

Report of Royalty Management and Delinquent Account Collection Activities Fiscal Year 1998

Royalty Management Program



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United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

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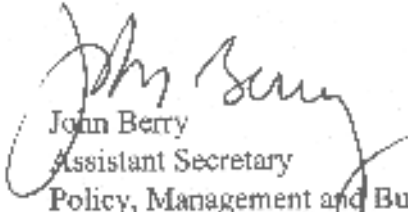
Honorable Albert Gore, Jr.
President of the Senate
Washington, D.C. 20510

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,


John Berry
Assistant Secretary
Policy, Management and Budget

Enclosure

Similar letters sent to:

Honorable Dennis Hastert, House of Representatives
Honorable Frank H. Murkowski, United States Senate
Honorable Jeff Bingaman, United States Senate
Honorable Ted Stevens, United States Senate
Honorable Robert C. Byrd, United States Senate
Honorable Slade Gorton, United States Senate
Honorable Don Young, House of Representatives
Honorable George Miller, House of Representatives
Honorable Barbara Cubin, House of Representatives
Honorable Robert A. Underwood, House of Representatives
Honorable Ralph Regula, House of Representatives
Honorable Norman Dicks, House of Representatives
Honorable Bill Young, House of Representatives
Honorable David Obey, House of Representatives

Report of Royalty Management and Delinquent Account Collection Activities Fiscal Year 1998

Royalty Management Program

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Walt Rosenbusch, Director

Offshore Minerals Management Program
Carolita Kallaur, Associate Director

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 1998 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 American 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) 1998 to improve accountability for the Nation's mineral revenues and to improve service to the States, the American Indian community, and industry. This report highlights significant program accomplishments and initiatives implemented during the year.

A. 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 American Indian mineral lease revenues are paid to MMS in an accurate, timely manner.

Enactment of the Federal Oil and Gas Royalty Simplification and Fairness Act (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 needed to be made to implement the law, it was apparent that long-term strategies, business processes, and aging systems had to 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, was completed through a multidisciplinary team of MMS, State, and Tribal representatives, with technical contract assistance. Consultations with customers have been critical in better defining future business approaches and processes.

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 includes:

- Mapping core business processes as they now exist;
- Benchmarking with other organizations to determine optimal practices;
- Identifying customer needs and expectations;
- Redesigning business processes for improvement;
- Developing, testing, and operational modeling new business process designs;
- Acquisition of information technology solutions to support new business processes; and
- Implementing redesigned processes and support systems.

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

B. RSFA

President Clinton signed 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, conducting over 20 outreach workshops with State and industry representatives that addressed specific provisions of the law. The MMS has completed a number of initiatives.

The MMS has published the following rulemaking in the Federal Register:

- A final rule that addresses the delegation of royalty management functions to the States;
- A final appeals rule;
- A proposed marginal properties accounting and auditing relief rule; and
- An interim rule that addresses payment responsibility between lessees and designees.

The MMS has implemented the following automated systems enhancements:

- Software was modified to enable MMS to accept interest reports and payments from companies and begin payment of interest to companies who overpay royalties;
- Software was developed to report interest payments to all industry recipients on Internal Revenue Service Form 1099;
- A database was developed to collect information addressing designations of individuals to make royalty and other payments on behalf of operating rights owners or lease record title holders; and
- The MMS Auditing and Financial System (AFS) was modified to accommodate marginal property relief requirements mandated by RSFA.

The MMS has completed the following actions:

- The MMS implemented the repeal of section 10 of OCSLA, which addresses time limits on refunds;
- The MMS streamlined billing and followup processes for production from oil and gas leases after September 1, 1996, to comply with RSFA payment liability requirements; and

- The MMS resolved over 14,500 pre-RSFA and production volume exceptions within the 2-year period prescribed by RSFA. Between August 1996 and August 1998, MMS closed nearly 50,000 cases, collecting an additional \$54.4 million in royalties.

The MMS will publish at least five more regulations required by RSFA by the end of the year 2000. The MMS will continue consultations with constituents on a number of complex issues.

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 Implementation Team in 1997 to study these issues. The team, based on the 1997 study recommendations, is pursuing the following RIK pilot programs:

- **Crude Oil in Wyoming.** The MMS began taking oil under this program in October 1998. The oil was delivered to successful bidders under an Invitation for Bids (IFB) issued in July 1998 for production from Federal leases in Wyoming. A second IFB, offering RIK crude oil to be taken from both State of Wyoming and Federal leases beginning in April 1999, was developed in partnership with State officials and issued January 4, 1999. A third IFB offering RIK crude oil from both Federal and State properties was issued in July 1999.
- **Natural Gas in the Texas 8(g) Zone of the Gulf of Mexico.** Section 8(g) of the OCSLA Amendments of 1978 provided that the States were to receive a 27 percent share of revenues generated from the leasing of public lands within 3 miles of the seaward boundary of a coastal State. These lands contain one or more oil and gas pools or fields underlying both the Outer Continental Shelf and lands subject to the jurisdiction of the State.

The program involves leases located in the 3-mile section 8(g) zone off the coast of Texas. The program commenced in December 1998 when MMS began taking natural gas for delivery to the General Services Administration for use by Federal agencies. The MMS is also exploring ways to market Federal and State gas production in a cost-effective manner pursuant to a Cooperative Agreement with the State of Texas General Land Office.

- **Natural Gas from Federal Leases in the Balance of the Gulf of Mexico.** This program, scheduled to start in the fall of 1999, will involve as much as 800 million cubic feet of natural gas per day to be taken from the balance of the Gulf of Mexico and will run 3 to 4 years.

Both the Wyoming and Texas 8(g) pilot programs are expected to last a minimum of 2 years and will provide the foundation for larger RIK pilot initiatives. 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 and determine the optimal methods for implementation.

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, American Indian Tribes and allottee organizations, the minerals industry, other Federal agencies, and interested members of the general public. The RPC designated 11 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;
- Lessee-Designee requirements;
- Proposed marginal properties rule; and
- Freedom of Information Act (FOIA) request processing.

The subcommittee for valuation disbanded in the summer of 1996. The subcommittee for nonconventional alternatives disbanded in January 1999. The RPC recently agreed to form a subcommittee to evaluate comments and make recommendations on the proposed marginal properties rule. To accommodate a Tribal request, RMP established a FOIA subcommittee on the RPC to address administration of FOIA requests concerning Tribal issues. Seven subcommittees have submitted final reports to the RPC on the following issues:

- Report streamlining;
- Audit;
- Appeals, settlements, and alternative dispute resolution;
- Coal;
- Phosphate, trona, and other leasable solid minerals;
- Lessee-Designee requirements; and
- Net receipts sharing.

The recommendations from six of the subcommittees were approved by the RPC. The net receipts sharing report was forwarded without action to the Bureau of Land Management, the Forest Service, and MMS for consideration. Each agency was asked to respond to legal and accounting issues that have been raised.

The MMS completed 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 its 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 1998 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.

In FY 1998, 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. 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.

2. Desktop Computer Upgrades

All MMS employees will receive a full upgrade of desktop software in FY 1999 in accordance with new agency standards. The most notable change is installation of Outlook, the new standard messaging and scheduling system. When fully implemented, any MMS employee will be able to access e-mail and schedule meetings from any desktop computer in MMS. Employees will further receive a current, full-featured suite of software that will include new versions of Microsoft Office, including Word, Excel, PowerPoint, and Access; WordPerfect; and other accessory software.

The new desktop facilitates team workflow processes. Internet Explorer hosts web-based tools such as eRoom and NetMeeting, which allow many people in different geographical areas to look at the same information simultaneously. Tasks may be delegated to individuals and tracked on a continuing basis through Outlook and Microsoft Project. The carefully phased implementation will be completed by the end of 1999 with installation of these features at each of the 17 State and Tribal sites supported by RMP.

3. Electronic FOIA System

The RMP has established one of the first electronic FOIA systems in the Department, providing online data to the public. The system provides the ability to scan, fax, index, store, and retrieve documents electronically. The system further automatically publishes certain FOIA requests, with indices, to an Internet web page that permits external customers to access information online.

The system was designed to promote more efficient business transactions by materially reducing paper requirements and eliminating traditional workflow processes. The RMP has received electronic FOIA inquiries from other bureaus within the Department as a result of this initiative.

4. Year 2000 Project

Employees in the RMP Systems Management Division completed a comprehensive project in December 1998 to ensure that all RMP mission-critical systems will operate successfully in the year 2000 (Y2K). This effort included testing, analysis, and correction of software and hardware. The effort further involved extensive communication with data suppliers and recipients. Potential problems with incompatible incoming data were eliminated through a “windowing” routine that enabled RMP to achieve Y2K compliance without requiring a change in reporting requirements. Organizations and individuals who supply data to RMP were instructed to continue using existing reporting formats. The approach employed by RMP and the attendant results were validated by an independent external review.

Over 96 percent of RMP’s 158 nonmission-critical applications are Y2K compliant. The remainder will be compliant by the end of 1999. All RMP mainframe hardware and vendor software is Y2K compliant. Client/server hardware and vendor software are being upgraded, if necessary, as part of a 1999 deployment. Telecommunications equipment and embedded systems are 100 percent Y2K compliant throughout MMS.

5. 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.

6. 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 FOIA data addressed above, and exceptions information associated with RMP underpayment detection programs.

7. Solid Minerals Document Imaging and Electronic Storage Project

The project was completed in May 1998, providing RMP employees and clients at remote locations with immediate access to approximately 100,000 solid mineral source documents. The project involved 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.

8. Production Accounting and Auditing System

The Production Accounting and Auditing System (PAAS) collected and processed monthly production data from the following leases in FY 1998:

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

Development of the automated front-end enhancement (AFEE) continued in FY 1998. The AFEE will reduce the manual 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 sales/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.

9. 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 includes 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 home page locations for RMP, the Offshore Minerals Management (OMM) Program, and OMM Regional Offices.

F. Improved Services to American Indian Tribes and American Indian Mineral Owners

The Department continues to emphasize its trust responsibilities in administering revenue collections from American Indian mineral leases. The RMP continued efforts in FY 1998 to improve communications and the delivery of mineral services to American Indian Tribes and individual American 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 American 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 meetings in FY 1998 in Phoenix, Albuquerque, and Denver 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, including drainage of American Indian lands;
- Post-leasing problems, including off-lease measurement; 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 American 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 pilot office conducted oil and gas lease sales in July 1997 and July 1998. Due to nonstandard royalty rates, the BIA approval process has been slow and cautious. Also, getting all of the individual owners of the allotted tracts to sign the lease agreements has been slow. If the individual mineral owners sign the agreements, Navajo allotted lands under lease will double. Oil and gas development will subsequently increase in the next few years.

The Albuquerque meeting included a session for southwest area Tribes and individual mineral owners to address the IMSC and express any concerns or problems encountered in the management of their leases.

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

- The IMSC provided a training course for Department minerals managers and employees entitled "Indian Trust Responsibilities and Federal Obligations." The course was presented in Denver in October 1998 and in Washington, D.C., in April 1999. Future presentations are planned for Albuquerque and Oklahoma City.

- An IMSC subcommittee submitted recommendations in March 1998 to redesign the explanation of payment (EOP) reports that individual American Indian mineral owners receive each month with their royalty payment. The BIA, MMS, and the Office of Special Trustee for American Indians are assessing costs and timeframes to implement the recommendations within each bureau's automated systems.
- The MMS occasionally provides an insert with each EOP report entitled "Frequently Asked Questions." The MMS maintains a directory of these "Frequently Asked Questions" and the IMSC minutes on the Internet for immediate access by members of the American Indian community.

2. Office of Indian Royalty Assistance

The OIRA is responsible for coordinating and communicating with American Indian mineral lessors, and for advocating action and change. Its Denver and Oklahoma City offices provide customer service. The OIRA fulfills its responsibilities through the following efforts:

- Active, recurring outreach in locations with American Indian minerals;
- Policy and regulatory development and review; and
- Development and implementation of American Indian royalty management initiatives.

The OIRA headquarters and field personnel completed the following initiatives in FY 1998:

- Conducted 42 outreach meetings with individual American Indian mineral owners and an 11 additional meetings with Tribal officials. Representatives from BIA and BLM often attended the sessions in Oklahoma, facilitating the Department's seamless delivery of services.
- Resolved 1,078 formal inquiries from individual mineral owners during the year. Many inquiries required inter-Bureau coordination to resolve complex issues, again demonstrating the seamless delivery of services to the American Indian community.
- Staffed toll-free lines in Denver and Oklahoma City, providing American Indian mineral owners with immediate access to OIRA personnel. The toll-free numbers are published in "Frequently Asked Questions," distributed with EOP reports on an as needed basis.
- Developed a computer program, in conjunction with RMP's Systems Management Division and the BIA Muskogee Area Office, to improve the administration of payments made by companies directly to about 500 American Indian mineral owners. The payments are not routed through the Department. The program includes online screens, various reports, and BIA and OIRA manual review of discrepancies or exceptions. The program was implemented in FY 1999 and continues to be refined.

- Staffed booths at four American Indian pow-wows — Crow, Southern Ute, Fort Peck, and Little Shell — with the purpose of “going where our customers are” and learning American Indian culture.
- 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 by a Tribal employee in one or more of the RMP operating divisions. A Crow Tribe employee is currently working in RMP’s Royalty Valuation Division (RVD) to learn coal valuation methodologies and will later learn auditing techniques and procedures as part of her individually designed program.
- 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.
- Continued to pursue payment agreements resulting from audits and appeals in conjunction with industry and the MMS Office of Enforcement. The payment agreement process allows American Indian mineral owners to receive their revenue in an expedient manner.

3. American Indian Nonstandard Lease/Agreement Accounting

The MMS Director initiated accounting responsibility for American 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 RVD continued to provide valuation guidance for fluid and solid minerals to Federal, State, American Indian, and industry representatives in FY 1998.

1. RVD Valuation Guidance

The RVD reviewed and approved 110 transportation and processing allowance requests in FY 1998 and completed 176 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 sold under the MMS RIK program;
- Valuation of carbon dioxide and associated allowance issues;
- Valuation of carbon dioxide when the gas is produced during enhanced oil recovery;
- Valuation of natural gas from a gas storage agreement;
- Geothermal valuation associated with the buyback of electricity and netback calculations;
- Various coalbed methane issues in the San Juan Basin;
- The use of Federal Energy Regulatory Commission (FERC) tariffs in lieu of a lessee's actual costs for computing offshore oil transportation allowances;
- Determinations whether the movement of lease production constitutes deductible transportation allowances or nondeductible gathering costs; and
- Sales to joint venture affiliates for oil, gas, or coal for royalty purposes.

2. Federal Gas Valuation Rule

The MMS remains committed to working with its constituents to explore alternative means to value natural gas; however, current efforts to publish revised oil valuation rules and attendant resource constraints have precluded further action with gas valuation rulemaking.

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 American 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, American 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 American Indian lease terms; and
- Gas processed and subject to the dual accounting requirements of American Indian lease terms.

The Indian Committee agreed on a formula to value gas produced from American Indian lands using available public spot market index prices and a factor for transportation. The price, derived from the formula, would generally be applied to wellhead gas volume and would satisfy the gross proceeds and major portion calculations required by American Indian lease terms. Transportation allowance forms would no longer be required in index zones. 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 American Indian leases.

Lessees would continue monthly reporting of gross proceeds under the 1988 regulations for American 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.

A final rule was submitted to the Office of Management and Budget for approval in April 1999. The MMS has prepared all of the necessary Federal Register Notices, the Dear Payor Letter, and the system changes required to implement the rule. The MMS plans to publish a final rule in August 1999 with an effective date of January 1, 2000.

4. Revision of MMS Oil Royalty Valuation Rules

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

Federal Oil Valuation Rule

In December 1995, MMS began an effort to revise the oil valuation rule due to the reliance of the existing rule on posted prices. The MMS prepared numerous drafts of the revised rule in response to public comment. The MMS published the initial proposed rule on January 24, 1997, followed by a supplemental proposed rule on July 3, 1997. The MMS reopened the public comment period on September 22, 1997, to solicit comments on several alternative valuation procedures suggested by constituents. The MMS published a second supplemental proposed rulemaking on February 6, 1998. Before MMS could consider comments on the revised proposal and publish a final rule, a rider was added to a FY 1998 emergency supplemental spending measure in April 1998 that barred MMS from implementing the rule until October 1, 1998.

The MMS reopened the public comment period from July 9-31, 1998, in response to a request from several U.S. Senators and a review of all comments received throughout the rulemaking process. The MMS published a further supplemental proposed rule on July 16, 1998, in response to meetings with members of Congress and other interested parties. The General Accounting Office provided a positive report on MMS rulemaking efforts on August 19, 1998. However, language in Conference Report H.R. 4328 now prevents MMS from finalizing the rule until October 1999, or until a negotiated agreement is reached.

The MMS once again reopened the public comment period on the proposed rule on March 13, 1999, and conducted additional public workshops seeking new ideas, not discussed in previous workshops, to help move the rulemaking process forward, while ensuring the public receives fair value for its resources. The comment period closed on April 27, 1999.

The MMS has continued to seek active participation in the rulemaking process from all interested constituents. A summary of MMS initiatives to determine a fair and reasonable valuation of oil follows:

- Published seven separate notices in the Federal Register to solicit public comment;
- Conducted seventeen meetings and workshops in five States and the District of Columbia;
- Received advice from five independent consultants to evaluate proposals; and
- Conducted extensive discussions with a variety of MMS constituents, including
 - Members of Congress;
 - Numerous experts in the oil industry; and
 - Representatives from California, Colorado, Louisiana, Montana, New Mexico, and Wyoming.

American Indian Oil Valuation Rule

The MMS initially planned to develop an American Indian oil valuation rule separate from the Federal rule, yet comparable in content. In 1997, MMS elected to develop an independent rule for valuing oil produced from American Indian leases due to MMS trust responsibilities and the unique lease terms contained in American Indian leases, particularly “major portion” provisions. The MMS convened a diverse group of American Indian representatives to solicit their views before drafting the rule.

The MMS published a proposed rule in the Federal Register on February 12, 1998, that would require payors to use the higher of the following criteria:

- The average of the five highest daily New York Mercantile Exchange settlement prices for production in the current month, adjusted for location and quality differences;
- The higher of the lessee’s or the affiliate’s arms-length gross proceeds, reduced by appropriate allowances; or
- A major portion value calculated by MMS after the reporting month. The major portion value would be the price at which 75 percent of the volume of oil, beginning with the lowest price, is bought or sold in the designated area. The designated area will normally be a reservation.

The MMS conducted public hearings in Albuquerque on March 26, 1998, and in Denver on April 1, 1998. The comment period closed on May 13, 1998. The MMS met with various American Indian representatives in December 1998 and January 1999 to discuss comments received and to obtain their feedback on potential changes to the rule.

Congress placed a moratorium on publishing a final rule until October 1, 1999, similar to the Federal oil valuation rule. However, in response to earlier comments received, MMS intends to publish a supplemental proposed rule by the summer of 1999. The supplemental proposed rule will include changes to the way index prices would be applied and location differentials would be calculated.

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

The Independent Petroleum Association of America and the American Petroleum Institute (API) 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. Motion and cross motion summary judgment were filed in September and December 1998. Final simultaneous reply briefs were submitted February 11, 1999. The Plaintiffs' attorneys have contacted the Department of Justice (DOJ) about going to court with a date for oral argument. The DOJ is not opposed to approaching the court with a date, but DOJ will not join them in such a motion.

6. Major Portion Initiatives

The RMP developed a Major Portion Pricing Initiative in FY 1992 for American Indian leases. American 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" where appropriate. The RMP has collected \$6.4 million in additional royalties for Tribes and allottee groups as a result of the effort. A summary of major portion initiatives completed through FY 1998 follows:

- **Oklahoma American Indian Tribes and Allottees.** The RMP performed a major portion analysis for Kauley allotted American Indian leases under the jurisdiction of the BIA Anadarko Area Office. The effort resulted in the collection of additional royalties for the period 1986-92. The RVD subsequently calculated major portion prices for Kauley American Indian leases for the period 1993-95 and for other American Indian leases in Oklahoma for the period 1988-95. 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 subsequently performed a major portion analysis for the period 1984-86 and is currently preparing a corresponding analysis for the period 1992-97. 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 agreed on a method to calculate major portion prices for the Blackfeet Reservation, resulting 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 Allotted.** The RMP has delineated the major portion area in accordance with the Joint Consent Decree handed down by the New Mexico District Court and is in the process of determining the major portion prices for the area for the period 1984-98.
- **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. The 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.
- **Jicarilla Apache Tribe.** The RMP and the Jicarilla Apache Tribe agreed on a method to calculate major portion prices for the Jicarilla Reservation utilizing the Jicarilla RIK sales data. Calculations of the major portion prices are complete. All Orders to Perform major portion and dual accounting for the period 1984-95 have been sent to payors, and additional royalties have been collected. The RMP is assisting efforts of the Jicarilla Apache Tribe to collect additional royalties in settlement negotiations.
- **Ute Mountain Ute Tribe.** The RMP and the Ute Mountain Ute Tribe agreed on a method to calculate major portion prices for areas in the San Juan Basin for the period 1984-96. The RMP sent Orders to Pay and is pursuing the collection of additional royalties. The Ute Mountain Ute Tribe subsequently requested a study of market conditions in the Aneth area of the reservation before pursuing a major portion initiative in that area.
- **Northern Ute Indian Tribe.** The RMP and the Northern Ute Indian Tribe agreed on a method to calculate major portion prices for Northern Ute Indian Tribal leases and the Ute Distribution Corporation (UDC). The RMP calculated major portion prices and collected additional royalties for the period 1987-95 for the Northern Ute Tribe. Issue letters and orders will be sent in the near future for UDC leases for the period 1987-95. Issue letters and orders will also be sent for both Northern Ute Tribal leases and UDC leases for the period 1984-86 and for the period 1996 to the present.
- **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.

- **Fort Berthold and Rocky Boys Indian Reservations.** The RMP has finalized methodology reports for the Fort Berthold and Rocky Boys Reservations. Data have been analyzed, and major portion prices have been calculated for the periods 1984-96. The RMP is preparing letters for payors that have major portion liabilities.
- **Fort Belknap, Fort Peck, Turtle Mountain, and Alabama-Coushatta Indian Reservations.** The RMP is developing methodology reports and determining major portion prices for the reservations for the period 1984-97.

7. Valuation Guidance Papers for Oil and Gas

The RVD developed the following guidance documents:

- A Dear Payor Letter on March 12, 1998, revised pages of the Payor handbook regarding exchange agreements and application of gas valuation benchmarks; and
- A Dear Payor Letter dated November 24, 1998, that was subsequently revised on December 18, 1998, informed payors of changes in procedures for receiving MMS approval to use FERC tariffs in lieu of actual costs for transportation allowances on the Outer Continental Shelf (OCS) in non-arm's-length situations.
- As a result of comments received from RPC on the guidance paper regarding sales to joint ventures and as a result of a letter submitted by STRAC, RMP withdrew that guidance paper on March 3, 1999. The RMP is examining whether all guidance papers related to sales to affiliates should be combined into one paper.
- On May 20, 1999, the Associate Director for RMP issued a policy paper on "Guidance for Determining Transportation Allowances for Production from Leases in Water Depth Greater Than 200 Meters."

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 is developing implementation 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 published a proposed rule on accounting relief for marginal properties in the Federal Register on January 21, 1999. The rule would provide marginal property lessees with six relief options that are designed to encourage continued production on wells that may otherwise be abandoned. The relief options include:

- A reduction in the frequency of royalty reports and payments;
- Streamlined royalty reports;
- Simplified royalty valuation procedures;
- Reduced audit burdens; and
- Other relief provisions appropriate for specific properties.

The rule would require the concurrence of any State that may be affected by the relief options before the relief is authorized.

The comment period was extended from March 22, 1999, to April 21, 1999, at the request of the States. The comment period was later extended to May 6, 1999, at the request of STRAC. Comments from State representatives advised that MMS went too far in granting relief. In contrast, comments from industry sources indicated that the proposal did not provide enough relief. Based on the diversity of comments, MMS asked the RPC to convene a subcommittee to resolve the differences of opinion between constituents.

2. Prepayment of Royalties Under Section 7 of RSFA

The MMS drafted a proposed rule for prepayment of royalties for marginal properties in November 1998. The MMS asked the RPC to include the prepayment rule along with the accounting and auditing provision of the marginal properties rule to resolve the differences of opinion between constituents.

3. 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 was published in the Federal Register on May 12, 1998.

4. 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. The final notice was published on March 26, 1999.

5. Sodium/Potassium Subcommittee of the RPC

The Sodium/Potassium Subcommittee (S/P Subcommittee) was reorganized by the RPC on September 25, 1997, to assist MMS in drafting revised product valuation regulations for sodium and potassium. The S/P Subcommittee was composed of State representatives from Colorado, New Mexico, and Wyoming and industry representatives from California, Colorado, and Wyoming.

The S/P Subcommittee has met nine times since its inception and expects to meet one more time prior to submitting recommendations to the RPC in September 1999. The recommendations for valuation of sodium and potassium lease production are necessary in view of the increasing complexities associated with processing and marketing over the years. New products are generated from ores that often require extensive chemical additions and processing. Significant sales are made to foreign buyers under both arm's-length and non-arm's-length situations. Current regulations provide no guidance for valuing production under these varied situations. The regulatory package drafted by the S/P Subcommittee fills this void, addressing the situations in detail.

6. Coal Subcommittee of the RPC

The RPC chartered the Coal Subcommittee in late 1995 when the RPC was formed. The Coal Subcommittee has met 16 times since early 1997, serving as a forum to facilitate discussion among State, American Indian, and industry participants concerning the application of current regulations. Work continues on recommendations to improve current regulations, based on changes in the coal industry and the electric utility market, which consumes nearly 90 percent of all coal used in the United States. The Coal Subcommittee pursued the following additional initiatives:

- Clarification of provisions of RSFA that will be applied to solid minerals;
- Preparation of recommendations for improved audit procedures; and
- Preparation of a request for a Solicitor's opinion to determine if royalty may be collected on re-mined coal material stored off lease.

The Coal Subcommittee is currently examining the feasibility of returning to a fixed royalty rate system, providing the system would be revenue neutral to the States and the Federal Government. American Indian coal leases would not be included in this review or in any subsequent recommendation.

7. PAAS Onshore Oil and Gas Reporter Handbook

The RMP published a revised PAAS Onshore Oil and Gas Reporter Handbook on December 30, 1997. The handbook provides instructions for reporting oil and gas production on Form MMS-3160, Monthly Report of Operations.

8. PAAS Reporter Handbook — Lease, Facility/Measurement Point, and Gas Operators

The RMP published a revised PAAS Reporter Handbook — Lease, Facility/Measurement Point, and Gas Plant Operators — on March 23, 1998. The handbook provides instructions for all OCS lease reporters, all offshore facility/measurement point reporters, all gas plant reporters, and onshore reporters who have elected to report production on the Oil and Gas Operations Report, Form MMS-4054.

9. Guide to Royalty Information

The RMP published a new Guide to Royalty Information handbook that provides information explaining how to obtain items published by RMP and other sources, how to file a request for other types of information, and how RMP processes those requests.

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 American Indian mineral leasing. Civil penalties were first assessed in FY 1985.

There were 27 civil penalty cases open at the beginning of FY 1998 from prior years. The RMP opened an additional 319 cases during the course of the year. Personnel with the RMP Office of Enforcement closed 217 cases in FY 1998, resulting in a balance of 129 cases open at the beginning of FY 1999. The RMP continues efforts to resolve these actions.

J. Training Programs

The RMP continued a series of training programs in FY 1998 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 5 payor training seminars in FY 1998 attended by 287 participants representing 154 firms.

2. Operator Training

The RMP continued PAAS training for oil and gas industry operators to explain Federal regulations, policy changes, and production reporting requirements. The RMP conducted 5 operator training sessions during the year attended by 223 participants representing 126 firms.

3. Solid Minerals Reporter Training

The RMP conducted 2 solid minerals seminars in FY 1998 attended by 55 participants representing 36 firms. These seminars were comprehensive 2-day presentations addressing valuation issues, royalty and production reporting requirements, and exception processing for coal, sodium, phosphate, and other solid minerals resources.

4. Rocky Mountain Mineral Law Foundation Special Institute

The MMS and the Rocky Mountain Mineral Law Foundation co-sponsored a Special Institute in Houston, Texas, from February 2-4, 1998, addressing Federal and American Indian Oil and Gas Royalty Valuation and Management. Presentations by RVD personnel included FERC Order 636, the American Indian gas valuation rule, and the proposed Federal and American Indian oil valuation rules. The MMS and the Rocky Mountain Mineral Law Foundation are planning another Special Institute on royalty valuation in the spring of 2000.

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 1998 attended by over 300 employees. Technical mineral courses included:

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

Training courses provided through Federal and commercial vendors included:

- Personal leadership and performance;
- Tools for success; and
- Effective writing.

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 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 completed development of the Administrative Staff Series Occupational Training Plan (Training Plan) in FY 1998. The Training Plan addresses duties performed by RMP administrative support staff in a variety of series. The Training Plan, designed to provide guidelines for common training requirements and to encourage employees to complete a

minimum of 80 hours of training every 2 years to improve personal performance, was approved by the RMP Associate Director on October 1, 1998.

II. MINERAL REVENUE COLLECTIONS AND DISBURSEMENTS

A. Mineral Revenue Collections

The Department collected over \$5.9 billion in mineral rents, bonuses, and royalties in FY 1998 from 79,681 Federal and American Indian leases. This represents a decline of \$258 million, or 4.2 percent, from \$6.2 billion in collections in FY 1997 (table 1). The decline was primarily due to lower oil and gas prices during the year. American Indian revenues addressed in this report are collected and processed by MMS from leases on Tribal lands and allotments or collected by the American Indian community and reviewed by MMS for accuracy.

Offshore oil and gas royalties fell 12.4 percent, or \$433 million, in FY 1998 (table 1). Domestic oil prices are materially influenced by the international market. The Department of Energy (DOE) advises that average crude oil prices fell in FY 1998 as a result of abundant domestic and international supplies. The situation was aggravated when the Organization of Petroleum Exporting Countries (OPEC) and non-OPEC countries declined to cut worldwide production during the year to reduce supplies.

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 natural gas prices fell in January and February 1998 due to warmer-than-expected winter weather in the continental United States. With lower demand, gas inventories remained high throughout the peak heating season. Prices stabilized from March through May with a strong spring injection period; however, prices fell again from June through September as a result of well-stocked gas inventories.

Federal onshore royalties fell 6.3 percent, and American Indian royalties dropped 2.5 percent in FY 1998 (table 1). Most of the decline was attributed to oil and coal royalties. Oil royalties fell for the same reasons as oil revenues on offshore lands. The DOE advises that the electric utility sector consumes over 90 percent of all coal used in the United States. Coal prices to electric utilities fell in 1997 to their lowest level since 1979. Prices remained low in 1998 but began to stabilize. Gains in mining productivity have resulted in the downward trend in coal prices in recent years. The expected increase from the effects of the Clean Air Act of 1990 have been more than offset by productivity gains.

Offshore bonuses and rents rose 18.5 percent, from nearly \$1.3 billion in FY 1997 to over \$1.5 billion in FY 1998 (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, increased competition by independent producers in shallow water properties in the Gulf, and deep water royalty relief provisions recently enacted by Congress.

Federal onshore bonuses and rents increased \$11.7 million in FY 1998 (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 American Indian leases totaled \$931,000 in FY 1998 (table 1). American Indian rent collections have averaged approximately \$1 million in recent years.

**Table 1. Comparison of mineral revenue collections, FY 1997-98
(in thousands)**

	<u>FY 1997</u>	<u>FY 1998</u>	<u>Difference</u>	<u>Percent</u>
Offshore Federal Lands				
Royalties	\$3,491,279	\$3,058,255	\$(433,024)	(12.4)
Bonuses and Rents	<u>1,270,364</u>	<u>1,505,360</u>	<u>234,996</u>	18.5
Subtotal	\$4,761,643	\$4,563,615	\$(198,028)	(4.2)
Onshore Federal Lands				
Royalties	\$1,066,662	\$ 999,957	\$ (66,705)	(6.3)
Bonuses and Rents	<u>144,403</u>	<u>156,145</u>	<u>11,742</u>	8.1
Subtotal	\$1,211,065	\$1,156,102	\$ (54,963)	(4.5)
American Indian Lands				
Royalties	\$ 195,512	\$ 190,553	\$ (4,959)	(2.5)
Rents	<u>950</u>	<u>931</u>	<u>(19)</u>	(2.0)
Subtotal	\$ 196,462	\$ 191,484	\$ (4,978)	(2.5)
TOTAL	\$6,169,170	\$5,911,201	\$(257,969)	(4.2)
Total Royalties	\$4,753,453	\$4,248,765	\$(504,688)	(10.6)
Total Bonuses & Rents ...	\$1,415,717	\$1,662,436	\$ 246,719	17.4

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 nearly \$3.2 million in FY 1998 (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 1998
(in thousands)**

	<u>Royalties</u>	<u>Bonuses & Rents</u>	<u>Other Revenues</u>	<u>Total</u>
Collections				
Offshore Federal Lands . . .	\$3,058,255	\$1,505,360	\$ ---	\$4,563,615
Onshore Federal Lands . . .	999,957	156,145	---	1,156,102
American Indian Lands . . .	<u>190,553</u>	<u>931</u>	<u>---</u>	<u>191,484</u>
Subtotal	\$4,248,765	\$1,662,436	\$ ---	\$5,911,201
Offshore Payments				
Escrow Release	\$ ---	\$ ---	\$ 3,167	\$ 3,167
Settlement Payments	<u>---</u>	<u>---</u>	<u>65,000</u>	<u>65,000</u>
Subtotal	\$ ---	\$ ---	\$68,167	\$ 68,167
TOTAL	\$4,248,765	\$1,662,436	\$68,167	\$5,979,368

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 nearly \$6 billion from mineral leasing in FY 1998 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 American Indian lease revenues to the appropriate American 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 \$656.2 million in royalties, rents, bonuses, and settlement payments were distributed to the States from offshore and onshore mineral leasing in FY 1998 (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 \$3.7 billion. American Indian revenues directed to Tribal governments and individual allotment owners totaled nearly \$191.5 million (table 3).

Table 3. Disbursement of mineral lease revenues, FY 1998
(in thousands)

Offshore Federal Revenues		
Historic Preservation Fund	\$ 150,000	
Land & Water Conservation Fund	896,978	
State Shares (7 States)	106,526	
U.S. Treasury: General Fund	<u>3,478,278</u>	
Subtotal		\$4,631,782
 Onshore Federal Revenues		
Reclamation Fund	\$ 421,149	
State Shares (33 States)	549,699	
U.S. Treasury: General Fund	<u>185,254</u>	
Subtotal		1,156,102
 American Indian Revenues		
Tribes and Allottees		<u>191,484</u>
 TOTAL		 \$5,979,368

**Table 4. Distribution of onshore mineral revenues
to 34 States by the Minerals Management Service
and the Bureau of Land Management, FY 1998
(in thousands)**

Alabama	\$ 988	Nebraska	\$ 10
Alaska	4,445	Nevada	4,908
Arizona	184	New Mexico	167,928
Arkansas	1,232	North Carolina	*---
California	19,931	North Dakota	4,646
Colorado	43,297	Ohio	157
Florida	5	Oklahoma	814
Idaho	2,466	Oregon	98
Illinois	44	Pennsylvania	18
Kansas	1,244	South Dakota	353
Kentucky	169	Texas	442
Louisiana	996	Utah	32,621
Michigan	540	Virginia	72
Minnesota	12	Washington	674
Mississippi	1,122	West Virginia	282
Missouri	861	Wisconsin	*---
Montana	21,960	Wyoming	<u>237,180</u>
		TOTAL	\$549,699

* State revenue shares under \$500 disbursed in FY 1998 are not included in this table.

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 \$106.5 million in FY 1998 under the provisions of the two acts, including \$41.5 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 1998
(in thousands)**

	Royalties, Rents, and Bonuses	Settlement Payments	Total
Alabama	\$13,216	\$ 700	\$ 13,916
Alaska	160	13,400	13,560
California	2,269	28,900	31,169
Florida	2	---	2
Louisiana	11,779	8,400	20,179
Mississippi	1,426	200	1,626
Texas	<u>12,674</u>	<u>13,400</u>	<u>26,074</u>
TOTAL	\$41,526	\$65,000	\$106,526

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 rose from \$76.5 million in FY 1997 to \$137 million in FY 1998. The increase is primarily attributed to a significant jump in collections from RMP, State, and Tribal audit activities as a result of additional settlement payments in FY 1998 and an unusually large volume of late payment interest associated with the resolution of State and Tribal royalty cases dating back to the early 1980's.

Cumulative collections from the inception of the first of the underpayment detection programs in October 1981 through the end of FY 1998 totaled nearly \$2.1 billion.

A. Determination of Royalties Owed to the Federal Government

Multiple lease ownership, the nature 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 7.3 percent, from 74,266 at the end of FY 1997 to 79,681 at the end of FY 1998 (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 experienced a moderate increase from 25,409 at the end of FY 1997 and 25,807 at the end of FY 1998 as a result of leases from recent sales entering producing status (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 2,130 payors during the period FY 1997-98 (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 289,164 lines per month in FY 1997 and 289,598 lines per month in FY 1998 (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 experienced a moderate increase during the period FY 1997-98 as a result of the increase in producing leases. Active revenue sources totaled 57,084 in FY 1997 and 58,648 in FY 1998. Active selling arrangements equaled 146,141 in FY 1997 and 150,475 in FY 1998 (table 6).

The RMP must adjust payor database records each time there is a change in payor responsibility. The RMP averaged 5,084 adjustments per month in FY 1997 and 4,798 adjustments per month in FY 1998, 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 1997-98

	<u>FY 1997</u>	<u>FY 1998</u>
Oil and Gas Leases at End of Fiscal Year		
Producing Leases	25,409	25,807
Nonproducing Leases	<u>48,857</u>	<u>53,874</u>
Total	74,266	79,681
Active Oil and Gas Payors Each Month	2,166	2,100
Average Oil and Gas Lines		
Processed Each Month	289,164	289,598
Active Revenue Sources	57,084	58,648
Active Selling Arrangements	146,141	150,475
Average Payor and Lease Database		
Changes Each Month	5,084	4,798

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 rate equaled 2.7 percent in FY 1997 and 3.3 percent in FY 1998.

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 1997 and FY 1998.

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 American 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 American 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 American 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 increased from \$30.6 million in FY 1997 to \$46.4 million in FY 1998 (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. Collections were up again in FY 1998 as a result of additional settlement payments. No refund requests were denied during the period FY 1997-98 (table 7).

The RMP worked with 7 Tribes and 10 States during the period FY 1997-98 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.

Royalties and other charges collected by State and Tribal auditors jumped from \$9.6 million in FY 1997 to \$38.6 million in FY 1998 (tables 7 and 8). The significant increase in revenues is attributed to both additional settlement payments in FY 1998 and to an unusually large amount of late payment interest associated with the resolution of royalty cases dating back to the early 1980's. No refund requests were denied during the period FY 1997-98 (table 7).

Collections from combined RMP, State, and Tribal compliance activities rose from \$40.2 million in FY 1997 to \$84.9 million in FY 1998 (table 7). Cumulative revenues from the inception of the audit program on October 1, 1981, through September 30, 1998, totaled nearly \$1.5 billion. Refund denials for the same period equaled an additional \$144.7 million.

**Table 7. Additional royalties, interest, and damages
collected, FY 1997-98
(in thousands)**

	<u>FY 1997</u>	<u>FY 1998</u>
RMP Audits		
Royalties Collected	\$28,769	\$40,512
Interest and Liquidated Damages	<u>1,832</u>	<u>5,848</u>
Total Collections	\$30,601	\$46,360
 Refund Denials	 \$ -0-	 \$ -0-
 State and Tribal Audits		
Royalties Collected	\$ 7,920	\$18,835
Interest and Liquidated Damages	<u>1,639</u>	<u>19,725</u>
Total Collections	\$ 9,559	\$38,560
 Refund Denials	 \$ -0-	 \$ -0-
 Combined Collections and Refund Denials	 \$40,160	 \$84,920

4. State and Tribal Audits

The RMP maintained cooperative agreements that provided audit funding during the period FY 1997-98 to 7 American Indian Tribes and 10 States under the authority provided in sections 202 and 205 of FOGPMA. Cooperative agreements under section 202 were in effect at the end of FY 1998 with the following Tribes:

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

Cooperative agreements under section 205 were in effect at the end of FY 1998 with the following States:

- | | |
|--------------|----------------|
| ● California | ● North Dakota |
| ● Colorado | ● Oklahoma |
| ● Louisiana | ● Texas |
| ● Montana | ● Utah |
| ● New Mexico | ● 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 1997 and FY 1998.

**Table 8. Collections resulting from
cooperative and delegated audits, FY 1997-98
(in thousands)**

	<u>FY 1997</u>	<u>FY 1998</u>
Section 202 Collections		
Blackfeet	\$ 14	\$ 40
Jicarilla Apache	341	---
Navajo Nation	467	6,111
Shoshone and Arapaho	---	143
Southern Ute	312	2,275
Ute	31	47
Ute Mountain Ute	370	22
Section 205 Collections		
California	3,103	4,326
Colorado	119	3,516
Louisiana	---	219
Montana	2,617	1,180
New Mexico	641	3,852
North Dakota	913	8,404
Oklahoma	223	218
Texas	1	265
Utah	190	351
Wyoming	<u>217</u>	<u>7,591</u>
TOTAL	\$9,559	\$38,560

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, interest, and liquidated damages totaling \$9.6 million in FY 1997 and \$38.6 million in FY 1998 (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 43.3 percent, from \$36.4 million in FY 1997 to \$52.1 million in FY 1998 (table 9).

Collections of interest, liquidated damages, improper recoupments, and royalties from the inception of the different programs through the end of FY 1998 totaled approximately \$451.1 million.

1. AFS/PAAS Exceptions

The RMP continued to correct discrepancies, or exceptions, between sales volumes reported to AFS by payors and sales/transfer volumes reported to PAAS by lease and agreement operators in FY 1998. Personnel in the RMP Compliance Verification Division processed 19,947 exceptions in FY 1997, including 17,958 exceptions that required written correspondence with operators. Personnel resolved 18,509 exceptions requiring written correspondence in FY 1997 from current and prior year periods.

Productivity continued to improve in FY 1998. Personnel processed 21,588 exceptions during the year, including 19,731 exceptions that required written correspondence with operators. Personnel resolved a record 29,025 exceptions requiring written correspondence in FY 1998 from current and prior year periods. This represents a 56.8 percent increase in resolved cases over the corresponding period in FY 1997.

Revenues from comparisons of sales reported to AFS and corresponding production reported to PAAS rose \$11.4 million, from \$21.3 million in FY 1997 to \$32.7 million in FY 1998 (table 9). The increase was due to automation and the continued streamlining of work processes.

Royalty collections from the AFS/PAAS exceptions program totaled nearly \$236.6 million from the origin of the program in FY 1985 through the end of FY 1998.

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 \$11.8 million in FY 1997 and \$13.1 million in FY 1998 (table 9). The RMP has collected \$181.4 million in interest from the beginning of the program in FY 1985 through the end of FY 1998.

The RMP first issued bills for discrepancies associated with financial lease terms in May 1992. The effort generated over \$2 million in FY 1997 and \$3 million in FY 1998 (table 9). Collections since the inception of the program total \$13.1 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 MMS amended allowance regulations effective March 1, 1996. The changes eliminated filing requirements for allowance forms 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 developed a procedure to monitor collections resulting

from exceptions detected by ALEP. The RMP subsequently collected \$545,000 in FY 1998 from ALEP (table 9).

The RMP has collected nearly \$6.3 million from the inception of the first of the allowance exception programs in FY 1992 through the end of FY 1998.

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. Although 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 \$2,000 in FY 1997. There were no collections in FY 1998 (table 9). Collections from the beginning of the program in FY 1987 through the end of FY 1998 totaled nearly \$2.6 million.

Collections from operators for late payment or erroneous production reports through PAAS totaled less than \$500 in FY 1997. There were no collections in FY 1998 (table 9). Liquidated damage collections totaled over \$1.8 million from the inception of the program in FY 1989 through the end of FY 1998.

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 was required to provide a 30-day notification to Congress before approving the recoupment. Payors who took a recoupment without authorization were contacted by RMP and were required to explain the recoupment within 30 days. Failure to respond to the notification or to justify the recoupment resulted 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 \$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. The RMP collected \$3,000 in FY 1998 (table 9). Collections from improper recoupments totaled over \$2.4 million from the origin of the program in January 1992 through FY 1998.

6. American Indian Recoupments

Payors who take a recoupment of an overpayment on an American 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 American Indian recoupments rose from \$162,000 in FY 1997 to \$329,000 in FY 1998 (table 9). The increase was primarily associated with unusually large collections from bills submitted to two different payors in FY 1998.

Collections from American Indian recoupments totaled nearly \$1.7 million from the beginning of the program in FY 1992 through FY 1998.

7. Improper Adjustments

The RMP compares every credit line submitted by a payor with previous payment lines. Payors must have valid payments in order to take a credit adjustment. If payors take a credit that doesn't match previous payments, the adjustment is not valid and must be repaid. Collections from improper adjustments increased from \$823,000 in FY 1997 to nearly \$2.1 million in FY 1998 (table 9). Much of the increase was attributed to incorrect reporting on Federal offshore leases.

Collections from improper adjustments totaled nearly \$4.4 million from the inception of the program in FY 1993 through FY 1998.

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 allows 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 \$154,000 in FY 1997 and \$274,000 in FY 1998 from this effort (table 9). Much of the increase was again attributed to incorrect reporting on Federal offshore leases.

Collections from the inception of royalty rate monitoring in FY 1994 through the end of FY 1998 totaled \$900,000.

**Table 9. Revenues collected from exception identification programs, FY 1997-98
(in thousands)**

	<u>FY 1997</u>	<u>FY 1998</u>
AFS/PAAS Exceptions	\$21,340	\$32,725
AFS Exceptions		
Interest Exceptions from Late Payments and Insufficient Estimates	\$11,821	\$ 13,128
Lease Term Exceptions	<u>2,049</u>	<u>3,041</u>
Subtotal	\$13,870	\$16,169
Allowance Exceptions	\$ 26	\$ 545
Liquidated Damage Assessments		
Payor Royalty Reports from AFS	\$ 2	\$ ---
Operator Production Reports from PAAS ..	<u>---</u>	<u>---</u>
Subtotal	\$ 2	\$ ---
OCS Recoupments	\$ (15)	\$ 3
American Indian Recoupments	\$ 162	\$ 329
Improper Adjustments	\$ 823	\$ 2,057
Royalty Rate Monitoring	\$ 154	\$ 274
 TOTAL	 \$36,362	 \$52,102

D. Delinquent Accounts Receivable

A receivable is established in AFS whenever RMP issues a bill. The office originating the bill submits a request for a Bill for Collection to the Debt Collection Section in the RMP Office of Enforcement. Under the provisions of RSFA, personnel in the Debt Collection Section enter the billing information into AFS and send a collection letter to the payor. If there is no response to the letter, personnel will then telephone the payor. If payment is not submitted, personnel issue a demand

letter to the payor and a notice to the lessee who designated 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 remained relatively stable at 158 in FY 1997 and 153 in FY 1998 (table 10). Requests to BIA, BLM, and MMS offshore offices for lease surety collections also remained relatively stable at 305 requests in FY 1997 and 278 requests in FY 1998 (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 1997-98

	<u>FY 1997</u>	<u>FY 1998</u>
First Followup Notices	2,391	1,937
Second Followup Notices	873	356
Telephone call to payor of record under RSFA provisions	112	880
Demands for Collection to Lessees of Record	158	153
Requests to BIA, BLM, and MMS Offshore Offices for Lease Surety Collections	305	278
Notices of Noncompliance for Failure to Pay	-0-	-0-

The number of delinquent billed accounts receivable declined from 1,930 at the end of FY 1997 to 1,681 at the end of FY 1998 (table 11). A delinquent account includes any bill that has not been paid by the due date. The increase in account activity in FY 1997 was 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 declined from \$176.1 million in FY 1997 to \$136.2 million in FY 1998 (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 in FY 1997 was again associated with audit bills for California crude oil pricing matters and contract settlements.

The value of delinquent accounts not secured by surety fell from \$81.4 million in FY 1997 to \$69 million in FY 1998 (table 11). 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 1997-98
(revenues in millions)

	<u>FY 1997</u>	<u>FY 1998</u>
Number of Delinquent Accounts Receivable (Bills Not Paid by Due Date)	1,930	1,681
Value of Delinquent Accounts Receivable for Which Surety Has Been Posted	\$176.1	\$136.2
Value of Delinquent Accounts Receivable for Which No Surety Has Been Posted	\$ 81.4	\$ 69.0

IV. INSPECTION AND ENFORCEMENT

A. Onshore

1. BLM Inspection and Enforcement Program

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

- Oil and gas produced from or allocated to Federal and American 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 ensured 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 American Indian trust oversight through a balanced inspection program and strengthened production accountability.

The BLM Automated Inspection Records System, which recorded information related solely to I&E Program activities, was replaced during FY 1997 by the Automated Fluid Minerals Support System (AFMSS). The AFMSS continued to evolve in FY 1998 to meet program needs by providing the mechanism to integrate all of BLM's oil and gas responsibilities, including the ability to track individual well histories by lease, agreement, and operator, as well as all inspection and enforcement activities and related workload. The new system also provides online access to production disposition data maintained by MMS and is used to monitor workload measures and performance indicators. A system enhancement module was implemented in late FY 1998 to permit operators to submit electronic requests for approval of operational proposals and subsequent reports. This should reduce data entry requirements for BLM and improve customer service.

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 Bureauwide 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 inspection training programs in February 1982. The drilling inspection course, addressing safety and environmental protection, was offered once during FY 1998 to 18 students. The production inspection course, addressing production accountability and site security, was not offered during FY 1998. A new course, Production Verification, addressing the procedures to be used to assure that oil and gas production is handled and measured properly and that sales volumes are reported accurately, was offered once during FY 1998 to 33 students. A total of 762 students representing the States, American Indian Tribes, BIA, BLM, MMS, the National Park Service, and the U.S. Forest Service have attended the courses during the past 17 years.

The “I&E for Managers” course, developed in 1991 to provide supervisors with the tools and information necessary to administer the I&E Program, was not offered in FY 1998. A total of 48 managers have attended the course during the past 8 years. This course will be replaced in FY 1999 by a new course titled, “Oil and Gas for Managers.” The new course will address managerial responsibilities across the entire oil and gas program, including the I&E Program.

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 was developed in FY 1998 and, after an extensive review process, was published for public comment in the Federal Register on December 3, 1998,

(63 FR 66840). This proposed rulemaking incorporates most of the separate operational rulemaking previously finalized or proposed and includes 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 published a proposed rulemaking for public comment in the Federal Register on January 13, 1998, addressing drainage protection. The proposed rulemaking would address the following issues:
 - 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 comment period was reopened on December 3, 1998, to allow American Indian Tribes and individual allottees an opportunity to submit their views concerning application of the final rule to American Indian leases. The last extension of the comment period expired on June 4, 1999, and the final rulemaking is expected to be published by the end of FY 1999.

- **Proposed rulemaking (43 CFR Group 3200), Geothermal Resources Leasing and Operations.** The BLM published a final rulemaking to revise and consolidate all geothermal resources leasing and operating provisions in the Federal Register on September 30, 1998. The team that prepared the regulations received a “Plain English Award” from Vice President Gore.
- **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 reductions for marginal gas wells would stimulate the recovery of gas from Federal leases. The BLM received 30 favorable comments, conducted 2 subsequent outreach meetings with industry representatives to solicit additional comments, and obtained modeling input from DOE to assist in determining the possible results and consequences of such an action. The BLM concluded that a royalty rate reduction for marginal gas properties would not be revenue neutral under any reasonable scenario and elected not to proceed with the rulemaking at this time.
- **Proposed rulemaking (43 CFR Subpart 3130) Oil and Gas Leasing: National Petroleum Reserve, Alaska.** The BLM began preparing proposed regulations in FY 1998 to implement provisions of the FY 1998 Appropriations Act for the Department of the Interior and related agencies regarding the unitization, suspension, and extension of leases within the National

Petroleum Reserve in Alaska. The proposed rulemaking is expected to be published for public comment during FY 1999.

5. Cooperative Agreements Under Section 202 of FOGRMA

The BLM published a final rule for the creation of cooperative oil and gas inspection and enforcement agreements with States and American 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 1998 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 and Crow Tribes in Montana. An approved agreement with the Southern Ute Tribe in Colorado remained inactive throughout the year. Discussions with the Shoshone and Arapaho Tribes of the Wind River Reservation in Wyoming for a cooperative agreement are in abeyance. The BLM entered into self-determination contracts for inspection and enforcement activities with the Blackfeet Tribe and the Chippewa-Cree Tribe in Montana in FY 1998.

Under the provisions of RSFA, States are no longer eligible for cooperative agreements under section 202 of FOGRMA; however, unfunded Memoranda of Understanding with California, Colorado, and Nevada for inspection and enforcement activities on Federal oil and gas leases in certain limited operational areas were in effect throughout FY 1998.

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. There were no delegations of authority to a State in effect during FY 1998.

7. FY 1998 Inspections and Enforcement Actions for Noncompliance

The BLM completed 46,158 inspection activities in FY 1998, which represents an increase of 678 inspection activities, or 1.5 percent, from the 45,480 inspection activities completed in FY 1997. The inspection activities resulted in 4,536 enforcement actions in FY 1998, down 16.8 percent from 5,454 actions in FY 1997. The decline is attributed to continued voluntary compliance by industry. The BLM made assessments totaling \$28,000 under the Mineral Leasing Act, as amended, and levied \$7,750 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. Beginning with the August 1989 production month, production reports for all onshore oil and gas leases and agreements have been submitted to MMS.

The MMS edits the production reports using well, lease/agreement, and operator information obtained from BLM's AFMSS database. Production data are then compiled and transmitted electronically to AFMSS. The BLM and MMS have also developed and implemented an automated system, Monthly Report of Operations within AFMSS, that provides field inspectors with production data for comparison with actual observations made during onsite inspection activities, including production verification. The Monthly Report of Operations further provides production records submitted by operators to compare with sales volume records reported by payors to enable MMS to conduct the AFS/PAAS exception identification program referenced earlier in this report.

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 1998:

- 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 workgroup rewrote the PINC list in "plain English" in FY 1998. The revised PINC list is published on the MMS home page.
- The MMS is continuing to 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 examines 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
 - Type of production;

- Type of facility; and
- 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 1999 that should be fully implemented by the end of that year.

- During FY 1999, MMS will implement new procedures to process civil penalties, including the development of a new database to collect civil penalty data. The new procedures will streamline the process and allow more feedback to all management levels. The MMS will analyze the civil penalty information collected to determine if changes are needed related to the assessment and collection of civil penalties. This information will also be used to help MMS focus on problem operators.

In addition to the OCSLA civil penalty authority (which includes the current OCSLA financial responsibility regulations), the Oil Pollution Act and Executive Order 12777 gave MMS civil penalty authority to enforce the financial responsibility requirements mandated by the Oil Pollution Act. During FY 1999, MMS will incorporate into the new civil penalty guidebook, procedures to impose civil penalties for failure to comply with the oil-spill financial responsibility regulations.

- 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 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 API issued the second edition of RP-75 in June 1998. 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 fifth annual survey will be sent to all OCS operators in January 1999.

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. Over 60 percent of all OCS operators voluntarily submitted data to MMS for these measures covering the period 1996-97. This information was made available to all OCS operators through the MMS Safety Page (<http://www.mms.gov/eod/safety.htm>). The information was also used by MMS and the OCS operators to jointly sponsor two SEM best practice sharing workshops in November 1998.

2. Offshore Inspection Activity

The MMS conducted 10,421 inspections of drilling, production, pipeline, measurement, site security, well completion, well workover, and abandonment operations during FY 1998. The effort included 9,606 inspections in the Gulf of Mexico Region and 815 inspections in the Pacific Region. There were no offshore operations to inspect in the Alaska Region in FY 1998.

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 American Indian lands; outreach to American 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 American Indian outreach staff is located in areas that have large American Indian populations. Total resources allocated to RMP in FY 1998 included \$68.6 million, which funded a staff effort of 607 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 1998. The direct support included telecommunication and automated data processing (ADP) services that enable the Tribes and States to interact with RMP systems and databases. The RMP devoted nearly \$6.5 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 1998. 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 1998:

- 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 \$8.4 million against the contract in FY 1998, funding 120 contractor workyears.

2. R&A Technical Services

The MMS awarded an accounting support services contract to R&A Technical Services, a Small Business Administration 8(a) contractor, effective October 1, 1997. The contractor performed the following financial services in FY 1998:

- 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 \$1.5 million against the contract in FY 1998, funding 34 contractor workyears.

3. ViON Corporation

The MMS modified the contract with ViON Corporation in October 1997, exercising the option period for maintenance of the CMOS computer. The contract provides for additional upgrades over the 8-year system's life of the contract. The MMS obligated \$77,970 in FY 1998 for maintenance services.

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 1998.

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 \$250,000 in FY 1998.

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 American 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 75 percent of crude oil produced in the United States is derived from sources other than Federal and American Indian mineral leases. The RMP auditors examine the source of oil from Federal and American 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 American Indian Tribes for their efforts through cooperative agreements. Legislation was not enacted during the 4-year period.

GLOSSARY

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 American 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.

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 American 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.

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.

DOJ — Department of Justice. A Cabinet-level department in the Executive Branch of the Federal Government that serves as counsel for the United States. DOJ is responsible for investigating, apprehending, and prosecuting offenders; representing the United States Government in Federal courts and before the Supreme Court; enforcing immigration laws; and operating the Federal prison system.

EOP — Explanation of payment. A series of reports produced by the Minerals Management Service Royalty Management Program, mailed twice each month to American Indian Tribes and once each month to States. The reports for American 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.

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 American Indian lands and the Outer Continental Shelf are properly collected and accounted for under the direction of the Secretary of the Interior.

FOIA — Freedom of Information Act, 5 U.S.C. 552. Enacted in 1966, FOIA established a presumption that records in the possession of Federal agencies are accessible to the people. Before FOIA, an individual had to establish a right to examine government records. With the passage of FOIA, the burden of proof shifted from the individual to the government. The “need to know” standard has been replaced by a “right to know” doctrine. FOIA established standards for determining which records must be disclosed and which records may be withheld. The law further provides administrative and judicial remedies for individuals denied access to records.

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 American 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.

IFB — Invitation for Bids. A request for prospective bidders to submit sealed bids in accordance with a clear, accurate, and complete requirement which promotes maximum competition.

IMDA — Indian Mineral Development Act of 1982, 25 U.S.C. 2101 et seq. An act that permits American 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 American 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, American Indian mineral owners, and industry. The committee was established to develop proposals that will maximize royalty revenues from natural gas for American 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 American 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 American 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.

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.

Office of Special Trustee for American Indians — An office created by the American Indian Trust Management Reform Act of 1994 to address American 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.

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 American Indian Tribes and allottees as part of the Secretary of the Interior's trust responsibility to American 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.

OPEC — Organization of Petroleum Exporting Countries. A cartel whose current members include: Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela.

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.

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 began in 1998, and a third gas pilot program began 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 American Indian lands and bonuses and rents from Federal lands.

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, American 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 American 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.

STRAC — State and Tribal Royalty Audit Committee. An organization of State and Tribal representatives who meet to discuss royalty management and audit issues.

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.

Training Plan — Administrative Staff Series Occupational Training Plan. A training plan developed by the Royalty Management Program to identify common training requirements for administrative support staff employees. The Plan encourages employees to complete a minimum of 80 hours of individual training every 2 years to improve personal performance.

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.

UDC — Ute Distribution Corporation. A corporation formed as a result of litigation addressing disputed ownership of mineral leases between the Uintah and Ouray Tribes and allottees. UDC represents the allottees, collecting approximately 27 percent of mineral revenues generated on the reservation. The remaining 73 percent is allocated to the Tribes.

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.

Y2K — Year 2000. 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 Royalty Management Program 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.

**APPENDIX
STATISTICAL HIGHLIGHTS**

Mineral Revenue Collections, FY 1997-98 (In Thousands)

	<u>FY 1997</u>	<u>FY 1998</u>	<u>Difference</u>
By Land Category			
Federal Offshore Lands	\$4,761,643	\$4,563,615	\$(198,028)
Federal Onshore Lands	1,211,065	1,156,102	(54,963)
American Indian Lands	<u>196,462</u>	<u>191,484</u>	<u>(4,978)</u>
TOTAL	\$6,169,170	\$5,911,201	\$(257,969)
By Revenue Source			
Total Royalties	\$4,753,453	\$4,248,765	\$(504,688)
Total Bonuses & Rents	<u>1,415,717</u>	<u>1,662,436</u>	<u>246,719</u>
TOTAL	\$6,169,170	\$5,911,201	\$(257,969)

Mineral Revenue Disbursements, FY 1997-98 (In Thousands)

	<u>FY 1997</u>	<u>FY 1998</u>	<u>Difference</u>
Offshore Federal Lands			
Historic Preservation Fund	\$ 150,000	\$ 150,000	\$ ---
Land and Water Conservation Fund	896,979	896,978	(1)
State Shares (7 States)	116,132	106,526	(9,606)
U.S. Treasury: General Fund	<u>3,669,056</u>	<u>3,478,278</u>	<u>(190,778)</u>
Subtotal	\$4,832,167	\$4,631,782	\$(200,385)
Onshore Federal Lands			
Reclamation Fund	\$ 442,834	\$ 421,149	\$ (21,685)
State Shares (35 States)	569,422	549,699	(19,723)
U.S. Treasury: General Fund	<u>198,809</u>	<u>185,254</u>	<u>(13,555)</u>
Subtotal	\$1,211,065	\$1,156,102	\$ (54,963)
American Indian Lands			
Tribes and Allottees	\$ 196,462	\$ 191,484	\$ (4,978)
TOTAL	\$6,239,694	\$5,979,368	\$(260,326)

Audit Collections and Refund Denials, FY 1997-98 (In Thousands)

	<u>FY 1997</u>	<u>FY 1998</u>	<u>Difference</u>
Royalty Management Program	\$30,601	\$46,360	\$15,759
State and Tribal	<u>9,559</u>	<u>38,560</u>	<u>29,001</u>
TOTAL	\$40,160	\$84,920	\$44,760

Exceptions Identification Programs, FY 1997-98 (In Thousands)

	<u>FY 1997</u>	<u>FY 1998</u>	<u>Difference</u>
AFS/PAAS Exceptions	\$21,340	\$32,725	\$11,385
AFS Exceptions	13,870	16,169	2,299
Allowance Exceptions	26	545	519
Liquidated Damage Assessments	2	—	(2)
OCS Recoupments	(15)	3	18
American Indian Recoupments	162	329	167
Improper Adjustments	823	2,057	1,234
Royalty Rate Monitoring	<u>154</u>	<u>274</u>	<u>120</u>
TOTAL	\$36,362	\$52,102	\$15,740

**Audit and Exceptions Identification Collections,
Program Inception Through FY 1998 (In Millions)**

	<u>Total</u>
Audit Program, FY 1982-97	\$1,637.6
AFS/PAAS Exceptions, FY 1985-97	236.6
AFS Exceptions, FY 1985-97	194.4
Allowance Exceptions, FY 1992-97	6.3
Liquidated Damage Assessments, FY 1987-97	4.4
OCS Recoupments, FY 1992-97	2.4
American Indian Recoupments, FY 1992-97	1.7
Improper Adjustments, FY 1993-97	4.4
Royalty Rate Monitoring, FY 1995-97	<u>0.9</u>
TOTAL	\$2,088.7

Delinquent Accounts, FY 1997-98 (Revenues in Millions)

	<u>FY 1997</u>	<u>FY 1998</u>	<u>Difference</u>
Delinquent Accounts	1,930	1,681	(249)
Value of Accounts With Surety	\$176.1	\$136.2	\$(39.9)
Value of Accounts Without Surety*	\$ 81.4	\$ 69.0	\$(12.4)

*The RMP is aggressively pursuing action on these accounts.

Oil and Gas Leases, Payors, and Lines Processed, FY 1997-98

	<u>FY 1997</u>	<u>FY 1998</u>	<u>Difference</u>
Oil and Gas Leases			
Producing	25,409	25,807	398
Nonproducing	48,857	53,874	5,017
TOTAL	74,266	79,681	5,415
Active Oil and Gas Payors	2,166	2,100	(66)
Oil and Gas Lines Processed Monthly	289,164	289,598	434



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.