

**UNITED STATES
DEPARTMENT OF THE INTERIOR
BUDGET JUSTIFICATIONS, F. Y. 1988**



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MINERALS MANAGEMENT SERVICE

DEPARTMENT OF THE INTERIOR
MINERALS MANAGEMENT SERVICE
Fiscal Year 1988 Budget

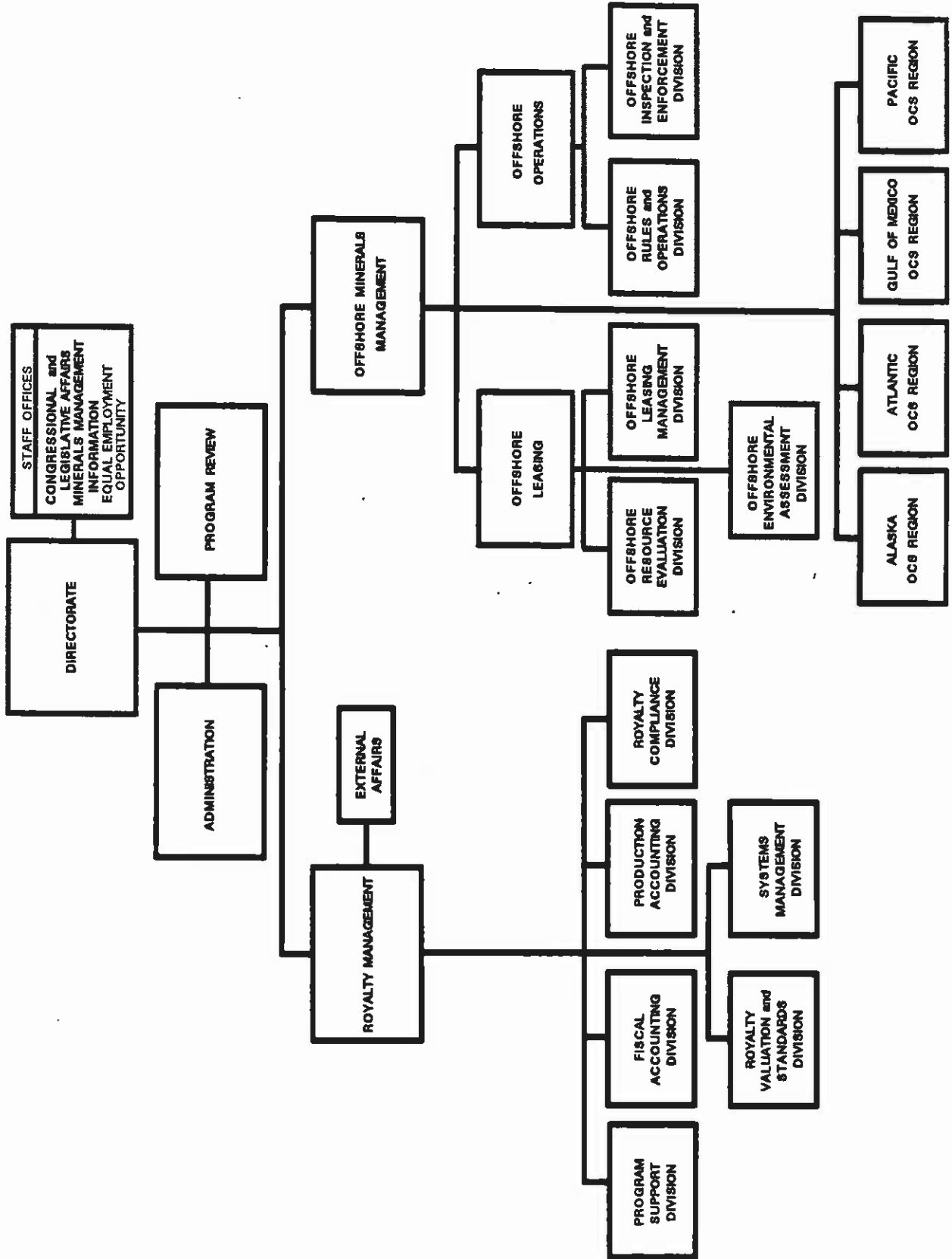
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MINERALS MANAGEMENT SERVICE



GENERAL STATEMENT

The Minerals Management Service (MMS) is responsible for offshore minerals leasing and lease management under the provisions of the Outer Continental Shelf (OCS) Lands Act and other related statutes and for the collection and distribution of mineral revenues owed the Government from Federal onshore and offshore leases and, in most instances, Indian tribes and allottees from leases on Indian lands pursuant to the Federal Oil and Gas Royalty Management Act, the Mineral Lands Leasing Act, the Indian Mineral Leasing Acts, and other related statutes.

Comparison of 1988 Estimate with 1987 Estimate

(Dollar amounts in thousands)

		<u>FY 1987</u> <u>Enacted</u> <u>To Date</u>	<u>FY 1988</u> <u>Estimate</u>	<u>Inc.(+)</u> <u>Dec.(-)</u>	<u>Perm.</u> <u>Empl.</u> <u>12/31/86</u>
Minerals and Royalty Management	\$	160,697	168,563	+7,866	1,880
	(FTE)	(2,037)	(2,040)	(+3)	
Payments to States from Receipts under Mineral Leasing Act	\$	434,725	390,620	-44,105	
	(FTE)	(—)	(—)	(—)	
<hr/>					
Total, MMS	\$	595,422	559,183	-36,239	
	(FTE)	(2,037)	(2,040)	(+3)	

The major missions of the programs included in the appropriation "Minerals and Royalty Management" are: (1) To manage the leasing of oil and gas and other minerals on offshore areas under the jurisdiction of the U.S. Government; (2) to classify and evaluate the energy and nonenergy mineral resources of those areas; (3) to supervise mineral development and production operations on leased OCS lands; and (4) to collect and distribute revenues due the Federal Government, States, and Indian Tribes from all onshore and offshore mineral leases.

The appropriation "Payments to States from Receipts under Mineral Leasing Act" provides States with a statutory share of bonuses, rentals, and royalties collected by the Federal Government for minerals produced on onshore Federal lands. This appropriation also reflects amounts included for interest to be paid to States and Indian accounts when mineral leasing revenues due them are not disbursed within the time established by the Federal Oil and Gas Royalty Management Act of 1982, interest to industry payors who successfully appeal royalty payment orders and are refunded all or part of the principal paid to and held by the Government, and rewards to persons who provide information to the Government which results in the collection of additional mineral revenues owed to the Government.

The programs and missions of the Minerals Management Service are conducted by the major components shown in the organizational chart on page MMS-3.

Highlights of the 1988 Request

The proposed funding level represents a decrease of \$1.60 million from the 1988 base budget in the Minerals and Royalty Management appropriation, and a decrease of \$44.1 million in the appropriation for Payments to States from Receipts under the Mineral Leasing Act. Since the establishment of MMS, programs have been restructured and organizations modified to reduce overhead and other costs to the minimum required for effective operation. Resources have been shifted from the OCS budget activity as workload has declined to the Royalty Management budget activity where program improvements have brought substantial amounts of additional revenues to the Federal Treasury. Program changes are highlighted below by appropriation.

Minerals and Royalty Management

Outer Continental Shelf Lands

The OCS Resource Evaluation and Leasing programs are proposed to be reduced \$0.45 million due to continued implementation of operational economies and the related reduction of 11 FTE. Geologic and Geophysical data (G&G) acquisition costs are proposed to be reduced \$3.10 million as a result of the 1986 change in the OCSLAA providing payment by the Government only for reproduction costs for data gathered under permits issued in 1986 and thereafter. The Environmental Studies Program is proposed to be reduced \$.76 million due to the extensive data and information base already gathered from previous studies.

An increase of \$0.25 million is included in the proposal for the offshore program to provide data for delineation of the boundary between State and Federal OCS lands, primarily in the Beaufort Sea. As a result of this project, the Federal Government expects royalty and bonus revenues to be maximized and expensive litigation to be avoided.

Royalty Management Program

Budget increases have been proposed for the Royalty Management Program (RMP) which are cost beneficial and which will bring additional revenues to the Federal Treasury. In the Collections subactivity, an increase of \$0.25 million is requested to establish a data base which will provide information enabling the Department to collect additional revenues owed under unitization and communitization agreements. Two increases are proposed in the Compliance subactivity to identify other unpaid royalties: (1) \$0.14 million and 4 FTE for workload relating to transportation allowances and appeals of royalty decisions; and (2) \$0.25 million for cooperative and delegated audits. In the Systems subactivity, three increases totalling \$3.0 million are requested for systems improvements. These increases are partially offset by two decreases totalling \$0.80 million resulting from installation and reimplemention of the Auditing and Financial System (AFS) software onto the new hardware environment in 1987.

General Administration

A net decrease of \$0.37 million from the FY 1988 base is proposed for this activity. The one-time expenses of \$0.83 million, along with annual savings of \$0.061 million, associated with the consolidation of Bureau headquarters in Northern Virginia are proposed as decreases. These reductions are partially offset by a request for \$0.12 million for 2 FTE to handle a substantially increased workload in appeals processing, \$0.29 million to upgrade obsolete equipment and fulfill new administrative requirements, and \$0.21 million for headquarters telecommunications.

Payments to States from Receipts under the Mineral Leasing Act

The Minerals Management Service is responsible for the collection and distribution to the States of a share of bonuses, royalties, and rentals from the leasing of onshore Federal mineral resources in accordance with applicable laws. This appropriation consists of two activities: Payments to States from Receipts under Mineral Leasing Act and Miscellaneous Payments.

Payments to States

Payments to States are estimated to decrease by \$44.9 million from the 1987 fiscal year level. Although payments to States due from Federal onshore mineral leasing receipts would be estimated to increase by \$34.0 million, net payments to States will actually decrease as a result of: (1) a reduction of \$23.9 million from amounts originally due in FY 1986 but sequestered under P.L. 99-177 (Gramm-Rudman-Hollings) and payed in FY 1987 and; (2) a reduction of \$55.0 million due to the proposal to share with the States net, rather than gross mineral leasing receipts, after deducting the Federal costs of collecting, accounting for, and disbursing the receipts.

Miscellaneous Payments

This net budget activity consists of three subactivities requesting a total of \$0.75 million. Interest on late payments (\$0.30 million) is requested to compensate States and Indian tribes when mineral leasing revenues are not disbursed within legislatively prescribed timeframes. Interest on refunds (\$0.20 million) is requested to compensate industry payors who appeal royalty payment orders and are refunded all or part of the principal paid to and held by the Government. Rewards funding (\$0.25 million) is requested to pay persons who provide information to the Government which results in the collection of additional mineral revenues owed to the Government.

Authorizations

The basic authorizing legislation for the Minerals Management Service includes the OCS Lands Act of 1953 (43 U.S.C. 1331-43); the OCS Lands Act Amendments of 1978 (43 U.S.C. 1801); the Mineral Leasing Act of 1920, as amended (30 U.S.C. 181, et seq.); the Federal Oil and Gas Royalty Management Act of 1982 (30 U.S.C. 1701, et seq.); the Indian Mineral Leasing Acts of 1891, 1909, and 1938; and the Indian Mineral Development Act of 1982.

Appropriation Summary Statement
Minerals Management Service

Appropriation: Minerals and Royalty Management

This annual operating appropriation provides resources to enable the Service to carry out its responsibilities for: Implementing the 5-year Outer Continental Shelf (OCS) Oil and Gas Leasing Schedule approved in July 1982 and developing the next 5-year schedule; conducting prelease resource assessments, evaluations, and environmental activities, exercising regulatory authority over the exploration for and production of leasable energy and mineral commodities on the OCS Lands; classifying and evaluating the energy and strategic and critical mineral resources of OCS lands; performing postlease environmental assessments to ensure compliance with the National Environmental Policy Act (NEPA); and collecting, depositing, and distributing royalties and other mineral revenues due the Federal Government, States, and Indian tribes, from all Federal onshore and offshore leases. The FY 1988 appropriation request for these activities totals \$168,563,000. A summary of the program changes proposed for FY 1988 is provided below:

Outer Continental Shelf Lands: (-\$4,068,000, -11 FTE)

This budget activity funds the Offshore Oil and Gas Leasing and Environmental Program, and the Resource Evaluation and Regulatory Programs which: (1) develop environmental impact statements (EIS) and environmental assessments both prelease and postlease to ensure compliance with the National Environmental Policy Act (NEPA) and conduct oil spill trajectory analyses to support the leasing program; (2) conduct lease sales; (3) classify OCS lands for their resource potential for oil, gas, and strategic and critical minerals; (4) evaluate tracts offered for lease by competitive bidding; (5) assure that the Government receives fair market value for leased lands through the determination of bid adequacy; (6) exercise regulatory authority over leaseable mineral prospecting, development, and production operations on the OCS lands; (7) develop and maintain an inventory of oil and gas activities; and (8) collect and distribute information concerning oil and gas activities to affected State and local governments. Funding is provided for examination of possible strategic and critical mineral leasing and for resource evaluation activities on the OCS and in the Exclusive Economic Zone (EEZ). The MMS activities that are associated with and related to strategic and critical minerals are coordinated with and draw directly upon work carried out by the U.S. Geological Survey (USGS), the Bureau of Mines, and the National Oceanic and Atmospheric Administration (NOAA).

Program changes, resulting in a net decrease of \$4,068,000 are distributed as follows:

- Leasing and Environmental Program. A decrease of \$764,000 is proposed in funding for environmental studies. This reduction is proposed due to the extensive data base currently available to the Department as a result of studies undertaken and completed during the past decade.

A decrease of \$38,000 in Leasing and Environmental Assessment will be achieved through consolidation of headquarters offices. This decrease is offset by a proposed increase of \$250,000 primarily for gathering tidal data to help determine the proper boundary between the State of Alaska and the Federal OCS. This increase is predicated on the State of Alaska providing matching funds for the project.

- Resource Evaluation Program. A decrease of \$3,100,000 is proposed in funding for the acquisition of geological and geophysical (G&G) data. This represents the third and final year of the phase-out of funds required to reimburse industry for processing costs of data and information acquired from permits issued on or before September 30, 1985. A decrease of \$388,000 is proposed relating to the reduction of 11 FTE due to decreased activity in oil and gas leasing. A further decrease of \$28,000 will be achieved through consolidation of headquarters offices.

Royalty Management (+\$2,838,000, +2 FTE)

The Royalty Management Program provides for the collection, auditing, and compliance activities of the mineral revenues owed the Federal Government, States, and Indian lessors from minerals produced on Federal, Indian, and Outer Continental Shelf Lands. The program is comprised of three automated revenue and production accounting systems supported by a variety of auditing programs. The following changes in funding for Royalty Management are proposed:

- Mineral Revenue Collections. As a further improvement to the Auditing and Financial System (AFS), MMS proposes the establishment of an agreements data base. The data related to unitization and communitization agreements has not previously been incorporated into the AFS and has resulted in a loss of revenues related to minimum royalties. This increase of \$250,000 would permit the development of this data base by providing contractual funding to research, analyze, and enter unitization and communitization agreement records into the AFS.
- Mineral Revenue Compliance. An increase of \$139,000 is requested for 4 FTE to provide the staff necessary to accommodate the continuing increases in workload related to transportation allowances and appeals of royalty decisions. An increase of \$249,000 is proposed for the cooperative and delegated audit programs under Sections 202 and 205 of the Federal Oil and Gas Royalty Management Act (FOGRMA) and the Intergovernmental Personnel Act Program. This increase would bring the total funding for these delegated programs to approximately \$2,500,000, which is the proposed annual operating level.
- Systems Development and Operation. An increase of \$1,900,000 is proposed to begin preliminary work on the software improvements initiatives. Systems improvement could continue in FY 1989/1990 if warranted and could include new or upgraded software systems for the mineral revenue accounting systems data base.

A second increase of \$800,000 is proposed to provide 12 FTE for a dedicated internal staff and additional contractual support to provide review, analysis, and recommendations regarding mineral revenue systems improvements.

An increase of \$300,000 is proposed to provide for added online access for system users and to enable users to download data for review and analysis. Partially offsetting these increases are the following program decreases. A reduction of \$600,000 and 14 FTE is proposed in this subactivity as a result of the completion of the Systems Integration Project (SIP) during FY 1987. With the full reimplementation of the AFS software onto the new hardware environment, the personnel resources devoted to contractor oversight and systems testing can be redirected. In addition, a decrease of \$200,000 in annual computer hardware lease costs is proposed as a result of the contractual fee schedule originally entered into for the lease purchase of the computer mainframe.

General Administration (-\$370,000, +2 FTE)

General administrative expenses provide for management, executive direction and coordination, administrative support, and common support costs for the Service. This includes such essential functions as budget, financial management, personnel administration, procurement and contract administration, property management, and information resources management. The Offices of the Director and the immediate executive staff are provided for in the Executive Direction subactivity. The Office of Administration and the Administrative Service Centers are supported by the Administrative Operations subactivity, while fixed operational costs, such as rental payments to GSA, Federal and commercial telecommunications, and postal expenses are funded in the General Support Services subactivity.

- Executive Direction. An increase of \$118,000 for 2 FTE is proposed to accommodate the significantly escalating workload in appeals related to mineral revenue decisions and allowances.
- Administrative Operations. Decreases totalling \$61,000 are made possible by productivity and travel savings resulting from the headquarters offices consolidation scheduled for FY 1987. These decreases are offset by increases totalling \$285,000 needed to upgrade obsolete office automation and computer equipment and to cover costs associated with new personnel management requirements.
- General Support Services. The FY 1987 budget proposed an increase of \$833,000 to support the consolidation of Bureau headquarters offices in Northern Virginia. The one-time expenses, along with \$92,000 in annual savings, are now proposed to be deleted from the base. This decrease of \$925,000 is partially offset by an increase of \$213,000 for telecommunications. Additional annual savings of \$66,000 and \$61,000 are included in the Outer Continental Shelf Lands activity and the Administrative Operations subactivity, for a total annual savings of \$219,000.

Appropriation Language Sheet

[LEASING] AND ROYALTY MANAGEMENT MINERALS

For expenses necessary for minerals leasing and environmental studies, regulation of industry operations, and collection of royalties, as authorized by law; for enforcing laws and regulations applicable to oil, gas, and other minerals leases, permits, licenses and operating contracts; and for matching grants or cooperative agreements; including the purchase of not to exceed eight passenger motor vehicles for replacement only; [\$160,697,000, of which not less than \$44,904,000 shall be available for royalty management activities including general administration: Provided, That not less than \$11,059,000 is to be used for the mineral revenue compliance audit program: Provided further, That notwithstanding any other provision of law, funds appropriated under this Act shall be available for the payment of interest in accordance with 30 U.S.C. 1721(b) and (d): Provided further, That in fiscal year 1987 and thereafter, the Minerals Management Service is authorized to accept land, buildings, equipment and other contributions, from public and private sources, which shall be available for the purposes provided for in this account.]

\$168,563,000: Provided, That of the above enacted amounts, \$250,000 proposed for data gathering to help determine the boundary between State and Federal lands offshore of Alaska shall be available only if an equal amount is provided by the State of Alaska from State revenues to match the Federal support for this project. (Department of the Interior and Related Agencies Appropriations Act, 1987, as included in Public Laws 99-500 and 99-591, section 101(h).)

Justification of Proposed Language Changes

Minerals and Royalty Management

1. Deletion: "Leasing" from the title of the appropriation.

The word "leasing" is not fully descriptive of the missions of the Service. The Minerals Management Service is responsible not only for leasing, but also for resource evaluation, environmental studies and assessments, pre-lease geological and geophysical permitting, and regulation of operations on offshore leases, including technology assessments.

2. Addition: "Minerals" to the title of the appropriation.

This addition better describes the range of responsibilities and all of the activities of the Minerals Management Service.

3. Deletion: "of which not less than \$44,904,000 shall be available for royalty management activities including general administration:"

This internal limitation of the funds appropriated is unnecessary since royalty management activities are earmarked for a specific amount through the Royalty Management budget activity.

4. Deletion: "Provided, That not less than \$11,059,000 is to be used for the mineral revenue compliance audit program:"

This provision applies to FY 1987 and should not be repeated for FY 1988.

5. Deletion: "Provided further, That notwithstanding any other provision of law, funds appropriated under this Act shall be available for the payment of interest in accordance with 30 U.S.C. 1721 (b) and (d)."

Language for this provision is being requested in FY 1988 in the Payments to the States appropriation.

6. Deletion: "Provided further, That in fiscal year 1987 and thereafter, the Minerals Management Service is authorized to accept land, buildings, equipment and other contributions, from public and private sources, which shall be available for the purposes provided in this account and shall be available until expended:"

This provision is effective each fiscal year after enactment of the FY 1987 appropriation. Thus, it does not need to be repeated in the FY 1988 appropriation language.

7. Addition: "Provided, That of the above enacted amounts, \$250,000 proposed for data gathering to help determine the boundary between State and Federal lands offshore of Alaska shall be available only if an equal amount is provided by the State of Alaska from State revenues to match the Federal support for this project."

This provision is proposed to ensure that the State of Alaska shares in the funding of the boundary project.

Appropriation Language Citations

Minerals and Royalty Management

1. For expenses necessary for minerals leasing and environmental studies, regulation of industry operations, and collection of royalties, as authorized by law.

30 U.S.C. 181 et seq.

30 U.S.C. 181 et seq. provides for classification and leasing of coal, oil, oil shale, natural gas, phosphate, potassium, sulfur, and sodium and the payment of bonuses, rents, and royalties in such leases.

30 U.S.C. 1701 et seq.

30 U.S.C. 1701 et seq. provides for comprehensive fiscal and production accounting and auditing systems to accurately determine oil and gas royalties, interest, fines, penalties, fees, deposits, and other payments owed and to collect such amounts in a timely manner.

43 U.S.C. 1331 et seq.

43 U.S.C. 1331 et seq. extended the jurisdiction of the United States to the Outer Continental Shelf; provided for granting of leases to develop offshore energy and minerals; and provided for bonuses, rents, and royalties to be paid in connection with such leases.

43 U.S.C. 1801

43 U.S.C. 1801 establishes a policy for the management of oil and gas on the Outer Continental Shelf and development of environmental studies for lease sale areas and 5-year leasing programs.

43 U.S.C. 4321-4347

43 U.S.C. 4321-4347 provides congressional declaration of a national environmental policy.

2. for enforcing laws and regulations applicable to oil, gas, and other minerals leases, permits, licenses and operating contracts.

30 U.S.C. 189

30 U.S.C. 189 empowers the Secretary of the Interior to prescribe necessary and proper rules and regulations to carry out the purposes of this chapter (Title 30 - Mineral Lands and Mining).

43 U.S.C. 1334(a)(1)

43 U.S.C. 1334(a)(1) provides that "The Secretary shall administer the provisions of this subchapter relating to the leasing of the Outer Continental Shelf, and shall prescribe such rules and regulations as may be necessary to carry out such provisions...."

3. and for matching grants or cooperative agreements.

43 U.S.C. 1331-1343 43 U.S.C. 1801,
30 U.S.C. 1701, et seq.

4. including the purchase of not to exceed 8 passenger motor vehicles for replacement only.

31 U.S.C. 638a(a)(b)

31 U.S.C. 638a(a) provides that "Unless specifically authorized by the appropriation concerned or other law, no appropriation shall be expended to purchase or hire passenger motor vehicles for any branch of the Government...."

5. \$168,563,000: Provided, That of the above enacted amounts, \$250,000 proposed for data gathering to help determine the boundary between State and Federal lands offshore of Alaska shall be available only if an equal amount is provided by the State of Alaska from State revenues to match the Federal support for this project.

No specific authority

This provision is proposed to ensure that the State of Alaska shares in the funding of the boundary project.

DEPARTMENT OF THE INTERIOR
MINERALS AND ROYALTY MANAGEMENT
Activity/Subactivity Change Crosswalk - FY 1987 Enacted

(In thousands of dollars)

	<u>FY 1987</u> Enacted	<u>Format of FY 1988 Congressional Budget</u>	<u>FY 1987</u> Enacted
<u>Format of FY 1987 Appropriation</u>		<u>Appropriation/Activity/Subactivity</u>	
<u>Minerals and Royalty Management</u>		<u>Minerals and Royalty Management</u>	
A. Outer Continental Shelf Lands		A. Outer Continental Shelf Lands	
(1) Leasing & Environmental Program.....	38,632	(1) Leasing & Environmental Program.....	38,632
(2) Resource Evaluation Program.....	23,459	(2) Resource Evaluation Program.....	26,212
(3) Regulatory Program.....	30,748	(3) Regulatory Program.....	27,952
Total, Outer Continental Shelf Lands.....	92,839	Total, Outer Continental Shelf Lands.....	92,796
B. Royalty Management		B. Royalty Management	
(1) Mineral Revenue Collections.....	14,788	(1) Mineral Revenue Collections.....	14,652
(2) Mineral Revenue Compliance.....	12,882	(2) Mineral Revenue Compliance.....	13,526
(3) Systems Development & Operation.....	17,234	(3) Systems Development & Operation.....	16,726
Total, Royalty Management.....	44,904	Total, Royalty Management.....	44,904
C. General Administration		C. General Administration	
(1) Executive Direction.....	3,119	(1) Executive Direction.....	3,153
(2) Administrative Operations.....	9,064	(2) Administrative Operations.....	9,107
(3) General Support Services.....	10,771	(3) General Support Services.....	10,737
Total, General Administration.....	22,954	Total, General Administration.....	22,997
Combined Total.....	160,697	Combined Total.....	160,697

MINERALS AND ROYALTY MANAGEMENT
Activity/Subactivity Change Crosswalk - FY 1988 President's Budget

(In thousands of dollars)

Format of FY 1987 Appropriation	FY 1988 Estimate	Format of FY 1988 Congressional Budget	FY 1988 Estimate
Appropriation/Activity/Subactivity		Appropriation/Activity/Subactivity	
Minerals and Royalty Management		Minerals and Royalty Management	
A. Outer Continental Shelf Lands		A. Outer Continental Shelf Lands	
(1) Leasing & Environmental Program.....	39,319	(1) Leasing & Environmental Program.....	39,319
(2) Resource Evaluation Program.....	21,093	(2) Resource Evaluation Program.....	23,846
(3) Regulatory Program.....	32,419	(3) Regulatory Program.....	29,623
Total, Outer Continental Shelf Lands.....	<u>92,831</u>	Total, Outer Continental Shelf Lands.....	<u>92,788</u>
B. Royalty Management		B. Royalty Management	
(1) Mineral Revenue Collections.....	16,067	(1) Mineral Revenue Collections.....	15,931
(2) Mineral Revenue Compliance.....	14,376	(2) Mineral Revenue Compliance.....	15,020
(3) Systems Development & Operation.....	19,736	(3) Systems Development & Operation.....	19,228
Total, Royalty Management.....	<u>50,179</u>	Total, Royalty Management.....	<u>50,179</u>
C. General Administration		C. General Administration	
(1) Executive Direction.....	3,511	(1) Executive Direction.....	3,545
(2) Administrative Operations.....	10,014	(2) Administrative Operations.....	10,057
(3) General Support Services.....	12,028	(3) General Support Services.....	11,994
Total, General Administration.....	<u>25,553</u>	Total, General Administration.....	<u>25,596</u>
Combined Total.....	168,563	Combined Total.....	168,563

Justification for Change to Activity/Subactivity Structure

Outer Continental Shelf Lands:

- The transfer of \$2,753,000 to the Resource Evaluation Program subactivity from the Regulatory Program subactivity reflects realignment of reserve inventory functions. The primary objective of the reserve inventory functions is to develop and maintain estimates of oil and gas reserves as mandated by the OCSLAA. Reserve inventories are generated from well and reservoir data and tabulated by individual field, reservoir, and lease. The analyses and mapping associated with reserve estimates directly support field and reservoir development and provide geological and engineering data required for lease sale evaluations. A realignment of reserve inventory functions from the Regulatory Program subactivity to the Resource Evaluation Program subactivity permits more direct exchange of data and improves coordination between activities with similar functions. Reserve inventory analyses, mapping, and studies are more closely related to the Resource Evaluation Program in that resource studies and lease sale evaluations mutually benefit from data developed within the Reserve Inventory Program.
- Funding of \$43,000 for 1 FTE was transferred in FY 1987 from the Regulatory Program subactivity to the General Administration subactivity to support a communications specialist position in the Southern Administrative Service Center. The activities of this position are administrative in nature. This functional realignment more accurately reflects the work of this position.

Royalty Management: The change in funding levels between the three subactivities of Royalty Management is the result of four reallocations:

- Contract funding of \$1,352,000 for reference data maintenance is transferred from the Systems Development and Operation subactivity to the Mineral Revenue Collections subactivity. Reference data maintenance is an integral functional responsibility of the Fiscal Accounting Division (FAD), which is funded from the Mineral Revenue Collections subactivity. Although identical in nature to much of the reference data maintenance activity conducted by FAD, the contract funding has always been carried in the Systems Development and Operations subactivity as part of an operations and maintenance contract. This change will more accurately reflect the true nature of the work performed and will align budget responsibility with the organization having functional responsibility.
- Funding of \$594,000 for 13 FTE positions in the Document and Statistical Service Branch of the Systems Management Division is transferred from the Mineral Revenue Collections subactivity to the Systems Development and Operation subactivity. This branch has a broad range of responsibilities including statistics development and maintenance, ad hoc reporting, and royalty document receipt and processing. After examination of the functions and responsibilities, the MMS believes these responsibilities more closely align with the systems operations function than with the accounting function normally associated with the Mineral Revenue Collections subactivity.

- Contract funding of \$250,000 for expert accounting and systems advice is transferred from the Mineral Revenue Collections subactivity to the Systems Development and Operation subactivity. An increase for a systems improvement team has been proposed for FY 1988 in the Systems Development and Operation subactivity. MMS plans to augment the in-house team with expert consultants. This action places contractual resources in the base program in the same activity with those being requested.

- Funding of \$644,000 for 4 FTE positions in the Office of External Affairs (OEA) is transferred from the Mineral Revenue Collections subactivity to the Mineral Revenue Compliance subactivity. Because the preponderance of OEA activities are in support of auditing, payor compliance, and 202/205 activities for States and Indian tribes, this group's workload is most closely related with the functions of the Mineral Revenue Compliance subactivity.

General Administration:

- Funding of \$34,000 was transferred in FY 1987 from the General Support Services subactivity to the Executive Direction subactivity to support EEO functions funded directly in MMS rather than through a reimbursable agreement.

Summary of Requirements

		(Dollar amounts in thousands)	
FTE	Amount	FTE	Amount
<u>Appropriation: Minerals and Royalty Management</u>			
<u>Summary of Base Adjustments</u>			
Appropriation, 1987		2,037	160,697
<u>Base Adjustments:</u>			
	Increased retirement (FERS) cost.....	5,078	
	Full year cost of FY 1987 Pay Increase.....	2,330	
	Rental Payments to GSA (SLUC) and others for rate increase.....	1,934	
	Annualization of 50 RMP positions.....	10	89
	Unemployment Compensation Fund.....	---	34
	Employee Compensation Fund.....	---	1
	<u>Total Base Adjustments.....</u>	<u>10</u>	<u>9,466</u>
1988 Base Budget		<u>2,047</u>	<u>170,163</u>

Summary of Requirements Continued

(Dollar amounts in thousands)

Comparison by Activity/Subactivity	FY 1986 Actual		FY 1987 Enacted		FY 1988 Base		FY 1988 Estimate		Inc.(+)/Dec.(-) from 1987		Inc.(+)/Dec.(-) from 1988 Base	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
OCS Lands												
Leasing & Environmental Program	350	41,783	343	38,632	343	39,871	343	39,319	0	687	0	-552
Resource Evaluation Program	382	25,725	365	26,212	365	27,362	354	23,846	-11	-2366	-11	-3516
Regulatory Program	434	27,734	417	27,952	417	29,623	417	29,623	0	1671	0	0
Subtotal	1,166	95,242	1,125	92,796	1,125	96,856	1,114	92,788	(11)	(8)	(11)	(4,068)
Royalty Management												
Mineral Revenue Collections	305	14,002	295	14,652	295	15,681	295	15,931	0	1279	0	250
Mineral Revenue Compliance	205	10,889	242	13,526	252	14,632	256	15,020	14	1494	4	388
Systems Development and Operations	94	18,104	88	16,726	88	17,028	86	19,228	-2	2502	-2	2200
Interest on Late Payments	0	200	0	0	0	0	0	0	0	0	0	0
Subtotal	604	43,195	625	44,904	635	47,341	637	50,179	12	5,275	2	2,858
General Administration												
Executive Direction	64	3,153	69	3,153	69	3,427	71	3,545	2	392	2	118
Admin. Operations	232	9,107	218	9,107	218	9,833	218	10,057	0	950	0	224
Gen. Support Services	0	9,332	0	10,737	0	12,706	0	11,994	0	1257	0	-712
Subtotal	296	21,592	287	22,997	287	25,966	289	25,596	2	2,599	2	(370)
Total Requirements	2,066	160,029	2,037	160,697	2,047	170,163	2,040	168,563	3	7,866	(7)	(1,600)

Justification of Adjustments to Base

Minerals and Royalty Management

	<u>FTE</u>	<u>Amount (\$000)</u>
<u>Increase in Rental Payments to GSA.....</u>	---	+1,934
<p>This adjustment reflects the annual rate increase by GSA and the cost resulting from the net change in the square footage and types of space occupied nationwide.</p>		
<u>Unemployment Compensation Payments.....</u>	---	+34
<p>The increase in payment to the Federal Employment Compensation Account (FECA) is the result of higher costs for unemployment compensation payments. These charges will be reimbursed to the Department of Labor, Federal Employment Compensation Fund in FY 1988 pursuant to Public Law 96-499.</p>		
<u>Annualization of 50 RMP Positions.....</u>	+10	+89
<p>The FY 1987 Appropriations Bill provided additional funding and directed MMS to expand its audit staff by 50. Because of the normal hiring delays, MMS expects to consume only 40 of the 50 staff years during FY 1987. In FY 1988, MMS will be at full staffing, requiring an additional \$384,000 for personal compensation. All but \$89,000 of this requirement is offset by FY 1987 startup expenses (relocation expenses, equipment, furniture, and training) contained in the FY 1987 funded amount.</p>		
<u>Employees' Compensation Fund.....</u>	---	+1
<p>The increase in the repayment to the Employees' Compensation Fund is the result of higher costs for compensation to insured employees. These charges will be reimbursed to the Department of Labor, Employees' Compensation Fund, with FY 1988 funds pursuant to Public Law 94-273.</p>		
<u>Full-Year Cost of FY 1987 Pay Increase.....</u>	---	+2,330
<p>The FY 1987 pay increase of \$1,723,000 for nine months was funded by MMS from within its FY 1987 appropriation. The full-year cost of \$2,330,000 in FY 1988, therefore, needs to be added to the base.</p>		

	<u>FTE</u>	<u>Amount (\$000)</u>
<u>Increased Retirement Costs</u>	---	+5,078

The new Federal Employees' Retirement System (FERS) is estimated to increase MMS's contributions to the retirement fund by \$1,423,799 in FY 1987. This will be funded from within MMS's FY 1987 appropriation. In FY 1988, the new system is estimated to increase MMS's contributions to the retirement fund by \$5,077,504. This amount needs to be added to the base in order for MMS to fund this new retirement system.

Activity Summary

Activity: Outer Continental Shelf Lands

(In thousands of dollars)

<u>Subactivity</u>	<u>FY 1986 Actual</u>	<u>FY 1987 Enacted To date</u>	<u>FY 1988 Base</u>	<u>FY 1988 Estimate</u>	<u>Inc.(+) Dec.(-) from 1987</u>	<u>Inc. (+) Dec. (-) from Base</u>
Leasing & Environ- mental Program	41,783	38,632	39,871	39,319	+687	-552
Resource Evaluation Program	25,725	26,212	27,362	23,846	-2,366	-3,516
Regulatory Program	27,734	27,952	29,623	29,623	+1,671	---
Total Requirements	95,242	92,796	96,856	92,788	-8	-4,068

Authorizations

- 43 U.S.C. 1331-1343
P.L. 83-212 and
P.L. 93-627
- The Outer Continental Shelf Lands Act of 1953, as amended, extends the jurisdiction of the United States to the Outer Continental Shelf and provides basic authority to the Minerals Management Service for granting of leases to develop offshore energy and minerals.
- 43 U.S.C. 4321, 4331-4335, 4341-4347
P.L. 91-190
- The National Environmental Policy Act of 1969 requires that Federal agencies consider in their decisions the environmental effects of proposed activities and that agencies prepare environmental impact statements for Federal projects having a significant effect on the environment.
- 43 U.S.C. 1801
P.L. 95-372
- The Outer Continental Shelf Lands Act Amendments of 1978 establishes a policy for the management of oil and gas in the Outer Continental Shelf and requires revision of bidding systems and lease administration, coordination and consultation with affected State and local governments, development of environmental studies for lease sale areas, and development of a 5-year leasing program.
- 43 U.S.C. 1331, 1337(g), 43 U.S.C. 1301(b)
P.L. 99-272
- The Outer Continental Shelf Lands Act Amendments of 1985 (Consolidated Omnibus Budget Reconciliation Act of 1985, Title VIII) establishes the policy for providing information to the Governor of a coastal State in regard to common potentially hydrocarbon-bearing areas and develops a revenue sharing agreement whereby 27 percent of certain revenues are shared with coastal States.

- 16 U.S.C. 1451-1464
P.L. 92-583 The Coastal Zone Management Act of 1972 establishes goals for ensuring that industry activity in the coastal zone is consistent with coastal zone plans set by the States.
- 16 U.S.C. 1531-1543 The Endangered Species Act of 1973 establishes procedures to ensure interagency cooperation and consultations on endangered and threatened species.
- 16 U.S.C. 470-470w6 The National Historic Preservation Act establishes procedures to ensure protection of significant archaeological resources.
- 30 U.S.C. 21(a)
P.L. 91-631
30 U.S.C. 1601 et. seq.
P.L. 96-479 The Mining and Minerals Policy Act of 1970 and the Materials and Minerals Policy, Research and Development Act of 1970, set forth the continuing policy of the Federal Government, in the national interest, to foster and encourage private enterprise in the orderly and economic development of domestic mineral resources and reserves. The MMS is responsible for the assessment of oil, gas, and strategic/critical mineral resources in the OCS and management of the exploration and development of OCS offshore leases.
- 43 U.S.C. 1301
P.L. 92-532 The Marine Protection, Research, and Sanctuaries Act of 1972 provides that the Secretary of Commerce must consult with the Secretary of Interior prior to designating marine sanctuaries. The MMS provides information regarding the mineral resource potential in areas being considered for designation as marine sanctuaries.

The Outer Continental Shelf (OCS) Lands budget finances the sale and award of energy and mineral leases and regulation of exploration, development, and production on Federally-leased OCS lands. The budget for the program is described in three subactivities entitled: Leasing & Environmental Program, Resource Evaluation Program, and Regulatory Program. This division is a useful description of the major activities of the Minerals Management Service on the Outer Continental Shelf Lands, and each subactivity represents an integral component of a highly coordinated program.

Justification of Program and Performance

Activity: Outer Continental Shelf Lands
 Subactivity: Leasing and Environmental Program

(Dollar amounts in thousands)

<u>Program Element</u>		<u>FY 1987 Enacted To Date</u>	<u>FY 1988 Base</u>	<u>FY 1988 Estimate</u>	<u>Inc.(+) Dec.(-) from 1987</u>	<u>Inc.(+) Dec.(-) from Base</u>
Leasing & Environ- mental Assessment	\$ (FTE)	16,003 (343)	17,242 (343)	17,454 (343)	+1,451 (—)	+212 (—)
Environmental Studies	\$ (FTE)	22,629 (—)	22,629 (—)	21,865 (—)	-764 (—)	-764 (—)
Total Requirements	\$ (FTE)	38,632 (343)	39,871 (343)	39,319 (343)	+687 (—)	-552 (—)

Leasing and Environmental Assessment

Objectives

1. To make the Outer Continental Shelf available for expeditious and orderly mineral resource development.
2. To prepare, revise periodically, and maintain an oil and gas leasing schedule (5-year program) to implement the policies of the OCSLA.
3. To assure that protection of the environment is given full consideration in the planning of leasing and development activities on the OCS.
4. To ensure that leasing and permitting actions are in accordance with all Federal environmental laws and that required Federal coordination occurs, such as for endangered species, archaeological resources, and coastal zone management.
5. To provide affected States, and through such States affected local governments, with opportunities to participate in policy and planning decisions relating to leasing exploration, development, and production of minerals on the Outer Continental Shelf.
6. To grant to the highest responsible qualified bidders, oil and gas and other mineral leases on submerged lands.
7. To establish information, through environmental and socioeconomic studies, to assist in the prediction, assessment, and management of impacts on the environment from OCS oil and gas and other mineral activities.

8. To determine size, timing, location, terms and conditions for each sale for which activities require a reasonable balance between national interest and the well-being of the citizens of each affected State; and, to communicate to the Governors of each affected State this determination vis-a-vis the Governor's recommendations.

Base Program

The primary functions of the Leasing and Environmental Assessment Program are: (1) To develop an OCS oil and gas leasing program which indicates as precisely as possible the schedule of lease sales which will best meet national energy needs for the 5-year period following its approval; (2) to manage and directly support the OCS minerals leasing activities; and (3) to obtain environmental information on, review, and assess the environmental impacts associated with the leasing program permits issued under the Resource Evaluation and Regulatory Program subactivities. Active coordination of the offshore minerals leasing program with other Federal agencies and ongoing consultation with affected State and local governments and the public occur throughout the development of the schedule and leasing process and are major tasks of this program. Figures 1 and 2 graphically depict the coordination, consultation and approval required through both the pre and postleasing processes of the offshore oil and gas leasing program. Additionally, the activities required to develop OCS strategic and critical minerals leasing procedures and expand the information base for potential future minerals development in the Exclusive Economic Zone (EEZ) will continue to be studied and evaluated.

In recent years the Leasing and Environmental Assessment Program has evolved into one that relies on continuous involvement with State and affected local governments, other Federal agencies, industry and public interest groups in the development and conduct of the Department's leasing program. The information transfers between these parties and the Department help the Secretary to achieve consensus on design and timing of lease sales, and promotes early resolution on issues and concerns regarding the leasing program. Information exchanges begin early in the leasing process with the Call for Information and Nominations and continue throughout the postlease phase (e.g., endangered species consultations and postlease development/production plan EIS hearings).

The OCS minerals leasing program, in accomplishing its objectives, also supports the Administration's goals of reducing the Nation's reliance on foreign oil sources, enhancing national security, and strengthening the Nation's economy. The OCS currently provides approximately 12 percent of domestic oil and 25 percent of domestic gas production.

Federal budget benefits which result from the OCS leasing program are the bonuses and rents paid for leases and royalties from subsequent production. Approximately \$2.8 billion were received in FY 1986 from bonuses, rents, and royalties and an additional \$1.9 billion was received from an escrow payout. Approximately \$3.7 billion is estimated to be collected in FY 1988. Of this amount, royalty receipts from producing OCS leases are estimated to be \$2.8 billion in FY 1988.

Leasing activity for about 20 oil and gas sales will be in progress during FY 1988, an increase of 3 over FY 1987 (see Table 1). The workload will also involve more difficult issues. For example, all three California planning areas will be worked on in FY 1988, entailing continuance of difficult decision and

Prelease Process

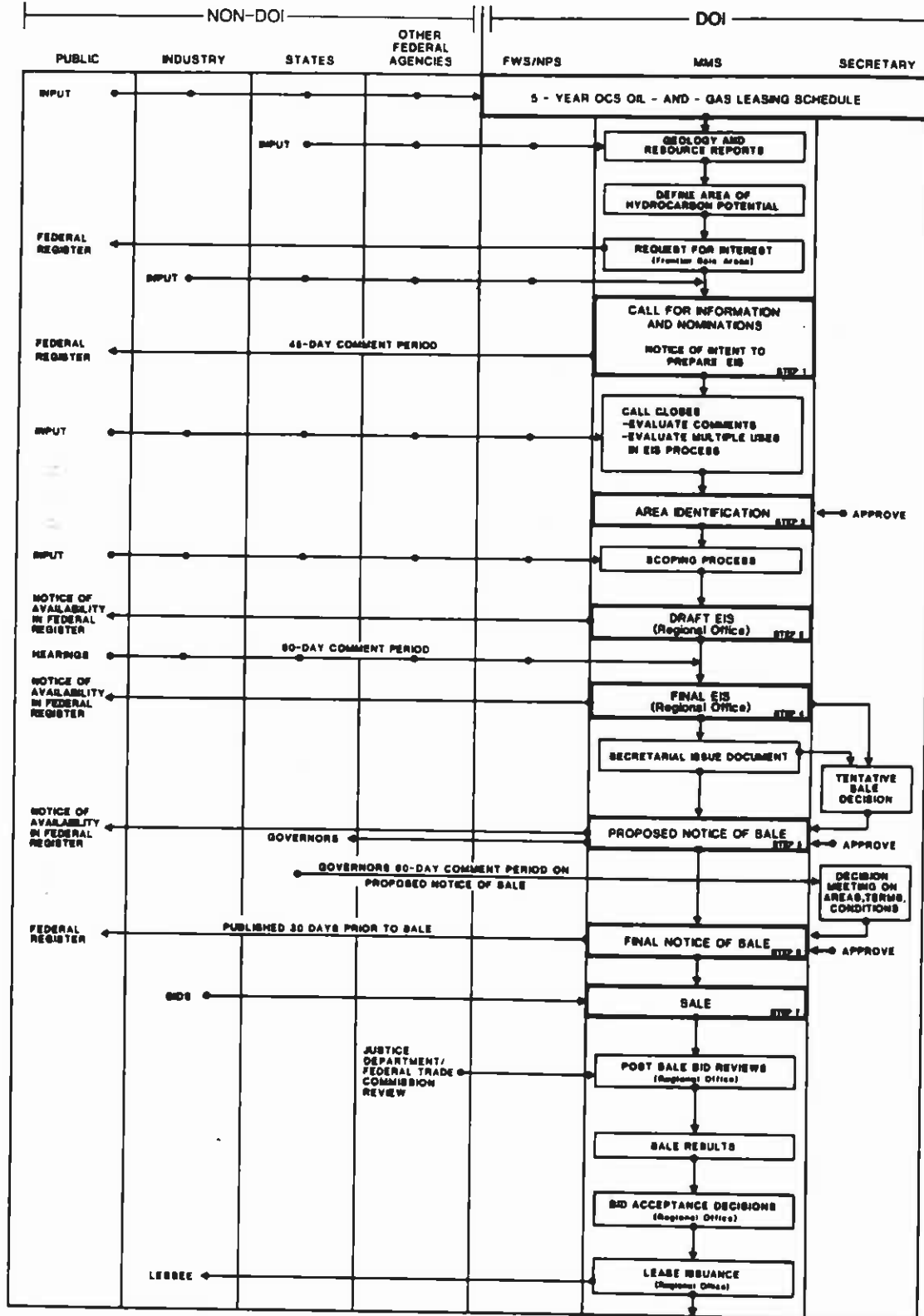


Figure 1

MMS-27

Postlease Process

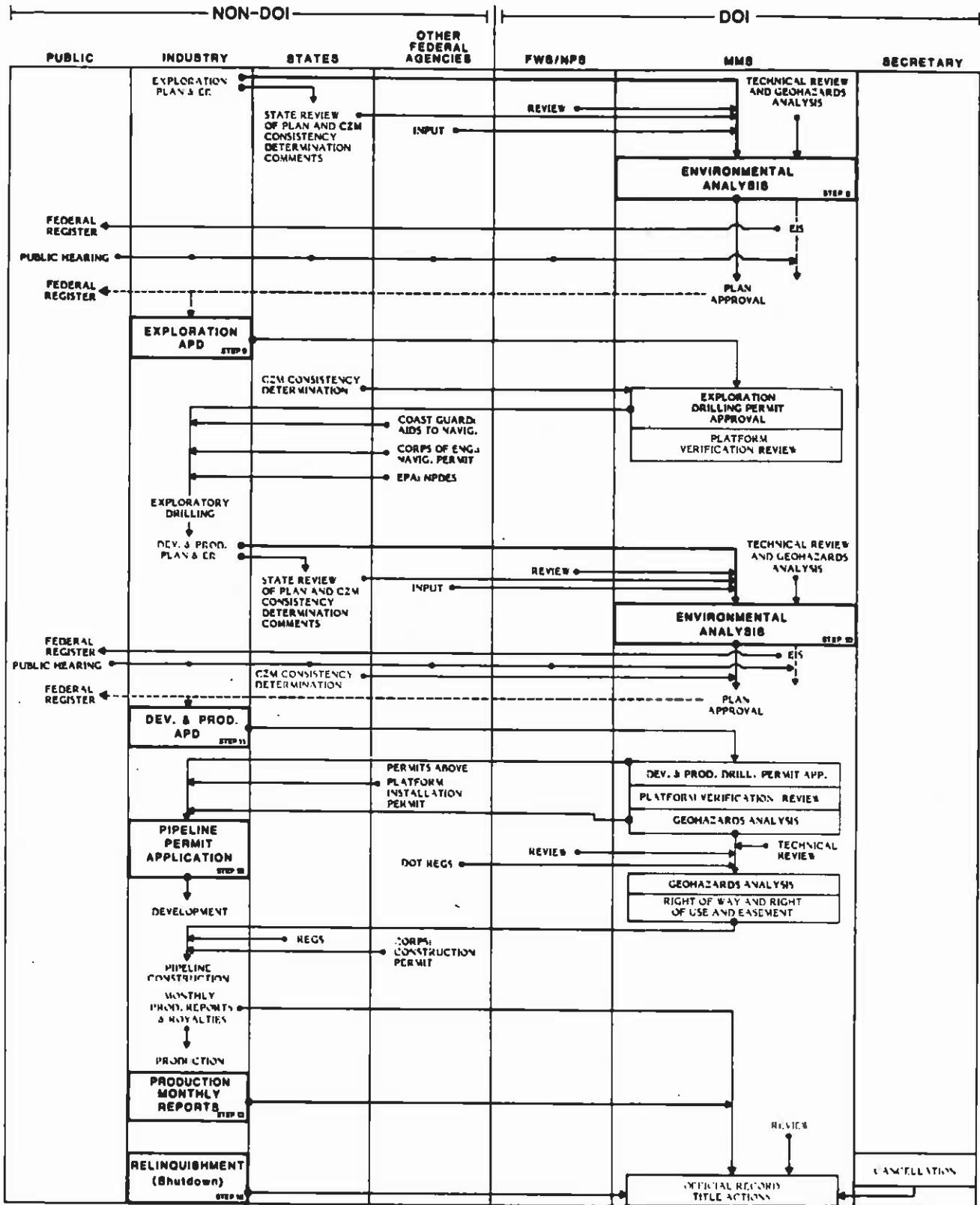


Figure 2

Table 1

Minerals Management Service

Tentative 5-Year OCS Oil and Gas Leasing Schedule

FY 1986

<u>Sale Number</u>	<u>Area</u>
94	E. Gulf of Mexico
104	C. Gulf of Mexico
105	W. Gulf of Mexico

FY 1987

<u>Sale Number</u>	<u>Area</u>
110	C. Gulf of Mexico
112	W. Gulf of Mexico
SU1	Nationwide

FY 1988

<u>Sale Number</u>	<u>Area</u>
97	Beaufort Sea
113	C. Gulf of Mexico
109	Chukchi Sea
107	Navarin Basin
115	W. Gulf of Mexico
SU2	Nationwide

consultation processes to allow sales to occur as proposed in 1989 and 1990. FY 1988 will also see ongoing efforts in two Atlantic planning areas, including initial public and State consultation efforts for a proposed sale in the North Atlantic planning area. In Alaska, the proposed program entails work on followup sales on several Bering Sea sale areas, including initiating the presale process for the next lease sale in the North Aleutian Basin. The schedule also requires effort for the first lease sale in the Chukchi Sea planning area.

Plans are also being made to conduct a second supplemental sale, as indicated in the leasing program. Supplemental sales are scheduled annually to allow the re-offering of blocks for which bids were rejected or forfeited during the preceding year as well as drainage and development blocks where new information indicates economic benefits from their being offered earlier than at the next regularly scheduled sale in the planning area. Such lease sales will also result in economic benefits to the Nation by allowing earlier production of oil and gas resources and the more orderly and efficient development of those resources.

While supplemental sales are very limited in size, and the prelease effort will be somewhat less than that required to conduct a regularly scheduled lease sale, several of the regular presale preparation steps will be completed to ensure compliance with the requirements of the OCS Lands Act, the National Environmental Policy Act, and other applicable statutes. Full consultation with the States and the public will still occur.

For the purposes of discussion the Leasing and Environmental Assessment Program has been divided into subelement groupings. It is important to point out, however, that the subelements are not independent. Each phase, step, or activity of the prelease program is linked to and is interactive with other subelements.

Under subelement 1 a discussion of the development and review of the 5-year oil and gas program is provided. The activities included under subelements 2 and 4 are closely related but have been segregated to clarify the discussion. These sections provide information on the major leasing processes and documents. The information provided under subelements 3 and 7 cover the major environmental thrusts of the program while subelement 8 depicts the work effort involved with the administration of the Environmental Studies Program funded under the Environmental Studies program element. Subelements 5 and 6 discuss the lease sale and lease issuance and maintenance activities.

Also included are discussions of several program initiatives which are not detailed in the discussion of the basic subelements. These discussions include: (1) Leasing area maps and diagrams (these products are used in various subprocesses and activities throughout the entire leasing process); (2) OCS Advisory Board coordination (providing the Secretary and Director with expertise from States, the scientific community, the private sector, and the public) and; (3) strategic and other minerals.

The nine major subelements of the Leasing and Environmental Assessment Program and their products are described below:

1. Development/Review of 5-Year Oil and Gas Leasing Program (\$514,000)

The Secretary of the Interior is responsible for the preparation of,

maintenance, and periodic revisions to a leasing program. The program consists of a schedule of proposed lease sales, indicating the size, timing, and location of leasing activity that the Secretary determines will best meet national energy needs for a 5-year period following approval of the program. In accordance with Section 18(e) of the amended OCS Lands Act, the Secretary is required to review the leasing program at least once each year. He may revise and reapprove the program at any time in accordance with statutory procedures. The program must be developed on the basis of a number of environmental, economic, and other factors which assure evaluation of the characteristics of each planning region, equitable sharing of developmental benefits and environmental risks, relative national and regional energy needs, relationships to other marine resource uses, relative environmental sensitivity and marine productivity, and other relevant information. Further, the Secretary is required to balance the potential for environmental damage, the potential for the discovery of oil and gas, and the potential for adverse effects on the coastal zone in developing this program.

During the preparation of a proposed 5-year leasing program, the Secretary of the Interior is required to invite and consider suggestions and relevant information from all interested parties, including Federal agencies, industry, and the Governor of each potentially affected State, and from the general public. Through the States, information is considered which may affect local governments. These comments and/or suggestions are submitted in response to a request for information issued as a notice in the Federal Register. Comments are requested on the geographical, geological, and ecological characteristics of the broad areas under consideration, other uses of offshore resources and space, identification of areas of environmental sensitivity and marine productivity, and the technological feasibility of, time periods required for, and interest in offshore exploration and development. The Secretary also sends letters to the Governors of affected States, asking them to identify specific laws, goals, and policies they believe should be considered in connection with the leasing program. States that are developing or administering a coastal zone management (CZM) program are also requested to supply information concerning the relationship between their CZM programs and potential offshore oil and gas activity.

After considering comments and information received, a Draft Proposed Leasing Program is prepared. A copy is sent to the affected States at least 60 days prior to publication in the Federal Register Notice of the Proposed Program. Written responses will be made to any request made by the Governors for modification of the Draft Proposed Program if such requests are received at least 15 days before the Proposed Program is submitted to Congress. Within 90 days after publication of the Proposed Program in the Federal Register, comments and recommendations may be submitted on any aspect of the program. At least 60 days prior to approval, a Proposed Final Program is provided to the President and Congress, along with any comments received on the Proposed Program. This transmittal must indicate why any specific recommendations were not accepted. Sixty days after congressional notification, the Final Program is approved and published.

There are three basic developmental stages to the approval of a leasing program. The first stage is the Draft Proposed Program (DPP). This stage

also includes the development of a draft Environmental Impact Statement (EIS). The next stage is the proposed program and includes the initial development of a Secretarial Issue Document and a decision memo. The final developmental stage is that of the Proposed Final Program (PFP). At this stage the final Environmental Impact Statement, the Secretarial Issue Document and other documentation are completed.

FY 1988 Products:

Annual review of 5-year program.....1

Recent activities and accomplishments for this subelement include:

- o The Draft Proposed 5-Year OCS Oil and Gas Leasing Program was completed in March 1985.
- o Comments on the Draft Proposed Program were reviewed and incorporated into development of a Proposed Program (January 1987 - December 1991) which was issued in February 1986.
- o In support of the development of the new 5-year leasing program, the MMS developed an Environmental Impact Statement (EIS) assessing the effects of the program on all the OCS planning areas. The draft EIS was published in February 1986. The final will be published in February 1987 after all the public hearing and written comments are evaluated.
- o Pursuant to P.L. 99-500 appropriating funds for FY 1987, a Draft Proposed Final Leasing Program for offshore California is scheduled for transmittal to the Congress for review in January 1987.
- o The Proposed Final Program for mid-1987 to mid-1992 is scheduled to be transmitted to the Congress in April 1987, with approval expected in June 1987.

2. Prelease Process to Determine Specific Lease Sale Area that will be Analyzed in EIS (\$603,000)

For proposed lease sales which have been identified in the approved 5-year leasing program, a detailed prelease process is followed by the MMS to determine the area to be offered for sale and the lease terms and conditions for a sale. The objective of the initial steps in the prelease process through the Area Identification (discussed below in detail) is to determine the area to be considered for leasing and studied in the environmental analysis process under the National Environmental Policy Act. This determination is made by the Department after ample opportunity for public and governmental involvement which may include preliminary sale consultations with State governments, Congressional delegates or other Federal agencies prior to a Call for Information and Nominations, a 45 day public comment period on the Call, and a decision process at the Area Identification stage which considers all comments, concerns and expressions of interest in leasing received during the consultation process.

Following are discussions of the major workload areas of this subelement of the Leasing and Environmental Program:

a. Requests for Interest

A request for interest may occur as a first prelease step. This is done to resolve leasing issues at an early stage, and may be part of a preliminary sale consultation. This is most likely to occur for sales proposed in frontier areas where there is limited industry interest. Industry's responses, along with other information, are used to determine if enough interest exists to begin the lengthy prelease process. In some regions, preliminary sale consultations may take the form of meetings and information exchanges with coastal States and members of Congress to discuss OCS concerns and issues. These meetings often require the development of specialized information (histories, statistics, briefing and option papers, graphics, and summaries) so the complex and technical activities of the offshore program can be adequately presented, reviewed, and evaluated.

A request for interest may be issued at any stage in planning for a proposed sale when it is believed that current economic or market conditions may have lowered industry interest or reduced the number of companies interested in exploring an area. The request to industry is published in the Federal Register, responses are analyzed, and a decision is made to proceed with, delay, or cancel the prelease process for that sale.

b. Call for Information and Nominations (Call)

The Call is a public participation and information-gathering step. It provides industry, the States, and the public with a formal opportunity to participate in the prelease process by submitting specific information (geological, biological, archaeological, socioeconomic, and technical) which might bear upon the potential leasing and development of particular areas proposed for lease (Figures 3 and 4). The comments are used in future decisionmaking points in the leasing process. Also, during this step, consultation begins with the Department of Defense to identify possible multiple-use conflicts in the sale area.

Industry, States, local governments, public interest groups, and individuals respond to the Call, published as a Federal Register Notice. A Notice of Intent to prepare an Environmental Impact Statement (EIS) is issued with the Call. This initiates the scoping process, which is discussed under subelement 3 on the following pages. Industry identifies and ranks areas of potential for oil and gas development and provides information on sale terms and conditions. Government agencies and public respondents provide comments on the subjects listed above and on possible environmental conflicts in and near the proposed sale area. The resulting information is a direct input to the area identification step and is used in subsequent planning and analysis activities.

OCS PLANNING AREAS

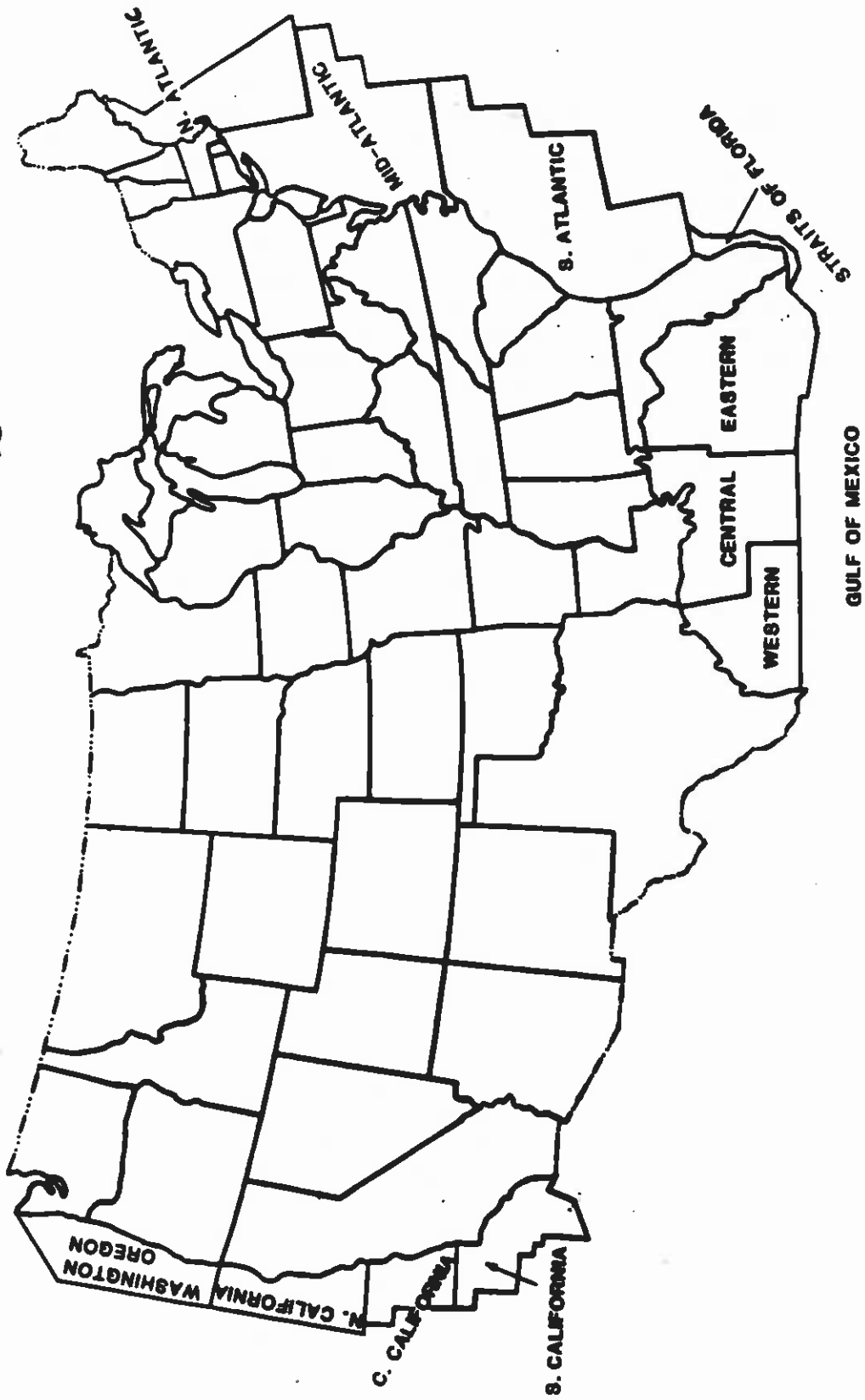


Figure 3

OCS PLANNING AREAS

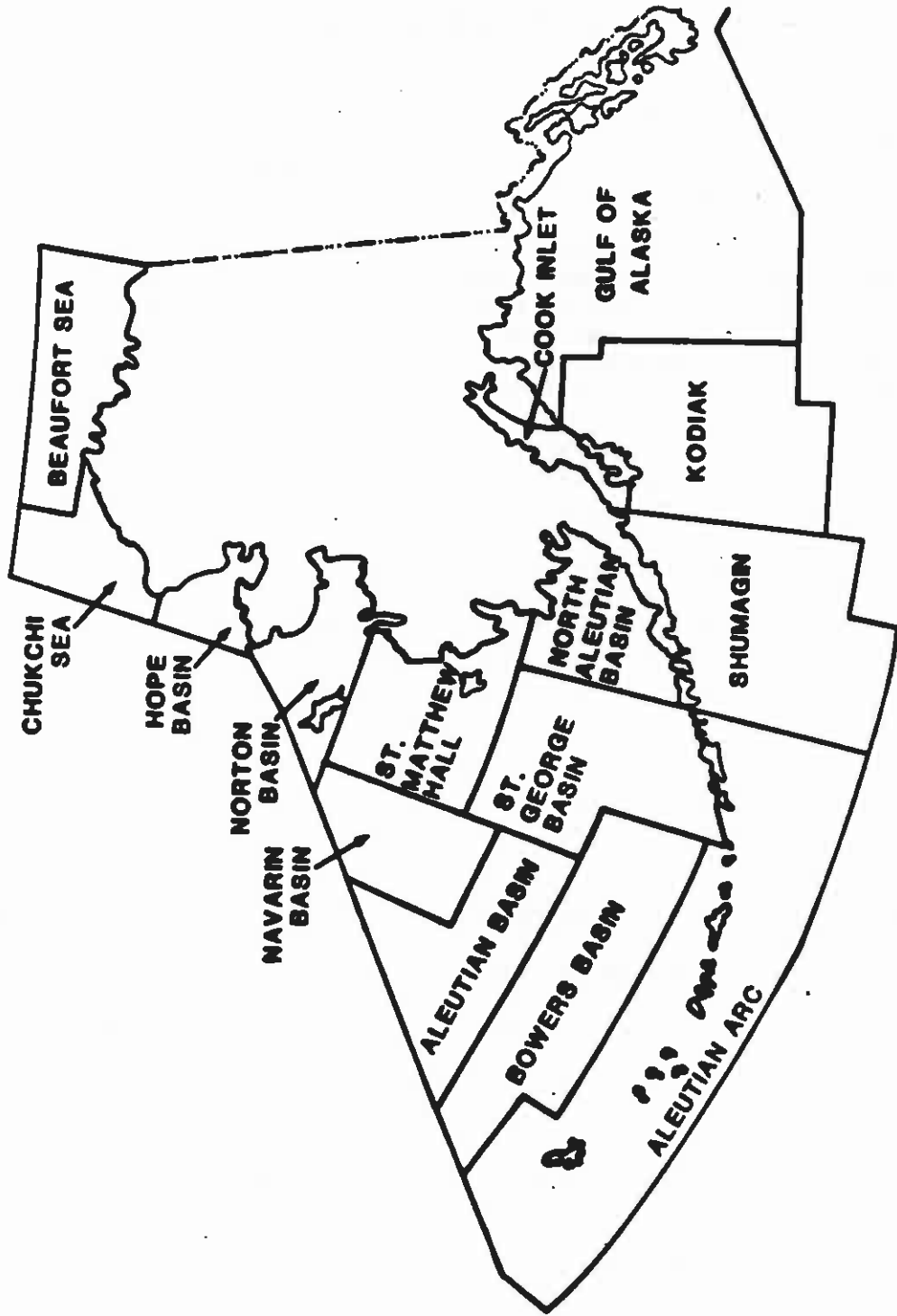


Figure 4

c. Area Identification

The purpose of this step is to select the area that will be analyzed in the EIS as the proposed sale area. In preparation for the area identification decision, information received in response to the Call for Information and Nominations is carefully reviewed. Industry provides priority information indicating the order in which it wants to explore areas. Industry also nominates areas it would like to lease, identifying them as being of high, medium, or low interest. In addition, the information and comments provided in response to the Call by States, local governments, and public interest groups is analyzed, summarized, and incorporated into the decision process.

Through the use of written material, briefings, and graphics, departmental decisionmakers are provided with information on industry interest; public concerns; State and local government positions; multiple use conflicts; resource potential; past leasing history; environmental, geophysical, and geologic conditions; recommendations on potential sale area configurations and other relevant information. The concerns expressed by the public are addressed and the delicate process of weighing and balancing the activities associated with exploring for oil and gas with the need to protect the environment is continued.

Once area identification decisions are made, affected States and selected Federal agencies are provided with information regarding the proposed sale area. Also, at this point in the prelease process, consultations are initiated with States regarding potential boundary disputes in the proposed sale area.

FY 1988 Products:

Requests for Interest.....1
Calls for Information and Nominations.....5
Area Identifications.....5

Recent activities and accomplishments for this subelement include:

- o Initiated prelease process for 1989 Sale 91 N. California.
- o Initiated prelease process for 1988 Sale 96 N. Atlantic.
- o Continued extensive support for preliminary sale consultations for leasing offshore California.
- o Provided guidance and support for rulemaking for supplemental sales.

3. Prelease Environmental Assessment Process (\$5,419,000)

The Minerals Management Service normally prepares an Environmental Impact Statement (EIS) and holds public hearings on this EIS before the Secretary of the Interior decides whether to hold an OCS lease sale proposed on the 5-year oil and gas leasing schedule. These procedures are included in the leasing process to comply with the

requirements of the National Environmental Policy Act (NEPA). The NEPA requires the preparation of an EIS before the conduct of any major Federal action which could significantly affect the quality of the human environment and specifies the basic information that the EIS shall include. The Council on Environmental Quality (CEQ) was established by NEPA as the agency responsible for overseeing compliance with the Act by Federal agencies.

The prelease environmental analysis process may be started as early as 1 year before the Call for Nominations with the development of general descriptive material. Following the Call for Information and Nominations and issuance of a Notice of Intent to prepare an EIS, the scoping process (required by CEQ regulations) begins. Scoping is the process of identifying the range and significance of important issues associated with a proposed Federal action and alternatives to that action through coordination and consultation with Federal, State, and local governments; the public; and any interested individual or organization before pursuing development of an EIS. Information gathered through the request for data from the Call for Information and Nominations, through the Environmental Studies Program, and from ongoing exploration and development activities is also reviewed during the scoping process. This leads to the identification of major issues and alternatives to be addressed in the EIS and assists in the design of the sale proposal. Topics addressed in the EIS usually include effects of the leasing proposal on air and water quality, archaeological resources, endangered species, marine mammals, fisheries, areas of special biological concern, and onshore socioeconomics.

One of the most useful inputs to the prelease environmental analysis process is the oil spill risk analysis. This is a computer modeling technique that incorporates the best available physical oceanographic and meteorological data; the estimated locations and volumes of oil expected to be produced and transported over the life of the proposed leases; the locations of environmental resources (e.g., fish spawning areas, recreational beaches, whale migration routes, etc.); potential transportation routes; and the likelihood of oil spills based on historical accident rates. The model provides a measure of the likelihood of oil spill occurrence, as well as the estimated mean trajectories of spills in relation to recreational and biological resources. To report model results, an oil spill risk analysis report is prepared for each EIS. The availability of adequate environmental data, such as that on wind and ocean currents, is an important factor. The Environmental Studies Program provides for timely gathering and analysis of these data, as well as the examination of historical oil spill production and accident statistics. Oil resource estimates used in the model are provided by the Resource Evaluation Program.

The development of mitigating measures appropriate to the pertinent environmental concerns is another critical phase of the prelease NEPA process. Lease stipulations and Information to Lessees clauses, which are implemented through work in the Regulatory Program, are developed in conjunction with the environmental analyses. Included is an analysis showing impacts to environmental resources assuming (1) that no mitigation is used, and (2) that the proposed mitigation

In this way, the efficacy of the proposed measures is enhanced by the implementation of mitigating measures, in conjunction with the existing regulatory framework, have proven to be an effective and economical means of minimizing many potential adverse environmental effects resulting from the search for offshore oil and gas resources to be developed. Additionally, much of the analytical environmental work carried out at this stage provides background information that directly supports environmental analyses related to review and permitting of lease activities.

Pursuant to Section 7 of the Endangered Species Act of 1973, the Minerals Management Service formally consults with the National Marine Fisheries Service (NMFS) and the U.S. Fish and Wildlife Service (FWS), as appropriate, if the proposed activity has the potential to affect an endangered or threatened species or harm its critical habitat. The Minerals Management Service provides NMFS/FWS with detailed background information on each lease sale and formally requests consultations and "Biological Opinions" on whether OCS mineral leasing or exploration in an area will jeopardize the continued existence of endangered or threatened species or destroy or adversely modify their habitat. The formal consultation process is associated with the preparation of the EIS and the information provided is factored into the EIS analysis and the lease-sale decision process. Additional consultation is undertaken as necessary as a part of the postlease environmental activities at the development stage.

A Draft Environmental Impact Statement (DEIS) is filed with the Environmental Protection Agency (EPA) and released for public review about 8 months after the Area Identification. A Notice of its availability is published in the Federal Register, and the document is made available upon request.

Public Hearings are held in the vicinity of the proposed lease-sale area for the purpose of receiving comments on the draft EIS. These hearings are held within the 45- to 60-day public review period with the time and location of the hearing being announced in the Federal Register. Written or verbal testimony is invited from environmental organizations; the academic community; Federal, State, and local government representatives; industry, and the public.

The information received through public hearings and the public comment process is analyzed along with any newly acquired information and, when appropriate, is incorporated into a final EIS. At this stage, new mitigating measures may be included after comments from affected States and other interested parties are reviewed. In some cases, new deferral options are developed and incorporated into the final EIS. Usually about 3 to 5 months after the public hearing, the final EIS is filed with EPA and made available to the public. Notice of its availability is published in the Federal Register.

Technical papers may be prepared to support the lease sale EIS's and can be incorporated by reference into the EIS, thus avoiding lengthy technical and descriptive material, while maintaining the usefulness of the EIS as a decisionmaking document.

Description of Subelement Products:

a. Scoping Process and Report

Scoping is conducted in response to CEQ regulations. Preparation, review, and approval of a scoping report takes place within 7 weeks after Area Identification. The scope and significance of the major issues associated with the proposed lease sale and alternatives to that action are included in the report. These issues and alternatives are addressed in the EIS and are used to help design the sale proposal.

b. Draft Environmental Impact Statement

The NEPA requires preparation of an EIS before the conduct of any major Federal action which could significantly affect the quality of the human environment. The DEIS is filed with EPA, a notice of its availability is published in the Federal Register, and the document is released for public review.

c. Oil Spill Risk Analysis and Report

The oil spill risk analysis examines potential risks from proposed and existing production and transportation of oil in United States waters and provides a quantitative basis for discussion in the environmental impact statement. It estimates the probabilities of oil spills from the lease area occurring and contacting environmental resources. A formal report describing the oil spill model analysis (including assumptions and findings) is prepared for each EIS.

d. Endangered Species Consultation

In accordance with Section 7 of the Endangered Species Act, formal consultation is required if the proposed lease sale activity has the potential to affect an endangered or threatened species or harm its critical habitat. Information gathered during these consultations is used in the EIS and the lease-sale decision process.

e. Public Hearings

A 45- to 60-day comment period immediately follows public availability of the draft EIS. Public hearings are held in a location convenient to residents in the areas adjacent to the proposed sale area. Notification of the intent to hold public hearings is published in the Federal Register, including the date, location, and procedures for providing oral and written testimony.

f. Final Environmental Impact Statement (FEIS)

The FEIS, which includes an analysis of pertinent comments received during the review process and any newly acquired

information, is prepared and filed with EPA 3 to 5 months after the public hearings. A notice of its availability is published in the Federal Register and the document is released for public review.

g. Environmental Assessments

An environmental assessment may be prepared to evaluate the environmental effects of new issues which may arise after completion of the FEIS.

h. Technical Papers

Technical papers are normally listed and summarized as supporting documents in the appendix section of environmental impact statements. Copies are made available, upon request, to program reviewers.

Recent activities and accomplishments for this subelement include:

- o MMS continued improvements to its oil spill risk analysis model by developing methods to realistically estimate the movement, spreading, and dissolution of oil spills on the ocean surface. The enhanced model will provide additional information on possible impacts if an oil spill were to occur.

4. Lease Sale Notification and Decisions (\$1,370,000)

The objective of this subelement is to build upon the analyses performed under subelements 2 and 3 and culminates in the decision on lease sale configuration, terms, and conditions. To this end, activities discussed below focus on important factors for the decisionmakers, and solicit participation of Department of the Interior executives, other Federal agencies, State and local governments, and the private sector. This coordination and distillation of issues and options builds upon information collected and analyzed throughout the prelease process and culminates in the lease sale.

Description of Subelement Products:

a. Secretarial Issue Document (SID) and Associated Decision Material

The purpose of the SID is to clearly and concisely present information which the Department of the Interior needs to make decisions on the size, timing, location, terms, and conditions of a proposed lease sale, and to provide a basis for the balancing decisions between State and national interests as required by Section 19 of the OCSLA. While the SID is only one of a number of decision documents presented to the decisionmaker, it is significant because it integrates all the analyses relevant for decisionmaking including environmental, legal, economic, technical, and hydrocarbon resource information.

The SID relies heavily on the EIS which accompanies the SID through the decision process. Unlike the EIS, which analyzes

and documents all significant environmental effects, the SID presents a summary of the pros and cons of each possible course of action. The SID focuses on analysis and detailed discussion of sale-related issues and synthesizes environmental with other information germane to decisionmaking. The SID contains no recommendations but rather presents the advantages and disadvantages of each decision option. It contains a neutral summary of factors relevant to the decisions to be made and does not attempt to support a particular point of view.

A decision memorandum summarizing all sale issues and options for decisions is presented to the Assistant Secretary for Land and Minerals Management (AS/LM). It is accompanied by the SID, the EIS, and the decision sheet. Departmental decisionmakers are provided copies of the decision material and their recommendations are solicited. The AS/LM, with the benefit of the analyses and recommendations of other Department officials selects the size, timing, location, terms, and conditions which are then included in the proposed Notice of Sale document.

b. Proposed Notice of Sale

A Federal Register Notice announcing the availability of the proposed Notice is published about 90 to 120 days before an oil and gas lease sale is held. The proposed Notice contains specific information on the blocks and bidding units which may be offered for sale.

Gulf of Mexico Notices are supplemented with detailed maps providing additional information on blocks and bidding units, acreage, and status.

The proposed Notice also provides interested parties with information on qualification requirements, bidding procedures, sale information (location, size, timing, terms, and conditions), and stipulation language. This step gives the public and industry an opportunity to comment on the sale proposal.

c. Section 19 Consultations

Section 19 of the OCSLA mandates that Governors of affected States be provided the opportunity to comment on the size, timing, and location of a proposed lease sale. The Governors receive the proposed Notice, the SID, the EIS, and the proposed Notice decision memorandum for information on the decision process. The letter transmitting the material describes the decisions made at this stage in the prelease process and explains how the State's comments on the sale and its coastal zone management policies were considered in making the decisions on the proposed Notice. It also invites the Governor's comments on the size, timing, and location of the proposed sale, as required by Section 19 of the OCSLA. During the following 60-day review period, the MMS may meet with State officials to discuss and possibly resolve issues associated with the proposed sale.

d. Final Notice of Sale Decision Memorandum

Once comments on the proposed Notice are received from the Governors of affected States and interested parties, the MMS prepares a decision memorandum to the Secretary outlining the final decisions to be made on the proposed sale. The decision memorandum summarizes the comments on the proposed Notice, analyzes all of the sale issues, and if needed, presents new decision options addressing concerns raised by commenters. It is an important analytical document since it contains information of any new decision options developed for Secretarial decision. The SID, the EIS, the proposed Notice decision memorandum, the proposed Notice itself, comments on the proposed Notice, and a final Notice decision sheet accompany the final Notice decision memorandum is given to the Secretary.

e. Final Notice of Sale

If a decision is made to hold a sale, a final Notice of Sale is published in the Federal Register at least 30 days before the sale is held. As pointed out in the discussion on proposed sale Notices, all of the sale terms and conditions are included in this Notice.

f. Balancing Letters

In accordance with Section 19 of the OCSLA, the Secretary notifies the Governor of each affected State, in writing, of the reasons for his determination to accept or reject the Governor's recommendations on the lease sale. Section 19 requires the Secretary to accept such recommendations if he determines, after having provided the opportunity for consultation, that they provide for a reasonable balance between the national interest and the well-being of the citizens of the affected States. A letter explaining the balance reached is sent to each Governor with a copy of the Final Notice of Sale.

FY 1988 Products:

Secretarial Issue Document.....	8
Decision Memo.....	8
Proposed Notice of Sale.....	8
Section 19 letter.....	31
Final Notice of Sale Decision memo.....	7
Final Notice of Sale.....	7
Balancing letter.....	31
Sale.....	6

Recent activities and accomplishments for this subelement include:

- o Completed process/rule change to allow reduction in printing costs for Federal Register proposed Notices of Sale.
- o Completed major evaluation and clarification of procedures leading to prelease decisions.

5. Lease Sale and Issuance of Leases (\$682,000)

The prelease process of MMS ends with the conduct of the lease sale and the issuance of leases from that sale. The sales of Offshore leases are conducted under competitive bidding procedures. Separate sealed bids are submitted for each block bid on and are received before the date of the sale as specified in the final Notice. The purpose of this lease sale step is to record and publicly announce the bids received; no bids are rejected or accepted at the sale. After the bid opening, the MMS conducts a review of the bids to determine whether the highest valid bid for each block exceeds our bid adequacy criteria. Technical and economic information gathered prior to the lease sale for the purpose of evaluating the potential mineral resource value of the blocks (provided by the Resource Evaluation Program subactivity) is considered during this review. The evaluation and acceptance or rejection of the bids on a case-by-case basis must, by regulation, occur within 90 days after the lease offering is held. Pertinent information is sent to the Department of Justice, Antitrust Division, and the Federal Trade Commission (FTC) for review. The Justice Department and FTC recommendations are considered in the final decision on which bids will be accepted or rejected.

Lease sales are conducted by the appropriate OCS regional office. Before most sales, extensive training sessions and mock sales are held to assure that all procedures and activities are carried out accurately and quickly. Detailed procedures are put in place to safeguard bids, facilitate the public opening and announcement of bids, adjudicate bid documents, enter information into computers for processing, and create the reports used by managers in the bid acceptance or rejection process. Monies received for the one-fifth bonuses, which are required when bids are submitted, must be protected, recorded, and deposited in the U.S. Treasury or returned, in a timely manner, to unsuccessful bidders. Facilities large enough for the sale are procured in each region for each sale. In FY 1988, there will be five regular and one supplemental sale.

6. Postlease Adjudication and Maintenance of Leases (\$605,000)

The records for each lease must be maintained until that lease is terminated by law, relinquished, or expires. In FY 1986, approximately 5,304 lease records were being maintained in the four regional offices. Maintenance includes actions related to assignments of record title (approved by the Department of Justice), relinquishments, extensions, rentals, status (tract and serial register books), statistics, and the development and updating of bidder qualification files.

Once marketable quantities of oil or gas are found, a permit is required to transport the product across the OCS. Pipeline rights-of-way are granted only after appropriate consultation and coordination is conducted with other agencies.

7. NEPA Review for Industry Activities (\$2,548,000)

After the issuance of a lease, lessees are notified of any special require-

ments (outside of the normal requirements set forth in OCS regulations) on a lease needed to mitigate potential impacts identified during the prelease NEPA process and the Secretarial decision process. Such special requirements include those measures needed to fulfill the stipulations developed through the prelease NEPA process that are included in the lease contract for specific tracts.

Lessees develop plans detailing their proposed actions for exploration and, if sufficient resources are discovered, eventually plans for development and production including pipeline activities. Each plan must contain a certification of consistency with applicable State plans approved under the CZMA. In close coordination with work carried out by the Regulatory Program, each plan and accompanying environmental report are reviewed to determine whether they meet the requirements under the OCS Lands Act and relevant associated environmental laws and special lease stipulations, and will acceptably mitigate adverse impacts to the environment. Included is a detailed review of the impacts from the proposed activities and of the mitigation measures needed for oil spill prevention and cleanup, air quality, water quality, biologically sensitive areas and species (including endangered species, marine mammals, and fishing concerns), archaeological and cultural resources, onshore support and storage facilities, and relevant meteorological, oceanographic, and geological conditions. During the review, other Federal agencies and affected States are consulted, including agencies for endangered species consultations and State Historic Preservation Officers.

Upon completion of the review, an environmental analysis is prepared in the form of a categorical exclusion review or an environmental assessment, as required by NEPA, for each plan. The analysis is used as a decisionmaking tool to determine whether the environmental impacts are acceptably mitigated and to determine if an EIS must be prepared. An EIS, with possible attendant public hearings, is required prior to plan approval if potential impacts can significantly affect the human environment. If the plan and mitigation measures are acceptable, the plan is approved.

In addition, Section 25 of the OCSLAA provides that an EIS will be required for the approval of at least one oil and gas development and production plan in any area other than the producing areas of the Central and Western Gulf of Mexico and the Santa Barbara channel offshore California.

During conduct of lessee operations, activities are monitored to ensure compliance with any required mitigation measures and that the measures in place are sufficient to mitigate the adverse impacts. By carefully evaluating the mitigation measures, technical and operational requirements are kept up-to-date and are incorporated in regulations, orders, and conditions for granting permits.

Also as part of its oversight of industry activity, MMS does an environmental review of proposals for geological and geophysical activities permitted under the Resource Evaluation Program. These activities require Categorical Exclusion Reviews or Environmental Assessments.

Description of Subelement Products

a. Categorical Exclusion Review for Regulatory Action

The Department's categorical exclusions (CE) cover actions which in its

experience do not cause significant environmental effects. Included as CE's are most exploration, development, and production plans in the central and western Gulf of Mexico, and rights-of-way permits that do not result in a new pipeline corridor to shore. Prior to approval of such plans or permits, a categorical exclusion review of the environmental effects of the activities proposed in the plan is made. If the potential for a significant impact or some controversy does not exist, the plan may be approved. Otherwise, an environmental assessment is prepared.

b. Environmental Assessment for Regulatory Action

For non-categorically excluded activities, the environmental effects of the activities proposed in the plan are reviewed prior to approval of an exploration plan or a development/production plan in accordance with NEPA. Where potential for a significant impact or some controversy exists, an environmental assessment is prepared. If a significant impact is found, an EIS is prepared. Otherwise, the plan may be approved.

c. Environmental Impact Statement for Regulatory Action

The NEPA compliance for development and production plans results in the preparation of an EIS when MMS concludes that the environmental assessment indicates that approval of the plan would constitute a major Federal action significantly affecting the quality of the marine, coastal, or human environment. Notice of the availability of a draft EIS is published in the Federal Register and public hearings are held. After reviewing public comments, a final EIS is prepared and a decision can be made on the plan.

d. Oil Spill Risk Analysis and Report

An oil spill risk analysis may be prepared for each development/production plan EIS. The analysis examines potential risks from proposed and existing production and transportation of oil in United States waters and provides a quantitative basis for discussion in the development and production plan EIS. A formal report describing the oil spill model and analysis (including assumptions made and results) may be prepared.

e. Endangered Species Consultation

The Endangered Species Act Section 7 consultation conducted in the prelease process covers exploration activities. Such consultation may be reinitiated at the development stage if the proposed development/production activity has the potential to affect an endangered or threatened species or harm its critical habitat. Information gathered during these consultations is used in the decision process for approval of development/production plans.

f. Environmental Reports Review

Environmental reports are prepared by the lessee or operator and submitted along with an exploration or a development and production plan.

These documents are reviewed, along with the plan, and must be approved before exploration or development and production activities can begin.

g. Categorical Exclusion Review for Geological and Geophysical Activity

Prior to issuing a permit to conduct a Geological and Geophysical (G&G) survey (an activity conducted through the Resource Evaluation Program), the MMS conducts an environmental analysis of the potential effects of the proposed survey activities. Approval of such activities are categorically excluded except when the proposed activity includes the drilling of deep stratigraphic test holes or uses solid or liquid explosives. If the categorical exclusion review shows a potential for a significant impact or some controversy, an environmental assessment must be prepared. Otherwise, the permit may be approved.

h. Environmental Assessment for Geological and Geophysical Activity

An environmental assessment is prepared if (1) the permit involves deep stratigraphic drilling or the use of explosives, or (2) the categorical exclusion review shows the potential for causing a significant impact or some controversy. The permit may be approved if no significant impact is found.

Recent activities and accomplishments for this subelement include:

- o A series of environmental impact statements and environmental impact reports were prepared jointly with the State of California for development and production plans in the Santa Barbara Channel area. These included environmental reviews for the Santa Ynez Unit, Point Arguello, Point Pedernales, and San Miguel Projects.
- o In order to address the wide range of issues over air quality in California, MMS initiated negotiated rulemaking over its OCS air quality rules. Participating in the facilitated proceedings are representatives from the State of California, local governments, environmental groups, and industry. MMS is supported in a Federal coalition by several Federal agencies.
- o MMS expanded its list of categorical exclusions to include pipeline rights-of-way that do not result in a new pipeline corridor to shore. This has allowed MMS staff, especially in the Gulf of Mexico with its large workload, to concentrate on plan reviews that have a higher likelihood of environmental impact.

8. Environmental Studies Management (\$2,523,000)

As stated in the OCSLAA, the purpose of the Environmental Studies Program (ESP) is ". . . to establish information needed for prediction, assessment, and management of impacts on the human, marine, and coastal environments which may be affected by OCS oil and gas activities . . ." The ESP has been continually evolving and changing to meet the needs of the OCS activities. The most recent changes, which respond to the draft proposed 5-year OCS leasing schedule for the period from 1987 through 1991, include: (1) greater balance between prelease and postlease studies; (2) greater emphasis on generic studies; and (3) development of a strategy for postlease monitoring studies.

The knowledge gained from the studies conducted under this program are used by the Department in making decisions on the development of oil and gas and other marine mineral resources. The data are used in selecting leasing areas, analyzing environmental effects, formulating lease stipulations, modifying leasing and operating rules and regulations, and assessing effects of industry activities. Environmental studies are also designed to monitor the effects of hydrocarbon and other mineral exploration and the effects of development and production activities. If potential adverse effects are discovered by these monitoring efforts, appropriate measures are taken to mitigate or change the expected effects by amending and modifying OCS regulations or by issuing Notices to Lessees and Operators (NLTs). When an environmental study indicates a need to further protect the environment, new or changed operating conditions may be imposed on existing and future leases in a specific geographical area.

Conduct of a study and availability of the study data is the end result of a very complex and lengthy process. This process begins with an assessment of information needs and the development of environmental studies plans performed annually. The MMS establishes and disseminates policy and guidance for the preparation of regional studies plans. This guidance includes interpretations of Departmental policy and advice from the OCS Advisory Board's Scientific Committee. Regional studies plans are prepared with the assistance of the OCS Advisory Board's Regional Technical Working Groups and other local advisors. These plans include statements of local information needs, the regional perspective on the priorities of these needs, cost estimates, and a brief description of each proposed study. A studies plan is developed at headquarters which concentrates on identifying studies that address programwide issues and enhance the effectiveness of the offshore leasing program nationwide. In addition, the MMS is currently preparing a long-term studies plan. This document will contain an analysis of available information pertaining to pertinent environmental issues in each OCS planning area. From this analysis, a determination will be made as to what kinds of studies will need to be undertaken by the Agency within the next 5 to 10 years.

Following development and approval of the regional studies plans, MMS compiles a preliminary national studies list which includes all studies proposed for funding. Because the total cost of all studies nominated for funding during any fiscal year has historically exceeded available funds, criteria (discussed in the Environmental Studies program element) were designed to rank each study. The ranking criteria are used to arrange the proposed studies into priority order programwide. This composite list of proposed studies receives extensive and critical review.

The National Studies List serves as the basis for preparation of the annual advance procurement plan (required by Federal regulation) and execution of the procurement process which includes the following three major steps: (1) development of a procurement package by the program experts who proposed and designed the particular study; (2) development of the solicitation which is completed by the MMS procurement staff; and (3) evaluation of proposals and award of the contract, responsibilities shared by the program and procurement staffs.

Once an award has been made for conduct of an environmental study, administration and monitoring of the contract begins. The program staff perform these functions in their role as contract officer's technical representatives.

Reports resulting from the ESP are kept by the regional offices and headquarters for their use and copies are distributed to appropriate Federal and State agencies, libraries, and limited general distribution. The MMS Regions hold scientific meetings on a regular basis to transfer up-to-date information to in-house staff, other government agencies, industry, and the interested public. These meetings take place as synthesis meetings for specific lease sales, technical workshops, and information transfer meetings.

Description of Subelement Products

a. Regional Studies Plan

A regional studies plan is prepared for each fiscal year by the four regional offices and the headquarters office. These plans include statements of regional information needs, the regional perspective on the priorities of these needs, and a brief description of the rationale for each study. These plans are the basis for developing the National Studies List.

b. National Studies List

The National Studies List is prepared each fiscal year and reflects the ranked list of studies to be funded under the Environmental Studies Program.

c. Procurement Package

A procurement package is developed for each study on the National Studies List. It includes: requisition; statement of work; independent government cost estimate; technical evaluation criteria; justification for noncompetitive procurement, if required; and the necessary funding approvals required by Federal regulation. The statement of work is the most important element in the procurement process. It is used to describe the Government's requirements, evaluate competing proposals to accomplish the work, guide or control the contractor's performance, and determine if the requirements are being satisfied.

d. Technical Proposal Evaluations

The basic purpose of the evaluation process is to determine which of two or more competing proposals should be selected for contract award. The ultimate question to be answered is: Which proposal will be most advantageous to the Government, considering price and other factors? The evaluation process is conducted by a committee selected by the contracting and program officers and complies with the requirements of the Federal procurement regulations.

e. Contract Monitoring

Program staff who assisted in design of the environmental studies are designated Contracting Officer's Technical Representatives (COTR) responsible for administration and monitoring of the contracts. A COTR is authorized to perform the following tasks: (1) inspect and monitor

contract performance to assure technical compliance with the specifications; (2) inspect and verify satisfactory delivery of all items; (3) verify efficient and satisfactory performance of work for payment purposes; and (4) furnish the contracting officer copies of all approved invoices, trip and conference reports, and general correspondence dealing with the administration and monitoring of the contract.

Recent activities and accomplishments for this subelement include:

- o To ensure the best use of Federal resources, MMS coordinated extensively with other Federal, State, and private groups regarding the design and management of oil- and gas-related marine pollution research. This included meetings with the National Ocean Pollution Policy Board, the Arctic Research and Policy Committee, and the International Drilling Fluids Conference. Additional meetings occurred with State and industry representatives concerning data sharing and availability.
- o The MMS began several complementary reviews of the ESP to assess the long-term direction of the program. The MMS initiated a major effort with the National Academy of Sciences (NAS) in which NAS will review MMS information needs and the availability of information in topics such as marine ecosystems, physical oceanography, and socio-economics. At the same time, MMS has begun preparation of a long-range studies plan that will focus on long-term commitments to monitoring. Both efforts will help MMS assess how well the ESP has met its goals and to identify where future studies efforts should lie.
- o The MMS is developing an aggressive policy of information management through the preparation of project summaries for all major studies funded through the program since 1973. This, combined with the ongoing information transfer meetings in each region, ensures that the scientific community has full access to this wealth of information.

9. Program Management and Support (\$2,043,000)

This subelement provides program guidance and direction, internal and external coordination of program activities, and program and technical support for the work of the entire Leasing and Environmental Program. Policy guidance and program direction are provided by the Associate Director for Offshore Minerals Management, the Deputy Associate Director for Offshore Leasing, Regional Directors, the Office of Information and Publications, and the Office of Offshore Management Support. Included in the Office of Offshore Management Support is the Offshore Systems Center which centrally reviews all of Offshore's ADP procurement and major systems design, standardizes data elements for all Offshore regions and headquarters offices, prepares activity reports and develops the ADP Strategic Plan. Cartographic, editorial, and other program support duties are provided by support staffs within each region and are funded within this subelement.

Other Initiatives (\$1,007,000)

In addition to the nine major subelements described above, the Leasing and Environmental Program is responsible for managing other mineral leasing activities and coordinating the work through task forces and advisory groups. This workload is discussed below.

Leasing Area Maps and Diagrams

The Federal Government has jurisdiction over and is authorized to issue mineral leases on the Outer Continental Shelf (OCS). The OCS must be precisely defined to assure that only those submerged lands falling under the jurisdiction of the United States are offered for lease. The Federal Government must also be able to detect instances where leasing efforts by coastal States or foreign countries might inadvertently include OCS lands.

The OCS of the United States is currently depicted on 473 Official Protraction Diagrams (OPD's) and Leasing Maps and on 15,200 Supplemental Official Block Diagrams, of which 4,700 have been computed and approved. The development of these products is an exacting and lengthy process requiring research (using various products such as hydrographic and topographic survey sheets, coast pilots, and nautical charts produced by the National Ocean Service (NOS)); mathematical computations; consultation and review with coastal States; frequent evaluation and concurrence by the Department of State; and, in some cases, approval by the Department of Justice. Existing diagrams are periodically revised and reissued if coastline physical changes occur and are documented and if new large-scale charts reflecting such changes are issued by NOS or if legal decisions cause changes in jurisdiction.

The information shown on OPD's and leasing maps is presented in greater detail and is supplemented with additional data in documents called Supplemental Official Block Diagrams or "split block" diagrams. Split blocks are issued only for nearshore blocks which contain the 3-geographical-mile line. Before a lease sale is held, all affected split blocks must be reviewed and, if necessary, updated and reissued. These diagrams depict international, Federal, and State boundary lines, identify section 7 (boundary dispute) and section 8(g) areas (where 27 percent of the revenues are shared with affected coastal States), and list precise acreage for each sub-area.

The extensive data base supporting development of the leasing diagrams and maps is also used when technical and legal boundary disputes arise over the location of the 3-geographical-mile line. Precise information and skilled technical, professional, and legal expertise are required to monitor boundary issues. It must also be available when decisions are made on the impact that certain off-shore features (low water elevations and islands) and boundary concepts (decree lines, straight baselines, bay closing lines, and historical statehood land grants) have on the location of boundary lines.

Agency resources are also devoted each year to identify, monitor, and resolve specific boundary disputes which exist in all regions of the OCS. A key boundary-related lawsuit (United States vs. State of Alaska, No. 84, Original) concerns the location of the 3-geographical-mile line in the Northern Chukchi and Beaufort (BF) Seas. In 1987, the Supreme Court is expected to issue a decision on this case which is likely to result in the establishment of a fixed decree line along portions or all of the northern coastline of Alaska.

Implementation of the decision will require that the MMS and the State of Alaska devote funds and resources to complete coastal surveys along portions of the BF. Other work related to fixing a decree line (coordination, planning, analysis, mapping, and agreement on the location of the baseline) will continue throughout FY 1988. Careful attention will be paid to the precedents set during this process since they have the potential for impacting other areas of the OCS.

The mapping workload will increase in FY 1988 since resources will also be devoted to the planning and consultation efforts required to map and depict the Exclusive Economic Zone (EEZ) on OPD's. The National Oceanic and Atmospheric Administration and the Department of State will be involved in this effort and it is likely that some revised OPD's (showing the EEZ) will be issued.

FY 1988 Products:

Official Protraction Diagrams and Leasing

Maps Developed..... 8
Supplemental Official Block Diagrams.....505

Recent activities and accomplishments include:

- o Initiated mapping support for critical and strategic minerals program in Hawaii.
- o Provided extensive mapping/computational and technical support for Supreme Court litigation concerning Gulf of Mexico and Alaska State/Federal boundary disputes.

OCS Advisory Board Coordination

The OCS Advisory Board was established in 1975 to provide advice to the Secretary and other officers of the DOI in performing discretionary functions of the OCSLA.

The OCSLA requires consultation by Interior with affected States and other interested parties on all aspects of leasing, exploration, development, and production of the resources on the OCS. This requirement is partially fulfilled through the activities of the OCS Advisory Board, which is comprised of: (1) a policy committee; (2) six regional technical working group committees; and (3) a scientific committee. The policy committee, which meets at least twice a year, includes representatives of the Governors of all coastal States and Pennsylvania, various Federal agencies, and the private and public sectors, and provides policy advice to the Secretary on all aspects of the OCS program. The committee is empowered to and often does appoint subcommittees to deal with specific issues and report back to the full committee.

Six regional technical working group committees, which operate at the field level and meet twice a year, provide advice to the Director on technical matters of regional concern relating to OCS activities. Membership totals about 110-116 technical level representatives of coastal States and Pennsylvania, Federal agencies, and members of the private and public sector. The latter appointments are made to effect balance in terms of expertise, points of view, and functions of the committees.

The scientific committee is composed of 10-15 scientists, each selected on the basis of their scientific competence, reputation within their field of expertise,

and ability to represent important elements of the Environmental Studies Program. The committee meets at least twice a year and advises the Director on the feasibility, appropriateness, and scientific value of the OCS Environmental Studies Program.

The MMS provides support for all the committees of the Advisory Board, including the services of an Executive Secretary. Such support also includes travel expenses for all non-federal members of the committees, planning and paying for committee and subcommittee meetings, and producing meeting records as required by the Federal Advisory Committee Act.

FY 1988 Products:

Policy Committee Meetings.....	2
RTWG Committee Meetings.....	12
Scientific Committee Meetings.....	3

Recent activities and accomplishments for this activity include:

- o The Policy Committee has held one meeting in FY 1987 in Norfolk, Virginia; and a second meeting is scheduled for FY 1987 in San Francisco, California. Major topics of discussion are expected to be the implications of likely oil and gas price scenarios for the OCS program, possible incentives for OCS exploration, interactions between OCS hydrocarbon activities and fisheries, and strategic and international minerals.
- o Each of the regions are scheduled to hold two RTWG meetings in FY 1987.
- o The Scientific Committee plans to hold two plenary session meetings and two subcommittee meetings in FY 1987.

Strategic and Other Minerals

The objective of this activity is to develop and implement an Ocean Mining Program. To implement the strategic and other minerals program, exploratory studies are conducted to determine the potential for future sales of strategic and other ocean minerals. Decisions on what, if any, commodities to offer will be based on work carried out under Cooperative Agreements with States, the results of participation in workshops and conferences on related topics, and indications of industry interest.

The activities of this program are similar to the offshore oil and gas prelease steps. The planning stage will begin with a Federal Register Notice of Intent to prepare an Environmental Impact Statement (EIS) requesting comments to help design the proposal. A draft EIS, public hearings, and a final EIS will follow. Next, a Federal Register Notice of preliminary terms and conditions will solicit comments on possible lease terms and conditions, sale configuration, and bidding systems.

After receiving comments decision material would be prepared, decisions made, and a notice of sale published in the Federal Register. Comments from affected States and interested parties would be solicited through the Notice of Intent, draft EIS publication and hearing, and the notice of preliminary terms and conditions.

The planning, evaluation, and development of leasing procedures and the identification of potential and viable lease areas for solid mineral commodities typically will be accomplished by joint Federal/State working groups. These working groups will include interested Federal agencies and affected States. In addition, new mapping and computation work will be done for the Exclusive Economic Zone (EEZ) where solid minerals might be offered for lease.

The EEZ extends 200 miles beyond the coastline of the United States and offers opportunities to explore for strategic and other ocean minerals under authority of the OCSLA. During FY 1988, agency activities the EEZ area will be focused on five areas.

- Continuing work with the State of Hawaii subsequent to the FY 1987 release of the draft environmental impact statement on potential EEZ development of ocean minerals offshore Hawaii (and Johnston Island). Public hearings will conclude in FY 1987, and FY 1988 will provide the first opportunity for public lease sale of ocean minerals, specifically, cobalt-rich manganese crusts.
- Coordination work with the State of North Carolina will proceed through FY 1988 vis-a-vis the joint Task Force on examination of offshore phosphorites, including initiation of the draft environmental impact statement for potential public lease sale sometime after FY 1988.
- Examination of heavy mineral placers, including titanium, in conjunction with the State of Georgia through the joint DOI-Georgia Task Force. FY 1988 is anticipated to conclude initial review of the EEZ-offshore Georgia mineral status, with continuing industry interest in these valuable mineral metals.
- Coordination work with various states, including both east coast and Gulf of Mexico areas for permit actions on sand and gravel in economic, relatively near-shore waters.
- Codification of the U.S. EEZ regulations governing the overall regulatory framework for ocean mineral lease administration and offshore mining operations. These regulations are presently being reviewed within DOI by mineral experts in marine mining, technology, and environmental science.

Recent activities and accomplishments include:

- o Prepared a draft EIS on the potential EEZ development of ocean minerals offshore Hawaii (and Johnston Island); release is imminent, to be followed by public hearings early in 1987.
- o Eight submersible dives by the U.S. Navy during FY 1986 resulted in the discovery of four large sulfide fields, which were mapped, photographed, and sampled in 11,000-foot water depths in the Gorda Ridge offshore northern California.
- o A joint Task Force was established with the State of North Carolina to evaluate offshore phosphorites; responses were received on the RFP issued for completion of an economic feasibility study.

- o A joint Task Force was established with the State of Georgia to exchange technical offshore heavy mineral data and evaluate commercial viability of potential offshore mineral resources.
- o Draft nonenergy minerals regulations for prospecting (prelease) were approved by DOI and forwarded to OMB. Draft regulations for leasing are currently under review by DOI, while those for operations (postlease) are presently being formulated in MMS.

WORKLOAD SUMMARY

A summary of the major workload in the Leasing and Environmental Program by subelement and other initiatives is presented in the following table:

<u>Subelement</u>	<u>FY 1986 Actual</u>	<u>FY 1987 Estimate</u>	<u>FY 1988 Estimate</u>	<u>Inc.(+) Dec.(-)</u>
1. Development/Review of 5-Year Oil and Gas Program:				
o Annual Review of 5-Year Program	1	1	1	---
2. Prelease Process to Determine Specific Lease Areas that will be Analyzed in EIS:				
o Requests for Interest	1	1	1	---
o Calls for Information and Nominations	2	7	5	---
o Area Identifications	2	5	5	---
3. Prelease Environmental Assessment Process				
o Scoping Consultations/ Reports	3	7	4	-3
o Draft Environmental Impact Statements	4	6	6	---
o Oil Spill Risk Analyses and Reports	5	2	5	+3
o Endangered Species Consultations	11	14	12	-2
o Public Hearings	7	13	10	-3
o Final Environmental Impact Statements	3	5	5	---
o Environmental Assessments	0	3	3	---
o Technical Papers	1	8	16	+8
4. Lease Sale Notification and Decision:				
o Secretarial Issue Documents	2	4	8	+4

	<u>FY 1986</u> <u>Actual</u>	<u>FY 1987</u> <u>Estimate</u>	<u>FY 1988</u> <u>Estimate</u>	<u>Inc.(+)</u> <u>Dec.(-)</u>
o Proposed Notice of Sale Decision Memorandums	2	4	8	+4
o Proposed Notices of Sale	2	2	8	+6
o Section 19 Letters	6	12	31	+19
o Final Notices of Sale	4	3	7	+4
o Final Notice of Sale Decision Memorandums	4	3	7	+4
o Balancing Letters	8	12	31	+19
5. Lease Sale and Issuance of Leases:				
o Lease Sales	3	3	6	+3
6. Postlease Adjudication and Maintenance of Leases:				
o Active Leases Maintained	5,304	5,329	5,352	+23
7. NEPA Review for Industry Activities:				
o Categorical Exclusion Reviews for Regulatory Action	795	803	666	-131
o Environmental Assessments for Regulatory Action	36	45	51	+6
o Environmental Impact Statements for Regulatory Action	0	1	1	---
o Oil Spill Risk Analysis/ Reports	1	2	2	---
o Endangered Species Consultations	6	44	45	+1
o Environmental Reports Reviewed	840	849	851	+2
o Categorical Exclusion Reviews for Geological/Geophysical Activity	229	232	233	+1
o Environmental Assessments for Geological/Geophysical Activity	2	3	3	---
8. Environmental Studies Management:				
o Regional Studies Plans	9	9	8	-1
o National Studies Lists	1	1	1	---
o Procurement Packages	54	59	48	-11
o Technical Proposal Evaluations	53	67	49	-18
o Contracts Monitored	150	155	152	-3
Other Initiatives:				
1. Leasing Area Maps and Diagrams:				
o Official Protraction Diagrams and Leasing Maps	85	83	8	---

	<u>FY 1986</u> <u>Actual</u>	<u>FY 1987</u> <u>Estimate</u>	<u>FY 1988</u> <u>Estimate</u>	<u>Inc.(+)</u> <u>Dec.(-)</u>
o Supplemental Official Block Diagrams	692	1,826	505	---
2. Advisory Board Coordination:				
o Policy Committee Meetings	2	2	2	---
o Regional Technical Working Group Committee Meetings	8	9	12	---
o Scientific Committee Meetings	3	3	3	---

Increase from 1988 Base

(Dollar amounts in thousands)

	<u>FY 1988</u> <u>Base</u>	<u>FY 1988</u> <u>Estimate</u>	<u>Difference</u>
\$	17,242	17,454	+212
(FTE)	(343)	(343)	(---

Headquarters Consolidation (-\$38,000)

Productivity and travel savings of \$38,000 will be achieved as a result of the consolidation of MMS's Northern Virginia offices. This consolidation will reduce productivity time losses and the costs of travel incurred while employees are in transit between office locations.

Alaska Boundary Project (+\$250,000)

An increase of \$250,000 is proposed for a jointly funded data collection effort with the State of Alaska to accurately establish the offshore boundary between State and Federal lands. The Alaska Boundary Project was initiated in FY 1984 because of long-term issues which continue to impact State and Federal oil and gas leasing programs in the territorial sea and on the OCS. When precise boundary locations cannot be determined, disputes arise as to which governmental entity may lease lands near to and abutting the 3-geographical-mile line. In many areas around Alaska, the location of the 3-geographical-mile boundary is not known. This situation exists because Alaska is remote and the costs of surveying are very high--up to \$6,000 per mile in some coastal areas. In addition, tidal readings (datums) used to establish the baseline (from which the 3-geographical-mile line is measured) must be accumulated for some time before that line can be determined.

Recently, the State of Alaska published its 5-Year Leasing Program. That program is an ambitious one which contains a number of sales near the 3-geographical-mile boundary. These areas are near shoreline in which the economics and technology requirements will be much more favorable than it is farther from shore where deeper water and ice conditions increase exploration costs. The near shore sales will make the boundary question more critical than it has been in the past. Without resolution of this issue, Federal lease sales offshore Alaska may be cut back in terms of size, postponed, or not held due to further litigation such as the ongoing Supreme Court case in connection with the Beaufort Sea Sale.

It is advantageous for the Federal Government to know the location of the boundary so that Federal lands are not leased (and revenues captured) by the State. By surveying the boundary in cooperation with the State, agreements on methodology will greatly reduce costs and avoid technical disputes which could lead to Federal/State and third party litigation, leasing delays, uncertainty as to the landlord of existing leases, and possibly delays in production. Benefits that can be derived from the project are:

1. The maximum bonus and royalty revenues can be achieved if all available Federal lands adjacent to the Federal/State boundary are offered for lease;
2. National benefits will be maximized if both the State and the Federal Government can lease up to a common line without leaving unleaseable gaps between lease offerings;
3. Expensive litigation can be avoided if we do not lease State lands due to boundary errors and they do not lease Federal OCS Lands.

Distribution of change by object class

The object class detail for the proposed change is as follows:

	<u>Amount (\$000)</u>
Travel.....	-38
Other Services.....	<u>+250</u>
Total	+212

Environmental Studies

Objectives:

Conduct a studies program:

- o That provides information necessary for prediction, assessment, and management of potential effects of oil and gas and other mineral activities on the OCS and adjacent coastal areas.
- o That is designed to support the 5-Year OCS Oil and Gas Leasing Schedule by providing data to support regional and national information needs.
- o That provides data to help monitor postlease OCS oil and gas and other mineral operations.

Base Program

The resources of the Environmental Studies Program have generally been devoted to prelease decisions involving the prediction and assessment of environmental impacts of OCS oil and gas operations. This strategy has been based on the need for this information in the numerous frontier regions existing during FY 1973-1977 and on the limited areas in which to conduct well-defined monitoring studies. Since its inception in 1973, the program has supported

prelease studies in all areas on the OCS leasing schedules. The program has produced a significant amount of relevant information on environmental and socioeconomic characteristics of currently proposed leasing areas. This existing information is used in the analyses of risks and benefits of OCS leasing as required by Section 18 of the OCSLAA and in the production of sale-specific and programmatic Environmental Impact Statements (EIS's), Secretarial Issue Documents (SID's), and other decision documents.

In 1980, the Environmental Studies Program began to invest a substantial proportion of its funds in issues related to postlease management decisions. Such redirection could be taken because the number of studies required in frontier areas had decreased, most lease areas had several years of completed study, and opportunities for scientifically credible monitoring experiments became available. This trend toward postlease concentration has accelerated in FY 1986 and FY 1987, and is projected to continue. In addition, studies are concentrated in areas where industry interest or prospects are high, and are sensitive to the timing of development and production activities. While such studies are often just as large and expensive as earlier studies, the program can be more selective.

As each study is completed, its results are evaluated and used in the planning of future efforts. In many cases, we are approaching the limit of benefits to be gained in further studies. For this reason, MMS has undertaken initiatives to analyze and evaluate the status of selected research topics. MMS's goal is to focus on issues which will benefit from continued study, and decrease funding in those areas where little benefit would result from further effort.

At present, particular emphasis is being given to air quality issues in Southern California, wetlands loss in the Gulf of Mexico, fisheries studies and long-term monitoring and ecosystem studies in several regions, along with synthesis and evaluation reports for selected topics. Our goal of maximum use and availability of existing information has also led us to develop initiatives in information and data management.

The Environmental Studies Program is designed to support both regional and national information needs. These needs are assessed annually through the development of study plans. These plans are developed in close consultation with the Regional Technical Working Groups. During FY 1988, regional offices will develop a draft and then a final regional study plan for studies to be completed in FY 1989. Development of these plans requires several months from initiation to final approval, including extensive review. During the annual formulation of the National Study Plan, regional needs are combined with national needs and ranked in order of their importance to decisionmakers. Studies are ranked using a set of criteria based on a system developed for the program. The MMS is assisted in defining nationally important information needs by the OCS Advisory Board through its technical and scientific committees.

The ranking system includes the following criteria:

1. Importance of the information to the decisionmaker.
2. Date of the leasing or management decision for which the study is designed.

3. Generic applicability of study results.
4. Availability of information in the subject of the study.
5. Applicability of the study to issues of regional or programmatic concern.

Recent activities and accomplishments for this program element include:

- o Canyon dynamics and faunal assemblages were studied in the Baltimore and Lydonia Canyons. Slope areas studied were: (1) Between Lindenkohl and Carteret Canyons; (2) between Toms and Meys Canyons; and (3) between Veatch and Hydrographer Canyons. The significant results relevant to sediment transport on the shelf were: (1) there is a significant downslope and offshore mean flow near the sea floor along the outer shelf and upper slope; (2) internal tides are particularly strong near the shelf break, and the near-bottom speeds associated with these oscillations are often strong enough to move sediments; and (3) currents caused by Gulf Stream warm core rings occasionally affect the near-bottom flow along the outer edge of the shelf, and in concert with the internal tides, cause sediment movement.
- o A major program to study biological processes on the North, Mid- and South Atlantic Continental Slope and Rise (1983-1987) has been initiated in each planning area. Results on the Mid-Atlantic project suggest a subtle, but not statistically significant impact on the infaunal benthos at one of the two drilling sites studied. This impact is reflected in the recruitment of benthic species to azoic sediments as well as the infaunal community structure measured in box core samples. No measurable impacts on the larger, epifaunal species have been recorded to date, and levels of hydrocarbons and trace metals in sediments and fauna do not indicate any input from petrogenic source.
- o In the South Atlantic, a rich and highly diverse benthic infauna has been discovered in slope and rise transects off North Carolina. Distinct zonation patterns have been discovered for both the infauna and epifauna along these transects. An unusually diverse epifaunal assemblage has been discovered in the Charleston Bump area off South Carolina. Slope and rise sediments off North Carolina have been determined to have the highest organic nitrogen values yet discovered in the western North Atlantic.
- o The Mississippi-Alabama shelf program, begun in 1983, has concluded the initial phase of data gathering and information synthesis. A multiyear field study to characterize the OCS, describe current movements, and survey topographic features was initiated during FY 1986.
- o Unique chemosynthetic communities have been found in oil seep areas in Green Canyon in offshore Louisiana. Study results from this unusual find have been published in "Science" and presented at several conferences.

- o MMS initiated a joint physical oceanography data exchange program with industry, which will increase availability of private sector data.
- o Knowledge about hydrocarbon contamination in Arctic and sub-Arctic environments has been expanded due to laboratory and field studies conducted by the MMS in 1985. These have shown that there are long residence times and extended recovery periods for affected biological and physical components and processes. A predictive model is in use that describes the physical and chemical changes of oil spilled in open seas or in the presence of sea ice.
- o Investigations continued to develop a predictive model for the transport of oil into and along a beach (the surf zone SMEAR model). A complementary study was begun to describe the motion and distribution of oil droplets due to turbulent action in the water column. This project was based on regional program needs and recommendations contained within the report prepared for COPRDM entitled "The Long-Term Effects of Oil and Gas Development." An oil/suspended particulate matter (SPM) interactions study has been ongoing to develop reaction terms for the interaction of hydrocarbon components and a variety of SPM types.
- o A study was begun to assess the potential effects of OCS development on Gulf coast habitats, with major focus on impacts on wetlands of Louisiana and adjacent States. A study to investigate the impact of OCS-related onshore infrastructure on Gulf coast barrier islands and other sensitive coastal habitats was also initiated.
- o An 18 month project has recently concluded in central California coastal waters to describe surface circulation patterns and the three dimensional velocity and density structure. Data from this study are now being analyzed. Studies have shown small scale and mesoscale temporally variable currents and eddies. Velocities over 50 cm/sec have been observed in the Santa Barbara Channel.
- o Thirty-two sea otters were tagged in California and 32 in Alaska; excellent progress has been made in developing a model of the California sea otter movements and growth. Twelve animals were captured in Alaska and transported to San Diego for studies on oiling and subsequent cleaning of otters. Effective cleaning and rehabilitation techniques have been developed through this study. Final reports on the "Fate and Effects of Oil Dispersants and Chemically Dispersed Oil in the Marine Environment," "Oil Slick Sizes and Length of Coastline Affected," and "A Risk Analysis Model for Marine Mammals and Seabirds" were received.
- o The Naval Ocean System Center (NOSC), under MMS sponsorship, continued aerial surveys to determine bowhead whale distribution and relative abundance in the Beaufort and Chukchi Seas. The aerial survey study also had the added function of monitoring the position of the westward bowhead migration in relation to drill sites and general areas of marine geophysical exploration. Daily flight tracks and bowhead sightings were transmitted to MMS, NMFS, and then to State of Alaska regulatory officials.

Flight tracks and bowhead sightings from up to nine other field teams were coordinated daily with the principal NOSC monitoring contractor via radio telephone.

- o A final report was received on the response of feeding humpback whales to oil and gas industry noise. Acoustic response testing took place in Stephens Passage/Frederick Sound. A computer-implemented analysis was conducted to determine the distribution of ranges from the sound source to the whale sighting location under pre-exposure, exposure, and post-exposure conditions. No clear evidence of whale avoidance of the area near the active sound source was obtained. A field study off St. Lawrence Island measured response of feeding gray whales to oil and gas industrial noise. Results of the gray whale study are still being analyzed.

Decrease from 1988 Base

(Dollar amounts in thousands)

	<u>FY 1988 Base</u>	<u>FY 1988 Estimate</u>	<u>Difference</u>
\$ (FTE)	22,629 (---)	21,865 (---)	-764 (---)

Since the leasing program's presale process has begun to focus on promising acreage and early consultation with all concerned parties, early identification of industry interest has been made possible. New initiatives planned for the Environmental Studies Program will focus on areas of higher industry interest. This means that efforts in the Atlantic Region, and possibly selected areas in the Alaska Region, will be reduced to maintain existing or increased levels of funding in the Gulf of Mexico and Pacific Regions. In addition, certain subject areas can also be reduced to reflect the present substantial level of knowledge in those areas. Reduction of effort is planned in the following areas and studies subjects.

- o Bathymetric Mapping (all regions).....\$50,000
- o Marine Mammals/Endangered Species (Alaska, Atlantic)..\$300,000
- o Physical Oceanography (Pacific, Atlantic, Alaska).....\$100,000
- o Air Quality (Alaska, Gulf of Mexico).....\$200,000
- o Prelease Studies (all regions).....\$114,000

FY 1988 Environmental Studies are displayed by category and by OCS Region in Table 1.

Distribution of change by object class

The object class detail for the proposed change is as follows:

	<u>Amount (\$000)</u>
Other Services.....	-764

Table 2
FY 1988 Environmental Studies Program

OCS Region/ ¹ / Lease Sale No.	Study Categories								Remarks	
	Endangered Species	Pollutant Transport	Hazards	Marine Ecology	Monitoring	Fates and Effects	Socio-Economics	Meteorology		Other
North Atlantic: 96, 134 Mid Atlantic: 121 South Atlantic: 108	X	X		X	X				X	Completion of physical oceanographic processes on the lower continental slope and continental rise in all planning areas, and synthesis of information on endangered species and fisheries.
Eastern Gulf of Mexico: 116, 137 Central Gulf of Mexico: 110, 113 118, 123, 131 Western Gulf of Mexico: 112, 115, 122, 125, 135	X	X		X		X			X	Continued refinement of oil spill trajectory modeling; evaluation of the effect of OCS operations on coastal wetlands; socioeconomic analysis of regional impacts; and regional ecosystem characterization in lesser developed regions.
Central California 119; Northern Calif: 91, 138 Southern Calif: 95, 128 Washington-Oregon: 132	X	X		X	X			X	X	Continued emphasis on field effects monitoring to evaluate long-term chronic discharge impacts of OCS operations; evaluation of the vulnerability of the sea otter to OCS development; continued study to define the physical oceanography of northern and central California. Collection and analysis of existing information for Washington-Oregon.
Gulf of Alaska Gulf of Alaska: 114 Cook Inlet: 136 Kodiak: 127 Shumagin: 129				X						Emphasis on updating information base developed for previous offerings in this area; reconnaissance of commercially important organisms.
Bering Sea Navarin Basin: 107 130 St. George Basin: 101 North Aleutian Basin: 117 Norton Basin: 120	X	X	X		X	X		X		Continued development of reconnaissance information on endangered species, biological communities, and physical oceanographic features; monitoring of effects of OCS operations on whales, native communities, and fishing resources; evaluation of hazards to operations posed by sea ice.
Arctic Ocean Chukchi Sea: 109, 126 Beaufort Sea: 124 Hope Basin: 133	X	X	X		X	X		X		Continued monitoring of effects of OCS operations on Bowhead whales and other marine mammals; monitoring of OCS development effects on native populations; evaluation of hazards to operations posed by sea ice; continued analysis of pollutant transport by oceanographic features and sea ice.
Programmatic Studies						X	X		X	Continued emphasis on program quality assurance and integrity; development of consistent data for analyses of environmental and socio-economic impacts of a potential new 5-year schedule; management of information transfer; design and coordination of a long-term effects program.

¹/ Studies included will also be applicable to sales in the proposed 5-Year Program from FY 1988 through FY 1992.

Justification of Program and Performance

Activity: Outer Continental Shelf Lands
 Subactivity: Resource Evaluation Program

(Dollar amounts in thousands)

<u>Subactivity</u>		<u>FY 1987 Enacted To Date</u>	<u>FY 1988 Base</u>	<u>FY 1988 Estimate</u>	<u>Inc.(+) Dec.(-) from 1987</u>	<u>Inc.(+) Dec.(-) from Base</u>
Resource Evaluation Program	\$ (FTE)	26,212 (365)	27,362 (365)	23,846 (354)	-2,366 (-11)	-3,516 (-11)
=====						
Total Requirements	\$ (FTE)	26,212 (365)	27,362 (365)	23,846 (354)	-2,366 (-11)	-3,516 (-11)

Objectives

- o Provide sound analytical and technical support to the offshore leasing process, including postlease regulatory activities, so that all activities can be carried out effectively and efficiently.
- o Provide scientific data and information concerning offshore lands to assure an adequate data base is available to the Secretary to make informed decisions regarding the OCS Leasing Program.
- o Provide estimates of undiscovered mineral resources, exploration and development scenarios, and economic parameters and statistical data on lease sale areas.
- o Develop and maintain an accurate data base of estimates for proven and indicated oil and gas reserves and an inventory of hypothetical and speculative oil and gas resources.
- o Provide resource economic evaluations and bid adequacy determinations for tracts bid upon in lease sales to assure that the Government receives fair market value for leased lands.

Base Program

The Resource Evaluation Program directly supports both the Offshore Leasing and Regulatory Programs. Information is provided throughout the leasing process, focusing on the use of geologic and geophysical (G&G) data for the purpose of identifying and evaluating areas and tracts with potential for oil and gas. Economic and engineering data is used to develop resource estimates and resource economic evaluations and analyses. In the early stages of the leasing process, the program focuses on providing data, information, and analyses required for decisions that are made relative to planning areas being considered for lease. As the leasing process progresses, the focus shifts from planning areas to specific areas being offered for lease and the potential prospects within that area, and finally on tracts receiving bids in a sale. Upon completion of

the process for a specific sale, the emphasis shifts again to planning areas of future sales.

In preparation for each lease sale, tract- and prospect-specific maps and analyses are updated and evaluations are completed to provide inputs for determination of bid adequacy, which occurs at the end of the sale process. In addition, economic and engineering analyses of minimum economic field size, minimum bid level, and lease terms, among others, are also carried out. These analyses, while directly related to specific lease sales, also provide necessary input for overall program decisions such as the annual review of the current leasing schedule and any subsequent revisions. Regional mapping and analyses are important early in the leasing process and later serve to identify promising areas that are used in reviewing and developing future oil and gas leasing schedules. Additionally, the Resource Evaluation Program develops and maintains current estimates of oil and gas reserves in developed and developing fields and provides information on the potential availability of undiscovered offshore oil and gas resources; these resources are essential to the national security of the United States and may need to be made available to meet future energy supply emergencies.

To fulfill requirements of Section 8(g) of the OCS Lands Act Amendments (OCSLAA) of 1978, the Governors of States adjacent to areas proposed for leasing are provided, in writing, with the following information at the time of the Call for Information and Nominations:

- o An identification and schedule of the areas and regions proposed to be offered for leasing;
- o All information from all sources concerning the geographical, geological, and ecological characteristics of such tracts;
- o An estimate of the oil and gas reserves in the areas proposed for leasing; and
- o An identification of any field, geologic structure, or trap located wholly or partially within 3 nautical miles of the seaward boundary of such coastal State, including all information relating to the entire field, geologic structure, or trap.

The Resource Evaluation Program is responsible for providing all of this information, except for the identification and schedule of the areas proposed for lease, and ecological data characteristics. Additionally, at the time of Area Identification, the Resource Evaluation program staff is responsible for making a determination of whether or not a common structure exists with State submerged lands on each tract in the Section 8(g) zone. This information is then provided to the Governors of affected States.

The resource information and the economic estimates derived throughout the leasing process and the conclusions resulting from analyses of these data also enable the Department to make informed balancing decisions in resolving conflicts on the OCS with other Federal agencies, State and local governments, and other interested groups. Furthermore, MMS provides data and information concerning the resource potential of OCS areas to other Federal Agencies in support of their activities, e.g., proposed marine sanctuaries, traffic separation schemes, international boundary disputes, etc.

Those aspects of the Resource Evaluation Program which focus on providing scientific data, information, and analyses on offshore geology and hydrocarbon resource potential include: (1) acquisition of G&G data; (2) production of regional G&G maps and analyses; and (3) production of tract- and prospect-specific maps and analyses for resource economic evaluations. These outputs are essential to completing major milestones in the leasing and evaluation process leading to the acceptance/rejection of high bids received at the lease sale.

The Resource Evaluation Program combines much of the G&G data and analyses with resource economic and engineering data to produce outputs and products that are also essential to completing major steps in the leasing process. These steps proceed from the Geology Report through the acceptance/rejection of high bids. The objectives of these analyses are to: (1) Develop estimates of technologically and economically recoverable undiscovered hydrocarbon resources for planning and for potential lease sale areas to be used throughout the leasing decision process; (2) inventory oil and gas reserves of individual fields, reservoirs, and leases in support of planning decisions, lease sale evaluations, supervision of field and reservoir development and long-range energy supply projections; (3) analyze, develop, and design economic and engineering parameters on both a lease sale and a tract-specific basis to be used in assessing environmental impact and in determining bid adequacy; and (4) develop economic and engineering methodologies and studies for the leasing process. Fundamental to accomplishing these objectives is the design, maintenance, and update of advanced computer models, ADP systems, and data bases for economic and engineering analyses that are a basic part of the overall OCS program and decisionmaking process.

The eight major subelements of the Resource Evaluation Program and their products are described on the following pages.

1. Acquisition of G&G Data (\$3,440,000)

The objective of this subelement is to acquire and analyze G&G data in order to first identify broad areas and then specific tracts with geologic potential for oil and gas. These data are the basis for mapping and evaluating the formation and distribution of potential offshore resources. The data also provide inputs for determination of bid adequacy.

Industry collects G&G data under permits issued through the Resource Evaluation Program. A condition of the exploration permits issued to industry allows MMS to selectively acquire G&G data to directly support the analyses required throughout the leasing process. These data include logs and other data from deep stratigraphic tests and significant amounts of Common Depth Point (CDP) seismic data. Since 1968, over 1,075,000 line miles of CDP data have been acquired in OCS areas. These data are analyzed and interpreted in order to map a proposed lease sale and determine areas having potential for the occurrence of hydrocarbon resources. They are also used to specifically locate and map geologic structures capable of trapping hydrocarbons, and to establish values for the geologic parameters necessary for resource economic evaluation in support of determinations of the adequacy of bids received at a lease sale.

Section 26(a)(1)(c)(iii) of the OCSLAA requires the Secretary to reimburse permittees for the costs of processing and reproducing G&G data requested by MMS. This was amended in the FY 1986 Minerals and Royalty Management appropriation language which provides that in FY 1986 and thereafter, the Department will no longer reimburse industry for the cost of processing G&G data acquired under Federal permit. However, the Secretary will continue to reimburse industry for data reproduction costs and the cost of any special data processing or reprocessing specifically requested by MMS. This language was adopted by the Congress and included in the FY 1986 Continuing Resolution which enacted appropriations for the Department of the Interior and related agencies.

Permits issued prior to FY 1986 for data collection on the OCS state that the permittee will be reimbursed for both data processing and reproduction costs. Therefore, the Government has a contractual liability to reimburse permittees for data provided to MMS under the terms of the permit. As a result, it is necessary to budget funds for: (1) reproduction cost of data acquired under permits, special processing, interpretations, special data, special data storage, 8(g) data acquisitions; and (2) processing of data acquired under permits issued prior to enactment of the FY 1986 appropriation language which contain specific provisions requiring reimbursement for processing costs.

A comparison of these costs for the period FY 1986-1988 is given below:

(In thousands of dollars)

	<u>FY 1986</u> <u>Actual</u>	<u>FY 1987</u> <u>Estimate</u>	<u>FY 1988</u> <u>Estimate</u>	<u>Inc.(+)</u> <u>Dec.(-)</u>
Data reproduction and special processing of data not available under permit to support litigation, section 8(g) and boundary disputes	2,000	2,000	2,000	---
Processing costs for data acquired under permits issued prior to enactment of the FY 1986 appropriation language	2,660	3,800	700	-3,100
Total Funding	4,660	5,800	2,700	-3,100

Description of Subelement Products:

a. G&G Permits Processed and Approved

Prelease data gathered by industry on the OCS require the issuance of G&G permits. Processing and approval of exploration permits includes: Review of applications for permits and agreements for OCS geologic or geophysical scientific research or exploration for mineral resources;

the issuance of permits and agreements, including terms, conditions, and stipulations; the monitoring of permit activity; and all correspondence with prospective permittees.

b. G&G Data Acquisition Actions

After data have been collected by permittees, MMS selectively acquires those data which are needed to augment the existing data base. The steps in acquiring data from permittees include: preparation and approval of a proposed data acquisition list; onsite inspection of data; selection of data; preparation and submittal of requisition forms to reimburse permittees for data reproduction and the cost of special reprocessing requested by MMS; preparation of justifications for selection of data and lists of deliverable items; and contact and correspondence with permittees, administrative personnel, and headquarters personnel.

At the beginning of each fiscal year, G&G data requirements to support the leasing schedule are identified and priorities established. Throughout the year these data needs are reassessed as required by the leasing schedule.

c. Line Miles of CDP Data Acquired

The CDP seismic data provide the primary data base required for much of the effort in the area identification and evaluation process and to support the activities of other Federal Agencies. Seismic data in a planning area are used not only for products related to a specific sale, but are supplemented, as required, with new data for later sales in the same planning area.

Recent activities and accomplishments for this subelement include:

- o Permit forms for geologic and geophysical scientific research or exploration for mineral resources on the OCS have been revised and disseminated to all regional offices. The new forms incorporate recent regulatory changes and clarify requirements for permit application and execution.
- o Continuing participation by Program personnel as technical advisors on various Federal, State, and joint task forces concerned with geophysical data collection and interpretation within the U.S. Exclusive Economic Zone.
- o Increased interest by private industry in nonenergy mineral resources as reflected in the recent issuance of several geologic exploration permits in the Atlantic OCS.
- o Completion of a statistical summary report on G&G data acquired by MMS through FY 1985. The publication details the quantity and costs associated with the various types of data vital to the Resource Evaluation Program.
- o Management and maintenance of the largest and most comprehensive OCS G&G data base in the Federal Government by the Resource Evaluation Program. Dissemination of nonproprietary data and information to

other agencies and the public is accomplished locally at MMS regional offices and internationally through a cooperative agreement with the National Oceanic and Atmospheric Administration.

- o Initiation of agreements with the Governors of coastal States to further coordinate, consult, and provide information to affected States, in accordance with Section 8(g) of the OCSLAA of 1985.

2. Production of Regional G&G Maps and Analyses (\$2,991,000)

The objective of this subelement is the development of maps identifying areas favorable for the accumulation of hydrocarbons and the analysis of the geologic history and processes involved in the formation and distribution of offshore resources. These maps and data are the basis for the Geology Report used in the early stages of the leasing process and later as input to the resource economic evaluation process.

The primary objective for the production of regional G&G maps and analyses is to provide preliminary reconnaissance of the planning area in preparation for lease sales. This is done by analyzing technical and scientific data and information in order to develop a basic knowledge of the geologic history and its effects on hydrocarbon generation, distribution, and accumulation within the planning area. This knowledge provides the basis for the Geology Report and associated maps, which are the initial technical analyses in the early stages of the leasing process that describe the geology, geologic risk, and resource potential of the planning area.

The Geology Report consists of a geologic analysis section, a petroleum geology section, and an environmental geology section that includes a general description of potential geohazards.

Release of the Geology Report generally precedes the Call for Information and Nominations by approximately 8 months.

The data, information, and analyses in the Geology Report are updated and used in the leasing process as input to the National Environmental Policy Act (NEPA) documents, the Exploration and Development (E&D) Report, and other MMS and Department decision and option documents. The maps and information also support preparation of the Resource Estimates Report and analyses carried out in the Area Identification and prospect evaluation process. Once an initial Geology Report is prepared for a planning area, it is updated with new or additional data, as appropriate, to prepare geology reports for succeeding sales in the same planning area.

Description of Subelement Products:

a. Geology Report

This report consists of the following specific sections:

- (1) The geologic analysis section describes the general geology and geologic history of the planning area. This provides the basic understanding of the geology and the resource occurrence and potential of the area.

- (2) The petroleum geology section analyzes and provides data and information on the resource potential, probability of hydrocarbon occurrence and items such as source and reservoir rock, traps, and maturation.
- (3) The environmental geology section provides general information over the planning area about potential shallow geologic features, such as shallow faults, accumulations of shallow gas, and slumps which could be hazardous to exploration and development operations. This section also provides information on the occurrence of ice and ice hazards, if any, and seismic and volcanic activity.

b. Determinations of Area of Hydrocarbon Potential

Maps and associated documents are required prior to the issuance of the Call for Information and Nominations to identify those portions of the planning area having various ranges of hydrocarbon potential. This information represents a significant refinement to that contained in the Geology Report, which describes general geologic aspects of the entire planning area.

To initiate action on a lease offering, it is necessary to determine which specific areas, within a planning area, have potential for oil and gas accumulation. This effort goes beyond the analysis of G&G data. The identification of the Area of Hydrocarbon Potential provides a basis for industry and public reaction during the Call for Information and Nominations and must be completed several months prior to its issuance.

c. Recommendations for Area Identification

A significant step in the leasing decision process is the identification of that portion of the planning area that is proposed to be offered for lease. Area Identification typically occurs 3 months after the Call for Information and Nominations is issued. In response to the Call, industry, the public, and other interested parties submit information to the MMS on what areas within the planning area should or should not be included in the proposed sale.

The information and knowledge of the hydrocarbon potential in the planning area developed in the MMS Resource Evaluation Program are combined with information on industry interest and priorities and then weighed against environmental, economic, and defense concerns to identify the specific area to be included in the proposed sale. This area is the focus of the analysis in the NEPA documents.

Recent activities and accomplishments for this subelement include:

- o Resource Evaluation scientists have published a series of regional cross-sections and maps in the Gulf of Mexico OCS. The publication was presented at the American Association of Petroleum Geologists convention and received significant attention from industry and the scientific community. Over 40 oil companies and geophysical contracting

companies active in the Gulf of Mexico granted permission for use of their proprietary data in support of this effort.

- o MMS report entitled "United States Outer Continental Shelf Basins: Maps and Descriptions" has been completed. The report identifies the location of potential hydrocarbon bearing basins in OCS planning areas, discusses their geologic history and summarizes new information based on recent exploration activities.
3. Production of Tract and Prospect Specific Maps and Analyses (\$5,160,000)

This subelement consists of detailed G&G mapping and analysis of tracts, either individually or by prospects, in order to estimate their resource potential. Maps, data, and analyses form the basis for determining parameters that serve as inputs to the resource estimation process and the post-sale evaluation process for assessing bid adequacy.

Description of Subelement Products

- a. Completed sales: Maps and analyses associated with those oil and gas lease sales which will be completed during FY 1988.
 - b. Sales in progress: Maps and analyses for oil and gas lease sales proposed beyond FY 1988. Generally, work devoted to mapping and analysis of tracts commences 2 years prior to a proposed lease sale, with the exception of sales in the Gulf of Mexico, where mapping and analysis begin 1 year prior to the sale.
4. Development of Estimates of Undiscovered Resources for Planning Areas (\$961,000)

Economic and engineering analyses, supplemented by geologic and geophysical analyses, are carried out to develop estimates of undiscovered technologically and economically recoverable resources for planning areas, lease sales and alternatives, Secretarial Issue Documents (SID's), and the OCS Information Program. These activities include the economic and engineering analyses needed for resource assessment. Products can be divided into those related to planning areas and those related to lease sale areas. Those initially developed for planning areas are updated, as appropriate, with new or additional data for succeeding sales in the same planning area.

Description of Subelement Products

- a. Section 606 Reports: Resource estimates are developed for biennial reports to Congress containing estimates of undiscovered recoverable oil and gas resources in the OCS as required by Section 606 of the OCSLAA of 1978.
- b. Review of 5-Year Leasing Schedule: Planning area resource estimates are also developed for use in the annual review of the 5-Year OCS Oil and Gas Leasing Schedule and any subsequent development of a new 5-year leasing schedule.

- c. NEPA and Decision Documents: Lease sale area resource estimates are developed for use in E&D reports, NEPA documents and other decision documents, as well as summary reports and updates produced by the OCS information program.

Recent activities and accomplishments for this subelement include:

- o A report entitled "Estimates of Undiscovered Economically Recoverable Oil and Gas Resources for the Outer Continental Shelf as of July 1984" has been published. This publication presents updated offshore resource estimates and describes technology used in performing the assessment.
- o A Committee of the National Academy of Sciences recently completed a comprehensive study of the resource assessment methodology utilized by MMS. A final report entitled "Offshore Hydrocarbon Resource Estimation: The Minerals Management Service's Methodology" reaffirms the technical approach and resultant accuracy of the methodology and outlines enhancements for future consideration.
- o MMS and the U.S. Geological Survey are participating in a joint assessment of undiscovered oil and gas resources for the U.S. The investigation is in response to a national need and will utilize new geologic information and technology, economic changes, and new or refined methods of performing resource assessments.

5. Reserve Inventory (\$1,863,000)

The primary objective of the reserve inventory subelement is to develop and maintain estimates of oil and gas reserves as mandated by the OCSLAA. Reserve inventories are generated from well and reservoir data and tabulated by individual field, reservoir, and lease. The analyses and mapping associated with reserve estimates directly support field and reservoir development and provide geological and engineering data required for lease sale evaluations.

The Reserve Inventory functions have been realigned from the Regulatory Program subactivity to the Resource Evaluation Program subactivity to more properly reflect the direct exchange of data and improve coordination between activities with similar functions. Reserve Inventory analyses, mapping, and studies are closely related to Resource Evaluation Program resource studies and lease sale evaluations and are therefore, more properly aligned as a part of the Resource Evaluation subactivity.

In FY 1988, the Reserve Inventory functions will continue the function of providing estimates of new field discoveries and updated reserve estimates in those fields previously inventoried. As additional geologic, engineering, and production data are obtained, updated statistics will lend support to the leasing process, future energy leasing policy analyses and decisions, and oil and gas assessment for projecting energy supplies as they relate to the national security of the United States.

Description of Subelement Products:

- a. Field Reserve Estimates: Estimates of oil and gas reserves are developed for new field discoveries as well as the updating of information on remaining reserves in previously inventoried fields.

Recent activities and accomplishments for this subelement include:

- o Estimated oil reserves in the Pacific and Gulf of Mexico Regions increased by 432 million barrels in 1985. This is an 8.8 percent increase from 1984 reserve estimates and reflects new oil discoveries and improved recovery techniques. Recoverable oil reserves from the OCS is now estimated at 5.311 billion barrels.
 - o Recoverable natural gas reserves increased by 937 billion cubic feet (equivalent to 167 million barrels of oil), 2.0 percent over 1984 natural gas estimates. Recoverable natural gas reserves from the OCS is now estimated at 47.635 trillion cubic feet.
 - o Since 1975, the OCS share of oil reserves has increased from 8.6 percent to 18.9 percent of the Nation's total estimated supply. In addition, during the same period, the OCS share of the Nation's recoverable reserves of natural gas increased from 14.32 percent to 24.6 percent.
6. Economic and Engineering Evaluations for Lease Sales (\$1,432,000)

Economic and engineering parameters, on a lease sale and tract-specific basis, are analyzed, developed, and designed for the purpose of determining bid adequacy and assessing impacts on the objectives of the OCSLAA. These parameters include oil and gas prices; inflation and discount rates; exploration, development, production, and transportation costs; supply and demand, and number of platforms, wells, and subsea completions.

Description of Subelement Products

- a. E&D Reports: These reports contain infrastructure and exploration, development, and production scenarios that serve as the basis of the analyses related to the NEPA process. The reports are updated during the leasing process and are used for the design of the specific bidding system to be used in the sale.
- b. Cost Estimates and Price Assumptions: These are prepared for each lease sale and include: oil and gas prices; transportation costs (pipeline, tanker, etc.); real price increases; inflation and discount rates; windfall profits tax rates; and exploration, development, and production costs.
- c. Bidding System Design: This activity consists of analyses to support designation of bidding systems, lease terms, rental policies, and minimum bid requirements for a particular lease sale. Alternative bidding systems provided for in the OCSLAA are also considered. Unique lease-sale costs and market conditions require examination of the various revenue components which comprise

a bidding system. An analysis is made of the impacts of alternative royalty rates, minimum bid requirements, rental policy, length of lease terms, various bidding systems, etc., on the multiple goals of the OCSLAA, such as the maintenance of competition and expeditious exploration, development and production. In addition, an analysis of the impacts of existing leases issued under alternative systems are reviewed in terms of newly arising information on exploration and development effects.

- d. Fair Market Value Determinations: These are decisions regarding the adequacy of high bids received at a sale. This includes determinations of viable prospects and tract types, tract-specific resource economic values, when required, and the development and analysis of economic criteria to determine the final acceptance or rejection of high bids.
- e. Economic Value Estimates: This product includes cost/benefit analyses and economic and social value estimates for SID's, the formulation of the 5-Year Leasing Schedule, each lease sale, revenue projections for budget purposes, and other estimates associated with statutory or policy changes.

Recent activities and accomplishments for this subelement include:

- o Development of leasing regulations for nonenergy minerals; procedures for the potential leasing of salt and sulphur; and initiation of alternatives to drilling restrictions resulting from moratoria.
 - o Establishment of longer lease terms for leases issued in water depths between 200 and 900 meters to recognize the higher costs and technical difficulties of drilling in deep-water areas.
 - o Implementation of modifications to procedures for the determination of bid adequacy which increase reliance on MMS resource economic evaluations in assuring receipt of fair market value.
 - o Initiation of a comprehensive review of minimum bid policies.
 - o Initiation of numerous studies which focus on encouraging exploration in frontier areas. New strategies will be required because of the current market conditions and earlier exploration disappointments.
7. Economic and Engineering Methodologies and Studies for the OCS Leasing Program (\$1,950,000)

Advanced computer models and ADP systems and data bases are analyzed, designed, maintained, and updated to serve as the primary support for the conduct of economic and engineering studies that are used throughout the lease-sale process and for overall OCS program and policy issues. Activities in this support function are generic in nature and are described below.

Description of Subelement Products

a. Economic Studies.

- o Development, refinement, modification, and maintenance of discounted cash flow and resource assessment computer models and methodologies, including the design of new computer models for resource assessment and resource economic evaluation.
- o Design, development, refinement, maintenance, and update of ADP data bases and systems to support lease sale fair market value determinations, and to provide a historical data base for economic studies, other analyses, and reports such as the Annual Report to Congress on alternative bidding systems.
- o Economic Studies. To make recommendations on leasing policy for the overall program and for each offering, economic studies are conducted on specific bidding system parameters such as viable royalty rates, minimum bid levels, regulatory changes, lease terms, rental policies, and tract size.
- o Various generic programwide studies applicable to the entire leasing process are performed. Study issues include the costs and benefits associated with the OCS program, bid adequacy procedures, and effects of various policies on Government receipts.
- o Economic Value Estimates and Cost/Benefit Studies for Formulation of the 5-year OCS Leasing Schedule. These are economic value estimates and cost/benefit studies for use in developing new 5-year leasing schedules or the required annual review.

b. Engineering Studies: Consistent and pertinent programwide technological procedures are designed, developed, and implemented, and technology for adverse and severe conditions is assessed.

Recent activities and accomplishments for this subelement include:

- o A contractual study of the Resource Evaluation Program's tract evaluation computer program (MONTCAR) has been completed. The study concludes that MONTCAR is technically correct and the methodology is appropriate for evaluation of tracts. Recommendations for future enhancements are now under consideration..
- o Major revisions to the PRESTO computer model have been completed. This model is used to analyze the undiscovered oil and gas resource potential of an area. The new version is now resident on microcomputers.
- o A modification to the Post Sale Analysis System (PSAS) model has been completed to support bid acceptance procedures. The model generates reports on high bid amounts, area figures, company bids, and total monies spent. These reports are vital for developing

recommendations to accept/reject bids and for review by the Department of Justice to determine possible antitrust violations.

- o A new data base of lease data has been developed and incorporates data from several historical data bases no longer in use. The Offshore Lease Data System (OLDS) is used in the economic analysis of historical lease bid data and subsequent production data. Inquiries from Congress, the Secretary, the General Accounting Office, and other agencies are handled through ad hoc queries to OLDS.
 - o An economic model (TSL80) has been enhanced with new algorithms and tax tables and modified to run on microcomputers. This leasing simulation model permits costs, resource levels, minimum bid levels, risk factors, etc., to be input and then recommends the preferable bidding system that should be considered on specific tracts for updating sales. The model is extremely important in the preparation of SID's.
8. Program Management and Support (\$3,981,000)

This subelement provides program guidance and direction, internal and external coordination of OCS program activities and program and technical support for the work of the Resource Evaluation Program. Policy guidance and program direction are provided by the Associate Director for Offshore Minerals Management, the Deputy Associate Director for Offshore Leasing, Regional Directors, the Office of Information and Publications, and the Office of Offshore Management Support. Included in the Office of Offshore Management Support is the Offshore Systems Center which centrally reviews all of Offshore's ADP procurement and major systems design, standardizes data elements for all Offshore regions and headquarters offices, prepares activity reports and develops the ADP Strategic Plan. Cartographic, editorial, and other program support duties are provided by support staffs within each region and are funded within this subelement.

Other Initiatives

Cooperative Agreement: Texas Bureau of Economic Geology (\$540,000)

In an effort to broaden the base of data and information available to MMS on offshore lands, the MMS entered into a cooperative agreement with the Texas Bureau of Economic Geology (BEG), University of Texas at Austin, in September 1983. The BEG acts as a central contact between the MMS and the geological surveys of coastal States and monitors multidiscipline, scientific activities conducted by the surveys for the MMS. The general area that the cooperative effort addresses is geologic studies relating to hydrocarbon resources.

In FY 1986, approximately 21 coastal States participated in the program.

Strategic and Other Minerals (\$1,528,000)

Although the main focus of the Resource Evaluation Program will be on OCS oil and gas resources, studies will also be conducted on strategic and other mineral resources, such as polymetallic sulfides, carbonate sands, phosphate and Pacific Ocean cobalt crusts to determine whether future lease sales of these resources are indicated. The process to be followed for these sales

The Minerals Management Service established cooperative arrangements with the States of North Carolina, Oregon, California, and Hawaii for the joint analysis of resource potential and environmental consequences of potential OCS solid mineral leasing and the development of the NEPA requirements for offshore mineral development. Joint Federal/State Working Groups have been established to consider the economic and engineering aspects of strategic and international minerals leasing offshore North Carolina, Oregon, California, and Hawaii. Offshore areas within the jurisdiction of the United States are identified and investigated for the development potential of minerals other than oil, gas, and sulfur. Various mineral commodities (e.g., cobalt-rich manganese crusts, polymetallic sulfides, placers, construction materials, carbonate sands, and phosphates) are being examined to determine their commercial viability. Additionally, MMS provides technical support to the State Department for minerals including oil, gas, and strategic/international resources for areas beyond national jurisdiction including the Arctic and Antarctic.

WORKLOAD SUMMARY

A summary of the major workloads in the Resource Evaluation Program by subelement is presented in the following table.

	<u>FY 1986</u> <u>Actual</u>	<u>FY 1987</u> <u>Estimate</u>	<u>FY 1988</u> <u>Estimate</u>	<u>Inc. (+)</u> <u>Dec. (-)</u>
1. Acquisition of G&G Data:				
o G&G permits processed and approved	205	300	350	+50
o G&G data acq. actions	75	100	130	+30
o Line miles of CDP data acquired	48,900	75,000	100,000	+25,000
2. Production of regional G&G maps and analyses:				
o Geology reports	7	4	10	+6
o Determination of area of hydrocarbon potential	4	7	3	-4
o Area identification recommendations	4	8	6	-2
3. Production of tract- and prospect-specific maps & analyses:				
o Completed sales	3	3	7	+4
o Sales in progress	26	18	27	+9

	<u>FY 1986 Actual</u>	<u>FY 1987 Estimate</u>	<u>FY 1988 Estimate</u>	<u>Inc. (+) Dec. (-)</u>
4. Development of estimates of undiscovered resources for planning areas:				
o Section 606 reports	1	---	1	+1
o Review of 5-Year Leasing Schedule	1	1	1	---
o NEPA and decision documents	13	11	10	-1
5. Reserve inventory:				
o Field reserve estimates	95	95	95	---
6. Economic and engineering evaluations for lease sales:				
o E&D reports	8	7	6	-1
o Cost estimates and price assumptions	4	3	7	+4
o Bidding system design analyses	2	5	7	+2
o Fair market value determinations	3	2	7	+5
o Economic value estimates	16	16	16	---
7. Economic and engineering methodologies and studies for the OCS leasing program:				
o Economic studies	25	25	25	---
o Engineering studies	6	6	6	---

Decrease from 1988 Base

(Dollar amounts in thousands)

	<u>FY 1988 Base</u>	<u>FY 1988 Estimate</u>	<u>Difference</u>
\$ (FTE)	27,362 (365)	23,846 (354)	-3,516 (-11)

G&G Data Acquisition (-\$3,100,000)

The FY 1988 budget request includes: \$2.0 million to cover reimbursement for data reproduction, special processing requested by MMS, and acquisition of G&G data not available under permit to support litigation, Section 8(g) actions, and boundary disputes; and \$0.7 million for reimbursement costs for data acquired under permits issued on or before September 30, 1985. This represents a decrease of \$3.1 million from the FY 1987 level of \$3.8 million available for reimbursing industry for data processing costs.

FY 1988 represents the third year of the phase-out of funds required to reimburse industry for processing costs of data and information acquired from permits issued on or before September 30, 1985. The following table demonstrates the proposed phase-out of funds required to acquire pre-FY 1986 permit data and projected costs through FY 1990.

(In millions of dollars)

<u>Fiscal Year</u>	<u>Base</u>	<u>Additional 1/ Funds Required</u>	<u>Total Funding</u>
1986	2.0	2.66	4.66
1987	2.0	3.8	5.8
1988	2.0	0.7	2.7
1989	2.0	0	2.0
1990	2.0	0	2.0

Decreased Activity in Oil and Gas Leasing (-\$388,000, -11 FTE)

A programwide reduction of 11 FTE is proposed as a result of changes in projected workload in the oil and gas leasing program related to decreased activity indicated by industry. A projection of the workload resulting from the proposed 5-Year Oil and Gas Leasing Schedule combined with program efficiencies and restructuring will permit these savings which will be accomplished primarily through attrition.

Resource studies have been conducted in most OCS planning areas to support prelease and leasing decisions. The need for new initiatives in frontier areas has been reduced as a result of diminished interest as indicated by projected industry exploration plans. During FY 1988, program activities will focus on areas of expected industry interest and will be reduced in planning areas for which little industry interest has been indicated.

Emphasis will be focused on using the existing data base to the maximum extent possible to provide the scientific information and to develop the supporting analyses necessary to estimate undiscovered resource potential, formulate exploration and development scenarios, conduct economic evaluations, and perform bid adequacy determinations to assure that the Government receives fair market value for leased lands.

1/Funds required to reimburse permittees for seismic data acquired under permits issued on or before September 30, 1985.

Headquarters Consolidation (-\$28,000)

Productivity and travel savings of \$28,000 will be achieved as a result of the consolidation of MMS's Northern Virginia offices. This consolidation will significantly reduce productivity time losses and the costs of travel incurred while employees are in transit between office locations.

Distribution of change by object class

The object class detail for the proposed change is as follows:

	<u>Amount (\$000)</u>
Personnel Compensation	-348
Personnel Benefits	-40
Travel.....	-28
Other Services	<u>-3,100.</u>
Total	-3,516

Justification of Program and Performance

Activity: Outer Continental Shelf Lands
 Subactivity: Regulatory Program

(Dollar amounts in thousands)

<u>Program Element</u>		<u>FY 1987 Enacted To Date</u>	<u>FY 1988 Base</u>	<u>FY 1988 Estimate</u>	<u>Inc.(+) Dec.(-) from 1987</u>	<u>Inc.(+) Dec.(-) from Base</u>
Regulation of Operations	\$ (FTE)	26,224 (410)	27,868 (410)	27,868 (410)	+1,644 (—)	— (—)
Technology Assessment and Research	\$ (FTE)	864 (—)	864 (—)	864 (—)	— (—)	— (—)
Oil and Gas Information	\$ (FTE)	864 (7)	891 (7)	891 (7)	+27 (—)	— (—)
=====						
Total Requirements	\$ (FTE)	27,952 (417)	29,623 (417)	29,623 (417)	+1,671 (—)	— (—)

Objectives

- o Regulate OCS oil, gas and nonenergy minerals exploration, development, and production operations in a manner that ensures protection of the environment, protection of the natural resources, and prompt and efficient exploration and development.
- o Provide a comprehensive technology base for the supervision of leasehold operations, including the use of best available and safest technologies (OCSLAA Sec. 21(b)). Provide a technical basis and methodology for the determination of reliability and risk associated with OCS operations.
- o Provide information concerning OCS oil and gas and other mineral activities to affected State and local governments.

The Regulatory Program consists of the following separate program elements: Regulation of Operations; Technology Assessment and Research; and Oil and Gas Information.

Regulation of Operations

Objectives

- o Assure a safe and pollution-free environment through careful regulation of activities such as exploration, development, and production operations, the transportation of production to shore, and pipeline design and maintenance.
- o Identify and reporting the cause of major fires, oilspills, deaths, or significant injuries.
- o Conduct an effective inspection and enforcement program.
- o Assure ample opportunity for participation by affected States in the decisionmaking process during the review and approval of lessee-submitted exploration plans and development and production plans.
- o Assure that affected States are provided with copies of exploration plans and development and production plans to enable them to deal with actual and potential onshore effects of OCS activities.
- o Assure that industry personnel engaged in activities on the OCS are properly trained in safety, environmental protection, and natural resource protection.
- o Determine the maximum attainable rate (MAR) of production of crude oil and gas from significant fields on the Outer Continental Shelf.
- o Provide an analysis of whether the actual production has been less than the MAR, and, if so, the reasons for the difference.
- o Provide technology support to MMS operations personnel as the industry moves into the hostile frontiers of the deep oceans and ice infested Arctic.
- o Provide assurance of structural integrity of production platforms, especially those located in deep waters or hostile environments.
- o Assure proper lease development and prevention of hydrocarbons waste in the reservoir through review of maximum efficient rates of production, verification of shut-in wells, reviewing requests for flaring of gas, reviewing requests for suspension of production, and evaluating opportunities for enhanced recovery.
- o Determine pricing categories for natural gas production from new leases, new reservoirs on existing leases, high cost natural gas reservoirs, and stripper wells.
- o Assure that appropriate Minerals Management Service regulations and management systems are in place so that procedures for leasing and mining operations for nonenergy minerals are available.

Base Program

Regulation of the OCS Oil, Gas, and Nonenergy Minerals Operations Program provides for the comprehensive and systematic review, approval, and oversight of lessee-conducted exploration, development, and production operations on the OCS. This is accomplished through the review and approval or disapproval, if appropriate, of exploration plans, development and production plans, development operations, and coordination documents; and through the issuance of permits, the inspection of lessee-conducted activities to assure compliance with governing requirements, and the taking of appropriate enforcement actions when requirements are not met.

The enactment of the OCS Lands Act Amendments of 1978 (OCSLAA) (P.L. 95-372) resulted in significant additional regulatory responsibilities for the Minerals Management Service. These mandated responsibilities require: Coordination of approvals of OCS exploration plans and development and production plans with the affected States; conducting scheduled inspections for each facility annually (with intermittent unscheduled inspections to assure regulatory compliance); and the establishment of a civil penalties program through which the Minerals Management Service may assess and collect monetary penalties.

Oil and gas produced from the OCS contribute significantly to the Nation's current and future energy supplies and to the Nation's plans to reduce its dependency on foreign sources of energy. Production from the OCS has only been established in the Gulf of Mexico and in the Pacific Ocean off southern California. Exploration drilling has been conducted off Alaska with some success and off the Atlantic coast with noneconomic results. However, exploratory activity is expected to continue. Off the coast of California, production is on the increase. Discoveries made in the Santa Maria Basin have given rise to even more exploratory drilling and to the submission of additional development and production plans.

Oil and gas reserves are increasing in the Gulf of Mexico. Significant discoveries in deep water areas of the Gulf of Mexico are expected to continue to contribute to these reserves. Leases off the Alaskan Arctic coast will continue to be subjects of near term exploration drilling. The Arctic area is highly promising in spite of drilling complications and could lead to prolific discoveries ready for development and production in the 1990's.

The four major subelements of the Regulation of Operations program element and their products are described on the following pages.

Major Subelements and Subelement Products:

1. Exploration and Production Review and Approval
 - a. Exploration, development, and production plans.
 - b. Permitting platform installation approval/verification; pipeline; workover recompletion and abandonment; gas flaring; suspension of production; shut-in well; enhanced recovery analysis; lease drainage determination; platform removal; BAST; governmental activity coordination.

- c. Determination and agreements (production rate control; maximum efficient rate (MER); maximum production rate (MPR); Natural Gas Act Category Determination; commingling agreement; unitization agreement).
2. Inspection and Certification
 - a. Inspection activities (on-site inspection; civil penalties; oil spill contingency plan test; accident investigations).
 - b. Certification (well control; safety device; safety and pollution prevention; and equipment certification).
 3. Operations Supervision
 - a. Training (water survival; inspector; and technical).
 - b. Technology and equipment (Operations Technology Assessment Committees; BAST; oil and hazardous material simulated environmental test tank (OHMSETT) program; technology contract administration).
 - c. Rules and regulations (development, preparation, promulgation, safety alerts; Notice to Lessees; orders; standards; directives; manual chapters).
 - d. Inspection program (development, operation, and internal review).
 - e. Operations support.
 4. Program Management and Support
 1. Exploration and Production Review and Approval (\$5,145,300)

The objective of this subelement is the review and approval of plans and applications related to all aspects of drilling, producing, development, flaring, commingling, unitization, etc., in the interest of ensuring the conduct of safe, pollution-free, and workmanlike operations. This work is also conducted in the interest of ensuring responsible and prudent production and conservation practices are following in the production, depletion, drainage, transportation, and measurement of produced hydrocarbons, in accordance with applicable OCS Orders, Regulations, and Notices to Lessees and Operators.

Description of Subelement Products:

a. Exploration and Development Plans Processed

o Lease Plans

The OCS Lands Act, as amended, and the implementing Regulation 30 CFR 250.34 require OCS operators to prepare and submit to the MMS, for approval, a Plan of Exploration (POE) or a Plan of Development Production (POD/P) prior to commencing exploratory or development operations, respectively.

Generally, after an operator acquires an OCS lease, the initial step to be taken is the drilling of one or more wells in an attempt to determine whether the lease contains oil or natural gas in commercially profitable quantities. However, such exploration of a lease can begin only after the operator has submitted a POE and received approval of it by MMS.

A POE for lease operations in the Gulf of Mexico is required to address many topics related to safety and environmental protection. A typical POE includes a description of the proposal together with a schedule of activities to be undertaken, a description of the major equipment to be used, a discussion of safety and pollution-control features and oil spill containment and cleanup plans, a map showing the location of each well, a map showing appropriate geological formations, and a discussion of potential geological or man-made drilling hazards.

After a POE is received, the MMS performs a technical review of the plan. This review includes, in part, verification that the operations are to be conducted using sound engineering practices, that the proposed locations for drilling activities are free of potential hazards, and that the operations will not interfere unduly with other uses of the OCS, such as shipping, fishing, and military activities.

The MMS also performs an environmental review of each plan. This review ensures that potential impacts on air and water quality, endangered species, cultural resources, undersea biological features, and live-bottom areas are minimized. MMS environmental scientists prepare appropriate documentation for each plan to determine compliance of the proposed activities with the requirements of the National Environmental Policy Act of 1969. Any modifications of a plan required as a result of the technical or environmental review must be made by the operator prior to its approval.

If an exploratory program is successful, the operator then must submit to the MMS for approval a POD/P prior to drilling development wells or installing fixed production platforms, pipelines, or production equipment. In the Western Gulf of Mexico, a Development Operators Coordination Document (DOCD) is required in lieu of a POD/P.

A typical POD/P or DOCD for lease operations in the Gulf of Mexico includes most of the items which are required for a POE in addition to a description of any fixed structures and production equipment to be used and a discussion of the hydrocarbons discovered, including expected production rates and the anticipated time to produce the reserves. As with POEs, the MMS performs an extensive technical and environmental review of POD/Ps and DOCDs. Any modifications to a plan required as a result of this review must be made prior to approval.

Another important function of the POE, POD/P, and DOCD program is to satisfy the requirements of the Coastal Zone Management (CZM) Act of 1972, as amended. The CZM Act requires all Federal Agencies which regulate activities that affect the coastal zone to cooperate and participate with State and local governments by assisting them to effectively exercise their responsibilities of managing the coastal zone. In order to satisfy its CZM responsibilities, the MMS requires that each plan which proposes activities that affect the coastal zone of a State (with an approved CZM plan) to be accompanied by an Environmental Report (ER). An ER contains information that is utilized by State officials in the formulation of decisions pertaining to the use of land and water resources of their coastal zone, with full consideration being given in such decisions to ecological, cultural, historic, and esthetic values, as well as economic development. During the MMS review process, plans and accompanying ERs are transmitted to the affected States. The MMS does not unconditionally approve plans until the State has concurred that the activities proposed in the plan are consistent with its CZM plan.

Approval of a plan does not constitute final approval to conduct any specific operations associated with the plan. An operator must file with the MMS an individual permit application for each activity, which describes in detail how the activity is to be performed, and receive approval from the MMS before actual operations can begin. The activities permitted must agree with those in the approved plan.

o Unit Plans

The unitization agreement is the contract that modifies the terms of the committed lease contracts and consolidates them to form the unit. This agreement provides for exploration, development, and production of minerals from OCS land, as a single consolidated entity without regard to separate ownership, and for the allocation of costs and benefits on a basis defined in the agreement.

The unit operator for each approved unit is required to submit, annually, a plan of exploration, development, or production, depending on the type of agreement. The MMS monitors unit activity by reviewing these plans to ensure proper and timely development.

b. Permitting

o Processing of Applications for Permit to Drill, Workover, Recomplete, and Abandon

Applications for Permit to Drill require completion and submittal of MMS Form 331-C, Permit to Drill, Deepen, or Plug Back, supported by a detailed well plan including procedures and schematic drawings

giving well location, directional plan casing procedures, cementing program, mud program, etc. Applications to workover, recomplete, or abandon require completion and submittal of Form MMS-331, Sundry Notices and Reports on Wells, supported by detailed plans, procedures, depths, drawings, etc. Prior to approval, each such application or proposal is thoroughly reviewed from the technical, engineering, and regulatory viewpoints to ascertain compliance with regulations in order to ensure safety and protection of both personnel and the environment.

Although the number of drilling applications currently being received has decreased significantly due to the decrease in oil prices, it is anticipated that drilling activity will show a increase by FY 1988. The workload related to workovers is expected to increase by FY 1988 as a result of more strenuous workover requirements contained in the Regulatory Consolidation Package, particularly in the area of inspections.

o Platform Installation Applications Processed

OCS Order No. 8 requires that an operator submit to the MMS for approval, applications for the installation of new platforms and applications for significant modifications to applications already approved. All new platforms or other structures shall be designed, fabricated, installed, and inspected in accordance with the requirements of OCS Order No. 8 in the interest of minimizing occurrences of platform failures that may endanger life or health or cause damage to property or the environment.

Each platform application or significant modification to an approved application is reviewed by a geologist, a geophysicist, and a structural engineer. They review the design of the platform to ensure that it is appropriate for the expected environmental and operating conditions, to ensure that the platform can withstand the loads to which it may be exposed, both during and after its transportation and installation, to ascertain the projected influence of the soil conditions and other factors on the stability of the platform, and the steps to be taken to protect against corrosion.

In addition to the preceding, platforms which are to be installed in water depths exceeding 400 feet, which have natural wave periods greater than three seconds, which are to be installed in areas of unstable bottom conditions, which have designs not previously proven for use, or are to be installed in seismically active areas, are subject to the requirements of the Platform Verification Program. This program requires the involvement of a third-party verification agent who provides an independent assessment of the design, fabrication, and installation of the platform.

o Pipeline Applications Processed

OCS Order No. 9 and 30 CFR 256 requires that an operator or right-of-way holder submit to the MMS for approval applications for the design, other features, and plan of installation of all pipelines authorized under any lease or pipeline right-of-way. All pipelines and associated valves, flanges, and fittings shall be designed, installed, operated, maintained, and abandoned in a manner which provides for the safe and pollution-free transportation of fluids without unduly interfering with other uses of the OCS.

Each new pipeline application is reviewed by a petroleum engineer and environmental scientist. The petroleum engineer reviews the design of the pipeline to ensure that it is appropriate for the expected environmental and operating conditions, the proposed safety equipment to ensure that leaks and breaks and abnormal operating pressures can be detected, and to ensure that the pipeline will shut in when leaks are detected, the adequacy of projected corrosion protection system, and the analysis of a potential hazard along the proposed pipeline route. The environmental scientist prepares appropriate documentation to determine compliance with the requirements of the National Environmental Policy Act of 1969.

In addition to the preceding requirements, when a pipeline qualifies as a right-of-way pipeline, the pipeline shall not be installed until a right-of-way has been requested and granted. Right-of-way grants are issued pursuant to Section 5(e) of the OCS Lands Act.

In addition to applications for new pipelines, operators and right-of-way holders are required to submit applications for approval for actions on existing pipelines.

o Suspension of Production

Suspensions of production (SOPs) which have the effect of extending a lease beyond its primary term are to be granted when in the national interest, with due consideration given to difficult or unforeseen problems. These suspensions are approved with the understanding that all deadlines within approved activity schedules will be met. Once a schedule has been approved, the deadlines are closely monitored to make certain that the lease is placed on production at the earliest possible date.

o Gas Flaring Approvals

Requests for flaring or venting are reviewed and only operations which are according to OCS Order No. 11, paragraph 10, and according to MMS policies developed to minimize flaring, are approved. Long-term requests are made by written application and are approved in writing for periods up to 1 year. Short-term, emergency requests

(e.g., equipment failure, testing, well purging, etc.) are handled by telephone and confirmed with a letter.

The annual reporting requirement was recently abolished with the understanding that MMS will retain the same level of oversight of gas flaring activities. Methods for collaborating the information in operator requests, using the OCSIS data base, have been developed.

o Enhanced Recovery Operation Analysis

Operators submit secondary and tertiary enhanced oil recovery projects consisting of applications together with supporting geologic and engineering data showing that the projects are in the interest of conservation of the natural resources on the OCS. Operators are required to submit annual reports for each approved injection project, including information on the number of days and volume of gas injected and volume in oil, gas, and water produced. This data is used in reservoir analyses and statistical reports, as well as in monitoring individual injection projects to ensure maximum recovery of hydrocarbons.

o Verification of New Platforms

Drawings and schematics of new platform facilities showing production and process equipment, as well as safety and anti-pollution controls and devices, are reviewed for compliance with applicable OCS orders and regulations and are utilized to verify that the production system equipment is installed in the field in conformance with the approval granted.

o Verification of Shut-In Wells

The status of shut-in wells is verified in the course of routine field inspections with lease operators being required to provide reasons why wells are shut-in and plans for the restoration of production.

c. Determination and Agreements

o Determination of Maximum Production Rates by Reservoir (MER) and by Well Maximum Producing Rate (MPR)

Requests and supporting information (eg., structure maps, tests, etc.) to establish reservoir MERs and well MPRs are reviewed. Operations are only approved according to OCS Order No. 11 and according to rate control policies developed to prevent waste and ensure conservation of oil and gas. MERs are redetermined at least annually for each producing reservoir. MPRs are redetermined for oil wells at least quarterly and for gas wells at least twice a year.

o NGPA Category Determinations

The NGPA category determinations are made on the applications of gas producers, based on engineering and geological evidence, which

must conform to specific requirements of the Federal Energy Regulatory Commission (FERC). This office makes three categories of determinations which in effect, set the maximum price a producer can receive for gas produced from the well receiving the category determination. This, in turn, affects the royalty received by the Government from OCS leases. Without a final category approval, the gas must be sold for a lower price as specified in the regulations.

o Commingling Agreements

Commingling applications are submitted to the Surface Commingling and Production Measurement Section when a lessee or lease operator intends to move production from multiple leases to a central facility for the purpose of treating, measuring, and storing this production. In response, the MMS approves or disapproves the commingling or mixing for the above purposes. Further, commingling may involve the mixing of production from different wells, leases, and fields, with production of other operators.

o Review Development Activities/Lease Drainage

Development and production activities are monitored within and around all Federal leases with royalty rates other than the normal one-sixth (varied royalty) and those leases along the State/Federal line to ensure the prevention of Federal royalty drainage.

Recent Activities and Accomplishments for this Subelement Include:

- o The Gulf of Mexico OCS Region is currently monitoring the development and production of 152 active units in the Gulf of Mexico through the processing of annual and supplemental unit plans.
- o During FY 1986, the regional supervisor for Production and Development in the GOM OCS Region approved six unit agreements (three for exploration and three for production and development).
- o Due to the current market condition and the high cost of exploration and development in deep-water environment, it is anticipated that there will be an increase in the number of unitization requests for FY 1988. We have already experienced an increase of 6 percent which represents an increase of 15 proposed units. Each unit is in a different stage of preparation and will be processed for approval when submitted in final form.
- o For FY 1986, 177 SOPs were approved in the Gulf of Mexico Region. As of September 30, 1986, there were 123 leases beyond their primary term with approved activity schedules.
- o There are currently 253 active secondary and tertiary enhanced oil recovery projects on the Gulf of Mexico OCS.

- o OCS orders as applied to production, safety and antipollution system and equipment, generally require compliance with the requirements of American Petroleum Institute Recommended Practice 14C (ADI RP 14C) which is continually in the process of being revised and improved to better meet the safety requirements of the offshore oil industry. API RP 14C was last revised effective September 1, 1986, and further revisions are currently under consideration.
- o In accordance with recent legislation signed into law, the Maximum Allowable Rate (MAR) program was abolished. MARS were field production forecasts for 2-year periods to show the availability of OCS oil and gas. Methods for collaborating and evaluating the information in MER and MPR requests using the OCSIS data base have been improved. Guidelines and techniques for evaluating the proposed operations requested with MERs and MPRs have been developed or improved.
- o To date, the Reservoir Analysis Unit in the GOM Region has processed over 5,000 applications, most of them requesting the 102(d) category. This category permits the highest regulated price but also is the most difficult and time-consuming to determine. At the present time, the unit is processing 25 to 30 applications per month.
- o In the Gulf of Mexico OCS Region as of September 30, 1986, the following had been accomplished:

Number of existing and expired varied royalty leases reviewed.	330
Number of existing and expired leases adjacent to State/Federal line reviewed.	58
- o Development and production reviews have been ongoing for the last 4 or 5 years. During that time, several instances were found when unitization was recommended and concluded to eliminate drainage.

2. Inspection and Certification (\$13,058,700)

The objective of this subelement is the inspection of all OCS oil and gas exploration, development, and production activities, the certification of well-control training programs, accreditation of safety and pollution prevention equipment, and approval of applications for safety device training programs. The inspection of OCS operations is required by the OCS Lands Act to ensure compliance with all applicable safety and environmental protection laws and regulations. The certification and accreditation programs are intended to ensure that personnel working on the OCS are properly trained and that the equipment used on the OCS is reliable. These programs have provided positive results in assuring safe operations on the OCS as well as assuring that the environment is protected.

a. Inspection Activities

- (1) Inspections - The inspection of OCS operations is a major work unit of the regulatory program. All drilling and production facilities on the OCS are inspected annually on a scheduled basis. In addition, unannounced inspections are conducted on at least 10 percent of all facilities annually. Inspections are conducted utilizing the National Potential Incident of Noncompliance (PINC) inspection characteristics list. In the scheduled annual inspection, all inspection characteristics pertaining to the operation being inspected are utilized. In the unannounced inspections, a minimum of 25 percent of the pertinent PINC's are used.

Inspections are conducted on drilling, production, measurement, pipeline, workover and completion, and abandonment operations. In addition, there are PINC's which pertain to environmental requirements and other general requirements pertinent to all operations. Drilling inspections are conducted to assure that the proper equipment is used, sufficient supplies are on location, and proper techniques are followed to maintain control of the well and prevent blowouts, spills, and other accidents.

Production inspections are conducted to assure that the proper equipment is used and that it is installed and calibrated correctly to prevent accidents and pollution. Measurement inspections are performed to ensure that the disposition of oil and gas production resources is accomplished in accordance with applicable requirements. Pipeline inspections are performed to ensure that pipelines are constructed and operated safely. Workover, completion, and abandonment inspections are conducted to ensure that those operations are performed safely and according to approved plans and regulations.

Inspections are conducted by petroleum engineering technicians located in district offices near the offshore facilities. The MMS has six district offices in the Gulf of Mexico OCS Region, two district offices in the Pacific OCS Region, and one district office in the Alaska OCS Region. The number of inspections that are completed must be viewed in an overall context as representing a compilation of numerous checks and examinations performed by MMS inspection personnel. Some of the inspections conducted may take as long as 30 hours to complete. These inspections are highly technical in nature and consist of inspecting a number of small individual items that in the aggregate, measure the overall condition and compliance record of the particular operation being examined. The difference in drilling and production equipment, and environmental conditions in the three regions must also be taken into account when considering individual inspections and overall statistics. In the Gulf of Mexico and Pacific OCS Regions, conventional drilling facilities are utilized and environmental conditions are generally mild. In Alaska, the

facilities are usually state-of-the-art rigs designed for Arctic ice and severe weather conditions. The weather conditions frequently affect travel involved with inspection efforts.

- (2) Civil Penalties - The OCS Lands Act authorizes the Secretary of the Interior to assess, collect, and compromise civil penalties for violation of any provision of the Act, any regulation or order issued under the Act, or any term of a lease, license or permit issued under the Act. The maximum penalty is \$10,000 for each day of noncompliance. In each case the violator must be given a reasonable amount of time to correct the violation before civil penalty proceedings are commenced. The violator also has the right to a hearing.

The OCS Lands Act also provides for criminal penalties of not more than \$100,000 or imprisonment for up to 10 years for knowing and willful violations.

- (3) Accident Investigation - The OCS Lands Act requires that major fires, explosions, and oil spills be investigated and that a public report be prepared for each such incident. The MMS investigates every accident occurring on the OCS. Major accidents are investigated by a panel of experienced personnel and a public report is prepared. Less severe accidents are also investigated but a public report is not published, although the results of the investigation are used to help prevent similar occurrences.

- (4) Safety Award for Excellence - The Safety Award for Excellence (SAFE) Program was developed to recognize and commend those operating companies that expend extra effort and conduct their operations in a safe and pollution-free manner by adhering to all regulatory requirements, employing trained and motivated personnel, and taking that extra step to enhance safety of operations and environmental protection.

The Safety Award for Excellence is presented on both district and national levels and is judged on the criteria outlined below. The District Safety Award for Excellence is given to a lessee or company and is based on exemplary performance on a single platform or rig, lease, or field or throughout an entire district. The National Safety Award for Excellence is given to a lessee or company selected from the winners of the district awards. The District Safety Award for Excellence is presented semi-annually by the regional manager or Director, MMS, and it covers the periods January 1 through June 30 and July 1 through December 31 of each calendar year. The National Safety Award for Excellence is presented annually by the Secretary of the Interior or his representative.

Recent activities and accomplishments for this subelement include:

- o During FY 1985, the MMS conducted 13,184 inspections of drilling, production, meter, pipeline, workover, and abandonment operations.

- o The MMS is currently working with the Environmental Protection Agency and the Department of Transportation—Office of Pipeline Safety to develop inspection criteria and perform inspections on the OCS for those agencies.
- o During FY 1986, the MMS investigated over 80 accidents on the OCS. Two public reports were published and investigative panels were formed to investigate two major accidents which occurred during the year.
- o In the Arctic, inspections have been conducted on a spray-ice island to evaluate the construction technology and integrity of the island as an exploratory drilling structure. Annual inspections are also made of the temporarily abandoned gravel islands to assess damage to the islands after breakup and to note the presence of oil, trash, or other debris which may have been uncovered. Exxon's BF-37 gravel island, abandoned in 1983, is still monitored by the MMS to assess the erosion characteristics and other environmental conditions of an abandoned island for consideration in approval of abandonment of the remaining three islands.

b. Certification Activities

- (1) Well Control Training - All industry personnel who work in drilling operations on the OCS are required by OCS Order No. 2 to attend and pass a certified course in well-control. The MMS certifies well-control training schools in accordance with MMS Standard OCS-T-1 titled "Training and Qualifications of Personnel in Well-Control Equipment and Techniques for Drilling on Offshore Locations." The Standard is applicable to personnel classified as rotary helpers, derrickmen, drillers, toolpushers, and operator's representatives.

In certifying the well-control training schools, the MMS first reviews the schools' proposed program and curriculum. Once the program is deemed to conform with the training standard, the MMS grants approval, subject to an onsite evaluation of the first class in training. Final approval is given after the onsite evaluation if the school is conducted in accordance with the standard and the approved program. All well-control schools are subject to unannounced audits by the MMS.

- (2) Safety Device Training - All production personnel who work on the OCS in the installation, inspection, testing, and maintenance of anti-pollution safety devices are required by OCS Order No. 5 to be qualified under a program as recommended by the "American Petroleum Institute Recommended Practice for Qualification Programs for Offshore Production Personnel Who Work with Anti-Pollution Safety Devices" (API RP T-2). The MMS approves the applications by the operators for such training programs.
- (3) Safety and Pollution Prevention Equipment Accreditation - All safety and pollution prevention equipment (SPPE) used on the OCS must conform to the American National Safety Standards

Institute/American Society of Mechanical Engineers Standard "Quality Assurance and Certification of Safety and Pollution Prevention Equipment Used in Offshore Oil and Gas Operations," (ANSI/ASME SPPE-1). The MMS participates with the ASME in the accreditation program by attending and monitoring ASME surveys of manufacturers and by serving on ASME committees.

Recent activities and accomplishments for this subelement include:

- o During FY 1986, the MMS certified or recertified 14 well-control training schools. Unannounced audits were conducted on 29 schools. At the end of the year, there were 201 certified well-control training schools (65 basic, 64 refresher, and 72 rotary helper/derrickmen).

3. Operations Supervision (\$4,505,400)

The objective of this subelement is to provide support for MMS Regulation of Operations responsibilities for OCS lease management. This support includes:

- o Training of MMS personnel in the performance of their duties and in the improvement of technical capabilities.
- o Development and/or assembly of technology and equipment capabilities information for use during the review and approval of oil and gas exploration, development, and production plans.
- o Development and/or assembly of technology and equipment capabilities information for use in conjunction with Government inspection and certification activities.
- o Development preparation, promulgation, and review of rules and regulations, safety alerts, Notices to Lessees, and internal operating procedures.
- o Review, analysis, and improvement of the MMS safety and pollution prevention inspections of oil and gas drilling and production operations and facilities.
- o Other associated operations support.

Description of Subelement Products

a. Training

A variety of technical and safety training courses are attended by all employees. As a technically-oriented Agency, training is an integral part of the MMS operations. Training to enhance professionals and managerial capabilities is considered vital to maintaining a workforce capable of monitoring the expanding technology of the petroleum industry. Equally important is the spectrum of safety training to make the work environment reasonably safe for

MMS employees and to ensure that MMS inspectors recognize unsafe equipment and unsafe operating procedures when they occur. Recent accomplishments include the implementation of a water survival training program to minimize potential hazards resulting from daily use of helicopters to transport MMS inspector personnel to OCS facilities in both Arctic and non-Arctic areas.

b. Technology and Equipment

The MMS continuously assesses the offshore oil and gas industry's capability, procedures, and currently available equipment to conduct offshore oil and gas operations in a safe and pollution-free manner. This is done in compliance with OCS Lands Act, Section 21(b) which requires that the best available and safest technologies (BAST) be used in offshore minerals drilling and production operations, which include the drilling and production of oil and gas. To assess BAST, the MMS has implemented a technology information coordination network which utilizes Operations Technology Assessment Committees (OTAC's) at each MMS regional office. These work groups review and evaluate new equipment and techniques, and discuss potential solutions to a variety of related regulatory problems.

The MMS participates with other interested Federal Agencies and the Canadian Government in the evaluation of capabilities of oil spill containment and cleanup equipment and methods. Testing is conducted both offshore and in an Environmental Protection Agency test tank for open-ocean and broken-ice conditions.

Recent tests of in-situ burning of oil spills have contributed significantly to the approval of drilling operations during broken-ice periods in the Beaufort Sea. Other information is being used to quantify the effectiveness of manufactured equipment and operational procedures and to assist in the evaluation of oil spill contingency plans submitted to the MMS for approval. Oil spill technology continues to represent a significant issue for OCS activities.

A formal program of technology analysis is conducted as an MMS administered contract-research program which addresses operation technology issues. Program planning is guided by lease sale schedules and by inferences drawn and issues related from industry sponsored research. Ice-structure interaction studies have contributed to the re-evaluation of ice forces on platforms and other structures in ice dominated Arctic areas. Seismic studies have contributed to the evaluation of the applicability and safety of platforms and other structures in seismically active areas. Foundation seabed interaction and structural material studies have contributed to the evaluation of new types of platforms and structures. Technical material developed via this program is transferred to MMS regulatory personnel through conferences, workshops, OTAC meetings, briefings, and written reports.

c. Rules and Regulations

In association with studies of technology and equipment, the adequacy of current orders, regulations, and standards are continually reviewed relative to new and emerging technology and information gained from analysis of accident reports. Internal directives and operating procedures establish consistency in MMS operations. Notices to operators and lessees add specific regulatory explanation and guidance. Safety Alert Notices result from detailed analysis of particular accidents and provide recommendations to prevent recurrence of these types of accidents. Recent activities and accomplishments include:

- o A major project, nearing completion, will provide total revision of the MMS regulations and OCS orders as a part of pending Regulatory Consolidation.
- o The drafting of regional guidelines for collection and submission of meteorological, oceanographic, and performance data on all offshore operations.
- o The development of guidelines for submittal requirements for OCS development and production plans, associated and environmental reports, and related approval requirements.
- o The implementation of stricter standards for the handling and control of proprietary information.
- o The development and/or implementation of revised Memorandums of Understanding with other Federal agencies having related OCS regulatory responsibilities.

d. Inspection Analysis

A new Offshore Inspection Program (OIP) has been developed utilizing a national potential incidence of noncompliance (PINC) list and incorporating a computer system whereby the data and results of all inspections are entered into an automated data base. The OIP involves the development of internal review procedures and inspection procedures at each organizational level within MMS.

In late FY 1984, the MMS approved the Offshore Inspection Program Handbook. The Handbook requires that documented procedures be developed for all aspects of the inspection program. In addition, the Handbook requires the establishment of a formal "Internal Review" process so that all elements of the MMS offshore inspection program are reviewed at least annually. With the establishment of the formal documented program and the internal review followup, the MMS inspection program will be implemented in a more consistent and effective manner on a national basis. Full implementation of this program is anticipated during FY 1987.

The OIP has been implemented and the computer system for production inspections was activated in September 1986. Regional instructions, district instructions, and internal review procedures are in the process of being developed.

e. Associated Operations Support

These support activities include a "plethora" of requests from local, State, and other Federal agencies for information and meetings relative to regulations, terms, and conditions which affect OCS operations. Additionally, they involve providing support to MMS inspection and enforcement related activities. These support activities include the generation of weekly, monthly, semi-annual, and annual reports of various kinds and types, review of requests for departure or variance from specific regulatory requirements, and review of particular problems related to OCS drilling and production operations.

Recent activities include:

- o Compilation of case files for the appeals of Shell Oil and Union Oil companies for Alaska OCS operations and monitoring the Director's decisions and further appeals to Interior Board of Land Appeals.
- o Preparation of responses to Freedom of Information Act requests.
- o Maintenance of public and proprietary information files.
- o Initiation of a program of circulating technical announcements to the public.
- o Implementation of an ongoing coordination program with military installation in locations where military activities may conflict with OCS oil and gas exploration and development activities.
- o Providing technical support and information for highly sensitive environmental and political negotiations relating to OCS activities.

Some recent accomplishments include:

- o Deepwater drilling reports.
- o Lease status reports.
- o Notices of new fields names and changes in existing fields.
- o OCS events reports.
- o Reports of accident investigations.
- o Report on OCS platform removal techniques.

4. Program Management and Support (\$5,158,600)

This subelement provides program guidance and direction, internal and external coordination of program activities, and program and technical support for the work of the Regulation of Operations Program. Policy

guidance and program direction are provided by the Associate Director for Offshore Minerals Management, the Deputy Associate Director for Offshore Operations, Regional Directors, the Office of Information and Publications, and the Office of Offshore Management Support. Included in the Office of Offshore Management Support is the Offshore Systems center which centrally reviews all of Offshore's ADP procurement and major systems design, standardizes data elements for all Offshore regions and headquarters offices, prepares activity reports and develops the ADP Strategic Plan. Cartographic, editorial, and other program support duties are provided by support staffs within each region and are funded within this subelement.

Selected outputs for the Regulation of Operations program are:

	FY 1986 <u>Actual</u>	FY 1987 <u>Estimate</u>	FY 1988 <u>Estimate</u>	Inc.(+) Dec.(-)
Inspections.....	13,200 <u>1/</u>	14,000 <u>2/</u>	14,150	+150
Exploration/Development and Production Plans Processed.....	1,109	1,115	819	-296
Applications for Permit to Drill Processed.....	1,055	928	1,112	+184
Platform Installation Applications Processed.....	231	260	161	-99
Pipeline Applications Processed.....	1,866	1,862	1,574	-288
Production Rate Control(MER,MPR,MAR)..	15,300	15,330	15,375	+45
NGPA Category Determinations.....	755	760	775	+15
Commingling Agreements.....	160	160	150	+10
Unitizations and Other Agreements Processed.....	244	233	233	---
Accident Investigations.....	96	109	122	+13
Applications for Workover, Recompletion, and Abandonments.....	8,933	9,648	10,665	+1,017
Suspensions of Production.....	303	300	300	---
Enhanced Recovery Operation Analyses..	7	7	7	---
Gas Flaring Approvals.....	471	522	574	+52
Verification of New Platforms.....	15	7	7	---
Examinations and Verifications of Shut-In Wells.....	3,100	3,250	3,500	+250
Civil Penalty Proceedings.....	---	---	1	+1
Well Control School Certification Activities.....	30	45	60	+15
Water Survival Training Actions.....	17	34	36	+2
Inspector Training Program Activities.	1	4	10	+6

1/FY 1986 estimate decreased by 13 percent from previous estimates due to the downturn in oil and gas activity.

2/FY 1987 estimate decreased by 8.5 percent from previous estimates due to downturn in oil and gas activity. The estimate reflects our anticipated increase in oil and gas activity in FY 1987.

Technology Assessment and Research (TA&R)

Objectives

- o Conduct independent analysis of the OCS technologies to identify technology gaps and to assure the use of the Best Available and Safest Technologies (OCSLAA Section 21(b)-BAST). The program provides MMS personnel a continuing dialogue with the industry and the research community on the operational technologies.
- o Assist in the development of technical and operational requirements for leaseholders to assure safe, pollution-free operations. These requirements are incorporated in OCS orders, regulations, and the conditions for granting permits.

Base Program (\$864,000)

Offshore operations conducted by oil and gas leases and monitored by the MMS are becoming increasingly involved in pioneering efforts in a number of complex technologies as exploration and production move into deeper and more hostile environments of the open oceans and the ice-infested Arctic. The Technology Assessment and Research (TA&R) Program provides a comprehensive technological base for the MMS in the supervision of leasehold operations. This support is stated within the OCS Lands Act Amendments of 1978 (OCSLAA), Section 21(b), which requires the use of the BAST on all offshore operations.

The TA&R Program operates through contracts with universities, private firms, and Government laboratories. It takes advantage of participatory or collaborative studies with industry, other agencies, and with other countries such as Canada, the United Kingdom, and Norway, where similar operations, programs, and concerns exist. Information developed during the course of these investigations is discussed with MMS operations personnel by the program staff and by the contract investigators through workshops, seminars, and a committee system called Operations Technology Assessment Committees, established in each regional office and in headquarters.

Examples of activities and accomplishments:

1. Large-scale equipment tests and theoretical analysis of shallow gas blowout diverter (piping) systems, used when blowout preventors are not installed, are being run to develop an improved understanding of design and operational parameters. This information is needed to confirm and amplify MMS regulations on the usage of these systems which have heretofore proven generally less than successful in operation.
2. Theoretical and experimental investigations are being conducted into improved methods of controlling well kicks (potential blowouts) in deep water drilling operations where the long flow lines between the rig and the blowout preventor on the ocean floor hamper smooth and effective control operations. A signalling device has been developed which can digitally transmit bottom hole pressure readings, while drilling, to the rig and through computer operations actuate a surface choke to control these pressures in a timely manner.

3. Experimental investigations of the physics of burning various crude oils on the ocean surface are being conducted in collaboration with the U.S. Coast Guard and the Canadian government. These studies have resulted in recent encouraging test findings pertaining to the burning of oil on water in confined areas of broken ice.
4. As a result of the failure of the subsea oil collection system ("Sombrero") placed over the blowout from Ixtoc 1 Well, Campeche Bay, Mexico in 1979, the MMS, in collaboration with Canada and Norway, developed and tested a collector which works efficiently. Subsequently, MMS has completed an engineering/cost analysis of the use of the subsea collector suspended from a specially configured large tanker.
5. In collaboration with industry, MMS is determining the mechanical properties of multi-year sea ice and the forces which the ice packs exert against structures.
6. MMS is participating with industry and the U.S. Coast Guard in evaluating the inspection approaches and monitoring techniques for the tendons (tensioned legs) of buoyant tension leg platforms. The first platform of this type in U.S. waters will be installed in the Gulf of Mexico in 1987-1988.
7. MMS has conducted instructional workshops on subjects such as concrete technology for Arctic structures, underwater welding repairs of structures, and the use of risk analysis in OCS operations.
8. Oilspill containment and cleanup technologies are being investigated in collaboration with North Sea and Canadian government agencies.
9. Investigations are being conducted on the behavior of spilled oil, covering a range of conditions.

Selected outputs for the Technology Assessment and Research Program are:

	<u>FY 1986</u> Actual	<u>FY 1987</u> Estimate	<u>FY 1988</u> Estimate	Inc.(+) Dec.(-)
Technological Investigations	11	9	9	---
Technological Assessments	2	3	3	---
Technology Seminars Conducted	2	2	2	---
Technical Reports Published	2	1	1	---

Oil and Gas Information

Objectives

- o Provide State and local officials with a summary of scientific, technical, and policy data to assist them in planning for the potential offshore, near-shore, and onshore impacts of the Outer Continental Shelf (OCS) mineral exploration, development, and production.
- o Develop, manage, and coordinate publication and information policies and activities relating to the OCS Program.
- o Compile, organize, print, and disseminate OCS regulations on a current and continuing basis.
- o House, design, and operate an Environmental Studies information dissemination program for the Minerals Management Service (MMS) and public.

Base Program

The Oil and Gas Information Program provides the MMS with the capability to carry out information storage, printing, and dissemination responsibilities as mandated by the OCS Lands Act Amendments of 1978 (OCSLAA)(P.L. 95-372). This program has the prime responsibility for providing State and local officials with summary information regarding the potential impacts of OCS mineral exploration, development, and production. This program manages the publication and information dissemination policies of the MMS, as well as providing for the current dissemination of all applicable OCS regulations and the results of all OCS Environmental Studies.

Major Subelements and Subelement Products

- | | |
|---|-----------|
| 1. OCS Regulations (Section 21(f) OCSLAA): | \$74,000 |
| a. Compile, organize, format, print and disseminate the compilation of OCS regulations. | |
| 2. OCS Oil and Gas Information Program | \$415,000 |
| a. Provide continuing coordination with MMS headquarters and regional personnel, other Federal agencies, State agencies, industry representatives, and local government officials regarding data needs and acquisition. | |
| b. Develop Summary Reports/Indexes from analysis and synthesis of available data. | |
| c. Develop and maintain current automated mailing list of State and local officials and other interested parties, and provide Summary Reports/Indexes and other data upon request. | |

3. Environmental Studies Abstract Service \$138,500

a. Design, house, and operate a program to synthesize, print, and distribute upon request the results of all previous and upon completion those new studies generated within the OCS Environmental Studies Program.

4. Program Management and Support \$263,500

This subelement provides program guidance and direction, internal and external coordination of program activities, and program and technical support for the work of the Oil and Gas Information Program. Policy guidance and program direction are provided by the Associate Director for Offshore Minerals Management, the Deputy Associate Directors, the Office of Information and Publications, and the Office of Offshore Management Support.

Selected Oil and Gas Information Program outputs are:

	<u>FY 1986</u> <u>Actual</u>	<u>FY 1987</u> <u>Estimate</u>	<u>FY 1988</u> <u>Estimate</u>	<u>Inc.(+)</u> <u>Dec.(-)</u>
Annual Update of Regional Indexes and Summary Reports.....	5	4	6	+2

Publications scheduled for a given fiscal year are subject to change due to other significant events, such as lease exploration, discoveries, or unanticipated changes in the 5-Year OCS Oil and Gas Leasing Schedule.

Activity Summary

Activity: Royalty Management

(In thousands of dollars)

<u>Subactivity</u>	<u>FY 1986 Actual</u>	<u>FY 1987 Enacted To Date</u>	<u>FY 1988 Base</u>	<u>FY 1988 Estimate</u>	<u>Inc.(+) Dec.(-) from 1987</u>	<u>Inc.(+) Dec.(-) from Base</u>
Mineral Revenue Collections	14,002	14,652	15,681	15,931	+1,279	+250
Mineral Revenue Compliance	10,889	13,526	14,632	15,020	+1,494	+388
Systems Development and Operation	18,104	16,726	17,028	19,228	+2,502	+2,200
Interest on Late Payments	<u>200</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>
Total Requirements	43,195	44,904	47,341	50,179	+5,275	+2,838

Authorizations

- 25 U.S.C. 397, et seq.
P.L. 51-383 The Indian Mineral Leasing Act of 1891, as amended, authorizes mineral leasing on lands bought and paid for by Indians.
- 25 U.S.C. 396, et seq.
P.L. 60-316 The Indian Mineral Leasing Act of 1909, authorizes oil and gas leases on Indian allotted lands.
- 25 U.S.C. 396-396(g),
et seq.
P.L. 75-506 The Indian Mineral Leasing Act of 1938, authorizes oil and gas leases on Indian tribes lands and provides uniformity with respect to leasing of tribal lands for mining purposes.
- 30 U.S.C. 181, et seq.
P.L. 66-146 The Mineral Lands Leasing Act of 1920, as amended, provides for classification and leasing of coal, oil, oil shale, natural gas, phosphate, potassium, sulfur, and sodium and the payment of bonuses, rents, and royalties on such leases.
- 43 U.S.C. 1331, et seq.
P.L. 83-212 The Outer Continental Shelf Lands Act of 1953, as amended, extended the jurisdiction of the United States to the Outer Continental Shelf; provided for granting of leases to develop offshore energy and minerals; and provided for bonuses, rents, and royalties to be paid in connection with such leases.

30 U.S.C. 1001, et seq.
P.L. 91-581

The Geothermal Steam Act of 1970 authorizes the Secretary to issue leases for the development of geothermal energy and provides for receipt sharing with the States.

30 U.S.C. 181, et seq.
P.L. 97-78

The Combined Hydrocarbon Leasing Act of 1981 provides for combined hydrocarbon leases and receipt sharing with the States for such leases within their boundaries.

25 U.S.C. 2101, et seq.
P.L. 97-382

The Indian Mineral Development Act of 1982 provides that any Indian tribe may enter into lease agreements for mineral resources within their boundaries with the approval of the Secretary. Allotted land owners may join tribal mineral agreements.

30 U.S.C. 1701, et seq.
P.L. 97-451

The Federal Oil and Gas Royalty Management Act of 1982 provides for comprehensive fiscal and production accounting and auditing systems to provide the capability to accurately determine oil and gas royalties, interest, fines, penalties, fees, deposits, and other payments owed, and to collect for such amounts in a timely manner.

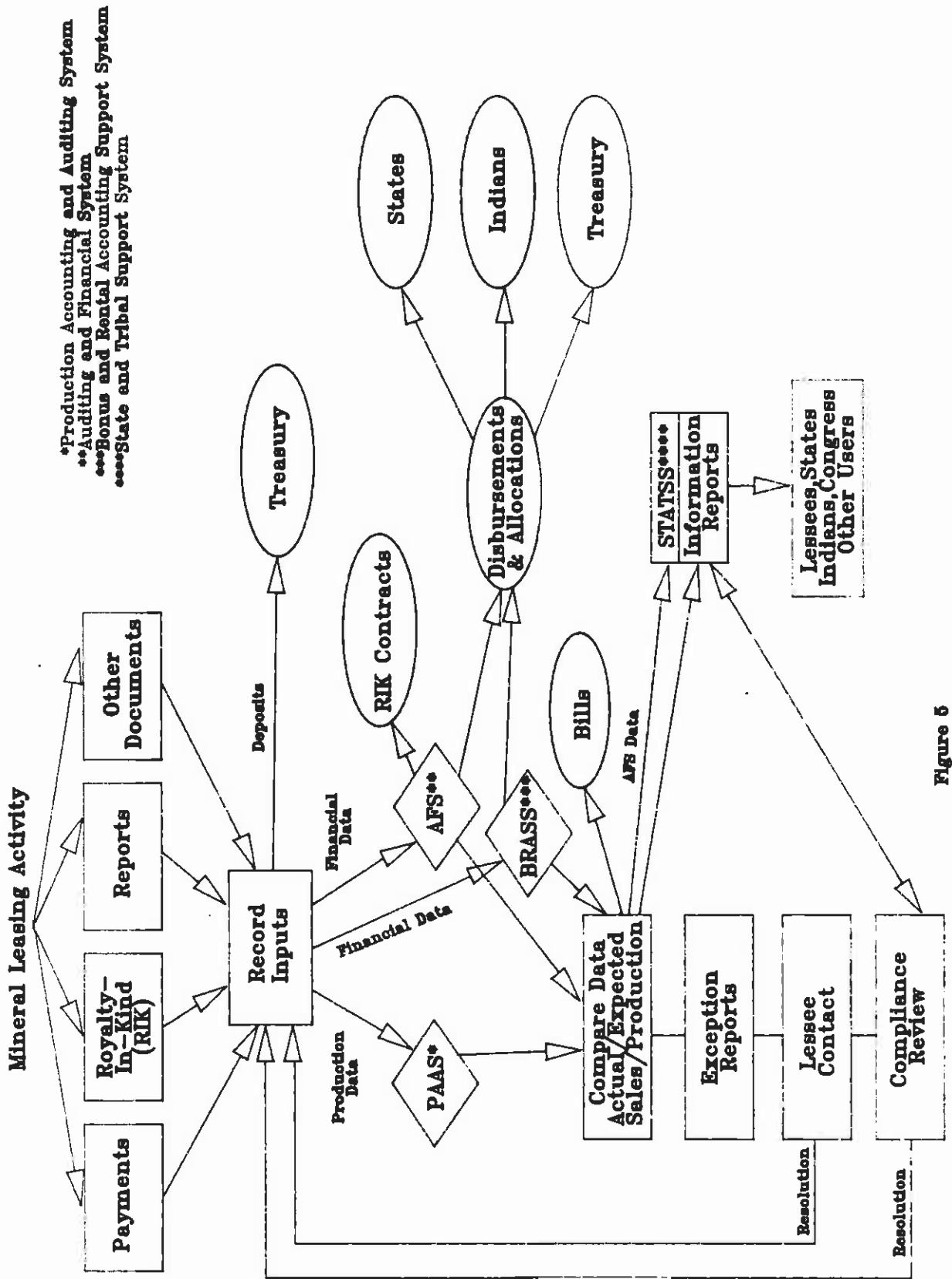
The Royalty Management Program (RMP) is responsible for the determination, collection, accounting for, and distribution of all royalty and other revenue from Federal, Indian, and Outer Continental Shelf Lands mineral leases. The program is a major source of revenue to the Federal Government, to Indian tribes and allottees, and to those States which share in revenues from Federal onshore mineral leases.

Figure 5 is a flowchart of the major functions of the Royalty Management Program. All accounting operations are located in the Lakewood Accounting Center to provide efficiency and economies of scale in the collection process and to assure consistent guidance to lessees and operators. However, functions are clearly separated to provide essential counterchecks for proper internal control (see Mineral Revenue Collections subactivity). Auditors are located geographically close to major workload areas to provide a more efficient audit capability (see Mineral Revenue Compliance subactivity). A systems function is responsible for the development, operation, and maintenance of the complex automated systems (see Systems Development and Operation subactivity).

Based on the Royalty Management Action Plan published in April 1985, major programmatic and management changes have taken place during FY 1985 and FY 1986 and are continuing in FY 1987. Among the most important changes are:

- o The headquarters for Royalty Management was relocated from Washington, D.C., to Lakewood, Colorado, to place the decision making authority (and the resources to promptly address concerns) geographically closer to the States, Indians, and industry.
- o The RMP Office of Internal Affairs was expanded, including an Indian ombudsman and a State ombudsman and the development of a comprehensive outreach program.

ROYALTY MANAGEMENT PROGRAM



*Production Accounting and Auditing System
 **Auditing and Financial System
 ***Bonus and Rental Accounting Support System
 ****State and Tribal Support System

Figure 5

- o The Royalty Management Advisory Committee held general meetings in January, July and October 1986, and established work panels which have reported back to the Committee on a variety of key issues. In 1986, the Committee completed work on the following projects: Validation of the MMS automated data base; development of standards for funding of activities under Sections 202 and 205 of the Federal Oil and Gas Royalty Management Act (FOGRMA); and evaluation and recommendations concerning product valuation regulations. In 1987, the Committee will complete its evaluation concerning onshore production reporting. Other 1987 projects include a review of improvements to MMS automated systems and an evaluation of MMS policies regarding royalty report adjustments.
- o A new computer has been installed and the Auditing and Financial System (AFS) is being reimplemented to the new hardware configuration. The reimplemented system is expected to become operational in FY 1987.
- o A system to enable States and Indian tribes to access MMS automated royalty data was placed in operation in April 1986 with several subsequent enhancements.
- o A comprehensive enforcement strategy for assessments and civil penalties has been formulated to secure and maintain compliance with laws, rules, regulations, and lease terms governing the determination and collection of oil and gas and other mineral revenues.

Justification of Program and Performance

Activity: Royalty Management
 Subactivity: Mineral Revenue Collections

(Dollar amounts in thousands)

<u>Subactivity</u>		<u>FY 1987 Enacted To Date</u>	<u>FY 1988 Base</u>	<u>FY 1988 Estimate</u>	<u>Inc.(+) Dec.(-) from 1987</u>	<u>Inc.(+) Dec.(-) from Base</u>
Mineral Revenue Collections	\$ (FTE)	14,652 (295)	15,681 (295)	15,931 (295)	+1,279 (---)	+250 (---)
=====						
Total Requirements	\$ (FTE)	14,652 (295)	15,681 (295)	15,931 (295)	+1,279 (---)	+250 (---)

Mineral Revenue Collections

Objective

- o To efficiently carry out the provisions of legislation providing for collection and distribution of mineral revenues. In particular, the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA) requires the timely collection of revenues due, the detection of incorrect payments, and the enforcement of the penalty and assessment provisions for noncomplying royalty payors and reporters.

Base Program

The Mineral Revenue Collections subactivity provides funds to collect, process, account for, and distribute bonuses, rents, royalties, penalties, interest, associated fees, and other payments received by the Minerals Management Service. This activity also supports the review and calculation of windfall profits taxes.

In addition, this subactivity provides funds for the Royalty-In-Kind (RIK) Program, which was instituted to provide a long-term secure supply of crude oil at a reasonable price to small, independent refiners. Starting in 1985, MMS began charging a fee to recover the administrative costs of the RIK Program on all new and extended contracts. The fees recovered in this manner are deposited in the General Fund of the Treasury. With each contract extension or new sale, the RIK contracts are being amended to include a new article containing the agreement that an administrative fee will be charged and paid. By January 1, 1987, all active RIK contracts will contain the fee provision and the Treasury will recovery all identified costs of the program.

Accurate and efficient collection of royalties is an important matter of equity and good government. In FY 1988, it is estimated that the Royalty Management Program will collect and account for approximately \$5.2 billion in mineral

leasing revenues. Undercollection of current royalties due can result in losses of millions of dollars to the Federal Government, States, and Indian tribes. The Royalty Management Program has been developed to minimize potential undercollections and will continue to work toward improving collection and reporting mechanisms in FY 1988.

The collection of mineral revenues in part mirrors the complex business and accounting practices of the energy industry, which is primarily responsible for reporting and paying royalties and other revenues to the Government. Recent trends in this industry which have impacted the royalty collection process and increased its complexity are as follows:

- o Corporate consolidations and mergers have significantly increased the number of lease reassignments. This in turn has impacted the reference data base maintenance workload by requiring additional revisions to the payor information forms.
- o The number of energy companies terminating business operations has increased substantially. The RMP must assure that the Government's interest is protected in these cases and that all feasible steps are being taken to recover revenues due the Government.
- o The restructuring of energy markets over the last 3 years has created a large number of complex ownership patterns which have complicated the royalty paying and collection process.

For the MMS staff to carry out their objective of accurate and timely collection and disbursement of mineral revenues, three accounting systems have been developed. They are the Auditing and Financial System (AFS), the Production Accounting and Auditing System (PAAS), and the Bonus and Rental Accounting Support System (BRASS). The operation and maintenance of these systems is supported under the Systems Development and Operation subactivity. The primary user of the information and data provided by the systems, however, is the staff funded through the Mineral Revenue Collections subactivity. These systems and their functions are detailed below. In addition, MMS has also developed an information access system, the State and Tribal Support System (STATSS), to provide States and Indian tribes with remote access to MMS data.

Auditing and Financial System (AFS)

This system was developed to replace the Royalty Accounting System (RAS) which had been in use for 30 years. AFS was designed to fulfill eight principal objectives: (1) Process royalties reported by the payors promptly and efficiently; (2) distribute mineral revenues to State, Indian, and General Treasury accounts on a monthly basis in accordance with the FOGRMA; (3) calculate, distribute, and disburse interest and penalty payments to States and Indians in those instances where it is required by FOGRMA; (4) identify, using data provided by the payors, underreporting and nonreporting at a level of detail which enables MMS to effectively and quickly communicate with payors and promptly collect revenues due; (5) account for all mineral revenues due, collected, and disbursed in a system of accounts which enhances MMS's ability to control and report on the Royalty Management Program; (6) provide royalty accounting and statistical information to those parties, including States and Indian tribes, which have a need for such information; (7) build and maintain a data base which can effectively be matched with production data in the PAAS; and (8) create an automated billing process for all receivables generated by the system.

Recognizing that the present hardware was clearly undersized to meet the Department's needs in mineral revenue accounting, MMS proceeded with the procurement of a new computer. As a result, the AFS is being reimplemented on a mainframe computer. Following subsequent software enhancements, the new computer will allow the AFS to run for the first time as designed, with sufficient online capacity to allow for interactive error correction and file updating. In FY 1986, data in the system was made available to States, Indian tribes, and other Interior Department users such as the Bureau of Indian Affairs (BIA). The STATSS is being further enhanced in FY 1987 to satisfy user information requests.

Exception Processing: The purposes of the exception processing program are to identify payor noncompliance in royalty reporting and paying and to point out recurring problems in order to improve reporting and paying accuracy. Billable exceptions are generated by comparing what a payor reports and pays to what the system expects the payor to report and pay. Although the AFS generates these exceptions each month, a manual effort is necessary to assure that a true discrepancy exists and that the royalty payor is in fact responsible for the problem.

During 1985, this exception processing was performed on a limited scale totally with internal RMP staff resources. Starting in FY 1986, the exception processing effort has been heavily augmented by contractor employees. Through the contractual effort, MMS initiated billings for late payments, royalty underpayments, and insufficient estimated payments on Indian leases from exceptions generated by the AFS and started billing not only for the current data (prospective processing) but also for a 13-month period from October 1983 to November 1984 (retroactive processing). Although the funding for the retroactive exception processing had been intended to be a 2-year effort, budget reductions taken as a result of the FY 1986 Continuing Resolution and the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177) have stretched the retroactive portion of this contract into FY 1988. Billings for insufficient estimated payments on Federal leases will be initiated in FY 1987.

Although exception processing has the primary goal of increasing compliance with the law and implementing regulations, increased revenues is a secondary benefit of this activity. As of September 30, 1986, gross revenues have increased by a total of \$11.0 million as a result of exception processing. In FY's 1987 and 1988, MMS anticipates additional gross revenues of \$19.6 million and \$6.3 million, respectively. Annual contractor and in-house costs to carry out the exception processing program total approximately \$2.1 million in both FY's 1987 and 1988. This additional revenue will be shared, as appropriate, with States and Indian tribes. Assuming that exception processing has the desired deterrent effect, the amount of revenues which can be directly associated with the process itself should continue to decline in FY 1988 and beyond.

Error Correction: Significant progress has been made in reducing payor error rates in the AFS and in improving payor compliance. In FY 1986, the MMS has completed a systematic review of royalty payors needing additional training on how to report and pay to the AFS. Based on industry input, a training curriculum and plan was developed to provide this training. Twenty-five 2-day training sessions for approximately 200 royalty payors were conducted in eight cities. Improved reporting accuracy by many of these companies has already

been noted. In addition to this training, the Payor Handbook (the official guide to royalty payors on how to report to the AFS) has been updated and substantially improved. Payor compliance is also being obtained through a vigorous program of assessments and penalties (i.e., for incorrect reporting and failure to submit payor information forms) levied under the provisions of the OCSLA, the MLLA, and the FOGRMA and implementing regulations. The improvement in payor compliance with paying and reporting requirements as a result of these assessments can be seen in the continuing drop in the percent of total fatal lines as reflected in Figure 6. In FY 1988, the increase in AFS reporting error corrections completed results from the anticipated conversion of a large single payor to AFS.

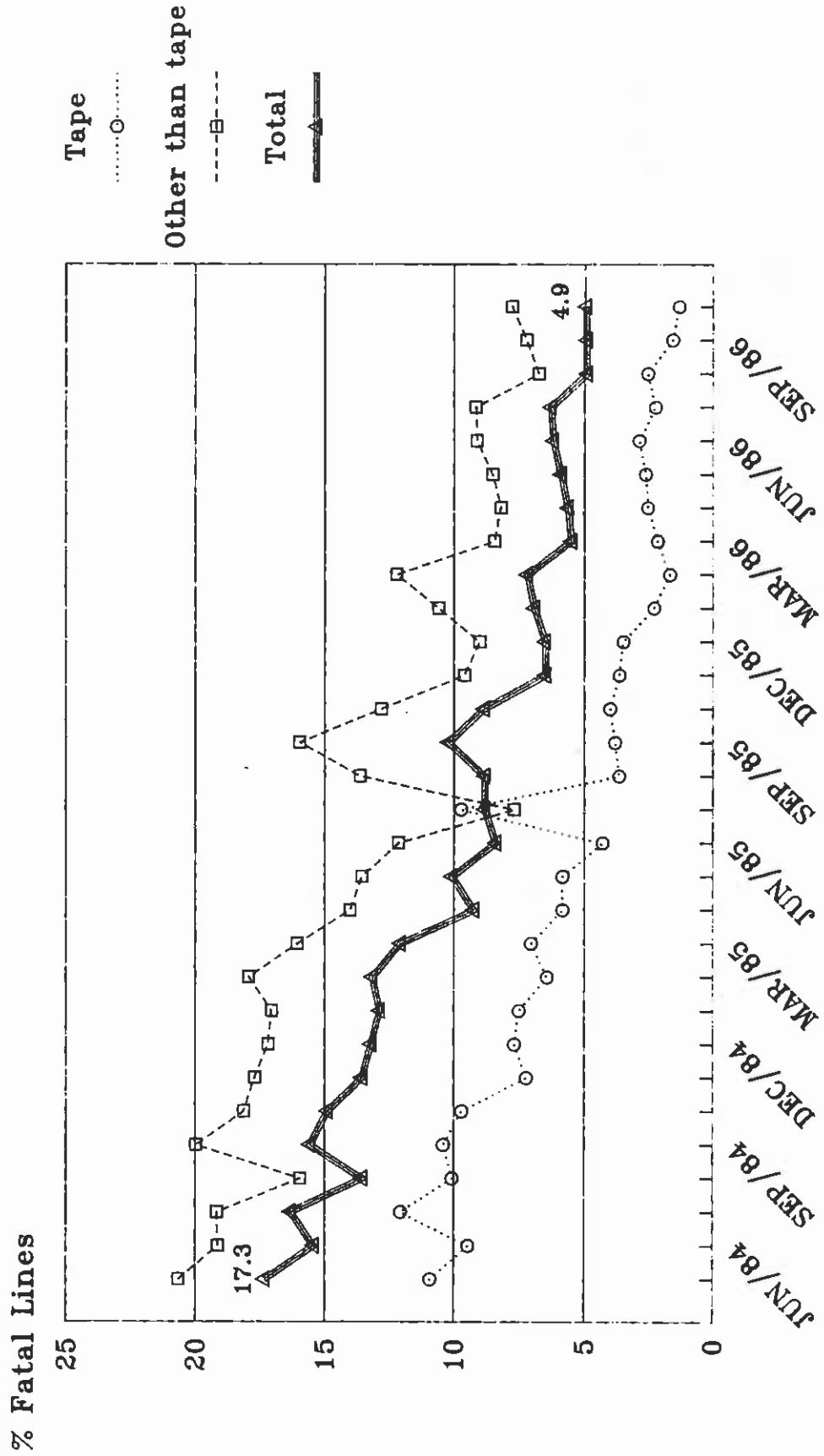
As displayed in Figure 6, the percentage of rejected fatal lines (those data lines which have errors which make it impossible to accurately disburse funds until corrected) is depicted by type of data input -- tape, other than tape, and total lines -- for a 30-month period. The general trend over this time period has been a steady decline in the percent of total fatal lines, from 17.3 percent to 4.9 percent, or a decrease in percent of total fatal lines of nearly 72 percent.

Electronic Funds Transfer: MMS, in an effort to run an efficient accounting operation and realize savings to the Federal Government, initiated the use of Electronic Funds Transfer (EFT) to expedite royalty payments to the Government. As a result of the effectiveness demonstrated, the use of EFT for payors will be accelerated. Regulations now in place require all payors with transactions in excess of \$50,000 to use EFT. Complete EFT transition for all companies that pay at the \$50,000 threshold or above was completed in April 1986. MMS will further reduce the EFT threshold to \$10,000 during FY 1987 in keeping with Treasury Department goals.

Selected Program Outputs Relative to the AFS are:

	FY 1986 <u>Actual</u>	FY 1987 <u>Estimate</u>	FY 1988 <u>Estimate</u>	Inc.(+) Dec.(-)
AFS Exceptions Billings Issued	5,940	10,000	7,000	-3,000
AFS Reporting Error Corrections Completed	241,500	240,000	260,000	+20,000
Industry Guidance - Written Verbal/Visits/Inquiries	53,000	51,000	51,000	---
Checks Deposited	38,835	40,000	36,000	-4,000
Payor Information Forms Processed (New and Revised)	33,915	42,000	42,000	---
EFT Messages Received	5,089	5,800	7,000	+1,200
Percentage of Collections by EFT	90	90	92	+2

ROYALTY REPORTING ERROR RATES BY TYPE OF DATA INPUT



Report Month
Figure 6

Production Accounting and Auditing System (PAAS)

The Royalty Management Program's automated production accounting and auditing system (PAAS) is designed to accomplish the following objectives: (1) Support lease management functions by supplying accurate and timely production data to MMS Offshore Regional Offices, the Bureau of Land Management, and the Bureau of Indian Affairs; (2) identify potential royalty underpayments by comparing production volumes reported by operators to sales data reported by royalty payors; (3) trace mineral production from point of origin to point of sale; (4) account for all volumes produced on the lease; (5) identify inconsistencies in production data to target leases and operators for audit or on-site inspection; and (6) provide production data on a lease-by-lease basis to States and Indian tribes.

The PAAS system became operational as a pilot program in January 1984. Currently, three groups of operators have been brought into the system: (1) The original oil and gas pilot operators; (2) all offshore oil and gas operators; and (3) all solid minerals operators. All offshore and solid minerals leases plus approximately 5 percent of onshore oil and gas leases have been converted to PAAS.

The conversion of the remainder of onshore Federal and Indian leases has been deferred pending Secretarial review of a Departmental task group report and a report by the Royalty Management Advisory Committee. At present, the system collects data on over 75 percent of all production as measured by royalties paid. Comparisons of AFS/PAAS data are being made on a regular basis and exceptions representing differences between sales and production data are being examined and reconciled. Payors and operators are being contacted to assure reports are corrected and additional royalties are paid. From June 1985 through November 1986, this effort has resulted in additional royalty collections of \$9.4 million.

It is expected that decisions on proceeding with the remaining phase of conversion to PAAS will be made during the second half of FY 1987.

Selected Program Outputs Relative to the PAAS are:

	<u>FY 1986</u> <u>Actual</u>	<u>FY 1987</u> <u>Estimate</u>	<u>FY 1988</u> <u>Estimate</u>	<u>Inc.(+)</u> <u>Dec.(-)</u>
o Technical Assistance Projects				
Operators	32	15	15	---
— Other DOI Offices	45	25	25	---
o Error Corrections				
-- Reference Document Errors	4,940	5,000	5,000	---
-- Operation Document Errors	32,371	33,000	33,000	---
o Exception Resolution				
-- AFS/PAAS Comparison Exceptions	12,767	12,000	12,000	---

	FY 1986 <u>Actual</u>	FY 1987 <u>Estimate</u>	FY 1988 <u>Estimate</u>	Inc.(+) Dec.(-)
-- Other PAAS Exceptions	9,441 ^{1/}	23,400	23,400	---
o Data Verification Requests	180	280	360	+80

Bonus and Rental Accounting Support System (BRASS)

Beginning in FY 1984, MMS became responsible for the collection of bonuses from onshore lease sales and rental from over 110,000 Federal onshore nonproducing leases. In order for this function to be compatible with the AFS and meet the requirements of the FOGRMA, an automated Bonus and Rental Accounting Support System (BRASS) was designed and installed. Operation of this system began in April 1984.

The principal functions of BRASS are: (1) Collect and account for lease bonuses and create new lease records as a result of bonuses paid; (2) generate courtesy notices for annual rentals and deferred bonuses; (3) collect, deposit, and account for annual rental payments; (4) feed financial update and general ledger functions of the AFS; (5) provide rental accounting data to BLM State offices which manage the leases; (6) support monthly distribution and disbursement requirements as specified in the Royalty Management Act of 1982; and (7) provide lease data to AFS when leases go into production.

Selected Program Outputs Relative to the BRASS are:

	FY 1986 <u>Actual</u>	FY 1987 <u>Estimate</u>	FY 1988 <u>Estimate</u>	Inc.(+) Dec.(-)
Unidentified Checks	14,186	16,000	16,000	---
Refunds Processed	940	1,600	1,800	+200
Lease Financial Adjustments	5,493	5,700	5,700	---
Industry Inquiries	14,760	17,000	17,000	---
Data Base Maintenance Actions	48,715	49,000	49,000	---
Checks Deposited	65,836	72,000	72,000	---

After 4 years of operation, the RMP systems have stabilized and are performing the major functions for which they were designed. The systems have the following characteristics:

- o While payor and system error rates have continued to drop toward systems integrity levels, this has required a continued resource intensive effort on the part of RMP staff.

^{1/}Portion of effort started in June 1986.

- o Ninety-five percent of all dollars collected each month are disbursed within the following month.
- o The penalty and assessment procedures contained in MMS regulations have been helpful in reducing error rates and improving payor and reporter compliance.

Increase from 1988 Base

(Dollar amounts in thousands)

	<u>FY 1988 Base</u>	<u>FY 1988 Estimate</u>	<u>Difference</u>
\$	15,681	15,931	+250
(FTE)	(295)	(295)	(---

Reference Data Validation (+\$250,000)

During FY 1988, the Royalty Management Program (RMP) will undertake a thorough validation of its "unitization and communitization" (pooling) agreements on the Auditing and Financial System (AFS). While the accuracy of this agreement data base generally does not affect the accurate distribution of royalty proceeds, it can affect the accuracy of rent and minimum royalty calculations and certainly affects the usefulness of the AFS data base as a source of information. The agreements data base represents the major category of the AFS data base which has yet to be validated.

The development of an agreements data base will require \$250,000 for approximately 10 contractor personnel to research, analyze, and enter unitization and communitization agreement records into the AFS to correctly link the participating acreage of the agreement to the appropriate Federal and Indian leases. An accurate agreements data base will provide the necessary basis for MMS to ensure the proper collection of rent and minimum royalty payments to the AFS. This proposed increase will fund an agreements data base which will:

- (1) Lead to the collection of additional revenues from minimum royalties and rents;
- (2) produce information that is helpful in the AFS/PAAS comparison; and
- (3) address the criticism of this problem area to ensure that all royalties and rentals owed under these agreements are in fact collected.

Distribution of change by object class

The object class detail for the proposed increase is as follows:

	<u>Amount (\$000)</u>
Other Services.....	+250

Justification of Program and Performance

Activity: Royalty Management
 Subactivity: Mineral Revenue Compliance

(Dollar amounts in thousands)

<u>Subactivity</u>		<u>FY 1987 Enacted To Date</u>	<u>FY 1988 Base</u>	<u>FY 1988 Estimate</u>	<u>Inc.(+) Dec.(-) from 1987</u>	<u>Inc.(+) Dec.(-) from Base</u>
Mineral Revenue Compliance	\$ (FTE)	13,526 (242)	14,632 (252)	15,020 (256)	+1,494 (+14)	+388 (+4)
=====						
Total Requirements	\$ (FTE)	13,526 (242)	14,632 (252)	15,020 (256)	+1,494 (+14)	+388 (+4)

Mineral Revenue Compliance

Objectives

- o To provide accurate and effective product value guidance to royalty payors which will better assure that royalties paid on all products removed from Federal and Indian lands are in accord with law and applicable regulations.
- o To assure that those who report and pay to MMS are in compliance with statutes and regulations governing royalty payments and that revenue due from mineral production on Federal and Indian lands has been properly reported and paid.

Base Program

The Mineral Revenue Compliance subactivity consists of three functions: (1) Product Valuation, (2) Audit, and (3) other Compliance activities.

The product valuation function is responsible for: providing the technical support needed by the Royalty Management Program to assure that royalties are being calculated on the fair market value of minerals produced on Federal, Indian, and Outer Continental Shelf Lands; preparation of regulations and guidelines to be used in valuing minerals for royalty purposes; approval of transportation and processing allowances which are deducted by payors from royalty payments; and providing advice and assistance on valuation, appeals, and allowance issues. The funding levels for this function will be \$1,823,000 in FY 1987 and \$2,196,000 in FY 1988.

The audit function performs continuing audits of lessee and payor activities. This activity also resolves exceptions noted through the automated royalty management systems, and undertakes special audits and reviews in support of Minerals Management Service (OCS) and Bureau of Land Management lease management activities. Audit activities delegated to States or carried out under

the provisions of FOGRMA are monitored to assure that audit work is being performed in accord with consistent standards and applicable regulations and statutes. The funding levels for this function will be \$11,059,000 in FY 1987 and \$12,084,000 in FY 1988.

The other compliance activities function is responsible for: An outreach effort to provide continuing contact and assistance between RMP and the external user community (e.g., States, Indians, industry, the public, and other Government entities) and the development and promulgation of regulations. The funding levels for this function will be \$644,000 in FY 1987 and \$740,000 in FY 1988.

Product Valuation

Royalty payments due are based on the value of the commodity produced, the volume of production sold, and the royalty rate applicable to the lease. In the past, the product value set by industry--normally the sales price--was usually accepted as the value for royalty purposes. The value of the commodity, however, cannot always be determined by the reported sales price. Several factors add to the complexity in determining the value of the commodity sold, such as: vertically integrated companies selling to themselves; Government price controls; long-term sales contracts; complicated marketing agreements; and complex relationships among the various owners and operators of producing leases. As a result of these complexities, new product value regulations for all major royalty bearing products are expected to be published as final rule-making in late FY 1987.

The new regulations will provide definitive and consistent guidance to industry for valuing production from Federal and Indian leases for royalty purposes. The MMS expects an increase of about 30 product valuation projects as a result of reviewing arm's-length contracts. This increase in workload will, however, be offset by a decrease in workload associated with the development of regulations. A significant decrease in the number of processing and transportation allowance outputs will take place, since, under the new regulations, MMS will no longer approve allowances. Instead, only selected allowances will be reviewed, but in greater detail than has taken place in the past. Although fewer allowance applications will be reviewed, the workload will remain unchanged due to the increase in staffhours necessary to review a transportation or processing allowance.

The complexity of product valuation requirements will necessitate individual interpretation in site specific cases resulting in an increase in advice and assistance to industry. An increase in the number of appeals is also anticipated, as a result an increase has been proposed to handle this increased workload. The table below estimates workload to be accomplished by the Royalty Valuation and Standards Division in FY's 1987 and 1988.

Selected Program Outputs for Product Valuation are:

	<u>FY 1986</u> <u>Actual</u>	<u>FY 1987</u> <u>Estimate</u>	<u>FY 1988</u> <u>Estimate</u>	<u>Inc.(+)</u> <u>Dec.(-)</u>
Valuation Determinations	113	170	200	+30
Advice and Assistance	230	275	290	+15

	<u>FY 1986</u> <u>Actual</u>	<u>FY 1987</u> <u>Estimate</u>	<u>FY 1988</u> <u>Estimate</u>	<u>Inc.(+)</u> <u>Dec.(-)</u>
Processing Allowance				
Applications Reviewed	32	290 ^{1/}	60	-230
Transportation Allowance				
Applications Reviewed	609	600	40	-560
Appeals of Royalty				
Valuation Determinations	32	35	65	+30
Preparation of Product Value				
Regulations ^{2/}	32	32	16	-16

Audit

Since the inception of the MMS audit program in October 1981, about \$300 million has been recovered in collections from previously unpaid or underpaid royalties, interest payments, liquidated damages, and refund denials. In the 61 years prior to that time, audit collections totaled \$33.6 million, less than one quarter of 1 percent of all the royalties paid during that period.

The delegation of audit authority to eight States under the provisions of Section 205 of FOGPMA has brought a change in audit strategy and approach for the MMS compliance program. With a Federally funded audit effort underway in States containing over two-thirds of Federal onshore leases, the Department has delegated most compliance audit activities except for potential criminal matters. The MMS audit effort has in turn, been focused largely on offshore lease activity and the remaining onshore Federal and Indian leases. Moreover, the number of manual production audits onshore was increased in FY 1986. This combined compliance audit approach not only provides greater assurance of compliance, but assists in verification of production from onshore leases.

In FY 1987, the Royalty Compliance audit workforce is being expanded by 50 positions or approximately one-third. Once these new staff are fully trained, MMS will experience a significant improvement of its audit coverage providing for the audit of most Federal and Indian leases on a 6-year cycle. A similar expansion of delegated audit activity is occurring in FY 1987.

The Royalty Compliance program audit strategy covers the following areas: (1) Residency audits; (2) State and tribal audit activities; (3) exception resolution; (4) litigation support; (5) referrals and requests from other organizations; and (6) Indian audits.

Residency Audits

MMS maintains "on-site" audit staffs located as residents at individual major companies. These audit teams are responsible for:

^{1/}The increase in FY 1987 is due to the biennial review cycle for offshore leases.

^{2/}Includes the development of draft and final regulations and guidelines, participation in public hearings, and participation in Royalty Management Advisory Committee panel meetings.

- o Conducting ongoing audits of the company's royalty payment and reporting activities, providing guidance and technical assistance to the company in reporting through MMS accounting and auditing systems, and resolving policy and procedural questions which may arise;
- o Resolving exceptions identified by the Auditing and Financial System, (AFS), the Production Accounting and Auditing System (PAAS), and the Bonus and Rental Accounting Support System (BRASS);
- o Resolving royalty payment problems identified by field operations' inspection program (for both the MMS Offshore and the BLM Onshore inspection programs), OIG, or other sources;
- o Coordinating requests for information related to audit work at the company from MMS auditors and from States and Indian tribes involved in cooperative and delegated audit activities;
- o Conducting financial reviews of royalty rate reduction requests and making recommendations regarding acceptance or rejection;
- o Performing continuous audit of the company's records covering functional areas such as valuation, allocation, production, gas plants, and accuracy of reporting; and
- o Identifying and resolving special problems unique to individual leases.

The residency audit approach is cost-effective, considering the large dollars involved. In addition, the residency audit approach accomplishes another important purpose by coordinating all requests for information related to audit work (including requests from States involved in joint or delegated audit activities) through the central point of the team manager of the residency audit team. This reduces the impact on a payor company, eliminates overlap, and provides the assurance that the Department is conducting its audit activities in a planned and efficient manner.

The MMS has residency audits in place at the 13 largest royalty payors responsible for the payment of 75 to 80 percent of all royalties. The major focus of the residency program has been on the follow-up to findings contained in the lookback audit reports. To date, over \$20.3 million in lookback audit findings have been collected. The resident audit force also reviews refund requests from the company. During FY 1987, the residency audits will begin to focus on exceptions emanating from the AFS and PAAS systems.

State and Tribal Audit Activities

By the end of FY 1985, eight States (Alaska, California, Colorado, Montana, Oklahoma, North Dakota, Utah, and Wyoming) had executed delegated audit agreements under the provisions of Section 205 of FOGRMA. One Indian tribe, the Navajo, has executed an agreement under the provisions of Section 202. Based upon expressions of interest from tribal representatives, MMS expects to enter into an estimated four additional Section 202 cooperative agreements with tribes. MMS also expects one additional State to enter into a Section 205 delegated audit agreement.

These audit activities are expected to continue through FY 1988. In addition, the Southern Ute and Jicarilla Apache Indian tribes and the State of New Mexico have unfunded cooperative audit activities underway with MMS. In all instances, audit work is cooperatively performed by MMS and the State and tribal auditors under standards developed by MMS. Enforcement action is reserved to MMS staff who take action on the basis of the audit work done by the States and tribes.

The Office of State and Tribal Support in the Royalty Compliance function monitors State and tribal audit activities and provides technical assistance to States and tribes involved in the program.

Recommended funding criteria to distribute funds under Sections 202 and 205 have been developed by the Royalty Management Advisory Committee for use in FY 1987 and subsequent fiscal years.

Exception Resolution

During FY 1987, a greater effort will be made to increase the audit effort associated with the resolution of exceptions produced by the AFS and PAAS systems. To a great extent, exceptions from these systems will be resolved by the staff supported in the Mineral Revenue Collections subactivity. However, where exceptions indicate systemic problems of a payor's compliance with the regulations, resolution of the exceptions will be referred to Compliance program auditors to do a thorough on-site review of the underlying problems causing ongoing instances of noncompliance.

Litigation Support

Litigation support is an increasing compliance workload factor which continues to grow due to the testing in court by industry of MMS positions expressed in demand letters, implementing regulations of FOGPMA, and applying current product valuation regulations. Litigation support entails staff-hour intensive efforts such as responding to requests for documents, preparing responses to interrogatories, gathering statistical royalty data, preparing position papers in defense of the Government's position in appeals and legal actions, and preparing for and undergoing deposition. It is estimated that support for litigation, appeals, and Freedom of Information Act (FOIA) requests will be necessary for 160 cases during FY 1988, many of which will involve new product value regulations and other new or unique issues.

Referrals and Requests From Other Organizations

Among its commitments, Royalty Compliance responds to special requests and referrals regarding potential underpayments of royalties. These requests and referrals come from the Bureau of Indian Affairs, the Bureau of Land Management, the Office of Inspector General, the General Accounting Office, other MMS units, and industry.

Indian Audits

While Indian royalties represent less than 2 percent of the royalties collected, the workload associated with Indian royalty management is complex and resource intensive. This is particularly true in the area of audits.

The compliance function is presently devoting over 20 staff years to Indian audit activities (in addition to litigation support and account reconciliation activities) and the resources devoted to this area are expected to increase during FY 1988. The following specific items make up the Indian audit workload

- Audits of royalties paid on tribal lands.
- Individual allottee audits to determine that allottees have received their proper allotment of royalties.
- Joint venture audits to determine that the payout from joint tribal/industry arrangements is proper.

The Indian Self Determination Act of 1975, as well as FOGRMA, have increased MMS's audit workload. In addition, a particularly sharp increase in Indian allottee audits has occurred during FY 1986 and is expected to continue to increase during FYs 1987 and 1988. Joint venture audits are also time-consuming and complex since most joint venture contracts contain unique terms which require the application of special audit techniques.

Although the cost effectiveness of audits is a general guide, there are circumstances, such as the Department's stewardship responsibilities for funds distributed to Indian tribes and allottees, that become overriding. For example lease payments to Indian allottees may be small in dollars but critical to the individual.

Selected Program Outputs for the Compliance function are:

	<u>FY 1986 Actual</u>	<u>FY 1987 Estimate</u>	<u>FY 1988 Estimate</u>	<u>Inc.(+) Dec.(-)</u>
Company Audits	38	50	55	+5
Lease/Subject Audits	167	200	250	+50
Refund Request Reviews	504	500	500	---
Referrals	241	260	280	+20
AFS/PAAS Support (Case Load)	26	30	30	---
OIG Support (Case Load)	208	180	150	-30
Special Projects (Compliance Enforcement)	46	50	50	---
Litigation/Appeals/FOIA (Case Load)	128	150	160	+10
Cooperative Audit Agreements				
-- Section 202 of FOGRMA	1	1	5	+4
-- Unfunded Cooperative	3	2	2	---

	<u>FY 1986</u> <u>Actual</u>	<u>FY 1987</u> <u>Estimate</u>	<u>FY 1988</u> <u>Estimate</u>	<u>Inc.(+)</u> <u>Dec.(-)</u>
Delegated Audit Agreements	8	9	9	---
Residency Audit Teams	13	13	15	+2

Increase from 1988 Base

(Dollar amounts in thousands)

	<u>FY 1988</u> <u>Base</u>	<u>FY 1988</u> <u>Estimate</u>	<u>Difference</u>
\$	14,632	15,020	+388
(FTE)	(252)	(256)	(+4)

Product Valuation Staff (+\$139,000, +4 FTE)

Proposed regulations have been drafted for valuing, for royalty purposes, coal, oil, and gas and associated products, as well as for gas processing and transportation allowances. The MMS intends to publish these regulations in FY 1987.

The purpose of the proposed product valuation rulemaking is to: (1) Amend and clarify existing product valuation regulations affecting oil, gas, and coal produced from Federal onshore and offshore leases and Indian leases; (2) establish a uniform procedure to be used in determining gas processing allowances for onshore and offshore lease production; and (3) promulgate rulemaking for the determination of transportation allowances for onshore and offshore lease production. Because of the new and modified provisions, an increase in workload is expected in the valuation and standards function. The following work activities are anticipated to increase as a direct result of the proposed regulations:

- o Advice and Assistance -- An increase of 15 additional requests per year for advice and assistance is expected as a result of the new regulations. This increase is related to both valuation and transportation and processing allowances requests, specifically regarding valuation benchmarks, allowance ceilings, reporting of transportation allowances when costs are considered as a reduced price in a published posting, and the use of a new processing allowance procedure as it relates to offshore gas. Two additional positions will be needed to handle the workload.
- o Appeals -- It is expected that the appeals workload will increase under the new regulations. This increase is due to: (1) the use of product value benchmarks; (2) the clarification of the definition of gross proceeds; (3) the use of a new procedure for OCS gas processing allowances; and (4) ceiling limits imposed on allowances. Two additional FTE positions will be needed to handle this work increase in workload.

Delegated and Cooperative Audit Efforts (+\$249,000)

In FY 1986, MMS provided \$1.9 million to States and Indian tribes for the cooperative and delegated audit program under Sections 202 and 205 of FOGPMA and the Intergovernmental Personnel Act (IPA) program. An additional State

and additional tribes are now expressing interest in participating in the program. In FY 1987, MMS is providing an additional \$351,000 to this purpose and is proposing a further increase of \$249,000 for FY 1988, the total increase of \$600,000 over 2 years is approximately 32 percent over the FY 1986 amount. For FY 1985, the return ratio for delegated and cooperative audit efforts was approximately three-to-one. During FY 1986 the return ratio increased to over five-to-one; therefore, a positive and increasing return ratio is being demonstrated. The method of allocation of these funds will consider the recommendations made to the Secretary by the Royalty Management Advisory Committee.

Distribution of change by object class

The object class detail for the proposed increase is as follows:

	<u>FTE</u>	<u>Amount (\$000)</u>
Personnel Compensation.....	+4	+113
Personnel Benefits.....		+15
Travel.....		+2
Transportation.....		+7
Other Services.....		+249
Supplies.....		+1
Equipment.....	—	+1
Total	+4	+388

Justification of Program and Performance

Activity: Royalty Management
Subactivity: Systems Development and Operation

(Dollar amounts in thousands)

<u>Subactivity</u>		FY 1987 Enacted To Date	FY 1988 Base	FY 1988 Estimate	Inc.(+) Dec.(-) from 1987	Inc.(+) Dec.(-) from Base
Systems Development and Operation	\$ (FTE)	16,726 (88)	17,028 (88)	19,228 (86)	+2,502 (-2)	+2,200 (-2)
=====						
Total Require- ments	\$ (FTE)	16,726 (88)	17,028 (88)	19,228 (86)	+2,502 (-2)	+2,200 (-2)

Systems Development and Operation

Objectives

- o To maintain and operate an effective and cost efficient Automated Data Processing (ADP) environment in which the RMP systems can operate.
- o To devise and manage a program for assuring that the RMP systems operate at maximum production levels to accomplish within statutory timeframes the collection and distribution of mineral revenues.
- o To continually review the condition of the four large-scale automated systems (AFS, PAAS, BRASS, and STATSS) to determine the need for enhancements and changes to reflect modified program requirements.

Base Program

The Systems Development and Operation subactivity provides computer and related high-technology systems support for the Royalty Management operating programs. This includes: (1) Planning, designing, and installing new software systems; (2) modifying and enhancing operating systems to meet changing needs or to increase efficiency; (3) operating and maintaining the systems; and (4) determining, obtaining, installing and maintaining necessary hardware.

Planning, designing, and installing software systems.

Royalty Management has three major operating systems, plus one major data access system. The design, development, installation, maintenance, and hardware operations of these systems is provided for in this subactivity.

After the AFS began operation in FY 1983, it became evident that the mini-computer configuration initially purchased to handle the AFS would be inadequate. Hence, after a 2-year procurement process a contract was awarded in April 1985 to install a new mainframe computer and to reimplement the AFS applications software on the new computer.

A major element of the Royalty Management Action Plan was to improve access of States and Indian tribes to data available on the MMS systems. On April 30, 1986, AFS data from State and tribal leases was made available to States and Indian tribes through STATSS. Additionally, training and equipment were provided to Indian tribes and States to allow interaction with the MMS computer. As of November 1986, nine States, nine tribes, and seven BIA offices were accessing AFS data through STATSS. MMS expects external STATSS participation to continue to increase through FY 1987.

Modifying and enhancing operating systems to meet changing needs or increase efficiency.

All four RMP systems continue to need enhancement and software modification as the systems operate in the production mode. In the case of the AFS, the system was "frozen" for almost 2 years during the software reimplemention process. Many user changes were pending at the time the reimplemention process started and many other improvements have been identified since. As a result, numerous enhancements to the AFS will have to be made in the mainframe environment. These enhancements are being assigned priorities and made ready for development. Most of the changes will improve the production cycle or produce reports in the mainframe operating environment which were not possible on the minicomputer configuration.

Enhancement of the BRASS and PAAS systems is also an ongoing process as these systems develop new or different user needs once they have been in the production environment for a period of time. These improvements, or enhancements, make the system run better and, in the long run, minimize the further escalation of operational costs by improving hardware, software and user efficiency.

Operating and maintaining the systems.

As additional functions and payors/reporters are placed in operation, the operation and maintenance function takes on increasing importance. The operation and maintenance function is performed by contract. Services encompass the following:

- o Computer operations - Computer operations are performed in two environments during FY 1987. The mainframe computer runs the AFS after reimplemention and STATSS software, while a mini-computer configuration runs the PAAS and BRASS software.
- o Data entry - Data entry and data validation services for the three operating systems.
- o Software maintenance - Maintenance of all applications code and support systems code, systems testing and the installation of fully tested software into the production mode.

- o Additional support services - In addition, support services such as micrographics, reproduction, tape storage, and similar services are provided.

The Royalty Management Program systems are complex to maintain and operate, considering the amount of data stored, manipulated, and processed and the number of integrated programs which are used during each monthly processing cycle.

Determining, obtaining, and installing necessary hardware.

Systems capacity and program requirements have changed frequently since the improved systems design began a few years ago. The systems development staff must continually examine the adequacy of current hardware in meeting the short- and long-term needs of the Royalty Management Program. This staff is responsible for determining the need for, acquiring, and installing any necessary equipment.

Increase from 1988 Base

(Dollar amounts in thousands)

	<u>FY 1988 Base</u>	<u>FY 1988 Estimate</u>	<u>Difference</u>
\$	17,028	19,228	+2,200
(FTE)	(88)	(86)	(-2)

Systems Integration Project (-\$600,000, -14 FTE)

In an FY 1986 Budget Amendment, MMS requested and received \$600,000 and 14 FTE to establish the Systems Integration Project (SIP) team whose purpose was to oversee the installation of the new mainframe computer hardware configuration and the reimplementation of the AFS software to the new host computer, functions which were performed under contract with Martin Marietta Data Systems. During FY 1987, the reimplementation process will be completed and the converted system will be accepted and placed in operation. For the remaining portion of FY 1987, the SIP team resources will be used to form the nucleus of the software improvements team. In FY 1988, the additional resources for the SIP team are no longer required.

Computer Hardware Costs (-\$200,000)

The current hardware contract estimate for FY 1988 is \$2,825,000 or a reduction of \$475,000 from the FY 1987 budgeted level.

During FY 1988, the RMP proposes to redirect \$275,000 of this savings to be used for annual contingency planning and testing of the AFS on the mainframe environment. This process will be first conducted in FY 1987 requiring that a contingency plan be developed and tested when the AFS is reimplemented and operational on the mainframe. The AFS conversion contractor developed the initial contingency plan and has provided a back-up site during the reimplementation process. This contingency back-up will no longer be available to the RMP once the AFS is operational on the mainframe.

The FY 1988 cost of preparing a contingency plan, developing a test methodology, and conducting a test at the contingency back-up site includes the following:

- Use of contractor personnel to prepare a contingency plan and develop a testing methodology;
- Use of the contingency back-up site;
- Use of operating personnel at the contingency site;
- Use of contractor personnel to prepare and perform the contingency testing; and
- Associated communication and travel costs in setting up and conducting the contingency testing.

Telecommunications (+\$300,000)

With the installation of the mainframe computer hardware, the reimplementation of the AFS, and the development and installation of the State and Tribal Support System (STATSS), the RMP will experience a significant increase in the demand for online access by remote users, namely States, Indian tribes, RMP audit offices, and BIA, BLM, and MMS's Offshore offices. This increased demand generates a requirement for higher-speed, higher-volume data transmission than exists with current telecommunications configurations.

With the capability to download entire data files, the remote users will be able to satisfy their own analytical and report needs on remote microcomputer workstations. The processing demands on the mainframe computer and the transmission line charges will thus be reduced. Without this capability, RMP is likely to experience hardware capacity and response-time problems as user demand increases.

The telecommunications package consists of \$230,000 for a variety of equipment necessary to utilize the high volume Tymnet telecommunications network plus \$70,000 for Tymnet line charges.

Systems Improvements Team (+\$800,000, +12 FTE)

Since the implementation of the AFS, PAAS, and BRASS on mini-computers and the subsequent decision to reimplement AFS to a mainframe computer, discussion has continued to focus on the RMP's long-term software requirements. Although the mainframe computer is expected to help resolve many of the Department's system and operational needs, experience has demonstrated the need for intensive, long-range software planning to address data processing, accounting, auditing, internal control, and management information needs into the 1990's. A systems improvements team is proposed to be established within the Royalty Management Program to perform long-range software planning and make appropriate recommendations as to the type and degree of software modifications, enhancements, or overhaul necessary to accomplish program goals in the most resource-effective method.

These technical experts will observe and evaluate the operating success of the AFS on the mainframe and examine the need for and cost-effectiveness of various options including the conversion of PAAS and/or BRASS to the mainframe computer, the integration of all three systems, and full-scale system redesign. The team will utilize the latest design methods such as prototyping, computer-aided design tools, fourth generation languages, and joint application design sessions.

These tools and techniques will facilitate the incorporation of the needs of States, Indians, and other Federal agencies.

MMS plans to augment this effort with a \$250,000 contract for expert consultants to analyze existing systems and requirements and help determine the system(s) required to satisfy RMP's long-range data processing, accounting, auditing, internal control, and management information needs.

Systems Improvements (+\$1,900,000)

Implementation of the AFS, PAAS, and BRASS systems was accompanied by a number of legislative changes, shifts in functional responsibilities within the Department and increased demands for data by users external to the RMP. During this period of dynamic growth, extremely tight implementation schedules, and limited computer capacity, RMP placed new software application systems into operation. The systems, particularly AFS, were developed without an adequate amount of time for scoping user requirements, design development, acceptance testing, or pilot operations.

While many improvements to AFS and BRASS systems have been made, all three systems continue to need enhancement and software modification. In the case of the AFS, the system will have been "frozen" for about 2 years during the software reimplemention process. Also, design decisions that were made to accommodate the limited capacity of the mini-computers are no longer required.

The Department of the Interior's Management Action Plan for the RMP calls for establishment of a system improvements project team to incorporate improvements in the AFS software. The team, established utilizing the resources of the SIP team, will be in place and operational in mid-FY 1987. At the conclusion of the in-house design effort, a contract will be awarded for programming and implementation of the system improvements as outlined by design documents. In-house designers will be available to conduct "expert" quality assurance programs with regard to contractor programming efforts. The contract for improvement of RMP systems will be awarded and funded for the first phase in FY 1988.

Distribution of change by object class

The object class detail for the proposed change is as follows:

	<u>FTE</u>	<u>Amount (\$000)</u>
Personnel Compensation.....	-2	-66
Personnel Benefits.....		-4
Travel.....		+8
Other Services.....		+2,032
Equipment.....		+230
	<hr/>	<hr/>
Total	-2	+2,200

Activity Summary

Activity: General Administration

(In thousands of dollars)

<u>Subactivity</u>	<u>FY 1986 Actual</u>	<u>FY 1987 Enacted To Date</u>	<u>FY 1988 Base</u>	<u>FY 1988 Estimate</u>	<u>Inc.(+) Dec.(-) from 1987</u>	<u>Inc.(+) Dec.(-) from Base</u>
Executive Direction	3,153	3,153	3,427	3,545	+392	+118
Administrative Operations	9,107	9,107	9,833	10,057	+950	+224
General Support Services	9,332	10,737	12,706	11,994	+1,257	-712
=====						
Total Requirements	21,592	22,997	25,966	25,596	+2,599	-370

The General Administration activity provides support for the program responsibilities of MMS and is divided into three subactivities: Executive Direction, Administrative Operations, and General Support Services.

Executive Direction. The Executive Direction subactivity provides budget authority for the Office of the Director and immediate staff, the Office of Congressional and Legislative Affairs, the Office of Minerals Management Information, the Office of Equal Employment Opportunity, and the Office of the Assistant Director for Program Review. These functions provide for overall program leadership, direction and policy guidance, budget formulation and execution, program review and evaluation, and management coordination of all the responsibilities of MMS.

Administrative Operations. The Assistant Director for Administration is responsible for the administrative activities of MMS. These administrative functions include financial management; personnel management and training; safety and health program management; procurement; property and space management; office services; personnel and physical security; and information resources management functions, such as automated data processing, management analysis, records and paperwork management, and printing. In carrying out these responsibilities, the Assistant Director is supported by four headquarters divisions and three Field Administrative Service Centers. The four headquarters divisions are Financial Management, Personnel, Procurement and General Services, and Information Resources Management.

General Support Services. The General Support Services activity includes funding for costs such as Federal space rental, Federal Telecommunications System (FTS), postal services, commercial communications, and support services for all of MMS.

Justification of Program and Performance

Activity: General Administration
Subactivity: Executive Direction

(Dollar amounts in thousands)

<u>Subactivity</u>		<u>FY 1987 Enacted To Date</u>	<u>FY 1988 Base</u>	<u>FY 1988 Estimate</u>	<u>Inc. (+) Dec. (-) from 1987</u>	<u>Inc. (+) Dec. (-) from Base</u>
Executive Direction	\$ (FTE)	3,153 (69)	3,427 (69)	3,545 (71)	+392 (+2)	+118 (+2)
Total Requirements	\$ (FTE)	3,153 (69)	3,427 (69)	3,545 (71)	+392 (+2)	+118 (+2)

Authorization

Secretarial Order No. 3071 The order established the Minerals Management Service under authority provided by Section 2 of Reorganization Plan No. 3 of 1950 (64 Stat. 1262).

Executive Direction

Objective

- o Provide executive leadership, policy direction, and program management for all programs and mission responsibilities of the Minerals Management Service.

Base Program

The Executive Direction subactivity is comprised organizationally of the Director and his immediate staff, the Office of Congressional and Legislative Affairs, the Office of Minerals Management Information, the Office of Equal Employment Opportunity, and the Office of the Assistant Director for Program Review.

The Office of the Director is responsible for providing general policy guidance and management of the organization.

The Office of Congressional and Legislative Affairs serves as the primary point of contact between the Minerals Management Service and the Congress and provides information and assistance in response to inquiries by Members of Congress or congressional staff and committee personnel. Specifically, the Office evaluates, or coordinates the evaluation of, legislative proposals affecting MMS responsibilities, maintains continuing communications regarding programs and policies, items of legislative action, statements of positions on matters under consideration by the Congress, legislative initiatives, prepara-

tion and coordination of testimony for witnesses, coordinating arrangements for congressional authorizing committee hearings and meetings, and congressional activity that affects or may affect the Minerals Management Service.

The Office of Minerals Management Information provides advice to the Director and other officials on policy and procedures for disseminating information about program activities and products to the public through the press and news media. The office also prepares and distributes news releases to the print and electronic media and responds to inquiries from the media and the public or refers such inquiries to other officials. Close liaison with the Secretary's Office of Public Affairs and counterpart offices within the Department and other agencies is maintained.

The Office of Equal Employment Opportunity develops, directs, monitors, and operates the Equal Employment Opportunity (EEO) Program in compliance with the Civil Rights Act of 1964, the Equal Employment Opportunity Act of 1972, Executive Order 11478, Departmental directives, and other related statutes and orders. Specifically, these duties include the discrimination complaint system, counseling, development and implementation of equal employment opportunity and affirmative action plans, special emphasis programs, and EEO-related training. The Office also provides expertise and leadership for other civil rights matters and technical assistance to supervisors and managers.

The Assistant Director for Program Review is responsible for assuring that resources are utilized effectively in support of the missions of the Minerals Management Service. The functions of this organization include planning for and allocating budgetary resources for operating and support programs; delineating objectives; developing and evaluating policy initiatives; determining the effectiveness of management and internal controls in meeting program objectives; preparing recommended decisions in appeals arising from the decisions of operating officials; and maintaining liaison with Department offices and other Government agencies regarding program planning, budget and program execution, and program evaluation. In carrying out these responsibilities, the Assistant Director is supported by three headquarters divisions: Budget, Internal Review, and Appeals.

Budget. The Budget Division provides analysis, policy guidance, and recommendations regarding budget and program formulation and justification; assures proper funding and staffing allocation and budget execution in accordance with the law, congressional, departmental, and bureau program directives, goals, and objectives; and develops, prepares, and maintains budget data and provides analysis of financial and other resource use reports. Other specific tasks include coordinating the Bureau's management-by-objectives program and other tracking systems; and assisting in the presentation and explanation of budget submissions to the Department, the Office of Management and Budget (OMB), and the Congress.

Internal Review. The Internal Review Division conducts evaluations of MMS programs to determine the degree of program performance and conducts special studies and analyses of Minerals Management Service programs and policies. It provides an analytical consultation and review capability within the agency to assure proper policy analysis and development of programs.

It is responsible for monitoring follow-up and implementation of internal review and evaluation recommendations.

The Internal Review Division also serves as the central point of contact, control, and coordination for comments and actions resulting from General Accounting Office and Office of the Inspector General reports. The development, installation, and monitoring of internal control systems to prevent fraud, waste, and abuse is another responsibility as prescribed in the provisions of OMB Circular A-123.

Appeals. The Appeals Division is responsible for the administration of the appeals process within the MMS through direct staff support of the appellate responsibilities of the Director (and the Deputy Assistant Secretary for Indian Affairs when Indian lands or other matters are involved) pursuant to 30 CFR Part 290 - Appeals Procedures. Specifically, the Division of Appeals is the authorized representative of the Director for the purpose of reviewing, considering, and preparing recommended decisions on matters within the jurisdiction of the MMS in accordance with existing policies, regulations, and procedures involving appeals from final orders or decisions of MMS officials. These responsibilities include program and policy liaison and coordination between the various MMS programs, other Bureaus and Department offices, and various segments of the Federal Government and the private sector.

Increase from 1988 Base

(Dollar amounts in thousands)

	<u>FY 1988</u> <u>Base</u>	<u>FY 1988</u> <u>Estimate</u>	<u>Difference</u>
\$	3,427	3,545	+118
(FTE)	(69)	(71)	(+2)

Appeals review and processing (+\$118,000, +2 FTE)

The Minerals Management Service (MMS) is responsible for reviewing industry appeals regarding all mineral revenue decisions issued. The Division of Appeals is the central office in MMS responsible to the Director for review of these appeals. The Division prepares proposed decisions for the Director's signature and acts as his primary advisor in interpretations of MMS policy involved in appeals. During FY 1985 and 1986, the Division of Appeals has experienced a significant and continuing increase in workload. As an example, in January 1985, the number of active cases at the beginning of the month was 131; in January 1986, the number of active cases at the beginning of the month had increased to 394, a 201 percent change. During FY 1985, ninety-five (95) appeals were processed by the staff available, although a larger number of appeals received during the year now remain pending due to lack of adequate staff to address the increased workload. To attempt to alleviate this problem, between FY 1986 and FY 1987, an internal reallocation of resources was made which provided for additional staff to assist in the appeals processing function. However, the workload is projected to continue to increase, and no further redirections in staff would be possible for FY 1988.

The rate at which appeals are filed with the Department is also expected to continue to accelerate in FY 1988.

New regulations will also give rise to different types of legal protests. The appellate briefs and the Director's decisions under the new regulations will tend to be more extensive than the filings and decisions currently being written. This added complexity will require incremental increases in research and professional analysis and may result in further delays in processing appeals. The MMS instituted a number of procedural reforms in 1986 intended to expedite the appeals process with the result that more than 250 cases were processed during the first 6 months of the year. However, the accelerating rate of appeals presents a workload beyond the capacity of the current staff. The proposed increase will provide for two additional positions to help reduce the existing backlog of cases and to cope with the anticipated increase in the number of appeals filed in FY 1987, FY 1988, and continuing into the future years.

Distribution of change by object class

The object class detail for the proposed change is as follows:

	<u>FTE</u>	<u>Amount (\$000)</u>
Personnel Compensation	+2	+93
Personnel Benefits		+19
Supplies		+2
Equipment		+3
Travel		<u>+1</u>
Total		+118

Justification of Program and Performance

Activity: General Administration
 Subactivity: Administrative Operations

(Dollar amounts in thousands)

<u>Program Element</u>		<u>FY 1987 Enacted To Date</u>	<u>FY 1988 Base</u>	<u>FY 1988 Estimate</u>	<u>Inc.(+) Dec.(-) from 1987</u>	<u>Inc.(+) Dec.(-) from Base</u>
Administrative Direction and Coordination	\$ (FTE)	190 (4)	207 (4)	212 (4)	+22 (---)	+5 (---)
Financial Management	\$ (FTE)	910 (20)	975 (20)	966 (20)	+56 (---)	-9 (---)
Personnel Management	\$ (FTE)	1,225 (32)	1,334 (32)	1,444 (32)	+219 (---)	+110 (---)
Procurement and General Services	\$ (FTE)	1,860 (49)	2,026 (49)	2,054 (49)	+194 (---)	+28 (---)
Information Resources Management	\$ (FTE)	1,748 (34)	1,875 (34)	1,965 (34)	+217 (---)	+90 (---)
Field Administrative Services	\$ (FTE)	3,174 (79)	3,416 (79)	3,416 (79)	+242 (---)	--- (---)
Total Requirements	\$ (FTE)	9,107 (218)	9,833 (218)	10,057 (218)	+950 (---)	+224 (---)

Authorizations

31 U.S.C. 65 P.L. 84-863	<u>Budget and Accounting Procedures Act of 1950</u>
31 U.S.C. 3901-3906 P.L. 97-177,452	<u>Prompt Payment Act of 1982</u>
31 U.S.C. 3512(c) P.L. 97-255	<u>Federal Managers' Financial Integrity Act of 1982</u>
5 U.S.C. 552 P.L. 89-487, 93-502	<u>Freedom of Information Act of 1966, as amended</u>
P.L. 98-502	<u>Single Audit Act of 1984</u>
41 U.S.C. 35-45 P.L. 74-846	<u>Walsh Healy Public Contracts Act of 1936</u>

Authorizations

41 U.S.C. 351-357 P.L. 89-286	<u>Service Contract Act of 1965</u>
41 U.S.C. 601-613 P.L. 95-563	<u>Contract Disputes Act of 1978</u>
44 U.S.C. 35 P.L. 96-511	<u>Paperwork Reduction Act of 1980</u>
44 U.S.C. 2101 P.L. 81-754	<u>Federal Records Act of 1950</u>
40 U.S.C. 486(c)	<u>Federal Acquisition Regulation of 1984</u>
31 U.S.C. 3501 P.L. 93-597	<u>Privacy Act of 1974</u>
31 U.S.C. 3501 P.L. 97-452	Accounting and Collection
31 U.S.C. 3711,3716-19 P.L. 97-452	Claims
31 U.S.C. 1501-1557	Appropriation Accounting
5 U.S.C. 1104 <u>et seq.</u>	Delegation of Personnel Management Authority
31 U.S.C. 665-665(a)	<u>Anti-Deficiency Act of 1905, as amended</u>
41 U.S.C. 252 P.L. 98-369	<u>Competition in Contracting Act of 1984</u>
18 U.S.C. 1001	<u>False Claims Act of 1982</u>
18 U.S.C. 287	<u>False Statements Act of 1962</u>
41 U.S.C. 501-509 P.L. 95-224	<u>Federal Grant and Cooperative Agreement Act of 1977</u>
41 U.S.C. 253	<u>Federal Property and Administrative Services Act of 1949</u>
41 U.S.C. 401 P.L. 98-191	<u>Office of Federal Procurement Policy Act of 1974, as amended</u>
15 U.S.C. 631 P.L. 85-536	<u>Small Business Act of 1953, as amended</u>
15 U.S.C. 637 P.L. 98-72	<u>Small Business Act Amendments of 1978</u>
10 U.S.C. 137 P.L. 98-577	<u>Small Business and Federal Competition Enhancement Act of 1984</u>

Authorizations

15 U.S.C. 638
P.L. 97-219

Small Business Innovation
Research Program of 1983

10 U.S.C. 2306(f)

Truth in Negotiations Act of 1962

Administrative Operations

Objective

- o Provide continuing administrative direction and coordination to support the technical and mineral revenue collection programs of the MMS.

Base Program

The Administrative Operations subactivity consists of the following functions: Administrative Direction and Coordination, Financial Management, Personnel Management, Procurement and General Services, and Information Resources Management. These functions are directed and carried out at headquarters and nationwide through three Field Administrative Service Centers (ASC's).

Administrative Direction and Coordination is carried out by the Assistant Director for Administration and his immediate staff. The staff is responsible for (1) compliance with laws relating to administrative activities; (2) the review, interpretation, and implementation of Federal executive branch administrative policies and procedures; and (3) the development of appropriate organizational guidance to assure compliance with Department, Office of Management and Budget, General Services Administration, and other executive branch administrative policies and regulations. The Assistant Director is also responsible for the oversight of administrative activities of the MMS, including financial management, personnel management and training, management analysis, management of automated data processing, procurement, property and space management, office services, records management, personnel and physical security, safety, and the printing of publications. Liaison is maintained with Departmental offices in order to effect a coordinated and unified administrative program consistent with the mission and goals of the Department of the Interior. The Assistant Director for Administration provides direct administrative support to managers nationwide through three Field Administrative Service Centers.

Increase from 1988 Base

(Dollar amounts in thousands)

	<u>FY 1988</u> <u>Base</u>	<u>FY 1988</u> <u>Estimate</u>	<u>Difference</u>
\$	207	212	+5
(FTE)	(4)	(4)	(--)

The proposed increase of \$5,000 will be necessary for the replacement of outdated word processing equipment for the clerical and professional staff. Maintenance cannot be obtained on the existing equipment because the manufacturer has gone out of business.

Distribution of change by object class

The object class detail for the proposed change is as follows:

	Amount (\$000)
Equipment	+5

Financial Management is performed by the Financial Management Division. The Division develops and implements policies, procedures, guidelines, and standards related to financial management and provides liaison with the Department on financial management activities. This program includes central coordination and control of an integrated expenditure and obligation reports system; control and implementation of cost, allotment, and general ledger accounting; voucher and claims examination and processing; and technical guidance on fiscal activities performed throughout the MMS.

Secretarial Order No. 3111, dated December 20, 1985, consolidated in the Bureau of Reclamation the payroll work of MMS and other Bureaus of the Department. The Order also assigned authority for implementation and administration of the consolidated Departmental payroll office to the Bureau of Reclamation. The physical move and consolidation of payroll personnel occurred in December 1986. For the remainder of FY 1986 and succeeding fiscal years, each Bureau will continue to be billed for their proportionate share of the actual cost of operating the consolidated payroll office.

In concert with OMB's Reform 88 initiatives, the MMS volunteered to cooperate with Interior's Office of Surface Mining Reclamation and Enforcement (OSMRE) to have that office use MMS's Advanced Budget/Accounting Control and Information Systems (ABACIS), via remote terminals, effective October 1, 1986. A Memorandum of Understanding, signed between the two Bureaus, calls for MMS to provide OSMRE computer time, computer systems maintenance, account table system maintenance, and other related services on a reimbursable basis during FY 1987.

Major selected program outputs for the Financial Management Division are:

	FY 1986 Actual	FY 1987 Estimate	FY 1988 Estimate	Inc.(+) Dec.(-)
Employee Payroll Processed <u>1/</u>	2,100	---	---	-2,100
Recording Obligations	20,000	20,000	28,000	+8,000 <u>2/</u>
Auditing & Paying Invoices	25,500	25,500	35,500	+10,000 <u>2/</u>
Auditing & Paying Travel Vouchers	9,100	9,100	9,100	---
Miscellaneous Financial Documents Processed	10,000	10,000	10,000	---
Cash Management Reports Processed	16	16	16	---
Debt Management Reports Processed	16	16	16	---
Financial Policies & Procedures Developed	10	10	8	---
Internal Reports Prepared	100	100	100	---
External Reports Prepared	60	60	60	---

1/Per pay period.

2/Increase reflects planned centralization of Office of Surface Mining Reclamation and Enforcement administrative payments excluding travel.

Decrease from 1988 Base

(Dollar amounts in thousands)

	<u>FY 1988</u> <u>Base</u>	<u>FY 1988</u> <u>Estimate</u>	<u>Difference</u>
\$	975	966	-9
(FTE)	(20)	(20)	(---)

The proposed decrease of \$9,000 reflects savings realized as a result of the consolidation of MMS's Northern Virginia offices. The consolidation will reduce costs associated with local travel and lost productivity time.

Distribution of change by object class

The object class detail for the proposed change is as follows:

	<u>Amount (\$000)</u>
Travel.....	-9

Personnel Management is carried out by the Personnel Division. This organization develops and implements Bureauwide policies, procedures, guidelines, and standards relating to general personnel management; recruitment and employment; position management, classification, and utilization; training and career development; personnel planning; personnel program evaluation; labor management relations; employee relations and services; conflict of interest and ethics; incentive awards; the Federal Equal Opportunity Recruitment Program (FEORP); and public policy programs. The Division also provides assistance and guidance related to personnel matters to all levels of management in developing and administering personnel programs as well as personnel program direction to field personnel offices. This involves day-to-day and long-range personnel planning, evaluation, and operational activities in: examining; recruitment and selection; placement; retention; pay administration; employee development; employee relations and services; labor relations; special interest programs; affirmative action; conflict of interest; motivation; discipline; performance evaluation; monetary awards; insurance and annuities; attendance and leave; appointments and processing; and a variety of personnel reports, records, and statistics. Liaison with the Office of Personnel Management, the Department of the Interior, Office of the Inspector General, and the Federal Labor Relations Authority on personnel management and related issues is required.

The Personnel Division will continue to accomplish its basic personnel support mission for MMS in FY 1988. In addition, several personnel management projects and programs will receive increased emphasis. Two personnel management evaluations are scheduled. These evaluations will cover operating practices; merit promotion and recruitment; classification accuracy; performance management; compliance with governing policies, regulations, and guidelines; management assistance activities; and personnel processing. The development of supervisors, managers, and executives will receive continued attention. Training courses in technical and administrative areas will be arranged for employees and supervisors. Policies, guidance, and programs will be reviewed and modified, as

necessary, to meet the needs and objectives of the MMS as well as Departmental and Office of Personnel Management guidelines. Portions of the Minerals Management Service Manual (MMSM) have not been completed because there have been continual changes to the Federal personnel regulations. Chapters will be developed and implemented to provide policy and guidance for use throughout the organization in FY 1988.

Selected program outputs for Personnel Management are:

	<u>FY 1986</u> <u>Actual</u>	<u>FY 1987</u> <u>Estimate</u>	<u>FY 1988</u> <u>Estimate</u>	<u>Inc.(+)</u> <u>Dec.(-)</u>
Positions Reviewed	500	450	500	+50
Vacancy Announcements Processed	125	125	125	---
Classification Audits Conducted and Positions Reviewed	275	250	275	+25
Personnel Actions Processed	2,000	2,000	2,000	---
PAY/PERS Processing ^{1/}	2,400	2,400	2,400	---
Employment and Financial Interest and Public Disclosure Statements Processed	2,000	2,000	2,000	---
Personnel Management Evaluations Conducted	2	2	2	---
Personnel Policies/ Procedures Issued	55	50	50	---
Training Requests Processed & Reviewed	675	2,650 ^{2/}	1,700	-950
Executive/Managerial Training Processed	228	225	225	---
Training Courses Developed/Presented	12	18	16	-2
Performance Appraisal/ Merit Pay Reviews Conducted	1,300	1,200	1,000	-200
Employees Relations Cases Processed/ Guidance Given	825	800	775	-25

^{1/}PAY/PERS - Payroll/Personnel.

^{2/}Increase due to Federal Employees' Retirement System (FERS) training.

	<u>FY 1986</u> <u>Actual</u>	<u>FY 1987</u> <u>Estimate</u>	<u>FY 1988</u> <u>Estimate</u>	<u>Inc.(+)</u> <u>Dec.(-)</u>
Labor Relations Cases Processed/Guidance Given	150	100	90	-10
Worker Compensation Cases, Incentive Awards, Beneficial Suggestions, and Retirements Processed	460	460	460	---

Increase from 1988 Base

(Dollar amounts in thousands)

	<u>FY 1988</u> <u>Base</u>	<u>FY 1988</u> <u>Estimate</u>	<u>Difference</u>
\$ (FTE)	1,334 (32)	1,444 (32)	+110 (---)

The proposed increase of \$110,000 results from two factors. First, an increase of \$125,000 will be necessary to provide training to all MMS employees on the new Performance Management Recognition System. This training is mandated by regulation and will involve contracting for training services and travel to all MMS locations. The MMS also plans to provide training to all supervisors on the performance appraisal process. This area was identified as a weakness by a recent Personnel Management Evaluation. Second, the proposed increase will be offset by a decrease of \$15,000 which reflects savings realized as a result of the consolidation of MMS's Northern Virginia offices. The consolidation will reduce costs associated with local travel and lost productivity time.

Distribution of change by object class

The object class detail for the proposed change is as follows:

	<u>Amount (\$000)</u>
Other Services.....	+125
Travel.....	<u>-15</u>
Total	+110

Procurement and General Services. The Procurement and General Services Division develops and implements policies, procedures, and standards for the execution and administration of the MMS's procurement and general services programs. The programs are designed to ensure the formulation and implementation of practices and procedures that will produce effective, economical project results in compliance with applicable laws, regulations, and sound business decisions. Technical direction is also provided to the Field Administrative Service Centers through the issuance of policy and by field reviews and visits.

The Division is responsible for six distinct programs which will be performed in FY 1988 in support of MMS:

1. Procurement. The procurement program includes entering into and administering contracts, small purchases, grants, cooperative agreements, and interagency agreements essential for fulfilling the mission of the MMS. Other responsibilities include managing the Small and Disadvantaged Business Utilization Program and Historically Black College and University Program; conducting acquisition management reviews of field offices; conducting cost and price analyses; developing annual Advance Procurement Plans; and issuing procurement policy guidance to a variety of target groups, including private industry, senior management, contracting officers, and the Offshore and Royalty Management Programs.
2. Facilities Management. The facilities program manages or oversees 692,633 square feet of assigned space in 26 buildings in 19 cities. Other responsibilities include processing space requests, conducting space utilization surveys, processing reimbursable work authorizations, conducting annual space inventories, and issuing facilities management policy and guidelines Bureauwide. At headquarters, the program is also responsible for the day-to-day operations of the space management program which includes office moves and telephone design and ordering.
3. Property Management. The property program maintains accountability records for over 8,000 line items of property valued at approximately \$25 million. Specific responsibilities include conducting an annual inventory of property assigned to over 190 accountable and custodial property officers; managing a nationwide data system, including property in the possession or control of contractors; managing a printing and duplicating activity; managing a warehouse facility; and issuing policy guidance on property, supplies, and printing and copying Bureauwide.

An Intra-Agency Agreement between the MMS and the Office of Surface Mining Reclamation and Enforcement (OSMRE) provides for the implementation of a property management system for the OSMRE and provides for future specific services in maintaining the system on a reimbursable basis each fiscal year.

4. Security. The security program involves personnel security, physical security, and document security Bureauwide. Specific duties include requesting investigations through the Office of Personnel Management for positions designated as sensitive (e.g., background investigation for critical sensitive, top secret, and ADP I or National Agency Check with credit for noncritical sensitive, secret, and ADP II positions) when previous investigations do not meet MMS's Manual Chapter standards on personnel security (Part 441, Chapter 1); adjudication of completed reports of investigations; granting security clearances and ADP authorizations; and conducting security investigations and physical security reviews.
5. Safety. The safety program ensures that employees are provided safe and healthful working conditions. Specific duties include conducting safety inspections of facilities, providing guidance to collateral

duty safety officers Bureauwide, developing a water survival safety program, providing employees with safety training, overseeing the disposal of toxic materials, investigating accidents and incidents, and developing and implementing a safety program.

6. Office Services. The office services program supports headquarters activities. The program provides mail delivery services to four buildings in the Washington metropolitan area, airline tickets, messenger services, mail shipments, household goods, bulk shipments, etc.

Selected program outputs for Procurement and General Services are:

	<u>FY 1986</u> <u>Actual</u>	<u>FY 1987</u> <u>Estimate</u>	<u>FY 1988</u> <u>Estimate</u>	<u>Inc.(+)</u> <u>Dec.(-)</u>
Award Contracts	221	200	210	+10
Award Small Purchases	2,892	2,950	3,150	+200
Administer Contracts	473	450	460	+10
Conduct Acquisition Management Reviews	1	2	2	---
Conduct Space Utilization Studies Layouts	2	2	2	---
Design Office Space Layouts	112	300	868	+568
Inhouse Office Moves	112	300	868	+568
Process Telephone Orders <u>1/</u>	1,214	2,500	1,000	-1,500
Update Property Management Records	20,821	7,500	6,000	-1,500
Conduct Property Management Reviews of ASC's	3	3	3	---
Issue Individual Inventories of Controlled Property <u>2/</u>	200	200	200	---
Review Property Survey Board Actions	30	25	20	-5
Review and Adjudicate Completed Reports of Investigation	325	340	345	+5
Printing Requests	498	600	600	---

1/Includes installation and removal of telephone equipment.

2/Inventories are issued only to supervisors/managers now rather than to individual employees.

	<u>FY 1986</u> <u>Actual</u>	<u>FY 1987</u> <u>Estimate</u>	<u>FY 1988</u> <u>Estimate</u>	<u>Inc.(+)</u> <u>Dec.(-)</u>
Grant ADP Security Authorizations	180	180	200	+20
Conduct Physical Security Surveys	36	35	34	-1
Conduct Safety Inspections	8	8	7	-1
Investigate Accidents/Incidents	42	50	45	-5
Develop Procurement Policy Directives	18	25	25	---
Issue Information Requests or Transmittals	110	100	100	---
Review and Adjudicate GAO/OIG/Departmental (PAM) Audit Investigations	6	5	5	---
Respond to GAO/GSA/CO Protests	3	2	2	---
Conduct Internal Controls Reviews	3	3	3	---

Increase from 1988 Base

(Dollar amounts in thousands)

	<u>FY 1988</u> <u>Base</u>	<u>FY 1988</u> <u>Estimate</u>	<u>Difference</u>
\$	2,026	2,054	+28
(FTE)	(49)	(49)	(---

The proposed increase of \$28,000 results from two factors. First, an increase of \$50,000 is needed for the replacement of outdated word processing equipment for the clerical and professional staff. Maintenance cannot be obtained on the existing equipment because the manufacturer has gone out of business. Second, the proposed increase will be offset by a decrease of \$22,000 which reflects savings realized as a result of the consolidation of MMS's Northern Virginia offices. The consolidation will reduce costs associated with local travel and lost productivity time.

Distribution of change by object class

The object class detail for the proposed change is as follows:

	<u>Amount (\$000)</u>
Equipment.....	+50
Travel.....	-22
Total	+28

Information Resources Management (IRM). The IRM Division is responsible for direction and review of the MMS's IRM programs. These include analyses and direction for data administration and telecommunications; office automation; security of data, systems, and equipment; and maintenance and improvement of the administrative systems, such as the Advanced Budget/Accounting Control and Information System (ABACIS) and Payroll/Personnel System (PAY/PERS). Other information resources issues for which the Division has responsibility fall under the general terms of management and records analyses; studies of the organization to aid better management; and management of oversight activities for such Acts as the Paperwork Reduction Act of 1980, the Federal Records Act of 1950, the Privacy Act of 1974, and the Freedom of Information Act of 1966, as amended.

During FY 1988, the Automated Data Processing Strategic Plan will be integrated with the 5-year ADP and Telecommunications Acquisition Plans and reflected on Exhibit 43B of the Budget Estimates. The Division will provide administrative and technical support to the ADP Review Council in planning and oversight of ADP projects. At the same time, an analysis of existing ADP systems will be conducted to ensure accuracy, efficiencies, eliminate duplication, and reduce costs. Existing telecommunications facilities will be reviewed to improve data transmission throughout MMS. Data standards should be developed which will improve the sharing of data between Offshore Minerals Management, Royalty Management, and other Bureaus. The system life cycle management program will continue. ADP security will receive continued emphasis. The integration of major MMS's administrative systems also will continue to be a significant priority. Support of the Office of Surface Mining's (OSM) fiscal accounting requirements will be provided using ABACIS. Similar support for OSM's property control needs will become operational utilizing the MMS property management system.

Management reviews, systems studies, analyses, productivity initiatives, and special projects will be conducted; for instance, one or more reviews will be conducted under OMB Circular No. A-76. The Division will continue to develop and provide advice on organization plans; provide guidance to program offices on the preparation, review, and issuance of Federal Register documents and delegations of authorities; manage the directives system; and provide policy and procedural review to ensure compliance with regulations. Emphasis will continue on efforts to aid the Bureau in meeting its Information Collection Budget.

Selected program outputs for Information Resources Management are:

	<u>FY 1986</u> <u>Actual</u>	<u>FY 1987</u> <u>Estimate</u>	<u>FY 1988</u> <u>Estimate</u>	<u>Inc.(+)</u> <u>Dec.(-)</u>
Maintain Administrative Systems	11	11	11	---
Develop/Enhance (Major) Administrative Systems	6	12	12	---
Operate Systems	18	19	21	+2
Conduct Management Reviews/ Studies	7	6	6	---
Review Policy Documents (Directive System)	120	180	180	---
Process Other Documents ^{1/}	413	400	375	-25
Conduct Records Management Training	1	3	3	---
Conduct ADP Security Reviews	3	3	3	---
Participate in Departmental IRM Projects	11	8	6	-2
Respond to Requests for ADP Data	12	12	12	---
Perform Studies of Bureau ADP/Telecommunications Operations	6	6	7	+1
Prepare Planning Documents (5 yr. ADP/Telecommunication Plan)	2	2	3	+1
ADP Acquisition Reviews	200	200	225	+25

^{1/} Includes documents such as the Freedom of Information Act (FOIA), Federal Register, Information Collection Budget (ICB), Privacy Act, and file plans, etc.

Increase from 1988 Base

(Dollar amounts in thousands)

	<u>FY 1988 Base</u>	<u>FY 1988 Estimate</u>	<u>Difference</u>
\$	1,875	1,965	+90
(FTE)	(34)	(34)	(---)

The proposed increase of \$90,000 is caused by two factors. First, an increase of \$105,000 is needed for enhancements of the 7-year old Datapoint computer equipment. This equipment that our administrative systems are operated from is located at headquarters and the three Administrative Service Centers. Second, the proposed increase will be offset by a decrease of \$15,000 which reflects savings realized as a result of the consolidation of MMS's Northern Virginia offices. The consolidation will reduce costs associated with local travel and lost productivity time.

Distribution of change by object class

The object class detail for the proposed change is as follows:

	<u>Amount (\$000)</u>
Equipment.....	+105
Travel.....	<u>-15</u>
Total	+90

Field Administrative Services. Direct administrative support is provided to program managers through three Field Administrative Centers (ASC's), located in proximity to major program offices in the field. These ASC's provide services to all field activities of the MMS, except for the Atlantic OCS Region, which receives support directly from the Office of Administration in Herndon, Virginia.

The Office of the Assistant Director for Administration and the ASC's are structured to assist managers in matters related to personnel, safety, security, space and property management, procurement and contracting, information resources management activities, and financial management. The ASC's in the field operate under the direction of a service center manager who reports to the Assistant Director for Administration. The administrative service organizations and their service areas are:

<u>Service Center</u>	<u>Region/Activity</u>	<u>Location</u>
Office of the Assistant Director for Administration	MMS Headquarters Atlantic OCS Region	Herndon, Virginia
Alaska Administrative Service Center	Alaska OCS Region	Anchorage, Alaska

<u>Service Center</u>	<u>Region/Activity</u>	<u>Location</u>
Central Administrative Service Center	Royalty Management Pacific OCS Region	Lakewood, Colorado
	Office of Strategic and International Minerals	
Southern Administrative Service Center	Gulf of Mexico OCS Region Royalty Management	New Orleans, Louisiana

Selected program outputs for the Field Administrative Service Centers are:

	<u>FY 1986 Actual</u>	<u>FY 1987 Estimate</u>	<u>FY 1988 Estimate</u>	<u>Inc.(+) Dec.(-)</u>
Small Purchases Processed	3,539	3,600	3,875	+275
Contracts Awarded	165	170	185	+15
Contracts Administered	219	226	209	-17
Property Actions	5,458	6,300	5,050	-1,250
Property Inventoried	5,547	11,094	11,094	---
Space Utilization Studies/Layouts (work stations) Conducted	82	75	50	-25
Work Authorizations/ Building Repairs	261	239	237	-2
Telephone Connects/ Disconnects Pro- cessed	1,300	648	610	-38
Safety Inspections/Accident Investigations	50	59	62	+3
Security Clearances	318	595	255	-340
Positions Reviewed	1,010	885	880	-5
Vacancy Announcements Processed	152	215	205	-10
Training Courses Deve- loped/Presented	11	13	15	+2
Training Requests Processed & Reviewed	3,437	3,000	2,800	-200

	<u>FY 1986</u> <u>Actual</u>	<u>FY 1987</u> <u>Estimate</u>	<u>FY 1988</u> <u>Estimate</u>	<u>Inc.(+)</u> <u>Dec.(-)</u>
Personnel Actions Processed	4,676	5,700	5,800	+100
Employee Relations Cases Processed/ Guidance Given	2,128	2,100	2,200	+100
BPA Calls Processed <u>1/</u>	1,782	2,050	2,200	+150
Invoices Processed	5,517	5,750	6,050	+300
Mail Processed	1,053,412	1,110,428	1,180,905	+70,477
Reproduction Work	9,653,523	10,000,000	9,550,000	-450,000
Imprest Fund Actions	1,891	2,490	2,505	+15
PAY/PERS Input	53,860	55,700	51,900	-3,800

1/BPA - Blanket Purchase Agreement

Justification of Program and Performance

Activity: General Administration
Subactivity: General Support Services

(Dollar amounts in thousands)

<u>Subactivity</u>		<u>FY 1987 Enacted To Date</u>	<u>FY 1988 Base</u>	<u>FY 1988 Estimate</u>	<u>Inc.(+) Dec.(-) from 1987</u>	<u>Inc. (+) Dec. (-) from Base</u>
General Support Services	\$ (FTE)	10,737 (---)	12,706 (---)	11,994 (---)	+1,257 (---)	-712 (---)
Total Requirements	\$ (FTE)	10,737 (---)	12,706 (---)	11,994 (---)	+1,257 (---)	-712 (---)

Authorization

Secretarial Order No. 3071 The order established the Minerals Management Service (MMS) under authority provided by Section 2 of Reorganization Plan No. 3 of 1950 (64 Stat. 1262).

General Support Services

Objectives

- o Provide adequate and safe work space and facilities that will contribute to the productivity and efficiency of the employees of the MMS in achieving goals and objectives.
- o Provide appropriate services to support the operating programs.

Base Program

The General Support Services subactivity includes funding for fixed costs and related support services for all of the MMS. Fixed costs include expenses for rental of office space and other required physical facilities, Federal Telecommunications System (FTS) service, and postage, etc. Rent, which is estimated at \$9.3 million in FY 1988, is the payment to General Services Administration (GSA) for all Federal building space rental and associated expenses for the normal 40 hour, 5-day workweek.

The FTS cost of \$231,000 is based on estimates developed by the Department. Commercial communication expenses of \$488,000 are based on FY 1987 estimates and include local and long distance telephone and telecommunications expenses for headquarters offices and the Atlantic OCS Region located in the

Washington, D.C., area. Postage expense of \$544,000 is based on FY 1986 obligations.

A summary of the expenses for General Support Services is displayed below:

(In thousands of dollars)

<u>Estimated FY 1988 Expenses</u>	<u>Cost</u>
Rent.....	9,300
Postage.....	544
Commercial Communications <u>1/</u>	488
Department of Interior Working Capital Fund Charges.....	425
Reimbursable Services.....	314
Miscellaneous Services <u>2/</u>	237
Federal Telecommunications System...	231
Employees' Compensation Fund	217
Unemployment Compensation	171
Security and Overtime Utility Services.....	<u>67</u>
Total.....	11,994

Decrease from 1988 Base

(Dollar amounts in thousands)

	<u>FY 1988 Base</u>	<u>FY 1988 Estimate</u>	<u>Difference</u>
\$	12,706	11,994	-712
(FTE)	(---)	(---)	(---)

1/For headquarters offices and the Atlantic OCS Region located in the Washington, D.C., area; other commercial communication costs are funded by the operating programs.

2/Includes expenses for miscellaneous contractual services and resources related to consulting services and investigatory analysis of telecommunications needs.

The proposed decrease of \$712,000 results from two reasons. First, an increase of \$213,000 is required for services related to issues associated with MMS's headquarters telecommunications system. This increase will provide resources for consulting services and investigatory analysis of these issues. Second, the proposed increase will be offset by a decrease of \$925,000 which primarily reflects savings realized by deducting the increases approved for the consolidation of MMS's Northern Virginia offices. One-time costs of \$833,000 for the physical relocation, office configuration, security, and equipment and systems installations will not be required in FY 1988. In addition, the consolidation reduced costs associated with mail service and a reimbursable agreement by \$92,000. A summary of the estimated one-time costs and resulting savings are shown below:

One-Time Costs and Savings

Office alterations of new location and repairs to vacated office space.....	\$310,000
Commercial communication expenses for new location.....	120,000
Shuttle service.....	104,000
Office move to new location.....	103,000
Purchase and installation of security system..	100,000
Miscellaneous.....	96,000
Mail service contract for mail delivery between the four office locations.....	46,000
Reduction in reimbursable agreement costs (health unit, shipping and receiving, and mail operations).....	<u>46,000</u>
Total.....	\$925,000

Distribution of change by object class

The object class detail for the proposed change is as follows:

	<u>Amount (\$000)</u>
Rents, Communications, and Utilities.....	-120
Other Services.....	<u>-592</u>
Total	-712

Summary of Requirements by Object Class

(Dollar amounts in thousands)

Object Class	FY 1988 Base		FY 1988 Estimate		Inc. () or Dec. (-)
	FTE	Amount	FTE	Amount	
Appropriation: Minerals and Royalty Management					
11. Personnel compensation:					
11.1 Full-time permanent.....	1,896	68,417	1,889	68,209	(7) (208)
11.3 Other than full-time permanent.....	140	3,111	140	3,111	0 0
11.5 Other personnel compensation.....	11	1,328	11	1,328	0 0
11.6 Special personal services payments.....	—	85	—	85	— 0
11.9 Total personnel compensation.....	2,047	72,941	2,040	72,733	(7) (208)
Other Objects:					
12.1 Personnel benefits: civilian.....		18,160		18,150	(10)
13.0 Benefits for former personnel.....		137		137	0
21.0 Travel and transportation of persons.....		3,625		3,509	(116)
22.0 Transportation of things.....		952		959	7
23.1 Standard level user charges.....		9,300		9,300	0
23.2 Rental Payments to others.....		849		377	(472)
23.3 Communications, utilities and miscellaneous charges.....		2,861		2,741	(120)
24.0 Printing & reproduction.....		1,566		1,566	0
25.0 Other services.....		55,750		54,672	(1,078)
26.0 Supplies and materials.....		1,682		1,685	3
31.0 Equipment.....		2,340		2,734	394
41.0 Grants, subsidies and contributions.....		0		0	0
42.0 Insurance claims and indemnities.....		0		0	0
Total Requirements.....		170,163		168,563	(1,600)

DEPARTMENT OF THE INTERIOR
 Minerals Management Service
 Minerals and Royalty Management
 Program and Financing (in thousands of dollars)

14-1917-0-1-302	FY 1986 Actual	FY 1987 Estimate	FY 1988 Estimate
<u>Program by activities:</u>			
Direct program:			
00.0101 Outer Continental Shelf Lands.....	94,981	92,796	92,788
00.0201 Royalty Management.....	42,825	44,904	50,179
00.0301 General Administration.....	21,501	22,997	25,596
	<hr/>	<hr/>	<hr/>
00.9101 Total direct program.....	159,307	160,697	168,563
01.0101 Reimbursable program.....	—	1,500	1,500
	<hr/>	<hr/>	<hr/>
10.0001 Total obligations.....	159,307	162,197	170,063
<u>Financing:</u>			
Offsetting collections from:			
11.0001 Federal funds.....	—	(250)	(250)
14.0001 Non-Federal sources.....	—	(1,250)	(1,250)
25.0001 Unobligated balance lapsing.....	722	—	—
	<hr/>	<hr/>	<hr/>
40.0001 Budget Authority (appropriation)...	160,029	160,697	168,563
<u>Relation of obligations to outlays:</u>			
71.0001 Obligations incurred, net.....	159,307	160,697	168,563
72.4001 Obligated balance, start of year.....	69,789	76,246	67,859
73.4001 Obligated balance transferred, net.....	3710	—	—
74.4001 Obligated balance, end of year.....	(76,246)	(67,859)	(69,969)
77.0001 Adjustments to expired accounts.....	602	—	—
	<hr/>	<hr/>	<hr/>
90.0001 Outlays.....	157,162	169,084	166,453

DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals and Royalty Management
Object Classification (in thousands of dollars)

14-1917-0-1-302	FY 1986 Actual	FY 1987 Estimate	FY 1988 Estimate
Direct Obligations:			
<u>Personnel compensation</u>			
111.101 Full-time permanent.....	62,705	66,519	68,209
111.301 Other than full-time permanent.....	2,855	3,029	3,111
111.501 Other personnel compensation.....	1,219	1,293	1,328
111.801 Special personal services payments....	78	83	85
	<u>66,857</u>	<u>70,924</u>	<u>72,733</u>
111.901 Total personnel compensation.....			
112.101 Personnel benefits: civilian.....	10,253	12,646	18,150
113.001 Benefits for former personnel.....	177	136	137
121.001 Travel and transportation of persons.....	2,808	3,625	3,509
122.001 Transportation of things.....	250	952	959
123.101 Standard level user charges.....	6,235	7,366	9,300
123.201 Rental payments to others.....	945	849	377
123.301 Communications,utilities and miscellaneous charges.....	2,947	2,861	2,741
124.001 Printing and reproduction.....	1,245	1,566	1,566
125.001 Other services.....	60,492	55,750	54,672
126.001 Supplies and materials.....	1,908	1,682	1,685
131.001 Equipment.....	4,829	2,340	2,734
141.001 Grants,subsidies and contributions....	338	0	0
142.001 Insurance claims and indemnities.....	23	0	0
	<u>159,307</u>	<u>160,697</u>	<u>168,563</u>
199.001 Subtotal, direct obligations.....			
Reimbursable Obligations:			
225.001 Other services.....	0	1,500	1,500
	<u>0</u>	<u>1,500</u>	<u>1,500</u>
299.001 Subtotal, reimbursable obligations....			
999.901 Total obligations.....	<u>159,307</u>	<u>162,197</u>	<u>170,063</u>

DEPARTMENT OF THE INTERIOR
Minerals Management Service
Personnel Summary

14-1917-0-1-302	FY 1986 Actuals	FY 1987 Estimate	FY 1988 Estimate
Direct:			
Total number of full-time permanent positions.....	1898	1896	1889
Total compensable workyears:			
Full-time equivalent employment...	2066	2037	2040
Full-time equivalent of overtime and holiday hours.....	11	11	11
Average ES salary.....	\$67,756	\$69,789	\$69,789
Average GS grade.....	10.41	10.41	10.42
Average GS salary.....	\$32,867	\$34,176	\$35,933
Average salary of ungraded positions.....	\$8,502	\$8,757	\$8,757

DEPARTMENT OF THE INTERIOR
Minerals Management Service
Detail of Permanent Positions

	FY 1986 Actual	FY 1987 Estimate	FY 1988 Estimate
ES-6.....	2	2	2
ES-5.....	1	1	1
ES-4.....	5	5	5
ES-3.....	4	4	4
ES-2.....	1	1	1
ES-1.....	1	1	1
Subtotal	14	14	14
GS/GM-15.....	69	70	70
GS/GM-14.....	168	170	170
GS/GM-13.....	371	371	370
GS-12.....	435	434	433
GS-11.....	161	158	157
GS-10.....	33	33	33
GS-9.....	98	99	99
GS-8.....	43	43	43
GS-7.....	136	136	135
GS-6.....	147	144	142
GS-5.....	122	122	121
GS-4.....	77	78	78
GS-3.....	14	14	14
GS-2.....	5	5	5
GS-1.....	1	1	1
Subtotal	1880	1878	1871
Ungraded.....	4	4	4
Total permanent positions.....	1898	1896	1889
Unfilled positions end of year.....	—	—	—
Total permanent employment, end of year.....	1898	1896	1889

Appropriation Summary Statement
Minerals Management Service

Appropriation: Payments to States from Receipts under Mineral Leasing Act

Payments to States from Receipts under Mineral Leasing Act: (-\$44,855,000)

In accordance with 30 U.S.C. 181 et seq. (the Mineral Lands Leasing Act of 1920, as amended), all States (except Alaska) are paid 50 percent of the receipts from bonuses, royalties, and rentals resulting from the leasing of mineral resources under the Act, on public lands. Alaska is paid 90 percent of the receipts from leasing outside of the National Petroleum Reserve-Alaska (NPRA). This appropriation provides for monthly payments to all States for their share of revenues realized as a result of mineral leasing activities on Federal lands within their boundaries.

Miscellaneous Payments (+\$750,000)

- Interest on Late Payments. An increase of \$300,000 is requested to pay interest to States and Indian accounts when mineral leasing revenues are not disbursed by the dates prescribed in 30 U.S.C. 191 and 1714.
- Interest on Refunds. An increase of \$200,000 is requested to pay interest to royalty payors who successfully appeal royalty payment orders and are refunded all or part of the principal paid to and held by the Government.
- Rewards. An increase of \$250,000 is requested to reward persons who provide information to the Secretary of the Interior that results in the collection of additional mineral revenues owed to the Government.

Appropriation Language Sheet

PAYMENTS TO STATES FROM RECEIPTS
UNDER MINERAL LEASING ACT

Notwithstanding any other provision of law, \$128,600,000 shall be deducted from Federal onshore mineral leasing receipts prior to the division and distribution of such receipts between the States and the Treasury and shall be credited to miscellaneous receipts of the Treasury. In fiscal year 1988, from moneys received from sales, bonuses, royalties (including interest charges collected under the Federal Oil and Gas Royalty Management Act of 1982), and rentals of the public lands under the provisions of the Mineral Lands Leasing Act of 1920, as amended, and the Geothermal Steam Act of 1970, which are not payable to a State or to the Reclamation Fund, such amounts as may be necessary shall be available for the payment of interest in accordance with 30 U.S.C. 191 and 1721 (b) and (d) and for the payment of interest on refunds made to royalty payers upon successful appeal of royalty payment orders; in addition, from amounts collected, such amounts as may be necessary shall be paid as rewards to persons who provide information to the Government which results in the collection of additional mineral revenues owed to the Government in accordance with 30 U.S.C. 1723.

Justification of Proposed Language Changes

Payments to States from Receipts under Mineral Leasing Act

1. Addition: "Notwithstanding any other provision of law, \$128,600,000 shall be deducted from Federal onshore mineral leasing receipts prior to the division and distribution of such receipts between the States and the Treasury and shall be credited to miscellaneous receipts of the Treasury."

The Administration proposes that the relevant onshore mineral leasing costs of the MMS, the Bureau of Land Management, and the Forest Service be deducted from Federal onshore mineral leasing receipts before such receipts are distributed between the Treasury and the States. Historically, the States have shared in gross receipts from the onshore minerals program without taking into account the Federal costs of obtaining and distributing these receipts. States receive at least fifty (50) percent of the receipts from onshore mineral leasing, but this percentage is now proposed to be based on net receipts after deducting the cost of program management. This formula represents an equitable distribution of the receipts remaining after paying the Federal costs necessary in obtaining those receipts.

2. Addition: "In fiscal year 1988, from moneys received from sales, bonuses, royalties (including interest charges collected under the Federal Oil and Gas Royalty Management Act of 1982), and rentals of the public lands under the provisions of the Mineral Leasing Act of 1920, as amended, and the Geothermal Steam Act of 1970, which are not payable to a State or to the Reclamation Fund, such amounts as may be necessary shall be available for the payment of interest in accordance with 30 U.S.C. 191 and 1721 (b) and (d)"

This provision is proposed to allow MMS to pay appropriate interest to States and Indian accounts when payments are not disbursed by the dates prescribed in 30 U.S.C. 191 and 1714.

3. Addition: "and for the payment of interest on refunds made to royalty payors upon successful appeal of royalty payment orders;"

This provision is proposed to allow MMS to pay appropriate interest on refunds for the period of time which a disputed amount has been in the accounts of the Government, thus reflecting greater fairness and better business practice toward royalty payors.

4. Addition: "in addition, from amounts collected, such amounts as may be necessary shall be paid as rewards to persons who provide information to the Government which results in the collection of additional mineral revenues owed to the Government in accordance with 30 U.S.C. 1723."

The MMS is authorized by the Federal Oil and Gas Royalty Management Act (FOGRMA) of 1982 to pay a reward of not more than 10 percent of recovered amounts when a person provides information to the Secretary of the Interior that results in the collection of additional mineral revenues owed to the Government. This language will provide a mechanism to make any required reward payments from the amount collected. Therefore, any reward will be offset by and paid from the additional mineral revenues received.

Appropriation Language Citations

Payments to States from Receipts under Mineral Leasing Act

1. Notwithstanding any other provision of law, \$128,600,000 shall be deducted from Federal onshore mineral leasing receipts prior to the division and distribution of such receipts between the States and the Treasury and shall be credited to miscellaneous receipts of the Treasury.

No specific authority

2. In fiscal year 1988, from moneys received from sales, bonuses, royalties, (including interest charges collected under the Federal Oil and Gas Royalty Management Act of 1982), and rentals of the public lands under the provisions of the Mineral Lands Leasing Act of 1920, as amended.

30 U.S.C. 191 et seq.

The Mineral Lands Leasing Act of 1920, as amended, provides for the sharing of receipts with States on a monthly basis from various mineral leasing activities on Federal lands within their boundaries.

3. and the Geothermal Steam Act of 1970.

The Geothermal Steam Act of 1970 authorizes the Secretary to issue leases for the development of geothermal energy and provides for receipt sharing with the States.

4. which are not payable to a State or to the Reclamation Fund, shall be available for the payment of interest in accordance with 30 U.S.C. 191 and 1721 (b) and (d).

30 U.S.C. 1721 (b) and (d)

The Federal Oil and Gas Royalty Management Act of 1982 provides for timely payments of royalty funds from oil and gas production on Indian lands to Indian accounts and for payments of interest to States and Indian accounts when funds are not disbursed as required by 30 U.S.C. 191 and 1714.

5. and for the payment of interest on refunds made to royalty payors upon successful appeal of royalty payment orders.

Authorizing language has been submitted.

6. in addition, from amounts collected, such amounts as may be necessary shall be paid as rewards to persons who provide information to the Government which results in the collection of additional mineral revenues owed to the Government in accordance with 30 U.S.C. 1723.

30 U.S.C. 1723

The Federal Oil and Gas Royalty Management Act of 1982 authorizes the reward of not more than 10 percent of recovered amounts when a person provides information to the Secretary of the Interior that results in the collection of additional mineral revenues owed to the Government.

Summary of Requirements

Appropriation: Payments to States from Receipts under Mineral Leasing Act

(Dollar amounts in thousands)

Summary of Base Adjustments	FTE	Amount	FTE	Amount
Appropriation, 1987	—	—	—	434,725
 Base Adjustments:				
Total, Base adjustments.....	—	—	—	0
1988 Base Budget	—	—	—	434,725

(Dollar amounts in thousands)

Comparison by Activities	FY 1986 Actual		FY 1987 Enacted		FY 1988 Base		FY 1988 Estimate		Inc. (+)/Dec. (-) from 1987		Inc. (+)/Dec. (-) from 1988 Base	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
Payments to States	—	422,559	—	434,725	—	434,725	—	389,870	—	(44,855)	—	(44,855)
Miscellaneous Payments	—	0	—	0	—	0	—	750	—	750	—	750
	—	422,559	—	434,725	—	434,725	—	390,620	—	(44,105)	—	(44,105)

Justification of Program and Performance

Activity: Payments to States from Receipts under Mineral Leasing Act

(Dollar amounts in thousands)

<u>Activity</u>		<u>FY 1987 Enacted To Date</u>	<u>FY 1988 Base</u>	<u>FY 1988 Estimate</u>	<u>Inc.(+) Dec.(-) from 1987</u>	<u>Inc.(+) Dec.(-) from Base</u>
Payments to States	\$ (FTE)	434,725 (---)	434,725 (---)	389,870 (---)	-44,855 (---)	-44,855 (---)

Authorizations

- 30 U.S.C. 191, et seq.
P.L. 66-146 The Mineral Lands Leasing Act of 1920, as amended, provides for the sharing of receipts with States on a monthly basis from various mineral leasing activities on Federal lands within their boundaries.

- 30 U.S.C. 355 et seq. The Mineral Leasing Act for Acquired Lands as amended, provides for leasing coal, oil, oil shale, natural gas, phosphate, and sodium on military acquired lands and the sharing of receipts from such leasing with the States on military acquired lands within their boundaries.

- 30 U.S.C. 1001, et seq.
P.L. 91-581 The Geothermal Steam Act of 1970 authorizes the Secretary to issue leases for the development of geothermal energy and provides for receipt sharing with the States.

- 30 U.S.C. 181, et seq.
P.L. 97-78 The Combined Hydrocarbon Leasing Act of 1981 provides for combined hydrocarbon leases and receipt sharing with the States for such leases within their boundaries.

- 30 U.S.C. 191
P.L. 97-451 The Federal Oil and Gas Royalty Management Act of 1982 provides for monthly distribution of mineral leasing receipts to the States.

Objective

- o Provide payments to the States on a monthly basis for development of mineral resources on Federal lands within their boundaries.

Base Program

This activity provides for payments to all States due shares of revenues realized as a result of the leasing of minerals on Federal lands located within the boundaries of the States. Revenues for these payments are accrued from bonuses, rentals, and royalties collected from Federal onshore mineral leases. Amounts paid to States are determined in accordance with various laws which specify the percentages of revenues to be paid. The payment a State receives is determined by the total revenues collected from minerals leasing and production within their boundaries.

The Mineral Lands Leasing Act of 1920 as amended provides that all States (except Alaska) be paid 50 percent of the revenues from bonuses, royalties, and rentals resulting from the leasing of mineral resources on Federal public lands within their borders. Alaska receives 50 percent of the revenues from mineral leases in the National Petroleum Reserve in Alaska (NPRA), and 90 percent of revenues from all other Alaska leases, including those on lands governed by the Alaska National Interest Lands Conservation Act (ANILCA).

Distribution to the States

The method of estimating the mineral revenue distribution to States is displayed on Table 2. First, the estimate of total revenues from onshore minerals production is developed. From this total, the amount collected for distribution by other Federal agencies and Interior bureaus is deducted. This amount is estimated to be 6 percent of the total revenues collected, as historically experienced. Because of Alaska's unique revenue sharing arrangements, Alaska's estimated receipts are then deducted prior to determination of amounts available for the distribution to the Lower 48 States.

The designated amount to be distributed to Alaska under MLA and ANILCA is added to the Lower 48 total to arrive at total distribution amounts to all States (the NPRA receipts are distributed by the Bureau of Land Management).

Under the Federal Oil and Gas Royalty Management Act of 1982, receipts are to be distributed to the States in the month immediately following the month of collection. When estimating the annual amount available for distribution to the States, there is a lag between fiscal years that must be taken into account. Receipts that are collected in September, 1987 (the current fiscal year), will be distributed in October, 1987 (the following fiscal year). Thus, 91 percent of current fiscal year collections and 9 percent of prior year collections are calculated to derive the current year distribution amount. The estimated distribution of this amount is based on the percentage of total mineral leasing revenues historically generated within the boundaries of each State, as displayed in Table 3.

Net Receipts Sharing

Beginning in FY 1988, (the relevant onshore mineral leasing costs of the MMS, the Bureau of Land Management, and the Forest Service) are proposed to be deducted from Federal onshore mineral leasing receipts before such receipts are distributed between the Treasury and the States. Historically, the States have shared the gross receipts of the onshore minerals program without taking into account the Federal costs of obtaining and distributing those receipts.

The onshore minerals programs have been funded entirely by the Federal Treasury while the States have shared only in distribution of revenues. States receive at least fifty (50) percent of the receipts from onshore mineral leasing, but this percentage would now be based on net receipts after deducting the cost of program management. This formula represents an equal distribution of these costs to the direct beneficiaries of the program rather than being borne by the general public.

Approximately 74 percent of the MMS's Royalty Management Program workload is dedicated to Federal onshore lease activities, based primarily on the percentage of producing leases. The net receipts sharing amount thus includes 74 percent of the Royalty Management Program's costs, and a prorata share of administrative costs. The offsets related to MMS's collection and disbursement costs total \$42.2 million. Also included as an offset are the relevant costs of BLM's fluid and solid energy mineral and nonenergy minerals leasing programs (\$62.84 million), along with a prorata share of BLM administrative costs, (\$11.94 million), for a total offset in BLM of \$74.8 million. In addition, net receipts sharing includes the relevant onshore mineral leasing costs of the Forest Service's Minerals Area Management Program (\$11.6 million). This brings the total net receipts sharing proposal to \$128.6 million in FY 1988.

As can be seen on Table 3, the net effect to the States of the \$128.6 million FY 1988 net receipts sharing proposal will be a \$55.0 million reduction in payments. Minerals Management Service will review annually the formula for allocating royalty management costs to assure equity among all States that share in these revenues.

Table 2

Method of Estimating the FY 1988 Mineral
Revenue Distribution to States

(In millions of dollars)

	<u>Receipts</u>	<u>Payments to States</u>
Estimated onshore mineral leasing receipts for FY 1988-----	943	
<u>Deduct:</u>		
Cost of collecting and distributing Federal onshore revenues-----	(129)	
Amounts collected for other distribution (6% of receipts)--	(49)	
SUBTOTAL -----	.765	
<u>Deduct:</u>		
Estimated revenues of \$16.5 million for Alaska; \$1.8 million for ANILCA; and \$3.8 million for NPRA (revenue sharing formula uses a different percentage for Alaskan payments, hence, Alaska estimated revenues are deducted prior to lower 48 States distribution)	(22)	
SUBTOTAL-----	743	
91% (11/12) of \$743 million is distributed in FY 1988;-----	676	
plus 9% of FY 1987 collections of \$785.-----	71	
<u>TOTAL</u> Lower 48 States' net receipts to be collected in FY 1988 before distribution between Federal and States' share-----	747	
Less--Federal Government's share (50%). -----	373	
<u>Distribute to Lower 48:</u> -----		374 =====
<u>Distribute to Alaska:</u>		
91% of Alaska and ANILCA FY 1988 monies of \$18 million;	16	
plus 9% of FY 1987 collections of \$18 million.	2	
<u>TOTAL</u> Alaska and ANILCA net receipts to be collected-----	18	
Less--Federal Government's share (10%). -----	2	
<u>Distribute to Alaska:</u> -----		16 =====
Mineral leasing receipts distributed to States		390

Table 3

Estimated FY 1988
Mineral Revenue Payments to the States

(In thousands of dollars)

	<u>FY 1986 Actual Payments</u>	<u>FY 1987 Estimated Payments</u>	<u>FY 1988 Estimated Payments</u>	<u>Net Receipts Sharing</u>	<u>FY 1988 Est. Net Payments</u>
Alabama	251	244	264	33	231
Alaska	16,546	16,087	17,420	2,154	15,266
Arizona	723	703	761	94	667
Arkansas	624	607	657	81	576
California	33,064	32,146	34,810	4,304	30,506
Colorado	41,814	40,653	44,022	5,443	38,579
Florida	91	88	95	12	83
Idaho	2,104	2,046	2,216	274	1,942
Kansas	873	849	919	114	805
Louisiana	554	539	584	72	512
Michigan	40	39	42	5	37
Mississippi	513	499	540	67	473
Montana	17,995	17,496	18,946	2,342	16,604
Nebraska	268	261	283	35	248
Nevada	7,016	6,821	7,386	913	6,473
New Mexico	107,236	104,259	112,898	13,958	98,940
North Dakota	7,437	7,231	7,830	968	6,862
Oklahoma	2,572	2,501	2,708	335	2,373
Oregon	1,213	1,179	1,277	158	1,119
South Dakota	984	957	1,036	128	908
Utah	27,530	26,766	28,984	3,583	25,401
Washington	326	317	343	42	301
Wyoming	152,773	148,530	160,838	19,886	140,952
Minnesota	3	3	3	0	3
Texas	9	9	10	1	9
Subtotal	422,559	410,830	444,872	55,002	389,870
P.L. 99-177 (G-R-H)		23,895			
Total	422,559	434,725	444,872	55,002	389,870

Decrease from 1988 Base

(Dollar amounts in thousands)

	<u>FY 1988 Base</u>	<u>FY 1988 Estimate</u>	<u>Difference</u>
\$	434,725	389,870	-44,855
(FTE)	(---)	(---)	(---)

In FY 1988, onshore oil, gas, and coal prices and production are expected to increase over the FY 1987 projections. As a result, payments to States would be expected to increase by \$34.0 million. However, this year a proposal is included for net receipt sharing with States after deducting the cost of operating the mineral leasing programs by the Federal Government. This proposal will cause estimated payments to the States to decrease by \$55.0 million. Also, the FY 1986 Appropriation included \$23.9 million in total obligations that were sequestered by P.L. 99-177 in the Payments to the States account. At the beginning of FY 1987, the \$23.9 million was distributed to the States. Thus, the FY 1988 base increases by this amount. The net change from the 1988 base is, therefore, a decrease of \$44.9 million.

Distribution of Change by Object Class

The object class detail for the proposed change is as follows:

	<u>Amount (000)</u>
Grants, subsidies, and contributions.....	-44,855

Justification of Program and Performance

Activity: Miscellaneous Payments

(Dollar amounts in thousands)

<u>Activity</u>		<u>FY 1987 Enacted To Date</u>	<u>FY 1988 Base</u>	<u>FY 1988 Estimate</u>	<u>Inc.(+) Dec.(-) from 1987</u>	<u>Inc.(+) Dec.(-) from Base</u>
Miscellaneous Payments	\$ (FTE)	--- (---)	--- (---)	750 (---)	+750 (---)	+750 (---)

30 U.S.C. 191, et seq. The Mineral Lands Leasing Act of 1920, as amended, provides for the sharing of receipts with States on a monthly basis from various mineral leasing activities on Federal lands within their boundaries.

30 U.S.C. 1714, 1721(b),1721(d) The Federal Oil and Gas Royalty Management Act of 1982 provides for timely payments of royalty funds from oil and gas production on Indian lands to Indian accounts and for payments of interest to States and Indian accounts when funds are not disbursed as required by 30 U.S.C. 191 and 1714.

Interest on Late Payments

Objective

- o Provide interest to States and Indian accounts when mineral leasing revenues are not disbursed by the dates prescribed in 30 U.S.C. 191 and 1714.

Increase from 1988 Base

(Dollar amounts in thousands)

	<u>FY 1988 Base</u>	<u>FY 1988 Estimate</u>	<u>Difference</u>
\$ (FTE)	--- (---)	300 (---)	+300 (---)

The Federal Government shares with States revenues generated from Federal mineral leasing activities within State boundaries. Indian lessors receive all the revenue from mineral leasing activities on their land. The Minerals Management Service collects, processes, accounts for, and audits, bonuses, rents, royalties, and interest due the Federal Government from mineral leasing activities and distributes shares to the Treasury, States, and various Indian accounts. Funding for this service is provided by three subactivities within

the Royalty Management budget activity of the Minerals and Royalty Management appropriation--Mineral Revenue Collections, Mineral Revenue Compliance, and Systems Development and Operation. The Payments to States from Receipts under Mineral Leasing Act budget activity provides permanent, indefinite authority to pay the States their share of revenues. This activity, Miscellaneous Payments, provides funds to make payments of interest to States and Indian accounts when mineral leasing revenues due them are not disbursed within the timeframes prescribed by the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA).

Need for these Payments - States

The FOGRMA changed the distribution of payments to the States for their share of mineral leasing revenues from a semi-annual to a monthly schedule. For States, payments must be made by the last business day of the month in which receipts are warranted by the United States Treasury. In addition, FOGRMA provides that deposits of any royalty funds from oil or gas production on Indian lands will be made to appropriate Indian accounts at the earliest practicable date, but in no case later than the last business day of the month in which such funds are received. Section 111 of the Act provides that interest computed at a rate applicable under Section 6621 of the Internal Revenue Code of 1954 is owed if the payment schedules listed above are not met.

However, receipts cannot be disbursed to State accounts until a proper determination can be made of the source of all incoming royalties. Generally, two situations exist which cause this to happen and result in late payment liability: (1) A shortfall within a payor's cash account or (2) an error, which prevents a royalty accounting line item from processing through the system. Thus, in the second instance, MMS has the cash available, but cannot determine to whom the cash belongs until the error is corrected.

Cash Shortfall

The Auditing and Financial System (AFS) is designed to track royalties reported at the account identification number (or line) level. AFS was not designed to track cash received at the line level. Such a capability would involve a major system redesign. Technically, the only automated option available to MMS in meeting late payment provisions of FOGRMA is to compute late payment interest based on the lapse between the time a line is reported and the time the line is disbursed to the State. Thus, if a payor reports \$100 of royalty due in January, pays it in April, and MMS disburses the State's share in April, the AFS computes an interest penalty of 60 days (March and April) even though MMS's first opportunity to remit to the State was April (since the cash was not collected until April). This situation represents cash shortfall at the payor level. Cash shortfalls at the payor level can occur for several reasons:

- A payor reports (MMS-2014) royalties owed but remits less than the total reported liability, or pays late. MMS issues bills (principal and interest) to payors who underpay their royalty liability.
- A payor makes an error in reporting the royalty liability (over reports) but pays the correct amount.
- Payor cash is credited to the incorrect account, due to either an MMS or payor error.

- Cash shortfalls are routinely investigated, causes determined, and appropriate actions taken to minimize the interest effect of such cases.

Errors

AFS data base errors can be separated into three broad categories -- lease errors, other data base errors, and errors in royalty/sales reports.

Lease errors

- These errors occur for several reasons. MMS may have an error in its data base; BLM may not have forwarded lease or production notices to MMS; or the payor may have submitted erroneous data in the royalty report (MMS-2014).

Other data base errors

- Before payors are authorized to submit royalty reports to MMS, they are required to file a Payor Information Form (PIF) identifying the leases, revenue sources, products, and selling arrangements. This data, which is reviewed, verified and entered into the AFS, is used to compare with monthly royalty information submitted by the payor. In a general sense it is similar to the comparison a payroll system would make between the basic employment and financial information in the reference data file and the employee's weekly timecard.

MMS's comparison of payor information and reported royalties may disagree either because the payor failed to file the necessary information; the payor committed an error on the royalty report; or MMS had an error in the data base.

Errors in royalty/sales reports

- This occurs when a payor omits certain information, or provides incomplete, erroneous and/or inconsistent information from the royalty report (MMS-2014).

If funds cannot be specifically identified to particular leases, they are deposited into a suspense account. The errors or discrepancies which cause the funds to be unidentified need resolution before the information can be incorporated into the monthly receipt distribution and payment can be made to the various State and Federal receipt accounts. Accordingly, MMS personnel must review and correct these errors before funds will be distributed/disbursed. Some errors require more time to research and coordinate than others, particularly when MMS requires additional payor information and input from surface management agencies.

Indian Late Payments

In contrast to the State interest situation, interest on Indian late payments does not generally result from cash shortfalls or royalty errors. Indian

cash is transferred to the Bureau of Indian Affairs (BIA) as soon as practicable after it is deposited in the Treasury the same day it is received and is collected (normally within 2 to 4 working days).

As a result of a Department of the Interior Solicitor's memorandum which analyzed the meaning of the term "appropriate Indian account" and the timing at which the MMS begins to accrue interest liability, the level of Indian interest liability incurred by MMS in FY 1986 was approximately \$20,000. The Deputy Assistant Solicitor stated in his memorandum that the phrase "appropriate Indian account" refers to the aggregate tribal and aggregate allotted funds accounts which the BIA maintains at the Treasury and which earn interest from investment in interest-bearing certificates and securities. Further, the Solicitor's review showed that transfers from the general suspense/budget clearing account to the aggregate accounts are effective as of the same date the funds are received.

Initiatives to Reduce Errors

In FY 1986, the AFS processed approximately 2.5 million lines of data. That total, almost 169 thousand lines (containing 236 thousand errors) were rejected. These levels represent a significant improvement from FY 1985 when approximately 2.3 million lines of data were processed with almost 300,000 lines (containing 416,000 errors) rejected. Nevertheless, MMS has undertaken several initiatives to further reduce errors.

MMS officials have formulated a comprehensive enforcement strategy for assessments and civil penalties. For reporting problems, \$10 per line assessments are applied for instances of erroneous reporting. Civil penalties are used as an enforcement action to secure compliance. For knowing or willful reporting problems, civil penalties will be applied in those cases where erroneous reporting continues to be excessive after appropriate notification. Since errors related to the royalty/sales reports constitute 63 percent of the total number of errors, it can be expected that this enforcement strategy will provide an incentive for reporter accuracy and thus reduce interest payments in the future.

In addition, an intensive effort involving MMS contractor personnel was undertaken to reduce the error rate in the system (in particular, the error rate associated with the reference data base). The principal focus of this effort was the reconciliation of lease data to assure that each lease is properly identified in the system and the elimination of the backlog of Payor Information Forms which had accumulated. Moreover, MMS has reduced the backlog of uncorrected, rejected lines by over two-thirds during the past 2 years, from 30,375 uncorrected lines at the end of September 1984, to 9,588 lines at the end of September 1986. This compares to approximately 200,000 lines of data received each month.

The MMS has completed a systematic review of royalty payors needing additional training on how to report and pay to the AFS. Based on industry input, a training curriculum and plan was developed to provide this training. Twenty-five 2-day training sessions for approximately 200 royalty payors were conducted in eight cities. Improved reporting accuracy by many of these companies has already been noted.

In addition to this training, the update of the MMS Payor Handbook (the official guide to royalty payors on how to report to the AFS) will soon be available. After incorporating comments by States, industry, the Bureau of Land Management,

and the Bureau of Indian Affairs, the final document was provided to the Government Printing Office for printing and distribution.

The MMS will continue to concentrate its efforts on making improvements in these areas. However, because of the significant improvements already achieved in the AFS royalty error rates, backlogs of uncorrected lines, and late payment interest costs, further improvements will not be as dramatic as those already achieved. Barring unforeseen circumstances, MMS expects to incur interest costs of approximately \$300,000 per year for the foreseeable future.

The MMS currently has no source of available funds from which to pay this interest. To provide a source of funding, the Department explored the possibility of establishing an interest bearing suspense account, the interest from which would be used to pay interest to the States. However, legal authority to establish such an account does not currently exist. An amendment to either the Mineral Lands Leasing Act of 1920 or FOGRMA would be required. Even then, under FOGRMA the interest rate on late payments to States and Indian accounts would be higher than the rate normally paid by Treasury on funds in interest-bearing suspense accounts. Depending on the average balance of funds in the suspense account, this "interest gap" might have to be compensated for by transferring funds into the interest-bearing account from the general fund or some other account. Because of these complications, establishment of an interest bearing suspense account is not considered to be the preferred alternative.

Distribution of change by object class

The object class detail for the proposed change is as follows:

	<u>Amount (\$000)</u>
Grants, subsidies, and contributions	+300

Interest on Refunds

Objective

- o To assure an equitable payment of interest foregone is made to royalty payors who successfully appeal royalty payment orders and are refunded all or part of the principal paid to and held by the Government.

Increase from 1988 Base

(Dollar amounts in thousands)

	<u>FY 1988 Base</u>	<u>FY 1988 Estimate</u>	<u>Difference</u>
\$	---	200	+200
(FTE)	(---)	(---)	(---)

Royalty payors who contest a particular assessment or royalty payment obligation are required to pay the disputed amounts to MMS pending administrative appeal or judicial review. In some cases, all or some portion of the amount so paid ultimately is determined to be not owing to the United States, an Indian account, or an Alaska Native Corporation.

MMS believes that paying appropriate interest on the amount refunded for the period of time during which the disputed amount has been in the accounts of the Government would reflect greater fairness and better practice toward the royalty payors. The interest rate provided is one which corresponds closely to the time value of the funds; it is not a punitive interest rate.

Distribution of change by object class

The object class detail for the proposed change is as follows:

	<u>Amount (\$000)</u>
Interest and dividends.....	+200

Rewards

Objective

- o To encourage receipt of information that results in the collection of additional mineral revenues owed to the Government.

Increase from 1988 Base

(Dollar amounts in thousands)

	<u>FY 1988 Base</u>	<u>FY 1988 Estimate</u>	<u>Difference</u>
\$	---	250	+250
(FTE)	(---)	(---)	(---)

The MMS is authorized by the Federal Oil and Gas Royalty Management Act (FOGRMA) of 1982 to pay a reward of not more than 10 percent of recovered amounts when a person provides information to the Secretary of the Interior that results in the collection of additional mineral revenues owed to the Government. These rewards do not apply to information obtained from Federal Government employees, an officer or employee of a State or Indian tribe acting pursuant to a cooperative agreement or delegation under this Act, or any person acting pursuant to a contract authorized by FOGRMA. This increase will provide a mechanism to make any required reward payments from the amount collected. Therefore, any reward will be offset by and paid from the additional mineral revenues received.

Distribution of change by object class

The object class detail for the proposed change is as follows:

	<u>Amount (\$000)</u>
Other services	+250

DEPARTMENT OF THE INTERIOR
Minerals Management Service
Payments to States from Receipts Under Mineral Leasing Act
Program and Financing (in thousands of dollars)

14-5003-0-2-852	FY 1986 Actuals	FY 1987 Estimate	FY 1988 Estimate
<u>Program by activities:</u>			
Direct program:			
00.0101 Payments to States.....	422,559	434,725	389,870
00.0201 Miscellaneous Payments.....	—	—	750
10.0001 Total Direct Program.....	422,559	434,725	390,620
<u>Financing:</u>			
39.0001 Budget authority.....	422,559	434,725	390,620
 <u>Budget authority:</u>			
Current:			
40.0001 Appropriation (indefinite).....	—	—	750
Permanent:			
60.0001 Appropriation (indefinite).....	422,559	434,725	389,870
 <u>Relation of obligations to outlays:</u>			
71.0001 Obligations incurred, net.....	422,559	434,725	390,620
90.0001 Outlays.....	422,559	434,725	390,620

DEPARTMENT OF THE INTERIOR
 Minerals Management Service
 Payments to States from Receipts Under Mineral Leasing Act
 Object Classification (in thousands of dollars)

14-5003-0-2-852	FY 1986 Actuals	FY 1987 Estimate	FY 1988 Estimate
125.001 Other services.....	--	--	250
141.001 Grants, subsidies, and contributions.	422,559	434,725	390,170
143.001 Interest and dividends.....	--	--	200
999.901 Total obligations.....	<u>422,559</u>	<u>434,725</u>	<u>390,620</u>

