid on the premiums and bonuses received. As a result, MMS initiated detailed audits and reviews of the top 20 crude oil royalty payors in California in FY 1996. The MMS completed most of this work in FY 1997 and expanded audit coverage of this issue to include crude oil royalty payors outside California and gas sales in all geographical areas.

3. Audit Collections and Refund Denials

Collections through the RMP audit programs for additional royalties, late-payment interest assessments, and liquidated damages remained stable at \$29.2 million in FY 1996 and \$30.6 million in FY 1997 (table 7). Collections during the period FY 1994-95 were the highest in MMS audit history. Revenues fell in FY 1996-97 as a result of fewer settlements of outstanding audit issues, recent litigation, and difficulties associated with acquiring royalty records. The RMP auditors reviewed and denied \$1 million in refund requests in FY 1996. No refund requests were denied in FY 1997 (table 7).

The RMP worked with 7 Tribes and 10 States during the period FY 1996-97 that have funded cooperative agreements or funded delegations of authority with the Department. Funding for the agreements and the delegations is provided under the authorization in FOGRMA. The State and Tribal auditors collected royalties and other charges amounting to \$9.5 million in FY 1996 and \$9.6 million in FY 1997 (tables 7 and 8). No refund requests were denied during the period FY 1996-97 (table 7).

The combined RMP, State, and Tribal compliance activities resulted in collections and refund denials of \$39.7 million in FY 1996 and \$40.2 million in FY 1997 (table 7). Cumulative revenues from the inception of the audit program on October 1, 1981, through September 30, 1997, totaled over \$1.4 billion. Refund denials for the same period equaled an additional \$144.7 million.

**Table 7. Additional royalties, interest, and damages
collected, FY 1996-97
(in thousands)**

	<u>FY 1996</u>	<u>FY 1997</u>
RMP Audits		
Royalties Collected.....	\$21,655	\$28,769
Interest & Liquidated Damages.....	<u>7,550</u>	<u>1,832</u>
Total Collections.....	\$29,205	\$30,601
Refund Denials.....	\$ 1,006	\$ -0-
State and Tribal Audits		
Royalties Collected.....	\$ 6,530	\$ 7,920
Interest & Liquidated Damages.....	<u>2,987</u>	<u>1,639</u>
Total Collections.....	\$ 9,517	\$ 9,559
Refund Denials.....	\$ -0-	\$ -0-
Combined Collections & Refund Denials..	\$39,728	\$40,160

4. State and Tribal Audits

The RMP maintained cooperative agreements that provided audit funding during the period FY 1996-97 to 7 Indian Tribes and 10 States under the authority provided in sections 202 and 205 of FOGRMA. Cooperative agreements under section 202 were in effect at the end of FY 1997 with the following Tribes:

- Blackfeet
- Jicarilla Apache
- Navajo Nation
- Shoshone and Arapaho
- Southern Ute
- Ute
- Ute Mountain Ute

Cooperative agreements under section 205 were in effect at the end of FY 1997 with the following States:

- California
- Colorado
- Louisiana
- Montana
- New Mexico
- North Dakota
- Oklahoma
- Texas
- Utah
- Wyoming

The cooperative agreements with the Navajo Nation, California, Colorado, Montana, New Mexico, North Dakota, Utah, and Wyoming

include audits of geothermal steam, coal, and other solid mineral leases, including sodium, potassium, and phosphate. The cooperative agreements with California, Louisiana, and Texas include the audit of royalties from leases issued under section 8(g) of the OCSLA Amendments of 1985. The RMP maintained an unfunded Memorandum of Understanding with Alaska and with the Assiniboine Sioux Tribe to share audit information during both FY 1996 and FY 1997.

**Table 8. Collections resulting from
cooperative and delegated audits, FY 1996-97
(in thousands)**

	<u>FY 1996</u>	<u>FY 1997</u>
Section 202 Collections		
Blackfeet.....	\$ ---	\$ 14
Jicarilla Apache.....	---	341
Navajo Nation.....	117	467
Shoshone and Arapaho.....	481	---
Southern Ute.....	302	312
Ute.....	13	31
Ute Mountain Ute.....	---	370
Section 205 Collections		
California.....	2,088	3,103
Colorado.....	175	119
Louisiana.....	2,678	---
Montana.....	531	2,617
New Mexico.....	429	641
North Dakota.....	431	913
Oklahoma.....	145	223
Texas.....	34	1
Utah.....	1,104	190
Wyoming.....	<u>989</u>	<u>217</u>
TOTAL.....	\$9,517	\$9,559

Lease and company audits were performed for leases located within the respective State and Tribal boundaries. Funded and unfunded State and Tribal audit efforts generated additional royalties and refund denials totaling \$9.5 million in FY 1996 and \$9.6 million in FY 1997 (tables 7 and 8).

C. Exception Identification Programs

The RMP continued a series of automated and manual programs designed to assess and collect revenues for late payments, failure to report, erroneous reports, improper recoupments, and improper adjustments submitted by payors and operators. Revenue collections rose 9.6 percent, from \$33.2 million in FY 1996 to \$36.4 million in FY 1997 (table 9).

Collections of interest, liquidated damages, improper recoupments, and royalties from the inception of the different programs through the end of FY 1997 totaled approximately \$399 million.

1. AFS/PAAS Exceptions

The RMP continued to correct discrepancies, or exceptions, between sales reported to AFS by payors and production reported to PAAS by lease and agreement operators in FY 1997. Personnel in the RMP Compliance Verification Division processed 19,947 exceptions during the year, including 17,958 exceptions that required written correspondence with operators. Personnel resolved a record 18,509 exceptions requiring written correspondence in FY 1997 from current and prior year periods. This represents a 61 percent increase in resolved cases over the corresponding period in FY 1996.

Revenues from comparisons of sales reported to AFS and corresponding production reported to PAAS rose \$2.9 million, from \$18.4 million in FY 1996 to \$21.3 million in FY 1997 (table 9). The increase was due to automation and streamlining of work processes, resulting in a 41 percent increase in individual analyst productivity during FY 1997.

Royalty collections from the AFS/PAAS exceptions program totaled nearly \$203.9 million from the origin of the program in FY 1985 through the end of FY 1997.

2. AFS Exceptions

The AFS exceptions identification program promotes accurate and timely reporting and payment. The program detects:

- Late payment of royalties, rents, and bills;
- Insufficient estimated royalty payments; and
- Discrepancies between payments and financial lease terms for rents, bonuses, advance royalties, and minimum royalties.

The RMP issues bills for interest when payments are received after the due dates and when advance estimated royalty payments are insufficient compared to actual royalties paid at a later date. Interest collections totaled \$11.3 million in FY 1996 and \$11.8 million in FY 1997 (table 9). The RMP has collected \$168.2 million in interest from the beginning of the program in FY 1985 through the end of FY 1997.

The RMP first issued bills for discrepancies associated with financial lease terms in May 1992. The effort generated over \$1.9 million in FY 1996 and over \$2 million in FY 1997 (table 9). Collections since the inception of the program total \$10.1 million.

3. Allowance Exceptions

All transportation and processing allowances deducted from royalties are subject to RMP review. The RMP has continued to improve efforts to monitor these deductions from the inception of the first automated program in FY 1992.

- **Automated Allowance Tracking System.** The Automated Allowance Tracking System reviewed oil and gas transportation and gas processing allowance forms filed by payors. The MMS Director placed a moratorium on filing violations in the first quarter of FY 1994; however, collections for bills issued before the moratorium resulted in \$595,000 in FY 1995. No collections were made in FY 1996. A total of \$26,000 was collected in FY 1997 from bills issued prior to the moratorium (table 9). The RMP collected over \$5.7 million for failure to file or late filing of allowance forms from the origin of the program in FY 1992 through the end of FY 1997.

The MMS amended allowance regulations effective March 1, 1996. The changes eliminated allowance form filing requirements and associated sanctions for Federal oil, gas, and coal leases only. There will subsequently be no further collections from the automated allowance tracking system.

- **Allowance Limit Exception Processing.** The RMP currently employs a sophisticated Allowance Limit Exception Processing (ALEP) program to analyze deductions. The RMP implemented ALEP in the fourth quarter of FY 1994 to detect payors who exceed regulatory allowance limits. The automated program reviews royalty reports submitted by payors to determine compliance with regulatory allowance limits. Bills are issued when allowances exceed 99 percent of royalties due, and notification letters are issued when allowances are greater than the regulatory allowance limit but are less than 99 percent of royalties due. Each month, ALEP reviews new royalty report lines to determine if the payor has corrected identified exceptions.

If the payor submits a corrected royalty report to resolve the problem, a credit is automatically generated and the exception is closed. If the payor attempted to resolve the problem but is still not in compliance, ALEP generates a credit for the original bill and issues a new bill for any outstanding dollar amount.

The program detected millions of dollars of allowance limit violations during the period March 1988 through FY 1997. The RMP is developing a procedure to monitor collections resulting from exceptions detected by ALEP.

4. Liquidated Damage Assessments

The RMP formerly issued bills for liquidated damage assessments when royalty or production reports were received after the due date or were submitted with errors. The assessments were in addition to interest on the amount paid late.

Effective October 1, 1995, RMP changed its assessment policy for late and incorrect reporting. Under the new policy, RMP no longer charges reporters for filing late royalty or production reports. While assessments for late reporting will cease, RMP will continue to assess interest when payments are late.

In addition, reporters will normally not be charged for incorrect royalty and production reporting unless the overall error rate RMP calculates for a given month exceeds the FY 1995 average error rate of approximately 3 percent. The RMP is developing a revised assessment program to address reporters who chronically submit erroneous data.

Collections from late payments and erroneous royalty reports through AFS generated \$4,000 in FY 1996 and \$2,000 in FY 1997 (table 9). Collections from the beginning of the program in FY 1987 through the end of FY 1997 totaled nearly \$2.6 million.

Collections from operators for late payment or erroneous production reports through PAAS totaled less than \$500 in FY 1996 and FY 1997 (table 9). Liquidated damage collections totaled over \$1.8 million from the inception of the program in FY 1989 through the end of FY 1997.

5. OCS Recoupments

Section 10 of OCSLA required a payor to file a request with RMP for a recoupment of an overpayment within 2 years of the original payment. The RMP must provide a 30-day notification to Congress before approving the recoupment. Payors who take a recoupment without authorization are contacted by RMP and must explain the

recoupment within 30 days. Failure to respond to the notification or to justify the recoupment results in an assessment to recover the unauthorized amount.

Under the provisions of RSFA, payors will no longer be required to file a request for a recoupment with RMP. This provision will apply to payment receipt dates after August 12, 1996.

Collections totaled \$416,000 in FY 1996. The RMP collected \$115,000 in FY 1997 from bills issued through August 12, 1996. The RMP also issued \$130,000 in credits in FY 1997, resulting in a net refund of \$15,000 during the year (table 9). Collections from improper recoupments totaled over \$2.4 million from the origin of the program in January 1992 through FY 1997.

6. Indian Recoupments

Payors who take a recoupment of an overpayment on an Indian lease cannot recoup more than 50 percent of the monthly revenue payment on an allotted lease or 100 percent of the monthly revenue payment on a Tribal lease. Collections from improper Indian recoupments fell from \$209,000 in FY 1996 to \$162,000 in FY 1997 (table 9). Payors reported more recoupments correctly in FY 1997, resulting in fewer assessments.

Collections from Indian recoupments totaled nearly \$1.4 million from the beginning of the program in FY 1992 through FY 1997.

7. Improper Adjustments

The RMP compares every credit line submitted by a payor with the most recent payment line. Payors who submit a credit line that does not match the original payment line must repay the credit amount. Collections from improper adjustments increased from \$542,000 in FY 1996 to \$823,000 in FY 1997 (table 9).

Collections from improper adjustments totaled over \$2.3 million from the inception of the program in FY 1993 through FY 1997.

8. Royalty Rate Monitoring

The RMP calculates a royalty rate from monthly sales information provided by payors. The calculated royalty rate is compared with the royalty rate in the lease. If the calculated rate from the payor is lower than the lease rate, RMP notifies the payor of the error and provides 90 days to correct the mistake. The RMP bills payors for additional royalties based on the higher lease rate if the payor does not correct the error. The RMP collected \$366,000 in FY 1996 and \$154,000 in FY 1997 from this effort (table 9).

Collections from the inception of royalty rate monitoring in FY 1994 through the end of FY 1997 totaled \$626,000.

Table 9. Revenues collected from exception identification programs, FY 1996-97 (in thousands)

	<u>FY 1996</u>	<u>FY 1997</u>
AFS/PAAS Exceptions	\$18,370	\$21,340
AFS Exceptions		
Interest Exceptions from Late Payments and Insufficient Estimates.....	\$11,349	\$11,821
Lease Term Exceptions.....	<u>1,934</u>	<u>2,049</u>
Subtotal.....	\$13,283	\$13,870
Allowance Exceptions	\$ ---	\$ 26
Liquidated Damage Assessments		
Payor Royalty Reports from AFS.....	\$ 4	\$ 2
Operator Production Reports from PAAS..	<u>---</u>	<u>---</u>
Subtotal.....	\$ 4	\$ 2
OCS Recoupments	\$ 416	\$ (15)
Indian Recoupments	\$ 209	\$ 162
Improper Adjustments	\$ 542	\$ 823
Royalty Rate Monitoring	\$ 366	\$ 154
TOTAL	\$33,190	\$36,362

D. Delinquent Accounts Receivable

A receivable is established in AFS whenever RMP issues a bill. The office originating the bill submits a demand letter to the Debt Collection Section in the RMP Office of Enforcement explaining the basis for the assessment and a request for a Bill for Collection. Personnel in the Debt Collection Section enter the billing information into AFS and send the bill and the demand letter to the

payor. An account receivable is considered delinquent when the bill is not paid by the due date.

Employees in the Debt Collection Section monitor the status of accounts receivable and initiate actions to secure payment on delinquent accounts. Prior to February 27, 1997, these actions may have included:

- First and second followup collection notice to payors with delinquent invoices;
- Demand for payment from lessees of record;
- Request to BIA, BLM, or MMS offshore offices to collect against lease surety and to cancel the delinquent lease; and
- Notice of noncompliance and assessment of civil penalties to payors.

A microcomputer in the Debt Collection Section uses data downloaded from AFS to produce the first and second followup collection notices. Subsequent collection actions have been automated, where feasible, to enable employees to issue more actions in a shorter period of time to obtain payment.

Under the provisions of RSFA, actions on bills issued beginning February 28, 1997, include:

- First followup collection notice to payors with delinquent invoices;
- Collection telephone call to the payor of record;
- Demand letter for payment to the payor and notice to the lessee who designated the payor;
- Demand for payment from the operating rights owner;
- Demand for payment from lessees of record;
- Request to BIA, BLM, or MMS offshore offices to collect against lease surety and to cancel the delinquent lease; and
- Referral to Treasury for further action.

The number of demands for collection to lessees of record declined from 198 in FY 1996 to 158 in FY 1997 (table 10). The decline in the past 2 years is due to a lower volume of bills issued through exceptions identification programs and the effectiveness of settlement actions. Requests to BIA, BLM, and MMS offshore offices for lease surety collections rose from 252 requests in FY 1996 to 305 requests in FY 1997 (table 10). The RMP continues to actively

pursue collection of delinquent accounts with other Department bureaus and programs.

Table 10. Actions to secure payment on delinquent accounts, FY 1996-97

	<u>FY 1996</u>	<u>FY 1997</u>
First Followup Notices.....	1,547	2,391
Second Followup Notices.....	866	873
Telephone call to payor of record under RSFA provisions.....	-0-	112
Demands for Collection to Lessees of Record.....	198	158
Requests to BIA, BLM, and MMS Offshore Offices for Lease Surety Collections.....	252	305
Notices of Noncompliance for Failure to Pay.....	-0-	-0-

The number of delinquent billed accounts receivable increased from 1,489 at the end of FY 1996 to 1,930 at the end of FY 1997 (table 11). A delinquent account includes any bill that has not been paid by the due date. The increase in account activity is primarily due to the issuance of audit bills for California crude oil pricing issues and as a result of contract settlements.

The value of delinquent accounts secured by surety increased from \$100.3 million in FY 1996 to \$176.1 million in FY 1997 (table 11). Accounts in this category are primarily bills that have been appealed or are in litigation, where payors have posted a surety instrument guaranteeing payment if the issue is decided in the Department's favor. The increase in account activity is again associated with audit bills for California crude oil pricing matters and contract settlements.

The value of delinquent accounts not secured by surety rose from \$23.2 million in FY 1996 to \$81.4 million in FY 1997 (table 11). The increase is attributed to a number of new bills issued through the royalty-in-kind program. Unsecured delinquent accounts include unpaid bills in the early stages of collection (first and second followup notices) and bills for which enforcement actions have been

taken, including calling the lease surety and proceeding with legal action involving the Solicitor and the Department of Justice. Attempts to collect some unsecured bills are suspended because of administrative actions in process. The RMP continues to aggressively pursue delinquent accounts that are not secured by surety.

**Table 11. Delinquent accounts activity, FY 1996-97
(revenues in millions)**

	<u>FY 1996</u>	<u>FY 1997</u>
Number of Delinquent Accounts Receivable (Bills Not Paid by Due Date).....	1,489	1,930
Value of Delinquent Accounts Receivable for Which Surety Has Been Posted.....	\$100.3	\$176.1
Value of Delinquent Accounts Receivable for Which No Surety Has Been Posted.....	\$ 23.2	\$ 81.4

IV. INSPECTION AND ENFORCEMENT

A. Onshore

1. BLM Inspection and Enforcement Program

The BLM nationwide Inspection and Enforcement (I&E) Program is designed to achieve the following objectives:

- Oil and gas produced from or allocated to Federal and Indian leases will be properly handled, measured, and reported;
- All drilling, producing, and abandonment operations will comply with approved operating plans for the protection of the environment, natural resources, and public health and safety; and
- All identified violations will be corrected.

The I&E Program is implemented by an I&E Strategy (Strategy) issued by the Washington Headquarters. The Strategy identifies inspection priorities based on budget limitations, manpower constraints, and program emphasis determined by BLM management. The BLM State Offices develop their inspection plans using guidance provided in the Strategy. The plans identify the priority of inspection items.

The current Strategy, implemented in FY 1991, provides for a balance in production, drilling, and abandonment inspections, with emphasis on both environmental protection and production accountability. Production accountability is provided through increased visual inspections of operator measurement actions and the review and comparison of measurement and production records. The Strategy also places more emphasis on protecting the environment through greater inspection coverage of drilling and abandonment operations. The BLM has improved Indian trust oversight through a balanced inspection program and strengthened production accountability.

The BLM Automated Inspection Records System, which recorded the results and hours worked in performing oil and gas inspections, was replaced during FY 1997 by the Automated Fluid Minerals Support System (AFMSS). This new system provides the mechanism to integrate all BLM oil and gas responsibilities. The AFMSS tracks individual well history by lease, agreement, and operator, including all inspection and enforcement activities and related workload. The new system further provides online access to production disposition data maintained by MMS. The BLM expects to test a system enhancement in FY 1998 that would permit operators to submit electronic requests for approval of operational proposals and subsequent reports.

2. Program Review

The BLM State Offices administer quality assurance responsibilities through Technical Procedures Reviews. Two offices provide Washington Headquarters oversight:

- The Management Systems Group provides bureau-wide oversight for program implementation and management; and
- The Fluid Minerals Group provides oversight, technical assistance, and guidance.

3. BLM Certification and Training Programs

The BLM implemented an Inspector Certification Program in FY 1987. The program ensures that inspectors and their supervisors are experienced in oil and gas industry practices and understand BLM oil and gas regulations in order to conduct independent inspection and enforcement actions related to industry activities. The BLM has identified 122 positions that require certification under the program. Training in drilling and production inspections has been completed for most of the positions. A work group continues to evaluate the Inspector Certification Program and will recommend changes where appropriate.

The BLM began production and drilling training programs in February 1982. The production course, addressing production accountability and site security, and the drilling course, addressing safety and environmental protection, were each offered once in FY 1997. These sessions were attended by 34 students. A total of 711 students representing the States, Indian Tribes, BIA, BLM, MMS, the National Park Service, and the U.S. Forest Service have attended these courses during the past 16 years.

The BLM developed a new course in FY 1991, "I&E for Managers," designed to provide supervisors with the tools and information necessary to administer the I&E Program. The course provides direct training with oil and gas producing equipment and resolution of I&E management problems. No sessions were conducted in FY 1997. A total of 48 managers have attended the course during the past 7 years.

4. FOGRMA Regulations

The BLM began a process in FY 1996 to reform its regulations under the provisions of Executive Order 12866 dated September 30, 1993. The process is designed to provide clear, concise regulations that are easy to understand. The revised regulations will be performance-based where appropriate. The first major rulemaking employing this process has been developed and, after an extensive

review process, should be published for public comment in FY 1998. This rulemaking will incorporate most of the separate operational rulemaking previously published, and will include the performance standards contained in all of the existing Onshore Oil and Gas Orders.

A summary of current rulemaking activities that are not part of the reform process follows:

- **Proposed rulemaking (43 CFR 3100/3160), Drainage Protection.** The BLM has developed a proposed rulemaking on drainage protection that will establish the date of the lessee's responsibility to protect its lease against drainage; establish a profit threshold identifying when protective drilling will be required; allocate the burden of proof of drainage between the lessee and the lessor; and specify the shared responsibilities of multiple interest owners. The proposed rulemaking is being reviewed by the Department and is expected to be published for public comment in FY 1998.
- **Proposed rulemaking (43 CFR Group 3200), Geothermal Resources Leasing and Operations.** The BLM published a proposed rulemaking to revise and consolidate all geothermal resources leasing and operating provisions in the Federal Register on October 8, 1996. Based on comments received, BLM developed a proposed final rulemaking that is being reviewed by the Office of the Solicitor.
- **Notice of request for information and suggestions regarding an incentive for producers of marginal gas from Federal leases (43 CFR 3103.4-1), Waiver, Suspension, or Reduction of Rental, Royalty, or Minimum Royalty.** The BLM published a Notice in the Federal Register on March 5, 1996, soliciting comments to determine if royalty rate reduction for marginal gas wells would stimulate the recovery of gas from Federal leases. The BLM received 30 favorable comments. The BLM subsequently conducted two outreach meetings with industry representatives to obtain additional comments. The BLM received further assistance from DOE to determine the possible results and consequences of the proposal. The BLM has not decided if it will proceed with the proposed rulemaking.

5. Cooperative Agreements Under Section 202 of FOGPMA

The BLM published a final rule for the creation of cooperative oil and gas inspection and enforcement agreements with States and Indian Tribes in the Federal Register on January 25, 1991, with an effective date of February 25, 1991. The regulations were revised effective September 22, 1997, to increase the funding level from 50 percent to 100 percent.

The BLM maintained cooperative agreements in FY 1997 for oil and gas inspection and enforcement activities on Tribal lands with the Ute Mountain Ute Tribe in Colorado, the Jicarilla Apache Tribe and Navajo Nation in New Mexico, and the Assiniboine Sioux Tribe in Montana. An approved agreement with the Southern Ute Tribe in Colorado remained inactive throughout the year.

Proposals continue to be negotiated with the Shoshone and Arapaho Tribes of the Wind River Reservation in Wyoming for a cooperative agreement and with the Absentee Shawnee Tribe in Oklahoma for a self-determination contract.

Under the provisions of RSFA, States are no longer eligible for cooperative agreements under section 202 of FOGRMA; however, an unfunded Memorandum of Understanding agreement with Colorado for inspection and enforcement on Federal oil and gas leases in certain limited operational areas remained in effect throughout FY 1997.

6. Delegations of Authority Under Section 205 of FOGRMA

Regulations to implement the provisions of section 205 of FOGRMA for the delegation of BLM oil and gas inspection and enforcement responsibilities to the States were published in the Federal Register with an effective date of August 17, 1987. Minor modifications to the regulations may be necessary to comply with Executive Order 12866 and to reflect the revision of section 205 by RSFA.

The BLM conducted meetings with representatives from States, industry, and the Interstate Oil and Gas Compact Commission to discuss issues related to the delegation of inspection and enforcement responsibilities as a result of RSFA. The BLM is currently negotiating with one State for a transfer of I&E authority and has received an expression of interest from another State.

7. FY 1997 Inspections and Enforcement Actions for Noncompliance

The BLM completed 45,480 inspection activities in FY 1997, which represents a decline of 5,760 inspection activities, or 11.2 percent, from 51,244 inspection activities completed in FY 1996. The reduction is attributed to fewer personnel available for field inspections and other related budget constraints.

The inspection activities resulted in 5,454 enforcement actions in FY 1997, down 4.2 percent from 5,695 actions in FY 1996. The decline is attributed to fewer inspection activities and to continued voluntary compliance by industry. The BLM made assessments totaling \$76,375 under the Mineral Leasing Act, as amended, and levied \$187,500 in civil penalties under section 109 of FOGRMA.

8. Production Accounting for Onshore Oil and Gas Leases

The transfer of responsibility from BLM to MMS for the collection of onshore oil and gas production data began in FY 1988. All operators were submitting production reports exclusively to MMS by October 16, 1989.

The MMS edits the reports using well, lease, and operator data obtained from the BLM AFMSS database. Production data are compiled and transmitted electronically to AFMSS. The BLM and MMS developed and implemented an automated system, Monthly Report of Operations, to provide field inspectors with production data to compare with observations made during onsite inspections.

B. Offshore

1. MMS Offshore Inspection Program

The MMS developed the Offshore Inspection Program (OIP) to promote safe and pollution-free operations on the OCS, ensure fair and consistent inspections, and verify operator compliance with agency requirements. Personnel with OMM continued the following OIP improvements in FY 1997:

- A workgroup continues to revise the National Potential Incident of Noncompliance (PINC) list and inspection guidelines. The PINC list identifies all potential violations of MMS field operation regulations used by MMS officials in the inspection of offshore facilities. The Crane and Hydrogen Sulfide PINC's were revised in FY 1997. The workgroup plans to review the Drilling and Production PINC's in FY 1998.
- The MMS initiated a project that will develop a methodology to assess the relative safety risk of all offshore facilities. The priority and frequency of MMS inspections will be based on this risk assessment. The project will examine risk factors associated with operator performance and the type of operations conducted by the facility. Some of the general risk factors include:
 - The type of incidents occurring on a facility;
 - History of operator noncompliance with regulations; and
 - Information relating to the operator profile, including
 - o Type of production;
 - o Type of facility; and

- o Location of the facility.

The MMS will inspect facilities with a higher risk more frequently than facilities with a lower risk. The MMS will initiate a risk-based inspection pilot project in FY 1998. The program should be fully implemented in FY 1999.

- The MMS published new regulations implementing the civil penalty provisions of the OCS Lands Act on August 8, 1997. The new question-and-answer format, written in plain English, provides a better understanding of the OCS civil penalty process. The new rule also increased the maximum civil penalty to \$25,000 per day per violation.

Personnel with OMM plan to rewrite the OCS Civil/Criminal Penalties Program guidebook in FY 1998. The new guidebook will include a streamlined assessment process.

- Operators on the OCS continue to make progress with implementing the Safety and Environmental Management Program (SEMP). Under SEM, an operator voluntarily adopts a set of policies and procedures for ensuring clean and safe oil, gas, and sulfur operations.

The American Petroleum Institute (API) developed a recommended practice (RP-75) to address SEM in a document entitled "Recommended Practices for the Development of a Safety and Environmental Management Program for Outer Continental Shelf Operations and Facilities." The MMS has requested voluntary compliance with the recommended practice. The MMS is working with API to revise RP-75 where appropriate. The MMS and API continue to conduct annual surveys of OCS operators to assess implementation of the recommended practice on an industry-wide basis.

The MMS has also begun to participate in cooperative reviews of operator SEM's to verify field-level implementation and develop recommendations for improvement. The MMS, in cooperation with the Offshore Operators Committee, developed a set of commonly defined, universally applied measures to assess safety and environmental performance.

2. Offshore Inspection Activity

The MMS conducted 11,891 inspections of drilling, production, pipeline, measurement, site security, well completion, well workover, and abandonment operations during FY 1997. The effort included 10,933 inspections in the Gulf of Mexico Region and 958 inspections in the Pacific Region. There were no offshore operations to inspect in the Alaska Region in FY 1997.

V. RMP ORGANIZATION, FUNCTIONS, AND STRUCTURE

A. Federal Resources

The RMP operating budget consists of three subactivities:

- Mineral Revenue Valuation and Operations, providing resources for collection and distribution of mineral revenues; computer and related high-technology systems development and operation; and valuation determinations and allowance monitoring.
- Mineral Revenue Compliance, providing resources for audit and other verification of mineral leases on Federal offshore, Federal onshore, and Indian lands; outreach to Indian Tribes and allottees; and development and administration of RMP enforcement programs.
- Program Services Office, providing resources for staff support; budget services; information and publication services; and facilities management support for RMP and external customers.

The Headquarters for RMP is located in Washington, D.C. Many RMP operations are performed in Denver and in several field offices and audit residencies in other locations throughout the United States. The majority of the audit staff is located in cities where many of the top royalty payors maintain accounting centers. Approximately one-half of the Indian outreach staff is located in areas that have large Indian populations. Total resources allocated to RMP in FY 1997 included \$70 million, which funded a staff effort of 615 Federal employee workyears. Additional work performed by contract staff is addressed below.

The RMP provided funds for audit agreements and other direct support for 7 Tribes and 10 States in FY 1997. The direct support included telecommunication and automated data processing (ADP) services to enable the Tribes and States to interact with RMP systems and databases. The RMP devoted nearly \$7 million to the cooperative audit program during the year.

B. Contract Support

Contractors provided support for royalty management ADP and financial services in Denver in FY 1997. A brief description of major activities and obligated budget amounts for each contractor follows:

1. American Management Systems Operations Corporation, Inc.

The MMS awarded an ADP contract to the American Management Systems Operations Corporation, Inc., on June 21, 1991, with an effective date of August 1, 1991. The firm performed the following ADP functions in FY 1997:

- Operations support for AFS, the Business Information System, the Interagency Database Verification System, PAAS, and the RMP wide-area network;
- Development and maintenance of a client/server environment and associated client/server applications;
- Software maintenance for AFS and PAAS;
- Software development for online access to solid minerals data; and
- Operation of the mainframe computer and VAX minicomputer.

The MMS obligated approximately \$7.9 million against the contract in FY 1997, funding 137 contractor workyears.

2. Source One Management, Inc.

The MMS awarded an accounting support services contract to Source One Management, Inc., a Small Business Administration 8(a) contractor, effective February 1, 1993. The contractor performed the following financial services in FY 1997, the final option year of the contract:

- Verification of AFS-generated prebills from manual and automated exception processing to calculate and mail interest and liquidated damage bills to payors;
- Review and verification of PAAS reference and application data and file maintenance;
- Research and analysis of Common Reference Database information;
- Correction of selected errors contained in data submitted by operators on production reports; and
- Review and monitoring of the allowance tracking system for oil and gas transportation and processing allowances.

The MMS obligated approximately \$3.7 million against the contract in FY 1997, funding 70 contractor workyears.

3. ViON Corporation

The MMS modified the contract with ViON Corporation in October 1996, exercising the option period for maintenance of the Hitachi EX-90 mainframe computer, and exercising the option to purchase additional equipment. The contract provides for additional upgrades over the 8-year system's life of the contract. The MMS obligated \$146,264 in FY 1997 for maintenance services and purchased a Pilot Model 15S Server for an additional \$362,950 in accordance with the "New Technology and Upgraded Models" clause of the contract.

4. Decision One Corporation

The MMS awarded a contract to Bell Atlantic Business Systems Services, Inc., in October 1995, for maintenance of IBM ADP hardware. The contract provides for 1 base year and 4 option years. The company changed its name to Decision One Corporation in April 1996. The MMS obligated \$45,734 in FY 1997.

5. Performance Engineering Corporation

The RMP began a comprehensive business process reengineering initiative in FY 1997 to redesign and implement new processes and support systems for the future. The MMS awarded a contract to Performance Engineering Corporation to identify information technology that will support the reengineering process. The MMS obligated \$699,000 in FY 1997.

VI. STATUS OF THE LINOWES COMMISSION RECOMMENDATIONS

The Linowes Commission submitted 60 recommendations in January 1982 to improve the management of the Nation's energy resources and to prevent a loss of revenues owed the Federal Government, the States, and Indians. The Department had implemented 54 of the 60 recommendations by the end of FY 1990.

The remaining six recommendations were found to be impractical after extensive review and analysis:

- **Operator of record.** The recommendation involved designation of an "Operator of Record" for each lease who would maintain all royalty records from the lease and reconcile payments to production reports on a monthly basis. The Department withdrew consideration of the concept following receipt of unfavorable comments from a Notice published in the Federal Register.
- **Sixty-day payment for gas.** The recommendation would have permitted payment of natural gas royalties within 60 days from the end of the sales month. Analysis revealed that the cost to the Federal Government, States, and Tribes would be prohibitive due to lost revenue that would result from an additional 30 days in the payment cycle.
- **Undocumented oil.** The Department was asked to seek legislation to prohibit the purchase of undocumented oil. Purchasers, including refiners, would be required to maintain documentation tracing the purchase of the product to a specific lease or unit.

The recommendation was not considered feasible due to the imposition of record requirements on industry. Nearly 80 percent of crude oil produced in the United States is derived from sources other than Federal and Indian mineral leases. The RMP auditors examine the source of oil from Federal and Indian lands as a function of the audit process, which satisfies the intent of the recommendation.

- **Windfall Profit Tax (WPT).** The recommendation would have relieved RMP of the responsibility for calculating and paying WPT on royalty-in-kind transactions and would have required industry to calculate, withhold, and pay WPT on all crude oil sold from Federal leases. The Internal Revenue Service would have provided oversight.

The MMS elected to retain the WPT responsibility because of the cost and record requirements that would be imposed on industry and the cost associated with the development of a new reporting system in MMS. Congress repealed the WPT on August 23, 1988.

- **Increased royalty rate.** The recommendation would have employed a minimum royalty rate of 16 2/3 percent on new or renegotiated

leases. Internal and external studies were inconclusive. The Department elected not to pursue an increased rate.

The BLM amended regulations effective in September 1992 to establish conditions under which owners or operators of stripper oil well properties could obtain a reduced royalty rate. The action is intended to encourage operators to place marginal or uneconomical wells back in production. A DOE study concluded that annual domestic oil production could increase by 4.7 million barrels.

- **Self-sustaining fund/levy.** The Secretary sought legislation during the period FY 1985-88 to establish a self-sustaining fund that would pay the costs of audits and inspections, and reimburse States and Indian Tribes for their efforts through cooperative agreements. Legislation was not enacted during the 4-year period.

GLOSSARY

ACH – Automated Clearing House. A computerized financial system operated to effect the electronic transfer of funds between banks. ACH is designed to accommodate a large volume of small-dollar transactions. Payors remit payments to ACH, and the funds become available to the recipient the following day.

ADP – Automated data processing.

AFEE – Automated front-end enhancement. A computer system's enhancement developed by the Minerals Management Service to automate the front-end processes to detect potential discrepancies, or exceptions, between sales volumes reported to the Auditing and Financial System by payors, and sales or transfer volumes reported to the Production Accounting and Auditing System by lease or agreement operators. System-generated worksheets and automated correspondence to operators help resolve exceptions by identifying payors who may be underreporting royalties.

AFMSS – Automated Fluid Minerals Support System. A computer system application operated by the Bureau of Land Management for storage and retrieval of oil and gas inspection and enforcement records.

AFS – Auditing and Financial System. A computer system application operated by the Minerals Management Service for collecting and disbursing royalties from producing leases and rents from nonproducing leases on Federal and Indian lands.

ALEP – Allowance Limit Exception Processing. An automated program developed by the Minerals Management Service that employs royalty reports submitted by payors to determine compliance with regulatory allowance limits.

American National Standards Institute. A national coordinating body of representatives from industry and government dedicated to developing voluntary standards for various industries.

API – American Petroleum Institute. A trade association representing all segments of the petroleum industry from exploration through marketing. API is the largest association in the petroleum industry.

Assistant Secretary-Land and Minerals Management – An executive who serves under the Secretary of the Interior and exercises Secretarial direction and supervision over the Bureau of Land Management, the Minerals Management Service, and the Office of Surface Mining Reclamation and Enforcement.

BIA – Bureau of Indian Affairs. A Federal agency within the Department of the Interior responsible for facilitating the full development of the human and natural resource potential of Indian and

Alaskan Native people to manage their own affairs under a trust relationship with the Federal Government.

BLM – Bureau of Land Management. A Federal agency within the Department of the Interior that administers public lands and natural resources. BLM programs provide for the protection, orderly development, and use of the public lands and resources under principles of multiple use and sustained yield.

Business Information System. A computer system application operated by the Minerals Management Service. BIS is an enhanced version of the former State and Tribal Support System and is compatible with the post-Business Systems Planning Implementation architecture. BIS provides States, Indian Tribes, and other Federal agencies with access to Auditing and Financial System data and selected Production Accounting and Auditing System data.

Cash-out – Pipeline provisions require that shippers maintain pipeline receipts and deliveries within certain daily or monthly tolerances. Shippers are required to cash-out accumulated imbalances for overdelivered and underdelivered production.

CFR – Code of Federal Regulations. A codification of the general and permanent rules published in the Federal Register by the executive departments and agencies of the Federal Government.

CMOS – Complementary Metal Oxide Semiconductor. A semiconductor that employs the IBM OS/390 operating system to accommodate both mainframe and client/server applications. The CMOS operates at room temperature without special cooling requirements.

COLD – Computer output on laser disk. An automated process that copies mainframe reports to optical storage and allows users to access and manipulate the reports and data online as soon as they are produced.

Department – Department of the Interior. A Cabinet-level department in the Executive Branch of the Federal Government responsible for the administration of most of the nationally owned public lands and natural resources. The Department is further responsible for American Indian reservation communities and for individuals who live in Island Territories under U.S. administration.

DOE - Department of Energy. A Cabinet-level department in the Executive Branch of the Federal Government responsible for coordinating a comprehensive and balanced national energy plan. DOE is responsible for long-term research and development of energy technology; marketing Federal power; energy conservation; the nuclear weapons program; and a central energy data-collection and analysis program.

EFT – Electronic funds transfer. The automated exchange of funds between computer systems that eliminates the physical exchange of cash, checks, or other forms of money.

Electronic data interchange. A process designed to exchange information electronically to reduce paper report volume, reduce errors and expedite error correction, and provide a more current database.

EOP – Explanation of payment. A series of reports produced by the Minerals Management Service Royalty Management Program, mailed twice each month to Indian Tribes and once each month to States. The reports for Indian allottees are produced and distributed twice each month by the Bureau of Indian Affairs with information supplied by the Royalty Management Program. The reports address the source and nature of mineral revenue disbursements.

Federal Committee – Federal Gas Valuation Negotiated Rulemaking Committee. A committee chartered by the Secretary of the Interior with representatives from the Minerals Management Service, States, and industry to develop proposals to improve and simplify the valuation and payment of royalties from natural gas produced from Federal leases.

FERC – Federal Energy Regulatory Commission. An independent agency created through the Department of Energy Organization Act in 1977. FERC regulates the transportation of natural gas in interstate commerce; the transportation of oil by pipeline in interstate commerce; the transmission and wholesale sales of electricity in interstate commerce; the licensing of private, municipal, and State hydroelectric projects; and provides oversight of related environmental matters.

FOGRMA – Federal Oil and Gas Royalty Management Act of 1982, 30 U.S.C. 1701 et seq. Public Law 97-451 enacted to ensure that royalties from oil and gas produced from Federal and Indian lands and the Outer Continental Shelf are properly collected and accounted for under the direction of the Secretary of the Interior.

FY – Fiscal year. A period of time used for accounting purposes. The Federal Government recognizes a fiscal year that begins October 1 of one year and ends September 30 of the following year.

GAR – Gas Analysis Report. A report submitted by operators of oil and gas leases that addresses the composition and quality of gas produced from the properties.

I&E – Inspection and Enforcement Program. A Bureau of Land Management program designed to ensure that oil and gas production on Federal and Indian leases is accurately reported by the lessee and verified by the Bureau of Land Management. The program further ensures that all

drilling, producing, and abandonment operations comply with approved operating plans and that all violations are corrected.

IMDA – Indian Mineral Development Act of 1982, 25 U.S.C. 2101 et seq. An act that permits Indian Tribes to enter into certain agreements for the disposition of Tribal mineral resources and for other purposes.

IMSC – Indian Minerals Steering Committee. A senior policy forum of officials from the Bureau of Indian Affairs, Bureau of Land Management, and Minerals Management Service established by the Department of the Interior to improve the management of Indian minerals.

Indian Committee – Indian Gas Valuation Negotiated Rulemaking Committee. A committee chartered by the Secretary of the Interior with representatives from the Minerals Management Service, the Bureau of Indian Affairs, Indian mineral owners, and industry. The committee was established to develop proposals that will maximize royalty revenues from natural gas for Indian Tribes and allottees consistent with the Secretary's discretion to establish values. The proposals will also satisfy industry concerns by clarifying and reducing information requirements to compute royalty in an accurate, timely manner.

Linowes Commission – Commission on Fiscal Accountability of the Nation's Energy Resources. A Commission that submitted 60 recommendations in January 1982 to improve management of the Nation's energy resources and to prevent a loss of revenues owed the Federal Government, the States, and Indians. The Commission's work led to the creation of the Minerals Management Service and enactment of the Federal Oil and Gas Royalty Management Act of 1982.

MMS – Minerals Management Service. A Federal agency within the Department of the Interior that administers the Offshore Minerals Management Program and the Royalty Management Program. The Offshore Minerals Management Program is responsible for the Outer Continental Shelf leasing program and for ensuring that exploration and production of the Nation's offshore mineral resources is conducted in a safe manner with concern for the environment. The Royalty Management Program is responsible for the accurate and timely determination, collection, and distribution of royalties from Federal and Indian lands, and bonuses and rents from Federal lands.

National Performance Review – An initiative introduced by President Clinton and Vice President Gore to "reinvent" work processes within the Federal Government. The initiative is designed to make Government operate more efficiently at a lower cost.

Net profit share lease – An Outer Continental Shelf lease that provides for payment to the United States of a percentage share of the net profits for production of oil and gas from the tract. The percentage share may be fixed in the notice of the lease sale or may

be a variable of the bid, depending on the bidding system used for the lease sale.

New York Mercantile Exchange. The world's largest physical commodity exchange used primarily for hedging price risk associated with the energy and metals industries.

OCS – Outer Continental Shelf. All submerged lands seaward and outside the area of lands beneath navigable waters. Lands beneath navigable waters are interpreted as extending from the coastline 3 nautical miles into the Arctic Ocean, the Atlantic Ocean, the Pacific Ocean, and the Gulf of Mexico, excluding the coastal waters off Texas and western Florida. Lands beneath navigable waters are interpreted as extending from the coastline 3 marine leagues into the Gulf of Mexico off Texas and western Florida.

OCSLA – Outer Continental Shelf Lands Act of 1953, as amended, 43 U.S.C. 1331 et seq. An act that establishes procedures for U.S. jurisdiction over Outer Continental Shelf lands and authorizes the Secretary of the Interior to issue exploration permits and mineral leases for oil, gas, sulfur, and other mineral resources on those lands. The Secretary is authorized to implement alternative bidding systems, including net profit share leases, to promote development of marginal oil and gas deposits. Significant amendments were enacted into the original law in 1978 and 1985. See **Net profit share lease.**

OIP – Offshore Inspection Program. A program developed by the Minerals Management Service to promote safe and pollution-free operations on the Outer Continental Shelf, ensure fair and consistent inspections, and verify operator compliance with agency requirements.

OIRA – Office of Indian Royalty Assistance. An office within the Minerals Management Service responsible for providing royalty assistance and conducting an outreach program to ensure Royalty Management Program coordination and communication with Indian Tribes and allottees as part of the Secretary of the Interior's trust responsibility to Indian mineral owners.

OMM – Offshore Minerals Management. A program administered by the Minerals Management Service responsible for the Outer Continental Shelf leasing program and for ensuring that exploration and production of the Nation's offshore mineral resources is conducted in a safe manner with concern for the environment.

OST – Office of Special Trustee for American Indians. An office created by the American Indian Trust Management Reform Act of 1994 to address Indian trust fund accounting and asset management problems. The act requires the Special Trustee to provide oversight of reforms within the Department of the Interior, including development of policies, procedures, and systems.

PAAS – Production Accounting and Auditing System. An integrated system of both automated and manual applications operated by the Minerals Management Service to collect production and other operational data, and to ensure that royalties are paid on 100 percent of reported production.

PINC – National Potential Incident of Noncompliance List. A listing of all potential violations of Minerals Management Service field operation regulations used by agency officials in the inspection of offshore facilities.

Quality bank – A mechanism instituted by a pipeline system operator to calculate and effect monetary adjustments among shippers of different gravities and qualities of liquid hydrocarbons in a common carrier pipeline.

RIK – Royalty-in-kind. A program operated under the provisions of the Mineral Leasing Act of 1920 and the Outer Continental Shelf Lands Act of 1953. The Federal Government, as lessor, may take part or all of its oil and gas royalties "in kind" (a volume of the commodity) as opposed to "in value" (cash). Under the oil RIK program, the Government sells oil at fair-market value to eligible refiners who do not have access to an adequate supply of crude oil at equitable prices. The Minerals Management Service conducted a gas RIK pilot program in 1995, entering into contracts to sell selected Gulf of Mexico natural gas by competitive bid to gas marketers. Two additional oil and gas pilot programs are scheduled to begin in 1998, and a third gas pilot program is scheduled to begin in 1999.

RMP – Royalty Management Program. A program administered by the Minerals Management Service responsible for the accurate and timely determination, collection, and distribution of royalties from Federal and Indian lands, and bonuses and rents from Federal lands.

Royalty Management Program Query System. A computer system application operated by the Minerals Management Service that provides online access to historical royalty and reference data through a client/server environment. RQS provides access to standard reports, graphs, customized queries and reports designed by individual clients, and other systems applications.

RPC – Royalty Policy Committee. A committee established in 1995 as part of the Minerals Management Advisory Board to provide recommendations and guidance on royalty management policies and procedures. RPC is composed of representatives from the Western Governors Association, Western States Land Commissioners Association, States, Indian Tribes and allottee organizations, the minerals industry, other Federal agencies, and interested members of the general public.

RSFA – Federal Oil and Gas Royalty Simplification and Fairness Act, 110 Stat. 1700. Public Law 104-185, as corrected by Public Law 104-200, enacted to amend the Federal Oil and Gas Royalty Management Act of 1982 and revise Minerals Management Service procedures in several respects.

RVD – Royalty Valuation Division. A Division of the Minerals Management Service Royalty Management Program responsible for assuring that royalty reported and paid, for production removed from Federal and Indian lands, is based on proper value. RVD also establishes and maintains regulatory policy and procedural standards to provide a consistent basis for value determination.

Secretary – Secretary of the Interior.

SEMP – Safety and Environmental Management Program. A program in which offshore operators develop a plan describing the company's overall safety and pollution prevention policies and procedures. The purpose of the program is to reduce the risk and occurrence of accidents and pollution associated with offshore oil and gas drilling and production operations through active risk management.

S/P Subcommittee – Sodium/Potassium Subcommittee. A subcommittee formed by the Royalty Policy Committee to assist the Minerals Management Service in drafting revised regulations that would govern royalty valuation procedures for sodium and potassium. Significant changes in the sodium and potassium industries have occurred since the original regulations were developed in 1978. The subcommittee is composed of Federal, State, and industry representatives.

State and Tribal Royalty Audit Committee Network. A Royalty Management Program wide-area network designed to facilitate data access and the rapid exchange of information between States, Tribes, and Royalty Management Program personnel. STRACNET currently provides online access to 16 State and Tribal sites that have cooperative audit agreements under sections 202 and 205 of the Federal Oil and Gas Royalty Management Act of 1982. Laptop computers have also been provided to Louisiana representatives who maintain a cooperative audit agreement under section 205 of the Federal Oil and Gas Royalty Management Act of 1982.

Strategy – Inspection and Enforcement Strategy. A Bureau of Land Management plan that identifies mineral inspection priorities for the fiscal year based on resource availability and program emphasis.

Treasury – Department of the Treasury. A Cabinet-level department in the Executive Branch of the Federal Government responsible for the financial resources of the United States. The Treasury is responsible for regulating national banks, determining international economic policy, collecting income taxes and customs duties, reporting Government daily financial transactions, and manufacturing coins and bills for circulation.

WPT – Windfall Profit Tax. An excise tax on a windfall profit from taxable crude oil removed from the premises of Federal leases after February 29, 1980. The tax applies only to production from wells in the United States or its possessions. Congress repealed the tax on August 23, 1988.

**APPENDIX
STATISTICAL HIGHLIGHTS**

Mineral Revenue Collections, FY 1996-97 (In Thousands)

	<u>FY 1996</u>	<u>FY 1997</u>	<u>Difference</u>
By Land Category			
Federal Offshore Lands	\$3,785,087	\$4,761,643	\$ 976,556
Federal Onshore Lands	979,356	1,211,065	231,709
Indian Lands	145,791	196,462	50,671
TOTAL	<u>\$4,910,234</u>	<u>\$6,169,170</u>	<u>\$1,258,936</u>
By Revenue Source			
Total Royalties	\$4,089,857	\$4,753,453	\$ 663,596
Total Bonuses & Rents	820,377	1,415,717	595,340
TOTAL	<u>\$4,910,234</u>	<u>\$6,169,170</u>	<u>\$1,258,936</u>

Mineral Revenue Disbursements, FY 1996-97 (In Thousands)

	<u>FY 1996</u>	<u>FY 1997</u>	<u>Difference</u>
Offshore Federal Lands			
Historic Preservation Fund	\$ 150,000	\$ 150,000	\$ ---
Land & Water Conservation Fund	896,906	896,979	73
State Shares (7 States)	89,871	116,132	26,261
U.S. Treasury: General Fund	2,695,171	3,669,056	973,885
Subtotal	<u>\$3,831,948</u>	<u>\$4,832,167</u>	<u>\$1,000,219</u>
Onshore Federal Lands			
Reclamation Fund	\$ 350,264	\$ 442,834	\$ 92,570
State Shares (35 States)	457,754	569,422	111,668
U.S. Treasury: General Fund	171,338	198,809	27,471
Subtotal	<u>\$ 979,356</u>	<u>\$1,211,065</u>	<u>\$ 231,709</u>
Indian Lands			
Tribes and Allottees	\$ 145,791	\$ 196,462	\$ 50,671
TOTAL	<u>\$4,957,095</u>	<u>\$6,239,694</u>	<u>\$1,282,599</u>

Audit Collections and Refund Denials, FY 1996-97 (In Thousands)

	<u>FY 1996</u>	<u>FY 1997</u>	<u>Difference</u>
Royalty Management Program	\$30,211	\$30,601	\$390
State and Tribal	9,517	9,559	42
TOTAL	<u>\$39,728</u>	<u>\$40,160</u>	<u>\$432</u>

Exceptions Identification Programs, FY 1996-97 (In Thousands)

	<u>FY 1996</u>	<u>FY 1997</u>	<u>Difference</u>
AFS/PAAS Exceptions	\$18,370	\$21,340	\$2,970
AFS Exceptions	13,283	13,870	587
Allowance Exceptions	---	26	26
Liquidated Damage Assessments . .	4	2	(2)
OCS Recoupments	416	(15)	(431)
Indian Recoupments	209	162	(47)
Improper Adjustments	542	823	281
Royalty Rate Monitoring	366	154	(212)
TOTAL	<u>\$33,190</u>	<u>\$36,362</u>	<u>\$3,172</u>

**Audit and Exceptions Identification Collections,
Program Inception Through FY 1997 (In Millions)**

	<u>Total</u>
Audit Program, FY 1982-97	\$1,552.7
AFS/PAAS Exceptions, FY 1985-97	203.9
AFS Exceptions, FY 1985-97	178.3
Allowance Exceptions, FY 1992-97	5.7
Liquidated Damage Assessments, FY 1987-97	4.4
OCS Recoupments, FY 1992-97	2.4
Indian Recoupments, FY 1992-97	1.4
Improper Adjustments, FY 1993-97	2.3
Royalty Rate Monitoring, FY 1995-97	0.6
TOTAL	<u>\$1,951.7</u>

Delinquent Accounts, FY 1996-97 (Revenues in Millions)

	<u>FY 1996</u>	<u>FY 1997</u>	<u>Difference</u>
Delinquent Accounts	1,489	1,930	441
Value of Accounts With Surety	\$100.3	\$176.1	\$75.8
Value of Accounts Without Surety*	\$ 23.2	\$ 81.4	\$58.2

*The RMP is aggressively pursuing action on these accounts.

Oil and Gas Leases, Payors, and Lines Processed, FY 1996-97

	<u>FY 1996</u>	<u>FY 1997</u>	<u>Difference</u>
Oil and Gas Leases			
Producing	25,493	25,409	(84)
Nonproducing	45,043	48,857	3,814
TOTAL	<u>70,536</u>	<u>74,266</u>	<u>3,730</u>
Active Oil and Gas Payors	2,128	2,166	38
Oil & Gas Lines Processed Monthly	280,936	289,164	8,228



As the Nation's principal conservation agency, the Department of the Interior has responsibility for most of our nationally owned public lands and natural resources. This includes fostering sound use of our land and water resources; protecting our fish, wildlife, and biological diversity; preserving the environmental and cultural values of our national parks and historical places; and providing for the enjoyment of life through outdoor recreation. The Department assesses our energy and mineral resources and works to ensure that their development is in the best interests of all our people by encouraging stewardship and citizen participation in their care. The Department also has a major responsibility for American Indian reservation communities and for people who live in island territories under U.S. administration.



As a bureau of the Department of the Interior, the Minerals Management Service's (MMS) primary responsibilities are to manage the mineral resources located on the Nation's Outer Continental Shelf (OCS), collect revenue from the Federal OCS and onshore Federal and Indian lands, and distribute those revenues.

Moreover, in working to meet its responsibilities, the **Offshore Minerals Management Program** administers the OCS competitive leasing program and oversees the safe and environmentally sound exploration and production of our Nation's offshore natural gas, oil and other mineral resources. The MMS **Royalty Management Program** meets its responsibilities by ensuring the efficient, timely and accurate collection and disbursement of revenue from mineral leasing and production due to Indian tribes and allottees, States and the U.S. Treasury.

The MMS strives to fulfill its responsibilities through the general guiding principles of: (1) being responsive to the public's concerns and interests by maintaining a dialogue with all potentially affected parties and (2) carrying out its programs with an emphasis on working to enhance the quality of life for all Americans by lending MMS assistance and expertise to economic development and environmental protection.