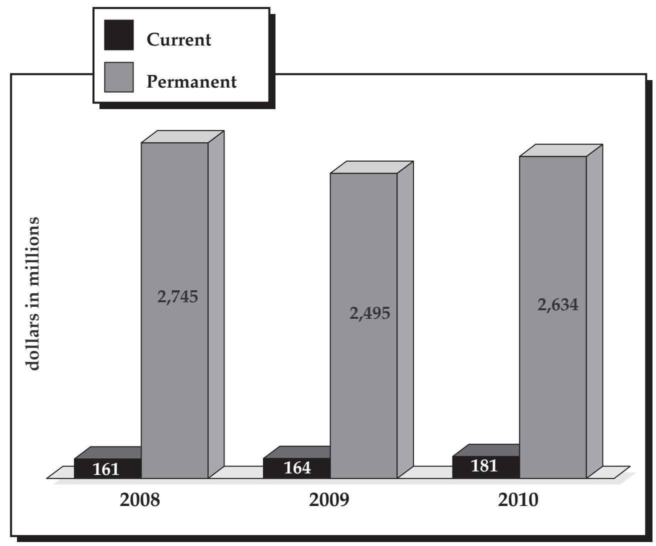
MINERALS MANAGEMENT SERVICE

Mission — The Minerals Management Service was formed by Secretarial Order in 1982 to facilitate the Nation's mineral revenue collection efforts and the management of its Outer Continental Shelf offshore lands. The MMS manages energy and mineral resources, including renewable energy resources, on the Nation's OCS in an environmentally sound and safe manner. The MMS is also responsible for the timely and accurate collection, distribution, and accounting and auditing of revenues owed by holders of mineral leases on Federal onshore, offshore, and Indian lands.

Program Overview — The MMS manages access to the mineral resources of the OCS to help meet the energy demands and other needs of the Nation while balancing such access with the protection of the human, marine, and coastal environments. Currently, MMS administers about 8,000 active mineral leases on 43 million OCS acres, and oversees production from nearly 3,800 facilities on the OCS. Production from these leases generates billions of dollars in revenue for the Federal Treasury and State governments while supporting thousands of jobs. The MMS oversees production of about 14 percent of the natural gas and 27 percent of the oil produced domestically. The MMS is also developing a robust renewable energy program that will complement development of traditional energy sources and help begin the transition to a low-carbon economy.

Revenues collected from onshore and offshore Federal lands by MMS are one of the largest sources of non-tax revenue to the Federal government. In 2008, MMS disbursed about $23.4 billion in mineral revenues to States, the Office of the Special Trustee for American Indians for distribution to Indian Tribes and individual owners, other Federal agencies, and U.S. Treasury accounts. Additionally, MMS delivered oil valued at $1.6 billion to the Department of Energy for the Strategic Petroleum Reserve. Total mineral revenues were unusually high in 2008 as a result of record bonus bids received in several large oil and gas lease sales combined with high oil and gas prices. Total revenues are expected to decline to $11.5 billion in 2010 due to a combination of factors, including global economic conditions, as well as a return to more typical bonus bid levels and lower oil and gas price assumptions.

MMS Funding



Since 1994, a portion of OCS rental revenues have been used to offset MMS appropriations. The 2010 budget request proposes to use $143.7 million in rental receipts to offset the MMS appropriation. In addition, the request assumes that MMS will collect $10.0 million in new inspection fees from OCS activities and $13.0 million in other cost recovery fees.

To ensure OCS development is carried out in a safe and environmentally responsible manner, MMS inspects all offshore facilities, reviews plans of exploration and development, analyzes statements of financial responsibility, and funds scientific and engineering research related to OCS mineral and alternative energy development. The MMS comprehensive compliance strategy includes an automated compliance verification program to validate the accuracy and timeliness of revenues paid, and an audit program staffed by MMS, State, and tribal auditors to ensure proper revenues are collected and disbursed.

New Energy Frontier Initiative — The Energy Policy Act of 2005 gave MMS a significant new mandate to implement a comprehensive offshore renewable energy program on the OCS, and since 2005, MMS has been working to lay the groundwork for this new program. Proposed regulations to govern the program were published in the summer of 2008, but were only recently finalized. Secretary Salazar worked with Federal Energy Regulatory Commission Chairman John Wellinghoff to reach an agreement regarding the process by which permits and licenses related to renewable energy resources in offshore waters are to be handled. This process is detailed in a Memorandum of Understanding between MMS and FERC and resolves outstanding jurisdictional questions that had the potential to delay permitting and development of offshore renewable energy projects. On Earth Day 2009, the President announced that he was ready to finalize these long-awaited regulations, which will be used to facilitate the development of America's abundant offshore renewable energy resources, such as wind, wave, and tidal power. The 2010 budget request includes a requested increase of $24.0 million to aggressively implement this new program.

Royalty Reforms — The Administration believes that American taxpayers should get a fair return on the development of the resources on their public lands. A recent Government Accountability Office report suggests that taxpayers could be getting a better return from Federal oil and gas resources, at least in some areas. Secretary Salazar has ordered a comprehensive review of the royalty rates from energy development on Federal land (onshore and offshore), as recommended by GAO. Following the review, the Secretary will implement appropriate royalty reforms and rate adjustments. The budget assumes these reforms will increase Federal oil and gas revenues by $1.5 billion over the next ten years.

2010 Mandatory and Receipt Proposals — The 2010 budget request includes several mandatory proposals.

Energy Policy Act — Consistent with the 2009 budget, the 2010 budget proposes to repeal EPAct provisions that expanded on existing royalty relief incentives for certain types of production. Section 344 of the EPAct extended existing deep gas incentives in two ways. First, it mandated an increase in the royalty suspension volumes from 25 to 35 billion cubic feet of natural gas in a third drilling depth category, greater than 20,000 feet subsea. Second, it directed that incentives for all three drilling depth categories also be applied to leases in 200-400 meters of water.

The 2010 budget also proposes to repeal Section 345 of the Energy Policy Act, which provided additional mandatory royalty relief for certain deepwater oil and gas production. The proposals will ensure that Americans receive fair value for Federally-owned mineral resources.

OCS Inspection Fee — The MMS Royalty and Offshore Minerals Management account has traditionally been credited with offsetting collections to help defray the cost of MMS operations. These include certain rental receipts and cost recovery fees. The 2010 budget includes a new inspection fee on each OCS above-water oil and gas facility that is subject to inspection except mobile offshore drilling units. The MMS developed the fee structure to defray increasing inspection costs. The fee amount is based on the complexity of the facility, as determined by the number of wells. The new fees will require OCS energy developers to fund roughly 25 percent of MMS compliance inspection costs. The MMS believes this represents a reasonable contribution on the part of the energy developers, who are beneficiaries of the OCS development program. The fee would support Federal efforts to provide services that not only ensure human safety, but also protect the environment and conserve energy and marine resources.

Fee on Non-producing Leases — Interior is committed to ensuring that industry diligently pursues production of leased oil and gas resources. As part of a broader initiative to encourage energy development, a new fee on nonproducing Gulf of Mexico offshore leases would provide a financial incentive for oil and gas companies to either get leases into production or relinquish them so that tracts can be re-leased and developed by new parties. It would require holders of Gulf of Mexico OCS oil and gas leases to pay a $4 per acre fee (in 2009 dollars) when leases are in non-producing status.

Excise Tax on Certain Production — The Treasury Department's budget proposes a new excise tax on certain offshore oil and gas production. According to the GAO, the return to the taxpayer from OCS production is among the lowest in the world, despite other factors that make the U.S. a comparatively good place to invest in oil and gas development. In the interest of advancing important policy objectives, such as providing a more level playing field among producers, raising the return to the taxpayer, and encouraging sustainable domestic oil and gas production, the Administration is developing a proposal to impose an excise tax on certain oil and gas produced offshore in the future. The Administration looks forward to working with Congress to develop this proposal's details and enact it into law.

Budget Overview — The 2010 MMS budget is $347.4 million, including $180.6 million in current appropriations and $166.7 million in offsetting collections from rental receipts and fees. Current appropriations are increased by $16.9 million above the 2009 enacted level.

Offshore Energy and Minerals Management — The goal of the Offshore Energy and Minerals Management program is to provide for safe and environmentally sound energy and mineral development on the OCS and to ensure that the public receives fair market value for these resources. To carry out this goal, MMS activities include administration of OCS leases, review of new exploration and development plans, examination of pipeline right-of-way applications, environmental assessments, and annual safety inspections of mineral extraction operations on-site. The MMS requests $196.0 million in 2010 for Offshore program activities, $29.8 million above 2009.

As discussed above, the Department has significantly increased responsibility for renewable energy development on the OCS as a result of the Energy Policy Act of 2005. The 2010 budget includes a substantial increase for the development of these renewable energy resources. As part of President Obama's initiative to double domestic renewable energy generation within three years, MMS is requesting an increase of $24.0 million to build a robust OCS-based renewable energy program. This funding will provide for OCS renewable energy leasing activities, including collaboration with coastal States, Indian Tribes, and other stakeholders; conducting environmental and technological studies; preparation of environmental analyses; initiation of up to four competitive renewable energy lease sales (or comparable noncompetitive individual renewable energy projects); and processing of limited leases for offshore resource data collection or technology testing or both.

The MMS budget also recognizes that as the Nation transitions the economy toward cleaner, renewable energy sources, America's oil and gas supplies remain an important component of a comprehensive energy plan. Interior is working to ensure that the oil and gas resources it manages are developed in a responsible manner. The Department conducts regular lease sales in OCS areas open to development according to a five-year plan. Last fall, Congress lifted long-standing legislative moratoria on leasing along the Atlantic and Pacific coasts. The previous Administration initiated the process to develop a new five-year plan to lease many of the newly available areas, but left many important decisions to be resolved by the new Administration.

Secretary Salazar has stressed the Administration's view that decisions about the development of OCS resources should be based on the best available information and public input. To that end, Secretary Salazar extended the public comment period on the draft five-year plan for the OCS by 180 days; directed MMS and USGS to assemble a report on the available resources in the OCS; and held four regional meetings around the country to gather public input. In the four regional meetings held in New Jersey, Louisiana, Alaska and California, Secretary Salazar listened to the perspectives of local citizens, elected officials, stakeholders, and representatives of the energy industry. The information collected throughout this process will guide the Administration as it completes the next five-year plan.

The 2010 President's budget request includes an increase of $5.1 million for implementing the five-year plan. Funding will be invested in environmental studies, environmental analyses, resource assessment, and leasing consultation, some in offshore areas where no concerted oil and gas related data gathering has occurred in decades.

In order to enable coastal communities to mitigate the impacts of rising sea levels, the MMS is requesting an increase of $1.1 million to manage OCS sand and gravel leasing activities. Natural barrier islands and wetlands, like those protecting coastal Louisiana's delta region, are rapidly deteriorating under multiple stresses. These changes, along with depletion of sand deposits in State waters, are continuing to elevate the demand for sand and gravel from the OCS.

Minerals Revenue Management — The goal of the MRM program is to ensure that revenue from Federal and Indian mineral leases are effectively, efficiently, and accurately collected, accounted for, and disbursed to recipients. These revenues, which have averaged about $13 billion per year over the last five years, are distributed and disbursed to 38 States, 41 Indian Tribes, some 30,000 American Indian mineral royalty owners, and to U.S. Treasury accounts. In the 2010 budget request, the total MRM program is funded at $89.4 million, an increase of $2.7 million above 2009.

The MMS requests an increase of $3.0 million to implement a risk-based audit and compliance strategy. The funding will allow MMS to increase compliance coverage of properties and companies, focusing on the highest risks. This strategy uses a targeted, detailed approach to identify properties and companies where audits or compliance reviews are warranted. The strategy incorporates recommendations from the Office of Inspector General, the Royalty Policy Committee, and the MMS Compliance Business Plan.

Accurate, reliable, and complete production data is vital to achieving the MMS mission of managing the ocean energy and mineral resources on the OCS and Federal and Indian mineral revenues to enhance public and trust benefits, promote responsible use, and realize fair value. The MMS requests an increase of $1.7 million for this initiative, which will improve and streamline production reporting for Federal and Indian properties; enhance the Department's oil and gas production accountability and verification processes; and provide data necessary for identifying and targeting gas plants and companies for audits and compliance reviews.

The 2010 budget includes a reduction of $3.7 million for completed improvements to Minerals Revenue Management information technology systems. In recent years, MMS has received funding to develop interactive payment reconciliation capabilities, automate interest billings, and respond to recommendations from several evaluations. These upgrades have been completed and these one-time funds are no longer needed to maintain system operations in 2010.

Oil Spill Research Program — This program supports oil pollution research and other duties related to oil spill prevention, as authorized by the Oil Spill Pollution Act of 1990. The National Oil Spill Response Test Facility is the only one of its type in the world providing full-scale equipment and methodology testing in a safe, controlled environment. The budget proposes total funding of $6.3 million in 2010, which is equal to 2009.

Fixed Costs — Fixed costs are estimated at $6.5 million. The request funds pay and health care cost increases along with costs paid to other agencies and the Department's Working Capital Fund.

SUMMARY OF BUREAU APPROPRIATIONS

(all dollar amounts in thousands)

Comparison of 2010 Request with 2009 Enacted:

	2009 Enacted		2010 Request		Change from 2009	
	FTE	Amount	FTE	Amount	FTE	Amount
Appropriations						
Royalty and Offshore Minerals Management	1,574	157,373	1,637	174,317	+63	+16,944
Oil Spill Research	18	6,303	18	6,303	0	0
Subtotal, Direct Appropriations	1,592	163,676	1,655	180,620	+63	+16,944
Offsetting Collections	0	146,730	0	166,730	0	+20,000
Subtotal, Appropriations	1,592	310,406	1,655	347,350	+63	+36,944
Permanents and Trusts						
Mineral Leasing and Associated Payments	0	2,189,449	0	2,326,947	0	+137,498
Leases of Lands Acquired for Flood Control, Navigation, and Allied Purposes	0	3,015	0	3,173	0	+158
National Forests Funds, Payments to States	0	9,099	0	9,475	0	+376
Qualified OCS Revenues to Gulf Producing States	0	25,240	0	29,888	0	+4,648
National Petroleum Reserve - Alaska	0	7,750	0	14,300	0	+6,550
Geothermal Revenue, County Share	0	10,075	0	0	0	-10,075
Coastal Impact Assistance Program	22	250,000	22	250,000	0	0
Subtotal, Permanents and Trusts	22	2,494,628	22	2,633,783	0	+139,155
TOTAL, MINERALS MGMT. SERVICE *(w/o OC)*	**1,614**	**2,658,304**	**1,677**	**2,814,403**	**+63**	**+156,099**
TOTAL, MINERALS MGMT. SERVICE *(w/ OC)*	**1,614**	**2,805,034**	**1,677**	**2,981,133**	**+63**	**+176,099**

HIGHLIGHTS OF BUDGET CHANGES

By Appropriation Activity/Subactivity

APPROPRIATION: Royalty and Offshore Minerals Management

	2008 Actual	2009 Enacted	2010 Request	Change from 2009
Offshore Energy and Minerals Manag.				
Renewable Energy				
Appropriation	0	0	7,413	+7,413
Offsetting Collections	0	0	14,000	+14,000
Total, Renewable Energy	0	0	21,413	+21,413
Leasing and Environmental Program				
Appropriation	18,797	20,457	24,955	+4,498
Offsetting Collections	27,606	34,506	34,506	0
Total, Leasing/Environmental	46,403	54,963	59,461	+4,498
Resource Evaluation Program				
Appropriation	18,381	19,572	20,259	+687
Offsetting Collections	12,026	14,126	14,126	0
Total, Resource Evaluation Prog	30,407	33,698	34,385	+687
Regulatory Program				
Appropriation	34,720	36,219	29,212	-7,007
Offsetting Collections	21,049	21,049	31,049	+10,000
Total, Regulatory Program	55,769	57,268	60,261	+2,993
Information Management Program				
Appropriation	8,208	721	9,205	+8,484
Offsetting Collections	20,549	19,549	11,249	-8,300
Total, Info Management Program	28,757	20,270	20,454	+184
Total Offshore Energy and Minerals Mgmt.	80,106	76,969	91,044	+14,075
Lands Offsetting Collections	81,230	89,230	104,930	+15,700
Subtotal, OEMM Lands	161,336	166,199	195,974	+29,775
Minerals Revenue Management				
Compliance and Asset Management				
Appropriation	25,820	26,465	27,887	+1,422
Offsetting Collections	19,235	21,500	23,053	+1,553
Total, Compliance/Asset Mgmt	45,055	47,965	50,940	+2,975
Revenue and Operations				
Appropriation	17,367	18,719	16,883	-1,836
Offsetting Collections	19,265	20,000	21,551	+1,551
Total, Revenue and Operations	36,632	38,719	38,434	-285
Total MRM Appropriation	43,187	45,184	44,770	-414
Offsetting Collections	38,500	41,500	44,604	+3,104
Subtotal, Minerals Revenue Mgmt	81,687	86,684	89,374	+2,690
General Administration				
Executive Direction				
Appropriation	1,590	1,741	1,818	+77
Offsetting Collections	1,000	1,000	1,000	0
Total, Executive Direction	2,590	2,741	2,818	+77

	2008 Actual	2009 Enacted	2010 Request	Change from 2009
Policy and Management Improvement				
Appropriation	3,165	3,236	3,328	+92
Offsetting Collections	1,000	1,000	1,000	0
Total, Policy/Mgmt Improvement	4,165	4,236	4,328	+92
Administrative Operations				
Appropriation	15,755	16,099	17,474	+1,375
Offsetting Collections	1,555	1,555	2,555	+1,000
Total, Administrative Operations	17,310	17,654	20,029	+2,375
General Support Services				
Appropriation	10,947	14,144	15,883	+1,739
Offsetting Collections	12,445	12,445	12,641	+196
Total, General Support Services	23,392	26,589	28,524	+1,935
GA Appropriation	31,457	35,220	38,503	+3,283
Offsetting Collections	16,000	16,000	17,196	+1,196
Subtotal, General Administration	47,457	51,220	55,699	+4,479
TOTAL	290,480	304,103	341,047	+36,944
Total Appropriation	154,750	157,373	174,317	+16,944
Total Offsetting Collections	135,730	146,730	166,730	+20,000

Highlights of Budget Changes

Fixed Costs

Fixed costs for this appropriation are fully funded at a total of $6,520.

Offshore Energy and Minerals Management

Renewable Energy

The budget proposes to establish this subactivity in 2010. The MMS will transfer $5,732 from other subactivities within Offshore Energy and Minerals Management. The budget proposes an increase to pursue renewable energy development on the OCS (+$15,640). Fixed costs for this subactivity are fully funded at $41.

Leasing and Environmental Program

A net increase of $4,498 is proposed for this subactivity. An increase is proposed for the Renewable Energy program (+$6,500), the OCS Sand and Gravel program (+$1,060), and the 2007-2012 5-Year Oil and Gas Leasing program (+$1,600). The proposal transfers funding to the new Renewable Energy subactivity (-$5,344). Fixed costs for this subactivity are fully funded at $682.

Resource Evaluation Program

A net increase of $687 is proposed for this subactivity. The budget includes an increase for the 2007-2012 Five-Year Oil and Gas Leasing program ($1,100). The proposal reduces unrequested funding for the Center for Marine Resources and Environmental Technology (-$900) and transfers funding to the new Renewable Energy subactivity (-$142). Fixed costs for this subactivity are fully funded at $629.

Regulatory Program

A net increase of $2,993 is proposed for this subactivity. The budget includes an increase for the 2007-2012 Five-Year Oil and Gas Leasing program (+$2,300) and transfers funding to the new Renewable Energy subactivity (-$246). Fixed costs for this subactivity are fully funded at $939.

Minerals Revenue Management

Compliance and Asset Management

A net increase of $2,975 is proposed for this subactivity. The budget includes an increase for implementing a risk-based audit and compliance strategy (+$3,045) and reduces funding for compliance and audit recommendations provided by the Office of the Inspector General (-$1,156), which are complete. Fixed costs are fully funded at $1,086.

Revenue and Operations

A net decrease of $285 is proposed for this subactivity. The budget includes an increase for streamlining and enhancing production and gas plant accountability (+$1,730), and reduces funding for automated interest billing (-$1,360) and interactive payment reconciliation and billing (-$1,160). Fixed costs for this subactivity are fully funded at $505.

General Administration

An increase of $4,479 is proposed for this subactivity to provide leadership and program support for the renewable energy program (+$1,880) and for the 2007-2012 Five-Year Oil and Gas Leasing program (+$145). Fixed costs for this subactivity are fully funded at $2,454.

APPROPRIATION: Oil Spill Research

	2008 Actual	2009 Enacted	2010 Request	Change from 2009
TOTAL APPROPRIATION	6,303	6,303	6,303	0