

# Report of Royalty Management and Delinquent Account Collection Activities Fiscal Year 1999

---

## Royalty Management Program



Photo courtesy of Corel Corporation



# United States Department of the Interior

OFFICE OF THE SECRETARY  
WASHINGTON, D.C. 20240

OCT - 3 2000

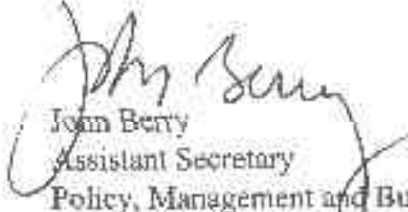
Honorable Albert Gore, Jr.  
President of the Senate  
Washington, D.C. 20510

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

Enclosures

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 1999**

---

**Royalty Management Program**

U.S. Department of the Interior  
Bruce Babbitt, Secretary

Land and Minerals Management  
Sylvia V. Baca, Assistant Secretary

Minerals Management Service  
Walt Rosenbusch, Director

Offshore Minerals Management Program  
Carolita Kallaur, Associate Director

Royalty Management Program  
Lucy Querques Denett, Associate Director



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/Stats/statsrm.htm>

If you would like additional copies of this report or if you have inquiries, please contact:

Minerals Management Service  
Royalty Management Program, Mail Stop 3006  
P.O. Box 25165  
Denver, CO 80225-0165

Steve Rawlings  
(303) 231-3230  
[Steven.Rawlings@mms.gov](mailto:Steven.Rawlings@mms.gov)

Claire Schaeffer  
(303) 231-3067  
[Claire.Schaeffer@mms.gov](mailto:Claire.Schaeffer@mms.gov)

Hannah Price  
(303) 231-3373  
[Hannah.Price@mms.gov](mailto:Hannah.Price@mms.gov)

## TABLE OF CONTENTS

	Page
<b>INTRODUCTION</b> .....	1
<b>I. ROYALTY MANAGEMENT PROGRAM ACCOMPLISHMENTS</b> .....	2
A. RMP Reengineering Project .....	2
B. RSFA .....	5
C. Royalty-In-Kind Pilot Programs .....	6
D. RPC .....	8
E. Automated Systems Initiatives .....	10
1. Network Enhancements .....	10
2. Desktop Computer Upgrades .....	10
3. Year 2000 Project .....	11
4. MMS Internet Home Page .....	12
F. Improved Services to Tribes and Individual American Indian Mineral Owners .....	12
1. Indian Minerals Steering Committee .....	12
2. Office of Indian Royalty Assistance .....	13
3. American Indian Nonstandard Lease/Agreement Accounting .....	14
G. Valuation Guidance .....	15
1. RVD Valuation Guidance .....	15
2. Federal Gas Valuation Rule .....	16
3. Indian Gas Valuation Negotiated Rulemaking Committee .....	16
4. Revision of MMS Oil Royalty Valuation Rules .....	17
5. Impact of FERC Order 636 on Transportation and Gas Marketing .....	19
6. Major Portion Initiatives .....	20
7. Valuation Guidance Papers for Oil and Gas .....	22
H. Other Regulatory Initiatives .....	23
1. Marginal Property Relief Under Section 7 of RSFA .....	23
2. Prepayment of Royalties Under Section 7 of RSFA .....	24
3. Electronic Reporting .....	24
4. Phosphate Valuation .....	24
5. Sodium/Potassium Subcommittee of the RPC .....	25
6. Coal Subcommittee of the RPC .....	25
7. Guide to Royalty Information .....	26

	<b>Page</b>
I. Civil Penalties .....	26
J. Training Programs .....	26
1. Payor Training .....	26
2. Operator Training .....	26
3. American Indian Gas Valuation Training .....	27
4. Rocky Mountain Mineral Law Foundation Special Institute .....	27
5. Workforce Training .....	27
<b>II. MINERAL REVENUE COLLECTIONS AND DISBURSEMENTS .....</b>	<b>29</b>
A. Mineral Revenue Collections .....	29
B. Mineral Revenue Disbursements .....	31
<b>III. RMP UNDERPAYMENT DETECTION PROGRAMS .....</b>	<b>35</b>
A. Determination of Royalties Owed to the Federal Government .....	35
1. Multiple Lease Ownership .....	35
2. Royalty Determinations .....	36
3. Erroneous Reporting .....	37
B. Audit Initiatives and Programs .....	37
1. Contract Settlements .....	37
2. Crude Oil Pricing .....	38
3. Audit Collections and Refund Denials .....	38
4. State and Tribal Audits .....	39
C. Exception Identification Programs .....	41
1. AFS/PAAS Exceptions .....	41
2. AFS Exceptions .....	41
3. Allowance Exceptions .....	42
4. Liquidated Damage Assessments .....	43
5. OCS Recoupments .....	43
6. American Indian Recoupments .....	44
7. Improper Adjustments .....	44
8. Royalty Rate Monitoring .....	44
D. Delinquent Accounts Receivable .....	46
.....	

	<b>Page</b>
<b>IV. INSPECTION AND ENFORCEMENT</b> .....	49
A. Onshore .....	49
1. BLM Inspection and Enforcement Program .....	49
2. Program Review .....	50
3. BLM Certification and Training Programs .....	50
4. FOGRMA Regulations .....	50
5. Cooperative Agreements Under Section 202 of FOGRMA .....	52
6. Delegations of Authority Under Section 205 of FOGRMA .....	52
7. FY 1999 Inspections and Enforcement Actions for Noncompliance .....	52
8. Production Accounting for Onshore Oil and Gas Leases .....	52
B. Offshore .....	53
1. MMS Offshore Inspection Program .....	53
2. Offshore Inspection Activity .....	54
<b>V. RMP ORGANIZATION, FUNCTIONS, AND STRUCTURE</b> .....	55
A. Federal Resources .....	55
B. Contract Support .....	55
1. American Management Systems Operations Corporation, Inc. ....	55
2. R&A Technical Services .....	56
3. ViON Corporation .....	57
4. Decision One Corporation .....	57
5. SupplyTech, Harbinger Corporation .....	57
6. Performance Engineering Corporation .....	57
7. Andersen Consulting .....	58
<b>VI. STATUS OF THE LINOWES COMMISSION RECOMMENDATIONS</b> .....	59
<b>GLOSSARY</b> .....	61
<b>APPENDIX - STATISTICAL HIGHLIGHTS</b> .....	68



## TABLES

	<b>Page</b>
1. Comparison of mineral revenue collections, FY 1998-99 .....	30
2. Mineral revenue collections, escrow release, and settlement payments, FY 1999 .....	31
3. Disbursement of mineral lease revenues, FY 1999 .....	32
4. Distribution of onshore mineral revenues to 36 States by the Minerals Management Service and the Bureau of Land Management, FY 1999 .....	33
5. Distribution of offshore royalties, rents, bonuses, and settlement payments to seven States, FY 1999 .....	34
6. Factors associated with multiple lease ownership, FY 1998-99 .....	36
7. Additional royalties, interest, and damages collected, FY 1998-99 .....	39
8. Collections resulting from cooperative and delegated audits, FY 1998-99 .....	40
9. Revenues collected from exception identification programs, FY 1998-99 .....	45
10. Actions to secure payment on delinquent accounts, FY 1998-99 .....	47
11. Delinquent accounts activity, FY 1998-99 .....	48

# **Fiscal Year 1999 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) 1999 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 and 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;
- ! Acquiring 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, but no later than 3 years from the due date.

In March 1998, the RMP Reengineering Team issued the *Preliminary Design Concepts for the RMP of the 21<sup>st</sup> Century*. The document presents the findings and preliminary design concepts for future RMP processes and support systems. The concepts were based on extensive technical and analytical studies performed or commissioned as part of the reengineering initiative, past studies and recommendations prepared within the MMS, and studies and recommendations presented to the MMS by the Royalty Policy Committee (RPC), the Office of the Inspector General, and other organizations. The recommendations served as the foundation for further work performed in technology prototyping, process modeling, and implementation planning.

RMP's business implementation plan was published November 1998. The *Road Map to the 21<sup>st</sup> Century (Road Map)* placed the RMP on a 3-year path for implementation of new business processes, realignment of organizational structure, and development of supporting automated systems. The *Road Map* groups over 50 key action elements into the following five major areas:

- ! Transforming future business processes into reality;
- ! Acquiring information technology solutions;
- ! Changing regulations and information reporting requirements;

- ! Modifying organization structure, transition, and training; and
- ! Outreach and communications.

Implementation of the *Road Map* proceeded on schedule during FY 1999. The following steps were completed during the year:

- ! Four Operational Models were established: Onshore Oil and Gas, Onshore Solid Minerals, Offshore Oil and Gas, and Jicarilla Apache Tribe. The Models were established to:
  - S Complete design and testing of future compliance and asset management processes;
  - S Develop a thorough understanding of information technology requirements;
  - S Determine, in concert with States and Tribes, delegation implications; and
  - S Address organizational and cultural issues.

The Models, which include representatives from MMS, States, and Tribes, are applying compliance and asset management processes in a live environment to subsets of the lease universe. The Models are working in close partnership with industry to produce the most efficient and effective compliance business processes for the future.

- ! MMS initiated and completed the procurement process for acquisition of information technology solutions to support RMP's future financial business processes. In September 1999, an award was made to Andersen Consulting for the development and installation of a commercial off-the-shelf financial system, relational database management system, and related tools and technologies. The award also included a component for operations and support of the financial system after its implementation. Mobilization of the Andersen Consulting development effort began immediately after the contract award with systems delivery expected September 2001.
- ! Proposed changes in information collection requirements were published for comment in the Federal Register in February 1999. Two public meetings were also conducted to gather additional input regarding MMS proposals for streamlining future production and royalty reporting requirements scheduled to be effective with October 2001 production.
- ! An organizational transition strategy was completed in August 1999 to address the "human side" of organizational change. The strategy is based on the findings and recommendations from an independent assessment of the RMP workforce.
- ! 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), Tribes and individual American Indian mineral owners (lessors of allotted leases), 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 and self-bonding rule;
- ! A final rule requiring electronic reporting of certain royalty and production forms;
- ! A final rule on the valuation of gas removed from American Indian leases;
- ! A proposed marginal properties accounting and auditing relief rule;
- ! An interim rule that addresses payment responsibility between lessees and designees; and
- ! An advanced notice of proposed rulemaking on the valuation of geothermal resources.

The MMS subsequently met with a number of interested constituents to address geothermal valuation. Alternative valuation procedures were adopted for selected payors as a direct result of these discussions. The procedures were carefully analyzed to ensure that Federal, State, and local governments receive a fair return on the public's geothermal resources. The MMS no longer intends to revise existing geothermal valuation regulations. A notice will be placed in the Federal Register advising all interested parties of this action.

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**

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 both government and industry. The MMS Director established the RIK Implementation Team in 1997 to study these issues. The team implemented the following three pilot programs based on the 1997 study recommendations:

- ! Crude oil in Wyoming;
- ! Natural gas in the Texas 8(g) zone of the Gulf of Mexico; and
- ! Natural gas from Federal leases in non-8(g) areas throughout the Gulf of Mexico.

Both the Wyoming and Texas 8(g) pilot programs are expected to last a minimum of 2 years. The Gulf of Mexico natural gas pilot is expected to last 3-4 years. All three pilot programs are expected to provide the foundation for larger RIK 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 to other Federal agencies for consumption within the Federal Government.

The three pilot programs are designed to demonstrate conclusively if RIK programs are viable options for the Federal Government and to determine the optimal means for implementation.

Evaluation of the impact on revenues and administrative costs for the Wyoming pilot is underway. Similar analyses of data from the later pilots will begin as sufficient information becomes available. Recurring pilot activities will be integrated into the RMP reengineering project to ensure that potential transitions of RIK pilot programs to long-term RIK programs will be successful.

A summary of the status of each of the three RIK pilot programs follows:

- ! **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 from both State of Wyoming and Federal leases beginning in April 1999, was developed in partnership with the State and issued January 4, 1999. The State has continued to participate in a third IFB issued in July 1999 and a fourth IFB issued in January 2000. Contracts resulting from these sales have generally been for a 6-month term.

The MMS began to shift sale operations for Wyoming royalty crude oil to a more permanent location in RMP in early 2000. The RMP further began implementing new, concise reporting requirements for Wyoming royalty oil in April 2000.

- ! **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 (OCS) and lands subject to the jurisdiction of the State.



This pilot 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 (GSA) for use by Federal agencies.

The MMS is also exploring ways to market Federal and State natural gas production in a cost-effective manner pursuant to a Cooperative Agreement with the State of Texas General Land Office. Under the agreement, Federal royalty gas from the 8(g) zone is being marketed in a program of monthly competitive sales on the open market. Contract terms for successful bidders are usually for 30 days.

- ! **Natural gas from Federal leases in non-8(g) areas throughout the Gulf of Mexico.** This pilot program will involve significantly larger amounts of royalty production and larger numbers of leases than the other two pilots. The program is expected to run 3-4 years. The first offering in this pilot was under an IFB issued October 8, 1999. Successful bidders took production for a term of 4 months. Two additional IFB's were issued January 21, 2000, with successful bidders contracting to take gas for a longer term.

Monthly competitive offerings to the public for short-term contracts will also be offered through this pilot. The MMS will deliver natural gas to GSA for use by Federal agencies similar to the Texas 8(g) pilot.

#### **D. RPC**

The RMP established a 29-member 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, Tribes and individual American Indian mineral owner 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 (BLM), 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 more important systems initiatives in FY 1999 follows.

### **1. Network Enhancements**

Networks allow information to be shared among people. The goal of the RMP network is to support the business needs of a dynamic organization.

In FY 1999, RMP completed the installation of the high-speed infrastructure needed to move all MMS users from the older cc:Mail system that was not Year 2000 (Y2K) compliant to the more responsive e-mail system provided by Exchange. Employees with MMS in Washington, Denver, Herndon, and New Orleans now enjoy instantaneous communications. This service and the attendant benefits have been extended to remote Compliance, Indian Royalty Assistance, Tribal, State, and District offices.

The RMP streamlined the wide-area network in FY 1999 by consolidating four remote sites without any loss in function. Centralization resulted in significant cost savings and improved efficiency. Further standardization will be achieved by implementing a Systems Management Server in FY 2000. This provides a vehicle to ensure that hardware and software remain standardized and effective on a continuing basis. Lower total costs of ownership are achieved by reduced support costs and minimized down-time for employees who access the 1,200 workstations maintained by RMP across the Nation.

### **2. Desktop Computer Upgrades**

All MMS employees received a full upgrade of desktop software in FY 1999 in accordance with new agency standards. Outlook, the workstation component of the new standard messaging and scheduling system, has dramatically increased employee productivity. Now any MMS employee can access e-mail and schedule meetings from any desktop computer in MMS. Employees also received a current, full-featured suite of Microsoft Office software with extensive training in each of these new tools.

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..

In addition to software, a 3-year life cycle workstation plan was implemented. Equipment that was not Y2K compliant was removed, and new workstations were purchased and installed. The workstation

plan ensures that all RMP employees, as well as State and Tribal representatives, receive state-of-the-art equipment to accomplish their jobs.

### **3. Year 2000 Project**

The RMP continues to monitor the Y2K issue. The following initiatives have been accomplished:

- ! Mission critical systems were 100 percent Y2K compliant in December 1998.
- ! The Independent Verification and Validation process on mission critical systems was complete in December 1998.
- ! Verification of Bureau of Indian Affairs (BIA), BLM, and MMS data exchanges was complete in July 1999.
- ! The Solid Minerals application was 100 percent Y2K compliant in August 1999. The application was converted from a VAX minicomputer to the RMP mainframe computer to ensure Y2K compliance.
- ! The Independent Verification and Validation process for the Solid Minerals application was complete in August 1999.
- ! The 158 nonmission-critical applications were 100 percent Y2K compliant in August 1999.
- ! Mainframe and client/server hardware and vendor software was 100 percent Y2K compliant by December 1999.
- ! Day One (the first day of the new century) Validation and Contingency Plans were in place for all mission critical systems by December 1999.
- ! Telecommunications systems throughout MMS were 100 percent Y2K compliant by December 1999.
- ! Embedded systems throughout MMS were 100 percent Y2K compliant by December 1999.

The Department was the first major organization in the Executive Branch of the Federal Government to have all mission critical systems remediated, tested, reimplemented into production, and approved through the Independent Verification and Validated process. These actions were complete by August 1999.

The RMP successfully met all Y2K dates, including September 9, 1999, (the 9999 date). The RMP participated in government-wide Y2K exercises from October through December 1999. The exercises tested the reporting requirements that took place on the weekend when the new century began,

referred to as Day One. The exercises further tested different scenarios that could potentially have occurred on Day One.

#### **4. 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 Tribes and Individual 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 1999 to improve communications and the delivery of mineral services to 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 late 1994. The IMSC is composed of members from the five Department bureaus that manage American Indian mineral leases, as well as members from the Offices of the Secretary and the Assistant Secretaries. The MMS is represented by the RMP Deputy 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 1999 in Billings, Montana; Farmington, New Mexico; Washington, D.C.; and Denver to address the following lease management issues:

- ! Fractionation, a problem involving multiple owners with increasingly smaller ownership percentages in allotted mineral 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 BIA, BLM, and MMS at a single location under one MMS manager in Farmington.

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 pilot program provides assistance and resolves problems for only the Navajo lessors of allotted leases. The IMSC sponsored a multi-bureau team to evaluate the Farmington pilot during FY 1999. Based upon the findings in the evaluation, the pilot was extended through October 2001.

The Billings meeting included a session for northern area Tribes and individual mineral owners to address the IMSC and express any concerns or problems encountered in the management of their leases. The mineral owners invariably express concerns about the difficulty in understanding the Explanation of Payment (EOP) report. Each bureau is planning to incorporate improvements as their new automated systems are developed.

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, in 2000.

## **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. Offices in Denver and Oklahoma City 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 1999:

- ! Conducted 34 outreach meetings with individual American Indian mineral owners and met with Tribal officials to discuss mineral-related concerns. Representatives from BIA and BLM often attended the sessions, facilitating the Department's seamless delivery of services.
- ! Resolved 978 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 individual 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.

- ! Implemented 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 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. Officials with OIRA continue to revise the program to meet the needs of the mineral owners.
- ! Staffed booths at five American Indian pow-wows — Blackfeet, Crow, Little Shell, Southern Ute, and Uintah and Ouray — with the purpose of “going where our customers are” and learning American Indian culture.
- ! Continued to sponsor the Royalty Internship Program that began 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 Tribal employee is currently working in RMP's Royalty Valuation Division (RVD) to learn coal valuation methodologies. The employee is further participating with the Onshore Solid Minerals Model through the RMP reengineering effort to learn auditing techniques and procedures as part of her individually designed program.
- ! 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 individual 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 the Production Accounting and Auditing System (PAAS) by lease operators. The RMP is working with Andersen Consulting to convert nonstandard lease accounting from the current microcomputer-based system to AFS as part of the RMP reengineering initiative.

## **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 1999.

### **1. RVD Valuation Guidance**

The RVD reviewed and approved 152 transportation and processing allowance requests in FY 1999 and completed 263 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 small refiner and pilot RIK programs;
- ! Valuation of carbon dioxide and associated allowance issues;
- ! Valuation of carbon dioxide when gas is produced during enhanced oil recovery;
- ! Valuation of oil delivered to the Strategic Petroleum Reserve;
- ! Appeals involving oil valuation in California;
- ! Valuation guidance involving the arm's-length nature of gas sales;
- ! Valuation and reporting guidance for lease-use gas;
- ! Extension of extraordinary processing cost allowances for carbon dioxide, methane, and sulfur plants in Wyoming;
- ! Geothermal valuation regarding buyback of electricity and netback calculations;
- ! Various coalbed methane issues in the San Juan Basin and in Utah;
- ! The use of Federal Energy Regulatory Commission (FERC) tariffs in lieu of a lessee's actual costs for computing offshore oil transportation allowances; and
- ! Determinations whether the movement of lease production constitutes deductible transportation allowances or nondeductible gathering costs, including deepwater OCS leases.



## **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 Tribes and individual American Indian mineral owners 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, individual 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.

The MMS published a final rule in August 1999 with an effective date of January 1, 2000. On November 30, 1999, MMS published a Federal Register Notice providing lessees with additional information related to the valuation of American Indian gas produced from leases located in index zones. The MMS also sent a Dear Payor Letter dated December 1, 1999, to all American Indian payors addressing the new requirements of the Indian Gas Rule. This letter provided instructions for payors to calculate and report the gas value and to make a dual accounting election.

On January 11, 2000, MMS published a Federal Register Notice clarifying the Federal Register Notice dated November 30, 1999, concerning valuation of production when leases are excluded from index-based valuation. The MMS further published a Federal Register Notice on February 28, 2000, excluding Alabama Coushatta Tribal leases from the index-based valuation method.

The MMS has established a website to assist American Indian payors with pricing information and to provide direct linkage to all Federal Register Notices and Dear Payor Letters related to the new rule. The implementation of the new regulation includes the development of exception processing routines and new data elements to enforce the new rule.

#### **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 prevented MMS from finalizing the rule until October 1999, or until a negotiated agreement was 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 Department's FY 2000 appropriation bill included language extending the moratorium on publication of a final rule until March 15, 2000. On December 30, 1999, MMS published a further supplementary proposed rule addressing some of the comments received during the recent public comment period that ended April 27, 1999. In January 2000, MMS conducted three additional workshops. The MMS reviewed comments addressing the supplementary proposal, and revised the rule further.

The MMS published a final rule on March 15, 2000, with an effective date of June 1, 2000. On April 10, 2000, the Independent Petroleum Association of America (IPAA) sued the Department over the rule and its "duty to market" provisions. Industry has consistently objected to these provisions.

Throughout the rulemaking process, MMS sought active participation from all interested constituents. A summary of MMS initiatives to determine a fair and reasonable valuation of oil follows:

- ! Published eight separate notices in the Federal Register to solicit public comment;
- ! Conducted twenty 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
  - S Members of Congress;
  - S Numerous experts in the oil industry; and
  - S 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.

The language in Conference Report H.R. 4328 that prevented MMS from finalizing the Federal oil rule until October 1, 1999, also applied to the American Indian oil valuation rule. The subsequent extension of the moratorium to March 15, 2000, again applied to both the Federal and American Indian rules.

The MMS published a supplementary proposed rule on January 5, 2000, in response to earlier comments received. The supplementary proposal included changes to the way index prices would be applied and location differentials would be calculated. The MMS conducted an additional public workshop on February 8, 2000. The comment period on the supplementary proposed rule ended on March 20, 2000. The MMS has reviewed the comments received on the revised proposal, and intends to publish a final rule in the summer of 2000.

## **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 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 final rule 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 MMS published a final rule on December 16, 1997, with an effective date of February 1, 1998.

The IPAA 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 judgments were filed in September and December 1998. Final simultaneous reply briefs were submitted February 11, 1999. On March 28, 2000, Federal District Court Judge Royce Lambert (District of Columbia) ruled in favor of IPAA and API. On April 10, 2000, the United States filed a motion to alter or amend the judgment (clarification). The motion to alter or amend postponed the running of time for filing a notice of appeal. The Federal Government must file a notice of appeal within 60 days from the date of the 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 \$7.5 million in additional royalties for Tribes and groups of individual American Indian mineral owners (lessors of allotted leases) as a result of the effort. A summary of major portion initiatives completed through FY 1999 follows:

- ! Oklahoma Tribes and individual American Indian mineral owners.** The RMP performed a major portion analysis for Kauley allotted leases under the jurisdiction of the BIA Southern Plains Regional Office. The effort resulted in the collection of additional royalties for the period 1986-

95. The RVD subsequently calculated major portion prices for Kauley allotted leases 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 individual American Indian mineral owners.** 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. 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 individual American Indian mineral owners.** 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 currently preparing a corresponding analysis for the period 1984-85.
- ! **Navajo individual American Indian mineral owners.** The RMP has delineated the major portion area in accordance with the Joint Consent Decree handed down by the New Mexico Federal District Court and is in the process of determining the major portion prices for the area from 1984 through February 1988.
- ! **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 from 1984 through June 1995 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 within the Ute Mountain Ute Reservation 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 Tribe.** The RMP and the Northern Ute Tribe agreed on a method to calculate major portion prices for Northern Ute Tribal leases and the Ute Distribution Corporation (UDC). Issue letters were sent for both Northern Ute Tribal leases and UDC leases for the period 1984-86 with orders to follow. The RMP calculated major portion prices and collected additional royalties for the period 1987-95 for the Northern Ute Tribe. Issue letters were sent for both Northern Ute

Tribal leases and UDC leases for the period 1984-86 with orders to follow. Issue letters and orders will be sent in the near future for UDC leases for the period 1987-95. Issue letters and orders will be sent in the near future for both Northern Ute Tribal leases and UDC leases 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 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 from 1984 through February 1988. The RMP is preparing letters for payors that have major portion liabilities.
- ! **Fort Belknap, Fort Peck, Turtle Mountain, and Alabama-Coushatta Reservations.** The RMP is developing methodology reports and determining major portion prices for the reservations from 1984 through February 1988.

## 7. Valuation Guidance Papers for Oil and Gas

The RVD developed the following guidance documents:

- ! 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 OCS in non-arm's-length situations.
- ! 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*.
- ! A Dear Payor Letter dated December 1, 1999, addressed the new requirements of the Indian Gas Valuation Regulations. The letter provided instructions for payors to calculate and report gas values, indicate their dual accounting election, and advised where to submit new forms and transportation and processing allowance contracts.

## 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 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. The subcommittee met for the first time in December 1999. The subcommittee's work continues.

## **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. The RPC is reviewing the issue.

## **3. Electronic Reporting**

The MMS published a final rule amending its regulations to require reporters to submit selected royalty and production reports electronically. The final rule was published on July 15, 1999, with an effective date of November 1, 1999.

## **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. 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 is composed of State representatives from Colorado, New Mexico, and Wyoming, and industry representatives from California, Colorado, and Wyoming.

The S/P Subcommittee has the final set of draft valuation regulations ready for presentation to the RPC in September 2000. 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 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 the 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. Guide to Royalty Information**

The RMP published a revised Guide to Royalty Information handbook on August 16, 1999, 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 129 civil penalty cases open at the beginning of FY 1999 from prior years. The RMP opened an additional 57 cases during the course of the year. Personnel with the RMP Office of Enforcement closed 122 cases in FY 1999, resulting in a balance of 64 cases open at the beginning of FY 2000. The RMP continues efforts to resolve these actions.

### **J. Training Programs**

The RMP continued a series of training programs in FY 1999 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 1999 attended by 262 participants representing 144 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 184 participants representing 111 firms.

### **3. American Indian Gas Valuation Training**

The RMP conducted 18 American Indian gas valuation training sessions in FY 2000 attended by approximately 350 participants representing industry, Tribes, and the MMS audit staff. The 1-day training session provided instruction for payors and auditors addressing royalty reporting requirements, royalty payment requirements, and product valuation of gas under the new American Indian gas valuation regulations which became effective January 1, 2000. The session highlighted issues regarding valuation of gas produced from index and non-index zones, new options for dual accounting, and changes to transportation and processing allowance calculations and reporting.

### **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 April 17-19, 2000, addressing Federal and American Indian oil and gas royalty valuation and management. Presentations by RVD personnel included the American Indian gas valuation rule and the proposed Federal oil valuation rule.

### **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 1999 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;
- !

- ! American Indian culture; and
- ! Computer security and FOIA provisions.

Training courses provided through Federal and commercial vendors included:

- ! Personal leadership and performance; and
- ! Tools for success.

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 which was approved by the RMP Associate Director on October 1, 1998. The Training Plan is designed to provide guidelines for common training requirements and to encourage employees in a variety of administrative staff series to complete a minimum of 80 hours of training every 2 years to improve personal performance.

## II. MINERAL REVENUE COLLECTIONS AND DISBURSEMENTS

### A. Mineral Revenue Collections

The Department collected nearly \$4.3 billion in mineral rents, bonuses, and royalties in FY 1999 from 80,210 Federal and American Indian leases. This represents a decline of \$1.6 billion, or 27.3 percent, from \$5.9 billion in collections in FY 1998 (table 1). The decline was primarily due to lower oil and gas prices and reduced bonus collections from offshore competitive lease sales in FY 1999. 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 23.7 percent, or \$725.5 million, in FY 1999 (table 1). Domestic oil prices are materially influenced by the international market. The Organization of Petroleum Exporting Countries (OPEC) and non-OPEC countries declined to cut production in an effort to reduce supplies in 1998 and early 1999. The OPEC finally signed accords to cut oil production in March 1999. Oil prices and royalties began to rebound in the latter half of FY 1999; however, royalties remained below FY 1998 levels.

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 Department of Energy (DOE) reports that mild winter weather and below-normal heating demand last winter left natural gas storage levels well above 1998 figures. Gas storage at the end of March 1999 was estimated to be 160 billion cubic feet higher than it was a year ago. High cooling demand in the summer began to erode inventory stocks; however, gas supplies remained high, which kept gas prices below 1998 levels.

Federal onshore royalties fell 15.9 percent and American Indian royalties dropped 14.6 percent in FY 1999 (table 1). Oil, gas, and coal royalties were all down. Oil and gas royalties fell for the same reasons as 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 continued to fall in FY 1999 as a result of gains in mining productivity. 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 dropped 47.3 percent, from \$1.5 billion in FY 1998 to \$793.8 million in FY 1999 (table 1). Revenues from competitive oil and gas lease sales were higher in FY 1997-98 due, in part, to higher oil and gas prices during that period, advances in three-dimensional seismology, innovations in horizontal drilling, improved underwater techniques, recent subsalt discoveries in the Gulf of Mexico, and deep water royalty relief provisions recently enacted by Congress. Offshore bonus receipts reached a 13-year high in FY 1998 with over 6.3 million acres leased. Bonus receipts fell in FY 1999 as oil and gas prices plummeted and record levels of offshore leasing in the Central and Western Gulf of Mexico during the period in FY 1997-98 depleted the available inventory of unleased tracts.

Federal onshore bonuses and rents increased \$8.9 million in FY 1999 (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 \$803,000 in FY 1999 (table 1). American Indian rent collections have approached approximately \$1 million in recent years.

**Table 1. Comparison of mineral revenue collections, FY 1998-99  
(in thousands)**

	<u>FY 1998</u>	<u>FY 1999</u>	<u>Difference</u>	<u>Percent</u>
<b>Offshore Federal Lands</b>				
Royalties .....	\$3,058,255	\$2,332,719	\$ (725,536)	(23.7)
Bonuses and Rents .....	<u>1,505,360</u>	<u>793,792</u>	<u>(711,568)</u>	(47.3)
Subtotal .....	\$4,563,615	\$3,126,511	\$(1,437,104)	(31.5)
<b>Onshore Federal Lands</b>				
Royalties .....	\$ 999,957	\$ 841,038	\$ (158,919)	(15.9)
Bonuses and Rents .....	<u>156,145</u>	<u>165,060</u>	<u>8,915</u>	5.7
Subtotal .....	\$1,156,102	\$1,006,098	\$ (150,004)	(13.0)
<b>American Indian Lands</b>				
Royalties .....	\$ 190,553	\$ 162,690	\$ (27,863)	(14.6)
Rents .....	<u>931</u>	<u>803</u>	<u>(128)</u>	(13.7)
Subtotal .....	\$ 191,484	\$ 163,493	\$ (27,991)	(14.6)
<b>TOTAL .....</b>	<b>\$5,911,201</b>	<b>\$4,296,102</b>	<b>\$(1,615,099)</b>	<b>(27.3)</b>
<b>Total Royalties .....</b>	<b>\$4,248,765</b>	<b>\$3,336,447</b>	<b>\$ (912,318)</b>	<b>(21.5)</b>
<b>Total Bonuses and Rents ...</b>	<b>\$1,662,436</b>	<b>\$ 959,655</b>	<b>\$ (702,781)</b>	<b>(42.3)</b>

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 \$904,000 in FY 1999 (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 1999  
(in thousands)**

	<u>Royalties</u>	<u>Bonuses &amp; Rents</u>	<u>Other Revenues</u>	<u>Total</u>
<b>Collections</b>				
Offshore Federal Lands . .	\$2,332,719	\$ 793,792	\$ ---	\$3,126,511
Onshore Federal Lands . . .	841,038	165,060	---	1,006,098
American Indian Lands . . .	<u>162,690</u>	<u>803</u>	---	<u>163,493</u>
Subtotal . . . . .	\$3,336,447	\$ 959,655	\$ ---	\$4,296,102
<b>Offshore Payments</b>				
Escrow Release . . . . .	\$ ---	\$ ---	\$ 904	\$ 904
Settlement Payments . . . . .	---	---	<u>65,000</u>	<u>65,000</u>
Subtotal . . . . .	\$ ---	\$ ---	\$65,904	\$ 65,904
<b>TOTAL . . . . .</b>	<b>\$3,336,447</b>	<b>\$ 959,655</b>	<b>\$65,904</b>	<b>\$4,362,006</b>

**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 \$4.4 billion from mineral leasing in FY 1999 to the States, to special-purpose accounts administered by Federal agencies, and to the General Fund of the U.S. Department of the Treasury (Treasury) (table 3). The BIA distributed American Indian lease revenues to the appropriate Tribes and individual American Indian mineral owners. 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 \$576.9 million in royalties, rents, bonuses, and settlement payments were distributed to the States from offshore and onshore mineral leasing in FY 1999 (tables 3, 4, and 5).

Payments to the National Historic Preservation Fund (NHPF), the Land and Water Conservation Fund, and the Reclamation Fund special-purpose accounts amounted to nearly \$1.1 billion. The annual funding authorization of \$150 million for the NHPF expired at the end of FY 1997. A transfer of \$150 million was erroneously made to the NHPF in September of FY 1998. That transfer was recovered in February of FY 1999. No further transfers to the NHPF will be made (table 3).

The General Fund of the Treasury received over \$2.5 billion. American Indian revenues directed to Tribal governments and individual American Indian mineral owners totaled nearly \$163.5 million (table 3).

---

**Table 3. Disbursement of mineral lease revenues, FY 1999**  
(in thousands)

---

<b>Offshore Federal Revenues</b>		
National Historic Preservation Fund .....	\$ (150,000)	
Land & Water Conservation Fund .....	898,978	
State Shares (7 States) .....	93,854	
U.S. Treasury: General Fund .....	<u>2,349,583</u>	
Subtotal .....		\$3,192,415
<b>Onshore Federal Revenues</b>		
Reclamation Fund .....	\$ 368,604	
State Shares (36 States) .....	483,024	
U.S. Treasury: General Fund .....	<u>154,470</u>	
Subtotal .....		1,006,098
<b>American Indian Revenues</b>		
Tribes & individual American Indian mineral owners .....		<u>163,493</u>
<b>TOTAL .....</b>		<b>\$4,362,006</b>

---

**Table 4. Distribution of onshore mineral revenues  
to 36 States by the Minerals Management Service  
and the Bureau of Land Management, FY 1999  
(in thousands)**

Alabama .....	\$ 1,420	Nebraska .....	\$ 8
Alaska .....	3,932	Nevada .....	2,190
Arizona .....	86	New Mexico .....	135,008
Arkansas .....	820	North Carolina .....	*---
California .....	12,037	North Dakota .....	2,387
Colorado .....	37,427	Ohio .....	118
Florida .....	1	Oklahoma .....	518
Georgia .....	*---	Oregon .....	39
Idaho .....	2,684	Pennsylvania .....	23
Illinois .....		107 .....	South Dakota
267			
Kansas .....	825	Tennessee .....	*---
Kentucky .....	46	Texas .....	288
Louisiana .....	1,276	Utah .....	29,982
Michigan .....	418	Virginia .....	49
Minnesota .....	12	Washington .....	923
Mississippi .....	413	West Virginia .....	174
Missouri .....	1,080	Wisconsin .....	*---
Montana .....	17,012	Wyoming .....	<u>231,454</u>
		<b>TOTAL .....</b>	<b>\$483,024</b>

\* State revenue shares under \$500 disbursed in FY 1999 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 nearly \$93.9 million in FY 1999 under the provisions of the two acts, including \$28.9 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 1999**  
(in thousands)

---

	<u>Royalties, Rents, &amp; Bonuses</u>	<u>Settlement Payments</u>	<u>Total</u>
Alabama .....	\$10,019	\$ 700	\$ 10,719
Alaska .....	1,315	13,400	14,715
California .....	1,237	28,900	30,137
Florida .....	2	---	2
Louisiana .....	6,884	8,400	15,284
Mississippi .....	378	200	578
Texas .....	<u>9,019</u>	<u>13,400</u>	<u>22,419</u>
<b>TOTAL .....</b>	<b>\$28,854</b>	<b>\$65,000</b>	<b>\$93,854</b>

---

### **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 \$137 million in FY 1998 to \$186.4 million in FY 1999. The increase is primarily attributed to a significant jump in collections from RMP audit activities as a result of additional settlement payments in FY 1999 and an increase in collections from the correction of discrepancies, or exceptions, between sales volumes reported to AFS by payors and sales or transfer volumes reported to PAAS by lease and agreement operators during the year.

Cumulative collections from the inception of the first of the underpayment detection programs in October 1981 through the end of FY 1999 totaled nearly \$2.3 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 remained relatively stable at 79,292 at the end of FY 1998 and 79,222 at the end of FY 1999 (table 6). The number of producing oil and gas leases on the AFS database also remained stable at 25,749 at the end of FY 1998 and 25,724 at the end of FY 1999 (table 6).

Ownership of many oil and gas leases is often divided and subdivided, resulting in multiple payors for a single lease. The average number of active oil and gas payors reporting each month to AFS remained relatively stable at approximately 2,150 payors during the period FY 1998-99 (table 6).

The average number of oil and gas royalty lines processed each month fell from 289,598 lines per month in FY 1998 to 262,734 lines per month in FY 1999 (table 6). The decline reflects more efficient reporting practices by oil and gas payors.

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 1998-99 as a result of oil and gas competitive lease sales in recent years. Active revenue sources totaled 58,648 in FY 1998 and 59,910 in FY 1999. Active selling arrangements equaled 150,475 in FY 1998 and 155,546 in FY 1999 (table 6).

The RMP must adjust payor database records each time there is a change in payor responsibility. The RMP averaged 4,798 adjustments per month in FY 1998 and 4,184 adjustments per month in FY 1999, reflecting the fluid nature of the energy industry (table 6).

**Table 6. Factors associated with multiple lease ownership, FY 1998-99**

	<u><b>FY 1998</b></u>	<u><b>FY 1999</b></u>
Oil and Gas Leases at End of Fiscal Year		
Producing Leases .....	25,749	25,724
Nonproducing Leases .....	<u>53,543</u>	<u>53,498</u>
Total .....	79,292	79,222
Active Oil and Gas Payors Each Month .....	2,100	2,224
Average Oil and Gas Lines		
Processed Each Month .....	289,598	262,734
Active Revenue Sources .....	58,648	59,910
Active Selling Arrangements .....	150,475	155,546
Average Payor and Lease Database		
Changes Each Month .....	4,798	4,184

## **2. Royalty Determinations**

The amount of royalty due is determined by applying the proper royalty rate to the 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 3.3 percent in FY 1998 and 4.9 percent in FY 1999.

### **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 1998 and FY 1999.

#### **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 lease holders accurately calculate and pay royalties attendant to revenues from contract settlements.

The MMS has identified over 3,500 contract settlements totaling nearly \$18 billion. 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 2000, 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 \$46.4 million in FY 1998 to \$88.4 million in FY 1999 (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 1998-99 as a result of additional settlement payments. No refund requests were denied during the period FY 1998-99 (table 7).

The RMP worked with 7 Tribes and 10 States during the period FY 1998-99 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 fell from \$38.6 million in FY 1998 to \$26.7 million in FY 1999 (tables 7 and 8). The decline in revenues is attributed to fewer settlements of outstanding audit issues. No refund requests were denied during the period FY 1998-99 (table 7).

Collections from combined RMP, State, and Tribal compliance activities rose from \$84.9 million in FY 1998 to \$115.2 million in FY 1999 (table 7). Cumulative revenues from the inception of the audit program on October 1, 1981, through September 30, 1999, totaled over \$1.6 billion. Refund denials for the same period equaled an additional \$144.7 million.

**Table 7. Additional royalties, interest, and damages  
collected, FY 1998-99  
(in thousands)**

	<u><b>FY 1998</b></u>	<u><b>FY 1999</b></u>
<b>RMP Audits</b>		
Royalties Collected .....	\$40,512	\$ 82,206
Interest and Liquidated Damages .....	<u>5,848</u>	<u>6,236</u>
<b>Total Collections</b> .....	<b>\$46,360</b>	<b>\$ 88,442</b>
<b>Refund Denials</b> .....	<b>\$ -0-</b>	<b>\$ -0-</b>
<b>State and Tribal Audits</b>		
Royalties Collected .....	\$18,835	\$ 17,401
Interest and Liquidated Damages .....	<u>19,725</u>	<u>9,317</u>
<b>Total Collections</b> .....	<b>\$38,560</b>	<b>\$ 26,718</b>
<b>Refund Denials</b> .....	<b>\$ -0-</b>	<b>\$ -0-</b>
<b>Combined Collections and Refund Denials</b>	<b>\$84,920</b>	<b>\$115,160</b>

#### 4. State and Tribal Audits

The RMP maintained cooperative agreements that provided audit funding during the period FY 1998-99 to 7 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 1999 with the following Tribes:

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

Cooperative agreements under section 205 were in effect at the end of FY 1999 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 1998 and FY 1999.

---

**Table 8. Collections resulting from  
cooperative and delegated audits, FY 1998-99  
(in thousands)**

---

	<u><b>FY 1998</b></u>	<u><b>FY 1999</b></u>
<b>Section 202 Collections</b>		
Blackfeet .....	\$ 40	\$ 164
Jicarilla Apache .....	---	—
Navajo Nation .....	6,111	5,568
Shoshone and Arapaho .....	143	647
Southern Ute .....	2,275	5,878
Northern Ute .....	47	20
Ute Mountain Ute .....	22	7
<b>Section 205 Collections</b>		
California .....	4,326	4,845
Colorado .....	3,516	2,263
Louisiana .....	219	80
Montana .....	1,180	666
New Mexico .....	3,852	5,474
North Dakota .....	8,404	192
Oklahoma .....	218	118
Texas .....	265	33
Utah .....	351	377
Wyoming .....	<u>7,591</u>	<u>386</u>
<b>TOTAL .....</b>	<b>\$38,560</b>	<b>\$26,718</b>

---

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 \$38.6 million in FY 1998 and \$26.7 million in FY 1999 (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 36.7 percent, from \$52.1 million in FY 1998 to \$71.2 million in FY 1999 (table 9).

Collections of interest, liquidated damages, improper recoupments, and royalties from the inception of the different programs through the end of FY 1999 totaled approximately \$522.3 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 1999. Personnel in the RMP Compliance Verification Division processed 21,588 exceptions in FY 1998, 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.

Productivity continued to improve in FY 1999. Personnel processed 24,903 exceptions during the year, including 23,091 exceptions that required written correspondence with operators. Personnel resolved 23,368 exceptions requiring written correspondence in FY 1999 from current and prior year periods.

Revenues from comparisons of sales reported to AFS and corresponding production reported to PAAS rose \$23.5 million, from \$32.7 million in FY 1998 to \$56.2 million in FY 1999 (table 9). The increase was due to automation, continued streamlining of work processes, and the application of additional resources to reduce a backlog of outstanding exceptions from prior years

Royalty collections from the AFS/PAAS exceptions program totaled nearly \$292.8 million from the origin of the program in FY 1985 through the end of FY 1999.

### **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 \$13.1 million in FY 1998 and \$9.4 million in FY 1999 (table 9). The RMP has collected \$190.8 million in interest from the beginning of the program in FY 1985 through the end of FY 1999.

The RMP first issued bills for discrepancies associated with financial lease terms in May 1992. The effort generated \$3 million in FY 1998 and \$2.7 million in FY 1999 (table 9). Collections since the inception of the program total \$15.8 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. 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 and \$101,000 in FY 1999 from ALEP (table 9).

The RMP has collected nearly \$6.4 million from the inception of the first of the allowance exception programs in FY 1992 through the end of FY 1999.

#### **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. The RMP is developing a revised assessment program to address reporters who chronically submit erroneous data.

There were no collections from late payments and erroneous royalty reports through AFS in either FY 1998 nor FY 1999 (table 9). Collections from the beginning of the program in FY 1987 through the end of FY 1999 totaled nearly \$2.6 million.

There were no collections from operators for late payment or erroneous production reports through PAAS during the period FY 1998-99 (table 9). Liquidated damage collections totaled over \$1.8 million from the inception of the program in FY 1989 through the end of FY 1999.

#### **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 \$3,000 in FY 1998 and \$8,000 in FY 1999 from bills issued through August 12, 1996 (table 9). Collections from improper recoupments totaled over \$2.4 million from the origin of the program in January 1992 through FY 1999.

## **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 individual American Indian mineral owned lease or 100 percent of the monthly revenue payment on a Tribal lease. Collections from improper American Indian recoupments fell from \$329,000 in FY 1998 to \$140,000 in FY 1999 (table 9). The decline was primarily associated with lower oil and gas prices and to the assumption of the lease monitoring function by the Jicarilla Apache Tribe in April 1999 as part of the Jicarilla Apache operational model under the RMP reengineering project.

Collections from American Indian recoupments totaled nearly \$1.9 million from the beginning of the program in FY 1992 through FY 1999.

## **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 nearly \$2.1 million in FY 1998 to nearly \$2.4 million in FY 1999 (table 9). Much of the increase was attributed to incorrect reporting on Federal offshore leases.

Collections from improper adjustments totaled over \$6.7 million from the inception of the program in FY 1993 through FY 1999.

## **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 orders payors to pay additional royalties based on the higher lease rate if the payor does not correct the error. The RMP collected \$274,000 in FY 1998 and \$212,000 in FY 1999 from this effort (table 9). Most of the collections were attributed to incorrect reporting on Federal offshore leases.

Collections from the inception of royalty rate monitoring in FY 1995 through the end of FY 1999 totaled \$1.1 million.

**Table 9. Revenues collected from exception identification  
programs, FY 1998-99  
(in thousands)**

	<u><b>FY 1998</b></u>	<u><b>FY 1999</b></u>
<b>AFS/PAAS Exceptions</b> .....	\$32,725	\$56,222
<b>AFS Exceptions</b> .....		
Interest Exceptions from Late Payments and Insufficient Estimates .....	\$13,128	\$ 9,442
Lease Term Exceptions .....	<u>3,041</u>	<u>2,736</u>
Subtotal .....	\$16,169	\$12,178
<b>Allowance Exceptions</b> .....	\$ 545	\$ 101
<b>Liquidated Damage Assessments</b>		
Payor Royalty Reports from AFS .....	\$ ---	\$ ---
Operator Production Reports from PAAS ..	<u>---</u>	<u>---</u>
Subtotal .....	\$ ---	\$ ---
<b>OCS Recoupments</b> .....	\$ 3	\$ 8
<b>American Indian Recoupments</b> .....	\$ 329	\$ 140
<b>Improper Adjustments</b> .....	\$ 2,057	\$ 2,363
<b>Royalty Rate Monitoring</b> .....	\$ 274	\$ 212
 <b>TOTAL</b> .....	 <b>\$52,102</b>	 <b>\$71,224</b>

## **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. 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 telephone the payor. If payment is not submitted and the bill is subject to the provisions of RSFA, 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. A microcomputer in the Debt Collection Section uses data downloaded from AFS to produce the first followup collection notice and collection telephone contact listing. Subsequent collection actions have been automated, where feasible, to enable employees to issue more actions in a shorter period of time to obtain payment.

Collection actions on bills 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 for bills subject to RSFA;
- ! Demand for payment from the operating rights owner for bills subject to RSFA;
- ! Demand for payment from lessees of record for all bills;
- ! 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 RMP issued 9,213 bills in FY 1998 and 7,483 bills in FY 1999. The number of first followup notices, demand letters for payment to payors, and notices to lessees who designated the payors all fell in FY 1999 as a result of the decline in bills issued during the year. The number of telephone calls to the payor of record nearly doubled in FY 1999 (table 10). The increase in telephone calls is due to a change in procedures. The RMP emphasizes telephone calls to establish immediate contact with payors, providing an opportunity to resolve billing actions in an efficient and timely manner.

The number of demands for collection to lessees of record increased from 153 in FY 1998 to 274 in FY 1999 (table 10). Requests to BIA, BLM, and MMS offshore offices for lease surety collections also increased from 278 requests in FY 1998 to 463 requests in FY 1999 (table 10). Changes in these

debt collection activities are directly related to the prior fiscal year billing activity. The increase in demands for collection to lessees of record and requests for lease surety collection in FY 1999 reflect a higher volume of bills issued in FY 1998. 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 1998-99**

	<u>FY 1998</u>	<u>FY 1999</u>
Total bills issued .....	9,213	7,483
First followup notices .....	1,937	1,746
Telephone calls to payor of record under RSFA provisions .....	880	1,672
Demand letters for payment to payors .....	209	192
Notices to lessees who designated the payors ...	1,673	1,098
Demands for collection to lessees of record .....	153	274
Requests to BIA, BLM, and MMS offshore offices for lease surety collections .....	278	463
Notices to Treasury of noncompliance for failure to pay .....	-0-	-0-

The number of delinquent billed accounts receivable remained relatively stable at 1,681 at the end of FY 1998 and 1,697 at the end of FY 1999 (table 11). A delinquent account includes any bill that has not been paid by the due date.

The value of delinquent accounts secured by surety remained relatively stable at \$136.2 million in FY 1998 and \$148 million in FY 1999 (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 value of delinquent accounts not secured by surety increased from \$69 million in FY 1998 to \$80 million in FY 1999 (table 11). Unsecured delinquent accounts include unpaid bills in the early stages of collection (first followup notices and telephone contacts) 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 1998-99**  
(revenues in millions)

---

	<u><b>FY 1998</b></u>	<u><b>FY 1999</b></u>
Number of Delinquent Accounts		
Receivable (Bills Not Paid by		
Due Date) .....	1,681	1,697
Value of Delinquent Accounts		
Receivable for Which Surety		
Has Been Posted .....	\$136.2	\$148.0
Value of Delinquent Accounts		
Receivable for Which No Surety		
Has Been Posted .....	\$ 69.0	\$ 80.0

---

## **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 the guidance provided in the Strategy. The plans identify the priority of inspection cases.

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's 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 1999 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 1999 to permit operators to submit electronic requests for approval of operational proposals and subsequent reports. Further enhancements are planned for FY 2000. These system enhancements will 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, informal office visits, and analyses of inspection data recorded in AFMSS. The following Washington offices provide Headquarters oversight:

- ! The Management Systems Group provides bureau-wide oversight for program implementation and management; and
- ! The Fluid Minerals Group provides oversight by informal and formal means, 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 whenever appropriate.

The BLM began production and drilling inspection training programs in February 1982. The Drilling Inspection course, addressing safety and environmental protection, was held once during FY 1999 for 17 students. The Production Inspection course, addressing production accountability and site security, was conducted once during FY 1999 for 18 students. The Production Verification course, addressing the procedures to be used in assuring that oil and gas production is handled and measured properly and that sales volumes are reported accurately, was held once during FY 1999 for 25 students. A total of 822 students representing the States, Tribes, BIA, BLM, MMS, National Park Service, and U.S. Forest Service have attended these courses during the past 18 years.

The new Oil and Gas for Managers course, addressing managerial responsibilities across the entire oil and gas program including I&E, was conducted twice in FY 1999 for 27 students.

## **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 intent of this process is to provide clear, concise regulations that are easy to understand and, where appropriate, to be performance-based. The first major rulemaking employing this process was developed in FY 1998. After an extensive internal review, the rulemaking was published for a 120-day public comment period in the Federal Register on December 3, 1998,(63 FR 66840). This proposed rulemaking incorporates most of the separate

rulemaking previously finalized or proposed and includes the performance standards contained in all of the existing Onshore Oil and Gas Orders. The comment period was subsequently extended twice (64 FR 14666, 29256) expiring on July 19, 1999. At the end of FY 1999, the BLM's Regulatory Affairs and Fluid Minerals Groups were reviewing over 700 comments.

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, on the subject of 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 Tribes and individual American Indian mineral owners an opportunity to submit their views concerning the application of the final rule to American Indian leases. The last extension of the comment period expired on June 4, 1999. The internal review of the comments received is underway, and the final rulemaking is expected to be published before the end of FY 2000.

**! 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. An extensive internal review is nearing completion, and the proposed rulemaking is expected to be published for public comment during FY 2000.

**! Proposed rulemaking (43 CFR Parts 1840 and 1850) Appeals Procedures and Hearing Procedures.** The BLM published a proposed rulemaking for a 30-day public comment period in the Federal Register on October 17, 1996. The rulemaking would revise and consolidate existing procedures for appeals and hearings referenced in about 60 separate parts of the regulations into a single, streamlined administrative review process covering most of BLM's decisions. The comment period subsequently was extended to January 17, 1997. After extensive internal review, BLM intends to re-propose the rulemaking in FY 2000 to incorporate a provision for a State Director Review Process before a party aggrieved by a Bureau decision may file an appeal with the Interior Board of Land Appeals.

## **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 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 1999 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 cooperative agreement with the Southern Ute Tribe in Colorado remained inactive throughout the year. The BLM also maintained two self-determination contracts in FY 1999 for inspection and enforcement activities with the Blackfeet Tribe and the Chippewa-Cree Tribe in Montana.

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 1999.

## **6. Delegations of Authority Under Section 205 of FOGRMA**

Regulations to implement the provisions of section 205 of FOGRMA for the delegation of BLM's oil and gas inspection and enforcement responsibilities to the States were published in the Federal Register with an effective date of August 17, 1987. There were no delegations of authority to a State in effect during FY 1999.

## **7. FY 1999 Inspections and Enforcement Actions for Noncompliance**

The BLM completed 16,425 inspection types in FY 1999, which represents an increase of 2,124 inspection items, or 14.9 percent, over the 14,301 inspection types completed in FY 1998. These inspection items (activities) resulted in 4,618 enforcement actions in FY 1999, up 1.8 percent from 4,536 enforcement actions in FY 1998. The BLM made assessments totaling \$22,250 under the Mineral Leasing Act, as amended, and levied \$103,000 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 those conducted for production verification. The Monthly Report of Operations further provides production records submitted by operators that are compared by MMS with sales volume records reported by payors in conducting the AFS/PAAS exception identification program. This electronic interface between MMS and BLM occurs biweekly and automatically generates reports to show the data transferred. If any failure occurs in the transmission of data, followup actions are taken within 10 days.

## **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 1999:

- ! A workgroup continues to revise the National Potential Incident of Noncompliance (PINC) list and inspection guidelines. The PINC list is a checklist used by MMS inspectors to ensure that offshore operations on the OCS are conducted in a safe and environmentally sound manner in compliance with current MMS regulations. This list was last revised in October 1998 to incorporate changes in MMS regulations and reference standards and to incorporate "plain English." A workgroup has continued to monitor this list to ensure that it remains current and relevant. This workgroup met again in January 2000 to review pending changes to MMS regulations and to incorporate necessary changes to the PINC list. The PINC list is published on the MMS home page on the Internet.
- ! 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 2000 that should be fully implemented by the end of that year.

- ! During FY 1999, MMS implemented new procedures to process civil penalties, including the development of a new database to collect civil penalty data. The new procedures streamlined the process, providing 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 incorporated procedures to impose civil penalties for failure to comply with the oil-spill financial responsibility regulations into the new civil penalty guidebook.

- ! Results of a 1999 API survey of offshore operators indicates continued progress toward the MMS Safety and Environmental Management Program (SEMP). Under SEMF, an operator voluntarily adopts a set of policies and procedures for coordinating 9 fundamental activities related to oil and gas drilling and production. The API developed a recommended practice (RP-75) in 1993 to provide initial guidance to implement SEMF. The API revised this guidance in 1998.

The MMS, in cooperation with the Offshore Operators Committee, developed a set of commonly-defined, universally-applied measures to assess safety and environmental performance. About 80 percent of OCS operators voluntarily submitted data used by MMS to make performance measurement calculations for the 1998 calendar year. The results are made available to all OCS operators through the Internet on 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 SEMF best practice sharing workshops in October 1999.

## **2. Offshore Inspection Activity**

The MMS conducted 14,152 inspections of drilling, production, pipeline, measurement, site security, well completion, well workover, and abandonment operations during FY 1999. The effort included 13,530 inspections in the Gulf of Mexico Region and 622 inspections in the Pacific Region. There were no offshore operations to inspect in the Alaska Region in FY 1999.

## V. RMP ORGANIZATION, FUNCTIONS, AND STRUCTURE

### A. Federal Resources

The RMP operating budget consists of three subactivities:

- ! **Mineral Revenue Valuation and Operations** — Resources for the collection and distribution of mineral revenues; computer and related high-technology systems development and operation; and valuation determinations and allowance monitoring.
- ! **Mineral Revenue Compliance** — Resources for audit and other verification of mineral lease revenues on Federal offshore, Federal onshore, and American Indian lands; outreach to Tribes and individual American Indian mineral owners; and development and administration of RMP enforcement programs.
- ! **Program Services Office** — 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 1999 included \$72.7 million, which funded a staff effort of 610 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 1999. 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 \$7.0 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 1999. 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., effective October 1, 1998. The firm performed the following ADP functions in FY 1999:



- ! 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.
- ! Support and maintenance of the local area networks and wide area network.
- ! First and second level resolution of hardware and software problems.
- ! Deployment of WINDOWS 98 and the standard RMP desktop.

The MMS obligated approximately \$8.3 million against the contract in FY 1999, funding 104 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 1999:

- ! Verification of AFS-generated prebills from manual and automated exception processing to calculate and mail interest and liquidated damage bills to payors;
- ! Update and process prebills on AFS for mailing file setup and maintenance;
- ! Operate the PAAS Production Accountability Letter system;
- ! Perform royalty rate and improper adjustments verification; and
- ! Operate the RMP certified mailing system as well as maintain a central filing system.

The MMS obligated \$866,550 against the contract in FY 1999, funding 11 contractor workyears.

### **3. ViON Corporation**

The MMS modified the contract with ViON Corporation in October 1998, exercising the option period for maintenance of the Complementary Metal Oxide Semiconductor. The contract provides for additional upgrades over the 8-year system's life of the contract. The MMS obligated \$41,309 against the contract in FY 1999 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 \$11,156 against the contract in FY 1999.

### **5. SupplyTech, Harbinger Corporation**

The SupplyTech contract is a firm-fixed price contract issued as a delivery order under the terms of the current Harbinger multiple award schedule contract developed by GSA. The contract was awarded on April 30, 1999, for development of an electronic commerce system to collect and deliver regulatory report data from an estimated 3,700 individual reporter services. The development effort was completed and accepted on January 12, 2000. Upon completion of development, the contract provides for 12 months of operational support. The MMS has currently obligated \$920,278 against the contract in FY 1999.

### **6. 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 firm performed the following services in FY 1999:

- ! Technical assistance to the reengineering team;
- ! Creation of prototype environments to test new processes;
- ! Systems support to operational model teams;
- ! Assistance with the definition of requirements for new systems; and

- ! Assistance with the acquisition process for new systems.

The MMS obligated over \$3 million against the contract in FY 1999.

## **7. Andersen Consulting**

A contract for the design and implementation of the new RMP financial system was awarded to Andersen Consulting in September 1999. As their recommended commercial-off-the-shelf solution, Andersen will deploy PeopleSoft Financials for Government and Education. Andersen will further provide the following support:

- ! An Oracle relational database management system;
- ! Operations and support of the new system through a contractor-owned, contractor-operated facility managed by USInternetworking, Inc.; and
- ! Other technical capabilities, including data warehouse, workflow, and data administration.

The MMS obligated nearly \$3 million against the contract in FY 1999.

## 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 Tribes for their efforts through cooperative agreements. Legislation was not enacted during the 4-year period.

## GLOSSARY

**ADP — Automated data processing.**

**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.

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

**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.

**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.

**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.

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

**GSA — General Services Administration.** A Federal agency that serves as one of three central management agencies in the Federal Government (the Office of Personnel Management and the Office of Management and Budget are the two remaining agencies with this function). GSA provides policy leadership and administers space, supplies, and services to enable Federal employees to accomplish their missions.

**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 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, individual American Indian mineral owners, and industry. The committee was established to develop proposals that will maximize royalty revenues from natural gas for Tribes and individual American Indian mineral owners 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.

**IPAA — Independent Petroleum Association of America.** A national trade association representing oil and natural gas exploration and production companies in the United States. The membership ranges from large public companies to small, privately held businesses.

**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.

**NHPF — National Historic Preservation Fund.** A fund, currently administered by the National Park Service, designed to expand and accelerate historic preservation plans and activities. NHPF provides revenues for matching grants-in-aid to States and local governments and funds the National Trust for Historic Preservation. Offshore mineral leasing provides 100 percent of fund revenues.

**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 Tribes and individual American Indian mineral owners as part of the Secretary of the Interior's trust responsibility to the American Indian community.

**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.

**Road Map — Road Map to the 21<sup>st</sup> Century.** The Royalty Management Program initiated a reengineering project to design, develop, and implement new core business processes, with supporting systems, for the 21<sup>st</sup> century. The *Road Map*, published in November 1998, provided a 3-year path for implementation of new business processes, realignment of organizational structure, and development of supporting automated systems to complete the project.

**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, Tribes and individual American Indian mineral owner 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 individual American

Indian mineral owners. UDC represents the individual American Indian mineral owners, 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 1998-99 (In Thousands)**

	<u>FY 1998</u>	<u>FY 1999</u>	<u>Difference</u>
<b>By Land Category</b>			
Federal Offshore Lands .....	\$4,563,615	\$3,126,511	\$(1,437,104)
Federal Onshore Lands .....	1,156,102	1,006,098	(150,004)
American Indian Lands .....	<u>191,484</u>	<u>163,493</u>	<u>(27,991)</u>
<b>TOTAL .....</b>	<b>\$5,911,201</b>	<b>\$4,296,102</b>	<b>\$(1,615,099)</b>
<b>By Revenue Source</b>			
Total Royalties .....	\$4,248,765	\$3,336,447	\$ (912,318)
Total Bonuses & Rents .....	<u>1,662,436</u>	<u>959,655</u>	<u>(702,781)</u>
<b>TOTAL .....</b>	<b>\$5,911,201</b>	<b>\$4,296,102</b>	<b>\$(1,615,099)</b>

**Mineral Revenue Disbursements, FY 1998-99 (In Thousands)**

	<u>FY 1998</u>	<u>FY 1999</u>	<u>Difference</u>
<b>Offshore Federal Lands</b>			
Historic Preservation Fund .....	\$ 150,000	\$ (150,000)	\$ (300,000)
Land and Water Conservation Fund .....	896,978	898,978	2,000
State Shares (7 States) .....	106,526	93,854	(12,672)
U.S. Treasury: General Fund .....	<u>3,478,278</u>	<u>2,349,583</u>	<u>(1,128,695)</u>
Subtotal .....	\$4,631,782	\$3,192,415	\$(1,439,367)
<b>Onshore Federal Lands</b>			
Reclamation Fund .....	\$ 421,149	\$ 368,604	\$ (52,545)
State Shares (36 States) .....	549,699	483,024	(66,675)
U.S. Treasury: General Fund .....	<u>185,254</u>	<u>154,470</u>	<u>(30,784)</u>
Subtotal .....	\$1,156,102	\$1,006,098	\$ (150,004)
<b>American Indian Lands</b>			
Tribes and individual American Indian mineral owners .....	\$ 191,484	\$ 163,493	\$ (27,991)
<b>TOTAL .....</b>	<b>\$5,979,368</b>	<b>\$4,362,006</b>	<b>\$(1,617,362)</b>

**Audit Collections and Refund Denials, FY 1998-99 (In Thousands)**

	<u>FY 1998</u>	<u>FY 1999</u>	<u>Difference</u>
Royalty Management Program .....	\$46,360	\$ 88,442	\$42,082
State and Tribal .....	<u>38,560</u>	<u>26,718</u>	<u>(11,842)</u>
<b>TOTAL .....</b>	<b>\$84,920</b>	<b>\$115,160</b>	<b>\$30,240</b>

**Exceptions Identification Programs, FY 1998-99 (In Thousands)**

	<u>FY 1998</u>	<u>FY 1999</u>	<u>Difference</u>
AFS/PAAS Exceptions .....	\$32,725	\$56,222	\$23,497
AFS Exceptions .....	16,169	12,178	(3,991)
Allowance Exceptions .....	545	101	(444)
Liquidated Damage Assessments .....	—	—	—
OCS Recoupments .....	3	8	5
American Indian Recoupments .....	329	140	(189)
Improper Adjustments .....	2,057	2,363	306
Royalty Rate Monitoring .....	<u>274</u>	<u>212</u>	<u>(62)</u>
<b>TOTAL .....</b>	<b>\$52,102</b>	<b>\$71,224</b>	<b>\$19,122</b>

**Audit and Exceptions Identification Collections,  
Program Inception Through FY 1999 (In Millions)**

	<u>Total</u>
Audit Program, FY 1982-99 .....	\$1,752.7
AFS/PAAS Exceptions, FY 1985-99 .....	292.8
AFS Exceptions, FY 1985-99 .....	206.6
Allowance Exceptions, FY 1992-99 .....	6.4
Liquidated Damage Assessments, FY 1987-99 .....	4.4
OCS Recoupments, FY 1992-99 .....	2.4
American Indian Recoupments, FY 1992-99 .....	1.9
Improper Adjustments, FY 1993-99 .....	6.7
Royalty Rate Monitoring, FY 1995-99 .....	<u>1.1</u>
<b>TOTAL .....</b>	<b>\$2,275.0</b>

**Delinquent Accounts, FY 1998-99 (Revenues in Millions)**

	<u>FY 1998</u>	<u>FY 1999</u>	<u>Difference</u>
Delinquent Accounts .....	1,681	1,697	16
Value of Accounts With Surety .....	\$136.2	\$148.0	\$11.8
Value of Accounts Without Surety* .....	\$ 69.0	\$ 80.0	\$11.0

\*The RMP is aggressively pursuing action on these accounts.

**Oil and Gas Leases, Payors, and Lines Processed, FY 1998-99**

	<u>FY 1998</u>	<u>FY 1999</u>	<u>Difference</u>
Oil and Gas Leases			
Producing .....	25,749	25,724	(25)
Nonproducing .....	<u>53,543</u>	<u>53,498</u>	<u>(45)</u>
<b>TOTAL</b> .....	<b>79,292</b>	<b>79,222</b>	<b>(70)</b>
Active Oil and Gas Payors .....	2,100	2,224	124
Oil and Gas Lines Processed Monthly .....	289,598	262,734	(26,864)



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.