

# UNITED STATES DEPARTMENT OF THE INTERIOR BUDGET JUSTIFICATIONS, F.Y. 1998



## MINERALS MANAGEMENT SERVICE

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# MINERALS MANAGEMENT SERVICE

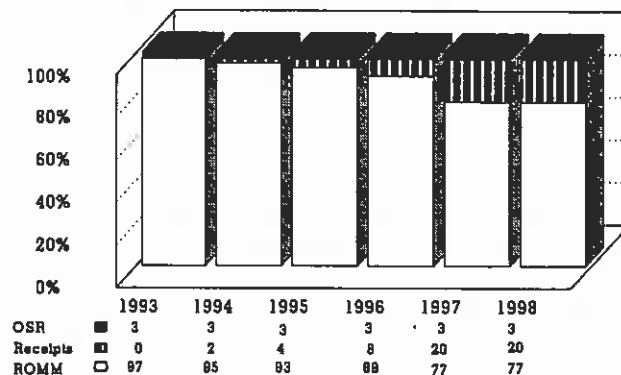
## FY 1998 PRESIDENT'S BUDGET

The Minerals Management Service (MMS) provides major fiscal and energy benefits to taxpayers, States, and the Indian community. The MMS's programs provide benefits of national significance. In FY 1998, the MMS will account for an estimated \$6.7 billion in Federal receipts, including \$5.5 billion from OCS rents, bonuses, royalties, and escrow payout and interest, and \$1.2 billion in onshore receipts. From a taxpayer's perspective, that converts to \$4.3 billion deposited to the General Fund of the Treasury to pay for Federal programs and reduce the deficit. Of local significance are \$581 million in mineral revenue payments made to onshore States, \$900 million transferred to the National Park Service for the Land and Water Conservation Fund, \$458 million credited to the Bureau of Reclamation's Reclamation Fund, \$74 million to Indian Tribes and allottees, and \$150 million transferred to the Historic Preservation Fund. Additionally, coastal States will receive \$119 million in shared mineral revenue receipts.

FY 1998 Proposed Operating Appropriations/Receipts <i>dollars in thousands</i>	
Royalty and Offshore Minerals Management	\$157,922
Receipt Authority	\$41,000
Oil Spill Research	\$6,118
<b>Total</b>	<b>\$205,040</b>

The largest portion of the MMS operating budget is obtained from the Royalty and Offshore Minerals Management Appropriation (ROMM). Funding from ROMM has been slowly declining since FY 1993 when it was over \$195 million. In order to compensate for this decline Congress has granted MMS the authority to retain a portion of OCS rental receipts. In FY 1993 and FY 1994 this authority was capped at \$5 million (because of the timing of sales no rents were collected in FY 1993 under this authority). The cap was raised to \$8.8 million in 1995, \$15.4 million in 1996, and \$41.0 million in 1997. Funds from this authority can be used only in the OCS Lands portion of the program and now account for approximately 40 percent of total OCS Lands funding (20 percent of

**MMS Operating Account Funding Sources**  
*fiscal years 1993 - 1998*



total MMS funding). The remaining source of funds for MMS operating accounts is the Oil Spill Liability Trust Fund (OSR). Funding from this source was first authorized in FY 1993. Funding from OSR is proposed to decline slightly in FY 1998.

## Budget Overview

The 1998 MMS budget is approximately \$205.0 million, roughly \$0.6 million above the 1997 enacted level of \$204.4 million. This budgetary total includes \$164.0 million in current appropriations and \$41 million in receipts, the same level of offsetting collections authority granted in 1997. In addition to the current budget, three permanent appropriations totaling \$584.6 million provide States their statutory shares of mineral leasing revenues generated on Federal lands.

Within its essentially flat operating budget, the MMS proposes an increase of approximately \$6.3 million in the OCS Lands activity, with the funding directed to programs and functions supporting MMS's most fundamental responsibilities concerning OCS activities.

Increased funding is requested in resource evaluation for geological and geophysical data acquisition and conversion costs and expanded staff. This increase is necessary to give MMS the means to more accurately evaluate bids and royalty rate relief applications to ensure the public receives a fair market value on offshore leases.

In the regulatory program, additional funding is requested to expand the inspector team and support increased helicopter usage in order to maintain existing inspection rates over a larger population of offshore facilities, many of which are located great distances from shore and thus are more time consuming and costly to inspect. Public support for the offshore program is contingent upon a vigilant MMS safety and environmental regime. Other increases in the regulatory program are needed for MMS to keep up with the increased workflow of document and application reviews and permitting that are required in the post-lease process, thereby sparing industry significant costs from unreasonable delays in the process.

An increase is requested in the Leasing and Environmental Program to support environmental studies focused on the environmental risks and issues associated with deep water operations. The MMS needs this body of knowledge to evaluate effectively and accurately operating plans and permits for deep water facilities as industry moves aggressively into deeper regions of the Gulf.

The MMS budget request proposes reductions of \$3.7 million in the Royalty Management Program, \$1.6 million in General Administration and \$0.3 million in the Oil Spill Research account. In proposing these reductions to offset the increases in the OCS Lands program, the MMS is targeting its scarce resources to those activities which will yield the greatest economic and social benefits. The MMS will continue to identify more efficient methods of doing business to mitigate the impact of the proposed reductions on its stakeholders.

## MMS 2000

Since 1992, MMS, like many Government agencies, has had to adjust to increased demands for services while undergoing reductions in both staff and funding. In order to operate in this new environment, MMS has been continually reevaluating how it goes about its business. In FY 1995 MMS initiated a process which evaluated every part of the organization to see if it could be streamlined or improved to better serve our constituent's needs. These processes resulted in MMS 2000, a drastic reorganization of the entire bureau. The plan received Congressional approval in November 1996, and it was implemented in January 1997.

MMS 2000 was developed with input from all levels of MMS. It is designed to result in a more efficient and effective organization, to make MMS more responsive to its overall mission, and to move the MMS of today toward the MMS envisioned in its Strategic Plan. The results of the reorganization will include reducing management layers and providing increased opportunities for the delegation of decisionmaking to lower levels. MMS 2000 will be accomplished within the existing allocated FTE ceiling and budget.

## Minerals Management Service

The MMS was created based on recommendations by the Linowes Commission, an independent commission tasked with studying alleged improprieties in the Nation's royalty collection programs and alleged oil thefts of several hundred million dollars a year. The Commission recognized that the *proper fiscal accountability and management of the public's mineral resources necessitates an independent agency devoted solely to minerals management.*

Consistent with the recommendations of the Linowes Commission, as well as numerous other commissions and panels, the MMS was created on January 19, 1982. The MMS consolidated the formerly fragmented royalty management functions of the Department, as well as all Departmental offshore leasing and lease management functions and elevated those functions to a higher level of management focus and oversight.

Over the past decade, MMS has developed systems, policies, and procedures to meet the mandates of the Federal Oil and Gas Royalty Management Act, the OCS Lands Act, and other statutes, as well as the expectations of oversight organizations and its constituents. It has achieved significant program improvements in the areas of mineral revenue accounting and compliance, and offshore policies. MMS collects and disburses *\$6.7 billion annually in mineral revenues* and oversees over 25 percent and 15 percent of our Nation's natural gas and oil production, respectively.

### Mission

MMS's mission statement reflects the recommendations of the Commission and its constituents:

- ☛ The MMS's primary responsibilities are to manage the mineral resources on the Outer Continental Shelf (OCS) in an environmentally sound and safe manner and to timely collect, verify, and distribute mineral revenues from Federal and Indian lands.
- ☛ The MMS strives to fulfill its responsibilities operating under the general guiding principles of: (1) being responsive to the public's concerns and interests by maintaining a dialogue with all potentially affected parties; and (2) carrying out its program with an emphasis on working to enhance the quality of life for all Americans.

### Major Activities

The MMS has three major budget activities: the Royalty Management Program (RMP); the OCS Lands Program (which is funded through the Royalty and Offshore Minerals Management (ROMM) appropriation and the Oil Spill Research appropriations) and General Administration.

***Royalty Management Program (RMP)***

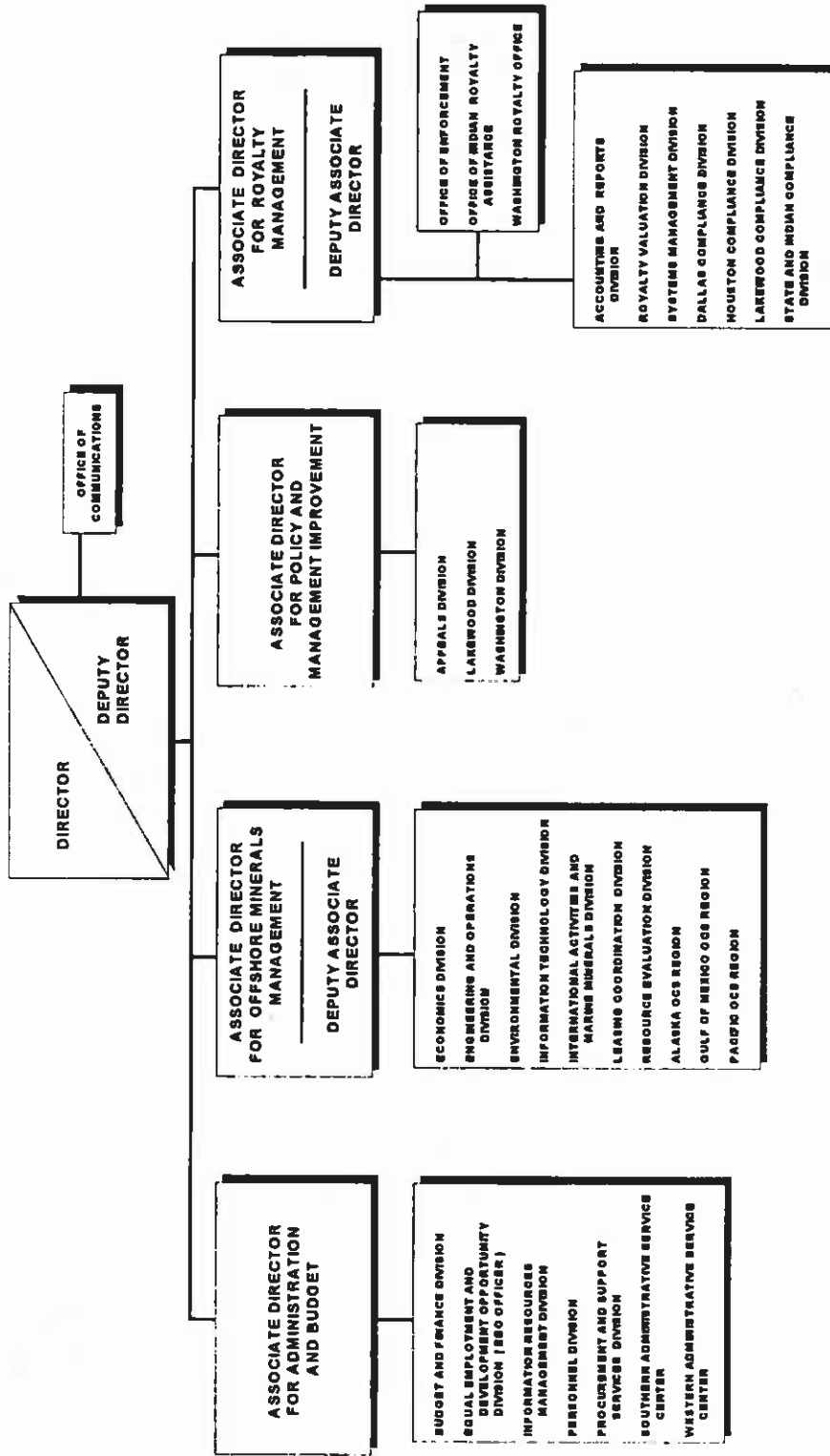
The Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA) mandates that “the Secretary shall establish a comprehensive inspection, collection, and fiscal and production accounting and auditing system to provide the capability to accurately determine oil and gas royalties.”

Over the years, RMP has fulfilled its original mandate by establishing accounting and production verification systems, an audit strategy, and compliance/enforcement programs. The RMP is responsible for timely and accurate collecting and disbursing of mineral revenues from all Federal onshore and OCS mineral leases, and many producing Indian leases. The program is a clearinghouse for the administration, collection, and distribution of a major source of revenue for the Federal Government, Indian Tribes and allottees, and those States that receive a statutory share of Federal mineral revenues.

Since 1982, RMP has disbursed over \$81 billion in Federal onshore, OCS, and Indian mineral revenues. Of that, RMP audit and compliance verification programs generated over \$1.8 billion with over \$562 million coming in the last two years. These programs have rates of return ranging from 6:1 to 13:1.

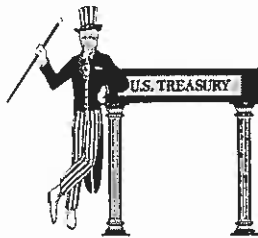


# MINERALS MANAGEMENT SERVICE



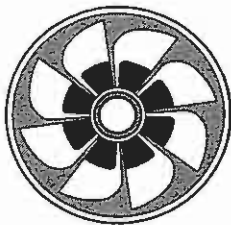
# MMS

## Where the Money Goes



MMS operations will contribute approximately \$4.3 billion to the general fund of the U.S. Treasury. Approximately two-thirds of this amount comes from OCS operations.

MMS will collect and disburse an estimated \$700 million to 38 states. Wyoming receives the largest single share, over \$200 million.



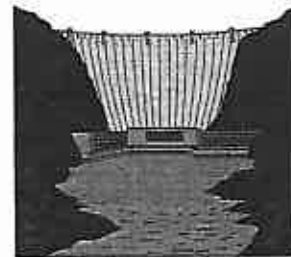
MMS will disburse approximately \$74 million to Indian tribes and allottees. MMS also will monitor the transfer of approximately \$71 million from royalty payors directly to Tribes.

Receipts (\$900 million) from Outer Continental Shelf natural gas and oil operations provide virtually all of the funding for the Land and Water Conservation Fund.



The \$150 million in receipts from Outer Continental Shelf oil and gas operations is the sole source of funding for the National Historic Preservation Fund.

In FY 1998 receipts from MMS activities will contribute an estimated \$458 million to the Bureau of Reclamation's Reclamation Fund.



### ***Outer Continental Shelf Lands (OCS) Program***

As manager of the Nation's OCS mineral resources, MMS's long-term strategy for the OCS is to assess those resources to determine if they can be developed in an environmentally-sound manner and then to offer the appropriate areas for lease. This long-term strategy affects the way MMS manages OCS resources and the way MMS faces the challenges of maintaining a balance between providing energy benefits and protecting the Nation's marine environment. Since leasing began on the OCS in 1954, over 120 lease sales have been conducted, generating over \$113 billion in rents, bonuses, and royalties. An emerging program area is the marine minerals program. Under recent legislation, States and local governments can acquire sand and gravel resources for beach restoration and erosion control through negotiated agreements rather than competitive lease arrangements. Industry's response to the new lease provisions of P.L. 104-58, OCS Deepwater Royalty Rate Relief Act has renewed interest in activities associated with the discovery of and production of natural gas and oil in the deepest of the GOM.

### ***General Administration***

General Administration provides management, executive and administrative direction and support to all MMS programs. Included are such essential functions as budget, finance, personnel, contract negotiations, property management, etc. With input from local and State governments, Federal Bureaus, and other constituent groups, Administration provides policy, guidance, and evaluation to ensure the most efficient, cost-beneficial management possible of all MMS program areas. Additionally, this program area provides Bureau-wide infrastructural support of all MMS programs (i.e. rent, telephone services, unemployment compensation, etc.).

## **MMS Constituents**

As collector, auditor, and disbursement agent for the Nation's mineral revenues and as manager of the OCS natural gas and oil program, the MMS has an extensive list of constituents.

In the broadest sense, every American taxpayer is a constituent of MMS. The OCS program not only manages the production of significant energy resources but generates an average \$2-\$3 billion annually that goes into the Federal Treasury. The revenues generated from MMS activities help reduce the size of the Federal deficit.

The OCS Program has many constituencies. Examples include:

- ☛ coastal States and communities;
- ☛ national and local level environmental groups;
- ☛ other nations;
- ☛ State university systems and research organizations;
- ☛ industry representatives in the fields of natural gas, oil and solid minerals;
- ☛ fisheries; and
- ☛ several miscellaneous industrial groups such as utilities, transportation, plastics, chemicals, and agriculture.

The constituencies for the RMP Program include:

- ☛ 38 states receiving royalty revenue;

## General Statement

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- ☞ 42 Indian Tribes, of which eight receive in excess of \$1,000,000 annually;
- ☞ Western States Land Commissioners;
- ☞ Indian Allottees and their associations; and
- ☞ oil, gas, and solid minerals industry.

## Streamlining/Reinvention Efforts

Reductions in programmatic activities, streamlining initiatives, and Executive Orders have caused administrative support functions to be scrutinized for further opportunities for improvement.

While developing the MMS's Streamlining Plan, MMS applied four philosophical tests to its operations. These tests are now routinely applied to all functions. These "litmus" tests are:

1. Does the function need to be done? If it does, would the function be more appropriately placed at a programmatic level (if administrative) or lower operating level (if programmatic), and if so, is it feasible to do so?
2. Can existing computing technology be harnessed and/or processes be re-engineered to improve efficiency?
3. Are the servicing ratios appropriate, and can a larger aggregation of these services be performed with increased economies?
4. Are MMS customers' needs and concerns being properly addressed within existing operations? If not, what can MMS do to accommodate those requirements?

The following are examples of initiatives, organized by the above litmus test criteria, which demonstrate how MMS is making significant inroads in improving customer service, cutting red tape, and reshaping a Government bureau to work better and cost less.

### 1. Is the function at the appropriate programmatic or administrative level?

- ✓ Financial plan development is labor intensive and extremely dynamic during execution, frequently requiring reallocation of resources within object classes or offices. An automated budget module currently being utilized by the Office of Surface Mining, was tested by MMS in FY 1996. When this program is fully implemented in FY 1997 it will enable program offices, with electronic concurrence from the Budget Office, to change financial plans as often as necessary within the confines of reprogramming requirements. Coupled with the budget module MMS has tested and expects to have in place in FY 1997 computer software that will allow program staff to query the MMS financial database in a user-friendly manner.
- ✓ Expanded use of the purchase card was authorized in the Federal Acquisition Streamlining Act. Purchases, utilizing Government-wide commercial purchase cards, are being utilized by program personnel to acquire required supplies and services. This will eliminate several paperwork requirements, allowing program officials to dedicate more of their time toward programmatic issues and less on justifying the need for certain routine items.

## 2. Efficiencies through ADP technology and process reengineering

- ✓ In September 1995 MMS established the MMS home page on the Internet (WWW.MMS.GOV) to provide timely information to the public about MMS activities. Information available on the home page includes: press releases; *Federal Register* notices; statistical data; oil and gas resource information; and abstracts and complete text of environmental studies conducted by MMS. The MMS home page also allows the user to see the name of the MMS employee who is responsible for each function MMS performs and to send E-mail directly to the employee. In addition, MMS has also established an Intranet (MMS PIPELINE) to more efficiently manage the flow of information inside the bureau. The initial version of the site went online on January 15, 1997, and will undergo continuous improvement and expansion, primarily in response to employee feedback.
- ✓ With the introduction of the Geologic Interpretive Tools (GIT) component of MMS's Technical Information Management System (TIMS), MMS for the first time was given technical parity with the oil and gas industry in terms of evaluating potential oil and gas resources. The GIT allows MMS to be more efficient in its work by automating what was previously a labor intensive manual operation. In addition, the parity that GIT gives MMS has and will continue to allow MMS to receive fair market value for public resources by commanding higher initial bonus bids, reducing the number of bid rejections and accepting acceptable bids quicker.
- ✓ In April 1996, prior to the passage of RSFA, the Associate Director for RMP initiated the Compliance Reengineering Project. To accomplish this project, RMP began long-range planning to formulate a design concept for the future compliance strategy and process. We are also generating software to support the reengineering project, focusing on technical and statistical support. The project includes:
  - ☞ reviewing current compliance processes to understand the existing work environment
  - ☞ examining customer needs and expectations through existing customer feedback studies and individual contacts
  - ☞ benchmarking best practices of industry, business, other Federal agencies, and States
  - ☞ developing a reengineering software "platform" (a data processing base to test alternative compliance approaches)
  - ☞ developing a compliance tracking system and lease history software module to help senior managers direct RMP and STRAC compliance efforts

When the Federal Oil and Gas Royalty Simplification and Fairness Act became law, RMP expanded the reengineering project program-wide to encompass the requirements of RSFA. The goal of the project is to define and implement the best and most cost-effective strategy to improve timeliness and accuracy of mineral lease revenue payments. We formalized this initiative by creating a Program Reengineering Office in January 1997 to manage and coordinate RSFA program activities. This office will lead RMP to:

- ☞ Implement systems and operational changes related to RSFA.
- ☞ Evaluate royalty management processes and automated systems to meet future requirements.

- ☞ Develop the best and most cost-effective operational strategies and organizational structures for the future.
- ☞ Implement short- and long-term systems and process changes.

RMP has identified and evaluated most of the significant impact areas of RSFA and has outlined technical solutions. We anticipate addressing all of the impact areas and deciding on courses of action in 1997.

This new office will focus on long-range plans to substantially improve timely and accurate reporting, payment, and verification of Federal and Indian mineral lease revenues. It will communicate and coordinate with all customers, stakeholders, and other interested parties to gain consensus on key decisions and ensure continued participation and support.

For future communications and updates on reengineering activities, we are constructing Reengineering areas on MMS's internet and intranet Homepages. We also developed an electronic bulletin board within RMP. We are now providing updates to RMP employees and to State and Tribal Royalty Audit Committee representatives.

- ✓ To meet the requirements of Executive Order 12866, MMS has developed a plan for reviewing and either reducing or improving external regulations. Part of the plan calls for asking the public to tell MMS which regulations need revision or are candidates for elimination. The MMS intends to make annual reviews of its significant regulations.
- ✓ The MMS has encouraged and is using negotiated rulemaking to write regulations that demonstrate consensus among affected parties. Revisions to the Federal and Indian Gas Valuation regulations were developed using this process.
- ✓ MMS delegated decisions for routine appeals to RMP divisions. This allows the Appeals Division to focus on more complicated appeals issues and allows the routine appeals to be resolved faster.

To standardize the procedures for the delegated authority and implement RSFA requirement, MMS published a proposed rule on administrative appeals in October 1996. The comment period has been extended to March 1997 to permit Royalty Policy Committee input.

The Royalty Simplification and Fairness Act now requires that all appeals are resolved by the Department within 33 months. It also requires that MMS hold settlement meetings with respect to each appeal. This will likely increase MMS workload.

Currently, MMS is piloting several procedures to expedite the processing time of appeals and to reduce expenses. MMS also is expanding its use of negotiated settlements and experimenting with other Alternative Dispute Resolution techniques.

- ✓ Improved RMP systems and processes have allowed RMP to redirect staff from non-revenue generating functions (certain error correction, database maintenance, and accounting functions) to revenue generating functions (audit and verification application programs).
- ✓ RMP is working to simplify required royalty reporting forms and RMP's database to determine how to ease reporting burdens and achieve savings while ensuring the integrity of the data and meeting user needs.

- ✓ RMP implemented a new rental/royalty/assessment payment system utilizing the Automated Clearing House in August 1996. This program costs RMP payors less than the widely used FEDWIRE payment system.
- ✓ RMP will be assessing the feasibility and implementing various recommendations from the Royalty Policy Committee to streamline reporting and reduce data collection.
- ✓ RMP will realize over \$1 million in savings in FY 1998 through its highly successful operator reconciliation project and elimination of contractor error correction.
- ✓ Increased use of Electronic Data Interchange (EDI) and Funds Transfer (EFT) to implement the exchange of all reports, data, and payments will reduce certain errors and achieve cost-savings. Based on its early successes in the implementation of EDI, MMS has over 130 reporters submitting royalty reports and over 110 reporters submitting production reports each month through EDI methods. Today 72 percent of royalty lines are received electronically. To date, EDI has demonstrated six fold error rate reductions over paper reporting. The continued goal of this effort is to receive 100 percent of incoming reports electronically from those companies capable of electronic submissions by the end of 1997.
- ✓ The recent implementation of MMS 2000 reduced headquarters oversight and control and resulted in a more focused OCS program. This reorganization streamlined and completed the Offshore headquarters downsizing that began in FY 1993. From the National Performance Review baseline of 261 FTE on October 17, 1992, the MMS 2000 headquarters FTE target of 190 represents a reduction of 71 FTE throughout Offshore headquarters organizations.
- ✓ MMS's office of Administration and Budget is now utilizing electronic commerce for various activities related to procuring supplies and services, paying bills, collecting amounts due the government, and reimbursing employees for travel and other expenses. One example of this is MMS's use of the Internet to pay universities for work done under cooperative agreements.
- ✓ In an effort to speed up the process of obtaining contracted services, MMS is experimenting with an oral presentation solicitation process. MMS's initial attempt using this type of format was praised by industry. MMS feels this format could reduce, in some cases by two thirds, the time necessary in awarding contracts.
- ✓ Property Management. Initial implementation of the property management system is expected in FY 1997. Redesign to provide full integration with other existing subsystems will be necessary in FY 1998. These systems will have an automated interface with the Interior Department Electronic Acquisition System (IDEAS), the MMS financial system, and the Federal Personnel/Payroll System. This will eliminate redundancy and reduce program costs, while standardizing property management automation and reducing regulations.
- ✓ FedSelect. FedSelect is a cash management initiative developed by the Treasury Department which allows MMS to issue checks drawn against MMS's Treasury accounts for payments normally paid from the imprest fund. MMS initiated FedSelect as a pilot project at its Herndon, VA location during FY 1996 and plans to institute the program MMS-wide in FY 1997.

### **3. Can savings be achieved through appropriate servicing ratios?**

- ✓ The concept of shared administrative services is being tested with a clustering agreement between MMS and the U.S. Geological Survey (USGS). At present the USGS and the Bureau of Reclamation are

## General Statement

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providing MMS with payroll data services, and MMS is providing personnel services to the Office of the Secretary under a franchise agreement.

- ✓ There is a cooperative agreement between the Office of the Secretary, the Office of Surface Mining, and the Minerals Management Service to develop standard Advanced Budget Accounting/Control and Information System (ABACIS) financial management procedures and operations.

#### **4. Are MMS's customers needs and concerns being met and incorporated into our operations?**

- ✓ The Department created a tri-agency Farmington Indian Minerals Office (FIMO) in 1992 to coordinate the activities of the Bureau of Indian Affairs, the Bureau of Land Management, and MMS. This office offered one-stop shopping for Indian mineral owners. In 1994, the Department of the Interior, under the Vice President's National Performance Review initiative, began a study on how to improve the processes that provide mineral and other related services to individual Indian mineral owners in the Southwest's Four Corners region. As a result of this review, the tri-agency Indian Minerals Steering Committee endorsed a 2- to 3-year Department pilot project implementing most of the NPR recommendations.

The pilot began operation in December 1996, and will differ from the previous co-location concept as follows:

- ☞ The FIMO will now be under a single line of authority, thereby eliminating bureaucratic barriers and encouraging the reengineering of processes and services from a Departmental, rather than bureau by bureau, perspective.
- ☞ Indian mineral management functions that cross bureau lines will now be consolidated under a single official with authority to modify processes to meet customer needs.
- ☞ Costs will be shared by the participating Bureaus, and the Pilot Director reports to the Indian Minerals Steering Committee, the DOI tri-bureau oversight group that sponsored the NPR laboratory.
- ✓ The MMS led the way as the first Bureau in the Department to obtain clearance from OMB to conduct customer satisfaction surveys. The RMP conducted a customer satisfaction survey in 1996. A report was published on September 30 comparing the results of this survey with one conducted in 1994 and recommending ways to improve how we identify customer needs.
- ✓ MMS's State and Tribal customers required fast and accurate access to MMS's information to support their expanding role in royalty audit functions. To support these growing requirements, MMS extended its network and full online services to all of its State and Tribal customers that perform joint audits with MMS. The new services allow States and Tribes online access to: all MMS's information stored on its mainframe and database servers; all mainframe reports stored on optical disk; electronic mail; and the Internet/Intranet. They can now print RMP mainframe reports directly to network printers at their site. Prior to this expansion reports and data had to be mailed to States and Tribes.
- ✓ The Royalty Policy Committee, a component of the Minerals Management Advisory Board, provides policy advice to the Department on management of its discretionary functions related to Federal and Indian mineral leases and revenues. To accomplish this, the Committee reviews and comments on royalty management and other mineral related policies. The Royalty Policy Committee has also established



subcommittees to study and recommend improvements to appeals processing, audit collections, and royalty and production reporting policies and procedures. The Committee serves as a sounding board to convey views and advice representing mineral lessees, lease operators, revenue payors, revenue recipients, governmental agencies, Indian owners, and the interested public.

- ✓ RMP's utilizes multiconstituent royalty policy teams when dealing with contentious royalty issues such as the Allowance Study Group and the Federal and Indian Gas Valuation Negotiated Rulemaking Committees. RMP was the first bureau in the Department to include non-Government members on its NPR laboratory teams.
- ✓ The California Offshore Oil and Gas Energy Resources (COOGER) study is an attempt to foster better communications and cooperation between MMS and the coastal counties in southern California. This joint Federal/county/industry planning project addresses present and future oil and gas energy development from existing, but not developed leases offshore San Luis Obispo, Santa Barbara, and Ventura. Although not expected to be completed until the end of FY 1997, the project has already had a substantial positive impact in MMS's relationship with the three coastal counties. This new relationship has allowed MMS to approximately double OCS oil production from offshore California. This in turn resulted in millions of additional dollars in royalties for the U.S. treasury.

By having State and local governments sit down with energy industry representatives and MMS, we have helped to facilitate better understanding of all the issues and concerns of the affected parties. COOGER was recognized by the Los Angeles Federal Executive Board with a "Heroes of Reinvention" award for this initiative.

- ✓ MMS has worked to facilitate agreements with commercial fishermen and the oil and gas industry in the Pacific OCS Region. Examples include industry funded compensation programs for commercial fishermen who were precluded from fishing in certain areas of the Santa Barbara Channel during Exxon's Offshore Storage and Treatment Abandonment Project and Santa Ynez Unit seismic survey.

## Congressional Interests and Concerns

The Appropriation Subcommittee on Interior and Related Agencies has, through report language, requested the MMS to address certain issues. A status of these requests or a response follows.

### Oil Pollution Act Financial Responsibility

Developing regulations to implement the oil spill financial responsibility requirements of the Oil Pollution Act of 1990.

- ☛ The Department of the Interior's Solicitor issued a formal opinion on November 29, 1994, which held that the MMS has little flexibility in interpreting which facilities are covered by the OPA oil spill financial responsibility requirements, how much financial responsibility must be evidenced, and whether exemptions are allowable for minimum risk facilities.
- ☛ During 1995, the MMS worked with the Secretary's OCS Policy Committee to develop options for resolving several issues related to implementing the OPA financial responsibility provisions for offshore facilities. The Policy Committee advised the Secretary that changes to OPA would be needed to resolve these issues. The results of this effort were used by the Congress as it considered amendments to OPA.
- ☛ In October, 1996, the Congress enacted the Coast Guard Authorization Act, and amended OPA to address these issues. The OPA now extends the requirement for oil spill financial responsibility into State coastal waters, including bays and estuaries. The amendments also require that the Secretary promulgate regulations within 1 year to establish a process for the orderly and expeditious presentation and resolution of claims, and effectuate the purposes of the Act.
- ☛ The MMS will publish a proposed rule in early 1997, which will include provisions for filing claims. There was substantial public comment supporting the proposed rule. The MMS is preparing responses to those comments as part of the final rule. In the interim, the MMS will continue, as provided by OPA, to implement the offshore facility financial responsibility regulations that were established pursuant to the OCSLA.

### Oil Pollution Act Inspection in State Waters

The OPA 90 extends MMS inspection jurisdiction to offshore platforms in State coastal waters. In meeting its OPA obligations, MMS is working closely with coastal States to minimize duplication and leverage resources. Memoranda of Understanding (MOUs) with Texas, Louisiana, California, and Alaska have already been executed. The MMS is also working with the States to coordinate programs and minimize MMS regulation of State water activities. A discussion of MMS oil spill research is provided under the Oil Spill Research Section.

### Royalty Simplification and Fairness Act

On August 13, 1996, the President signed into law the Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (RSFA). We are developing and executing a detailed plan for implementing the RSFA changes within the time frames required by the statute. This legislation provides:

- ☛ The framework for additional delegations of royalty functions to States, subject to Secretarial discretion;
- ☛ That enforcement actions will include notification of all potentially affected operating rights owners;

- ☛ A 7-year statute of limitations for all royalty collections and a 6-year limit on adjustments to provide certainty for RMP and royalty payors;
- ☛ A 33-month limit for resolving all administrative appeals;
- ☛ Financial equity for industry by requiring Federal payment of interest on industry overpayments;
- ☛ That MMS conduct cost effective audit and collection activities;
- ☛ Administrative relief to encourage continued oil and gas production from marginal properties; and
- ☛ Repeal of the outdated offshore refund requirements.

MMS must execute many systems and operational changes to meet the requirements of RSFA beginning in 1997. Implementation will also require a host of regulatory changes, involving a large-scale coordinated effort with States, industry, and other DOI agencies.

As we implement RSFA, we are committed to developing the best and most cost-effective operational strategies and organizational structures for the future. We will modify current automated systems and reporting processes within our FY 1998 budget request. We are in the process of defining future needs and the associated funding levels.

### **Deep Water Royalty Relief Act**

During FY 1996, implementation of the OCS Deep Water Royalty Relief Act (P.L. 104-58, November 28, 1995) (DWRRA), which amended the OCSLA, generated some major changes in the OCS program. Two sets of regulations were promulgated to address the dual mandates of the DWRRA: (1) All lease sales held during the next 5 years must use a bidding system that provides for royalty suspensions for all tracts located in water depths of 200 meters or more in the GOM west of 87 degrees, 20 minutes west longitude. (2) Implementation of royalty suspensions on existing leases in the same areas and water depths as in (1) above after submission of an application and a determination that new production would be uneconomic from such leases or unit without royalty relief.

Industry's response to the new lease provisions of P.L. 104-58 played a significant role in generating the two largest lease sales, measured in tracts receiving bids and total number of bids, in the history of the OCS leasing program. The 1996 Central and Western Gulf of Mexico lease sales added 904 new leases in deep water areas which had high bids in excess of \$490 million. The industry response to the regulations authorizing royalty suspensions for uneconomic production from existing leases was far more modest. Though extensive comments were received, only one application for deepwater royalty relief was received shortly after the end of FY 1996. The comments and the absence of applications indicate that industry would prefer to await the final rule, which is expected in late FY 1997.

### **Crude Oil Valuation**

The State of California and the City of Long Beach began litigation in 1975 against seven major integrated oil companies. They alleged that these major companies had conspired to keep posted prices low and thus damaged the State and City because oil revenues from their State leases depended on posted prices. In the 1980's and 1990's, MMS first worked closely with State officials and, later, with representatives from the Departments of Commerce, Energy, and Justice to evaluate the possibility of crude oil undervaluation. Their report, issued in May 1996, suggested a significant potential for undervaluation and, consequently, for underpayment of royalties.

On July 18, 1996, MMS announced its plan to pursue collection of unpaid royalties due as a result of crude oil underpayments in California for the period January 1, 1980, to the present. For California, this will cover nearly

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97 percent of the Federal production onshore and offshore during the period. MMS estimates the total underpayments in California, including interest, to be approximately \$440 million. On August 22, 1996, MMS announced it had begun implementing a similar plan for Federal and Indian leases in other States and offshore. Nationwide, undervaluation is thought to have begun in the late 1980's and to involve less in underpayments than may be found in California.

California - By October 1996, records were subpoenaed from 8 companies that had failed to provide records requested by MMS auditors. By the end of December, 1996, MMS had issued bills to companies totaling \$385 million for underpaid royalties and interest, primarily for the period 1980-1988. Audits of the remaining companies and periods should be complete by July 1997, assuming companies provide the needed records timely.

Nationwide - The initial focus will be on the 125 companies accounting for 86 percent of the 1991 - 1995 oil revenue. Work will be carried out in the context of routine MMS audit activity. MMS is coordinating this effort with the 10 States and 8 Tribes which have audit agreements under FOGRMA. MMS will also use findings from current audits and contract consultants to identify those areas and time periods outside California where underpayments due to this issue are likely to exist and may result in collections.

RMP expects collection from bills issued in FY 1997 to be delayed due to litigation.

### **Royalty Annual Audit Plan and Quarterly Reports**

The Annual Audit Plan, as in the past, is being combined with the first quarterly report which will be submitted to Congress in March 1997. Additionally, information on FY 1997 and 1998 audit activities is detailed in the RMP budget narrative.

### **Office of Communications and Government Affairs**

The Congress requested a detailed personnel review to ensure that the size of the office and grades of the positions is justified. The office was reorganized in May 1994. Since that time, staffing has been reduced from 17 FTE to 10 FTE. As vacancies occur, position grade levels will be reviewed.

### **Offshore Management Support and Program Services Office**

Last year Congress directed MMS to breakout these two support organizations into separate subactivities. MMS has complied with this directive and a full discussion of these two organizations can be found in the OCS Lands and Royalty Management sections of this document. Under MMS 2000 the Offshore Management Support Office has been abolished, with functions being transferred to other areas within the Offshore Program. A full explanation of the dissolution of OMS is presented in the OCS section.

### **Renewed Leasing Interest in the GOM**

Renewed industry activity in the GOMR will create increased workloads which cannot be met with existing and redirected resources. During FY 1996, alone, the number of active leases in the GOMR increased by 25 percent. Due to better technology, new discoveries, and the passage of the Deepwater Royalty Relief Act, there has been a renewed interest in deepwater leasing, as the results of Central GOM Sale 157 attest. This was the largest lease sale ever held in the GOM in terms of number of tracts bid upon and resulted in the addition of over 400 deepwater leases. The September 1996 sale in the Western Gulf of Mexico was the first Western Gulf sale with provisions for deepwater royalty relief and resulted in the addition of over 600 leases (both deep and shallow water). From FY 1996 through FY 1998, active leases in the GOMR are projected to increase by approximately 43 percent (beginning of FY 1996 compared to end of FY 1998).

However, both major and small companies have also shown increasingly renewed interest in shallow areas of the Gulf. Both of these trends translate into immediate impact on the GOMR's workload. To protect the public interest, industry plans must be reviewed to ensure environmental protection and safety, and to avoid conflict with other ocean users; and operations must be inspected. Moreover, to assure that the public receives fair market value for the leasing of oil and gas resources, significant amounts of new geophysical data must be acquired. To accurately value the public resources and practice good resource conservation during production, a major correction in historical well data is needed.

The new deepwater discoveries are 100-200 miles from shore base, and flight times may be as much as four hours round trip. (The average distance and flight time, to the more than 3,800 platforms presently operating in the Gulf, is approximately 80 miles from shore base and 45-50 minutes of flight time.) Deepwater facilities will be larger and more complex, taking longer to inspect than the average shallower water structures and, thus, requiring more trips to complete inspections, since 4-5 hours per day are spent in transit. Additional training will be required for both inspectors and engineers on new production systems, new technologies for deepwater drilling and production, and new procedures for inspections and accident investigations.

Starting in 1997, and increasing steadily in the outyears, these new trends in leasing will result in both increased exploration and development workloads on MMS. Each development plan (and especially those in deepwater) will require even more focused environmental analysis and complex technical review, platform approval, visits to construction yards for on-site inspections, and inspections of the safety of development operations. Increased emphasis on deepwater development and the associated innovative technology for drilling and production, as well as the need to address engineering, safety, and unique supplemental bonding issues, will present challenges to the GOM Region's regulatory function.

The increased complexity of deepwater structures will require longer inspection periods and transit flight times, creating a need to bolster the Regional inspection force and helicopter fleet. The number of inspections conducted by the Region is expected to increase by 20 percent by FY 1998. Between 1992 and 1995, the number of exploration plan applications increased by 70 percent. The increased number of applications and reviews is largely attributed to the industry's renewed interest in the Gulf of Mexico and its deepwater frontier. Based on this interest, it is anticipated that the number of exploration and development plans will continue to rise.

Between 1993 and 1995, the number and complexity of pipeline right-of-way and installation applications increased by more than 20 percent. Due to the increased number of active leases and the fact that many of the deepwater finds are located in areas where there is no existing pipeline infrastructure, future pipeline applications are also anticipated to increase in numbers, as well as complexity.

It is projected that this renewed activity in the Gulf of Mexico will raise current GOM oil production of 940,000 barrels per day to about 1.7 million barrels per day over the next 6 years.

### **Environmental Studies Program Cooperation with USGS**

In keeping with the desire to control cost and minimize duplication of Federal programs, the MMS and the USGS continue to work cooperatively to identify complementary environmental studies plans. In a September 1994, USGS-MMS coordination meeting, scientists from the USGS and the MMS were tasked with developing a process that would identify MMS environmental research needs which USGS could conduct with in-house expertise in a cost-effective manner. One of the main objectives of the process is to ensure that the USGS has ample opportunity to provide research expertise before MMS looks to outside sources for research. A "Schedule of Events," delineating a forward looking 2-year planning process, was developed by USGS and MMS scientific staff for

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interaction and cooperation on environmental studies. In addition, the process includes steps to ensure that MMS also will be apprized of USGS research plans in a timely fashion. This approach facilitates opportunities for identifying research areas of mutual interest for cooperative, cost-sharing ventures.

The first 2-year cycle was initiated in FY 1995 and has led to identification of studies for conduct in FY 1997. MMS and USGS have worked very closely to identify potential studies which USGS will conduct for MMS as well as to identify planned or ongoing USGS studies that could be enhanced or modified to provide information of use to MMS. One benefit already achieved by these cooperative efforts has been the identification of satellite data analysis expertise in the USGS St. Petersburg, Florida laboratory that will aid MMS studies. MMS and USGS developed an interagency agreement to utilize that expertise for a northeast GOM satellite oceanography study in FY 1995. This effort was expanded in FY 1996, and we will continue to build upon this relationship well into the future.

## Budget Overview

The FY 1998 budget for the MMS is \$789.6 million. This includes permanent appropriations (\$584.6 million), which provide for the sharing of mineral leasing receipts with the States, revenue receipts (\$41.0 million), and current appropriations (\$164.0 million), which provides for the operation of the Bureau. For current appropriations and revenue receipts, the request of \$205.0 million is \$645,000 more than the FY 1997 enacted level. Current authority will fund two appropriations, the Royalty and Offshore Minerals Management and Oil Spill Research accounts. Three permanent appropriations, totaling \$584.6 million, reflect an increase of \$34.5 million over FY 1997 levels. The increase reflects a projected growth in royalties primarily from oil and gas.

### **Royalty and Offshore Minerals Management Appropriation**

The President's request for appropriations in this account is \$157.9 million, an increase of \$967,000 from the FY 1997 level. Revenue receipts of \$41.0 million are not changed from FY 1997. Thus the total ROMM obligational authority would be \$198.9 million

#### ***OCS Lands Program***

The MMS continues to stress the responsible development of the Nation's offshore energy resources. Oil and natural gas from the Federal OCS represents a significant and increasing share of U.S. production. Currently, production from the Federal OCS accounts for over 25 percent of total U.S. natural gas production and 15 percent of total U.S. oil production. Recent discoveries in the Gulf of Mexico (deep water) along with declining onshore production will result in the Federal OCS becoming an even more important source of oil and gas in the future. The total budget request of \$60.4 million includes a \$6.3 million requested increase primarily associated with the dramatic increase in leasing in the Gulf of Mexico. It is estimated that current and projected leasing in the Gulf of Mexico over the next several years could result in several hundred million dollars annually for the Federal treasury.

#### ***Royalty Management Program***

The Royalty Management Program (RMP) continues to place top priority on the accurate and timely collection and processing of mineral revenues on behalf of Indian Tribes, allottees, States and the U.S. Treasury. RMP's FY 1998 budget request of \$66.2 million will provide benefits of local significance in the form of ADP improvements which will allow RMP, State, and Tribal royalty data systems users easier access to RMP data for their individual analytical needs, increased cooperative audit program activities for States and Tribes, and training and other assistance to encourage Indian Tribes in achieving self determination and governance capabilities of their royalty resources. The request represents a decrease of \$3.7 million from the FY 1997 enacted amount. The proposed reductions are to be achieved through buyouts, reduction in the accounting services contract, and LAN improvements that were funded in FY 1997.

#### ***General Administration***

This activity will be funded at \$31.3 million. A decrease of \$1.6 million is being proposed. These savings can be achieved through efficiencies gained with implementation of MMS 2000 and reductions from one time cyclic hardware and software upgrading.

## Oil Spill Research Appropriation

The FY 1998 request for this appropriation is \$6.118 million, a decrease of \$322,000 from FY 1997 enacted level.

### Highlights of FY 1998 Request

Comparison of FY 1998 Request with FY 1997 Enacted <i>dollars in thousands</i>				
		FY 1997 Enacted	FY 1998 Request	Change from 1997
<b>Current</b>				
Royalty and Offshore Minerals Management				
<i>Appropriations</i>	\$	156,955	157,922	967
	FTE	1,488	1,463	-25
<i>Offsetting Collections</i>	\$	41,000	41,000	0
	FTE	336	336	0
Oil Spill Research	\$	6,440	6,118	-322
	FTE	26	26	0
Operating Resources	\$	204,395	205,040	645
	FTE	1,850	1,825	-25
<b>Permanent</b>				
Mineral Leasing and Associated Payments	\$	546,276	580,541	34,265
Payments to States from Acquired Forest Lands	\$	3,137	3,287	150
Payments to States from Flood Control Act Lands	\$	676	751	75
<b>Subtotal Permanent</b>	<b>\$</b>	<b>550,089</b>	<b>584,579</b>	<b>34,490</b>
<b>Total MMS</b>				
<i>Appropriations</i>	\$	713,484	748,619	35,135
<i>Offsetting Collections</i>		41,000	41,000	0
<b>Total MMS</b>		<b>754,484</b>	<b>789,619</b>	<b>35,135</b>
	FTE	1,850	1,825	-25

The programs and missions of the MMS are conducted by the major components shown in the organizational chart in the preceding section and described in detail in the following program narrative sections.



## ***Current Appropriations***

### ***Uncontrollable Changes***

Uncontrollable costs are estimated to increase of \$3.5 million in FY 1998. The majority of this increase (over 91 percent) is attributed to government-wide pay increases on January 1, 1997 and 1998. These and other uncontrollable cost increases are discussed in detail in the Justification of Uncontrollable Cost Changes.

### ***Programmatic Changes***

Programmatic changes are proposed in all four major program areas (OCS Lands, Royalty Management, General Administration, and in the Oil Spill Record Account). Programmatic decreases are proposed in the Royalty Management Program (36 FTE and \$3.7 million) and in General Administration (5 FTE and \$1.6 million). A programmatic increase of 16 FTE and \$6.3 million dollars is proposed for the OCS Lands Program. This increase is necessary to manage the dramatic increase in leasing activities in the Gulf of Mexico brought about by technological improvements, which have already uncovered large new fields of oil and gas, and recently enacted legislative incentives to stimulate production from deep water. The increased leasing that occurred in FY 1996 and is estimated to continue for the next several years could add several hundred million dollars annually to the Federal treasury.

A detailed discussion of programmatic changes can be found in the Justification of Program Change at the end of each subactivity discussion.

### ***Permanent Appropriations***

The following table is a synopsis of the changes in the FY 1998 request from FY 1997 estimated levels.

Summary of Change <i>dollars in thousands</i>			
	1997 Estimate	1998 Request	Description
Mineral Leasing & Associated Payments	546,276	580,541	Increase due mainly to gas royalties. Small increase in coal royalties.
Payments to States from Acquired Forest Lands	3,137	3,287	
Payments to States from Flood Control Act Lands	676	751	
<b>Total Permanents</b>	<b>550,089</b>	<b>584,579</b>	

## Appropriation Language Sheet

### ROYALTY AND OFFSHORE MINERALS MANAGEMENT

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; [\$156,955,000] \$157,922,000; [of which not less than \$70,063,000 shall be available for royalty management activities]; and an amount not to exceed \$41,000,000 for the Technical Information Management System and activities of the Outer Continental Shelf (OCS) Lands Activity, to be credited to this appropriation and to remain available until expended, from additions to receipts resulting from increases to rates in effect on August 5, 1993, from rate increases to fee collections for OCS administrative activities performed by the Minerals Management Service over and above the rates in effect on September 30, 1993, and from additional fees for OCS administrative activities established after September 30, 1993: Provided further, That \$1,500,000 for computer acquisitions shall remain available until September 30, [1998] 1999 Provided further, that 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 not to exceed \$3,000 shall be available for reasonable expenses related to promoting volunteer beach and marine cleanup activities: Provided further, That notwithstanding any other provision of law, \$15,000 under this head shall be available for refunds of overpayments in connection with certain Indian leases in which the Director of the Minerals Management Service concurred with the claimed refund due, to pay amounts owed to Indian allottees or Tribes, or to correct prior unrecoverable erroneous payments.

### OIL SPILL RESEARCH

For necessary expenses to carry out title I, section 1016, and title IV, sections 4202 and 4303, title VII, and title VIII, section 8201 of the Oil Pollution Act of 1990, [\$6,440,000] \$6,118,000 which shall be derived from the Oil Spill Liability Trust Fund, to remain available until expended.

### *Justification of Proposed Language Changes*

#### Royalty and Offshore Minerals Management

**Deletion:** "of which not less than \$70,063,000 shall be available for royalty management activities"

The language proposed for deletion restricts the MMS from committing fiscal resources to critical areas of need. The deletion is proposed to enhance MMS's ability to manage its resources in an effective and efficient manner. Current reprogramming requirements provide appropriate levels of notification to the Congressional Committees while permitting reasonable management latitude for sound program operations.

## Budget Overview

Royalty and Offshore Minerals Management Activity/Subactivity Change Crosswalk - FY 1997 Budget					
Format of FY 1997 Congressional Budget		FY 1997 Enacted	Format of FY 1998 President's Budget		FY 1997 Estimate
Outer Continental Shelf Lands			Outer Continental Shelf Lands		
1	Leasing & Environmental <i>FTE: 205</i>	28,093	1	Leasing & Environmental <i>FTE: 205</i>	28,173
2	Resource Evaluation <i>FTE: 209</i>	18,193	2	Resource Evaluation <i>FTE: 210</i>	18,403
3	Regulatory <i>FTE: 330</i>	34,012	3	Regulatory <i>FTE: 345</i>	34,422
4	Information Management <i>FTE: 109</i>	12,222	4	Information Management <i>FTE: 109</i>	14,122
5	Offshore Management Support <i>FTE: 0</i>	2,700	5	Offshore Management Support <i>FTE: 0</i>	0
<b>TOTAL OCS</b>		<b>95,220</b>	<b>TOTAL OCS</b>		<b>95,120</b>
Royalty Management Program			Royalty Management Program		
1	Valuation & Operations <i>FTE: 290</i>	33,022	1	Valuation & Operations <i>FTE: 274</i>	32,935
2	Compliance <i>FTE: 373</i>	34,326	2	Compliance <i>FTE: 353</i>	34,238
3	Late Disbursement Interest <i>FTE: 0</i>	0	3	Late Disbursement Interest <i>FTE: 0</i>	0
4	Refunds on Behalf of Allottees <i>FTE: 0</i>	15	4	Refunds on Behalf of Allottees <i>FTE: 0</i>	15
5	Program Services Office <i>FTE: 26</i>	2,700	5	Program Services Office <i>FTE: 26</i>	2,700
<b>TOTAL RMP</b>		<b>70,063</b>	<b>TOTAL RMP</b>		<b>69,888</b>
General Administration			General Administration		
1	Executive Direction <i>FTE: 24</i>	3,385	1	Executive Direction <i>FTE: 24</i>	1,902
2	Policy & Management Improvement <i>FTE: 49</i>	3,780	2	Policy & Management Improvement <i>FTE: 49</i>	3,880
3	Administrative Operations <i>FTE: 209</i>	11,031	3	Administrative Operations <i>FTE: 204</i>	12,689
4	General Support Services <i>FTE: 0</i>	14,476	4	General Support Services <i>FTE: 0</i>	14,476
<b>TOTAL GEN. ADMIN</b>		<b>32,672</b>	<b>TOTAL GEN. ADMIN</b>		<b>32,947</b>
<b>TOTAL ROMM/Receipts</b>		<b>197,955</b>	<b>TOTAL ROMM/Receipts</b>		<b>197,955</b>

Royalty and Offshore Minerals Management Activity/Subactivity Change Crosswalk - FY 1998 Budget					
Format of FY 1997 Congressional Budget		FY 1998 Pres. Budget	Format of FY 1998 President's Budget		FY 1998 Pres. Budget
Outer Continental Shelf Lands			Outer Continental Shelf Lands		
1	Leasing & Environmental <i>FTE: 202</i>	30,015	1	Leasing & Environmental <i>FTE: 205</i>	30,095
2	Resource Evaluation <i>FTE: 207</i>	20,911	2	Resource Evaluation <i>FTE: 210</i>	21,121
3	Regulatory <i>FTE: 340</i>	35,867	3	Regulatory <i>FTE: 345</i>	36,277
4	Information Management <i>FTE: 72</i>	12,041	4	Information Management <i>FTE: 109</i>	13,941
5	Offshore Management Support <i>FTE: 47</i>	2,700	5	Offshore Management Support <i>FTE: 0</i>	0
<b>TOTAL OCS</b>		<b>101,534</b>	<b>TOTAL OCS</b>		<b>101,434</b>
Royalty Management Program			Royalty Management Program		
1	Valuation & Operations <i>FTE: 275</i>	31,371	1	Valuation & Operations <i>FTE: 274</i>	31,284
2	Compliance <i>FTE: 354</i>	32,400	2	Compliance <i>FTE: 353</i>	32,312
3	Late Disbursement Interest <i>FTE: 0</i>	0	3	Late Disbursement Interest <i>FTE: 0</i>	0
4	Refunds on Behalf of Allottees <i>FTE: 0</i>	15	4	Refunds on Behalf of Allottees <i>FTE: 0</i>	15
5	Program Services Office <i>FTE: 26</i>	2,564	5	Program Services Office <i>FTE: 26</i>	2,564
<b>TOTAL RMP</b>		<b>66,350</b>	<b>TOTAL RMP</b>		<b>66,175</b>
General Administration			General Administration		
1	Executive Direction <i>FTE: 42</i>	3,298	1	Executive Direction <i>FTE: 24</i>	1,815
2	Policy & Management Improvement <i>FTE: 48</i>	3,528	2	Policy & Management Improvement <i>FTE: 49</i>	3,628
3	Administrative Operations <i>FTE: 185</i>	10,460	3	Administrative Operations <i>FTE: 204</i>	12,118
4	General Support Services <i>FTE: 0</i>	13,752	4	General Support Services <i>FTE: 0</i>	13,752
<b>TOTAL GEN. ADMIN</b>		<b>31,038</b>	<b>TOTAL GEN. ADMIN</b>		<b>31,313</b>
<b>TOTAL ROMM/Receipts</b>		<b>198,922</b>	<b>TOTAL ROMM/Receipts</b>		<b>198,922</b>

## Justification of Crosswalk Changes

The crosswalks reflect the following changes brought about by the implementation of MMS 2000. MMS 2000 was approved by Congress in December 1996. The full MMS 2000 reorganization plan is available upon request.

- ☞ The Equal Employment Office (8 FTE and \$750,000) moved from Director's Office in Executive Direction to Administrative Operations.
- ☞ One FTE (no dollars) moved from Administrative Operations to Policy Management and Improvements for information collection.
- ☞ The Budget Division (10 FTE and \$732,000) moves from Executive Direction to Administrative Operations.
- ☞ Two FTE and \$175,000 from the Royalty Management Program (one FTE and \$88,000 from Valuations and Operations and one FTE and \$87,000 from Compliance) moved to the Equal Employment and Development Opportunity Division (formerly the Equal Opportunity Office) in Administrative Operations.
- ☞ One FTE and \$100,000 from OCS Lands to General Administrations's Policy and Management Improvement to coordinate the activities of the MMS Advisory Board.
- ☞ The abolishment and redistribution of the functions of the OCS Lands Office of Management Support (47 FTE and \$2,700,000).
  - ✓ 2 FTE and \$180,000 to Leasing and Environment
  - ✓ 3 FTE and \$210,000 to Resource Evaluation
  - ✓ 5 FTE and \$410,000 to Regulation of Operations
  - ✓ 37 FTE and \$1,900,000 to Information Management

## Summary of Requirements

Appropriation Royalty and Offshore Minerals Management <i>dollars in thousands</i>		
Uncontrollable Cost Changes	FTE	Amount
Working Capital Fund ( <i>General Support Services</i> )		10
Workers Compensation Fund ( <i>General Support Services</i> )		48
Cost of January 1997 pay raise ( <i>all activities</i> )		767
Cost of January 1998 pay raise ( <i>all activities</i> )		2,463
Unemployment Compensation ( <i>General Support Services</i> )		4
Rental Payments to GSA ( <i>General Support Services</i> )		249
<b>Total Adjustments</b>	<b>0</b>	<b>3,541</b>

# Summary of Requirements

Royalty and Offshore Minerals Management <i>dollars in thousands</i>												
Comparison by Activity/Subactivity	FY 1996 Final Enacted		FY 1997 Enacted		Uncontrollable and Related Changes		Programmatic Changes		FY 1998 Request		Inc(+) Dec(-) from 1997	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
<b>OCS Lands</b>												
Leasing & Environmental Appropriations Receipts Total	---	---	130	18,448	396	396	0	1,526	130	20,370	0	1,922
	---	3,450	75	9,725	0	0	0	0	75	9,725	0	0
	196	26,967	205	28,173	396	396	0	1,526	205	30,095	0	1,922
Resource Evaluation Appropriations Receipts Total	---	---	138	11,332	418	418	1	2,300	139	14,050	1	2,718
	---	655	71	7,071	0	0	0	0	71	7,071	0	0
	207	16,301	209	18,403	418	418	1	2,300	210	21,121	1	2,718
Regulatory Appropriations Receipts Total	---	---	212	22,186	712	712	15	1,143	227	24,041	15	1,855
	---	600	118	12,236	0	0	0	0	118	12,236	0	0
	327	32,768	330	34,422	712	712	15	1,143	345	36,277	15	1,855
Information Management Appropriations Receipts Total	---	---	37	2,154	121	121	0	-302	37	1,973	0	-181
	---	2,154	72	11,968	0	0	0	0	72	11,968	0	0
	13	843	109	14,122	121	121	0	-302	109	13,941	0	-181
Office of Mgmt. Support Appropriations Receipts Total	---	---	0	0	0	0	0	0	0	0	0	0
	---	---	0	0	0	0	0	0	0	0	0	0
	47	3,000	0	0	0	0	0	0	0	0	0	0
Receipts	68	15,400	---	---	---	---	---	---	---	---	---	---
Subtotal Appropriation	790	79,879	517	54,120	1,647	1,647	16	4,667	533	60,434	16	6,314
Subtotal Receipts	68	15,400	336	41,000	0	0	0	0	336	41,000	0	0
Subtotal All	858	95,279	853	95,120	1,647	1,647	16	4,667	869	101,434	16	6,314

**Royalty and Offshore Minerals Management**

*dollars in thousands*

Comparison by Activity/Subactivity	FY 1996 Final Enacted		FY 1997 Enacted		Uncontrollable and Related Changes		Programmatic Changes		FY 1998 Request		Inc(+) Dec(-) from 1997	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
<b>Royalty Management</b>												
Valuation & Operations	293	32,904	290	32,935	0	441	-16	-2,092	274	31,284	-16	-1,651
Compliance	376	34,203	373	34,238	0	681	-20	-2,607	353	32,312	-20	-1,926
Late Disb. Interest	0	0	0	0	0	0	0	0	0	0	0	0
Indian Allottee Refunds	0	15	0	15	0	0	0	0	0	15	0	0
Program Services Office	26	2,742	26	2,700	0	41	0	-177	26	2,564	0	-136
<b>Subtotal</b>	<b>695</b>	<b>69,864</b>	<b>689</b>	<b>69,888</b>	<b>0</b>	<b>1,163</b>	<b>-36</b>	<b>-4,876</b>	<b>653</b>	<b>66,175</b>	<b>-36</b>	<b>-3,713</b>
<b>General Administration</b>												
Executive Direction	42	3,373	24	1,902	0	27	0	-114	24	1,815	0	-87
Policy & Management Imp	47	3,767	49	3,880	0	32	0	-284	49	3,628	0	-252
Administrative Operations	192	10,953	209	12,689	0	361	-5	-932	204	12,118	-5	-571
General Support Services	0	14,476	0	14,476	0	311	0	-1,035	0	13,752	0	-724
<b>Subtotal</b>	<b>281</b>	<b>32,569</b>	<b>282</b>	<b>32,947</b>	<b>0</b>	<b>731</b>	<b>-5</b>	<b>-2,365</b>	<b>277</b>	<b>31,313</b>	<b>-5</b>	<b>-1,634</b>
<b>Total Appropriation</b>	<b>1,766</b>	<b>182,312</b>	<b>1,488</b>	<b>156,955</b>	<b>0</b>	<b>3,541</b>	<b>-25</b>	<b>-2,574</b>	<b>1,463</b>	<b>157,922</b>	<b>25</b>	<b>967</b>
<b>Total Receipts</b>	<b>68</b>	<b>15,400</b>	<b>336</b>	<b>41,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>336</b>	<b>41,000</b>	<b>0</b>	<b>0</b>
<b>Total All</b>	<b>1,834</b>	<b>197,712</b>	<b>1,824</b>	<b>197,955</b>	<b>0</b>	<b>3,541</b>	<b>-25</b>	<b>-2,574</b>	<b>1,799</b>	<b>198,922</b>	<b>25</b>	<b>967</b>



<b>Appropriation Oil Spill Research dollars in thousands</b>		
Uncontrollable Cost Changes	FTE	Amount
FY 1997 Enacted	26	6,440
Total Uncontrollable Changes	0	0
FY 1998 Base Budget	26	6,118*

\* Base budget decrease of \$322,000 is a programmatic change.

<b>Summary of Requirements Oil Spill Research dollars in thousands</b>									
Comparison by Activity/ Subactivity	FY 1996 Actual		FY 1997		Uncont Changes	Program Changes	FY 1998 Request		Change from 1997
	FTE	Amount	FTE	Amount	Amount	Amount	FTE	Amount	Amount
Oil Spill Research	26	6,440	26	6,440	0	-322	26	6,118	-322
Total OSR	26	6,440	26	6,440	0	-322	26	6,118	-322

## Summary of Requirements

Appropriations All Permanent Special Fund (Payments to States) <i>dollars in thousands</i>		
Summary of Base requirements	FTE	Amount
FY 1997 Estimated	0	550,089
Base Adjustments	0	34,490
FY 1998 base Budget	0	584,579

All Permanent Special Funds (Payments to States) <i>dollars in thousands</i>						
Comparison by Activity\ Subactivity	FY 1996 Actual	FY 1997 Estimate	Uncontrollable Changes	Programmatic Changes	FY 1998 Request	Changes from 1997
<b>Permanents</b>						
Mineral Leasing and Associated Payments	452,861	546,276	0	34,265	580,541	34,265
National Forest Fund, Payments to States	3,128	3,137	0	150	3,287	150
Receipts from Lands acquired for Flood Control, navigation and allied purposes	850	676	0	75	751	75
<b>Total Requirements</b>	456,839	550,089	0	34,490	584,579	34,490

## All Appropriations

<b>Justification of Uncontrollable Cost Changes</b> <i>dollars in thousands</i>		
Uncontrollable Cost Changes	FTE	Amount
Working Capital Fund <i>(ROMM; General Support Services)</i>		10
The adjustment is for increase costs for the customary administrative services provided on a Department-wide basis.		
Workers Compensation Fund <i>(ROMM; General Support Services)</i>		48
The adjustment is for changes in the costs of compensating injured employees and dependents of employees who suffered accidental deaths while on duty. Costs for 1998 are for the 12-months ending June 1996 and are paid to the Department of Labor, Federal Employees Compensation Fund, pursuant to 5 U.S.C. 8147(b) as amended by Public Law 94-273.		
Cost in FY 1998 of the January 1997 pay raise <i>(ROMM; all activities)</i>		767
The adjustment is for an additional amount needed in 1998 to fund the remaining 3-month portion of the estimated cost of the, on average, 3.0 percent pay increases effective January, 1997.		
Cost of January 1998 pay raise <i>(ROMM; all activities)</i>		2,463
The amount displayed represents the additional costs of funding an estimated 2.8 percent January 1998 pay increase for GS-series employees and the associated pay raise changes made in other pay series.		
Unemployment Compensation <i>(ROMM; General Support Services)</i>		4
The adjustment is for changes in the cost of unemployment compensation claims to be paid to the Department of Labor, Federal Employees Compensation Account, in the Unemployment Trust Fund, pursuant to Public Law 96-499.		
Rental Payments to GSA <i>(ROMM; General Support Services)</i>		249
The adjustment is for changes in the costs payable to GSA resulting from changes in rates for office and non-office space.		
<b>Total Adjustments</b>	<b>0</b>	<b>3,541</b>

The cost of the Budget's proposed additional 1.5% agency payment to the Civil Service Retirement and Disability Fund for Civil Service Retirement System Employees will be absorbed within this request, once the proposal is enacted.

Department of the Interior  
Minerals Management Service  
Royalty and Offshore Minerals Management  
Program and Financing  
*dollars in millions*

<u>14-1917-0-302</u>	FY 1996 <u>Actual</u>	FY 1997 <u>Estimate</u>	FY 1998 <u>Estimate To Date</u>
<b>Obligations by program activity</b>			
Direct program			
00.0101 Outer Continental Shelf Lands	78	54	54
00.0201 Royalty Management	70	70	70
00.0301 General Administration	<u>32</u>	<u>32</u>	<u>32</u>
00.9101 Total Direct program	180	156	156
01.0101 Reimbursable program	<u>16</u>	<u>41</u>	<u>41</u>
<b>10.0001 Total obligations</b>	<b>196</b>	<b>197</b>	<b>197</b>
Budget resources available for obligation			
21.4001 Unobligated balance available, start of year year: Uninvested balance	5	5	5
22.0001 New budget authority (gross)	<u>198</u>	<u>198</u>	<u>199</u>
23.9001 Total budgetary resources available for obligation	203	203	204
23.9501 New obligations	-196	-197	-197
24.4001 Unobligated balance available, end of year: Uninvested balance	5	5	5
New budget authority (gross), detail			
Current			
40.0001 Appropriation	182	157	158
Permanent			
68.0001 Transferred from other accounts	<u>16</u>	<u>41</u>	<u>41</u>
70.0001 Total new budget authority (gross)	198	198	199
Change in unpaid obligations			
72.4001 Obligated balance, Appropriation, start of year	66	67	68
73.1001 Total obligations	196	197	197
73.2001 Total outlays (gross)	-195	-197	-199
74.4001 Obligated balance, Appropriation, end of year	67	68	66
Outlays (gross), detail			
86.9001 Outlays from new current authority	127	110	111
86.9301 Outlays from current balances	56	55	50
86.9701 Outlays from new permanent balances	3	3	9
86.9801 Outlays from permanent balances	9	29	29
87.0001 Total outlays (gross)	195	197	199

## Offsets against gross budget authority and outlays

Offsetting collections (cash) from				
88.0001	Federal Funds	...	...	...
88.4001	Non-Federal sources	<u>16</u>	<u>41</u>	<u>41</u>
88.9001	Total, offsetting collections (cash)	16	41	41
Net budget authority and outlays				
89.0001	<b>Budget authority</b>	<b>182</b>	<b>157</b>	<b>158</b>
90.0001	Outlays (net)	179	156	158

**Minerals Management Service**  
**Royalty and Offshore Minerals Management**  
**Object Classification**  
*dollars in millions*

14-1917-0-1-302	FY 1996 <u>Actual</u>	FY 1997 <u>Estimate</u>	FY 1998 <u>Estimate</u>
<b>Direct obligations</b>			
<b>Personnel compensation</b>			
111.10	85	88	88
111.30	1	1	1
111.50	<u>2</u>	<u>2</u>	<u>2</u>
111.90	88	91	91
112.10	17	18	18
113.00	1	2	2
121.00	3	3	3
123.10	10	10	10
123.30	2	2	2
125.20	50	19	19
126.00	2	3	
131.00	<u>4</u>	<u>5</u>	<u>5</u>
199.00	177	153	153
<b>Reimbursable obligations</b>			
211.10	4	10	10
225.20	5	13	13
226.00	2	5	5
231.00	<u>5</u>	<u>13</u>	<u>13</u>
299.00	16	41	41
999.50	3	3	3
<b>999.90</b>	<b>196</b>	<b>197</b>	<b>197</b>

Department of the Interior  
Minerals Management Service  
Oil Spill Research  
Program and Financing  
*dollars in millions*

14-8370-0-302	FY 1996 <u>Actual</u>	FY 1997 <u>Estimate</u>	FY 1998 <u>Estimate</u>
<b>Obligations by program activity</b>			
Direct program			
00.9101 Total direct program	6	6	6
01.0101 Reimbursable program	<u>-0</u>	<u>-0</u>	<u>-0</u>
<b>10.0001 Total obligations</b>	<b>6</b>	<b>6</b>	<b>6</b>
Budget resources available for obligation			
21.4001 Unobligated balance available, start of year year: Uninvested balance	1	0	0
22.0001 New budget authority (gross)	<u>-6</u>	<u>-6</u>	<u>-6</u>
23.9001 Total budgetary resources available for obligation	7	6	6
23.9501 New obligations	-6	-6	-6
24.4001 Unobligated balance available, end of year: Uninvested balance	0	0	0
New budget authority (gross), detail			
Current:			
40.2601 Appropriation (trust fund, definite)	6	6	6
Change in unpaid obligations			
72.4001 Obligated balance, Appropriation, start of year	4	2	2
73.1001 Total obligations	6	6	6
73.2001 Total outlays (gross)	-6	-6	-6
74.4001 Obligated balance, Appropriation, end of year	2	2	2
Outlays (gross), detail			
86.9001 Outlays from new current authority	4	4	4
86.9301 Outlays from current balances	2	2	2
87.0001 Total outlays (gross)	6	6	6
Net budget authority and outlays			
<b>89.0001 Budget authority</b>	<b>6</b>	<b>6</b>	<b>6</b>
90.0001 Outlays (net)	5	6	6

Department of the Interior  
Minerals Management Service  
Oil Spill Research  
Object Classification  
*dollars in millions*

14-8370-0-302	FY 1996 <u>Actual</u>	FY 1997 <u>Estimate</u>	FY 1998 <u>Estimate</u>
<b>Direct obligations</b>			
<b>Personnel compensation</b>			
111.10 Personnel compensation: Full-time permanent	2	2	2
111.50 Other personnel compensation	<u>0</u>	<u>0</u>	<u>0</u>
111.90 Total personnel compensation	2	2	2
125.20 Other services	<u>4</u>	<u>4</u>	<u>4</u>
199.00 Subtotal, direct obligations	6	6	6
<b>999.90 Total obligations</b>	<b>6</b>	<b>6</b>	<b>6</b>



Department of the Interior  
 Minerals Management Service  
 Royalty and Offshore Minerals Management  
 Account Object Class Information  
*dollars in millions*

Object Class	FTE	1997 Estimate Amount	Uncontrollable & Related Changes		Program Changes		1998 Request	
			FTE	Amount	FTE	Amount	FTE	Amount
<b>Total Appropriation and Offsetting Collections</b>	1,824	198	0	4	-25	-3	1,799	199
11		101		3		-4		100
12		18		1		-1		18
13		2		0		0		2
21		3		0		0		3
23		13		0		-1		12
25		32		0		3		35
26		8		0		0		8
31		18		0		0		18
below reporting threshold		3						3

Department of the Interior  
 Minerals Management Service  
 Oil Spill Research  
 Account Object Class Information  
*dollars in millions*

Object Class	FTE	1997 Estimate Amount	Uncontrollable & Related Changes		Program Changes		1998 Request	
			FTE	Amount	FTE	Amount	FTE	Amount
Total Appropriation	26	6	0	0	0	0*	26	6
11		2		0		0		2
25		4		0		0*		4

\* A \$322,000 program decrease is proposed (does not show due to rounding to nearest million)

Department of the Interior  
 Minerals Management Service  
 All Appropriations  
 Personnel Summary  
*dollars in millions*

	FY 1996 Actual	FY 1997 Estimate	FY 1998 Estimate
<b>Direct Funds:</b>			
Full-time equivalent employment	1,860	1,850	1,825
Full-time equivalent of overtime and holiday hours	5	5	5
<b>Reimbursable Funds:</b>			
Full-time equivalent employment	---	---	---
Full-time equivalent of overtime and holiday hours	---	---	---

Department of the Interior  
Minerals Management Service  
All Appropriations  
Employee Count by Grade

	FY 1996 Actual	FY 1997 Estimate	FY 1998 Estimate
ES-6	3	3	3
ES-5	4	4	3
ES-4	4	4	5
ES-3	2	.2	2
ES-2	1	1	0
ES-1	<u>1</u>	<u>1</u>	<u>2</u>
<b>Subtotal</b>	<b>15</b>	<b>15</b>	<b>15</b>
GS 15	68	65	63
GS-14	172	168	164
GS-13	403	400	396
GS-12	507	507	507
GS-11	213	213	21
GS-10	7	7	
GS-9	65	65	65
GS-8	40	40	40
GS-7	132	132	132
GS-6	104	104	104
GS-5	78	78	78
GS-4	42	42	42
GS-3	6	6	6
GS-2	2	2	2
GS-1	<u>6</u>	<u>6</u>	<u>6</u>
<b>Subtotal</b>	<b>1,845</b>	<b>1,835</b>	<b>1,825</b>
Total employment (actual/projected) end of fiscal year	1,860	1,850	1,840

**Outer Continental Shelf Lands**  
**Justification of Program and Performance**  
**Analysis by Subactivity**  
*dollars in thousands*

Subactivity		1997 Enacted	Uncontrollable and Related Changes	Programmatic Changes	1998 Budget Request	Change from 1997
Leasing & Environmental	\$ FTE	28,173 205	396 0	1,526 0	30,095 205	+1,922 0
Resource Evaluation	\$ FTE	18,403 209	418 0	2,300 1	21,121 210	+2,718 1
Regulatory	\$ FTE	34,422 330	712 0	1,143 15	36,277 345	+1,855 15
Information Management	\$ FTE	14,122 109	121 0	-302 0	13,941 109	-181 0
Offshore Minerals Management	\$ FTE	95,120 853	1,647 0	4,667 16	101,434 869	+6,314 16

### Strategic Plan

As the manager of the nation's OCS energy and non-energy mineral resources, the MMS's long-term strategy is to assess those resources, in consultation with affected parties, to determine if they can be developed in an environmentally-sound manner and, if leased, to regulate activities to ensure safety and protect the environment. This long-term strategy affects the way MMS manages the OCS resources and the way MMS faces the challenge of maintaining a balance between providing energy and protecting the Nation's unique and sensitive environments and other natural resources.

To achieve its goals for the OCS Lands Program, MMS has developed the following strategies:

- ☛ Improve the decisionmaking process through increased internal coordination and involvement of relevant staff.
- ☛ Ensure that customers have the opportunity to provide input into the decisionmaking process.
- ☛ Recognize and respond to the public's concerns.

### Mission

The Outer Continental Shelf (OCS) Lands Program significantly contributes to national energy, economic and environmental policy. The OCS Lands Act directs that the program:

- ✓ Help meet the nation's energy needs;
- ✓ Provide for environmentally-sound exploration and development of OCS mineral resources; and
- ✓ "Balance" the various environmental and resource issues and concerns of affected parties.

## Outer Continental Shelf Lands

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- ☛ Use modern information tools to ensure timely dissemination of accurate information.
- ☛ Streamline operations and simplify processes.
- ☛ Maintain a high level of scientific expertise and base decisions on high-quality scientific information.
- ☛ Issue regulations that focus on results, rather than processes.
- ☛ Provide a consistently high level of customer service.

### **Impact of the Program**

About 15 percent of domestic oil and over 25 percent of domestic natural gas are supplied from the OCS. Over \$100 billion in federal revenues have been collected through this program, and further billions have been generated in direct benefits to the national economy. The program also provides jobs for the American economy (according to various studies, ten offshore jobs support between 30 and 37 jobs throughout all segments of the U.S. economy).

### **Performance Measurement**

Performance indicators are being developed for the following draft goals: maximize mineral development while ensuring fair market value, and safe environmentally sound OCS operations. A significant amount of time has been invested by the program in developing proposed performance indicators that will measure the program's success in meeting these goals.

### **Reinvention and Streamlining Accomplishments**

From FY 1985 through FY 1996, the OCS program's FTE has been reduced by 291 (25 percent). This has been accomplished by: (1) reengineering the program in response to national interest and industry activities; and (2) streamlining organizations and processes.

The OCS program has shifted its emphasis from pre-lease activities in broad leasing areas to a more focused program concentrating on sound and safe development of resources from current leases and pre-lease activities only in Alaska and the Gulf of Mexico. This has resulted in the elimination of the Atlantic Regional Office, elimination of pre-lease activities in the Pacific Region, and significant downsizing of the Alaska Regional Office.

Even though the Offshore Minerals Management organization has been downsizing, the program has expanded its workload and achieved notable accomplishments. A few examples follow:

- ☛ Since the creation of MMS in 1982, the Offshore program has increased the number of leases, the amount of acreage, the number of installations and removals, the volume of natural gas and oil (BOE) production it oversees, and increased the number of pipeline miles it permits.
- ☛ The rate of oil spills in the past 13 years has been reduced by a factor of eight below the previous 15 years.
- ☛ The President's Council on Environmental Quality and the National Association of Environmental Professionals made MMS the first recipient of the Federal Environmental Quality Award (1994) for successfully integrating environmental values into its agency mission and decision-making. In 1996, MMS received this award for the second time for environmental work done in the Flower Garden Banks National Marine Sanctuary in the Gulf of Mexico, offshore Texas.

- ☛ A Technical Information Management System (TIMS) pilot program was implemented. This system integrates offshore applications and disciplines into a multi-user database — building a new level of sophistication in data interpretation, which will be used for the environmentally sound development of our Nation's offshore mineral resources.
- ☛ Regulations were issued in FY 1996 for the new law governing deep water development. This has, in part, led to a significant resurgence in Gulf of Mexico activity.
- ☛ In FY 1997, a new 5-year leasing program was issued for the years 1997 to 2002. The new program resolved conflicts in controversial areas based upon increased consultation and the use of good scientific information.

The program is now faced with a number of new challenges. The offshore industry is expanding operations farther offshore and into deeper waters. Recently-enacted public laws call upon MMS to implement expanded responsibilities — deep water production and marine minerals development. In response to these needs, we are continuing to search for ways to carry out our programs more efficiently and effectively.

**Leasing and Environmental Program**  
**Justification of Program and Performance**  
**Analysis by Subactivity**  
*dollars in thousands*

Leasing and Environmental Subactivity		1997 Enacted	Uncontrollable and Related Changes	Programmatic Changes	1998 Budget Request	Change from 1997
Environmental Studies						
Program: Appropriation	\$	8,779	0	1,526	10,305	+1,526
	FTE	0	0	0	0	0
Offsetting Collections	\$	4,066	0	0	4,066	0
	FTE	0	0	0	0	0
Total, ESP	\$	12,845	0	1,526	14,371	+1,526
	FTE	0	0	0	0	0
Leasing & Environmental Assessment						
Program: Appropriation	\$	9,669	396		10,065	+396
	FTE	130	0		130	0
Offsetting Collections	\$	5,659	0		5,659	0
	FTE	75	0		75	0
Total, L&EA	\$	15,328	396		15,724	+396
	FTE	205	0		205	0
Total, Leasing & Environmental Subactivity Appropriation	\$	18,448	396	1,526	20,370	+1,922
	FTE	130	0	0	130	0
Offsetting Collections	\$	9,725	0	0	9,725	0
	FTE	75	0	0	75	0
Total, L&E	\$	28,173	396	1,526	30,095	+1,922
	FTE	205	0	0	205	0



## Environmental Program

### *General Description*

The Minerals Management Service (MMS) environmental program is comprised of two principal program areas, the Environmental Studies Program (ESP) and the Environmental Assessment Program. Both components directly support all MMS activities (the Regulatory, Resource Evaluation, and Leasing Programs) which manage the nation's Outer Continental Shelf (OCS) energy and non-energy mineral resources. Thus, environmental staff are involved in all phases of OCS activity, from the development of the 5-Year Program through platform removals. A special goal of the Environmental Program is to develop workable solutions for those industry activities that could adversely affect environmental resources. This allows development to continue while the environment is safeguarded.

All environmental assessment, compliance and study activities also help MMS meet obligations required by numerous legislative authorities, such as the OCS Lands Act (OCSLA), the National Environmental Policy Act (NEPA), the Endangered Species Act, the Clean Air Act, and the Oil Pollution Act of 1990 (OPA 90).

One key method of developing workable solutions is multi-disciplinary problem-solving with close coordination and cooperation with numerous public, private business, and government interests. For example, the MMS has a cooperative program with the U.S. Fish and Wildlife Service (FWS), EPA, and several Gulf of Mexico (GOM) States and industry to assess air quality impacts from OCS activities on the Breton National Wildlife Refuge (NWR) located in the GOM. Likewise, MMS has worked with National Marine Fisheries Service (NMFS) and industry to develop reasonable safeguards for endangered turtles during removal of platforms in the GOM. In the area of oil spill analysis, MMS uses sophisticated ocean circulation modeling to analyze the potential risks of oil spills from OCS activities. Through this modeling, the MMS has supported the U.S. Coast Guard in its analyses required by the OPA '90 regarding tanker transportation off U.S. coasts, and the Department of Commerce for its evaluation for Alaska North Slope oil exports.

In the upcoming years the environmental program will continue to stress the need to obtain high-quality, defensible scientific information that can then be used as a basis for making OCS Program and environmental compliance decisions on OCS activities.

## Environmental Studies Program

### *Description of Program*

The Environmental Studies Program (ESP) was established by the OCSLA as a principal element of a program designed to provide for the safe and environmentally-sound exploration, development, and production of offshore

### Objectives

- ✓ Provide the best available scientific and technical information to support decisions on the offshore gas, oil and hard minerals program which may have the potential to affect environmental, social and economic conditions.
- ✓ Monitor post-lease mineral resource development to determine the extent and duration of environmental effects and potential mitigation measures that can be used to minimize impacts.
- ✓ Collect and make available to the public information needed to analyze, discuss and guide future decisions on exploration, development, and production and lease sales proposed for the 5-year Program. Increase access to, and usefulness of, information on the environmental, social and economic effects of industry activities on exploration and development of OCS resources to support MMS and other agencies on environmental rulemaking affecting OCS activities.

natural gas, oil, and other mineral resources. The ESP ensures that environmental, social, and economic information needed for evaluating potential effects of development of the Nation's offshore mineral resources is available to its primary customers including MMS decision makers, the public, States, and other government agencies. The ESP-sponsored projects collect and organize the large amount of environmental, social, and economic information needed to guide the numerous decisions on the Nation's offshore mineral resources.

Since its beginning in 1973, the ESP has completed more than 750 studies which have contributed significantly to expanding the knowledge of the marine environment and species in the Nation's coastal oceans. These studies in the physical, socioeconomic, and biological sciences have helped to develop the information base needed for assessing the potential risks of offshore mineral development. They have also provided the information needed to develop workable mitigation to minimize adverse impacts on the environment. Current ESP research efforts focus primarily on information needed for decisions on development/production activities. Such information can be illustrated by several ongoing studies in the GOM, the Pacific, and Alaska Regions. (See discussion below.)

In addition, the ESP plays a vital role in ensuring that MMS actions and decisions are in compliance with the NEPA and a wide range of other environmental laws such as the Marine Mammal Protection Act, the Clean Air Act and the Endangered Species Act.

### ***Cooperative Research Efforts with Others:***

MMS has actively sought out partners in OCS research, both for their expertise, and for joint funding of projects. Stakeholder participation has been emphasized through the University Research Initiative and more recently the establishment of Coastal Marine Institutes (CMI) at the Louisiana State University (LSU), the University of California at Santa Barbara, and the University of Alaska at Fairbanks. A major goal of these agreements is to have more research done by State scientists in the States most likely to be affected by activity. This will enhance the credibility of the research results with the parties most directly concerned with OCS development proposals. A second major goal is to create an "MMS-State" partnership in which OCS issues and concerns of mutual interest are addressed cooperatively. These programs were purposely established in areas with ongoing OCS activity so that they could study actual effects, such as drilling discharges and socioeconomic impacts. In recognition of the mutual need for critical scientific information for resource management decisions, the CMI program leverages MMS funds with State funds so that more research can be done. With one to one matching, CMI leveraging enhances program capabilities by \$3.5 million annually.

In addition to leveraged agreements, MMS has numerous other studies ongoing with State institutions. Not only do the State and MMS get the benefit of the research, but many university students participate.

Major physical oceanography research is being conducted in the northeast GOM by Florida State University. Scripps Institute of Oceanography is conducting physical oceanographic research in the Santa Barbara Channel-Santa Maria Basin area off California. In addition, the University of California at Santa Barbara, and the State of Alaska are conducting various socioeconomic studies.

In 1994, MMS transferred \$4.5 million of the ESP base to the National Biological Service to conduct biological research to meet MMS information needs. In FY 1996, the National Biological Service was restructured under the U.S. Geological Survey (USGS) as the Biological Resources Division (BRD). MMS has intensified its efforts to

#### **ESPIS On-Line Access**

The Environmental Studies Program Information System (ESPIS) is available on the Internet at <http://www.mms.gov/espis>. The initial environmental studies files in ESPIS became available for Internet access in the fall of 1995. Users can perform text search and document retrieval on approximately 700 technical summaries and 1,000 full text reports of MMS-sponsored environmental research.

interact with BRD. In order to continually ensure that BRD's marine research provides both timely and appropriately targeted data, cooperation and communication must be both frequent and effective. In keeping with the desire to control costs and minimize duplication of Federal programs, MMS continues its close coordination with the USGS. MMS and USGS have established a process for identification of MMS planned research efforts which could be conducted by USGS scientists in a timely and cost-effective manner to provide environmental information for MMS's decision needs.

The MMS directs its research to those organizations that are best qualified to provide the information in a manner that is cost-effective for the government. Several Federal agencies have relevant mandates and established capabilities and are utilized by MMS to meet its information requirements to support OCS development resource management decisions. For example, MMS has several ongoing efforts with the NMFS and the FWS which focus on various marine mammals. The MMS is also working with the EPA on air quality studies and with the Navy on ocean circulation modeling in the GOM. The MMS supports meteorological data buoys off the Pacific and GOM coasts through NOAA's National Data Buoy Center. The data from these buoys are used by the National Weather Service as well as by MMS.

### ***Plans for Fiscal Year (FY) 1998:***

The ESP must continue to seek leveraging opportunities to conduct the research needed for ongoing and planned marine minerals development activities. Collaboration with other Federal agencies, and cooperative agreements with State, local government, and industry will all be considered in the research planning activity.

ESP plans for FY 1998 will continue to emphasize collection of scientific information to assist management decisions for safe and environmentally sound production activities in the GOM. The CMI at LSU will continue providing MMS with focused research on OCS issues in the marine and socioeconomic sciences. The CMI has been particularly successful in establishing a strong State-Federal partnership with one-to-one sharing of costs with the State. Continued emphasis will be placed on collection of physical oceanographic data which supports several MMS functions and on collection of air quality data to determine OCS contributions, if any, to onshore air pollution. With a dramatic increase in deep water leasing activity in the GOM, additional studies must begin immediately because relatively little information is available for deep water biological communities and physical and biological processes.

Another program focus is to improve understanding of socioeconomic impacts in areas that have experienced or are projected for future OCS activities. Such research will be carried out in each of the regions. In the Pacific Region, some of this work will be focused through partnerships with the State and local governments, and through the CMI at the University of California at Santa Barbara. Additional partnerships in the Pacific Region with Scripps Institute of Oceanography and the Office of Naval Research will allow the collection of needed information on physical oceanographic processes and the physical fates of oil in the marine environment.

Studies in the Alaska Region will be designed to provide information for management decisions associated with the Arctic and Cook Inlet and the Gulf of Alaska plans for lease sales and exploration. Physical oceanographic data will be collected and much-needed research on the fates and effects of oil in the arctic marine environment will be carried out through the highly-leveraged CMI at the University of Alaska at Fairbanks. With increased industry interest in the Beaufort Sea, as evidenced by the September 1996 lease sale, additional studies of beluga and bowhead whales must be carried out to protect those important marine mammals. As industry activity begins offshore, marine environmental monitoring studies will have to be initiated and more investigations may need to be initiated on socio-economic effects on Inuit communities on the North Slope. Additionally, the important traditional knowledge of the Native peoples of Alaska will be collected for use in the environmental research and resource management activities of MMS.

Leasing and Environmental Program

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The National Program office will continue to focus on research efforts associated with the Oil Spill Research (OPA 90) funds. Sharing of costs and technical requirements with the Office of Naval Research will allow conduct of important research of coastal ocean mixing and additional physical processes associated with coastal and oceanic circulation. Collaboration will continue with the USGS to determine cost-effectiveness and technical capability for performance of additional studies by USGS. Biological studies which need to be conducted by the USGS-BRD for the MMS OCS Program will include important new efforts on marine biological communities and the continuation of several other projects, mostly in the GOM. The rapidly expanding interest for using sand and gravel resources from the OCS will require environmental studies offshore Alabama, New Jersey, and North Carolina and possibly other areas as coastal States continue to enter into cooperative agreements with the MMS for use of these resources.

The FY 1998 ESP will focus on OCS areas that are currently experiencing OCS activities and those OCS areas scheduled to have lease sales. No studies are planned for initiation in areas that do not have any activity or likelihood of activity in the near future.

***Justification of Program Changes***

	1998 Budget <u>Request</u>	Program Changes <u>(+/-)</u>
\$(000)	14,371	+1,526
FTE	0	0

**Environmental Studies (+ \$1,526,000, 0 FTE)**

The MMS has maximized its limited Environmental Studies Program (ESP) resources through leveraging of funds with other federal agencies and with States, local governments, and industry, and by emphasizing studies in OCS areas that are: experiencing development and production activities or displaying a reasonable likelihood of leasing and postlease activity in the near future.

With increased deepwater leasing in the Gulf of Mexico, additional budget resources are required for the ESP to meet the increased environmental information needs. Stakeholders often cite lack of studies information as rationale for delaying or suspending OCS activities, especially in frontier areas. Although MMS has initiated study of the chemosynthetic biological communities associated with natural seeps in the deep Gulf of Mexico, relatively little information is available for deepwater biological communities and physical and biological processes of the Gulf of Mexico. This research will be more expensive than that in shallower waters. The collection of this information is of direct importance to management decisions for safe and environmentally-sound leasing, exploration, and production activities in the Gulf of Mexico. The importance of collecting this information recently was emphasized by the OCS Scientific Committee at its June 12-13, 1996, meeting. The Committee passed a resolution to establish a panel of biologists, physical scientists, sociologists and resource economists to identify the environmental and human issues associated with deepwater OCS development. The panel will prepare and submit to MMS a report delineating the environmental and human issues associated with deepwater development and recommend a strategic research plan for addressing those issues so that MMS can make informed decisions.

## Leasing and Environmental Assessment Environmental Assessment

Offshore Environmental Assessment activities support the OCS Oil and Gas Leasing Program (5-Year Program) and all lease sales, the Regulatory Program, the Resource Evaluation Program, including the geologic & geophysical permitting process, and sand and gravel activities.

### *1. Management of the Environmental Studies Program:*

Major workloads associated with the management of the Environmental Studies Program are:

**Evaluating Information Needs**— Identifying the critical information and data required at different decision steps in the OCS pre- and postlease program activities continues to be central to the studies planning process. While the research is primarily driven by internal MMS decisionmaking needs, State and local government, and public concerns are incorporated when practicable. Existing information resources are reviewed and used when possible.

#### **Designing and Contracting Environmental Studies Research**—

Research projects must be conceptualized and carefully designed to ensure, not only integrity of the research, but applicability of the data for MMS decisions. Staff develop Statements of Work and other contractual documents, conduct proposal evaluations for costs, scope and scientific integrity, or create cooperative agreements for non-competitive studies. ESP's collaboration with the USGS and the USGS-BRD, and other Federal agencies have increased as have efforts to leverage funds.

**Management of Studies Contracts and Research Products**—Oversight, monitoring, and evaluation of ongoing research efforts is critical to ensure cost containment, timeliness and quality of research. These efforts constitute one of the ESP staff's major roles.

**Making ESP Information Available**—Making research products available to MMS decision makers, States, local governments, industry, and the public in a timely fashion is an important part of the ESP mission. Information must be cataloged, formatted and entered in databases. Announcements, bibliographies and technical summaries are produced and disseminated. Data is exchanged with interested parties, and submitted to other Federal agencies. Presentations are given at scientific conferences and MMS's own Information Transfer Meetings, and public inquiries are processed. Under current development, as a TIMS information system module, is the automated ESP Information System (ESPIS) which contains ESP research results and is available on-line to Federal decision makers, States, local governments, and the public. The ESPIS is available on the Internet at <http://www.mms.gov/espis>. The initial environmental studies files in ESPIS became available for Internet access in the fall of 1995. Users can perform text search and document retrieval on approximately 700 technical summaries and 1,000 full text reports of MMS-sponsored environmental research. Recent years have seen increased emphasis by outside groups such as the National Research Council on improving dissemination of ESP research, and ESP is enhancing this element.

**Collaboration with State, Local, Other Federal, and Academic Institutions**—This element has increased in recent years as efforts with other Federal offices such as the USGS and the USGS-BRD have become part of the

#### Objectives

- ✓ To manage the Environmental Studies Program;
- ✓ To evaluate the potential environmental effects of proposed and permitted OCS activities; and
- ✓ To support MMS and other agencies on environmental rulemaking affecting OCS activities.

ESP research program. The ESP historically has supported collaborative efforts with other organizations; but as research budgets declined, this approach has become an important way to leverage research monies and to involve regional and national stakeholders in the process. The three CMI's in Louisiana, Alaska, and California exemplify ESP's efforts in this regard. A good portion of ESP's research budget is now spent on collaborative efforts.

**ESP Executive and Administrative Support**—Management of the direction and quality of the overall Program, in addition to management of ESP staff, and administrative activities are in this element, together with operation and coordination of the Minerals Management Advisory Board's OCS Scientific Committee. Producing briefings, summaries, and responses to Bureau, Departmental, and Congressional exercises and inquiries, as well as work on agency and interagency working groups has increased in recent years.

**2. *Evaluation of Potential Environmental Effects of OCS Activities (both proposed industry activity and MMS lease sales, for oil and gas, and other OCS mineral resources.)***

This includes preparation and analysis for all MMS Environmental Impact Statements (EIS) and Environmental Assessments (EA) for:

- ☛ The OCS Oil and Gas 5-Year Leasing Program and Lease Sales;
- ☛ Industry Geologic and Geophysical Permits and Continental Offshore Stratigraphic Test (COST) wells;
- ☛ Industry Exploration and Development and Production Plans;
- ☛ Industry decommissioning/abandonment projects (platforms, structures, pipelines, and lease relinquishments);
- ☛ Pipeline installations;
- ☛ The review of regional and site-specific oil spill contingency plans;
- ☛ Air quality analyses; and archeological resources and biological resources analyses;
- ☛ Oil spill analyses;
- ☛ Coordinating with other agencies and the public on proposed OCS activities; and
- ☛ Monitoring industry activities (such as geological and geophysical exploration activities, exploration and development/production plans, pipelines, and rights-of-way) for compliance with MMS's and other environmental regulations.

Before a decision can be made on whether industry or MMS activity should proceed, the environmental effects of the proposed activity must be assessed. If effects are deemed to be adverse, a decision on whether to proceed and/or plans to mitigate these effects must be developed. MMS environmental staff review proposed plans and applications and prepare the necessary NEPA documentation which describes to the decisionmaker the environmental effects the project may cause. If adverse effects are likely, either the activity may not proceed, or the staff may develop workable mitigation. This directly supports the Regulatory and Resource Evaluation Programs (approval of plans and permits) as well as the Leasing Program (lease sales). Workloads associated with these reviews and assessments of industry activity also include Environmental Assessments and Categorical Exclusion Reviews.

**Environmental Assessments (EA's)** are NEPA documents which analyze the environmental impacts of proposed actions, examine appropriate mitigating actions for use in MMS decisionmaking, and determine if the action significantly affects the human environment (if so, the preparation of an EIS is required). Most EA's are brief analytical documents requiring about 2 to 3 weeks of staff time to prepare.

EA's were prepared primarily for oil and gas industry proposals in the GOM and the Pacific region. Aging offshore gas/oil platforms in the GOM will continue to be removed. EA's are prepared and mitigation developed when platforms are removed with explosives that have the potential to harm marine turtles or marine mammals. In response to its new responsibilities, MMS has reviewed, amended or prepared several EA's for sand and gravel projects on the Atlantic coast. EA's are conducted in the GOM for both explosive and non-explosive structure removals.

**Categorical Exclusion Reviews (CER's)** are analytical reviews of individual actions to determine if they may be categorized by the agency according to Council on Environmental Quality (CEQ) guidelines as actions normally excluded from NEPA requirements. CER's are very brief documents, requiring less than 1 week of staff time.

MMS prepares CER's to review industry activity that historically had little potential for significant environmental effects. This includes most exploration and development plans in the GOM and most G&G permit reviews. Such reviews streamline the MMS workload while still assessing whether environmental effects could occur. (If significant effects are even a possibility, an EA must be prepared in accordance with NEPA). Typically, over 1,200 CER's are prepared annually by MMS.

MMS prepares **Environmental Impact Statements (EIS's)** to support OCS program development and OCS lease sales in all areas. MMS implemented a streamlining program in 1995 to prepare shorter, more readable EIS's, although some EIS's may still be 500 or more pages in length because of the controversy surrounding OCS oil and gas activity. Over 50 staff from Headquarters and the Regions contribute in some manner to preparation of a 5-Year Program EIS. To provide stakeholders with more useful, less redundant EIS's, MMS will prepare two EIS's in FY 1997 and FY 1998 to cover nine of the proposed lease sales on the new 5-Year Leasing Program in the Western and Central GOM. Depending on interest expressed by the coastal States, MMS may need to prepare or continue work on up to 3 EIS's for sand and gravel activities in 1998.

During FY 1996, MMS reviewed environmental reports/information submitted with industry plans of exploration, development, and production, from States with coastal zone management programs in the GOM. Permitting operations reviews were also conducted providing information to the States for CZMA consistency determinations and also for use by MMS for NEPA responsibilities. In addition, air quality, biological sciences, and archeological discipline-specific reviews were conducted on all plans or pipeline proposals for leases and rights-of-way. Site specific and regional oil spill contingency reviews are also an ongoing activity for both OPA 90 compliance and for all industry-submitted plans.

**Oil spill analyses** are done for all lease sales and for various post lease activities such as exploration and development plans. Consultation with other Agencies and the public occur for all these activities.

Potential impacts from oil spills are a major public concern and must be assessed. Thus MMS prepares oil spill risk analyses for all sales and for selected exploration and development plans. In several cases, ocean circulation models were developed in-house. Historic spill occurrence research is used to estimate the likelihood of future occurrences of large spills. In FY 1995, MMS published research on comparative spill occurrence rates for large spills from platforms, pipelines, tankers, and barges. In FY 1996, MMS published a paper comparing spill data sets collected by USGS and MMS. MMS will continue to collect data and update information on large spill occurrences.

In FY 1996, oil spill risk analyses were performed for GOM Lease Sales 166 and 168, and Beaufort Sea Sale 144. In FY 1997, analyses will be performed for the multisale EIS's in the Central and Western GOM and for the Sale 170 EIS in the Beaufort Sea. Also, at least one oil spill risk analysis is likely to be performed to support a Development and Production Plan submitted for the Eastern GOM. In FY 1998, oil spill risk analyses will be prepared for proposed sales in Cook Inlet and the Beaufort Sea.

**Draft EIS's.** In FY 1996 and FY 1997, MMS prepared draft EIS's for proposed lease sales in the GOM and Alaska Regions. EIS's are prepared to assess the effects that the sales and resulting activity may have on environmental resources and to analyze alternatives to the project. To help identify issues and concerns, consultation with the public, States, and local communities occurs during draft EIS preparation, which can lead to changes in the sale configuration or mitigation measures. The MMS is now utilizing "native traditional knowledge" as another important source of information in the development of its NEPA documents in the Alaska Region.

**Final EIS's.** After receiving formal public comment, a final EIS is prepared which responds to the comments and provides final conclusions about the potential environmental effects of the sale. This assists the Department in making final decisions on the size of the sale and any sale-specific conditions under which industry must operate. In FY 1996, MMS prepared final EIS's for lease sales in the GOM Region, Alaska, and the 1997-2002 5-Year Plan.

**Interagency Coordination.** Annually, MMS holds hundreds of formal and informal meetings with other federal agencies to coordinate work where activities and jurisdiction overlapped. MMS and the Environmental Protection Agency continue to carry out agreements whereby the two agencies cooperate in the preparation of EIS's for proposed lease sales in the GOM and Alaska Regions. Pursuant to Section 7 of the Endangered Species Act, MMS conducts formal and informal consultations with the NMFS and the FWS on leasing and regulatory actions deemed to affect an endangered or threatened species and/or its critical habitats. Both formal and informal consultations are conducted for both leasing decisions and postlease regulatory actions in the GOM, Pacific, and Alaska Regions. The MMS also consults with the Department of Commerce (DOC) on activities affecting designated National Marine Sanctuaries (NMS). This includes any activity near the Flower Gardens NMS in the GOM, the Channel Islands NMS off California, and the U.S.S. Monitor NMS off North Carolina. The Alaska OCS Office is currently a cooperative agency with the Corps of Engineers (COE) and four other agencies in the preparation of a Development and Production Project EIS.

**Federal-State/Local Coordination.** To understand issues of concern to the States, MMS holds hundreds of formal and informal meetings with State and local agencies in Alaska, California, and several Gulf and Atlantic Coast States. Reports by the OCS Policy Committee and the National Research Council recommend that MMS consult more with the States, local governments, and the public. Thus, continued increases in level of effort are anticipated. The level of coordination with State agencies and local governments in Alaska remains high to address environmental issues concerning proposed lease sales in Cook Inlet, the Gulf of Alaska, and the Beaufort and Chukchi Seas. Increased coordination in Florida and Alabama is expected for exploration, development and production. Extensive consultation will continue in California, especially with the counties bordering the Santa Barbara Channel and Santa Maria basin. MMS holds scoping meetings, public hearings, information transfer meetings, workshops, and other public forums to receive public input for the preparation of lease sale EIS's, postlease assessments, and the collection and dissemination of environmental information.

**Planning And Review.** MMS is presently preparing the Cumulative Effects Report on OCS activities covering the period 1992 through 1994, as required by OCSLA Section 20(e). Environmental compliance reviews were conducted on industry activities in the Pacific region with several hundred special conditions applied to the operators monitored. Monitoring of bowhead whales continues in the Beaufort and Chukchi Seas.



Ongoing Workload			
	FY 1996 Actual	FY 1997 Estimate	FY 1998 Estimate
Environmental Assessments	252	249	265
Categorical Exclusion Reviews	1,210	1,365	1,515
Environmental Reports & Information Reviews	310	420	575
Air Quality Reviews	1,010	1,420	1,620
Archeology Reviews	740	910	1,010
Biological Reviews	60	80	90
Oil Spill Reviews	605	1,115	1,215
Oil Spill Risk Analysis Modeling & OPA 90 Support to USGS	4	10	13
Section 7 ESA Consultations	9	10	10
Draft EIS's in Preparation	5	5	4
Final EIS's in Preparation	5	3	3
Federal Agency Coordination	1,350	1,470	1,670
State/Local Coordination	1,490	1,640	1,840
Public Consultation	2,750	2,960	3,160

### 3. *Support of MMS and other Agencies on Environmental Rulemakings Affecting OCS Activities.*

This includes:

- ☛ Support to MMS's Regulatory Program in developing regulations and supporting NEPA evaluations and
- ☛ Review of environmental laws and regulations prepared by other Federal agencies.

Major workloads associated with this element are:

#### **Support for MMS Regulations.**

The Environmental Assessment Program provides policy direction for OCS activities connected with environmental laws, such as air and water quality, endangered species, and historic sites. This entails reviews of MMS rulemaking and regulatory activities for compliance with the NEPA, and the delivery of technical assistance and environmental oversight for MMS program activities required under the Nation's environmental laws such as the Endangered Species Act, the National Historic Preservation Act, the Clean Air Act, and the Clean Water Act.

## Leasing and Environmental Assessment

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Work continues in response to issues concerning Naturally Occurring Radioactive Materials (NORM) on the OCS and MMS's involvement in the London Convention amendments regarding discharge of low-level radioactive materials into the ocean or seabed. Work continues on revisions to MMS's air quality regulations for the GOM in line with the Clean Air Act Amendments. Support for environmental review and analyses will be needed for MMS rulemaking governing oil spill response in State waters, prospecting for hard minerals, shutdown valves and cranes on platforms and other requirements.

### **Review of Federal Environmental Legislation, Rulemaking, and Major Decisions.**

The Environmental Assessment Program staff review and prepare technical comments and information in response to congressional legislative activities, significant proposed Federal rulemaking and decisions that affect and impact MMS programs and missions. Such reviews are needed to help other agencies in developing workable rules and programs for relevant OCS activities.

The Environmental Program staff continues to work with other Federal agencies on their ongoing environmental rulemaking and major decisionmaking activities that impact MMS missions. These ongoing rulemaking and decisionmaking activities include EPA's air quality and hazardous materials rules and NPDES permits (general and specific areas), NOAA/NOS's coastal zone management rulemaking and consistency appeals, and NOAA/NMFS's and DOI/FWS's rulemaking for endangered and threatened species and Coast Guard oil pollution control/recovery. The program staff may also be involved in reviews and other relevant activities for the possible reauthorization of the Endangered Species Act.

## Leasing

The following discussion on the leasing activities is organized by 1) program planning and pre-lease (Five-Year Program and Prelease Planning and Decision Process) and 2) post-lease workloads (Post-Lease Adjudication Process).

### 1. Five-Year Program.

Section 18 of the OCSLA requires the Secretary of the Interior to prepare and maintain an oil and gas leasing program that indicates the size, timing, and location of leasing activity determined to best meet national energy needs, and other objectives directed by the OCSLA for the 5-year period following its approval.

Development of a 5-year program allows an efficient allocation of planning resources by all concerned: Federal agencies, the coastal States, the oil and gas industry, and other stakeholders. The current 5-year program covers the period from July 1992 to July 1997. Preparation of a new 5-year program (1997-2002) was completed with the issuance of the proposed final program in August 1996. The Secretary approved the new 5-year program in November 1996. After program approval, the OCSLA requires that the Secretary review the leasing program at least once each year.

### 2. The Prelease Planning and Decision Process.

Prelease planning and decision includes extensive consultation with States, coastal communities and other concerned parties to develop leasing proposals.

In the next few years, a great majority of the leasing workload will be determined by the timing of the proposed lease sales as follows:

Proposed Lease Sales Schedule					
Sale Number, Area	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
170 - Beaufort Sea					
169 - Central GOM					
171 - Western GOM					
172 - Central GOM					
174 - Western GOM					
173 - Cook Inlet/Shelikof Strt.					
175 - Central GOM					
176 - Beaufort Sea					

### Objectives

- ✓ Conduct Policy Analysis and Dialogue with Constituencies to develop the 1997-2002 5-Year Program.
- ✓ Implement the Prelease Planning and Decision Process for lease sales scheduled in the 1997-2002 5-Year Program.
- ✓ Conduct Alternative Dispute Resolution (ADR) to resolve conflicts and build consensus.

Proposed Lease Sales Schedule					
177 - Western GOM					
178 - Central GOM					
180 - Western GOM					
179 - Gulf of Alaska					
181 - Eastern GOM					
182 - Central GOM					
183 - Chukchi Sea/Hope Basin					
<i>Note: The amount and timing of the receipts from these sales is discussed later in the Receipts section</i>					

The pre-lease planning process has been modified to reflect the different leasing circumstances in the Central and Western GOM and Alaska. The major differences between the two are that for the first time, sales in the Central and Western GOM will use a multi-sale EIS which enables MMS to conduct the prelease decision processes for subsequent sales in a more efficient manner. Alaska will continue to prepare an EIS for each proposed sale. In addition, Alaska will use the newly-chartered Alaska OCS Region Offshore Advisory Committee at specific stages during the decision process to provide a forum through which affected Alaska stakeholders can collectively and jointly make recommendations on a specific lease sale proposal in a timely manner consistent with lease sale schedules.

Listed below is a brief description of the steps in the prelease planning and decision process and the workload associated with each element.

- ☛ **Call for Information and Nominations (Call).** The Call is the first step in the prelease process. The Call invites interested bidders to nominate areas for leasing within areas identified for leasing consideration in the 5-year program. It also asks all interested parties to submit written comments on any issues of concern. The Call is published in the Federal Register with a 45-day comment period.
- ☛ **Area Identification (AI).** Based upon the information gathered through the Call a decision is made regarding whether to proceed with the proposed action and an AI is made and announced through a Press Release. There will be one decision memo for AI issued in FY 1998 for Sale 176 - Beaufort Sea. (The AI for all of the Central and Western sales will have been completed in FY 1997.)
- ☛ **Consistency Determination (CD).** After receipt and analysis of comments on the draft EIS (and consideration of reviews required by other environmental laws such as the Endangered Species Act), MMS decides whether to start preparation of a final EIS and a CD. The CD, issued about the same time as the FEIS, is required by the Coastal Zone Act Reauthorization Amendments of 1990. The CDS are sent to the appropriate State agencies to agree/disagree within 45-60 days of their receipt as to whether the proposed sale is consistent with the State's Coastal Zone Management Plan. In the GOM, 6-8 CDS will be completed in 1998. In Alaska, one CD will be prepared in 1998 for Sale 170.

- ☛ **Proposed Notice of Sale.** In preparing the decision material for the proposed Notice, MMS considers all the information gathered throughout the prelease process. The proposed Notice provides information to the public on the size, timing, and terms and conditions of the leases. MMS tells the public that the proposed Notice is available for review through a Notice of Availability published in the Federal Register. In the GOM, two proposed Notices are prepared each year, one for a Central and one for a Western Gulf Sale. Two proposed Notices are scheduled for 1998 in the GOM. One proposed Notice is scheduled for Alaska in 1998.
- ☛ **Letters to the Governors.** Under requirements of Section 19 of the OCSLA, Governors of the affected States are sent copies of the proposed Notice for their review and recommendations regarding the size, timing, and/or location of a proposed lease sale. In the GOM four letters are prepared for a Central Gulf and Western Gulf sales each year. In Alaska, one such letter is prepared for the proposed Notice for each sale.
- ☛ **Balancing Letters.** When the Secretary decides on the terms and conditions of the lease sale, taking into consideration comments of affected States, the Governors are informed in writing whether their recommendations were accepted or rejected. In the GOM, four letters are prepared each year for the Central Gulf and Western Gulf sales. In Alaska, one letter will be prepared for Sale 170 in 1998.
- ☛ **Final Notice of Sale.** A minimum of thirty days before a Sale is held, a final Notice is published in the Federal Register. MMS prepares decision material covering environmental information, oil and gas potential, use conflicts, and state and local concerns for a decision on the final Notice by the Assistant Secretary, Land and Minerals Management. The final Notice includes the date, time, and location of the bid opening, the blocks offered, and the terms and conditions of the sale. In the GOM, two final Notices are produced each year, one for the Central Gulf sale and one for the Western Gulf sale. In Alaska, one final Notice will be prepared in 1998 for Sale 170.
- ☛ **Sale.** Sales of Federal offshore leases are conducted under competitive sealed bidding procedures. Bids submitted for a specific lease sale are opened and read in public. MMS adjudicates each apparent high bid to assure that it complies with the submitting company's legal authorizations which are on file, and for compliance with various regulations and legal notices. Upon verification, the highest valid bid for each block is evaluated to determine if it meets or exceeds bid adequacy criteria. Two sales are held each year in the GOM, one in the Central Gulf and one in the Western Gulf. One sale will be held in Alaska in 1998, Sale 170.

A bid-specific data base is developed which details each bid submitted, companies participating individually and as joint ventures, percentages of interest by company by bid, bids by lease term and royalty rate, etc. Several post-sale reports are generated and communicated on sale day to both the Department of Justice and the Federal Trade Commission for antitrust review purposes. Clearance from both agencies is required before leases can be issued.

Bid adequacy is determined in two phases. Phase one is generally completed within two weeks. Bids not meeting phase one criteria are technically and economically reviewed in detail during phase two which, by regulation, must be completed within 90 days of sale.
- ☛ **Conflict Management.** Alternative Dispute Resolution (ADR) encompasses a spectrum of ways to resolve conflicts in lieu of litigation, including informal discussions and negotiated rulemakings. The Offshore program is expanding an ADR approach of collaborating with local interests directly affected by

OCS development, including environmental groups and State and local governments. This expanded approach includes the establishment of subcommittees of the OCS Policy Committee as well as the expansion of that Committee as an MMS-wide ADR forum. The Alaska OCS Region Offshore Advisory Committee will provide input to the Region throughout the pre-sale process. A new GOM satellite office has been established in Pensacola, Florida, to provide information to local constituencies regarding offshore activities in the Florida Panhandle.

### 3. *Post-Lease Adjudication Process.*

Once leases are issued, records relating to assignment of record title interest, operating rights, mortgages, and production status must be maintained for the life of the lease. Leases issued during the late 1940's and early 1950's are still in producing status. As of September 30, 1996, the GOM Region had 5,706 active leases. An increase in the number of operators and an active assignment market, mainly in the Gulf of Mexico Region, has resulted in an ever-increasing adjudicative workload to document record title, operating interest, and designated operators.

During the lease assignment process, supplemental bond compliance often is the primary MMS prerequisite to approval. Such a requirement is necessary where a lease has existing oil and gas facilities and none of the post-assignment record title holders has been deemed exempt from supplemental bond coverage. This involves consideration of the financial strength of the company. The transfer of producing leases (with major production facilities) from large to small companies could increase the risk of insufficient coverage due to a bankruptcy. The prospect of incurring costs into the millions of dollars for abandonment and cleanup has resulted in MMS requiring additional supplemental bonding security.

Upon sufficient proof of compliance, including coordination with the Federal Reserve Bank, and completion of other adjudication procedures, the assignment is eligible for approval. The entire process may take 4 weeks to a year.

The following workload table reflects consolidated numbers for all of Offshore; however, the vast majority of the workloads is being experienced by the Gulf of Mexico Region.

<b>Ongoing Workload</b>			
	FY 1996 Actual	FY 1997 Estimate	FY 1998 Estimate
Active Leases at end of FY (*does not include GOM Sale 161, Sept. 96)	* 5,840	6,841	7,294
Assignments	1,702	1,884	2,068
New Companies Qualifying	123	134	145
Qualification Updates	525	603	666
Lease/Right-of-Way Pipeline Relinquishments	113	126	137
Lease/Right-of-Way Pipeline Cancellations/Expirations	375	412	473
Surety Bonds	152	170	186

Ongoing Workload			
Supplemental Bonds	28	34	37
Non-required Filings	2,257	2,488	2,739
Customer Calls for Information/Assistance	12,817	14,339	15,658
Customer Visits	3,042	3,219	3,563
Surety Bonds Cancellation/Replacements	67	76	83

### Workload Definitions

**Active Lease.** Any lease that is within its initial or primary term or a lease that has drilling or production activity.

**Assignment.** Transfer of specified interest or title of an active lease from one company to another.

**New Company Qualifying.** The necessary documentation to substantiate that a company is authorized to own/operate leases.

**Qualifications Update.** Changes to the initial qualifying company information, such as signing authority, changes of company name, or merger of one company into another.

**Lease Relinquishment.** A statement filed by an active leaseholder giving up all rights, title, and interest in the lease.

**Lease Cancellation/Expiration.** A lease that fails to meet or maintain required activity is cancelled by the MMS. An active lease within its primary term which has never had any activity expires at the end of the primary term. A producing lease terminates after 90 days of no production.

**Surety Bonds.** MMS regulations require lessees to furnish lease-specific surety bonds conditioned on compliance with all the terms and conditions of the lease. Lessees have the option to furnish, in lieu of separate lease bonds, a corporate surety bond for all oil and gas and sulphur leases held by the company. Holders of pipeline rights-of-way are required to furnish a separate \$300,000 corporate surety. Some small companies opt to meet surety bond requirements by pledging U.S. Treasury Notes as security.

**Supplemental/Additional Bonds.** The Regional Director has authority to require additional security for liabilities associated with a specific lease. Some small companies opt to meet this requirement by pledging U.S. Treasury Notes as security.

**Non-required Filings.** Industry has increased non-required filings of documents indicating items such as the placement of or release from loans secured by the borrower's interest in the lease. Increased activities may be due to several reasons:

- ☛ filing with MMS is becoming more of an accepted practice with industry even though it is not required;

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- ☛ some parish filing fees are high and industry may be saving significant dollars by filing with MMS only once versus filing with several parishes; and
- ☛ industry is finding that MMS filings provide a coordinated reference source for title searches.

**Customer Calls.** Numerous phone calls are received requesting information or assistance. There is an expected increase in customer calls during FY 1997 resulting from an increase in the number of operators and increased interest in offshore leasing. A computerized assignment tracking system will allow quicker handling of customer questions.

**Customer Visits.** Industry representatives often walk into the regional offices for assistance in several different functional areas such as: the official record title lineage of a lease; company qualification information as to who in a company has been granted specific authorities; who owns/operates specific leases; what operating rights have been assigned to whom; etc. The number of visitors may decrease in FY 1997 after a proposed computer dial-in system comes on line. This system will enable a person to dial in and view various fields of information, thus eliminating the need for a visit.

### ***4. Other Activities.***

#### **Leasing Area Maps and Diagrams**

The OCS must be accurately defined to assure that only Federal lands are offered for lease by the Federal Government. This coordinate infrastructure is referred to as the official offshore cadastre. It is being updated to reflect the Agency's efforts to implement the NOAA's June 14, 1989, Federal Register Notice (54 FR 25318) mandating implementation of the North American Datum of 1983 (NAD 83). The official MMS NAD 83 Implementation Plan was published in the Federal Register on May 1, 1991. Official offshore coordinate data must be developed for areas not currently offered for lease. This work is necessary to comply with new statutory and regulatory requirements including:

- ☛ Oil Pollution Act of 1990;
- ☛ Office of Management and Budget (OMB) Circular A-16, Coordination of Surveying, Mapping, and Related Spatial Data Activities;
- ☛ Executive Order 12770, July 25, 1991, Metric Usage in Federal Government Programs;
- ☛ Executive Order 12906, April 11, 1994, Coordinating Geographic Data Acquisition and Access: The National Spatial Data Infrastructure; and
- ☛ Article 76 of the 1982 United Nations Law of the Sea Convention and Department of State request to define the fullest extent of U.S. jurisdiction for the entire U.S. coast and that of its territories.



Ongoing Workloads			
	FY 1996 Estimate	FY 1997 Estimate	FY 1998 Estimate
<b>Protraction Diagrams</b>			
NAD 27	0	20	0
NAD 83	100	150	75
<b>Official Block Diagrams</b>			
NAD 27: State Seaward BDY Limit of 8(g) Zone **Block BDY Blocks	0  175	528 475 0	0  0
NAD 83: State Seaward BDY Limit of 8(g) Zone **Block BDY Blocks	750  550	1040 956 150	724 818 260
Special Block Diagrams	150	75	100
Data Base Development	4 FTE	5 FTE	5 FTE

The NAD 83 effort will require the MMS to redefine approximately 425 existing Official Protraction Diagrams (OPD's) and Leasing Maps (LM's) and 12,000 Supplemental Official OCS Block Diagrams (SOBD's) on the new datum. A number of new official output products will be required in order to define existing NAD 27 leases on the NAD 83 datum, to depict ambulatory leasing boundaries, and to delimit the U.S. Exclusive Economic Zone (EEZ) and international maritime boundaries. Complete offshore cadastre coverage of all relevant areas may generate as many as 200,000 diagrams.

The Block and Boundary component of the Technical Information Management System (TIMS) defines and maintains the official offshore NAD 27 and NAD 83 cadastres. These cadastres use geographic coordinates to provide accurate legal definitions of the OCS for administrative, jurisdictional, and leasing purposes. Accordingly, the Block and Boundary component is integral to the development of numerous other TIMS components.

The MMS Mapping and Survey Staff is working with coastal States (including Alaska, Texas, and Florida) to jointly develop and fix, by decree of the U.S. Supreme Court, the Federal/State offshore Submerged Lands Act (SLA) boundaries. These collaborative efforts reduce the extent of costly and time-consuming Federal/State jurisdictional disputes. Jurisdictional disputes that are not resolved have the potential for delaying and/or reducing the leasable areas proposed for Federal and State offshore natural gas and oil development. In addition, the aforementioned systems and processes are being used to support all offshore sand and gravel efforts currently being developed in the Atlantic and GOM areas.

#### **Advisory Board Coordination**

The Minerals Management Advisory Board was established to provide advice to the Secretary and other officers of the DOI in performing discretionary functions of the OCSLA and to address royalty related issues. The OCSLA

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requires that Interior consult with affected States and other interested parties on all aspects of leasing, exploration, development, and protection of the resources of the OCS. The Advisory Board provides a formal mechanism for this consultation. It directly influences the program by providing a unique forum for conflict resolution and policy development for this critical national energy program. The Advisory Board, is comprised of the:

- ☛ OCS Policy Committee;
- ☛ Alaska OCS Region Offshore Advisory Committee (AOROAC);
- ☛ OCS Scientific Committee; and
- ☛ Royalty Policy Committee.

The OCS Policy Committee advises the Secretary on the national policy implications of managing the OCS resources. The AOROAC advises the Regional Director, Alaska Region, on all aspects of the lease sale process. The OCS Scientific Committee advises MMS on the feasibility, appropriateness, and scientific value of the Environmental Studies Program. It reviews the relevance of data being produced by the program and recommends changes in its scope, direction, and emphasis. The Royalty Policy Committee advises MMS on royalty management and other mineral-related policies.

The members are appointed by the Secretary and provide advice to officials within the DOI. The membership is balanced as required by the Federal Advisory Committee Act (FACA) to ensure that all interested constituencies, including the coastal States, are adequately represented. The Advisory Board committees convene several times a year and have distinct purposes as explained in their charters.

The Advisory Board committees frequently appoint subcommittees for in-depth analyses of specific issues, and their findings are reported back to the standing committees. These subcommittees are dissolved after they have given their report to the standing committee. Subcommittees are frequently appointed at one meeting and dissolved at the next biannual meeting. The Committee Chairman usually appoints between five and ten members.

The OCS Policy Committee currently has two subcommittees which address legislative, mineral, moratoria, and regional issues. The subcommittees are:

- ☛ the Hard Minerals Subcommittee and
- ☛ the Subcommittee on Environmental Information for Select OCS Areas Under Moratoria.

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

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**Justification of Program Changes**

	1998 Budget <u>Request</u>	Program Changes <u>(+/-)</u>
\$ (000)	15,724	0
FTE	205	0

**Environmental Assessment/Land Law Examiners, (+\$375,000, +6 FTE)**

The GOMR requires four additional Environmental Scientists and two Land Law Examiners to handle additional workload resulting from the larger GOMR sales and the new deepwater developments.

In FY 1996, the GOMR staff completed 246 Environmental Assessments (compared to 145 in FY 1995), 1,196 Categorical Exclusion Reviews (1,138 in FY 1995), 302 Environmental Report/Information Reviews (320 in FY 1995), 998 Air Quality Reviews (1,255 in FY 1995), 740 Archaeological Reviews (664 in FY 1995), 60 Biological Reviews (32 in FY 1995), and 604 oil spill reviews (including Regional and Site-Specific – 879 in FY 1995). In addition, they completed many other tasks, including writing portions of Environmental Impact Statements. The current staff are fully occupied with this workload.

Recent sales and future lease sales are projected to continue to result in large numbers of blocks being leased for a number of years to come. Each lease results in multiple new actions for the GOMR environmental staff, e.g., Exploration Plans, Development Operations Coordination Documents, and Pipeline Applications. The trend toward deepwater leases is also a reality. As a result of this, environmental analyses are becoming more complex and time-consuming.

The Land Law Examiners are needed for workload associated with additional assignments of title and company qualifications resulting from the significant increase in the number of active leases and the amount of legal activity the GOMR is experiencing. Besides new companies qualifying to do business with MMS, there are updates to these qualification files, mergers, name changes, acceptance of new general and supplemental bonds, cancellation of bonds, etc..

For example, the number of new companies qualifying to do business with MMS in FY 1996 was 104 as compared to 74 for FY 95. The number of new leases issued in FY 1996 was 1,400, as compared to 598 for FY 95. The Gulf Region of MMS adjudicated 1,555 transfers of interest in leases between companies in FY 1996, and currently have a significant backlog pending. We currently have two Land Law Examiners handling the bulk of the legal work, with an additional two technicians shouldering the responsibility for maintenance of the MMS lease administration corporate data base.

**Leasing and Environmental Assessment Decrease (-\$ 375,000, -6 FTE)**

In the Outer Continental Shelf (OCS) Lands Program, the focus has been directed to areas that currently have ongoing development and production or the near-term potential for development and production. As a result, the Atlantic regional office has been closed, the Alaska regional office has been decreased by 50 percent, and the Pacific regional office has decreased by 25 percent with all prelease activities being eliminated. Implementation of MMS 2000 in FY 1997 completes the Offshore streamlining and downsizing effort and reduces Headquarters offices by more than 25%.

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The FY 1997 buyouts and implementation of MMS 2000 will enable Offshore to eliminate additional positions, in Headquarters and the Pacific Region, in FY 1998. These streamlining efforts will result in Offshore-wide savings of \$1,723,000, including a savings of \$375,000 in the Leasing & Environmental Assessment subactivity.

### Effect of MMS 2000

The abolishment of Office of Management Support in FY 1997 resulted in the transfer of \$180,000 and 2 FTE to the Leasing & Environmental Assessment Program. An additional \$100,000 and 1 FTE was transferred from the Offshore Leasing & Environmental Assessment Program to the Policy and Management Improvement Program for MMS Advisory Board oversight and coordination. This change is reflected in the Crosswalk table in the budget summary section.

**Resource Evaluation Program**  
**Justification of Program and Performance**  
**Analysis by Subactivity**  
*dollars in thousands*

		1997 Enacted	Uncontrollable Related Changes	Programmatic Changes	1998 Budget Request	Change from 1997
Resource Eval. Subactivity						
Appropriation	\$	11,332	418	2,300	14,050	2,718
	FTE	138	0	1	139	1
Offsetting Collections	\$	7,071	0	0	7071	0
	FTE	71	0	0	71	0
<b>TOTAL RE</b>	<b>\$</b>	<b>18,403</b>	<b>418</b>	<b>2,300</b>	<b>21,121</b>	<b>2,718</b>
	<b>FTE</b>	<b>209</b>	<b>0</b>	<b>1</b>	<b>210</b>	<b>1</b>

### Program Description

The RE program acquires and analyzes geologic, geophysical, and other geoscientific data and information essential to support OCS program decisions and ensures that the Government receives fair market value (FMV) for mineral rights to OCS lands. The program responsibilities encompass all cycles of OCS program activities: identification of broad areas of the OCS thought to be most promising to contain natural gas and oil; determination of specific values for individual tracts offered for sale; and ensuring that eventual discoveries are developed and produced in accordance with the goals and provisions of the OCSLA. Current proved reserves of approximately 3.5 billion barrels of oil and 30 trillion cubic feet of natural gas will produce several billion dollars in future royalty payments. Additionally, significant quantities of undiscovered crude oil and natural gas resources are thought to exist on portions of the OCS which could help meet the future natural gas and crude oil needs of the Nation as well as providing billions of dollars to the US Treasury through bonus bids, rentals, and production royalties if leasing occurs.

### Objectives

The main objectives of the Resource Evaluation (RE) program are to:

- ✓ Obtain and analyze proprietary geological and geophysical (G&G) data and information, and conduct resource and reserves studies of OCS lands to determine: (1) whether geologic conditions for energy or non-energy minerals exist, (2) where potential concentrations of resources and reserves are located, (3) the size of the accumulations and the likely amount of resources those accumulations may contain, and (4) the economic value of the resources and reserves.
- ✓ Advise Department and Bureau management on matters related to the OCS leasing and regulatory programs and issues from a petroleum geology and resource economic perspective.
- ✓ Collect economic data/conduct studies necessary to support the development of a comprehensive 5-year leasing program and ensure that the public obtains fair market value from individual lease sales under that program.

*continued on next page*

The majority of the RE program activities are performed by geologists, geophysicists, petroleum engineers, and other technical and support personnel in regional offices who (like industry counterparts) gather and analyze data and information pertinent to the probabilities that natural gas and oil may exist in areas under study. The MMS uses proprietary data and information gathered by industry (under permits issued by MMS regional offices) as well as academic studies and public information to conduct broad-based resource assessment, such as the joint "National Assessment" undertaken with the USGS, which identifies areas with promising resource potential for future program decisions. More detailed analyses are performed on those most promising areas to determine the amounts of natural gas and oil which may exist, whether such accumulations may be economically viable for exploration and development and the mineral and economic benefits which may result from leasing the area. (These benefits are then compared with the social, environmental, and economic costs of leasing.) In the event that leasing is scheduled, very specific studies of individual tracts being offered for lease are undertaken to estimate the value of tracts being offered (based upon the amount of natural gas and oil which may exist beneath the tracts). These values are then used in conjunction with related market-based criteria set forth in predetermined bidding rules to evaluate the adequacy of bids submitted by private companies—thereby ensuring that the Government receives fair compensation for leasing these mineral rights. Subsequent to leasing, industry exploratory, development, and production activities provide additional geologic data and information to RE program offices which are then incorporated into existing databases and may introduce changes to the previous expectations of the area. (For example, drilling a well may produce oil or natural gas in zones previously not expected to have oil or natural gas or may not find oil or natural gas in geologic formations expected to contain these minerals. Whatever the result, these new "facts" must then be factored into future leasing and valuation decisions.)

- ✓ Publish/make available timely information pertinent to the mineral potential of the OCS to the public, academia, and private industry.
- ✓ Conduct continuing investigations of OCS lands necessary to estimate current discovered crude oil and natural gas resources (including speculative resources).
- ✓ Conduct continuing reviews of available bidding systems and specific bidding variables for leasing OCS tracts and their effectiveness in accomplishing the objectives of the OCSLA and Amendments.
- ✓ Improve partnership efforts with coastal States in identifying and evaluating Federal OCS non-energy; mineral resources with a focus on sand for shoreline protection, beach and barrier island restoration, and wetlands protection; fully implement P.L. 103-426.
- ✓ Provide technical support to the Department of State develop mechanisms for cooperation with counterpart agencies in foreign countries, and respond to invitations to provide technical assistance on a cost reimbursable basis.
- ✓ Develop procedures and regulations for processing and implementing the royalty suspension provisions of the OCS Deep Water Royalty Relief Act, P.L. 104-58.

RE functions utilize proprietary geological and geophysical data and information gathered by private companies on unleased and leased lands and have the capability to integrate these data and information with existing data and information. Therefore, geologic assumptions and interpretations of areas are constantly undergoing changes and modifications introduced by new data, information, geologic interpretations, and technological improvements (such as innovations in the collection and interpretation of seismic data).

RE program activities also include the development and maintenance of complex ADP-based databases and mathematical and economic models which are used in FMV determinations. Such models and databases are also necessary to evaluate broader sale design options and OCS program and policy issues, including cost-benefit analysis of potential legislative proposals impacting OCS activities, as well as day-to-day lease regulatory decisions.

**Industry Trends** In recent years, the oil and natural gas industry practices of collecting and analyzing geological and geophysical data and information have changed dramatically with the advent and use of computer-assisted data interpretation and analysis systems. Such systems use powerful computer workstations, sophisticated software, and massive databases in an integrated and interactive manner to determine possible locations of natural gas and oil and to estimate the size of potential fields. A significant factor in the process is the incorporation of 3-dimensional (3-D) seismic data. This allows scientists to evaluate geologic features that were virtually undetectable using the standard 2-dimensional (2-D) data. Several recent major discoveries in the GOM, including "subsalt" discoveries, have resulted from applying these techniques.

The other major advance provided by these tools is the ability to integrate extensive amounts of geological and geophysical data and information into a single interpretation. This is often critical in defining the subtle oil and gas prospects that are today's exploration targets in mature areas like the GOM as well as frontier areas such as Cook Inlet and the Beaufort Sea.

**Legislative Initiatives** During FY 1996, implementation of the OCS Deep Water Royalty Relief Act (P.L. 104-58, November 28, 1995) (DWRRA), which amended the OCSLA, generated some major changes in the OCS program. Two sets of regulations were promulgated to address the dual mandates of the DWRRA: (1) All lease sales held during the next 5 years must use a bidding system that provides for royalty suspensions for all tracts located in water depths of 200 meters or more in the GOM west of 87 degrees, 20 minutes West longitude. (2) Implementation of royalty suspensions on existing leases in the same areas and water depths as in (1) above after submission of an application and a determination that new production would be uneconomic from such leases or unit without royalty relief.

Industry's response to the new lease provisions of P.L. 104-58 played a significant role in generating the two largest lease sales, measured in tracts receiving bids and total number of bids, in the history of the OCS leasing program. The 1996 Central and Western Gulf of Mexico lease sales added 904 new leases in deep water areas which had high bids in excess of \$490 million. The industry response to the regulations authorizing royalty suspensions for uneconomic production from existing leases was far more modest. Though extensive comments were received, only one application for deepwater royalty relief was received shortly after the end of FY 1996. The comments and the absence of applications indicate that industry would prefer to await the final rule, which is expected in late FY 1997.

**Technical Information Management System (TIMS) Activities** The MMS has been able to incorporate 3-D seismic data as an integral component of the TIMS project. As a result, approximately 20 workstations were available in the GOM Region during FY 1996 for approximately 100 geologists, geophysicists, and engineers to share. In addition, FY 1996 saw 3 workstations installed for 12 geologists and geophysicists in Alaska. The workstations are an important tool in performing resource evaluation functions - - including critical tract evaluation/bid adequacy determinations and field delineation (reserves) analyses.

The MMS is acquiring 3-D seismic data (as well as other digital information) currently being collected by geophysical contractors throughout the GOM Region as well as other active areas of natural gas and oil exploration and development. Using these data and information, MMS utilizes the interactive evaluation of tracts using workstations acquired through the Geologic Interpretive Tools (GIT) project. Concurrently, MMS will convert or selectively repurchase our existing paper 2-D seismic information so that much of the approximately 1.5 million line-miles of these data will be in digital form, and, through a contractual arrangement, 100,000+ paper well logs, in the GOM alone will be converted in a form usable by these computer-based workstations.

## Resource Evaluation Program

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The MMS is integrating historical interpretations into the TIMS database. This includes the integration of data from approximately 1,000 fields and 20,000 reservoirs, prospect evaluations from previous lease sales, regional maps, seismic navigation data, and other studies and investigations. While this effort is ongoing, the necessary task to populate the G&G database with the huge inventory of well logs, directional surveys, and velocity surveys is being undertaken. (See section entitled G&G Data Acquisition and Analyses for specific information.)

Based on the previous discussion, the work of the RE program has been divided into nine major subelements and their description follows. Within some of the subelements, major accomplishments also have been included.

### 1. Regulation of Data Collection

Ongoing Workload Number			
	1996 Actual	1997 Estimate	1998 Estimate
G&G Permits Processed and Approved	126	150	150

The objective of this component of the RE Program involves the development and implementation of the regulations, rules, and procedures which must be followed by any party who collects prelease G&G data and information on the OCS for purposes related to mineral exploration, development, or production. The general purpose of these regulations (30 CFR Parts 251 and 280) is to ensure that prelease exploration and scientific research operations in Federal waters do not interfere with each other, with lease operations, or with other uses of the area. Adherence to these regulations will ensure that exploration and research activities will be conducted in an environmentally safe-manner and not interfere with other activities occurring in the area.

These regulations govern the permitting, data collection, and release of information. They prescribe when a permit or a notice is required, operating procedures for conducting activities, requirements and conditions for release of data and information, and reimbursement to permittees for reproduction costs of the data and information for MMS. The level of permitting activity is expected to increase by approximately 20% over FY 1996 levels due to resurveying efforts by industry (collecting 3-D seismic data over the entire GOM), as well as renewed leasing activities in the GOM.

### 2. G&G Data Acquisition and Analysis

Ongoing Workload Number			
Seismic Data Acquisition	1996 Actual	1997 Estimate	1998 Estimate
2-D (line-miles)	36,413	16,000	50,000
3-D (blocks)	1,350	2,200	2,500

**G&G Data Acquisition** The primary source of the G&G data and information used by the RE Program is the oil and gas industry which conducts exploration, development, and production activities on OCS lands. While the MMS does not perform any direct data collection activities, permits issued to industry for collecting G&G data include a stipulation that allows MMS to inspect the data and selectively acquire portions for only the cost of



reproduction. However, if industry has collected data in areas not under MMS jurisdiction, e.g., State waters or adjacent foreign waters, MMS must pay the significantly higher "market price" for obtaining such data.

The data and information are used by RE geologists, geophysicists, and engineers to perform a variety of analyses including: (1) regional geologic mapping and analyses to determine major areas of hydrocarbon potential on the OCS, (2) detailed evaluation of individual OCS tracts to determine the potential Fair Market Value (FMV) of the tract for bid evaluation purposes, and (3) reserve estimates of the known discoveries of oil and gas as well as the development of resource estimates of possible occurrences of undiscovered gas and oil.

**Seismic Data Acquisition** In FY 1996, 87 percent of all funding allowed for G&G data was for seismic data acquired in the GOM. Lesser amounts of funding were for data acquired in Alaska (12 percent) and the Pacific (1 percent). In FY 1996, 3-D seismic data continued to be acquired and incorporated into the GOM database. The relative proportion of 3-D acquisitions to 2-D acquisitions will continue to grow in FY 1997 and later years as full-scale implementation in the GOM Region proceeds and GIT continues to be implemented in the other regions. However, 2-D seismic data acquisitions must be maintained to evaluate acreage for scheduled lease sales in Alaska.

**Conversion** Concurrently, MMS must initiate a data conversion process to convert its entire existing database into a digital form usable by the new computer-assisted workstations -- a project which will take several years at current funding levels. In some instances, MMS can reacquire some of these data in the newer, digital formats at rates below data conversion prices, as is currently being done in the GOM and Alaska. However, some older data simply do not exist in this format and must be converted through other methods such as scanning or digitizing. This is needed for the Bureau modernization effort in support of tract evaluation, reserves inventory, regional mapping and assessment, and unitization functions. In some cases, such as for digital well logs, contractual assistance has become necessary.

**Other Data Acquisitions** Other data acquisitions include navigational data sets, directional surveys, velocity surveys, and well logs.

### *3. Resource Assessment*

The objective of this component of the RE program is to identify geologic plays on the OCS that offer the highest potential for natural gas and oil and non-energy development and production. Following the identification of geologic plays, a thorough analysis of the play's hydrocarbon potential occurs. An assessment of the play's undiscovered resource potential, and its economic viability, is made using state-of-the-art computer-based geologic models. This will focus the necessary studies to identify both environmental and operational constraints as well as assist in the consideration of eventual leasing decisions.

The relative success of this component requires access to and use of a broad array of G&G data, information, and studies. Long lead times are often required to identify and determine whether geologic conditions exist for accumulations of non-energy or energy minerals, whether a basin may be oil- or gas-prone, and determining the presence of reservoir rocks, source rocks, and similar conditions associated with natural gas and oil accumulations. The results of this work are subject to change and are updated as new data and information are generated and acquired. In the early stages, this component will focus on entire planning areas, but as more data and information are acquired, the focus shifts to sale- and prospect-specific areas to be offered for lease, or which are related to a specific issue, i.e., moratoria, marine sanctuaries, lease buybacks, etc.

In FY 1997, resource assessment activities will be focused primarily on publishing regional results, data and information resulting from the MMS National Assessment and will utilize this information in other MMS program

areas. This follows the development of a new methodology to assess the technically-recoverable undiscovered hydrocarbon resources on the OCS. All of this information, e.g., identification of plays, the assessment of the hydrocarbon resources that may be present, and their economic viability, feed into the 5-year oil and gas program formulation process, specific lease sale decisions, and Administration and Congressional policy and legislative proposals affecting OCS lands.

Additional activities occurring under this component are day-to-day activities necessary to provide technical input to other issues that come about, such as moratoria, marine sanctuaries, shipping and transportation lanes, DOD and NASA concerns, etc.

#### ***4. Resource Estimation (Undiscovered Resources)***

This component of the RE program focuses upon developing estimates of the possible amounts of undiscovered, natural gas and oil believed to exist under Federal waters. The estimates are developed using complex computer models and methodologies that incorporate specific geologic information, mathematical and statistical analyses, risk and probability theories, and a variety of assumptions pertaining to economic scenarios, petroleum engineering data, and a variety of additional technical assumptions. Resource estimates can address vast areas, such as the GOM, offshore Alaska, or the entire OCS, but are also made for smaller areas, such as a particular lease sale or deferral option. The estimation process requires that estimates be developed for "technically recoverable" natural gas and oil quantities which may exist but are yet to be discovered, as well as estimates for those resources that may be economically viable for exploration, development, and production under varying economic scenarios. Similarly, estimates of undiscovered resources on tracts currently leased are estimated separately from those on unleased lands. All of these must be periodically revised as economic scenarios and the lease inventory changes in each planning area.

Resource estimates must also be developed to support critical analyses of potential impacts of policy options, legislative proposals, EIS's, and industry activities affecting OCS natural gas and oil activities -- both future and current. Resource estimates for the OCS are required to be continuously reviewed, updated, and reported to Congress every 2 years.

#### **Lease Sale Support**

During FY 1997, resource estimates will be developed for analyses and decisions for specific sales being considered in FY 1998 and FY 1999. The estimates will be used to analyze the potential environmental impacts of the proposed sales and alternatives and for economic analyses necessary to identify decision options, for departmental officials, related to each specific sale. Resource estimates must also be developed for special activities of other miscellaneous OCS issues and decisions, e.g., legislative proposals, OCS marine sanctuary designations, marine boundary negotiations, oil spill trajectory models, and other similar special issues.

## 5. Resource Economic Studies

Ongoing Workload Number			
	1996 Actual	1997 Estimate	1998 Estimate
Sale related (E&D reports, NEPA and other decision documents, bidding system design, cost estimates and price forecasts)	6	5	4
Special Studies	20	30	30
Royalty Relief Requests Completed	2	10	20

This component of the RE program addresses specific economic issues and information associated with the OCS program as a whole and its relationship to private industry, governmental entities (e.g., States, Congress, the Department of Energy, and other DOI bureaus, and the general public). Economic and statistical analyses are performed which incorporate RE program data and information into the overall MMS and departmental leasing policies and program decisions. This function requires sophisticated statistical and analytical modeling capabilities and access to a diverse array of data sources on: mineral, natural gas and oil prices; industry investment patterns; exploration, development, production, and transportation costs; supply and demand factors; financial market conditions; tax laws; and a myriad of other related issues.

**Sale-Related Studies** These are used to design the terms and conditions for individual lease sales including rental amounts, length of primary term, and bidding systems (royalty rates and suspensions and minimum bid levels). Other analyses provide information for Exploration and Development (E&D) reports and decision documents as well as the economic guidelines (price and costs) for bid adequacy determinations. Broader sale-related studies are conducted to estimate future revenues and other economic benefits arising from OCS leasing decisions or policy initiatives. In FY 1996, IMODEL was used to develop sale designs related to implementation of the OCS Deep Water Royalty Relief Act and its effect on lease terms and conditions on the pace of leasing and the amounts paid for leases.

In FY 1996, sale-related studies supported two GOM lease sales as well as bonus revenue estimates. In FY 1997 and FY 1998, analyses will support one Alaska and two GOM lease sales and bonus revenue estimates each year.

**Special Studies** These are gaining importance as the OCS leasing program matures. The economic analysis expertise of RE is often called upon to analyze regulatory and legislative proposals affecting OCS leasing, exploration, development, and production activities. Ad hoc studies address specific policies and compilations of data needed to analyze overall OCS program activities.

In FY 1996, RE conducted special studies addressing proposed legislation on issues like royalty relief for development of deepwater prospects and buybacks of leases in environmentally-sensitive areas. Analyses of alternative leasing strategies, relationship of pre-exploration probabilities to actual production, rates of return from OCS development, incentives to make marginal prospects in the GOM attractive to develop, and the sale of offshore revenue streams contributed to the workload in FY 1996.

These studies resulted in regulations to allow the use of fixed or sliding-scale royalty rates lower than 1/8 or the use of royalty suspensions in bidding for OCS tracts as mandated in the OCS Deep Water Relief Act. In addition, the

FY 1996 studies supported changes in regulations that allow for up to 180 days between approved activities in the extension of leases after primary term, and modification of the 10-year terms for deep water leases in water deeper than 800 meters (formerly 900 meters). The FY 1996 special studies also supported changes in policies to eliminate the 3-bid rule, raise rental rates in deep water, publish a list of tracts with indicated hydrocarbon potential prior to each sale, and conduct a study of electronic bidding. Taken together the changes in regulations and policies supported by special studies should enable MMS to make marginal tracts available for leasing with more attractive terms while still ensuring the receipt of FMV.

The FY 1997 efforts will include pursuing rental and royalty suspension options and updating cost data in support of MMS tract evaluation responsibilities. In FY 1998, RE will focus its special studies on topics of stimulating leasing and drilling of new tracts, encouraging production from active leases, and analytical support for the Comprehensive Program.

**Royalty Relief Requests** The OCS Deep Water Royalty Relief Act provides for royalty volume suspensions on active leases in the GOM after submission of an application and a determination that new production would be uneconomic from such lease or unit without royalty relief. In May 1996, the MMS published an interim rule that sets up the application process and models to evaluate such applications. In addition, the interim rule and guidelines provided a streamlined and simplified process for applying for royalty relief. The goal of the statute and interim guidelines is to raise the level of natural gas and oil investment, production, and employment on the OCS. Two royalty relief requests were completed in FY 1996. Requests for FY 1997 and 1998 should increase dramatically in late FY 1997, due to the completion of the final rule and the issuance of new guidelines.

## 6. Tract Evaluation

<b>Ongoing Workload Number</b>			
	<b>1996 Actual</b>	<b>1997 Estimate</b>	<b>1998 Estimate</b>
<b>Total Tracts Evaluated</b>	1,570	1,170	1,010
<b>Phase 2 Bid Adequacy Determinations</b>	943	700	600
<b>Appeal of Bid Rejections</b>	4	4	4

The tract evaluation component estimates economic values for rights to mineral resources on individual OCS tracts. The MMS uses the values to determine if the high bids received for leases on tracts represent "FMV" as mandated by the OCSLA. Immediately after a lease sale at which bids are read publicly, MMS begins the process of determining whether a bid can be accepted and a lease issued. Acceptance of a bid is based on a two-phase process.

Phase 1 of the process is conducted on a tract-by-tract basis and is normally completed within one week of the bid opening. It is designed to accept those high bids where the competitive market can be relied upon to assure receipt of FMV or where Government data indicate the tract does not contain an economically viable prospect.

Those high bids not accepted in phase 1 receive further evaluation in phase 2. For those high bids, MMS geologists, geophysicists, economists, and petroleum engineers prepare detailed estimates of the economic value of oil and gas resources on each tract in phase 2. The high bids are then compared to Government estimates of value. Most analyses are undertaken based upon data available at the time of the sale; however, additional geophysical and geological data may be obtained after the sale at the discretion of the Regional Director. The Regional Director

must accept or reject all bids within 90 days after the date on which they are opened. Any bid not accepted within 90 days is rejected. Companies have 15 days to appeal any rejection.

The RE personnel who are engaged in tract evaluation use mathematical and statistical models to integrate geophysical, geological, petroleum and mining engineering, and economic data to derive tract values. The process takes into account changes in leasing policies and procedures, lease terms and conditions, tax codes, bidding systems, and other external factors. A major effort, begun in FY 1993 and continuing through FY 1997, is underway to improve the tract evaluation model (MONTCAR) to ensure receipt of FMV.

The first part of this effort involves enhancing the model's ability to accurately depict the geologic and engineering complexities associated with delineating and developing geologic accumulations. The first phase of this effort is complete but official use of the new model has been delayed by modifications required by the DWRRA. Acquisition of these data were completed in conjunction with the National Assessment to the limit imposed by in-house sources. Non-public data still needs to be accessed.

FY 1996 was a year of increased bidding activity in the GOM. More than 383 tracts received a full scale MONTCAR evaluation. The high bids on 33 tracts were rejected, and on four of these tracts the high bidders appealed their rejected offers. Use of the new leasing system for deep water tracts, and other factors, generated a marked increase in acquisition of deep water tracts during FY 1996. Continued strong interest on deep water tracts is expected during FY 1997, but the number of tracts getting bids will likely decrease due to the smaller supply of remaining deep water tracts available. In addition to the two GOM sales schedule for FY 1997, a sale is scheduled for the Beaufort Sea, so bidding activity and tract evaluation efforts are expected to increase in the Alaska Region.

During FY 1996, MONTCAR was revised to handle the royalty suspension volumes mandated by the DWRRA.

## ***7. Reserves Estimation***

"Reserves" are hydrocarbons that have been discovered, whereas "resources" are (estimates of) hydrocarbons that are yet to be discovered. The RE program develops independent estimates of original amounts of natural gas and oil in discovered fields by conducting field reserve studies on the OCS and periodically revises the estimates of remaining natural gas and oil to reflect new discoveries or development information and annual production. These estimates are required by specific law to be reported to Congress on a biennial basis. The primary benefit of this activity, however, is that the detailed geological, geophysical, and engineering information necessary to estimate these amounts of natural gas and oil is also used in performing other RE program functions in areas with known fields -- including tract evaluation, resource estimation, resource assessment, future production projections, and numerous specific field performance studies. Studies of unproven fields are continuing, especially in light of royalty reduction efforts, since any royalty rate reductions may help these fields become economically viable to develop and produce. The interim geologic information and engineering reviews supporting the reserves estimation function also produces vital information for other OCS program activities as well as Royalty Management Program functions. Cooperative efforts with the Energy Information Administration (EIA) of the Department of Energy allows EIA to use MMS estimates to verify reporting standards and procedures by natural gas and oil companies and as critical input to their macroeconomic modeling efforts.

As of November 1996, the GOM Region has 921 proved and 79 unproved fields. Geologic maps and/or reserves estimates exist for 905 (750 active and 155 depleted) proved fields and 51 unproved fields. The workload for FY 1997 and FY 1998 will be focused on those activities necessary to develop reserves estimates for the 44 fields (16 proved and 28 unproved) not currently evaluated, to evaluate those fields expected to be discovered, and to provide detailed analog field studies in approximately 200 fields in support of lease sale prospect evaluation activities. Geologic studies of proved and unproved fields continue at a consistent level reflecting the discovery of new fields

in deep water portions of the Central and Western GOM as well as the new discoveries on the shelf. A geologic atlas of the GOM fields is planned for publication in FY 1997. This atlas is being funded by the MMS, the Department of Energy (DOE), and the Gas Research Institute. We will focus on the continued development of this information, improving reserves estimates and data quality by continually evaluating new drilling, workovers, and production. The work associated with this effort is vital to the evaluation of exploration and production incentives being considered by Congress and the Department as well as to evaluate the feasibility of production concepts proposed by the DOE's Natural Gas and Oil Initiative.

Geologic maps and reserves estimates have been completed for all 13 proved fields offshore Southern California. The additional 25 unproved fields have all been subject to evaluation through geologic mapping, engineering and economic analyses. The analyses vary in scope from preliminary to detailed. During FY 1996, MMS continued cooperative reserve studies of offshore proved fields with the California Division of Oil and Gas, and we plan to expand such cooperative efforts during FY 1997 and FY 1998. A cooperative effort was launched in FY 1993 and continues into FY 1997 and FY 1998 between MMS, the California State Lands Commission, and private industry. This effort is aimed at maximizing recovery of oil and natural gas from joint State and Federal fields through long-range drilling and cooperative development operations. Both of these latter activities require detailed reservoir analyses and geologic mapping efforts carried out through the reserves estimation activities. Similar efforts are being initiated in FY 1997 and will continue into FY 1998.

Development activities related to the Northstar project in Alaska are in progress. The Alaska Region will become more involved with detailed geologic modeling and reserves estimation for this field, because of anticipated conflicts over the Federal/State share when unitization discussions are initiated. The split is important to the operator as well, since the Federal and State portions have different royalty rates. Nearby, British Petroleum's exploration plan for the Liberty (formerly Tern) Prospect has been approved by MMS. Additionally, geologic, engineering, and cost studies related to a proposed Cook Inlet Lease Sale 149 will continue. Cost information related to the development of gas resources will be updated. Geologic studies and prospect identification will continue in the Beaufort Sea, related to the proposed Sale 170.

## ***8. Technical Information Distribution***

The RE program develops important technical information regarding the hydrocarbon resources on the Federal OCS which may be useful to industry, Federal and State agencies, and the general public. An objective of the OCSLA is that such nonproprietary data and information be made available in a timely manner to assist States, local governments, industry, and the general public to participate in policy and planning decisions related to management of OCS resources. Volumes I and II of the GOM Oil and Gas Atlas Series will provide very important and significant information to the operators in the GOM as the series will focus on producing reservoirs, plays, and will tie the geology together. Volume I will be out in March 1997 and Volume II in the third quarter of FY 1997. This will be of special assistance to the smaller operators. Other technical information, such as reserve reports, focus on the GOM and Pacific Regions. The Field and Reservoir Reserve Estimates (FRRE) Reports gives a perspective on national trends of production, additions to the offshore reserves base, and drilling activity.

In taking steps to address the need to make information available, the RE program has traditionally prepared OCS Reports on the geology of OCS planning areas, certain offshore wells, G&G data acquisition, the deep stratigraphic test (COST) wells, and production projections for the OCS. Publication of these reports is based upon time and availability of personnel. Each year, as mandated by the OCSLA, RE prepares an annual report to Congress evaluating bidding results and competition on the previous year's sales. Opportunity is also taken to present technical information at professional meetings.

Reports associated with the National Assessment as well as individual regional reports provide significantly more information than previously reported pertinent to the location of the most promising portions of the OCS for natural gas and crude oil occurrence, as well as the number and size distributions of potential fields in these areas. Because natural gas and oil are so important to the U.S. economy, there is substantial interest in the resource base from which future gas and oil production will come. Many readers of these reports will have a strong interest in determining how much gas and oil is likely to be produced in the next several years from resources yet to be discovered on the OCS. Important issues of public policy and private investment hinge on expectations about the extent to which the U.S. will be able to meet its energy demands from domestic resources, such as on the OCS, during the next two to three decades.

While each region maintains its own records and assessments with regard to data analysis and prospect and play analyses in its own area(s), these reports will present composite information on a bureauwide basis, as well as on a regional basis. They are intended for both the resource assessment specialist in industry and academia, as well as the nonspecialist (i.e., environmental specialist, local government official, informed public, etc.). These reports provide abridged technical information that is needed and is used in lieu of responding to individual requests on a regional basis.

## ***9. Other Activities: International Activities and Marine Minerals***

### **The Marine Minerals Program:**

The mission of the Marine Minerals Program is to evaluate the potential of the OCS as a domestic supply source for marine minerals and to assure that OCS mineral development is accomplished in a safe and environmentally-sound manner. This responsibility includes the authority to negotiate agreements, in lieu of competitive bidding, for use of OCS sand, gravel, or shell resources for certain types of public works projects.

While the Marine Minerals Program is responsible for all OCS minerals other than gas, oil, or sulphur, interest in OCS sand and gravel resources has been dominant and steadily increasing. Demand for OCS sand and gravel is rising due to several factors:

- ☞ Continued State concern over coastal erosion affecting beaches and productive wetland areas;
- ☞ Deteriorating infrastructure in major metropolitan coastal areas;
- ☞ Rapid depletion of suitable onshore and nearshore sand, gravel and shell resources; and
- ☞ Passage of P.L. 103-426 which amends sections 8(k) and 20(a) of the OCSLA to provide a new alternative for obtaining OCS sand resources for certain public works projects.

### **State/Federal Cooperation**

The Marine Minerals Program has taken a cooperative partnership approach toward mineral resources development questions that has received a very favorable reaction from participating coastal States. States and the MMS engage in jointly-funded efforts to identify the need for and availability of OCS hard mineral resources, and to address environmental concerns associated with possible development.

As FY 1997 began, the MMS was involved in thirteen cooperative arrangements with coastal States. Ten of these arrangements deal with the use of OCS sand for coastal restoration along the Atlantic and Gulf Coast.

Resource Evaluation Program

Other Federal agencies (e.g., U.S. Army Corps of Engineers (USACE), and U.S. Geological Survey (USGS)), provide technical advice, equipment and other assistance in connection with the MMS State/Federal cooperative arrangements and serve as members of the technical working groups. These efforts also utilize in-kind professional and technical services of participating States to further hold the line on costs.

State/Federal Cooperative Agreements							
Involved State	Project Description	Other Government Agency Involved	1996 Actual Cost		1997 Estimated Cost		Extend in 1998
			MMS	Other	MMS	Other	
NJ	Restoration	USACE	80,000	80,000	0	0	Yes
DE	Restoration	USACE	0	0	0	0	Yes
MD	Restoration	USACE	54,000	42,150	0	0	Yes
VA	Restoration	USACE	71,150	12,070	0	0	Yes
NC	Restoration	USACE USGS	0	0	80,000	52,755	Yes
SC	Restoration	USACE USGS	99,840	40,700	0	0	Yes
GA	Phosphorite	BOM* USGS	0	0	0	0	Yes
AL	Restoration	USACE	70,000	52,480	0	0	Yes
MS	Aggregate	USACE	0	0	0	0	Yes
LA	Restoration	USACE USGS	0	0	0	0	Yes
TX	Restoration	USACE	0	0	0	0	Yes
HI	Manganese Crust	BOM* USGS	0	0	0	0	Yes
FL	Restoration	Florida	96,350	96,420	124,870	124,870	Yes

*\*Until agency was abolished in 1996.*

**Environmental Studies**

For the past 6 years, MMS has investigated the environmental impacts associated with marine mineral development and evaluated potential mitigation measures. Relying primarily on funding from the MMS Environmental Studies Program, the initiative is aimed at addressing environmental issues early and integrating this information into the work of the cooperative State/Federal technical working groups. Studies to date have also dealt with the following:



- ☛ Existing information on the environmental effects of marine mineral development;
- ☛ Impacts of dredging on bottom dwelling organisms;
- ☛ Environmental impacts of shallow placer mining;
- ☛ Impacts to benthic organisms associated with manganese crust mining;
- ☛ Marine mining technologies and mitigation techniques;
- ☛ Wave climate modeling for coastal and barrier island restoration;
- ☛ Wave/current interactions, bottom boundary dynamics, and sediment transport; and
- ☛ Effects of benthic and surface sediment plumes.

For FY 1997, site-specific studies of potential resource areas offshore Alabama, New Jersey, Delaware, and Maryland will be initiated. Socio-economic studies relating to marine mineral development have been recommended by an independent advisory body to MMS. Such studies will be considered for FY 1998.

### **Negotiated Agreements**

In FY 1997, the MMS Marine Minerals Program will continue to deal with ongoing negotiated agreements involving the States of South Carolina, Florida and Louisiana, the U.S. Navy, a private company in New Jersey, as well as new requests. In May 1995, the first negotiated agreement to be consummated under P.L. 103-426 involved the City of Jacksonville, Florida for a beach restoration project. 1.17 million cubic yards of Federal sand from a borrow site located 7 miles off the coast of Jacksonville was placed. During 1996, the U.S. Navy completed a storm protection project for facilities located at Dam Neck, Virginia, which utilized approximately 808,600 cubic yards of Federal sand. Negotiations with South Carolina and Louisiana are expected to be concluded in FY 1997. Both requests pertain to the use of Federal sand to restore severely eroded beaches or barrier islands. Following an MMS decision in early 1996 not to negotiate an agreement with a private company in New Jersey, the company made a formal request to MMS for a competitive lease sale for construction aggregate resources. A Request for Information and Interest, published in May 1996, resulted in 4 public meetings and generated over 200 responses. A decision on the next step, producing an EIS, is anticipated in 1997.

### **Anticipated Activities**

In FY 1998, the Marine Minerals Program is scheduled to continue cooperative work with ten coastal States which is expected to result in requests for access to Federal OCS sand for shore protection projects. As many as four requests for negotiated agreements are anticipated. The MMS could also receive several petitions for new or redirected cooperative arrangements involving Atlantic or Gulf coast States. As a result of prior years' work, MMS will be responsible for initiating or continuing preparation of one to four environmental impact documents, conducting public hearings, overseeing or participating in as many as six marine minerals related environmental studies, and administering the MMTC program. These various demands on the program will be balanced against available resources.

The following factors will continue to increase the demand for OCS aggregate resources and increase the MMS Marine Minerals Program workload in FY 1997:

- ☛ Increasing difficulty in developing new onshore resource sites – particularly in major metropolitan areas – due to escalating land values, zoning, and environmental restrictions, and public opposition;

## Resource Evaluation Program

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- ☛ Growing coastal populations desiring recreational sites;
- ☛ Diminishment of wetlands;
- ☛ Increasing importance of coastal natural and recreational areas on coastal economies; and
- ☛ Deteriorating infrastructure in coastal areas.

### **International Activities:**

International activities fall into three categories:

- ☛ Provide technical advice to the Department of State;
- ☛ Participate in technical cooperation activities with other countries in support of MMS domestic responsibilities; and
- ☛ Provide cost-reimbursable technical assistance to other countries in support of U.S. foreign policy objectives.

### **Technical Advice to the Department of State**

In FY 1996, the MMS provided technical support to the Department of State (DOS) on a variety of issues of interest to the MMS. Involvement in most of these efforts is expected to continue into FY 1997. Activities include:

- ☛ Arctic Council and U.S. Arctic policy. An Environmental Impact Assessment (EIA) expert from the MMS led a U.S. delegation at a meeting in Finland to begin work on EIA draft guidelines. The MMS will continue to assist working groups dealing with Arctic monitoring and assessment, conservation of biota, emergency response measures and environmental protection. This includes a significant role in developing offshore oil and gas guidelines for the Arctic Council at the request of the DOS.
- ☛ Convention on the Law of the Sea (LOS). The MMS will continue to monitor and provide recommendations on appropriate LOS issues. The LOS Treaty is currently before the Senate Foreign Relations Committee with an Administration recommendation for prompt ratification. In the meantime, the MMS is working to establish an industry position on ratification and related issues.
- ☛ London Convention '72. The MMS participated in the meeting of the LC'72 Scientific Committee where the U.S. was tasked with drafting specific guidelines for the ocean disposal of decommissioned platforms. The MMS has the technical lead in the interagency work group formed to draft these guidelines into FY 1998.
- ☛ Jurisdictional questions involving U.S./Mexican international boundary areas in the western Gulf of Mexico. The MMS is working with industry to help establish a U.S. position to present to the Government of Mexico regarding ratification of the Treaty of 1978 and boundary issues under the LOS.
- ☛ MARPOL Annex VI. The MMS participates in an interagency working group to develop a U.S. position regarding offshore platforms and whether fixed and floating platforms are subject to provisions of Annex VI to the International Convention for Prevention of Pollution from Ships (MARPOL).
- ☛ The MMS will continue to support the DOS and the Office of Science and Technology Policy on activities pertaining to the Gore-Chernomyrdin Commission.

### Technical Cooperation and Information Exchange

In FY 1996, cooperative research and scientific information exchange continued with Australia, Canada, Indonesia, Norway, Russia, and the United Kingdom in the areas of oil spill response and prevention, operational risk assessment, royalty management, and environmental impact assessment. An oil spill response workshop in India is planned for the spring of 1997. The MMS continues to participate in meetings of the Western Hemisphere Oil and Gas Environmental Forum to discuss topics of mutual concern. The forum consists of some fifteen national and multinational oil companies doing business in Latin America. The MMS attended the spring meeting and discussed the MMS/U.S. industry Safety and Environmental Management Program (SEMP).

The research and exchange activities carried out under Memoranda of Understanding (MOU's) and other mechanisms will continue through and beyond FY 1997 and be revised as needed to adapt to changing needs and issues. Potential new exchange initiatives could involve Brazil and deep water production technology, China and royalty management issues, and India and offshore oil and gas operations and safety issues.

### Cost Reimbursable Technical Assistance

In FY 1996, the MMS provided cost-reimbursable technical assistance in the form of training to Russia. The training addressed the conveyance of mineral exploration and development rights. In FY 1997, the MMS expects to continue providing technical assistance to Russia. Working with Norway, the World Bank, and the United Nations Development Program, the MMS will assist Russia in revising its offshore oil and gas regulations. The U.S. Agency for International Development (USAID) will fund MMS's participation in this effort. A conference on management of mineral resources in Eastern Europe was held in Hungary in June 1996. The MMS is reviewing several requests for technical assistance, and it is possible that other reimbursable initiatives for FY 1997 could develop for Belize and other Latin American countries and for Indonesia.

### Justification of Program Changes

	1998 Budget <u>Request</u>	Program Changes <u>(+/-)</u>
\$(000)	21,121	+2,300
FTE	210	+1

### Correction of Historical Well Data (+ \$1,200,000, 0 FTE)

Some existing basic well data are unreliable and the process for correcting the well data is labor-intensive and inordinately long and difficult. Currently, MMS personnel make programmatic decisions based on well data that is a combination of hard copy records and historical data that resides in the TIMS data base. There are known errors in the historical data that have not been corrected, and the accuracy of the combined data is sometimes questionable.

Decisions made on the basis of questionable data can result in erroneous resource assessments and reserve estimates, leading to significant errors in fair market value, royalty reduction, surety requirements, safety precautions, conservation practices, etc. Such decisions may also lead to higher operating expenses for industry since they may be improperly denied approvals or required to alter submissions to fit the erroneous MMS data. We are requesting \$1.2 million each year, for two consecutive years, to hire a contractor to systematically research and verify the historical well data, and make the changes to the computer database (TIMS).

**G&G Data Acquisition (+\$1,100,000, 0 FTE)**

The recent large lease sales in the GOMR and the implementation of royalty relief have significantly increased the GOMR's mapping workload for its lease sales. Evaluations must be performed on a "field" basis to properly identify tracts for relief and to allocate the available relief for fair market value decisions. Detailed evaluations of individual OCS tracts must be made to determine the potential fair market value of the tract for bid evaluation purposes. With the migration to deeper water and the larger lease sales, bids are being received in areas for which MMS has insufficient data.

In addition to new sale-related needs in the GOMR, G&G funds are needed to address the increased need for data for non-sale specific work, such as royalty relief field determinations, reserves inventory work, etc., and to perform basic evaluation/assessment work that the Bureau is required under statute to perform. We request an additional \$1.1 million to address these new and ongoing needs.

**Deepwater Royalty Relief Act/Increased Lease Sale Workload (+ \$300,000, +4 FTE)**

The FY 1996 appropriations language has been passed that gives MMS the authority to impose and retain an application fee for royalty relief on existing leases. MMS anticipates the fee will cover the costs of administering the requirements for existing leases. However, new funds will be needed to perform geological and geophysical evaluations for new leases under Public Law 104-58, The Deepwater Royalty Relief Act. This new law requires changes to our fair market value efforts, as deepwater evaluations require an analysis on a potential field and not just on an individual tract basis. The review of applications also requires an analysis of the potential ultimate field including presently unleased blocks. Three FTE are needed in the GOMR to perform these functions and one FTE is needed at Headquarters. Three FTE of this amount are related to the Deepwater Royalty Rate Relief Act determinations, while the remaining 1 FTE is for an additional geophysicist in the GOM G&G Evaluation Section. The additional staff for the G&G Evaluation Section is needed due to the increased number of leases issued in the last three GOM lease sales. Work done by this section is used to determine if MMS is receiving fair market value for oil and gas resources on the OCS.

Absent such funds, decisions involving several hundred millions of dollars of revenue for the U.S. Treasury could be made without the proper analysis.

**Resource Evaluation Decrease (-\$300,000, -3 FTE)**

A number of Resource Evaluation (RE) staff in the GOMR are involved in the part-time capture of data from Offshore operators that consists, principally, of digital directional and velocity surveys and paleontological reports. RE staff in the GOMR also provide evaluations for the Atlantic and Eastern Gulf of Mexico areas in accordance with the 1992-1997 schedule.

The GOMR is in the early stages of a process to establish a central unit to receive all data and information required to be submitted from operators, which will result in efficiencies. The proposed 1997-2002 lease sale schedule contains no Atlantic lease sale, and activity in the Eastern Gulf of Mexico has been greatly scaled back. The planned centralization of the RE data capture function in the GOMR, along with the reduction of regional evaluation efforts mentioned above, will result in savings of \$300,000 and three FTE in the GOMR.

**Effect of MMS 2000**

The abolishment of OMS resulted in the transfer of \$210,000 and 3 FTE to the Resource Evaluation Subactivity.

**Regulatory Program**  
**Justification of Program and Performance**  
 Analysis by Subactivity  
*dollars in thousands*

		1997 Enacted	Uncontrollable and Related Changes	Programmatic Changes	1998 Budget Request	Change from 1997
Regulation of Operations	\$	21,581	712	1,143	23,436	+1,855
Appropriation	FTE	212	0	15	227	15
Offsetting Collection	\$	11,956	0	0	11,956	0
	FTE	118	0	0	118	0
Total, RO	\$	33,537	712	1,143	35,392	+1,855
	FTE	330	0	15	345	15
Technology Assessment & Research	\$	605	0	0	605	0
Appropriation	FTE	0	0	0	0	0
Offsetting Collection	\$	280	0	0	280	0
	FTE	0	0	0	0	0
Total, TA&R	\$	885	0	0	885	0
	FTE	0	0	0	0	0
Total, Regulatory	\$	22,186	712	1,143	24,041	+1,855
Appropriation	FTE	212	0	15	227	15
Offsetting Collections	\$	12,236	0	0	12,236	0
	FTE	118	0	0	118	0
TOTAL, Regulatory	\$	34,422	712	1,143	36,277	+1,855
	FTE	330	0	15	345	15

## Regulation of Operations

The budget subactivity titled Regulatory Program is subdivided into two program elements: Regulation of Operations and Technology Assessment and Research. Both of the program elements are described in greater detail, below, following the Offshore Operations Priorities section.

### Offshore Operations Overview

This narrative describes the interrelationships of the "Regulatory Program" and "Oil Spill Research" Activities within the overall strategy of the MMS (e.g., how research and inspection results feed into regulatory improvements).

The Regulatory Program subactivity incorporates two program elements: 1) Regulation of Operations and 2) Technology Assessment and Research. The Oil Spill Research activity incorporates three elements:

1) Oil Spill Research, 2) Financial Responsibility, and 3) Oil Spill Prevention and Response Planning.

The MMS Office of Operations and Safety Management (OSM) and parts of the three regional offices comprise Offshore Operations, and are responsible for the regulation of operations on the OCS. Together, they regulate oil and gas exploration, development, and production activities on the OCS by:

- ☞ developing and implementing policies, regulations, rules, orders, and standards; reviewing and approving plans for exploration, development, production, and oil-spill response;
- ☞ reviewing and approving drilling, pipeline rights-of-way, and other permits;
- ☞ inspecting offshore facilities for compliance and taking enforcement actions where necessary, including civil penalties;
- ☞ assessing safety and oil-spill response drills;
- ☞ ensuring that MMS inspection personnel and industry personnel are properly trained;
- ☞ investigating accidents and spills;
- ☞ assessing and supporting development of technology for safety and pollution prevention and response; and
- ☞ working with affected States during the review and approval of lessee-submitted exploration and development and production plans for energy and non-energy minerals.

### Objectives

- ✓ To ensure safe and environmentally sound development of OCS energy and non-energy minerals resources through careful regulation of exploration, development, pipeline transportation, and production or extraction operations, and to ensure the conservation of natural resources during these operations.
- ✓ To provide a continuing and comprehensive technology base within the MMS to ensure that safe and pollution free OCS operations can proceed in a timely manner and that up-to-date technology is incorporated into the regulatory process.
- ✓ To assist State and local officials and the general public in planning for impacts resulting from offshore oil and gas exploration, development, production, and transportation activities.

## Industry Overview

Oil and natural gas production and drilling activity continue to increase, and OCS production now accounts for about 15 percent and over 25 percent of total U.S. oil and natural gas production, respectively.

There is a growing number of oil and gas operators on the OCS due to the fact that many of the large oil companies are assigning producing OCS properties to other, generally smaller, operators who believe they can operate the property more profitably. The number of operators producing oil and gas on the OCS has more than doubled during the 12-year period from 1983 to 1995, increasing from 64 in 1983 to 143 in 1995. This trend has resulted in an average of over 2,000 lease assignments per year since 1990. Many of these newcomers to the OCS are small independents who do not have the financial resources of the majors, their subsidiaries, or the larger independents who have been working on the OCS for the past 40 years.

The growing number of OCS operators is only one factor in MMS's increased monitoring responsibilities. There were 798 new well starts on the OCS in 1995. In addition, there are more than 3,800 production facilities on the OCS, many of which are approaching or have already exceeded their originally estimated productive life. Installation of production facilities averaged 148 per year in the last decade, and the number of removals per year almost tripled from 68 in 1985 to 179 in 1993, dropping to 108 in 1994, and 77 in 1995. The number of removals actually exceeded installations in 1992 and 1993. However, increased drilling activity has led to a rebound in the number of new platform installations. In 1994, 154 platforms were installed, a 40 percent increase from the previous year. The fact that more platforms were installed than removed is an indication of continued strong interest in GOM development and production.

MMS conducted 11,478 inspections of offshore facilities and issued 4,337 citations for regulatory noncompliance in 1996. Moreover, MMS acquired added responsibilities from the Oil Pollution Act of 1990 (OPA 90) for oil spill prevention and response planning in State as well as Federal offshore waters. A 1993 memorandum of understanding with the Environmental Protection Agency and the Department of Transportation gives MMS jurisdiction for these responsibilities over facilities in State waters seaward of the coastline. MMS is working cooperatively with States to ensure there is no duplication of regulatory efforts for offshore operators.

MMS has initiated several regulatory measures designed to deal with changes in offshore operations, including the following:

- ☛ clarifying the requirements governing surety bonds to cover the industry's end-of-lease obligations for OCS oil, gas and sulphur leases;
- ☛ developing a rule that implements OPA 90 oil spill prevention and response requirements for all facilities seaward of State coastlines;
- ☛ developing regulations to implement the oil spill financial responsibility requirements of OPA 90;
- ☛ expanding and clarifying safety requirements governing production platforms and pipelines;
- ☛ improving regulations governing the qualifications and training of lessee and contractor employees to make them less prescriptive;
- ☛ clarifying requirements pertaining to production measurement and commingling.



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The major remaining opportunities for development of large oil and gas deposits in the Gulf of Mexico are in subsalt plays (previously undiscovered oil underlying subsea salt wedges) and deepwater reservoirs (greater than 200 meters).

Due to better technology, new discoveries in deep water, and the passage of the Deepwater Royalty Relief Act, there has been a renewed interest in deepwater leasing, as the results of Sales 157 and 161 attest. Sale 157, in the Central GOM, was the largest lease sale ever held in the GOM in terms of number of tracts bid upon and resulted in the addition of over 400 deepwater leases. Sale 161, in the Western GOM, was the first Western Gulf sale with provisions for deepwater royalty relief and added approximately 400-500 leases. From FY 1996 through FY 1998, active leases in the GOMR are projected to increase by approximately 43 percent (beginning of FY 1996 compared to end of FY 1998). During FY 1996, alone, the number of active leases in the GOMR increased by 25 percent. In addition to deepwater leasing, both major and small companies, have shown increasingly renewed interest in shallow areas of the Gulf.

Technological developments and their applications to exploration and development continue at an accelerated pace through the use of computers – including personal computers -- for interactive modeling, innovative interpretation of subsurface data, and usage of 3-D seismic data. Newly developed 3-D seismic techniques have made it possible to identify potentially significant sub-salt reserves in the Gulf of Mexico. As a result, sub-salt exploration activities are currently on the increase. Additionally, improved horizontal drilling methodology has resulted in higher production rates, and deepwater technology continues to advance, taking routine drilling operations to greater water depths.

The MMS is actively pursuing new technologies through its Technology Assessment and Research program for two reasons: 1) to ensure safe and pollution-free operations, and 2) to ensure that OCS operators use the best available and safest technologies, as mandated by OCSLA. This program is particularly important in view of safety concerns being raised about older offshore structures. Our research programs are also making very important strides in oil spill response research and offshore air quality—the latter a major concern in California and a growing concern in the Gulf of Mexico.

The OCS is a blend of vast unexplored area with enormous potential, and highly-concentrated producing areas entering a state of maturity. There are many challenges facing the Offshore Operations program. These range from developing sub-salt and deepwater prospects to the end-of-lease obligations of potentially under-financed operators. The common thread that weaves through all these activities is the absolute priority for human safety and environmental protection. The MMS is developing research and cooperative projects with other regulators and the industry that focus on the role of human factors.

## Regional Overview

Regional Operations at a Glance				
	OCS Regions			
	GOM	Pacific	Alaska	Total
District Offices	Houma, LA Lafayette, LA Lake Jackson, LA Corpus Christi, TX Lake Charles, LA New Orleans, LA	Camarillo, CA Santa Maria, CA	Anchorage, AK	
Oil Reserves ( <i>Bbbl</i> )	2.33	1.31	0	3.64
Natural Gas Reserves ( <i>Tcf</i> )	27.5	2.43	0	29.93
Operational Activities through 12/31/95				
Wells Drilled	32,255	1,120	81	33,456
Active Leases	4,920	85	346	5,351
Producing Leases	1,583	43	0	1,626
Production Facilities	3,823	23	0	3,846
Pipelines Installed ( <i>miles</i> )	21,336	181	0	21,517
Production 1995				
Crude Oil ( <i>bbl</i> )	345,387,366	72,431,111	0	417,818,477
Natural Gas ( <i>Mcf</i> )*	4,795,142,909	52,664,245	0	4,847,807,154
Sulfur ( <i>short tons</i> )	2,211,379	3,907	0	2,215,771
Revenue 1954-95				
Bonus Bids	\$57,124,932,742	\$3,951,657,024	\$6,462,230,797	\$67,538,820,563
Royalties	\$50,306,053,642	\$1,798,294,074	0	\$52,104,347,716
<i>Lake Charles and Corpus Christi, TX are subdistricts of Lake Jackson, LA</i>				
* <i>Marked production</i>				
<i>Note: The Atlantic OCS Regional Office was abolished on September 30, 1994. Administrative handling of the remaining 53 leases on the Atlantic OCS is done by MMS's GOM Regional Office.</i>				

### Alaska Region

The Regulatory Program activities in the Alaska OCS Region include providing considerable input and assistance in the region's OCS leasing activities, including numerous trips and meetings in rural Alaskan communities to discuss the MMS regulatory program and citizen concerns. Additional Regional activities include:

- ☛ Renewed exploratory drilling operations which are contingent upon the results from OCS lease Sales 149 Cook Inlet and 144 Beaufort Sea.
- ☛ Increased operational commitments associated with the development of the Joint Federal/State of Alaska Northstar unit in the Beaufort Sea, Alaska.
- ☛ Implementation of OPA 90 authority of oil spill contingency plans and prevention of oil spills in State waters, including Cook Inlet, oil and gas operations and cooperative work with the State of Alaska, U.S. Coast Guard, EPA and the Research and Special Programs Administration (RSPA) to minimize duplication of effort.
- ☛ Active participation in development of the new OPA rules for financial responsibility and for prevention of offshore oil spills and hazardous materials.
- ☛ Continued coordination with Russian counterparts assisting in the development of their offshore leasing and operations programs.

### Gulf of Mexico Region

Renewed industry activity in the GOM Region will create increased workloads which cannot be met with existing and redirected resources. During FY 1996, alone, the number of active leases in the GOM Region increased by 25 percent. The September 1996 sale in the Western Gulf of Mexico was the first Western Gulf sale with provisions for deepwater royalty relief and has the potential to add an additional 400 - 500 leases. From FY 1996 through FY 1998, active leases in the GOM Region are projected to increase by approximately 43 percent (beginning of FY 1996 compared to end of FY 1998).

Due to better technology, new discoveries, and the passage of the Deepwater Royalty Relief Act, there has been a renewed interest in deepwater leasing, as the results of Central GOM Sale 157 attest. This was the largest lease sale ever held in the GOM in terms of number of tracts bid upon and resulted in the addition of over 400 deepwater leases. However, both major and small companies have also shown increasingly renewed interest in shallow areas of the Gulf. Both of these trends translate into immediate impact on the GOM Region's workload. To protect the public interest, industry plans must be reviewed to ensure environmental protection and safety, and to avoid conflict with other ocean users; and operations must be inspected. Moreover, to assure that the public receives fair market value for the leasing of oil and gas resources, significant amounts of new geophysical data must be acquired. To accurately value the public resources and practice good resource conservation during production, a major correction in historical well data is needed.

Once Plans of Exploration and Plans of Development are submitted for these new leases, GOMR petroleum engineers, geologists, and geophysicists must perform technical and engineering reviews. Marine biologists, archaeologists, meteorologists, etc. must perform environmental reviews, and the field inspection personnel must review Applications for Permits to Drill and follow up with on-site drilling inspections every 30 days. The GOMR will be required to delineate the extent of all new and existing deepwater fields and to estimate whether these tracts meet the criteria established under the provisions of the Deep Water Royalty Relief Act, Public Law 104-58. This will involve the modeling of digital geophysical data submitted with applications, conducting completeness reviews, running models, verifying the acceptability of engineering model inputs, and evaluating economic information that

## Regulatory Program

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is submitted in connection with the Act. The implementation of the Act and the recent large lease sales have increased the regional mapping workload connected with lease sales. Evaluation must be performed on a "field" basis to properly identify tracts for relief and to allocate the available relief for fair market value decisions. Detailed evaluations of individual tracts must be made to determine the potential fair market value of the tract for bid evaluation purposes. With industry's migration to the deeper water areas of the Gulf, bids are being received in areas where there is insufficient information, therefore geological and geophysical data will need to be procured.

The new deepwater discoveries are 100-200 miles from shore base, and flight times may be as much as four hours round trip. (The average distance and flight time, to the more than 3,800 platforms presently operating in the Gulf, is approximately 80 miles from shore base and 45-50 minutes of flight time.) Deepwater facilities will be larger and more complex, taking longer to inspect than the average shallower water structures and, thus, requiring more trips to complete inspections, since 4-5 hours per day are spent in transit. Additional training will be required for both inspectors and engineers on new production systems, new technologies for deepwater drilling and production, and new procedures for inspections and accident investigations.

Starting in 1997, and increasing steadily in the outyears, these new trends in leasing will result in both exploration and development workloads on MMS. Each development plan (and especially those in deepwater) will require even more focused environmental analysis and complex technical review, platform approval, visits to construction yards for on-site inspections, and inspections of the safety of development operations. Increased emphasis on deepwater development and the associated innovative technology for drilling and production, as well as the need to address engineering, safety, and unique supplemental bonding issues, will present challenges to the GOM Region's regulatory function.

The increased complexity of deepwater structures will require longer inspection periods and transit flight times, creating a need to bolster the Regional inspection force and helicopter fleet. The number of inspections conducted by the Region is expected to increase by 20 percent by FY98. Between 1992 and 1995, the number of exploration plan applications increased by 70 percent. The increased numbers of applications and reviews can be largely attributed to the industry's renewed interest in the Gulf of Mexico and its deepwater frontier. Based on this interest, it is anticipated that the number of exploration and development plans will continue to rise.

Between 1993 and 1995, the number and complexity of pipeline right-of-way and installation applications increased by more than 20 percent. Due to the increased number of active leases and the fact that many of the deepwater finds are located in areas where there is no existing pipeline infrastructure, future pipeline applications are also anticipated to increase in numbers, as well as complexity.

It is projected that this renewed activity in the Gulf of Mexico will raise current oil production of 940,000 barrels per day to about 1.7 million barrels per day over the next 4 years.

### **Pacific Region**

In FY 1997-98, the Pacific Region (POCSR) will continue its emphasis on consulting and cooperation with its external customers which include OCS lessees and operators, numerous Federal, State, and local agencies as well as interested individuals and special interest groups. In addition to routine coordination concerning operator proposals and ongoing OCS activities, the POCSR will continue its work on several important initiatives.

Pursuant to its responsibilities under OPA 90, the POCSR has developed a Memorandum of Agreement with California's Office of Spill Prevention and Response to reduce duplication of effort and to ensure that a strong coordinated program of oil spill prevention and response remains in place to protect important coastal and ocean resources. The POCSR will also continue its active participation in the U.S. Coast Guard's Area Planning process

as well as coordination of the MMS spill prevention and response program with other key agencies including the California Coastal Commission (CCC), California State Lands Commission (SLC), and local affected governments.

Two other areas of significant cooperative effort for FY 1996 and 1997 will involve offshore facility abandonment and seismic requalification of offshore oil and gas structures. The POCSR and SLC have established joint working groups in these areas with the goal of developing consistent policies and regulations between our two agencies. The POCSR and SLC will be finalizing a series of joint studies of the Carpinteria Offshore Field and Rocky Point Field where oil and gas resources occur on both sides of the Federal-State boundary. A third study, Point Pedernales, was started in FY 1997 and will continue into FY 1998.

The Region's joint work will continue with San Luis Obispo, Santa Barbara, and Ventura Counties, the CCC, the SLC, the California Resource Agency, and the industry in conducting a planning study (COOGER Study) that will examine possible development scenarios for existing undeveloped leases in the Santa Barbara Channel and Santa Maria Basin and the related onshore infrastructure. Two-thirds of the study's funding is being provided by industry and one-third by MMS.

As the Region continues to mature, changes are occurring in the way the region has historically conducted business. In FY 1997, the POCSR anticipates receipt of several applications for royalty rate reduction on producing leases as the fields approach the end of their economic life. Also on the horizon, independent operators are acquiring leases and facilities in the POCSR requiring the development of regional policy to address issues such as supplemental bonding and inspection program expectations. Innovative approaches will be required to assure safe and environmentally-sound operations from operators lacking the funding of a major oil company without compromising the excellent safety record of the major oil companies.

In FY 1998, the POCSR will be conducting a series of Focused Facility Inspections (FFI). The FFI program was initiated in the POCSR in 1996 to enhance the present inspection program. These inspections are based on a systematic (focused) approach emphasizing the Safety and Environmental Program (SEMP) concept. In this approach, POCSR engineers and inspectors join forces to participate in inspection teams. The result of this collaboration is enhanced technical expertise in production, drilling, and other related specialty areas of offshore operations and safety. In addition to MMS personnel, inspection teams will include personnel from industry, other federal, state, and county agencies as appropriate. The United States Coast Guard will play a significant and distinct role in these inspections.

In FY 1997-98, it will also be important for the POCSR to continue working closely with the EPA and local air quality agencies particularly regarding the operational, technological, and safety aspects of OCS facilities to ensure that these facilities continue to operate safely while minimizing impacts to local air quality.

### **Offshore Operations Program Priorities**

Human safety and environmental protection in OCS operations are the top priorities of the MMS Offshore Operations Program. Some of the major events that occurred prior to the establishment of this program include:

- ▣ The Santa Barbara Channel blowout of 1969. (Estimated 80,000 bbl spilled). The blowout occurred due to poor well planning and lack of training. MMS has since established sound well planning and training requirements that are periodically reviewed and brought up to date.

## Regulatory Program

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- ☛ The South Timbalier (Gulf of Mexico) blowout of 1970. (Estimated 53,000 bbl oil spilled; 4 fatalities and 36 injuries). The blowout occurred due to faulty workover procedures. These safety procedures have been completely overhauled and are required by MMS regulations.
- ☛ The Main Pass (Gulf of Mexico) production platform fire of 1970 in which the operator lost control of 12 wells (Estimated 30,000 bbl oil spilled). Subsurface safety valves, now compulsory, were not required at that time. Subsurface safety valves also ensure that wells cannot be sabotaged nor suffer loss of control during severe storms or hurricanes. The value of requiring subsurface safety valves was demonstrated in late 1992 when Hurricane Andrew moved through the Gulf of Mexico bearing sustained winds in excess of 140 mph. Approximately 2,000 structures were exposed to hurricane force winds. Of the total exposed, 36 full platforms and 145 satellites were damaged. The combined daily oil production from the OCS in the Gulf of Mexico is close to 1 million barrels. Even with significant damage occurring to 10 major platforms, only about 500 barrels of oil were spilled.

Sound resource conservation practice is another key requirement for production on the OCS. The increasing number of small operators calls for more vigilance by the Federal government to oversee operations. The maintenance of adequate surety bond levels for end-of-lease responsibilities is also important. Proper implementation of these requirements is essential if the Federal government is to avoid financial liability for substantial end-of-lease clean-up costs (well abandonment, platform removal, and site clearance).

Some of the most important agency issues are discussed below. They include: SEMP, environmentally-sound deepwater development, oil spill prevention and mitigation, Oil Pollution Act of 1990 implementation, training programs, bonding, and air quality evaluations..

### ***Safety and Environmental Management Program (SEMP)***

A 1990 MMS task force on inspection and enforcement and the Marine Board of the National Academy of Sciences recommended that OCS operators develop and implement a safety and environmental management program (SEMP). SEMP is intended to reduce the risk of accidents and pollution from OCS operations by incorporating safety management practices into all facility activities and by establishing clear safety goals and management tools for achieving them. A SEMP plan describes the responsibilities of company officials, employees, and contractors; training programs; auditing system; and the means for assuring compliance with regulations. The MMS, in 1991, published a Federal Register Notice explaining why MMS is considering SEMP; introducing the SEMP concept; and requesting comments concerning the proposal.

In response to this initiative, the American Petroleum Institute (API), the Independent Petroleum Association of America (IPAA), and the Offshore Operators Committee (OOC) with MMS participation, developed an industry-wide recommended practice (RP75). The API published RP75 in mid-May 1993. The MMS has requested that the industry voluntarily adopt the recommended practice. MMS is monitoring industry's efforts, to decide whether voluntary adoption of RP75 accomplishes the goals of SEMP or if regulations will be necessary. During FY 1997, the API, IPAA, OOC, and MMS are conducting the third in a series of surveys of all offshore operators to gauge the extent to which RP75 has been adopted.

The MMS has used workshops and targeted presentations involving all major trade groups representing the interests of the offshore industry to explore how best to implement SEMP. In FY 1997, the MMS will continue to assist in a pilot project with the Department of Energy (DOE) to determine the effort and associated costs for small operators to develop a SEMP program in accordance with RP75. Also during FY 1997, MMS intends to begin participating with selected volunteer companies in their SEMP audit program. We also will work with industry representatives to develop clearly-articulated, and consistently-applied measures of performance for all operators.

During FY 1998, MMS will continue using MMS-sponsored public meetings, seminars, letters and notices designed to educate and appeal to industry management to emphasize voluntary implementation of SEMP by all offshore operators. In FY 1994, 1995 and 1996 these efforts were undertaken in cooperation with such organizations as the OOC, API, IPAA, and the International Association of Drilling Contractors. In late FY 1997, the MMS will decide on whether RP75 should be incorporated into the MMS regulations, remain a voluntary standard, or be modified to achieve the objectives of SEMP.

### ***Deepwater Development***

Production rates from deepwater wells have soared as high as 13,000 barrels per day, on par with some Middle East wells. As nearshore Gulf of Mexico operations wind down, deepwater projects will become increasingly important to the maintenance of a healthy and viable domestic energy industry. With deepwater production, imports could potentially be held at current levels or even reduced through the early part of the next century. Recent studies have concluded that an active exploration and development program in the deepwater Gulf of Mexico could create as many as 100,000 new high-paying jobs, with some 70,000 of these sustained beyond 25 years.

With the passage of the Deepwater Royalty Relief Act (P.L. 104-58), OCS lessees have accelerated deepwater field development activities, as evidenced by the most recent (1996) highly-successful Central and Western Gulf of Mexico lease sales. Increased deepwater development will cause an increase in MMS's regulatory duties. As discussed below, MMS will begin to require the submittal of a Deepwater Operations Plan for deepwater and subsea development projects.

### ***MMS Involvement in Advancing Deepwater Development***

The MMS participated in Phases I and II of the DeepStar joint-industry research project. This project, led by Texaco, developed a deepwater production strategy to control risk and minimize capital exposure and continues to research new technology needs for deepwater development and production.

The MMS will continue to work with the DeepStar regulatory issues committee in Phase III of the project. This committee examines regulatory issues related to deepwater production and long offset subsea systems. New issues include:

- ☛ requirements for deepwater operations plans;
- ☛ increased use of tension-leg spar platforms;
- ☛ conservation issues;
- ☛ new technology and potential problems: and
- ☛ royalty relief.

The MMS Deepwater workgroup independently evaluated regulatory issues raised both within and outside of MMS participation in Phase II of the DeepStar project. The workgroup issued a final report in April 1995. The report's most significant recommendation calls for the submittal of a deepwater operations plan for future deepwater or subsea development projects. A lessee's deepwater operations plan discusses how the lessee ensures that the project meets MMS's production safety requirements. The plan also addresses or includes:

## Regulatory Program

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- ☛ application of new technology and practices;
- ☛ emergency shutdown systems parameters;
- ☛ inspection, testing, and maintenance practices;
- ☛ justifications for departures from minimum safety requirements;
- ☛ hazards analyses; and
- ☛ conservation issues.

The Gulf of Mexico OCS Region developed guidelines for the preparation and submittal of a deepwater operations plan based upon the workgroup's recommendations.

### ***Oil Spill Prevention and Mitigation***

The 1969 Santa Barbara blowout and two major platform fires in the Gulf of Mexico in 1970 triggered the development of a comprehensive spill prevention and response preparedness program. This program includes spill prevention specifications and requirements, training, contingency planning, response drills, equipment inspection, and research. These elements are fully integrated such that research, inspection, and drill results influence the development of training and contingency planning requirements. The MMS was the first organization in the world to conduct surprise oil spill response drills (Georges Bank, 1982). The unannounced drill program has continued to grow and evolve, and has greatly influenced MMS spill preparedness programs.

### ***Oil Pollution Act of 1990 (OPA) Implementation***

The Oil Pollution Act of 1990 created several new responsibilities for the MMS. Chief among these were expanded research responsibilities, new and modified oil spill financial requirements and expanded spill prevention and response authority (including State offshore waters).

### ***Oil Spill Prevention and Response Research***

As a result of the passage of OPA, some elements of the comprehensive spill prevention and response program are now funded by the OPA Oil Spill Trust Fund (*see Oil Spill Research*). All oil spill response research, some spill prevention research, and some response planning activities are funded through the trust fund. Examples of the types of MMS-supported oil spill research include: (1) research into the behavior and properties of spilled oil at sea to improve the efficiency of spill clean-up operations; (2) research into innovative methods of oil spill clean up such as *in situ* burning of oil; (3) development of advanced instruments to detect and map oil spills under adverse conditions in varying coastal and offshore environments, such as a frequency scanning radiometer and laser fluorosensor; (4) evaluation of oil spill response equipment such as booms and skimmers, under controlled conditions, in oil at the MMS Ohmsett facility in Leonardo, NJ. All research is closely coordinated with other Federal agencies, industry, states, and foreign governments. The MMS is a key member of the Interagency R&D Committee established under OPA.



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### ***Oil Spill Financial Responsibility***

The Coast Guard Authorization Act of 1996 amended the Oil Pollution Act of 1990. The amendments provided that the level of oil spill financial responsibility for offshore facilities in the OCS would be a minimum of \$35 million, and for offshore facilities in State coastal waters, including bays and estuaries, \$10 million. Further, the amendments limited the requirement to facilities that are involved in the exploration, drilling, production, or transportation of oil from offshore facilities, and provided a de minimi exemption of 1,000 barrels. The OPA continues to provide that existing financial responsibility regulations continue in effect until new regulations are promulgated under OPA.

In January, 1997, the MMS published a proposed rule to implement the provisions of OPA, as amended. The MMS continues to administer the existing OCSLA program at a level of \$35 million for facilities on the OCS, and will continue to do so until a final rule is promulgated. This program was formerly administered by the U.S. Coast Guard (See Oil Spill Research for a detailed discussion of both initiatives).

### ***State/Federal Interaction and Coordination Under OPA***

In meeting its OPA obligations, MMS is working closely with coastal states. The intent is to minimize duplication and leverage resources. Memoranda of Understanding (MOU's) with Texas, Louisiana and Alaska and a Memorandum of Agreement with California have already been executed. MMS is also working to strengthen state programs, in an effort to minimize MMS regulation of State water activities.

There are many other instances of MMS cooperation with other Federal agencies and States in the OPA implementation. They include the following:

- ☛ The U.S. Coast Guard, MMS, EPA, Research and Safety Programs Administration (RSPA), the States, and private industry continue to cooperate in the implementation of nationwide guidelines for spill response drills – the National Preparedness for Response Exercise Program (PREP).
- ☛ The EPA, MMS, Coast Guard, RSPA, and private industry are working together to create integrated contingency plan (ICP) guidance that would allow facilities to write one response plan that would meet all Federal contingency planning requirements.
- ☛ The Department of Transportation, MMS, and EPA, jointly issued training guidelines for oil spill response.
- ☛ The U.S. Coast Guard, MMS, EPA, and RSPA coordinated development of oil spill response regulations that are compatible.
- ☛ The Department of Transportation, EPA, and MMS have jointly sponsored workshops for State agency employees dealing with OPA spill response-related issues.

### ***MMS Training Programs***

The MMS administers two training programs. One is a regulatory certification program focused on ensuring that offshore industry personnel are adequately trained in drilling, well-completion, well workover and well servicing well control operations, and production safety systems. This program is implemented by reviewing and certifying school curricula and training plans, and conducting on-site evaluations and audits of classes by MMS personnel. The other training program administered by the MMS is the inspector training program. This program focuses on

## Regulatory Program

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ensuring that the MMS inspection workforce is adequately trained to perform the duties of their current job in a professional and competent manner and that they are receiving the training they need to successfully perform their job in the future. It provided a common base of knowledge and skills that improves the consistency of inspections conducted by MMS.

### MMS Certification of Industry Training Schools

#### **Subpart "O" Training Rule**

The MMS administers the industry certification program to help ensure that operations in the OCS are conducted in a safe and pollution-free manner by well-trained personnel. The MMS Subpart "O" training program has gained worldwide recognition as a model program, and many States with either onshore or offshore industry operations, require training at MMS certified schools. Many foreign countries also have adopted MMS certification as a standard.

Current Subpart "O" training regulations provide very detailed, prescriptive based requirements to achieve their goal of assuring that only trained personnel work on the OCS. In November, 1995, a Notice of Proposed Rulemaking (NPR) was published in the FR requesting input on a new set of offshore training regulations. The goal of this notice was to provide industry increased flexibility in developing their training programs and to reduce the level of regulatory detail in the training regulation. The NPR provided for the use of alternative training techniques (e.g., interactive computers), independent third party accreditation of training schools, eliminated the requirement for refresher training, reduced the number of course options, simplified training frequencies, and drastically reduced regulatory detail. In December, 1995, a one-day workshop was held to provide the public an opportunity to give the MMS input on the NPR. A final decision on the Subpart "O" training rule is forthcoming.

#### **Testing Programs**

During the past two years the MMS has been working to develop a testing program designed to test students with MMS-prepared tests instead of the school's test. To date, eight tests have been given by MMS personnel. Four tests in drilling well control, two tests in well completion-workover well control, and two tests in production safety operations. The average test scores have been significantly lower than the historical test score average for the schools. In the event the MMS determines that industry training is more effectively implemented through a performance based system, this testing program may prove to be a valuable mechanism to gauge operators' performance.

Initial efforts have been taken between the MMS, the International Well Control Forum and the International Association of Drilling Contractors to jointly develop an internationally-based pilot testing program. This program would allow a student to take a single test (after completing the appropriate training) for the purpose of receiving both MMS and IWCF certification.

### MMS Inspector Training Program

In response to the changing climate on the OCS, the increasing number of independent oil and gas operators, the development of new technologies for deep-water operations, and the heightened focus on the importance of human factors in OCS operations, the MMS saw the need to develop a formal inspector training program. This program is designed to ensure that MMS inspectors have the skills needed to perform the duties of their job in a professional manner. To provide this training, the MMS has adopted a two-part philosophy. The first part is designed to develop the long-term capabilities of this workforce while the second part is designed to improve current on-the-job performance.

Training is presented to the inspector workforce in either an interactive (CD-I or CDROM) format, through videotapes, or in a conventional classroom setting. To date, the following CD-I training modules have been

developed; Hazards Identification, Incident Investigation, Gas Measurement, Hazards Communications, and Electrical Equipment. In FY 1997, a CDROM on Drilling Operations will be prepared. The majority of these modules have been prepared in cooperation with a non-profit organization, the Training Technology Consortium (TTC). The TTC is a group made up of the MMS and various members of the oil and gas industry. The primary goal of the TTC is to develop interactive training relevant to offshore oil and gas operations. The MMS looks forward to increased involvement with the TTC in FY 1998.

The MMS is working in a parallel effort to develop its internal capabilities to produce other inspector training materials including videotapes, guidelines, and classroom courses. The ability to create videotapes for the inspection workforce will enable the agency to develop more focused, shorter training segments to address any site-specific training needs of the workforce. Conventional classroom courses have been presented to MMS inspectors on Environmental Issues and SEMP.

### ***Bonding Requirements***

A new rule was promulgated in 1993 to assure that lessees have the financial capacity to carry out their obligations, e.g., to properly plug and abandon wells, remove platforms, and clear the well or platform site of obstructions. A proposed rule was published in December 1995, that would establish a deadline of 2 years for all OCS oil and gas and sulphur lessees to bring their bond coverage into compliance with the new levels, clarify that assignees, assignors, and co-lessees are jointly and severally liable for compliance with OCS sulphur and oil and gas leases, establish a regulatory framework for lease-specific abandonment accounts and acceptance of a third-party guarantee, and update the bond coverage required of holders of pipeline right-of-way and Geological and Geophysical (G&G) exploration permits. These changes were needed to reduce the risk of default by an underfunded company operating a lease or holding a right of way or G & G exploration permits.

### ***Air Quality Evaluations***

In August, 1995 MMS completed the Gulf of Mexico Air Quality Study. This study evaluated the potential effects of oil and gas production activities in the Gulf of Mexico on areas in Texas and Louisiana that do not meet the federal ambient air quality standard for ozone. MMS started consultations with EPA to determine if any regulatory actions are necessary as a result of the study findings. Impacts from the OCS were found to be small and no regulatory actions are anticipated.

MMS also started a series of meetings with the U.S. Fish and Wildlife Service, EPA, state agencies, and industry to discuss a cooperative study to assess air quality impacts of industrial development in the Gulf of Mexico on the Breton Nature Wilderness Area. MMS initiated an air quality monitoring program in the Breton area to measure existing pollutant concentrations. The cooperative effort would include additional air quality and meteorological monitoring and evaluation.

## Regulation of Operations Program

The following section details four sub-elements within the Regulation of Operations program area:

- ☞ Inspection and Enforcement,
- ☞ Industry permits and approvals,
- ☞ Production controls, and
- ☞ Other processes.

### 1. *Inspection and Enforcement*

The inspection of OCS oil and gas operations is a major activity of the regulatory program. The MMS inspects drilling and production facilities on the OCS using both scheduled and unannounced inspections.

The Inspection Program provides the first line of defense for ensuring environmental protection and human safety. Three of many examples of how this program has served the public are provided below:

- ☞ A company on the OCS was issued an Incident of Non-Compliance (INC) for operating with subsurface safety valves removed from the well for an extended period of time. While such a practice does increase production rates, it also greatly increases the possibility of losing control of a well. Within a short time following this violation, the company declared bankruptcy. If the company had lost control of any wells, and had a worst case spill occurred, it is unlikely it would have had the financial means to meet its oil spill liabilities. The MMS inspection and enforcement action helped ensure that this primary line of defense against oil spills was in place.
- ☞ An MMS inspection resulted in the issuance of two INC's because the surface-controlled subsurface safety valves for two wells were found leaking. During a follow-up inspection, MMS inspectors found that the wells had been returned to production without the valves being removed, repaired and reinstalled, or replaced. The wells were "shut-in" by MMS until the company corrected the violation. Following an MMS investigation, it was determined that the violations constituted a threat of serious, irreparable, and immediate harm to the environment and a civil penalty was assessed. A hearing was held before an MMS Reviewing Officer and the company paid the civil penalty.
- ☞ An investigation by the MMS revealed that a company failed to execute established safety procedures necessary to prevent a flash explosion that occurred during maintenance on a flare condensate knock-out vessel. This

<b>Civil &amp; Criminal Penalties Summary</b>	
<i>August 1990 - November 1996</i>	
<b>Compliance Reviews</b>	
Initiated .....	123
<b>Civil Penalty Case Files</b>	
Reviewed .....	119
<b>Civil Penalties</b>	
Cases .....	65
Dollars .....	\$605,221

failure to practice safe and workmanlike procedures resulted in a serious injury to a worker. Based on the fact that the violation resulted in harm to human life, the MMS assessed and collected a civil penalty. After the investigation and assessment of the civil penalty, the company implemented the following corrective actions:

- The company conducted an independent investigation;
- The company developed a Standard Operating Procedure (SOP) to isolate and clean vessels.

An inspection can range from two hours in duration by a single inspector to several days by two or three inspectors depending on the operation being inspected (drilling, production, workover, well completion, measurement, etc.) and the complexity of the facility. An unannounced inspection is usually not a complete inspection, and therefore is of shorter duration than a complete inspection. A single well caisson (approximately 36 percent of the production facilities are in this category) contains on average about 8 devices to be inspected. A "super" platform may contain about 1,200 devices to be inspected. The single well facility can be inspected in a short time, while the super facility may take several days. However, the super platform has a heliport which makes it easily accessible. The single well facility is, generally, only accessible by boat which increases travel time greatly. The inspection program is not just a matter of conducting inspections, but includes the transportation to and from the facilities and the planning of inspections in order to use the resources most efficiently.

<b>Facility Size Classes</b>				
Type and Number of Wells	Number of Facilities as of 10/15/95			Number of Devices per Facility (Approximately)
	GOM	Pacific	Total	
Processing (no wells)	451	1	492	150
Single Wells	1,361	0	1,363	8
Jacket (2-6 wells)	1,017	0	1,017	75
Medium (7-18 wells)	789	1	789	230
Large (19-27 wells)	184	2	186	500
Major (27-59 wells)	39	7	46	850
Super (60 wells)	5	12	17	1,200
<b>Total</b>	<b>3,846</b>	<b>23</b>	<b>3,869</b>	

Due to the increasing number of operators, MMS has instituted alternative means of inspection, such as scientific random sampling. Sampling will be used as a screening process to focus on operators who are less diligent in maintenance and inspection. This reduces the time required for scheduled inspections and increases the time and resources available for unannounced inspections, thereby permitting the MMS to spend a greater amount of time dealing with facilities and operators that pose a greater risk. Thus, while the total amount of time spent inspecting is the same, the effort will be focused on higher risk operations, rather than routine operations by reliable operators, and without diminishing the effectiveness of the inspection process.

**Civil and Criminal Penalties**

The Oil Pollution Act of 1990 (OPA) contained amendments to the Outer Continental Shelf Lands Act (OCSLA) which restored the MMS civil penalties program. The program had been suspended due to court actions prior to 1990. The OCS Civil/Criminal Penalties Program is now active in all three MMS regions. Since the passage of OPA in August, 1990 through November, 1996, MMS has initiated 123 compliance reviews which have led to 119 civil penalty cases being referred to MMS Reviewing Officers. During that period MMS collected \$ 605,221 in 65 civil penalty cases. Training for candidate OCS Civil Penalty Officers is now complete. On February 9, 1996, MMS clarified its civil penalty policy. Violations involving injury to personnel, pollution, or bypassing of critical safety devices will be reviewed for potential civil penalties. MMS is also rewriting the civil penalty regulations at 30 CFR Subpart N.

In addition to the OCSLA civil penalty authority (which includes the current OCSLA financial responsibility regulations), OPA and Executive Order 12777 gave MMS civil penalty authority to enforce the OPA-mandated financial responsibility requirements. The approach to implement civil penalties for failure to comply with the oil spill financial responsibility is being evaluated and will be a part of the OPA rulemaking.

<b>Enforcement Activity - Fiscal Year 1996</b>	
	<b>Total</b>
<b>Inspections</b>	
OCS drilling facilities	1937
OCS production facilities	4,096
Pipeline inspections	204
Measurement/Site Security	2,953
Workover/Completion	576
Abandonment	62
<b>Compliance</b>	
Citations (INC's*)	4,771
<b>Enforcements</b>	
Component shut-ins	2,397
Drilling facility shut-ins	141
Production facility shut-ins	141

<b>Enforcement Activity - Fiscal Year 1996</b>	
Component shut-in -	Vessel or unit operation out-of-compliance is shut-down until it is brought into compliance.
Facility shut-in -	Facility operations found out-of-compliance require immediate shut-in of entire facility.
* Incidents of Noncompliance	

### **Selected Facilities Review**

A selected facilities review is an intensified inspection effort directed at facilities in a specific geographic area. Special inspection teams made up of two to four inspectors from two or more districts inspect a designated number of various types of facilities in a short (usually three day) period of time using preselected Potential Incidents of Non-Compliance. The inspections are unannounced and are intended as a tool to evaluate both the effectiveness of the MMS Inspection Program and the level of lessee compliance with OCS regulations. Depending on the size and complexity of the facility, as many as 10 facilities may be inspected.

### **Accident Investigations**

Regulations state that the MMS is notified of every accident occurring on the OCS. MMS conducts accident investigations to: identify and rectify specific safety or environmental problems; analyze and assess the effectiveness of current equipment, procedures, and operations; identify the need for new or modified regulations; and provide information needed to support other aspects of the Regulation of Operations Program. By better understanding why accidents occur, we believe we can prevent future incidents.

## ***2. Industry Permits and Approval***

Operators are required to obtain MMS approval or permits before commencing certain activities and operations as described below. In addition to these, unitization and operating agreements and enhanced oil recovery projects also require MMS approval.

### **Exploration, Development, and Production Plans**

The MMS requires OCS operators to obtain approval for their exploration plans (EP) prior to commencing exploration activities. The MMS requires approval for each Development and Production Plan or Development Operations Coordination Document (DOCD) prior to the drilling of development wells or the installation of fixed production platforms, pipelines, or production equipment. The MMS encourages cooperative development to ensure coordinated development and production by independent operators on separately-owned tracts. The MMS ensures that plans are designed to prevent the harmful effects of overproduction, and ensures conservation of the resource.

### **Applications for Permit to Drill, Workover, Recomplete, and Abandon Wells**

Before wells may be drilled, worked over, recompleted, or abandoned, operators must submit an application giving full information regarding the proposal and obtain MMS approval prior to beginning the operation. The number of applications for permits to drill, well workovers, recompletions, and abandonments has increased over the last 5 years, and reflects a continued or steady increase in the number of drilling rigs now operating in the Gulf of Mexico.

### **Platform Installation, Modification, Removal, and Site Clearance**

Operators must submit to the MMS, for approval, applications for the installation of new platforms and applications for significant modifications to previously-approved applications. Regulations require all new platforms or other structures to be designed, fabricated, installed, and inspected in accordance with MMS regulatory requirements. MMS designed these requirements to prevent the endangerment of life, health, or damage to the environment and to ensure the structural integrity of platforms when subjected to hurricanes, earthquakes, ice, other natural hazards, and boat collisions. MMS reviews each platform application or significant modification to an approved application to ensure that it is appropriate for the expected environmental and operating conditions and to determine the steps to be taken to protect against corrosion.

Selected platforms which operate in difficult physical environments, or which have designs not previously proven for use in such environments, are subject to the requirements of the MMS Platform Verification Program. The Platform Verification Program requires both a more detailed review by the MMS and the review and approval of a third party verification agent who provides an independent engineering assessment of the design, fabrication, transportation, and installation of the platform.

When platforms are of no further utility, operators submit plans for proper abandonment of wells, removal of platforms, and site clearance. MMS reviews plans for integrity and regulatory compliance before approval. Platform removals in the Gulf of Mexico have decreased to less than 100 per year. However, increased drilling activity has led to a rebound in the number of new platform installations. In 1994, 154 platforms were installed, a 40 percent increase from the previous year. The fact that more platforms were installed than removed is an indication of continued strong interest in GOM development and production.

### **Pipeline Applications**

Regulations require that an operator or right-of-way grant holder submit to MMS, for its review and approval, applications for the design, plan of installation, and modification and repair of all pipelines authorized under any lease or pipeline right-of-way.

## ***3. Production Controls***

### **Production Verification**

This nationwide production verification program protects the public interest regarding OCS minerals development. The MMS conducts annual inspections on all onshore and offshore custody transfer liquid meter locations for site security, verification of sales volumes, and compliance with OCS regulations. The MMS personnel perform onsite production verification and inspections to check discrepancies noted in the records. The MMS witnesses meter provings to assess the meter's accuracy. The proving report is used to verify the run ticket net volume. The run ticket net volume is compared to the monthly production report submitted by the operator. Production verification inspection figures include all of these verifications. The MMS has developed an automated system which detects under-reported crude oil production. The MMS has also conducted a pilot gas production verification project in the Gulf of Mexico Region which supports the need for a complete gas verification program.

### **Commingling Agreements and Measurement Approvals**

Operators submit applications for MMS approval to move production from multiple leases to a central facility for purposes of processing, measuring, and storing of this production. In the process, production is commingled (mixed) with production from different wells, leases, and fields, and with production of other operators. MMS reviews commingling agreements to ensure that such agreements do not result in a reduction in the royalty due to the Federal Government.



### **Production Rate Control**

MMS sets well and reservoir production rates to provide for conservation of resources and prevention of waste. MMS personnel review requests for reservoir maximum efficient rates (MER's) and well maximum producible rates (MPR's), supporting information, and approve operations in accordance with established policies developed to prevent waste and ensure conservation of oil and gas. Operators submit semi-annual oil well and gas well test results. MMS uses this information for many reasons which include production capabilities of wells, reservoirs, and leases; reserves estimation; development plans; and royalty obligations.

### **Gas Flaring Approvals**

The MMS reviews requests for flaring or venting to ensure that unnecessary flaring does not occur. The MMS approves flaring or venting only when requested operations are in accordance with MMS policy established to prevent unnecessary loss of natural resources and to minimize environmental effects of flaring.

## ***4. Other Processes***

### **Suspensions of Operations**

The MMS directs suspensions of operations when necessary for safety or environmental reasons or grants them in the national interest as specified in regulations.

### **Field Development Studies**

Drainage across a State/Federal boundary from leased land to unleased land, or from one lease to a lease with a different royalty rate, can affect Federal royalty payments. The MMS monitors development and production activities to ensure that Federal royalty payments are not reduced as a result of drainage.

### **Oil and Gas Information**

The Offshore Regulatory Program provides the public, industry, and other government agencies with official statistical information on the MMS oil and gas program.

- ☞ **Federal Offshore Statistics** provides mainly tabular data on leasing, exploration, production, and revenue from Outer Continental Shelf operations from 1954 to 1996.
- ☞ **The Offshore Stats**, a quarterly statistical newsletter, provides individuals, organizations, and other interested parties with statistical graphs, tables, and charts. Information is also presented on monthly, quarterly, and annual comparisons and trends. Data coverage includes drilling, production, rigs and platforms, deepwater operations and discoveries, environmental studies, inspections, compliance, civil and criminal penalties, training, revenue contributions, rents, royalties, disbursements, and OCS performance records.
- ☞ **The Leasing and Production Annual Report to Congress**, mandated by Section 15 of the OCSLA, and, in compliance with Section 22 (g) of the Act, summarizes fiscal year highlights including; lease statistics, pre- and post-lease activities, operational statistics, safety regulations, offshore program revenues and expenditures, international activities, and environmental studies.

**Justification of Program Changes**

	1998 Budget <u>Request</u>	Program Changes <u>(+/-)</u>
\$(000)	35,392	+1,143
<i>FTE</i>	345	+15

**Regulatory FTE Increase Related to New Workload (+\$1,150,000, +18 FTE)**

Increased industry interest in leasing and operations in the Gulf of Mexico and changing conditions in the petroleum industry have had a far-reaching impact throughout the GOMR. An increased number of small and independent operators with limited experience in the Gulf of Mexico OCS, and the trend of exploration and development moving into deeper water are factors that have greatly affected the GOMR's workload.

The recent (1995 and 1996) very successful lease sales in the Gulf of Mexico have created a workload that cannot be handled by the current staffing levels in the GOMR. Examples of some of the workload increases that the GOMR is experiencing in the Regulatory Program are:

- ☛ an increase in the number of exploration plan applications (increased by 70 percent between 1992 and 1995 and are expected to continue to increase);
- ☛ an increase in the number and complexity of pipeline right-of-way and installation applications (increased by 20 percent between 1993 and 1995, but are expected to increase even more due to larger number of active leases, including leases in deepwater where there is no existing infrastructure);
- ☛ an increased emphasis on deepwater development and its associated innovative technology for drilling and production as well as the need to address engineering, safety, and unique supplemental bonding issues;
- ☛ more emphasis on commingling of reservoirs due to economic conditions has created a backlog of downhole commingling applications in the GOMR;
- ☛ the number of applications for permits to drill and sundry notices are at an all-time high in GOMR district offices; and
- ☛ the increased complexity of the newer and deepwater platforms require longer inspections and flight times, and create a need for additional inspectors.

The GOMR needs more petroleum engineers, inspectors, geophysicists and geologists in the Regulatory Program to cope with this added workload. Without the proposed increased MMS decisionmakers will be increasingly basing decisions regarding the safety of offshore oil and gas activities on incomplete information. This could place both the lives of offshore workers and a critical national resource in jeopardy.

**Additional GOMR Helicopter/Contract Increase (+\$575,000, 0 FTE)**

An additional helicopter is needed due to the increased activity in the GOMR. The activity will result from the vast number of new leases, primarily in deep water, and the increased activity on existing leases. The additional helicopter will be used to transport the new inspectors who are part of the Regulatory FTE increase. There are 20

drilling operations in water depths exceeding 1,000 feet. There are 44 field discoveries in deep water in the GOMR. Fifteen of the fields are already producing. Also, more drilling and production activity is occurring in the Eastern Gulf of Mexico, which requires long distance helicopter flights for inspections. Without an increase in funding, current inspection levels will have to be curtailed, jeopardizing our oversight of existing offshore facilities.

**New Space Acquisition (+\$164,000, 0 FTE)**

In FY 1998, the Region is requesting a net increase of 18 new positions in order to fulfill new responsibilities and additional workload (no increase in FTE ceiling is being requested. Increase will be achieved by transferring FTE allocation from other parts of the program). The regional office building is already filled to capacity. Approval of the GOMR FTE increase will necessitate the relocation of approximately 25 FTE to another building.

**Regulation of Operations FTE Decrease (-\$746,000, -3 FTE)**

In the Outer Continental Shelf (OCS) Lands Program, the focus has been directed to areas that currently have ongoing development and production or the near-term potential for development and production. As a result, the Atlantic regional office has been closed, the Alaska regional office has been decreased by 50 percent, and the Pacific regional office has decreased by 25 percent with all prelease activities being eliminated. Implementation of MMS 2000 in FY 1997 completes the Offshore streamlining and downsizing effort and reduces Headquarters offices by more than 25%.

The FY 1997 buyouts and implementation of MMS 2000 will enable Offshore to eliminate additional positions, in Headquarters and the Pacific Region, in FY 1998. These streamlining efforts will result in Offshore-wide savings of \$1,723,000, including a savings of \$746,000 in the Regulatory subactivity.

## Technology Assessment and Research

The studies of the Technology Assessment and Research (TA&R) Program promote safety of operations and prevention of oil spills and air pollution. TA&R studies investigate and assess safety-related technologies and perform applied research as needed. Study results support the technology basis for MMS's permitting of drilling and production operations, safety and pollution inspections, enforcement actions, accident investigations, and well-control training requirements. The program is a balanced effort that investigates safety-related technologies associated with the industry's movements into deeper water and more hostile environments, as well as the maintenance of aging facilities.

Natural disasters, such as Hurricane Andrew and the Northridge earthquake have reinforced recognition of the continuing need to assure the integrity of offshore facilities and to ensure that regulatory requirements encourage use of Best Available and Safest Technologies (BAST). Within MMS, technical personnel review operational problems and consider possible technological solutions which may be better-defined through research efforts.

### Objectives:

- ✓ Provide a continuing and comprehensive technology base within the MMS to ensure that OCS operations are orderly, safe, and pollution-free, and to ensure that MMS regulatory requirements facilitate the use of advanced technologies.
- ✓ Provide leadership to industry, through research participation and dialogue at the engineering level, to assure compliance with the provisions of OCSLA Section 21(b) that requires the Best Available and Safest Technologies (BAST).

## TA&R Program Activities

The program operates through contracts with universities, private firms, and government laboratories to assess safety-related technologies and to perform necessary applied research. TA&R jointly funds studies in cooperation with other Federal agencies, State and local government agencies, government agencies of Canada, Norway, and the United Kingdom, and with industry. Joint funding of projects is becoming increasingly popular because of the similarity of interest, decreases in research funds, and a broader recognition that this is the most effective and efficient method to leverage available funds.

### *Operational Safety*

The MMS has sponsored, at Louisiana State University (LSU), investigations of deep-ocean well-control procedures and diverter design and operation, and will be focusing its resources on the interactive process of well control and seabed response to minimize seabed fracture from underground blowouts and other subsurface flow problems associated with excessive well pressures that could result in cratering and even platform loss.

The MMS is conducting operational and reliability analysis studies for OCS operations and has held related international workshops. Our knowledge and understanding of deep-ocean well control needs to be improved to provide engineers a better understanding of seabed physical processes that occur while drilling and to provide drillers more timely and accurate bottom-hole information and improved means for controlling potential blowouts.

Studies also have been initiated that emphasize human and organizational factors that affect responses during normal and emergency operations on offshore platforms. Offshore facilities, by their very nature, provide a minimum of space into which complex and densely configured drilling, production and processing equipment must be placed and operated. Facility systems must be designed, arranged, operated, and inspected to minimize the potential for failure of any element. The failure of a single element in these tight quarters can cause a cascade of sequential failures, resulting in a catastrophic failure of the system. A major international workshop was held on December 16 - 18, 1996, to assess the use of human and organizational factor (HOF) methodologies in offshore development. Based on the recommendations of this workshop, several projects will be initiated to address the application of HOF to offshore operations.

<b>Examples of Contracts and Cooperative Agreements</b>			
<b>Project</b>	<b>Contractor/Organization</b>	<b>Estimated Cost</b>	<b>Extended Project</b>
Well Control Procedures	Louisiana State University	\$280,000	Yes
No <sub>x</sub> Control Development	Technor Inc.	\$200,000	Yes
Offshore Composites Engineering & Application Center	Joint Industry Project (JIP) with University of Houston	\$20,000	Yes
International Workshop on the Use of composites in Offshore Operations	JIP/ with University of Houston	\$50,000	No
Methods to Control Hydrates for Deepwater Operations	JIP/Westport Technology	\$50,000	Yes
Control of Paraffins for Deepwater Operations	JIP/University of Texas	\$100,000	Yes
Integrity of Deepwater Pipelines	JIP/University of Texas	\$75,000	Yes
Deep Water Offshore Technology Research Center	Texas A & M University	\$50,000	Yes
Integrity of Tubular Frames for Offshore Platforms	JIP with BOMEL Engineering	\$73,000	Yes
International Workshop on Advanced Materials	JIP/Colorado School of Mines	\$80,000	No
Development of New Explosive Techniques for Removing Offshore Structure and Wellheads	Revers Engineering, Ltd.	\$40,000	Yes

### **Old and Innovative Structures and Pipelines**

TA&R is developing a methodology for assessing acceptable loads and residual service lives of existing platforms and pipelines. There is a growing concern about the integrity (age and condition) of some of the older platforms and pipelines in the Gulf of Mexico. There is also some concern over the susceptibility of some of these facilities to corrosion, damage caused by dropped objects, collision of vessels with a platform, and by anchors being dropped on or dragged across a pipeline. Improved inspection and monitoring systems need to be devised for both pipelines and platforms.

### **Deep Water Offshore Technology**

Shortly after the turn of the next century, exploration wells will be drilled at 10,000 foot depths at the very limits of the Exclusive Economic Zone. Production systems will be designed for depths of 6,000 feet and greater. The product pipeline networks for gas and oil will have been extended well off the continental shelf and down the

continental slope. Large reservoirs will be serviced by tension leg platforms or spar platform derivatives, with extended capability to handle distant subsea completions, and will be operated by consortia of large companies. Smaller reservoirs will be produced by independents utilizing small moored floating platforms, many of which will be capable of reuse in other locations. The business climate will demand innovative platform configurations, reductions in the weight and cost of risers and mooring systems and solutions to the pipeline reliability problems.

As more and more reserves are being discovered in deep water, the innovative technologies used by industry to design and build deep-ocean compliant structures, such as tension-leg platforms, continues to evolve to meet technical and economic needs for deepwater development. This rapid evolution in technology needs to be independently verified to ensure continued safety of operations and protection of the environment.

The TA&R Program has been a catalyst in forming joint industry projects to address critical and emerging problems. The TA&R Program has helped shape the offshore industry's agenda and supported the development of deep water petroleum reserves. To meet the objectives described above, the TA&R Program will fund projects in the following areas: (1) fluid/structure interactions; (2) fatigue life and reliability of a wide variety of deep water facilities; and (3) operational developments relative to pipelines. These studies will provide an engineering understanding of the constraints and uncertainties of deep water operations.

### **Nitrogen Oxide (NO<sub>x</sub>) Pollution on the OCS**

MMS has been working with industry to develop a combination of exhaust gas treatment and engine combustion controls as a means of reducing the NO<sub>x</sub> emissions from gas turbines and diesels operating on the OCS. New air quality standards will require these emissions to be reduced by about 75 percent. The MMS's research efforts have been a major factor in developing this technology so it is now commercially available for diesel engines. Laboratory research using gas turbine engines has advanced so that plans are being made to initiate a development/demonstration project.

### **Arctic Technology**

Sea ice in its various forms is the most severe environmental factor in the Arctic. The hazards it creates are potentially much greater than the hazards faced in open-ocean operations. Such hazards range from the forces that moving sea ice may exert against offshore structures to the gouging of the seafloor (a factor to be considered in the placement of a pipeline). Engineering data for these hazards will become increasingly more important as operations move from an exploration mode to a production mode and as structures are considered for deeper water, especially within the shear zone or pack ice. The MMS has been participating, as opportunities arise, to gain important safety-related information in advance of future operations in the Arctic. In particular, engineering properties and forces of moving ice on structures and pipelines are being studied. Interest has been renewed in the offshore Arctic as a result of efforts to move forward with development of previous discoveries and new discoveries onshore.

### **Advanced Materials**

Much progress has been made in producing new materials for application to offshore oil and gas operations. New materials such as metal matrix composites and fiber-reinforced plastic materials have made some progress in marine applications, but much further progress can be made for engineered materials offering properties allowing for new designs of offshore structures and operational components such as risers, etc. Even though these materials offer significant improvement in properties, serious barriers such as material and fabrication costs, needed design innovations, and the reliability, repair, and inspection of advanced engineered materials need to be addressed. An international workshop is planned to assess the utilization of advanced materials offshore for oil and gas operations.

### ***Technology Transfer/Seminars/Workshops***

Research supported by the TA&R program is reported in publications and seminars. In addition, MMS conducts workshops on pertinent areas of technology. The TA&R program also sponsors a biennial seminar for the public on its research program. International workshops have been conducted on such topics as pipeline safety, requalification of old or damaged platforms, the use of composite materials offshore, and operational risk.

### ***Major Program Reports***

The Program prepares a biennial report summarizing information about ongoing projects. In addition, all reports from research projects are maintained for in-house use and distribution to the public as appropriate. Workshop proceedings are an additional major source of technology transfer.

### **Effect of MMS 2000**

The abolishment of OMS resulted in the transfer of \$410,000 and 5 FTE to the Regulatory Program. This change is reflected in the Crosswalk table in the budget summary section.

**Information Management Program**  
**Justification of Program and Performance**  
*dollars in thousands*

		1997 Enacted	Uncontrollable and Related Changes	Programmatic Changes	1998 Budget Request	Change from 1997
Appropriation	\$	2,154	121	-302	1,973	-181
	FTE	37	0	0	37	0
Offsetting Collection	\$	11,968	0	0	11,968	0
	FTE	72	0	0	72	0
Total	\$	14,122	121	-302	13,941	-181
	FTE	109	0	0	109	0

In FY 1997, Congress approved the establishment of the Information Technology Division (ITD) as part of an MMS-wide reorganization. As a result of the reorganization, the Technical Information Management System (TIMS) Project Office and most of the Office of Management Support (OMS) units became a part of the ITD. The ITD is an ADP and information-dissemination organization, and its functions most appropriately should be funded from the Information Management Program (IMP) budget subactivity. In FY 1996 and FY 1997, the TIMS project was wholly funded by Revenue Receipts and appeared in the Revenue Receipts section of the Budget Justifications. TIMS will continue to be wholly funded by Revenue Receipts. However, it will no longer be a separate section in the MMS Budget Justifications because Revenue Receipts will now fund other OCS Lands activities.

**Program Description**

In FY 1998, the IMP subactivity will fund the ITD, TIMS, and all salary-related costs and equipment maintenance for computer support units in the Gulf of Mexico (GOMR), Alaska and Pacific Regional offices.

The IMP provides a central foundation for the management of the large volume of data used in the scientific, engineering and land management activities of the Offshore program as well as for the development of TIMS. In addition, the operations of this program provide integral support to the other OCS Lands subactivities, i.e. the Leasing and Environmental, the Resource Evaluation, and Regulatory Programs.

Examples of the types of data processed through Offshore's ADP programs and its use are:

- | Objectives  |
|---|
| ✓ Develop, implement and maintain the TIMS.   |
| ✓ Maintain computer facilities.   |
| ✓ Design, develop, and maintain applications software and hardware.   |
| ✓ Provide nationwide policy coordination and standardization for OMM's ADP program.   |
| ✓ Provide technical ADP support for local area networks and coordinate OMM wide area network activities with IRM, RMP, and DOI. |
| ✓ Provide operational and maintenance support for program and regional computerized systems.                                    |



Activity	Type of Data	Use of Data
Leasing & Environmental	Block/Boundary Lease Management Environmental Oil Spill Air Quality Studies	Preparation of Leasing Maps Official Protraction Diagrams Split Block Diagrams List of Qualified Bidders Air Quality Models Oil Spill Trajectory/Analyses Environmental Assessments & Reports
Resource Evaluation	Geologic Geophysical Seismic Well Logs Exploration Development Production Cost Oil and Gas Prices Employment Levels Reserves	Estimate Oil and Gas Reserves Determine Minimum Acceptable Bids Resource Estimates Fair Market Value Determination Regional Mapping Geologic and Reserves Reports National Assessment Forecast OCS Revenues (Bonus, Royalty & Tax Receipts) Oil and Gas Production Forecasts for OCS Royalty Reduction Decisions Lease Timing and Sizing Historical Leasing Analysis
Regulation of Operations	Inspection Industry Structures/Platforms Pipelines and Inspections	Retrieve Applications for Permit to Drill Monitor Bonding Statistics Pipeline Monitoring Compliance Surveillance

The major information management systems/databases used and funded throughout the MMS programs include: (Those systems marked with an asterisk \* below are critical systems being modernized and replaced by the TIMS.)

<u>System/Database</u>	<u>Functions</u>
<b>Outer Continental Shelf Information System (OCSIS)*</b>	Integrates an array of smaller systems, eliminates duplication of data, makes data more accessible and provides a complete array of data and tools to the users. Its two major components are Lease Management and Operations.
<b>Offshore Inspection System (OIS)*</b>	Stores all inspection information gathered during MMS inspections of OCS drilling, production, and pipeline operations, and production verification.

## Information Management Program

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<b>Automated Cartographic System (ACS)*</b>	An interactive, menu-driven system allowing the creation of pre-defined or customized maps.
<b>Offshore Lease Data System</b>	A centralized relational database of lease-related data that is used in the economic analysis of historical lease bid data and subsequent production data.
<b>Archaeological and Shipwreck Information System (ASIS)</b>	A menu-driven application that controls two databases: 1) the archaeological database; and 2) the shipwreck database.
<b>Geological and Geophysical (G&amp;G)*</b>	Interpretive Database System (GNG) Under development. It will combine several different types of G&G data into a single database when fully operational; data includes seismic, gravity, marine and aero-magnetic, geochemical, and well inventory information.
<b>Monte Carlo Range of Values (MONTCAR)</b>	A computer simulation model that performs geologic, engineering, and economic analysis of oil and gas prospects on a tract-by-tract basis; used to evaluate OCS tracts that receive bids during a lease sale which pass to Phase II consideration; estimates a fair market value for the tracts.
<b>Offshore and Coastal Dispersion Model (OCD)</b>	Models pollutant release from over-water sources; developed to replace two earlier regulatory air pollution models used by MMS.
<b>Oil Spill Risk Analysis (OSRA)</b>	Aids in estimating the environmental hazards of developing oil resources in the OCS lease areas; analyzes the probability of spill occurrence, and the likely path of trajectories of spill.
<b>Plume Airshed Reactive Interacting System (PARIS)</b>	A gridded photochemical model used for single or multiple day simulations for ozone.
<b>Probabilistic Resource Estimates Offshore (PRESTO)</b>	A computer simulation model that projects oil and gas resource potential on a structure basis; calculates a range of resource quantities that are projected to exist.

**Postsale Analysis System (PSAS)**

Supports the area-wide concept of lease sales; modified to support large sale offerings and also provide for postsale bid acceptance/rejection procedures.

***The Information Technology Division******Technical Information Management System (TIMS)*****Background**

The TIMS was created by Offshore to provide a comprehensive corporate database that will build Offshore data into a linked information system. The TIMS is providing the Offshore Program with the necessary up-to-date automated tools to carry out its mission of leasing on the Outer Continental Shelf (OCS) in an environmentally-sound manner and to insure proper monetary return to the U.S. Government for leased resources. The TIMS will facilitate receipt of millions of dollars in revenue to the Federal Government by providing information that is critical to the MMS mission. In implementing the TIMS, the MMS is conducting the necessary analysis, systems development, and acquisition activities leading to the modernization of all Offshore mission-critical information systems.

In addition to replacing/modernizing computer hardware and systems software, the TIMS program is building a more comprehensive database to address presently unmet needs in environmental data, environmental analysis, resource and tract evaluation, operational trend analysis, oil spill risk, safety inspection data capture and review, management of oil pipelines, and hazards review for drilling. When fully implemented, the TIMS will enhance Offshore's cost efficiency and management effectiveness.

The TIMS was started in FY 1992 as a Pilot Project in the Gulf of Mexico Region (GOMR). The TIMS was constructed in a modular fashion by the development and deployment of a series of application software implementations called TIMS Releases. Each of the planned releases makes applications available to the end-users as they are completed. This approach allows for high priority applications to be implemented and evaluated sooner than a "grand design" approach, which would require that all applications be made available simultaneously at some time in the distant future. The Pilot was completed at the end of FY 1994 and was evaluated in January 1995. Expansion was then started in the other Regions.

The early development and deployment of the TIMS releases in the GOMR and Alaska has been extremely successful and beneficial to the Offshore program. As a result of the implementation of those releases a large percentage of the programs that were running on the obsolete Concurrent Computer Corporation (CCC, formerly Perkin-Elmer) are now running on the TIMS platform. Specific benefits that were derived from these early Releases include:

- ☞ establishment of the "corporate" database structure to support the entire Offshore program, including key information such as:

Block, Company, Well, Lease, Platform, Pipelines, and Seismic;

- ☞ availability of reference data for Resource Evaluation's Geological Interpretative Tools (GIT) Project;

- ☞ seismic lines, permits, shot points, velocity surveys, requisition tracking and seismic section map inventory;

## Information Management Program

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- ☞ the provision of online access to the data above;
- ☞ enhanced support for Offshore Operations, including platforms, rigs, pipelines, and wells;
- ☞ enhanced support for leasing, including block information, pre-sales, day of sale and post-sale analyses.

Also vital in the early stages was the creation of a seismic mapping initiative called Geological Interpretive Tools (GIT). GIT brings 2 and 3 dimensional geological evaluation tools to bear on the resource evaluation processes. There are five different software systems that comprise the GIT, which initially were purchased in the beginning of FY 1994. They are: interactive, interpretive mapping; well log analysis; seismic interpretation; reservoir analysis; and Geographic Information System (GIS). GIS is a generic set of workstation graphic and analytical tools used to view layers of geographical and environmental data.

### **Accomplishments/Future Endeavors**

In FY 1994 the TIMS was supported with appropriated funds of \$5 million. This funding was supplemented by an increase in rents of \$2/acre on each lease sale tract and was used for TIMS development. This rental rate increase initiative was implemented at the end of FY 1993 and yielded approximately \$5 million for TIMS' use. FY 1994 brought about the completion of Release 4, which expanded GIT base mapping capabilities, lease administration, and added well and production and inspection data to the database. The CCC development machines were shut-down in the GOMR. This brought approximately 55% of the functionality that was performed on the CCC to the TIMS platform.

In FY 1995, TIMS base funding was decreased to \$3.6 million; however, the ceiling on TIMS use of collections from rental receipts was raised to \$8.8 million. Therefore, TIMS continued its growth as planned. Release 4 was installed in the Alaska and Denver locations, expanding the TIMS platform beyond the pilot area in the GOMR. In early FY 1995, the Alaska Region was able to shut down the concurrent computer and rely solely on the TIMS platform. Two new releases were started in FY 1995 in the GOMR. Release 4+ migrated the current applications to the Windows environment, using Oracle, and also enhanced the mapping capability. Release 5, moved the remaining components from the concurrent into the TIMS platform. A significant advancement is the application of GIT for the sales in the GOMR. This capability provides us with a high level of technical parity with the industry when evaluating the geological potential and economic value of tracks offered for sale. Additional workstations/servers were added due to the expansion into the other regions.

In FY 1996, the TIMS was funded exclusively through the rental rate increase initiative. FY 1996 brought about the deployment of Releases 4+ and 5 (described above) in the GOMR. The Mapping and Survey Staff, located in Denver, was given upgrades and enhancements to their already existing TIMS system. The TIMS was used successfully for the Alaska lease sale in September 1996, for which the reports were produced accurately and timely. GIT continued to play a major role in the sales activities, with software and hardware enhancements and workstations being added. A major accomplishment was the implementation of the Integration Team Lab for testing and analyzing new and existing hardware and software. Major Environmental Studies Program Information System (ESPIS) accomplishments were realized, namely, making available, on the Internet, full text environmental documents as well as 700 technical summaries. Windows 95 implementation plans and help documents were completed, and state-of-the-art PC's were installed in all Offshore locations.

FY 1997 will see some significant milestones as well. The installation of TIMS and GIT in the Pacific Region will be completed. Therefore, both the Pacific Region and the Gulf of Mexico Region will be able to shut down their concurrent computers. Due to the purchase of new communications capability, the Pacific Region will have connectivity to their District Offices. During the fiscal year, the Herndon installation will be completed. Due to a

scheduled lease sale in Alaska during the last quarter of FY 1996, Releases 4+ and 5, which were previously to be installed in Alaska at the end of FY 1996, have been moved to FY 1997, to keep consistency in processing, and to allow more time for learning the new system. Windows 95 will be implemented throughout Offshore. GIT workstations will be added in GOMR and the Alaska Region, as well as GIT software installation and training.

It is anticipated that, in FY 1998, TIMS development will focus on the following three areas: (1) the completion of well inspections, site security, and oil spill endeavors; (2) the enhancement of GIS mapping capabilities; and (3) building a database for tying together social, physical and biological environmental data with regulatory data.

When the TIMS development comes to a close, the ADP functions associated with the TIMS will continue. Maintenance and upgrades will always be necessary, as well as expansion of applications. New technology and capabilities will be introduced, and more and more functions will be automated. However, less money will be needed for maintenance and upgrades than was needed to implement the TIMS. Initially, the conversion of data was considered a program funding responsibility. However, we must now use receipts from the rental rate increase to supplement our data conversion efforts.

### ***Other Activities of the Information Technology Division***

The ITD performs a wide variety of ADP functions. These functions have been centralized to help Offshore gain the benefits and convenience of single-point management, coordination and standardization of ADP activities, efficiencies of a centralized operation, and improved staff expertise. These functions include:

- ☛ Nationwide policy coordination and standardization for Offshore's ADP program;
- ☛ Participation in the design, development and implementation of the TIMS;
- ☛ Technical ADP support for the headquarters local area network and coordination of Offshore-wide area network activities with the Bureau's Royalty Management Program, and Department of Interior ADP offices;
- ☛ Providing technical information to the Regional ADP staffs.
- ☛ Planning, technical editing and graphic illustration services for scientific and technical publications and programmatic documents used by Congress, States and the public for decisionmaking;
- ☛ Maintenance of a centralized electronic library for use of all Offshore employees;
- ☛ Publication distribution services for Offshore program offices;

### **Discussion of Functions**

The ITD was established as part of an MMS-wide reorganization that resulted in the streamlining of MMS headquarters offices. It was an efficiency initiative to achieve economy and consistency by consolidating a number of functions common to all of Offshore.

The ITD provides direction and oversight for all activities funded by the Offshore Information Management Program. This includes overseeing the development of Offshore information management policies and standards, and providing centralized management of ADP acquisition, contracts, and security. These activities direct and

## Information Management Program

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support the operations of:

- ☛ 1,000+ microcomputers, workstations and servers
- ☛ 8 Local Area Networks
- ☛ 1 Wide Area Network
- ☛ 1 Internet World Wide Web (WWW) server

The ITD provides computer and Local Area Network (LAN) support for Offshore in the Atrium building. The fundamental cornerstone of the streamlining plan is the increased utilization of communication and ADP technology, that being Local Area Networks, Wide Area Networks (WAN), and data interchange capability. Computer support includes life cycle maintenance of computer hardware and software as well as user support and training. This office coordinates all Offshore WAN operations, design and planning with Admin. IRM, RMP and the Department. The ITD also provides common MMS WAN services such as the MMS Internet E-Mail gateway and the MMS public information server with the MMS World Wide Web (WWW) Internet Home Page. The ITD is the focal point for TIMS implementation in OMM Headquarters and Regions and provides advanced computer support for major scientific applications by administering UNIX servers on the LAN for TIMS ORACLE and ARC/INFO applications. Database programming, specialized graphics and other specialized network support for scientific applications and workstations is also provided to the Offshore program areas.

A significant portion of the ITD is the former Offshore Systems Center (OSC), physically located in the New Orleans office. The OSC was originally created in FY 1987 to provide overall policy coordination and standardization, nationwide, for Offshore's ADP program. OMM's effort to upgrade its data systems ultimately led to the development of the TIMS, and the majority of the ITD staff in this location are devoted to TIMS application and development and maintenance. The Integration Branch is also located in New Orleans where standards are determined and new equipment and software are tested to meet the Offshore computing needs.

The ITD also provides technical editing and graphic illustration services for scientific and technical publications, as well as for programmatic documents used by Congress, States, and the public for decisionmaking. This group provides central resources for document planning, technical editing expertise and publishing guidance for Offshore headquarters program offices and for one of the regions. It also provides central graphic resources for Offshore and General Administration organizations in Herndon, VA and Washington, DC. The ITD is responsible for coordinating and publishing a public catalog of all Offshore scientific and technical publications in paper and electronic formats for release on the Internet. This office acts as a repository for these publications and makes the information available to all offices. In addition to maintaining a centralized electronic library for the use of all Offshore employees, ITD provides publication distribution services for program offices to assure public and government access to Offshore information.

### ***Regional ADP Offices***

ADP units in each of the three Offshore Regions (Gulf of Mexico, Alaska, and Pacific) provide onsite support to staff in those localities. This includes maintaining the computer facilities in each location; ordering, repairing, and installing individual computers; managing the Local Area Networks; and locally implementing offshore-wide standards and policy.

The Gulf of Mexico ADP unit provides assistance to the TIMS program in addition to providing on-site support to the GOMR program offices.

***Justification of Program Changes***

	1998 Budget Request	Program Changes <u>(+/-)</u>
\$(000)	13,941	-302
<i>FTE</i>	109	0

**Information Management Decrease (- \$302,000)**

In recent years the focus of the OCS Lands Program has been directed to areas that currently have ongoing development and production or the near-term potential for development and production. As a result, the Atlantic regional office has been closed, the Alaska regional office has been decreased by 50 percent, and the Pacific regional office has decreased by 25 percent with all prelease activities being eliminated. Implementation of MMS 2000 in FY 1997 completes the Offshore streamlining and downsizing effort and reduces Headquarters offices by more than 25%. These streamlining efforts will result in Offshore-wide savings of \$1,723,000, including a savings of \$302,000 in the information Management Program subactivity.

**Effect of MMS 2000**

MMS 2000 resulted in the abolishment of OMS and the establishment of the Information Technology Division (ITD). As a result of the reorganization, the Technical Information Management System (TIMS) Project Office and most of the Office of Management Support (OMS) units became a part of the ITD. The ITD is an ADP and information-dissemination organization, and is now funded from the Information Management Program (IMP) budget subactivity.

In FY 1996 and FY 1997, the TIMS project was wholly funded by Revenue Receipts and appeared in the Revenue Receipts section of the Budget Justifications. TIMS will continue to be wholly funded by Revenue Receipts. However, it will no longer be a separate section in the MMS Budget Justifications because Revenue Receipts will now fund other OCS Lands activities. For a description of the funding changes that took place as a result of the abolishment of OMS and the establishment of the ITD, see the table in the OMS section on page .

**Office of Management Support**  
**Justification of Program and Performance**  
 Analysis by Subactivity  
*dollars in thousands*

		1997 Enacted	Uncontrollable and Related Changes	Programmatic Changes	1998 Budget Request	Change from 1997
Office of Management Support						
Appropriation	\$	0	0	0	0	0
	FTE	0	0	0	0	0
Offsetting Collections	\$	0	0	0	0	0
	FTE	0	0	0	0	0
Total, OMS	\$	0	0	0	0	0
	FTE	0	0	0	0	0

### Overview

In FY 1997, Congress approved the MMS 2000 reorganization. This reorganization streamlined and completed the Offshore headquarters downsizing that began in FY 1993. From the National Performance Review baseline of 261 FTE on October 17, 1992, the MMS 2000 headquarters FTE target of 190 represents a reduction of 71 FTE throughout Offshore headquarters organizations.

As a result of the MMS 2000 reorganization, the Office of Management Support (OMS) was abolished. Prior to the reorganization, OMS consisted of 47 FTE. The 47 FTE were spread among the following groups:

Office of the Chief	3 FTE
Budget and Administrative Services	8 FTE
Technical Communications Services	10 FTE
Microcomputer Support Services	7 FTE
Offshore Systems Center	19 FTE

The MMS 2000 reorganization abolished the Office of the Chief. Its functions were discontinued; one position was vacant and the incumbents of the other two positions were reassigned to vacancies in other headquarters divisions. Budget and Administrative Services was decreased by transferring records management, Freedom of Information duties, and MMS home page responsibilities, along with two encumbered FTE, to the Information Technology Division. Offshore Advisory Board support, and one encumbered FTE, was transferred into this group. The resulting 7 FTE will report to the Deputy Associate Director for Offshore Minerals Management and maintain the following responsibilities:



- ☛ Advise and technically direct field and headquarters offices in the development of budget, financial, and other administrative support documents;
- ☛ Analyze and review the cost performance, effectiveness, and workloads associated with Offshore programs;
- ☛ Coordinate position and space management activities within Offshore;
- ☛ Develop and coordinate a variety of documents in support of MMS, DOI, Congress and others (e.g. Highlights, Management Control Reviews, Improvement initiatives, special reports, etc.);
- ☛ Coordinate with the Offices of Communications and Policy Management and Improvement in support of MMS objectives;
- ☛ Coordinate with Offshore components and serve as liaison to Administration and Budget Divisions on areas of delegated administrative authorities; and
- ☛ Provide support for the Minerals Management Advisory Board, the OCS Policy Committee and its subcommittees.

Functions of Technical Communications Services, Microcomputer Support Services, and the Offshore Systems Center, along with all encumbered and vacant FTE, were transferred to the newly-created Information Technology Division.

The following table shows the distribution of former OMS funding and FTE:

Program Element		ROMM	Revenue Receipts	Total
Office of Management Support	\$	- 1,750,400	-949,600	-2,700,000
	FTE	-47	0	-47
Leasing & Environmental Assessment	\$	+116,700	+63,300	+180,000
	FTE	+2	0	+2
Resource Evaluation	\$	+136,100	+73,900	+210,000
	FTE	+2	+1	+3
Regulation of Operations	\$	+265,600	+144,400	+410,000
	FTE	+3	+2	+5
Information Management	\$	+1,232,000	+668,000	+1,900,000
	FTE	+24	+13	+37

### **Effect of MMS 2000**

MMS 2000 abolished OMS. The effect is described above.



## Royalty Management Program

### Justification of Program and Performance Analysis by Subactivity *dollars in thousands*

		1997 Enacted	Uncontrollable and Related Changes	Programmatic Changes	1998 Budget Request	Change from 1997
Valuation & Operations	\$ FTE	32,935 290	441 0	-2,092 -16	31,284 274	-1,651 -16
Compliance	\$ FTE	34,238 373	681 0	-2,607 -20	32,312 353	-1,926 -20
Program Services Office	\$ FTE	2,700 26	41 0	-177 0	2,564 26	-136 0
Interest on Late Disbursements	\$ FTE	0 0	0 0	0 0	0 0	0 0
Refunds on Behalf of Allottees	\$ FTE	15 0	0 0	0 0	15 0	0 0
Total	\$ FTE	69,888 689	1,163 0	-4,876 -36	66,175 653	-3,713 -36

### Mission

The Royalty Management Program (RMP) is that part of MMS which is responsible for collecting revenues earned from the leasing and production of mineral rights on all Federal and most Indian lands and for disbursing these revenues to various recipients as authorized by several statutes. RMP collects mineral leasing revenues from Indian lands and transfers these monies to the Office of Trust Funds Management for distribution to either the appropriate Tribe or individual Indian mineral owner. Average annual collections total approximately \$4 billion with approximately 81% going to the U.S. Treasury, 15% to States, and 4% to Indian Tribes and allottees.

RMP collects (1) up-front bonuses paid by industry for the right to explore for minerals, (2) annual per acre rental, and if production occurs, (3) royalties. (See the Receipts section for details.)

RMP collects and disburses revenues collected on lands administered by the Department of Interior (the MMS Offshore Minerals Management Program, the Bureau of Indian Affairs (BIA), and the Bureau of Land Management (BLM)), the U.S. Forest Service, the Army Corps of Engineers, and the U.S. military. RMP works closely with the staffs of these bureaus and MMS offshore program organizations to improve overall royalty management.

RMP is not a land administration organization. Therefore, unlike MMS' offshore program, BIA, or BLM, it does

not determine the lease contract conditions (amount of rent, bonuses, or royalty rate to charge, or any lease compliance requirements). Rather RMP's role is to determine the market value (gross proceeds) on which the royalty rate is applied to determine the recipient's share of revenues - this is both complicated and often contentious with revenue sharers (States, counties, Indian mineral owners, and industry).

RMP is responsible for collecting all revenues from leasable minerals, those authorized for extraction by the Mineral Leasing Act of 1920 and associated statutes, while the BLM is currently responsible for the administration of locatable "hardrock" minerals, those authorized for patenting by the Mining Law of 1872. The Mining Law of 1872 is proposed to be amended in the FY 1998 President's budget. RMP will collect any royalties assessed on hardrock minerals, although actual collections are not expected until FY 1999. In FY 1998, MMS will be expected to publish rules to implement the changes. The rule making process will be accomplished within existing resources.

### **Functions**

The RMP conducts business in five main and integral operational areas, listed sequentially:

- ☛ **Payment and reporting** where requirements, regulations, and guidance are developed and maintained to aid companies to report and pay voluntarily, timely, and accurately.
- ☛ **Collection and processing** where revenues and data are collected and processed through automated systems to maintain financial revenue accounts and production data.
- ☛ **Distribution and explanations** where disbursements (and explanations of these payments) are made monthly to States, Tribes, U.S. Treasury, BIA, and other government agencies and where mineral revenue and production data are shared with all interested parties.
- ☛ **Verification** where numerous automated application programs are used to verify correct payment and reporting, audits are conducted, and the cooperative and delegated audit programs with States and Tribes are administered.
- ☛ **Enforcement** where the debt collection and royalty penalty systems are applied and administered, and royalty litigation and appeals support is provided.

### **Organization & Budget Structure**

RMP's budget structure basically parallels its organizational structure (refer to organization chart in General Statement) which is based on the above functions. In our FY 1997 reorganization, we are replacing a dual Deputy structure (Deputy Associate Director (DAD) for Mineral Revenue Valuation and Operations (V&O) and DAD for Compliance) with a single Deputy Associate Director for Royalty Management (DAD-RM). The former Data Management Division and Reports and Financial Division were combined to form the new Accounting and Reports Division. Also, the former Valuation and Standards Division was renamed the Royalty Valuation Division.

Two small subactivities are (1) Interest on Late Disbursements, which authorizes internal RMP funds to be reprogrammed during the year to pay late disbursement interest to States when RMP cannot meet the mandated FOGRMA time frames, and (2) Refunds on behalf of Allottees from which RMP restores overpayments to companies on behalf of allottees. This is a small request to provide relief to payors when recoupment from current allottee royalty payments is not possible or practical.

## Mineral Revenue Valuation & Operations

### Justification of Program and Performance

#### Subactivity Funding Summary

*dollars in thousands*

		1997 Estimate	Uncontrollable and Related Changes	Programmatic Changes	1998 Budget Request	Change from 1997
Valuation & Operations	\$ FTE	32,935 290	441 0	-2,092 -16	31,284 274	-1,651 -16

### Accounting and Reports Division

The Accounting and Reports Division (ARD) is responsible for the establishment of industry reporting and payment requirements, the development and maintenance of fiscal and production accounting systems to ensure accurate reporting and payment of royalties, the administration of a Royalty-In-Kind program, and the distribution/disbursement of revenues - with explanation of payments - to its constituent States, Indian Tribes, and other Federal agencies.

The ARD accounts for and disburses approximately \$4 billion in annual revenues to its constituent States (38), Indian Tribes (25), and other Federal agencies (8) as required by the Federal Oil and Gas Royalty Management Act. On-time disbursement of these revenues is now at approximately 99 percent. The corresponding interest that must be paid to States and Indians for late disbursement is estimated at about \$100,000 in FY 1998. In addition, MMS has received independent, unqualified opinions each year on the financial statements the bureau prepares in accordance with the Chief Financial Officers Act.

The data management functions were combined to form ARD in FY 1997. All operations relating to the accounting and reporting of royalty and production data, and the establishment and maintenance of a common reference data base - the key to RMP's automated systems and application programs - now reside in a single division. This functional transfer will also offer ARD opportunities to reengineer its many processes, in part through technology advancements that impact favorably on its many inter-related activities.

In FY 1996, Document Processing activity received 126,238 royalty documents and 231,470 production documents. As a result of a successful reengineering initiative, valuation documents are no longer required. Document volumes are not anticipated to significantly change from present levels during FY 1997 and FY 1998. However, contractor processing support will diminish during both fiscal years due to simplified reporting alternatives such as electronic transfer of information (electronic data interchange, magnetic tape, floppy diskette, electronic mail, etc.) and an operator reconciliation project. Electronic media conversion through installation of new document imaging technology in FY 1995 and 1996 further diminish contractor file management maintenance support in FY 1997 and beyond.

#### ***Reference Data Branch***

Branch employees are responsible for all non-revenue data - the legal information essential to effectuate revenue functions. Specifically, we accurately establish and manage all automated reference data files attributable to Federal and Indian mineral leases, payor files, and agreements.

Maintaining accurate reference data is the crucial basis for all other royalty functions. All royalty reports, production reports, billings, exception processing, and to an increasing extent, audits, depend on an accurate data base. Reference data is the key to the RMP automated systems and applications programs.

The branch serves as the royalty and rental reference data focal point for the BLM, BIA, other surface management agencies, offshore MMS components, payors, lessees, and all RMP components.

We collect, translate, and process necessary non-revenue data to produce a comprehensive Common Reference Database that supports the distribution of royalties, bonuses, and rentals from each lease.

The Common Reference Database contains approximately 112,600 leases, 73,500 revenue sources, 388,100 selling arrangements, 14,500 lease agreements, and 23,200 payor codes. In FY 1996, managing this data base required approximately 40,000 payor, lease, or agreement database actions. The data base consolidates portions of data bases from BIA, BLM, and the MMS offshore program, as related to payor data, those of oil and gas and solid minerals payors. These responsibilities are assigned based on geographic location, production status, lease owner, and products relative to a lease or agreement.

There are four broad categories of work in the Reference Data Branch: oil and gas payor information, oil and gas rejected royalty lines, oil and gas lease and agreement maintenance, and lessee database. The payor information and lease and agreement workloads comprise the largest portion of the Common Reference Database.

**Payor Information Form Processing** The Payor Information Form (PIF) represents a fundamental component of the data base. Since payments on the lease may be made by an entity not legally associated with the lease obligations, information must be gathered to identify who is going to pay lease obligations. The PIF serves this purpose and is entered by both contractor support and Federal staff. Efficiency improvements from FY 1993 to FY 1997 have resulted in a decrease in contractor support from 30 FTE to 5 FTE.

**Rejected Royalty Lines** Royalty lines (payment information) may be submitted incorrectly by payors. When a royalty line is submitted, it is compared to the data base through a series of edits. If a problem is detected that jeopardizes proper distribution, the line "rejects." Rejected lines will not update the financial system for distribution to recipients and must be corrected. We are responsible for analyzing and correcting royalty reports that have data base implications.

**Lease and Agreement Maintenance** The primary components of RMP's data base are leases, agreements, and payor information. Each of these primary components contains many "fields" of information. The lease and agreement workload represents additions, changes, and deletions of data in the various fields. Changes to work processes over the past fiscal year have resulted in a decrease in monthly inventory of pending work actions from 825 at the end of FY 1994 to 250 at the end of FY 1996.

**Lessee Data Base** A lessee/designee data base was designed to comply with requirements of the Royalty Fairness and Simplification Act late in the first quarter of FY 1997. The lessee/designee data base will track lessees for all Federal leases and the payors designated by the lessees. We expect that the workload associated with this data base will exceed the workload associated with maintaining the payor data base. This data base may track 100,000 lessees and designated payors when completed.

### ***Financial Branch***

Employees of the Financial Branch are responsible for a number of royalty accounting functions including the following:

## Mineral Revenue Valuation & Operations

- ☛ Distributing mineral revenues and interest payments to State, Indian, and U.S. Treasury accounts on a monthly basis in accordance with FOGRMA.
- ☛ Disbursing of Indian payments on a daily basis to the BIA office in Albuquerque, New Mexico. States, Tribes, and BIA offices receive explanation of payment reports that detail each payment.
- ☛ Disbursing of revenues from oil and gas leases previously handled by the Forest Service and Army Corps of Engineers. This process ensures that States receive their money on a monthly bases rather than semi-annually and that all States receive mineral revenues from one, rather than several, bureaus.
- ☛ Accounting for all mineral revenues in a system of accounts that enhances our ability to explain in detail the source and types of mineral revenues collected, as well as the distribution of those revenues. This information is vital for royalty policy decision makers.
- ☛ Providing royalty account information to those parties, including States and Indian Tribes, that have a need for such information in accordance with FOGRMA.
- ☛ Administering the Royalty-in-Kind (RIK) program as authorized by the OCSLA and MLA. Small refiners are able to remain in business due to the RIK program. The RIK program pays for itself through administrative fees charged to the program's users. These fees go to a miscellaneous receipts account in the U.S. Treasury.

The following activities also provide our constituents with additional benefits:

- ☛ The Royalty Simplification and Fairness Act of 1996 (RSFA) requires payment of interest to the royalty payor for any overpayment they make. This will increase the number of refunds we issue and will reduce the receipts to the States, U.S. Treasury, and other Federal agencies. The RSFA has no impact on Indian revenues.
- ☛ Electronic payments have been utilized by the Financial Branch to ensure that our constituents receive funds faster, more economically, and more safely than ever before.
- ☛ ARD assists Tribes in administering the Indian Self-Determination Act. This Act allows Indian Tribes to contract with the Secretary of the Interior to plan, conduct, and administer programs, or portions of programs, performed by RMP.
- ☛ ARD accounts for non-standard leases issued under the Indian Mineral Development Act, which gave Indian Tribes the authority to generate unique lease agreements directly with oil and gas companies.

The following are indicators of our Branch activities and workloads:

	FY 1996 Actual	FY 1997 Estimated	FY 1998 Estimated
Number of Checks Received	55,300	57,000	55,000
Number of Wire Transfers Received	7,400	7,700	7,900
Number of Refunds to Payors	1,327	1,300	3,000
Number of RIK Contracts	13	13	13

ARD has been able to downsize, while still improving services to constituents, through a continual effort to streamline processes to make each activity more efficient and effective.

Other benefits provided to royalty recipients and the U.S. Treasury include:

- ☛ Manual intervention in certain situations to match payables, interest, and receivables in order to meet disbursement deadlines, decrease late disbursement interest to States and Indians, and decrease costs to the taxpayer.
- ☛ Investment administration and accounting of about \$1.4 billion in escrowed Alaska/Federal boundary dispute revenues. The Supreme Court is expected to issue its final decision on the boundary dispute in the Summer of 1997. Once the decision is final, the approximate \$1.4 billion will be disbursed and the investment activity will end.
- ☛ Calculation and administration of the Net Receipts Sharing Program through which a portion of the annual operating costs of the Federal leasing program is deducted from State royalty revenues (refer to Permanent Appropriations section of this Justifications). Recovered costs are deposited to the General Fund of the U.S. Treasury.

### ***Reports Branch***

Employees of the Reports Branch are responsible for royalty and production reporting functions including:

- ☛ Processing all incoming royalty and production reports and payments related to oil, gas, and geothermal royalty and production on Federal and Indian leases.
- ☛ Correcting errors on all royalty and production reports received.
- ☛ Providing technical reporting and payment assistance and training to industry payors and operators.
- ☛ Coordinating production and royalty-related matters with industry, State governments, Indian Tribes, other Federal agencies, and other RMP offices.

In support of RMP's Strategic Plan for business improvement, we maintain a Tactical Plan that includes:



## Mineral Revenue Valuation & Operations

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- ☞ Maintaining overall current royalty and production reporting error levels and reducing any excessive royalty and production reporting errors.
- ☞ Increasing availability and use of electronic royalty and production reporting methods (e.g., Electronic Data Interchange (EDI), magnetic tape, diskette, electronic mail).
- ☞ Continuing to improve accuracy and usefulness of production and well reference data.
- ☞ Streamlining production and royalty reporting by implementing recommendations of the Royalty Policy Committee.
- ☞ Improving compliance and accuracy of reporting.

The error correction activity is one of our primary contacts with payors, operators, lessees, and purchasers who remit reports and payments to the Auditing and Financial System (AFS) and report to the Production Accounting and Auditing System (PAAS). We collect, maintain, and correct reporting errors (e.g., misreported lease or agreement numbers, missing or invalid well status, missing or invalid sales/month year, missing or invalid transaction codes, missing production reports) and provide technical reporting assistance to payors and operators.

In FY 1997 we began a transition where Branch technicians perform both royalty and production reporting error correction. These functions were previously performed separately. Due to a decrease in reporting errors, an operator reconciliation project, and various streamlined procedures, we successfully combined the above two processes.

The benefits include eliminating a production error correction contract in FY 1998 and developing more challenged and knowledgeable employees. Approximately 36 contractor staff provided operation and maintenance support for PAAS in FY 1994. This staff was reduced by 11 in FY 1995 and by another 11 in FY 1996, primarily due to the success of the operator reconciliation project. The reconciliation of operators' reference data began in FY 1994. The effort reduced error rates among these 100 plus operators from an average of 4 percent to less than 1 percent and the number of missing reports by 98 percent for targeted operators. The improvements ensure accurate reporting by operators and confidence in the data used by States, Indian Tribes, and other Federal agencies.

In FY 1996, 2,100 payors submitted 3.4 million royalty report lines with an error rate of 2.4 percent compared to 2.5 percent in FY 1995. Payor error rates have dramatically declined to the present level from 36.3 percent in FY 1983. This reduction is the result of our concerted efforts to improve the timeliness and accuracy of the reporting and payment process.

Over 3,000 operators submitted 4.6 million lines of production data in FY 1996 with an error rate of 2.5 percent, down from 2.8 percent in FY 1995, due primarily to the operator reconciliation project. Total reported royalty and production lines are expected to remain relatively unchanged during FY 1997 and FY 1998.

### Industry Royalty Document Error Rates Fiscal Years 1992 - 1998

Fiscal Year	1992	1993	1994	1995	1996	1997 est.	1998 est.
Error Rate Percentage	4.5	3.6	3.4	2.5	2.4	2.3	2.3

**Industry Production Document Error Rates**  
Fiscal Years 1992 - 1998

Fiscal Year	1992	1993	1994	1995	1996	1997 est.	1998 est.
Error Rate Percentage	4.5	4.0	3.8	2.8	2.5	2.5	2.5

Electronic reporting increased 4 percent for royalty reporting and 7 percent for production reporting in FY 1996. Additionally, 72 percent of royalty lines and 49 percent of production lines were submitted electronically in FY 1996. This percentage should increase significantly in FY 1997 due to the implementation of new or improved electronic reporting media, further use of comma-separated value record layouts, and electronic mail.

RMP makes training available to all reporters. In FY 1996, 263 participants representing 134 companies attended 7 payor training sessions to update themselves on royalty and payment requirements for oil, gas, and geothermal resources. Also in FY 1996, 108 participants representing 82 companies attended 4 operator training sessions to update themselves on production reporting requirements.

Training costs have been reduced by 36 percent from FY 1994. Error rates continue to decline. The aforementioned training seminars will be supplemented with training targeted to individual companies that have high error rates.

A concerted error correction and workload analysis effort will continue to encourage companies to improve reporting accuracy during FY 1997 and FY 1998. We will aggressively pursue Royalty Policy Committee (RPC) recommendations designed to streamline royalty and production reporting and reduce costs. Several RPC recommendations were implemented in FY 1997, including eliminating certain status codes on production reports and extending the due date by 10 days for operators submitting their production reports electronically. Many of the RPC recommendations will be implemented with modifications needed as a result of RSFA.

### Royalty Valuation Division

In general, royalty is based on the value of the commodity produced, the volume of production sold or otherwise disposed of, and the royalty rate applicable to the lease. However, several factors add to the complexity in determining the value of the commodity sold, such as sales to affiliates. The Royalty Valuation Division (RVD) uses product specific information provided by the lessee or operator and applies applicable laws and regulations, legal precedent, and/or agency policy to prepare a decision document detailing the proper method to be followed in determining royalty value. RVD also determines if a lessee meets the regulatory requirements to claim allowances (reductions in royalty payments) for various types of transportation or processing costs.

The RVD is responsible for:

- ☛ Preparing product valuation regulations and guidelines for internal and external constituents;
- ☛ Interpreting and enforcing valuation regulations and guidelines;
- ☛ Providing valuation training and outreach;

- ☛ Approving certain transportation and processing/washing royalty deductions; and
- ☛ Providing technical support to government agencies and industry on valuation and related issues.

The RVD anticipates workload increases from FY 1996 levels during FY 1997 and FY 1998 for the following reasons:

- ☛ Expanded majority pricing coverage;
- ☛ Revision of the oil royalty valuation regulations for Federal and Indian leases;
- ☛ Support for MMS efforts in California and nationwide to collect additional oil royalties where they may have been paid improperly; and
- ☛ Greater demand for technical assistance as a result of new Federal and Indian gas valuation regulations as discussed below.

These and other notable activities impacting RVD's FY 1997 workload are summarized below.

### ***Federal Gas Valuation Negotiated Rulemaking Committee***

In response to a recommendation from the MMS NPR Reinvention Laboratory, this committee was tasked to simplify the valuation requirements for gas from Federal leases. Current valuation requirements are difficult for industry to comply with and equally troublesome for MMS to determine payor compliance, particularly with the advent of deregulation brought about by FERC Order 636. Also, the current gas valuation regulations require that lessees selling production to affiliates have knowledge of what other companies are selling similar gas for under arm's-length contracts. Lessees do not always have access to this information. Seeking to involve all affected parties in the rulemaking process, the committee was composed of MMS, State, and industry representatives. The committee issued its final report in March 1995. MMS published a proposed rule in November 1995. In light of comments received on the proposed rule in June 1996, MMS reconvened the Committee and reopened the public comment period. MMS asked the Committee and the public to comment on various options for proceeding with further rulemaking. MMS expects to publish a subsequent proposed rule or a final rule by mid-1997. The substantial changes of this rule will necessitate reporting and systems software modifications in FY 1997 and 1998. RVD will be required to provide substantial technical advice and assistance during this transition period.

### ***Indian Gas Valuation Negotiated Rulemaking Committee***

Also in response to the NPR Laboratory's 1993 recommendation for simplified gas valuation, RMP formed an Indian Gas Valuation Study Team, which was subsequently chartered as a negotiated rulemaking committee. The Committee has representatives from MMS, BIA, industry, Indian Tribes, Indian allottee associations, and Indian mineral development support organizations. MMS published a Notice of Proposed Rulemaking on September 1996 and expects to produce a final rule in July 1997.

The Committee proposed an index-based valuation method to satisfy the major portion requirement for production in index zones. The safety net calculation to oversee this valuation method will require audit review and technical assistance from RVD during FY 1998 and beyond. The RVD will also be required to calculate the major portion value for production occurring outside index zones.

### ***Valuation Outreach Efforts***

In support of RMP's Strategic Plan, RVD's Tactical Plan calls for continuous improvement in the valuation guidance provided to its internal and external customers and in the effective communication of that guidance. While not eliminating enforcement actions, RMP has a vision of achieving voluntary compliance with royalty regulations through educational outreach sessions. RVD will continue to support this outreach in FY 1997. In FY 1996, RVD provided 8 training sessions to over 94 attendees in addition to participating in 7 payor outreach seminars. Trainees at these nationwide sessions included industry, other agencies, foreign governments, and MMS audit staff. RVD will continue its outreach efforts in FY 1997 and 1998. FY 1998 outreach materials will require modification to accommodate the changes made by the aforementioned negotiated rulemaking committees.

### ***Major Portion Pricing Initiative***

Indian lease terms require payors to pay royalties on the higher of the price received or the highest price paid for the major portion of production from the field. The data necessary to determine this major portion price is often not obtainable by the payor. Therefore, the RVD collects the necessary information, calculates the major portion price, and bills the payor for any additional royalties due, if necessary. Recently, RVD has significantly expanded its major portion coverage, which now includes all Oklahoma Tribes and Allottee groups, the Southern Ute Tribe and Allottees, the Blackfeet Tribe and Allottees, the Northern Ute Tribe and Allottees, the Ute Mountain Tribe, the Shoshone and Arapaho Tribes, the Navajo Nation and Allottees, and the Jicarilla Apache Tribe. Additional royalty collections to date total approximately \$2.4 million.

### ***Proposed Oil Valuation Regulations***

In response to continuing problems related to validity of posted prices and application of the existing benchmarks for non-arm's-length transactions, MMS is revising the oil valuation regulations to ensure royalty payments better reflect market value. MMS is involving State and Indian representatives in this effort, but industry doesn't want to participate while they have ongoing litigation elsewhere involving applicability of posted prices. The RMP published a draft Federal oil valuation rule for public comment in January 1997. Due to special requirements of Indian leases and requests by Indian representatives for a separate rule, MMS is convening a diverse group of Indian representatives to get their input. MMS expects to publish a draft Indian oil valuation rule by the end of March 1997.

### ***Oil Royalty Collection Efforts—California and Nationwide***

In response to the May 1996 recommendation of an interagency team put together by MMS to investigate oil royalty reporting in California, MMS is taking strong measures to collect additional royalties for extended periods. The RVD is performing a number of support functions for the MMS audit effort, and this will continue throughout FY 1997. In addition, RVD will continue to support nationwide audit efforts to collect additional royalties where crude oil produced from Federal and Indian leases has been undervalued.

### ***FERC Order 636 Proposed Regulations***

In response to FERC Order 636 of May 18, 1992, MMS reviewed its current gas transportation regulations and issued a proposed rule on July 31, 1996, in the Federal Register. The purpose of this proposed rule is to clarify for the oil and gas industry which cost components or other charges are deductible (related to transportation) and which costs are not deductible (related to marketing) for Federal and Indian leases. This guidance is necessary because transportation service components previously aggregated may now be separately identified in transportation

contracts, and new transportation costs unique to the FERC Order 636 environment are emerging. MMS expects to publish a final rule by mid 1997.

The RVD anticipates increased workloads throughout FY 1997 involving outreach efforts and providing specific guidance to MMS auditors, Indian Tribes, and the gas industry as to which transportation service components are deductible transportation costs.

### ***FERC Oil Tariff Denials and Appeals***

The RVD continues to respond to numerous company requests to use FERC tariffs in lieu of their actual costs for offshore oil transportation allowances. In FY 1997 and beyond, RVD expects to continue to receive and deny many similar requests to use FERC oil tariffs. The RVD foresees appeals in response to virtually all such denials, with field reports required for each one. The RVD will also continue to coordinate directly with FERC on this issue.

### ***Redesign of Solids PAAS***

In late FY 1996, efforts began to redesign and reengineer the Production Accounting and Auditing System on which all Indian and Federal solid mineral production data resides. The PAAS reengineering effort is not limited to a reevaluation of software and hardware needs. The reengineering effort also encompasses a functional review and customer needs assessment. This effort will accelerate in FY 1997 as the PAAS reengineering team addresses the details of the needs assessment.

### ***Phosphate Subcommittee Activities***

The Minerals Management Service routinely recalculates each year's value that is used to compute phosphate royalty payments. The recalculation is based on an indexing procedure that was adopted in 1981 due to almost all production being consumed internally, without open market sales. After more than 15 years of indexing without review of actual market trends, concern has arisen that the indexed value does not reflect current market conditions. In March 1995, MMS wrote to the State of Idaho, Bureau of Land Management, and industry asking for expressions of interest to form a study to examine the phosphate valuation issue. All parties agreed that the phosphate valuation procedure should be reviewed. The Royalty Policy Committee was formed in September 1995, and at the same time, several subcommittees were formed to examine specific issues. A Phosphate Subcommittee was segregated from the Phosphate and Other Leasable Solid Minerals Subcommittee in February 1996. The Phosphate Subcommittee held its initial meeting in April 1996 where several proposals were made to resolve this valuation issue. Following an extensive review of the various proposals and after conducting a comprehensive analysis of phosphate economics and market trends, a new valuation proposal was submitted to the Subcommittee in November 1996. The Subcommittee is reviewing the proposal and plans to meet to discuss this proposal in January 1997. Additional time and effort will be required in FY 1997 to fully analyze the valuation proposal and any other alternatives that may be submitted for consideration.

## **Systems Management Division**

The Systems Management Division (SMD) provides all information and data systems services for RMP and its constituencies (States, Tribes, BIA, BLM, and other agencies). Services include operations and maintenance of the RMP Mainframe Data Center, telecommunication network development and support, training, electronic data interchange, electronic messaging, and contract support. Our efforts support all RMP functions. Without the high-speed, extensive computational systems in place today, RMP could not meet the disbursement schedules and comprehensive accounting and production requirements mandated by FOGPMA. RMP mission accomplishment is dependent on the systems and technical infrastructure we maintain.

Royalty accountants, auditors, and production analysts completely rely on numerous application programs and resultant reports to correct errors, match payments to reports identifying recipient, and achieve compliance through numerous cross-check verification tests.

In FY 1997, this work is performed by 45 SMD systems staff working in conjunction with a single contractor firm, AMS/OC, employing approximately 150 employees. SMD staff functions are focused on providing strategic direction for RMP's information systems and managing the many projects involved in achieving these strategic goals. These functions include:

- ☛ strategic and tactical planning;
- ☛ technology assessment and planning;
- ☛ security and contingency planning;
- ☛ technical support to State and Tribal auditors;
- ☛ LAN/WAN network administration;
- ☛ introduction of new cost effective technologies;
- ☛ procurement and contract management;
- ☛ training;
- ☛ coordination of systems and standards with Federal, State, Tribal, and private industry entities;
- ☛ electronic data interchange;
- ☛ management of enterprise-wide electronic messaging and scheduling; and
- ☛ management of electronic storage of reports and document images.

The contractor's role is primarily to operate the RMP mainframe data center, provide data entry support, develop and maintain RMP's application systems, and support RMP's telecommunications and hardware infrastructure. The distribution of duties are in line with current private industry practices of out-sourcing operations functions while retaining planning, procurement, and security functions within SMD.

### ***Ongoing SMD Workloads***

#### **Operations & Maintenance:**

- ☛ Operations and maintenance of RMP's mainframe computer center. Operations and maintenance tasks range from data entry to final report distribution and all processes in between.
- ☛ Maintenance of all RMP applications. This involves the maintenance of over 2.3 million lines of mission critical program code, 1,000 computer programs, and 1,800 unique data files.

- ☛ Maintenance of RMP's databases. SMD maintains over 50 billion characters of current and historic database information on such areas as royalties, production, billing, distribution, exceptions, leases, and, payors.
- ☛ Operations and maintenance of RMP's wide-area telecommunications network that connects all of its offices and workstations. This network connects over 1,000 workstations within RMP and provides electronic messaging and scheduling, file sharing, mainframe access, and client/server access. It also connects all state and tribal sites that have joint audit agreements with MMS.

Training and Technical Support:

- ☛ Information systems training for RMP and constituencies including States, Tribes, and other federal agencies. In 1996, approximately 800 students attended our training sessions.
- ☛ Technical support and training for State and Tribal constituencies. We provide onsite training and support to 23 State and Tribal audit sites. This includes network, mainframe, and electronic mail access to all RMP's state government and Tribal clients. Thousands of electronic mail messages per month are exchanged with these important constituents each month.
- ☛ Technical support and training of private industry reporters in submittal of regulatory reports via Electronic Commerce Technology Training is provided at reporters conferences and meetings.

### ***Oversight and Planning***

Contract Services: In FY 1996, SMD managed over 60 contracts and maintenance agreements totaling approximately \$10 million. These contracts and agreements range from a \$7.7 million annual ADP operations and maintenance contract with American Management Systems Operations Corporation to a small local monitor repair contract. In addition, SMD handles all major systems procurement actions for RMP.

### ***Electronic Communications***

SMD provides two-way electronic mail access to RMP's customers in private industry. Since implementation of RMP's X.400 mail gateway, over 100 private industry clients have become active users. Besides private industry, the X.400 link has also been used to connect to other external agency clients.

### ***Electronic Commerce***

SMD continues its lead position in the implementation of Electronic Commerce (EC). During FY 1996, we increased the number of royalty and production reports being submitted via Electronic Data Interchange (EDI) technology by some of its largest reporters, such as Chevron, Amoco, Texaco, Mobile, and Exxon. Additionally, we implemented an electronic mail process for electronic reporting by our smaller reporters. By the end of FY 1996 over 12 reporters were submitting royalty and production reports via e-mail and a number of other reporters are actively interested in this form of reporting.

SMD gives presentations on MMS EDI initiatives to reporters at major petroleum industry conferences and meetings to demonstrate our commitment and interest in EDI. These presentations have resulted in substantial reporter interest in this technology. We will continue to aggressively pursue additional partners in EDI by individual contact and presentations and also by presentation at major petroleum industry functions.

Pilot projects for improved Electronic Fund Transfer and for electronic invoicing of reporters were completed in FY 1996. Work is also progressing with our partners to implement improvements in Financial Electronic Data Interchange (FEDI).

### *Justification of Program Change*

	1998 Budget <u>Request</u>	Program Changes <u>(+/-)</u>
\$(000)	31,284	-1,651
FTE	274	-16

RMP proposes these reductions as savings to be achieved through buyouts as authorized in the Federal Workforce Restructuring Act of 1993 and through a reduction in the accounting support services contract. Buyout savings are attributable to 16 employees who will leave government service in FY 1997. In FY 1998, we will achieve a full-year savings of their salaries and benefits.

In addition, RMP expects to reduce its accounting support services contract. This contract is essentially a labor contract used over the past several years to provide a wide range of support for royalty mission operations. It is to be recompeted for FY 1998 at a lower level of effort than in FY 1997 as a result of process reengineering.

MMS hopes to maintain the current high level of performance achieved through streamlining and improved efficiency of operations. MMS will continue to work to identify further efficiencies and reengineer processes to better ensure high performance levels in the future.



## Mineral Revenue Compliance

### Justification of Program and Performance

#### Subactivity Funding Summary

*dollars in thousands*

		1997 Enacted	Uncontrollable and Related Changes	Programmatic Changes	1998 Budget Request	Change from 1997
Compliance	\$	34,238	681	-2,607	32,312	-1,926
	FTE	373	0	-20	353	-20

### Office of Indian Royalty Assistance

The Office of Indian Royalty Assistance (OIRA) is RMP's principal coordinator on Indian issues and is RMP's customer service office for Indian allottees. Our mission includes:

- ☛ assisting Indian mineral owners by trouble-shooting individual problems and questions;
- ☛ conducting quick-turnaround, mini-audits on Indian leases;
- ☛ conducting outreach, consultation, and customer education seminars; and
- ☛ coordinating Indian issues and programs within MMS and with other DOI bureaus.

**Field Office Structure** - OIRA operates a field office in Oklahoma City, OK, to provide accessible service to a major allottee population. Northern Tribes and allottees, which are more geographically dispersed, are serviced by our second field office operated out of RMP headquarters in Lakewood, CO. In early FY 1997, a third OIRA field office in Farmington, NM, was designated a Department of the Interior pilot project for inter-Bureau cooperation and was reassigned organizationally to the Office of the Associate Director for Royalty Management.

**Direct Customer Assistance** - Through its field office structure, OIRA provides direct assistance to Indian mineral owners who have questions and concerns about their mineral revenue payments. Owners are invited to use the toll-free telephone lines or visit our offices, or our staff will travel to the owner's home if desired. Questions and concerns range from royalty payments to site security, and even to tax questions. Although many questions fall outside MMS responsibility, we make every effort to provide an answer without referring the customer to another office. This requires close coordination and effective working relationships with local BIA and BLM offices. The Department pilot operation in Farmington, NM, is a joint venture with BIA and BLM working together from a single location to more closely coordinate efforts and expertise and to provide more timely and effective responses to Indian customers. This pilot is also discussed in the MMS General Statement at the beginning of this Budget Justification.

### Indian Mineral Owner Constituent Data

Producing Leases	
Allottee	2,634
Tribal	1,339
Customers	
Individual Owners (Allottees)	(est.) 20,000
Tribes	42
Mineral Revenue Payments to:	
Individual Owners	\$18.4 million
Tribes	\$127.4 million

**Lease Reviews and Referrals** - Many of these owner inquiries generate OIRA lease reviews or "mini-audits" of the royalty and production reports and payments. These reviews can usually be conducted relatively quickly to provide timely feedback to allottees and identify the more obvious royalty payment and reporting problems. We refer more technical problems such as realty issues, well-site management, valuation, allowances, or other issues requiring access to source documents to BIA or BLM, or MMS's Indian audit team.

**Outreach** - The field office structure also enables our staff to conduct outreach meetings in other areas of Indian country. These regularly scheduled meetings include BIA and BLM and are designed to educate and inform the Indian mineral owners about mineral activities on their lands. The agenda provides time for the owners to meet with DOI staff and raise any concerns they may have about their minerals rights and responsibilities. The Indian Minerals Steering Committee endorsed this long term cooperative approach and is included as one of the goals of a Memorandum of Understanding between the Assistant Secretary, Indian Affairs, and the Assistant Secretary, Land and Minerals.

**Coordination and Liaison** - Overlaying our customer service and outreach responsibilities, we serve as the principal MMS coordinator and liaison for Indian issues, problems, and processes. We coordinate within MMS and with BIA and BLM on operational and policy issues and on the fulfillment of the Secretary's Trust responsibility to Indian owners. An important current focus is to encourage the establishment of regional interbureau networks to provide the best possible service to and communication with allottee populations.

**Royalty Intern Program** - We in RMP are continually working to improve our service to Indian mineral owners and help them become more aware of how we can assist them. To enable Tribal employees to learn more about royalty management functions and activities, RMP, through OIRA, created the Royalty Internship Program. The program is designed to further assist mineral producing Tribes who are considering self-governance or self-determination contracts and Tribes who want to become more knowledgeable about royalty management. The program will entail some classroom training, but will consist primarily of work assignments in one or more of our operating divisions. Interns can receive hands-on training in various aspects of RMP's mineral revenue management activities, including royalty accounting, report processing, exception resolution, audit, and valuation.

## Mineral Revenue Compliance

OIRA Workload Measures	FY 1996 Actual	FY 1997 Estimate	FY 1998 Estimate
Inquiries from Individual Owners (Allottees)	800	550	580
Allottee Meetings	75	55	60
Tribal Meetings	25	24	26

FY 1997 and 1998 estimates are reduced to reflect the reassignment of the Farmington, NM, office from OIRA to the Office of the Associate Director for Royalty Management.

In summary, RMP's Office of Indian Royalty Assistance uses the field office approach to improve communication with Indian mineral owners and to personally answer their questions about royalty payments. This approach allows RMP to pursue more aggressively training and education initiatives for Indian mineral owners and to learn first hand about their interests and concerns. The OIRA also assists Indian mineral owners through its toll-free 1-800 telephone service and written communication.

### Office of Enforcement

The Office of Enforcement (OE) encourages compliance with the requirements of mineral statutes, mineral leases, and regulations. We accomplish this by providing appropriate positive and negative incentives to lessees of Federal and Indian mineral resources. Much of the ground we tread is new. We have instituted an aggressive program using alternative dispute resolution (ADR) to resolve many old disputes. We also provide support for major litigation in Federal court cases.

Most of our workload of open issues arises from RMP company audits or from RMP detection of potential underpayment via automated processes. Many cases involve uncertainty regarding the amount, if not the fact, of underpayment. Resolution of these disputes through ADR has been far more efficient than using administrative and judicial litigation because it saves the time and expense of litigation.

### Notices of Noncompliance

We have also become more aggressive in using Notices of Noncompliance (NONC) and civil penalties. NONC's are issued when sufficient evidence exists that a lessee has not complied with an order, lease term, regulation, or statute. NONC's are authorized, for oil and gas leases only, by section 109 of FOGRMA.

The increased use of NONC's (313 were issued in FY 1995) has encouraged increased voluntary compliance so that we needed to issue only 18 in FY 1996. The threat of penalties has increased the care taken by certain lessees that had not always exercised proper diligence. We have worked with several lessees to increase their timely and correct payment and have changed their behavior.

### Alternate Dispute Resolution

Alternate Dispute Resolution (ADR) uses joint RMP-industry discussions to resolve appealed royalty issues with mineral leasing companies. We conduct settlement discussions with companies by a team composed of representatives including RMP Divisions, OE, other MMS and/or Solicitor officials and, if onshore or Tribal monies are involved, a representative of affected States or Tribes. We use both face-to-face direct negotiations and

independent third party neutrals for mediation. We have resolved many of the outstanding issues involving production prior to 1988 (when new valuation regulations were issued) and expect to resolve the greater portion of them by the end of FY 1997.

This process decreases the time and effort for both MMS and the lessees to pay the correct amount in a relatively timely fashion. ADR has resolved the amount of money owed for past disputes, and clarified the proper payment or valuation method for particular companies. This decreases the amount both the government and the companies must spend on accounting and auditing and also may avoid disputes in the future. In addition, we have worked out payment plans and other strategies for smaller companies to pay larger accrued debts.

The number of settlements concluded increased from 80 in FY 1995 to 90 in FY 1996. These settlements resulted in the collection of over \$334 million over the last three years. With the passing of the RSFA of 1996, the workload is likely to increase because, under RSFA, all disputed obligations must go through at least one settlement consultation.

### ***Litigation Support in Federal Cases***

The OE provides litigation support to the Office of the Solicitor and the Department of Justice in major litigation implicating MMS. These cases include issues such as underpayment of royalties, undervaluation of minerals, misreporting of produced mineral volumes, and bankruptcies. We coordinate with Solicitor and Justice attorneys in protecting and defending MMS. We have been very successful at advancing the Government's interests in these cases by our active cooperation.

### ***Collection Activities***

OE identifies and produces follow-up bills for delinquent receivables and takes appropriate collection steps on unpaid balances from payors, lessees, and lessee sureties.

We also handle all billing actions for underpaid royalties to ensure payors comply with MMS regulations. Billing actions include issuance of the invoice, debt collection activities, surety maintenance, and final collection. These actions have increased dramatically since MMS was formed when almost no bills were issued to payors. Bills result in more revenue to our constituents and produce more up-front compliance as the companies learn what should be done to avoid them.

## **Compliance Verification Division**

The Federal Oil and Gas Royalty Management Act of 1982 mandated that "the Secretary shall establish a comprehensive inspection, collection, and fiscal and production accounting and auditing system to provide the capability to accurately determine oil and gas royalties."

The Compliance Verification Division (CVD) is responsible for meeting this mandate through a variety of automated and manual verification activities to detect payor/reporter issues such as late payment of rents and royalties, royalty rate errors, improper recoupments and adjustments, noncompliance with allowance reporting requirements and Section 10 of the Outer Continental Shelf Lands Act (OCSLA), and under reporting of volumes subject to royalty.

## Mineral Revenue Compliance

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In FY 1996, our financial compliance activities resulted in the collection of \$15 million. Since FY 1985, we collected \$175 million through this program. In FY 1996, our production compliance activities resulted in the collection of \$18 million. From 1985 to 1996, we collected \$183 million.

In support of RMP's Strategic Plan, CVD's Tactical Plan calls for ensuring that mineral revenues are paid timely and correctly by establishing and maintaining automated and manual processes. Regulatory enforcement actions are pursued as required to secure compliance. To improve internal and external customer communication and services, we provide expertise on technical exception problems and promote compliance by identifying potential audit prospects where an in-depth review of a company's operations is necessary. We also process appeals and resolve issues with rental and royalty payors and production reporters. These responsibilities are carried out through two operating Branches.

The Division also participates in various payor and operator outreach programs. These outreach programs provide a service to industry to educate and update them on current and changing RMP policies and procedures. Our outreach provides a benefit to RMP by clearing up questionable issues and results in better reporting and compliance. We participate in sessions on payor training, operator training, and allowances. During FY 1997, our payor training efforts will include participating in seven sessions for royalty-paying and production-reporting companies. We plan to continue this program in FY 1998.

### ***Financial Compliance Branch***

The Financial Compliance Branch ensures companies comply with several aspects of royalty reporting and paying. A main aspect of royalty reporting is timeliness of payments. Through the Auditing and Financial System (AFS), we monitor the timeliness of all payments and assess interest for those that are late. We identify under- and non-payment of lease term requirements such as rents, minimum royalties, advance royalties, and bonuses, and work with the Office of Enforcement to bill payors for deficiencies.

When payors overpay on Indian leases, they are entitled to recoup those overpayments from future royalties. The Financial Compliance Branch monitors payors' recoupment transactions to ensure they do not recoup more than they are entitled for any month or in total. Additionally, we monitor adjustments to previously reported royalty payments to ensure (1) their validity, (2) that royalties are paid at the proper royalty rate, and (3) that only authorized severance taxes are deducted from royalty payments. We process Section 10 refund requests for offshore leases, determine that refunds are in accordance with regulations, and bill for unauthorized Section 10 transactions relating to payments received before August 13, 1996. Finally, we monitor payor compliance with oil and gas transportation and processing allowance regulations.

### ***Production Accountability Branch***

The Production Accountability Branch ensures that all volumes reported for royalty purposes match reported production. The Branch resolves differences (exceptions) identified during the automated comparison of oil and gas sales volumes reported by royalty payors to the AFS, and of sales and transfer volumes reported to PAAS by lease and agreement operators (AFS/PAAS Comparison). Resolution of these exceptions entails comprehensive analysis of AFS and PAAS reporting requirements, database setup, and extensive communication (both written and verbal) with operators and payors, other RMP offices, and other Government agencies.

The number of exceptions worked and additional royalties collected depend on the number of staff available to resolve system-generated exceptions.

Final regulations for gas verification and exception resolution (GVS) will be published in FY 1997. RMP is rewriting the PAAS reporter handbook and we expect to begin the revised gas verification process in late FY 1997 or early in FY 1998.

In FY 1997, we anticipate that a software module called the Automated Front-end Enhancement (AFEE) will be operational. The AFEE will result in a reduction of the manual AFS/PAAS exception identification effort. This will result in additional exceptions processed and increased follow up with operators and payors. In FY 1997, RMP hired temporary compliance staff to resolve pre-August 1996 volume reporting discrepancies. This will allow RMP to complete the corrected workload within the time limit in RSFA of 1996.

### Appeals

The appeals function is an administrative review of MMS decisions whereby an appellant files an appeal challenging an order to pay or perform certain work. To resolve an appeal, we research the issues raised and either resolve them up front informally or prepare a document for rendering a decision. To streamline the process, the authority to issue the final MMS decision is delegated to RMP for certain routine issues.

### Audit Divisions

The Audit Divisions are responsible for:

- ☛ Developing, directing, and conducting a comprehensive compliance audit program for royalty management activities, and
- ☛ Providing technical assistance to payors.

These responsibilities include recommending audit and related program policy as well as managing policy implementation. They are carried out through four Compliance Divisions: Dallas and Houston, TX; Lakewood, CO; and the State and Indian Compliance Division in Lakewood.

Some accomplishments of the Audit Program are:

Royalty Compliance Collections by Land Category FY 1994-1996 (\$ in millions)				
	Federal Onshore	Federal Offshore	Indian	Total
FY 1994	104	158	5	267
FY 1995	47	161	4	212
FY 1996	19	17	3	39
<b>TOTAL</b>	<b>170</b>	<b>336</b>	<b>12</b>	<b>518</b>

In FY 1996 audit collections and refund denials declined because:

- ☛ FY 1996 was the first year of a three year audit of the eleven largest companies that together account for

**Mineral Revenue Compliance**

approximately 70 percent of total royalty revenues. Very few bills, if any, are issued during the early years of an audit. Therefore, collections resulting from audits are generally greater in the latter half of an audit cycle, or even in years following the conclusion of audits as issues appealed by the companies are resolved.

substantial redirection of resources due to pursuing crude oil underpayments in California and nationwide, that impacted all other billing activities. It should be noted, however, that the California effort thus far has resulted in the issuance of bills totaling more than \$385 million.

Historical Collections Since 1982 (\$ in millions)			
	Additional Royalties, Interest Payments, and Liquidated Damages	Refund Denials	Total
Federal Audit Program	1,154	140	1,294
State & Indian Audit Program	188	3	191
<b>TOTAL</b>	<b>1,342</b>	<b>143</b>	<b>1,484</b>

The Audit Divisions conduct audits utilizing Federal resources and those of States and Tribes participating in the cooperative and delegated audit program. This function is based on the Audit Strategy and is guided by the annually updated 5-Year Audit Work Plan. Our FY 1997 Audit Work Plan integrates analysis of royalty data for the calendar years 1992 - 1996, resources available, and areas and issues requiring audit. Our FY 1998 plan will cover calendar years 1993 - 1997.

Following completion of the Contemporaneous Audit Initiative in September 1992, we enhanced the audit strategy to include additional areas and issues requiring audit. These were identified through past audits completed by our Federal audit staff, by States and Tribes participating in the cooperative audit program, the RMP Compliance Action Plan team, the Office of Inspector General, and the General Accounting Office. Contract Settlements audits were included in the FY 1997 and FY 1998 Audit Work Plan.

Other audit related activities include referrals from MMS and other agencies, support for litigation, appeals, and FOIA, and various special projects.

The audit function is grouped into the following main workload categories:

Ongoing Workloads Number			
Company Audits	FY 1996 Actual	FY 1997 Estimate	FY 1998 Estimate
Residency Audits	Began audits for the 1993-1995 period at all 11 residencies	Continue with the audits for 1993- 1995	Complete audits of 1993-95 at all residencies
Major Payors and Other Company Audits	Initiated 36 new audits	Initiate 45 new audits	Initiate 42 new audits

Residency audits are full-time continuous audits at the largest companies, whereas major company audits are still large but do not require full-time MMS presence. Companies designated as "other payors" are companies whose total royalty payments do not total enough to qualify for major payor status. Typically, States and Tribes audit companies from which they receive large amounts of royalties. We assist in these audits as resources permit.

The 5-Year Audit Work Plan will provide audit coverage of over 80 percent of royalties paid. While major payor company audits provide coverage for the largest share of royalties, we seek to ensure that all payors are subject to audit through a random selection process.

Ongoing Workloads Number			
	FY 1996 Actual	FY 1997 Estimate	FY 1998 Estimate
Random Company Audits	Continued work on audits-in-process. Initiated 16 new audits and completed 6.	Continue work on audits-in-process.	Continue work on audits-in-process.

"Random companies" are selected from the universe of reporters (excluding major payors). However, due to the crude oil audit work, limited resources will be available in FY 1997 or FY 1998 to initiate these audits.

***Contract Settlements Audits***

This audit area is of utmost importance due to the limitation of the 6-year billing status, the potential revenue involved, and the continuing attention by many oversight and constituent groups.

Ongoing Workloads Number			
	FY 1996 Actual	FY 1997 Estimate	FY 1998 Estimate
Contract Settlements	Started 355 contract settlement audits and completed 473.	Start 350 contract settlement audits.	Start 300 contract settlement audits.

Over 2,530 contract settlements totaling almost \$14 billion were assigned to the audit divisions. Total additional royalties were initially estimated at \$252 million. Through FY 1996, we collected \$142 million.



Ongoing Workloads Number			
	FY 1996 Actual	FY 1997 Estimate	FY 1998 Estimate
Other Lease, Unit, Gas Plant, and Referral Audits	Completed work on 100 audits-in-process.	Continue audits-in-process. Initiate new audits as resources permit.	Continue audits-in-process. Initiate new audits as resources permit.

Other Audits are non-company based audits. They provide enhanced royalty coverage, increased utilization of resources, and streamline audit procedures. The advantages and efficiencies of combining multiple companies into a single comprehensive issue-based audit are also realized. These other audits include:

- ☛ offshore transportation systems,
- ☛ onshore and offshore gas processing plants,
- ☛ audits of major properties (units and leases),
- ☛ possible major production fields and specialized coverage for Indian reservations, and
- ☛ referrals from RMP systems exceptions, non-scheduled company audits, refund requests, administrative issues, and special projects.

### ***New Workloads***

Several new audit and compliance initiatives were started recently or are in the planning phase. New compliance projects include Indian dual accounting resulting from a DOI order to royalty payors, and crude oil audits brought about by changes in industry oil marketing practices. These projects are all of large scope, with timing and resource requirements similar to other historical workload increases experienced by the audit program.

Preliminary planning and resource estimates suggest that additional audit personnel may be required to perform dual accounting work with 250 - 400 royalty payors. In addition, auditors will be required to perform crude oil audits. Some industry experts believe that significant royalties may have been underpaid as a result of undervaluation of crude oil by royalty payors since the early 1980's. Similar audit effort will become necessary on gas marketing areas of companies to ensure royalties are received on total arm's-length sale proceeds.

### ***State and Indian Program Audit Activities***

States and Indian Tribes participating in the FOGRMA Sections 202 and 205 audit program conduct audit activities in accordance with the RMP Audit Procedures Manual and other audit regulations and policy. They have responsibility for all phases of audit excluding issuances of enforcement documents and appeal administration.

Ongoing Workloads Number			
STATE AND INDIAN AUDIT AGREEMENTS	FY 1996 Actual	FY 1997 Estimate	FY 1998 Estimate
Section 205 Delegated Audits (States)	10	10	10
Section 202 Cooperative Audits (Tribes)	8	8	8

### ***Participants in the Program***

California, Colorado, Louisiana, Montana, New Mexico, North Dakota, Oklahoma, Texas, Utah, and Wyoming have 100 percent funded delegated audit agreements under the provisions of Section 205 of FOGRMA. Most States keep approximately 50 percent of the royalties generated by mineral leases on Federal lands within their State boundaries.

The Blackfeet Nation, Jicarilla Apache Tribe, Navajo Nation, and the Shoshone/Arapaho, Southern Ute, Ute, and Ute Mountain Ute Tribes have 100 percent funded cooperative audit agreements under the provisions of Section 202 of FOGRMA. Tribes keep 100 percent of royalties generated by their mineral leases.

### ***Intergovernmental Personnel Act***

The RMP has IPA agreements with Oklahoma and the Navajo Nation. During their IPA assignment, the participants learn MMS processes and procedures, become familiar with MMS systems, and sharpen their auditing skills through intensive on-the-job training.

### ***Other Direct Support to States and Tribes***

The RMP has also initiated projects to improve State and Tribal access to our automated systems. These projects include purchases of computers and telecommunications equipment, installing the equipment at each location, and training the State and Tribal users. Systems Management Division employees provide technical support for these projects.

### ***Improving the Program***

The RMP has initiated a number of activities to improve the effectiveness and efficiency of the State and Indian Program. A goal of redirecting RMP resources to more productive audit and service activities will be cooperatively assessed at least quarterly by RMP and the State and Tribal Royalty Audit Committee (STRAC) officer group. All parties have approved steps that are designed to delegate more responsibility and accountability to STRAC participants, requiring far less oversight by the MMS audit organization. In addition, RMP is placing special emphasis on working with Indian Tribes to increase their expertise and staff and to expand the number of audits they conduct. These efforts are designed to improve and strengthen our service to the Tribes.

*Justification of Program Change*

	1998 Budget <u>Request</u>	Program Changes <u>(+/-)</u>
\$(000)	32,312	-1,926
FTE	353	-20

RMP proposes these reductions as savings to be achieved through buyouts as authorized in the Federal Workforce Restructuring Act of 1993 and through completion of LAN upgrades in FY 1997. Buyout savings are attributable to 20 employees who will leave government service in FY 1997. In FY 1998, we will achieve a full-year of savings from elimination of their salaries and benefits.

MMS hopes to maintain the current high level of performance achieved through streamlining and improved efficiency of operations. MMS will continue to work to identify further efficiencies and reengineer processes to better ensure high performance levels in the future.

## Program Services Office

### Justification of Program and Performance

Subactivity Funding Summary

*dollars in thousands*

		1997 Estimate	Uncontrollable and Related Changes	Programmatic Changes	1998 Budget Request	Change from 1997
Program Services Office	\$ FTE	2,700 26	41 0	-177 0	2,564 26	-136 0

RMP's Program Services Office performs a wide variety of functions. These functions have been centralized over time within PSO to help RMP gain the benefits and convenience of single-point management and control, single-point contacts for RMP and external customers, efficiencies of a centralized operation, and improved staff expertise. These functions include:

- ☛ Budget formulation, justification, execution, and reporting.
- ☛ Staffing and full-time equivalency reports and control.
- ☛ Responses to inquiries from Congressional and Administration officials and non-Federal constituents.
- ☛ Appropriation and Authorizing Committee hearings support.
- ☛ Special projects for program issues such as legislation, policy, CFO Act reporting, and GPRA.
- ☛ Program statistics to meet the requirements of FOGRMA sections 302 and 602 and to meet the frequent and continuing needs of our Federal, State, Indian, and industry constituents.
- ☛ Certain RMP-wide training activities.
- ☛ Streamlining and organizational planning.
- ☛ Administrative functions such as coordination and management of facilities, security, printing, and supplies.

The Program Services Office is achieving cost reductions by evaluating areas for streamlining and potential cost reduction and by examining the potential benefits of moving activities and staff from PSO to mission-delivery offices and divisions where management of these activities more properly resides. We are accomplishing this through review and action for three types of costs:

**Staffing:** As part of its continual review of organizational structure and work distribution, RMP evaluates PSO responsibilities to determine if positions could be moved to better serve the program.

**Ongoing Costs:** Certain ongoing costs were identified for transfer in FY 1997 to offices engaged in direct delivery of mission to better coordinate resources and program responsibility. For instance, funds formerly allocated to PSO for printing Federal Register notices and procedural handbooks and guidelines (for mineral royalty and production reporting) were transferred to the office that coordinates the production and printing of these items. Other costs will be considered for transfer if it will better meet resource control and program needs of RMP.

**Streamlining Operations:** PSO is continually evaluating its work activities, staffing level, and procedures for reduction, transfer, or elimination. In the recent past, we have reduced PSO by 1 FTE while absorbing six employees and their functions from elsewhere.

In addition, PSO:

- ☛ Streamlined its annual program and statistical reporting from two publications to one,
- ☛ Reduced another statistical report from monthly publication to quarterly,
- ☛ Actively implemented the use of the Government charge card for small procurement actions, and
- ☛ Started the use of automated processing for larger procurements and personnel actions.

The proposed reduction of \$136,000 is possible because PSO expects to complete a major upgrade of its Local Area Network in FY 1997. This LAN serves approximately 120 workstations.

RMP will continue its review of PSO processes and funding requirements to seek additional possibilities for streamlined operations.

***Justification of Program Change***

	1998 Budget <u>Request</u>	Program Changes <u>(+/-)</u>
\$(000)	2,564	-136
FTE	26	0

RMP proposes this reduction as savings to be achieved because PSO plans to complete a major upgrade of its Local Area Network in FY 1997. This LAN serves approximately 120 workstations.

## Interest on Late Disbursements

### Justification of Program and Performance

#### Subactivity Funding Summary

*dollars in thousands*

		1997 Estimate	Uncontrollable and Related Changes	Programmatic Changes	1998 Budget Request	Change from 1997
	\$	---	---	---	---	---
	FTE	---	---	---	---	---

The FOGRMA requires monthly distribution of payments to the States for their share of mineral leasing revenues. 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 must be made to the appropriate Indian account at the earliest practicable date, but in no case later than the last business day of the month in which such funds are received. Sections III (b) and (d) of the Act provide 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 lease source of all incoming royalties. For example, a payor error which prevents a royalty accounting line from processing through the system may result in an MMS interest liability. Thus, in this instance, MMS has the revenue collected, but cannot determine to whom the revenue belongs until the error is corrected.

In contrast to money due the States, Indian lease revenues are deposited in the Treasury the same day they are received and transferred to the Bureau of Indian Affairs (BIA) as soon as practicable (normally within 2 working days). Therefore, no interest is accrued on Indian lease revenues.

MMS has undertaken several initiatives to reduce errors and keep interest owed on late disbursements to a minimum. These efforts have resulted in late disbursements interest payments being reduced from \$1.16 million in FY 1985 to \$85,896 in FY 1995.

However, the FY 1996 payment was significantly higher than FY 1995 because the December 1995 federal shutdown and employee furlough caused that month's payments to be disbursed on January 8, 1996. This delay resulted in approximately \$80,000 additional late disbursement interest penalties, nearly double the anticipated annual amount.

## Refunds on Behalf of Allottees

### Justification of Program and Performance

#### Subactivity Funding Summary

*dollars in thousands*

		1997 Estimate	Uncontrollable and Related Changes	Programmatic Changes	1998 Budget Request	Change from 1997
Compliance	\$	15	—	—	15	—
	FTE	—	—	—	—	—

MMS proposes to continue to pay refunds to companies on behalf of Indian allottees when recoupment of company overpayments from future royalties is not feasible. In these cases, allottees are unable to refund overpayments to the companies because production is too low to generate sufficient royalties or there is no production (in cases where the payment was made to an incorrect lease).

The need for these refunds arises from past policy that required a payor who appealed a bill to pay the bill, pending the outcome of the appeal. Additionally, the policy required MMS to distribute BIA's portion of an appealed bill to BIA regional offices as soon as possible so they could subsequently disburse the revenues to the individual Indian royalty owners. In cases where the payor's appeal was upheld and the allottee was not able to repay the company, recoupment was made against future royalty payments. To mitigate these situations, the BIA changed its policy in FY 1987 and the MMS implemented new procedures. Current procedures allow the companies to post bonds for the disputed amounts and to have MMS suspend the payment. Only after the appeal is settled does MMS distribute BIA's portion. However, the need occasionally arises for settlements and refunds on pre-1987 bills.

RMP also uses this authority to make adjustments to BIA accounts for prior unrecoverable erroneous payments.

This authority will allow RMP to correct minor errors, and to make refunds to payors on behalf of allottees.





**General Administration**  
**Justification of Program and Performance**  
**Analysis by Subactivity**  
*dollars in thousands*

		1997 Enacted	Uncontrollable and Related Changes	Programmatic Changes	1998 Budget Request	Change from 1997
Executive Direction	\$ FTE	1,902 24	27 -	-114 -	1,815 24	-87 -
Policy & Management Improvement	\$ FTE	3,880 49	32 -	-284 -	3,628 49	-252 -
Administrative Operations	\$ FTE	12,689 209	361 --	-932 -5	12,118 204	-571 -5
General Support Services	\$ FTE	14,476 -	311 -	-1,035 -	13,752 -	-724 -
<b>Total</b>	<b>\$ FTE</b>	<b>32,947 282</b>	<b>731 -</b>	<b>-2,365 -5</b>	<b>31,313 277</b>	<b>-1,634 -5</b>

### Mission

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

#### ***Executive Direction***

The Executive Direction subactivity is comprised operationally of the Office of the Director and the Office of Communications. These functions provide for overall program leadership, direction, and management coordination of all the responsibilities of MMS.

#### ***Policy and Management Improvement***

The Policy and Management Improvement (PMI) subactivity performs policy review and development; adjudicates appeals; conducts and coordinates reviews and audits of MMS programs; manages the regulatory development process; coordinates MMS advisory committee activities; and develops and organizes the Bureau's strategic planning, management improvement and reinvention efforts.

#### ***Administrative Operations***

The Minerals Management Service provides administrative support to its mission programs under the Administrative Operations subactivity. This support includes:

- ☛ financial management and budgetary activities;

## Executive Direction

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- ☞ records, space, and facilities management;
- ☞ safety and health program;
- ☞ personnel services;
- ☞ document, and physical security; management analysis functions;
- ☞ human resources management;
- ☞ equal employment and development opportunity;
- ☞ procurement, property, office services, and printing activities; and
- ☞ information resources management.

### ***General Support Services***

The General Support Services subactivity includes funding for support services and fixed costs, such as rent, Federal Telecommunications System (FTS), postage, and commercial communications for MMS nationwide.

**Executive Direction**  
**Justification of Program and Performance**  
**Analysis by Subactivity**  
*dollars in thousands*

		1997 Enacted	Uncontrollable and Related Changes	Programmatic Changes	1998 Budget Request	Change from 1997
Executive Direction	\$ FTE	1,902 24	27 —	-114 —	1,815 —	-87 —

**Program Description**

The Executive Direction subactivity is comprised operationally of the Office of the Director, and the Office of Communications.

The Office of the Director, which includes the Director, the Deputy Director and their immediate staff, is responsible for providing general policy guidance and management of the organization.

The Office of Communications (OOC) is responsible for the broad communications strategy and outreach to all MMS customers and stakeholders. OOC manages the coordination and implementation of an effective, efficient, and inclusive outreach program to all audiences including government, the industry, related trade associations, the environmental community, Indian Tribes and Allottees, and the general public. The goal is to ensure a coordinated and consistent message and effective exchange of information with all customers and stakeholders. This has been accomplished by reorganizing and integrating the former Offices of Congressional and Legislative Affairs, External Affairs, and Public Affairs to achieve streamlining goals.

**Objective**

To provide executive leadership, policy direction. And program management for all programs and mission responsibilities.

The OOC serves as the primary point of contact with Congress, the press and news media, external constituencies and the general public, providing information and assistance in response to inquiries. The Office serves as the primary liaison for all MMS congressional and legislative matters with Congress, state and local governments, and the Department on activities and legislative proposals that affect MMS. This activity includes evaluation of legislative proposals; communications regarding programs, policies and statement of positions on matters under consideration by the Congress; preparation and coordination of testimony for MMS witnesses; and coordination of arrangements for MMS's involvement in congressional meetings and committee hearings. In addition, the OOC serves as the primary point of contact and bridge-building with our external constituencies by facilitating dialogue and establishing ongoing, two-way communication with constituencies to ensure informed participation from all stakeholders in the decision-making process. The office serves as the focal point for print and news media information and education. OOC provides advice to the Director and other officials on policy and procedures for disseminating information.

Effect of MMS 2000

The MMS 2000 initiative continued the ongoing effort of MMS to streamline the organization. Through this effort it was possible to eliminate the Office of the Deputy Associate Director for Budget and Finance. Oversight and direction of budget and finance programs will now be carried out by a newly established Division of Budget and Finance reporting to the Associate Director for Administration and Budget.

The Equal Employment Opportunity Office has been transferred from reporting to the Director's Office to reporting to the Associate Director for Administration and Budget. A discussion of the EEO office can be found in the Administrative Operations discussion.

*Justification of Program Change*

	1998 Budget <u>Request</u>	Program Changes <u>(+/-)</u>
\$(000)	1,815	-114
FTE	24	0

The decrease of funding reflects one-time FY 1997 costs associated with critical hardware and software purchases necessary to be compatible with the Local and Wide Area Network infrastructure, including access to applications that run in a client server environment. Further, the purchase of the new equipment has shown substantial gains in productivity, hardware reliability, and access to the Internet and other information platforms that the older equipment could not deliver. In essence, the purchase has created an opportunity to provide improved customer services and access to critical information in a timely fashion.

## Policy and Management Improvement

### Justification of Program and Performance

#### Analysis by Subactivity

*dollars in thousands*

		1997 Enacted	Uncontrollable and Related Changes	Programmatic Changes	1998 Budget Request	Change from 1997
Policy & Management Improvement	\$ FTE	3,880 49	32 —	-284 —	3,628 49	-252 —

### Mission and Functions

The Office of Policy and Management Improvement (PMI) provides the Director, the Department, and other sources a single point of contact within MMS for addressing a broad range of activities that either cut-across organizational lines or fall outside of the responsibilities of MMS's two major program operations (i.e., the Royalty Management Program and the Offshore Minerals Management Program).

PMI also provides the Director with an independent review and assessment capability to ensure the proper application of sound policy and management decisions within MMS. PMI fosters performance improvement, strategic planning, streamlining, customer service, regulatory reduction and reinvention efforts. Additionally, it initiates pilot and laboratory projects for the Director and it assures implementation of recommendations derived from internal reviews, Inspector General audits, and GAO reviews or audits. PMI adjudicates administrative appeals; conducts internal reviews; coordinates audits by the Office of the Inspector General and GAO; manages MMS' compliance with the Departmental regulatory process; coordinates information collection requirements; and assures the Programs meet the requirements of the Federal Advisory Committee Act (FACA).

### Objectives

- ✓ Promptly identify emerging issues and provide a focal point for policy;
- ✓ enable the bureau to improve its effectiveness and efficiency through strategic planning, performance improvement and measurement, streamlining, internal evaluations, and responding to external suggestions;
- ✓ provide timely and appropriate resolutions of administrative appeals and disputes; and
- ✓ ensure that MMS safeguard its assets, is efficient, and accomplishes its objectives through analysis of management control reviews and other special studies.

### Organizational Responsibilities

PMI is organized to cover a wide range of responsibilities with a minimum of staff. The Associate Director of PMI is charged with evaluating MMS' existing and proposed policies and programs through economic and programmatic analysis. This is accomplished through the work of staffs located in Washington and Denver. Both staffs support the Associate Director's efforts to provide the Directorate with strong, cross-cutting analysis of Bureau-wide issues and to be the focal point for initiating and managing the Bureau's National Performance Review (NPR) and

Reengineering Government endeavors. In addition to the NPR and reengineering efforts the PMI staffs perform a variety of assignments that include coordination of MMS's regulatory program, Bureau compliance for requirements associated with information collection and FACA, management control reviews, pilot projects, and coordination of oversight audits by other organizations. Administrative Appeals, from orders primarily issued by the Royalty Management Program, are adjudicated by PMI's Appeals Division. A description of these basic organizational responsibilities follows:

### **Policy Reviews and Program Analysis**

PMI is responsible for the review and analysis of a broad range of royalty and offshore matters in MMS. Staff provide policy analysis and apply expertise to special studies in support of proposed and existing activities. Special studies sometime involve major analytical efforts, usually long-term in nature, to examine technical issues relevant to the program, analyze policy implications, and provide recommendations to the Director. These efforts may encompass both program specific subjects and developments elsewhere that may have an impact on the programs. PMI staff also provide technical assistance to the programs by leading or participating on Bureau task forces or by directly supplementing staff of the office responsible for specific projects.

PMI is responsible for ensuring that programmatic plans and policies are consistent with and integrated into the overall Bureau mission and responsibilities, as well as the Department and Administration policy framework. To accomplish this, PMI assists the Royalty Management and the Offshore Minerals Management Programs in developing, implementing, and then evaluating program initiatives, including the development and review of regulations.

In addition, PMI organizes and coordinates most of the Bureau's crosscutting issues and activities, such as:

- ☛ advising the Office of Communications and the Royalty Management and Offshore Minerals Management Programs in the development and evaluation of legislative proposals;
- ☛ assisting the Budget Division in the review and analysis of proposed programmatic initiatives;
- ☛ serving as the focal point within the Bureau for other Federal agencies, the private sector, and other groups on general energy and economic issues; and
- ☛ performing the Bureau's audit liaison work with the Department which includes the response and follow-up on OIG and GAO audits.

### ***Ongoing Workloads (FY 1997 and FY 1998)***

PMI anticipates being involved in numerous issues to reinvent and reengineer Departmental and Bureau programs and/or processes. Considerable time and effort will also be devoted to improving the efficiency, effectiveness, and overall performance of the Bureau and the Federal Government. PMI has a major role in initiatives started during the FY 1994 involving the Government Performance and Results Act of 1993 requirements, setting customer service standards, improving communications, reducing regulations, streamlining the administrative appeals process, and improving the royalty compliance and collection process. Considerable review and analysis work will be required to evaluate existing procedures and implement the changes.

The number of appeals processed by PMI peaked in 1996 as PMI initiated a major effort to eliminate a large backlog of cases. Passage of the Federal Oil & Gas Royalty Simplification & Fairness Act of 1996 will require appeals to be decided within 33 months but PMI's workload is expected to decline somewhat as MMS delegated to

RMP the responsibility to process routine appeals. The number of complex appeals processed by PMI actually has grown. The following describes PMI's major ongoing workload functions (in FY).

### **Policy Reviews**

PMI staff provide technical assistance to the programs by either leading Bureau task forces or by directly supplementing staff of the office responsible for specific projects. Some examples of projects that PMI staff are involved in include several reviews of the MMS administrative appeals process and evaluation of alternative methods of marketing or valuing oil and gas production.

PMI reviews legislation, regulations, and other documents for their policy content and provides analysis of proposals from outside MMS that affect Bureau programs. PMI also reviews internally generated regulations and documents to ensure adherence to Bureau, Departmental, and Administration policy. In addition to reviewing specific documents, such as legislation, Congressional correspondence, and agreements, this component includes the preparation of issue summaries or briefings for senior management. PMI coordinates the efforts of different parts of MMS in developing Bureau policy on specific issues. PMI plays both a substantive role in these efforts and coordinates input from the program offices in performing this task. It also works closely with other bureaus such as BLM and BIA. During FY 1997 and into FY 1998, PMI will be coordinating the development of policy options and analysis on such items as:

- ☛ Implementation of Deepwater legislation;
- ☛ Implementation of requirements found in the Federal Oil & Gas Royalty Simplification & Fairness Act;
- ☛ Royalty settlement procedures;
- ☛ The sale of gas from federal leases directly to the open market;
- ☛ Alternative valuation methods of gas and oil on Federal lands with related cost benefit analysis;
- ☛ Final resolution on some complex issues under administrative appeal to the Director.

### **Program Analysis**

PMI staff conduct, lead, or assist in a variety of program analyses of many of the controversial, complex issues facing MMS. PMI staff develop or assist in developing new programs or regulations, especially when program responsibility is fragmented or unclear. PMI also conducts major analytical efforts, sometimes long-term in nature, to examine technical issues relevant to the program, evaluates policy implications, and provides recommendations to the Director. These efforts may encompass both program specific subjects and developments elsewhere that may have an impact on the programs. Some examples of current projects involving MMS processes:

- ☛ Evaluation of MMS's information resource management systems and implementation of its priorities;
- ☛ Analysis of MMS's royalty collection cost and benchmarking against other indices;
- ☛ Review of MMS's regulatory development processes;
- ☛ Analysis of feasibility of increased automated auditing and upgraded electronic data base; and
- ☛ Review of the royalty relief program for leases with declining production.

## **Appeals**

Any party adversely affected by a final order or decision issued by an officer of MMS has a right under federal regulation at 30 CFR Part 290 (1992) to appeal to the MMS Director; or, if Indian land is involved, the appeal is filed with the Deputy Commissioner of Indian Affairs. The decisions on these appeals are prepared by PMI's Appeals Division. About 99% of the appeals filed are challenges to orders issued by MMS' Royalty Management Program (RMP). PMI's staff is insulated from the RMP so they can render an independent review of the issue under appeal. The staff is largely professional, trained in legal research, and their work load is dedicated almost solely to reviewing appeal information and writing decisions. Technical expertise and coordination in support of MMS settlement activities of royalty appeals and litigation with oil companies is provided by other personnel in PMI.

## **Management Controls and Performance Improvement**

PMI is responsible for preparing and managing the MMS Director's Management Control Plan (MCP). The Management Control Review (MCR) process is meant to identify and correct any waste, fraud, or abuse in bureau programs and to determine that adequate controls are in place to provide reasonable assurance that government resources are protected. The Federal Managers Financial Integrity Act (FMFIA) requires an annual evaluation of the financial and program controls. PMI staff either lead or participate in individual management control reviews.

PMI is responsible for overseeing the Bureau-wide improvements by supporting the MMS Quality Council's planning and leadership efforts; coordinating training; providing internal consulting services; and implementing Bureau-wide improvement initiatives after approval by the Director or by the Quality Council. In FY's 1996 and 1997, the staff will continue to focus on techniques and methodologies that achieve performance measurements. The staff will also provide technical assistance when possible in the form of training and consulting engagements for those MMS offices that are pursuing performance improvement initiatives. The staff serve as the clearinghouse for disseminating improvement information, resources, and expertise throughout MMS and in cooperative departmental and government initiatives.

## ***Regulatory Direction***

PMI manages the MMS regulatory program and serves as liaison to the Department's regulatory office. In this capacity, it plays a major role in the Bureau's efforts to coordinate MMS policy and implement the requirements of:

- ☛ Executive Orders (e.g., 12866) or legislation (e.g., The Regulatory Flexibility Act) directed towards the reduction and improvement of federal regulations;
- ☛ Executive Orders or legislation promoting methods of alternate dispute resolution, a more effective administrative appeal process, and improved regulatory drafting procedures;
- ☛ The Negotiated Rulemaking Act (Neg-Reg Act) PL 101-648; and
- ☛ Information Collection.

By fostering the Director's initiatives in regulatory and conflict resolution reform, PMI will be very active in MMS' conflict resolution program where a spectrum of alternative dispute techniques are being used to resolve disagreements without litigation or administrative adjudication and to try to prevent conflicts from occurring by collaborative decision making.



**Other**

PMI is also responsible for managing the Bureau's strategic planning process and for providing a transition from executive level policy decisions to functional implementation. In addition to assisting in the development of 2- and 5-year strategic plans for MMS programs, PMI staff analyze and research the merits of proposed operational modifications necessary to implement new or revised program objectives and policies and pilot those concepts. Program offices have a primary responsibility to continue operations on current requirements. PMI assists those offices in making a transition to new or increased responsibilities through analysis of the impacts of proposed changes, research of potential automated techniques, and investigation of workload efficiencies. PMI staff will provide liaison and leadership in the performance of Bureau tasks associated with Government Performance Results Act requirements and assist in the development and implementation of MMS' portion of the Department's Strategic Plan. PMI will also assist and provide direction and guidance to MMS's Programs to assure their compliance with requirements FACA.

<b>Ongoing Workload</b>			
	1996 Actual	1997 Estimate	1998 Estimate
Policy Reviews & Program Analysis	140	145	140
Management Improvement Efforts	65	65	60
Appeals Resolved	622	400	400
Management Control Reviews	15	10	8

**Management Improvement Efforts**

PMI will be leading MMS' organizational improvement efforts into the current fiscal year. Several long term projects have been underway from the previous fiscal years but others will be starting implementation in FY 1998.

PMI had overall management responsibility for the Compliance Action Plan (CAP), which was a three year effort to implement the recommendations of the joint ASLM/MMS Task Force on Royalty Compliance. The CAP implemented a range of improvements targeted at encouraging voluntary compliance by companies through clarification of policies and requirements and more aggressive enforcement; has integrated audit with other compliance activities; and expanded automated systems use in the royalty verification process.

PMI develops and administers a program of 2-year planning reviews of 5-year Strategic Plans for MMS functions and closely coordinates these with other ongoing strategic planning processes such as the MMS Strategic Plan on Information Management prepared by the Office of Administration. Through this process, 5-year strategic plans are evaluated at the end of the second year of implementation to refine steps planned for subsequent years and to extend the improvement process through additional steps for an extra two years. In addition, PMI oversees the planning processes and assists programs with the development of annual performance plans and the submission of performance reports.

PMI also develops and facilitates major improvement initiatives for the Bureau, providing the Director with options for decisions on key issues. It prepares detailed implementation plans, coordinating these with other MMS entities. PMI implements and manages pilot operations to effect the transition of major MMS initiatives from current to

## Policy and Management Improvement

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future issues, monitoring resulting resource utilization issues, legislative revisions, as well as functional and organizational realignments. In this regard PMI is currently leading and/or participating in several National Performance Review initiatives, which include:

- ☛ Piloting a new Management Control Review system for the Department;
- ☛ Directing MMS's efforts to improve Customer Service;
- ☛ Directing the Bureau's efforts to reduce and improve internal and external regulations;
- ☛ Employing the use of "Plain English" regulation writing when regulations are necessary (PMI introduced the plain English style to the Department and Bureau);
- ☛ Operating and evaluating the results of the gas marketing pilot which tests new concepts for collecting the government's royalty share of federal resources; and
- ☛ Developing a common reference data base to improve the accuracy and efficiency of obtaining lease and royalty payor data.
- ☛ Developing and implementing MMS's requirements under the Government Performance and Results Act of 1993 (GPRA). In particular, the performance planning and measurement phases of MMS's GPRA pilot project and the Bureau-wide Strategic Plan.

## Appeals

The administrative appeals process has undergone considerable restructuring and reengineering to streamline and expedite the resolution process. The resolution of cases generally results in the collection of additional revenues for the States, Tribes, individual Indian allottees and the Federal government and time plays a critical role in successful closure of these cases. Processing changes, such as delegating routine cases to the Royalty Management Program for resolution, have expedited decisions and provided more time for cases involving complex issues. PMI has also taken several administrative steps to eliminate the backlog and speed up processing of appeals. These include:

- ☛ lowering the signature level for many appeals decisions,
- ☛ implementing an improved appeals tracking system, and
- ☛ imposing stricter time frames on internal and external parties involved in the appeals process.

PMI is also pursuing other initiatives to expedite the processing time of appeals. These include using of Alternative Dispute Resolution techniques, further reformatting of the decisionmaking process, automating the backlog report, establishing of time limits, and expediting preparation of field reports together with the appellant's administrative record. These changes will help PMI to comply with the time limitations imposed by the Federal Oil & Gas Royalty Simplification & Fairness Act of 1996.

A considerable effort has been made by PMI to eliminate the backlog of older cases. The Federal Oil & Gas Royalty Simplification & Fairness Act of 1996 requires the Department to issue a final decision on an administrative appeal within 33 months. PMI expects to process appeals, filed with the Director of MMS, within 17 months. Because the total workload of the Appeals Division will consist of complex cases, the number of cases resolved in future fiscal years may be lower than the past.

PMI continues to look for ways to improve the appeals process and more recently has been working with the Royalty Policy Committee's (RPC) subcommittee on administrative appeals. The subcommittee has been charged by the RPC to evaluate MMS's administrative appeal process.

**Management Control Reviews**

Each year PMI works with the MMS Programs and the Management Control Council to update the Director's Management Control Review (MCR) Plan. PMI is involved in the scheduling, performing, and reporting of the reviews and subsequently tracks the implementation of the review recommendations. During FY 1997 and into FY 1998, PMI will pilot a new MCR program for the Department and evaluate its results. The new MCR process will place more emphasis on targeting organizational weaknesses using computer based data analysis. PMI has acquired the computer software and will be developing and analyzing data with MMS Program assistance. This automated MCR process is expected to bring more accuracy and less reliance on staff in the completion of MCR reviews in future years.

For the current year, PMI will lead, assist, or monitor, each team in performing the management control reviews. Participation will include ensuring that each review is planned, conducted, documented, and reported in accordance with MMS and departmental procedures and in compliance with the Federal Manager's Financial Integrity Act. PMI will also monitor systems controls, including the fiscal integrity of royalty, offshore, and management accounting systems, as well as the environmental and fiscal integrity of the offshore leasing and inspection systems.

**Effect of MMS 2000**

The Minerals Management Advisory Board was established to provide advice to the Secretary and other officers of the DOI to perform the discretionary functions of the OCSLA and to address royalty related issues. The OCSLA requires that Interior consult with affected States and other interested parties on all aspects of leasing, exploration, development, and protection of the resources of the OCS. The Advisory Board provides a formal mechanism for this consultation.

The Advisory Board Support Team was transferred from the Office of DAD for Resource Management to the Associate Director for Offshore Minerals Management under MMS 2000. This function still remains in offshore, but the supervisory responsibility for the advisory board coordination was placed in PMI. This support team will provide (1) support to the Minerals Management Advisory Board and the OCS and Royalty Policy Committee and (2) coordinate and conduct a variety of offshore and royalty activities and projects..

*Transfer of Policy Committee Function*

The increase in funding of \$100,000 and 1 FTE represents the shift in the supervisory responsibility of the Advisory Board Support Team from offshore to PMI.

***Justification of Program Changes***

	1998 Budget <u>Request</u>	Program Changes <u>(+/-)</u>
\$(000)	3,628	-284
<i>FTE</i>	49	0

*Equipment Upgrades and Office Move*

## Policy and Management Improvement

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The decrease in funding represents nonrecurring costs in two areas. First, critical software and hardware was purchased to be compatible with the Local and Wide Area Network infrastructure, including access to applications that run in a client server environment. The purchase of the equipment resulted in substantial gains in productivity, hardware reliability, and access to the Internet and other information platforms that the older equipment was not capable of providing.

Second, the one-time cost for the move of the Appeals Division to the Main Interior Building in Washington, D.C., was necessary to improve the efficiency of the appeals process by enhancing coordination with the Solicitor's Office.

**Administrative Operations**  
**Justification of Program and Performance**  
 Analysis by Subactivity  
*dollars in thousands*

		1997 Enacted	Uncontrollable and Related Changes	Programmatic Changes	1998 Budget Request	Change from 1997
Administrative Direction & Coordination	\$ FTE	910 11	19	-9	920 11	-24 0
Division of Budget & Finance	\$ FTE	1,763 31	58	-146	1,675 31	-88 0
MSSD	\$ FTE	0 0			0 0	
Equal Employment and Development Opportunity	\$ FTE	925 10	16	-54	888 10	-38
Personnel Management	\$ FTE	1,224 28	48	-109 -1	1,163 27	-61 -1
Procurement & Support Services	\$ FTE	2,592 41	70	-200 -2	2,462 39	-130 -2
Information Resource Management	\$ FTE	1,757 24	41	-129	1,669 24	-88 0
Field Administrative Services	\$ FTE	3,518 64	110	-286 -2	3,342 62	-176 -2
Total	\$ FTE	12,689 209	361	-932 -5	12,118 204	-571 -5

### 1997 and 1998 Ongoing Workloads

The Administrative Operations subactivity consists of the following functions: Administrative Direction and Coordination, Division of Budget and Finance, Equal Employment and Development Opportunity, Personnel Management, Procurement and Support Services, and Information Resources Management. These functions are

## Administrative Operations

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directed and carried out at headquarters and nationwide through five Divisions and two Field Administrative Service Centers (ASC's).

The following is a description of the major functions/program elements' workload.

### ***Administrative Direction and Coordination***

This function provides for oversight of all administrative activities for the MMS. 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.

This oversight ensures compliance with laws relating to administrative activities; provides for the review, interpretation, and implementation of Federal executive branch administrative policies and procedures; and develops appropriate guidance to ensure compliance with Department, Office of Management and Budget, General Services Administration, and other executive branch administrative policies and regulations.

It includes responsibility for the Bureau's management analysis functions (management studies and reviews, organizational review, delegations of authority, and related activities, and special projects such as NPR and GPRA initiatives) and budget formulation and execution for Administration and Budget.

### **Effect of MMS 2000**

The Management Services and Security Division (MSSD) has been abolished. The former MSSD functions have been realigned throughout Administration and Budget. The management analysis and budget responsibilities which previously resided in MSSD will be accomplished by staff reporting directly to the Associate Director for Administration and Budget. The Equal Employment Opportunity responsibility has been transferred from Office of the Director to Administration and Budget as a division with expanded functions (Equal Employment and Development Opportunity Division). Additionally, two Deputy Associate Director positions (DAD/Admin; DAD/Budget and Finance) have been eliminated and one division chief position has been implemented (Division Chief for Budget and Finance).

### ***Budget and Finance***

#### **Mission**

The Division of Budget and Finance (DB&F) is responsible for the planning and effective utilization of budgetary and financial system resources in support of the varied operating and support programs. The DB&F serves as the focal point for the implementation of the provisions of the CFO Act including liaison responsibilities for the annual audit of the combined financial statements contained in the Annual Financial Report.

- ☛ The Branch of Budget provides analysis, budget 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; develops, prepares, and maintains budget data; and provides analysis of financial and other resource use reports. The Branch is also responsible for assisting in the presentation and explanation of budget submissions to the Department, the Office of Management and Budget (OMB), and the Congress.
- ☛ The Branch of Financial Management (BFM) is responsible for the administrative accounting operations

### **Objective**

To provide continuing administrative direction and coordination to support the Outer Continental Shelf Lands and Royalty Management programs of MMS.

of the Bureau. The BFM operates the administrative accounting system, audits and schedules bills for payments, collects debts, manages imprest fund and third party draft programs, develops financial data, prepares financial reports, provides advice and assistance on financial matters, and maintains liaison with Departmental offices and other Government agencies. The BFM has the lead responsibility under the Chief Financial Officers Act of 1990 to prepare a combined Annual Financial Report for the Bureau. In addition, the FMD serves as the focal point for the implementation of the provisions of the CFO Act including liaison responsibilities for the annual audit of the combined financial statements contained in the Annual Financial Report.

**Accounts Payable Processing.** The estimated workload for FY 1998 in the accounts payable function includes the recording of 8,500 obligations, the auditing and paying of 13,000 invoices (about 75% by EFT), the auditing and processing of 8,000 travel documents, and the processing of 2,000 miscellaneous financial documents. This projection is consistent with planned streamlining initiatives proposed by the MMS Streamlining Plan. The expansion of the use of purchase cards for purchases under \$2,500 has substantially reduced the number of obligations processed by BFM.

**Financial Reports Processing.** MMS produces 427 Financial reports monthly, quarterly and annually for distribution internally to MMS managers and to external agencies as required by regulation or law. The CFO Act requires an annual combined financial report to be submitted to the Office of Management and Budget each March 1st following the close of the fiscal year.

**Financial Policy and Procedures Development.** Develop and issue policies and procedures on such matters as temporary duty and permanent change of station travel, use of the American Express government card, closing instructions at fiscal year end, and accounting for prior year funding.

**Review Policy Documents.** Review and implement regulations and procedures issued by agencies having regulatory oversight of government financial activities including the Department of the Treasury, Office of Management and Budget, General Accounting Office, General Services Administration, and the Federal Accounting Standards Advisory Board.

#### Effect of MMS 2000

The MMS 2000 initiative continued the ongoing effort of MMS to streamline the organization. Through this effort it was possible to eliminate the Office of the Deputy Associate Director for Budget and Finance. Oversight and direction of budget and finance programs will now be carried out by a newly established Division of Budget and Finance reporting to the Associate Director for Administration and Budget. Consistent with this change, the former Divisions of Financial Management and Budget have been established as branches within the newly established Division of Budget and Finance.

### *Equal Employment and Development Opportunity*

#### Mission

The Equal Employment and Development Opportunity Division (EED) develops, directs, monitors, and operates the MMS 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:

- ☛ Maintenance and operation of the discrimination complaint system;

## Administrative Operations

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- ☞ Implementation of equal employment opportunity and affirmative action plans;
- ☞ Implementation of programs for minority higher education and related partnerships;
- ☞ Administration of the Employee Counseling Program;
- ☞ Administration of a program for dispute resolution alternatives;
- ☞ Development and tracking working place equity programs;
- ☞ Coordination of employee training programs;
- ☞ Responsibility for special initiative programs which are underway to involve more women and minorities and people with disabilities in the program areas and throughout all levels of management; and
- ☞ Responsibility for developmental programs such as Student Employment, Upward Mobility, and Management Development.

The division provides policy, coordination, and direction for MMS developmental programs which include managing and monitoring the equity of employee development opportunities associated with formal developmental programs, cross training assignments, and mentoring activities. Emphasis is placed on training managers and supervisors in employee development and human resources planning.

To ensure that workforce activities are inclusive, that they promote the full utilization and exchange of skills and talent, the division will develop and coordinate Special Emphasis activities; develop and implement EEO complaints prevention initiatives, and track and analyze applicant flow data and employment trends.

The EEO coordinates compliance with the Departmental Office for Equal Opportunity and EEO Commission directives and Solicitor's requests regarding EEO issues and coordinates with the Department and other agencies concerning employee development issues. The division chief serves as the MMS Equal Employment Opportunity Officer.

### Effect of MMS 2000

The EEO responsibility has been transferred from the Office of the Director to Administration and Budget as a Division with an expanded function. This expanded function includes the employee training and development responsibility formerly residing in Personnel Division. In addition, to consolidate administrative and management related EEO issues, the EEO functions which were performed in the staff office of the Associate Director for Royalty Management Program have been transferred to the EEO.

### ***Management Services & Security***

Effective with the implementation of MMS 2000, the Management Services and Security Division (MSSD) has been abolished. With the exception of information collection, all MSSD functions have been realigned throughout Administration and Budget to either the immediate staff of the Associate Director, Information Resources Management Division, Personnel Division, or Procurement and Support Services Division. One component of the records management function (information collection) has been transferred to Policy and Management Improvement.



The former MSSD functions have been transferred as follows:

- ☛ Management analysis and budget responsibilities to staff reporting directly to the Associate Director for Administration and Budget.
- ☛ The records management function to the Information Resources Management Division.
- ☛ The personnel security and incentive awards policy and coordination functions to Personnel Division.
- ☛ The facilities, safety and health management, physical and document security, and mail management functions to the new Procurement and Support Services Division.

Writeups on these former MSSD functions are found in their new organizations.

## ***Personnel Management***

### **Mission**

The Personnel Division administers the Minerals Management Service's human resource management program and provides operational personnel services to client organizations.

- ☛ Develops and implements policies, procedures, guidelines, and standards relating to general personnel management; recruitment and employment; position management, classification, and use; human resource planning; pay administration; personnel program evaluation; labor management relations; employee relations, benefits, and services; performance management, leave administration and work schedules; personnel security; incentive awards policy and coordination; Combined Federal Campaign; health benefits/services; family friendly initiatives; the Federal Equal Opportunity Recruitment Program and other public policy programs; and Senior Executive Service systems.
- ☛ Performs all operational personnel services and prepares appropriate reports for all levels of management for headquarters and client organizations and provides technical direction on personnel matters for MMS regional installations in Denver, Colorado, and Jefferson, Louisiana.
- ☛ Provides Bureauwide payroll liaison services.

Maintains liaison with the Office of Personnel Management, the Federal Labor Relations Authority, the Merit Systems Protection Board, the Office of Special Counsel, the Office of Government Ethics, the Office of Hearings and Appeals, and the Department on personnel management and related issues. It coordinates MMS and client organization matters involving investigative reports by maintaining liaison and coordination with the Department's Office of Inspector General concerning such investigations. It conducts and coordinates inquiries and determines appropriate actions related to whistle blower complaints.

- ☛ Reviews, processes, and represents management in employee grievances, appeals, and adverse/performance based actions.
- ☛ Coordinates and serves as liaison to the providers of employee assistance programs serving MMS headquarters employees and those of its client organizations.

## Administrative Operations

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- ☞ The Division has been instrumental in developing and instituting an efficient and effective pass/fail performance appraisal and streamlined awards systems in use Departmentwide.
- ☞ Administers the Department's reemployment priority list of displaced DOI personnel.
- ☞ Consults with and refers actions related to allegations based on discrimination to the Equal Employment and Development Opportunity Division staff, advising that staff of any issues which may impact on the administrative remedy process.
- ☞ Carries out reductions-in-force, reorganizations, and NPR initiatives related to human resources issues.
- ☞ Assists in the development of and has lead or direct responsibility for the implementation of mandated Departmental electronic systems:
  - ✓ The Federal Payroll and Personnel System, including automated Requests for Personnel Actions and time and attendance reporting.
  - ✓ Pro Class, the automated classification program which will create position descriptions to be used initially by personnel specialists and ultimately by managers.
  - ✓ The Automated Records Training System; and
  - ✓ Employee Express, an electronic system designed to allow employees to effect personnel record changes such as tax withholding, address changes, and direct deposit.
- ☞ Seeks to ensure regulatory compliance to prevent real or apparent conflicts by providing guidance on standards of conduct and conflict of financial interest to employees Bureauwide through proactive employee awareness training and information bulletins, advice on specific conflict issues, and the initiation of remedial orders when needed.
- ☞ Provides personnel services to the Office of the Secretary on a reimbursable basis through an Interagency franchise agreement providing support and guidance to the highest level of Departmental officials, senior management, and special commissions.

**Employee Relations Cases Processed/Guidance Given.** The high level of employee relations cases will continue as a result of anticipated actions effected by reduced FTE and budget within the MMS. During organizational realignments, more employees request information on their rights, retirement issues, etc., and employees who are downgraded or separated may file appeals with the MSPB.

**Federal Personnel and Payroll System (FPPS) Implementation.** Although MMS will convert from PAYPERS to FPPS in early 1997, we anticipate a significant effort will be expended over many months to assist users in working with the new system and to resolve problems. Continual training will also be necessary as enhancements are added to the system.

**Staffing and Classification.** In FY 1998, continued consolidation activities are expected to result in additional reorganizations/reductions-in-force that are extremely labor intensive and time-consuming. Also during this time period, an emphasis on transitioning to a generalist, team-oriented concept will become the norm. This, combined with continued emphasis on human resources specialists functioning as "consultants" to managers, providing short- and long-term advisory services, will effectively change the way work is performed. Finally, distinct changes in both the staffing and classification functions are likely to manifest themselves in FY 1998. Alternatives to existing systems will likely require our attention and impose additional claims on our limited human resources.

**Family Friendly Initiatives.** A member of the Personnel Division staff participates in the President's Management Council's Federal Telecommuting Work Group, representing the entire Department. In conjunction with this effort, we provide guidance and support for MMS' active telecommuting and work-at-home initiative. The MMS has also been in the forefront with respect to utilizing work schedules to accommodate special employee needs.

**Franchising.** The Personnel Division is actively pursuing additional opportunities to provide personnel support services to clients within and outside the Department of the Interior. The Division has an efficient infrastructure in place which is expected to be continually enhanced by advances in electronic systems and which can be utilized effectively to service organizations with traditional and/or specialized personnel support needs.

#### **Effect of MMS 2000**

The Management Services and Security Division (MSSD) has been abolished. The personnel security and incentive awards policy and coordination functions (formerly MSSD functions) are now part of the Personnel Division's mission.

### ***Procurement and Support Services***

#### **Mission**

The Procurement and Support Services Division (PASSD) is responsible for the execution and administration of MMS's procurement, space and facilities management, property management, safety and health management, transportation, and general office services functions.

The Procurement Operations Branch (POB) awards and administers contracts, small purchases, cooperative agreements and interagency agreements essential to accomplish the mission of the MMS. PASSD manages the Business and Economic Development Program to maximize opportunities for small; small disadvantaged; and women owned businesses, as well as Historically Black Colleges and Universities, as both prime and subcontractors.

Policy guidance and advice to procurement and program personnel is provided. Acquisition management and other internal control reviews of procurement activities are conducted. PASSD provides the program coordination and administration of the MMS purchase card program.

The support services functions include facilities (31 buildings in 18 cities), space management, mail and courier activities, bureauwide physical and document security, and the Safety and Health Management Program, day-to-day voice and data communications, and property management. The property management program maintains accountability records of all controlled property in the possession and control of custodial property officers and contractors within the MMS; manages the Bureau Vehicle Fleet; manages the Bureau museum property including an Arts and Artifacts program; manages a printing and publication activity; and issues policy guidance on property, vehicles, supplies, museum property, and printing, duplicating and copying.

**Space Utilization Studies and Space Layout and Reconfiguration.** In FY 1998, as staff realignments continue in the MMS, the Division will continue to conduct MMS-wide space utilization studies and layouts. These studies allow us to proactively manage our space which has resulted in more efficient utilization of space and increased energy conservation.

**Office Relocations.** Planning and implementing in-house moves will be at a continued level due to realignments and restructuring of MMS programs.

**Overall Acquisition Program.** Through Headquarters' and Administrative Service Centers' efforts, a total of \$60.8 million was obligated by the MMS acquisition program in FY 1996. It is expected that the acquisition program will continue at this level with a similar amount to be obligated in FY 1998. The Environmental Studies Program continues to require a significant number of studies and cooperative relationships with affected states for a total of \$14.4 million in FY 1996. Contract activity for the Offshore Technical Information Management System and the Technology Assessment and Research Program are a significant part of the acquisition program within PASSD. In addition to the acquisition of information technology equipment and services to directly support the missions of MMS, PASSD continues to establish and administer contracts for Departmentwide requirements for network servers, laptop computers, and software licensing agreements with Novell and Microsoft. Additional Departmentwide information technology requirements are anticipated in FY 1998. Under the Interior Department franchise pilot program authorization and the Government Management Reform Act, the MMS is looking to provide acquisition support for other Interior activities as well as other government agencies.

**Implementation of the Federal Acquisition Streamlining Act Requirements.** Under the provisions of this Act: (1) MMS expanded its purchase card program from less than 20 cardholders to 125 during late FY 1995 which allows program personnel to purchase the majority of their requirements of less than \$2,500; (2) PASSD will continue the use of oral proposals in FY 1997, a practice that was initiated in FY 1996, which has proven to be an efficient and effective acquisition method that has been embraced by MMS personnel and its community of contractor's; (3) PASSD will acquire services to the greatest degree possible which are performance based; and (4) PASSD will continue to utilize past performance as an evaluation factor. These as well as other best practices will be tools which will maximize our ability to achieve the best value in our procurements.

**Interior Department Electronic Acquisition System (IDEAS).** PASSD has implemented the electronic acquisition system at MMS Headquarters and in the Western and Southern Administrative Service Centers and is continuing to implement the system in other field locations. Full bureauwide implementation will occur in FY 1997. IDEAS will continue to require maintenance and hardware and software enhancements, in order to improve efficiencies.

**Property Management Information System (PMIS).** PASSD is developing and in FY 1997 will be implementing a newly redesigned system which will facilitate personal property, component tracking, repair and maintenance, motor vehicles, museum property, and software. This system will have an automated interface with IDEAS and ABACIS. Currently, this system is scheduled to be implemented by the three ABACIS bureaus (MMS, OSM & OS) and will become available for all bureaus within DOI.

**Interface Between IDEAS, ABACIS and the PMIS.** PASSD is actively involved in the design of an interface that will allow data exchange between IDEAS, ABACIS, and the PMIS. In order to assure that this interface will fulfill our unique requirements, MMS will continue to be the testing Bureau for IDEAS since it uses the ABACIS financial system and has the PMIS which will be the system to be used by various Bureaus within the Department.

**Safety Management Program.** PASSD provides policy and guidance for the Bureau safety and health program. The program addresses actions to reduce employee injury and associated costs.

#### Effect of MMS 2000

The Management Services and Security Division (MSSD) has been abolished. The facilities, safety and health management, physical and document security, and mail management functions from MSSD, with the day-to-day voice and data communications (from the Information Resources Management Division), and property management

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(from the former Procurement and Property Management Division) have combined to become the new Support Services Branch in the Procurement and Support Services Division.

## ***Information Resources Management***

### **Mission**

The Information Resources Management (IRM) Division has responsibility for providing direction and coordination for MMS-wide IRM activities including strategic planning, computer security, acquisition management, FTS2000 services, data networking and infrastructure support, desktop computing and end-user services, development of IRM policy and procedures, and records management activities (such as directives, Freedom of Information Act, and Privacy Act).

In FY 1998 the Council of Information Management Officials, chaired by the Chief, IRM Division, will continue to coordinate crosscutting information technology initiatives to improve the management and delivery of information services and increase customer effectiveness in the use of new technology.

The Chief, IRM Division, will provide administrative and technical support to the MMS IRM Review Council in the planning for and oversight of MMS information investments. The IRM Division will participate in implementing the Departmental IRM Strategic Plan; assist with the management of the Department's data network, DOINET; and represent the MMS in Departmental projects and activities.

The IRM Division is directly responsible for developing and maintaining the MMS administrative information systems and providing support for Administration and Budget computer installation and LANs maintained at two geographic sites. In FY 1998 reengineering of administrative applications and the implementation of new systems will provide improved responsiveness and flexibility within Administration and Budget and MMS as a whole.

**MMS-wide Planning and Coordination Activities.** The IRM Division will issue the annual update to the MMS IRM Strategic Plan, providing the Department consolidated budgetary and planning information on the Bureau IRM activities and future initiatives. The MMS IRM Strategic Plan provides a statement of the IRM goals, strategies, objectives, and performance measures as approved by the MMS IRM Review Council. The Plan establishes long term goals and provides for overall guidance for information resources management to achieve cost effective use of information technology investments to support Bureau programs for the next 5 years.

The IRM Division will participate in MMS-wide efforts identified in the Strategic Plan such as the monitoring of information technology performance measures; cyclical reviews of current systems; telecommunications activities; electronic data interchange and electronic commerce; and establishment of hardware and software standards; and development of policy/guidance on crosscutting IT initiatives. Other planning and coordination activities include the development of the MMS ADP Security Plan, participation in Departmental projects, work groups, reengineering efforts, and performing management control and security reviews. In particular, the IRM Division will continue to work with the Office of the Secretary to improve and implement Departmental administrative systems.

**Telecommunications Activities.** The MMS video conference facility in Lakewood, CO, which utilizes FTS2000 switched video compressed teleconferencing service (SCVTS), will continue to be used in FY 1998 as a cost-effective alternative method of holding meetings. PC-based video conference systems began widespread use in FY 1997, a trend that will increase dramatically in FY 1998. In anticipation of the routine use of desktop video systems in FY 1998, individual workstations may require additional upgrades as well as developing expertise in more members of the IRM support staff.

Other telecommunications activities include supporting cc:Mail electronic mail between all MMS users and between other DOI Bureaus; providing administrative and technical support for the Department of Interior Network (DOINET); supporting Internet/Intranet activities; performing studies of MMS and Departmental telecommunications projects; and providing coordination of FTS2000 services.

**Network Management and Infrastructure Support.** The Telecommunications and Infrastructure Support Branch will work in concert with program technical staff to monitor performance of the MMS wide area network; support Internet and Intranet activities; and satisfy MMS information infrastructure management requirements. The IRM Division will continue to manage the MMS world wide web and primary Intranet servers, and play the lead role in coordinating the maintenance and evolution of its network infrastructure. Also, in FY 1998 transition from the cc:Mail proprietary mail system to Internet mail will be undertaken.

**Information Technology Acquisition Activities.** Based upon analysis of the provision for requirements of the Clinger-Cohen Act of 1996 (formerly the Information Technology Management Review Act), the IRM Division will continue to provide guidance to the program areas including how to measure results of our information technology investments. Following on the heels of several successful IT acquisitions that the MMS sponsored for the Department, the IRM Division will again be involved with new IT acquisition actions in FY 1998. In this time frame, IRM will assist the Office of the Secretary (OIRM) with Department wide contracts for encryption software and software that will aid the Bureaus to identify and assess the impact of the Year 2000 date problem in legacy code.

**Records Management Activities.** Records and information management activities will remain constant. However, streamlining initiatives and recent legislation (electronic FOIA) will continue with emphasis on re-engineering records management practices (including electronic records) to enhance the MMS systematic approach to information dissemination and use as well as elimination of unnecessary directives and MMS forms.

#### Effect of MMS 2000

With the abolishment of the Management Services and Security Division, the records management function transferred to the Information Resources Management Division. In addition, the day-to-day voice and data communications function transferred from IRM to the new Support Services Branch of the Procurement and Support Services Division.

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## *Field Administrative Service Centers*

### Mission

Direct administrative support is provided to program managers through two Field Administrative Service Centers (ASC's). These ASC's provide services to all field activities of the MMS, except for those offices in the Washington, D.C., area which receive support directly from the Headquarters Administration and Budget.

The ASC's are structured to assist managers in matters related to personnel, procurement and contracting, information resources management, and support services activities.

The Southern Administrative Service Center (SASC), located in New Orleans, Louisiana, provides direct administrative support, direction, and coordination to programs in the Gulf of Mexico OCS Region (GOMR), the Systems Application Branch and the Systems Integration Branch of the Offshore Information Technology Division, and a resident Royalty Management Office. In addition, full support is provided to five outlying District/Subdistrict GOMR Offices.

The Western Administrative Service Center (WASC), located in Denver, Colorado, provides administrative support, direction, and coordination to the Royalty Management Program (RMP) and its field entities, the Office of Policy and Management Improvement, the Offshore Leasing Division Mapping Staff, and the Alaska and Pacific OCS Regions.

### *Southern Administrative Service Center*

Major thrusts of FY 1997 involving the continued implementation of the NPR initiatives, MMS 2000, facility management activities, and support of the TIMS project will continue to significantly impact the Southern Administrative Service Center (SASC) in FY 1998. Major efforts anticipated:

**Facility Management.** Major Gulf of Mexico (GOM) efforts will include facility acquisition, developing space layouts, utilization studies, construction coordination, communication cable plants, and the ultimate relocation of employees/furniture. These efforts will be completed for the New Orleans District, Leasing and Environment, Field Operations, Production and Development, and Southern Administrative Service Center (SASC) Offices. In addition, there will be an effort to renew the leases on office space for the Lake Jackson and Lafayette District Offices and the Lake Charles Sub-district Office. Due to growth in the GOM, this initiative will most likely require utilization studies, space layouts, and ultimately the relocation or expansion space for these offices. Telephone switch upgrades will occur during the space realignments or actual moves for the Lake Jackson, New Orleans District, and Lafayette offices, with the ultimate objective of replacing all the switches and data communications cable plants at outlying district offices.

**Personnel.** The SASC will continue to dedicate considerable staff time working in support of the Gulf of Mexico organizations' staffing, classification, and recruitment actions in FY 1998. New delegations of authority to supervisors are being implemented, and training and consulting services will continue. The NPR initiative to reduce supervisory ratios will require classification reviews, position management activities, and staffing assistance. ProClass, the automated position description software and ARTS, the new training package will be implemented in FY 1998. Reorganization of other offices within the serviced area will also impact the SASC staffing and classification functions.

## Administrative Operations

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**Labor Relations.** Efforts will continue as a part of a consulting role between the Gulf of Mexico management and Union representatives to implement changes required as a result of the NPR initiatives and to expand the partnership role. Contract negotiations resulting in a new agreement or amendments will be at the forefront in FY 1998.

**Property Management.** Procurement of ADP property is anticipated to remain at a high level through FY 1998. This effort is driven by the TIMS Project and increased staffing levels in the Gulf of Mexico organizations.

**Information Resources Management.** New and upgraded versions of administrative applications will impact SASC operations through additional equipment and user support requirements. A major effort of conversion of the IPX protocol to TCP/IP to access the Internet and support on-line administrative systems will increase ADP support functions. The IDEAS enhancements will integrate the property management system and financial system and will be ongoing. ADP software and hardware will need to be upgraded or replaced at a faster rate as new technology and expanding systems are brought on-line.

### *Western Administrative Service Center*

**Personnel (Staffing/Classification and Employee Relations).** The WASC will provide advisory services in all areas of personnel management, continuing to assist management in its efforts to flatten its organizations by eliminating supervisory positions, increasing the supervisory ratio, and building self-directed team environments. The WASC will assist the RMP in restructuring its organization in light of significant operational and systems changes related to compliance reengineering and the Royalty Simplification and Fairness Act of 1996. There will be significant operational changes requiring appropriate staffing, position management and classification actions, and ultimately processing all personnel actions associated with position changes and reorganizations. Implementation of organizational changes will increase the number of third-party cases (grievances, appeals, and EEO complaints), requiring additional personnel advisory services and technical representation by WASC staff. In addition, the WASC will continue to franchise personnel benefits services to the Government Printing Office and to market this and other services to Denver area Federal agencies.

**Space Acquisition and Office Relocations.** The specific space activities include consolidation of all MMS Denver area space requirements to the Denver Federal Center. This is a multi-year project and will involve the extension of some leases until the GSA Master Plan is implemented, and will involve the design and layout of 110,000 square feet of office and special purpose space, contractor-occupied space, and computer center operations. Other activities include acquisition of new office space, design and relocation of offices as streamlining and reorganizations occur; i.e., some audit field offices and RMP Headquarters.

**Contracts Awarded/Administered.** RMP's continuing efforts to improve their operations rely heavily upon acquiring additional contractor support and acquisition of additional information technology resources. The RMP is continuing its migration from a Legacy system to a LAN/WAN based system to facilitate access to databases by a large diversified group of users. Significant procurement resources will be required to support RMP in these areas. This will also increase the administration of the major Accounting Support Services contract for RMP. Support of the 202/205 cooperative agreement program will continue when FY 1998 funds are made available to the States and Tribes. Other activities include procurement support for the continued integration of the Department's automated acquisition system (IDEAS) with an automated property management system (PMIS) and the financial management system (ABACIS).

**Information Technology.** Emphasis will be placed on providing increased support for existing and new administrative systems. Implementation of ARTS, the new training package, is still anticipated. Support of IDEAS is an ongoing process with the integration of PMIS, the new property system, and ABACIS to interface with IDEAS. New e-mail systems and scheduler systems are being evaluated for implementation throughout MMS.



FPPS enhancements are ongoing, with new modules to be piloted and implemented. Conversion of existing applications running IPX protocol over the Internet to TCP/IP protocol is a major effort. Hardware replacement will require a significant amount of resources in the change over to new technology.

**Effect of MMS 2000**

The Administrative Service Centers' structures have not been changed by MMS 2000.

***Justification of Program Changes***

	1998 Budget <u>Request</u>	Program Changes <u>(+/-)</u>
\$(000)	12,118	-571
<i>FTE</i>	204	-5

Administrative Operations has aggressively pursued streamlining operations. For example, continued implementation of automated systems such as IDEAS, FPPS (SF-52's and T&A's), electronic invoicing, and PMIS, combined with the expansion of the credit card program, transitioning to oral presentations in response to requests to proposals, and outsourcing via contractors wherever practical have realized savings in personnel. These changes to the traditional work process and implementation of technical assistance have enabled support to continue to the customer while requiring fewer FTE devoted to administrative support. These FTE reductions will be absorbed by positions which will be vacated due to streamlining and reengineering. The proposed reduction brings funding and FTE requirements more in line with those actually needed for administrative support.

This reduction incorporates salary, benefit, and support (direct and indirect) costs for the FTE being reduced. (-\$400,000; -5 FTE)

The proposed decrease in funding also represents nonrecurring costs. Critical software and hardware was purchased to be compatible with the Local and Wide Area Network infrastructure, including access to applications that run in a client server environment. The purchase of the equipment resulted in gains in productivity, hardware reliability, and access to the Internet and other information platforms that the older equipment was not capable of providing. MMS strategy is to replace equipment every 3 to 5 years based on improved customer service and employee access to critical information in a timely fashion. (-\$532,000)

## General Support Services

### Justification of Program and Performance

Analysis by Subactivity  
*dollars in thousands*

		1997 Funding Level	Uncontrollable and Related Changes	Programmatic Changes	1998 Budget Request	Change from 1997
General Support Services	\$ FTE	14,476 0	+311 0	-1,035 0	13,752 0	-724 0

### Program Description

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, Federal Telecommunications System (FTS) service, and postage, etc. Rent, which is estimated at \$10.6 million in FY 1998 is the payment for all Federal building space rental and associated expenses for the normal 40 hour, 5-day workweek.

The FTS cost of \$0.7 million is based on data developed by the Department. Commercial communication expenses of \$0.5 million include operations and maintenance and local and long distance telephone and telecommunications expenses for headquarters offices located in the Washington, D.C. area.

### Program Objectives

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.

Provide appropriate services to support the operating programs.

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

<i>dollars in thousands</i>			
Line Items	FY 97	FY98	Change
Rent	\$10,915	\$10,321	-\$594
Unemployment Compensation	11	15	+4
Mail Service	413	392	-21
Commercial Communications/Federal Telecommunication System	1198	1,198	-0-
Department of the Interior Working Capital fund, Printing & Miscellaneous Charges	778	760	-18
Reimbursable Services	381	260	-120
Employees' Compensation Fund	737	785	+48
Miscellaneous Cost	43	20	-23
<b>Total</b>	<b>14,476</b>	<b>\$13,752</b>	<b>-724</b>

**Rent (-594):** This net reduction reflects an adjustment to the annual rent payment to GSA that is more than fully offset with the office space reduction initiatives that MMS has achieved during the past fiscal year.

**Unemployment (+4):** The unemployment funding level is determined based on information provided by the Department of Labor and reflects a reimbursement to Labor for benefit payments that have occurred.

**Mail (-21):** General costs of leasing and maintenance of the Pitney Bowes mail processing equipment throughout MMS have increased. In addition, postage costs have increased.

**WCF et al (-18):** Helicopter services will no longer be billed via the working capital fund billing system. An intra-agency agreement will be put in place and the costs will be processed by the Offshore Minerals Management program.

**Reim Services (-120):** Decrease results from the completion of FPPS development costs for MMS.

**Employee's Comp Fund (+48):** The reduction is associated with a one-time medical payment required in FY97.

**Miscellaneous (-23):** A variety of cost reductions in general maintenance contracts and services.



**Oil Spill Research**  
**Justification of Program and Performance**  
 Analysis by Subactivity  
*dollars in thousands*

		1997 Enacted	Uncontrollable and Related Changes	Programmatic Changes	1998 Budget Request	Change from 1997
Oil Spill Research	\$ FTE	6,440 26	0 0	-322 0	6,118 26	-322 0

Budget Resources will be derived from the existing Department of Transportation's Oil Spill Liability Trust Fund (OSLTF). Resources from this trust fund will be used to finance oil spill research, financial responsibility, and the oil spill prevention and response planning activities assigned to the Minerals Management Service (MMS).

The research objectives supported by funds derived from the Trust Fund for Oil Spill Research are to:

- ☛ Provide continued research leadership to promote oil spill response capabilities in the event of an oil spill in the marine environment.
- ☛ Conduct studies that will increase the understanding of the fate of oil spilled and the effects occurring within the marine environment.
- ☛ Comply with Title VII of the Oil Pollution Act (OPA) of 1990 and cooperate with the Interagency Coordinating Committee on Oil Pollution Research, as called for in the OPA.
- ☛ Continue operation and maintenance of Ohmsett - The National Oil Spill Response Test Facility, in Leonardo, New Jersey.

### Oil Spill Research

The MMS is the principal U.S. Government agency sponsoring offshore oil spill response research. The MMS and its predecessor organization, the Conservation Division of the U.S. Geological Survey, have sponsored oil spill research since the late 1970's. For the past 11 years, MMS has maintained a comprehensive international research program to improve oil spill response technologies and procedures and thus enhance capabilities to respond to an open ocean oil spill. Research efforts have focused on improving: capabilities to burn oil in situ; modeling the dispersion pattern of smoke emissions from in situ burns; updating the performance database for new and improved booms and skimmers by reopening Ohmsett - The National Oil Spill Research Test Facility, located in Leonardo, New Jersey; remote sensing and measurement of spilled oil; oil spill chemical treating agents including dispersants; understanding the properties and behavior of spilled oil in the marine environment; and innovative shoreline cleanup strategies.

The MMS Oil Spill Response Research Program operates through contracts to universities, private industry, State governments, Government laboratories, and foreign countries to perform the necessary research. The program is cooperative in nature and provides as much as a 6:1 leverage to the program budget. These cooperative research and technology assessment projects involve MMS as a project initiator, participant, co-funder, and supporter

providing scientific input. The Oil Spill Response Research Program seeks to leverage its funding to the fullest extent possible and to encourage innovation and creativity to accomplish its mission. The cooperative nature of the program ensures both of these objectives.

Through funding provided by MMS, scientists and engineers from the public and private sectors worldwide are working to address outstanding gaps in information and technology concerning the cleanup of oil spills. Credible scientific investigations and technological innovation is considered a key element in improving the future capabilities of minimizing damage from spills. While there clearly exists a need for pure research, it is essential that the focus of much of the future research be targeted to ensure that improvements are made in operational spill response capabilities. Promising results have been obtained in many technology areas such as the burning of spilled oil, mechanical containment and storage devices, airborne remote sensing, and oil spill chemical treating agents such as dispersants. Knowledge, both scientific and operational, gained through funds derived from the OSLTF have significantly improved the ability to reduce the impact and damage caused from oil spills. One example is the use of in situ burning of spilled oil. This was an experimental concept at the time of the VALDEZ oil spill in Prince William Sound, Alaska. It is now an established oil spill response technique, used throughout many areas of the United States, which has the potential to remove up to 98 percent of the spilled oil from the water's surface.

*Current research projects are described below:*

#### **In Situ Burning of Spilled Oil**

The Interagency Coordinating Committee on Oil Pollution Research, created by the Oil Pollution Act of 1990, has designated MMS as the lead agency for research on in situ burning of spilled oil in the marine environment. Results from controlled tests in the United States, Canada, and Europe demonstrate that in situ burning is an effective oil spill response technique with minimal air and water quality impacts. Burning offers a way to remove large quantities of oil from the water's surface very quickly (100 to 1,000 times more rapidly than with conventional equipment), thereby minimizing the long-term effects which can persist for years.

MMS has funded the development of the ALOFT (A Large Outdoor Fire Trajectory) smoke plume dispersion model. The ALOFT model addresses the need to protect human and wildlife health during in situ burning operations by providing time-averaged predictions of downwind concentrations of particulate matter (soot). The Alaska Regional Response Team has used this model to establish operational guidelines for the safe and effective use of in situ burning.

The research results from MMS-funded oil spill research will continue to be disseminated at numerous major conferences, domestically and internationally. MMS will continue to participate in these conferences and conduct regional seminars which are attended by a wide range of participants.

In 1996, MMS completed development of the ALOFT model and downsized it to work on a Windows-based personal computer workstation. In 1997, MMS will expand development of ALOFT to include multiple fires and more complex terrain. ALOFT is designed to aid in the in situ burning planning process.

MMS is working to develop a system and protocol to test a fire-resistant containment boom in waves, while exposing it to full-scale heat loads.

#### **Ohmsett - The National Oil Spill Response Test Facility**

MMS reopened Ohmsett - The National Oil Spill Response Test Facility - in Leonardo, New Jersey, in August 1992, to provide an environmentally safe facility to conduct testing and development of devices and techniques for the control of oil spills. Ohmsett is the only facility in the world where clients can conduct full-scale oil spill equipment tests with a variety of crude oils in waves. Approximately 95 percent of all performance data for oil spill

## Oil Spill Research

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containment booms and skimmers was obtained at Ohmsett. Twenty-four tests have been conducted on oil spill response booms, skimmers, collection systems, temporary storage devices, remote sensing devices, and sorbents.

In 1998, MMS will continue to define the state of the art for various oil spill response equipment and to conduct research to improve innovative oil spill response strategies. In 1997, MMS will increase utilization of Ohmsett to include testing of all types of oil spill response equipment.

### Airborne Remote Sensing

The development of new laser fluorosensor technology for the detection of oil on water, ice, shorelines, and among debris, is a cooperative project with the Canadian Government and private industry. The primary mission of the fluorosensor is to detect and map oil spills, especially on shorelines, and provide oil spill responders, in near real-time, hardcopy maps of oil coverage and related information. The secondary mission of the fluorosensor is to serve as a research tool for environmental and resource applications. Examples are mapping of chronic pollution, spilled pollutants other than oil, and generalized assessment of water quality and productivity.

In 1994, the Laser Environmental Airborne Fluorosensor (LEAF) was successfully flight-tested in several field trials and was able to classify the types of oils detected. The LEAF sensor was then fitted with a dye laser module to produce blue-green light and collected extensive data along the St. Lawrence River to monitor chlorophyll and phytoplankton.

In July 1996 the LEAF system was used during the salvage of the sunken tank barge, Irving Whale, offshore Prince Edward Island, Canada. In January 1997 a joint project between MMS and Environment Canada successfully demonstrated the LEAF's ability to detect and map oil spills over natural oil seeps offshore Coal Oil Point, California.

In 1995, a contract was signed to construct a Scanning Laser Environmental Airborne Fluorosensor (SLEAF). The SLEAF will employ a state-of-the-art laser and have an adjustable scanning capability that will allow selection of the optimum swath to respond to various spill scenarios. The SLEAF will produce a geo-referenced map showing areas of oil contamination, that can be faxed or downlinked to responders on scene. In 1996, major portions of the SLEAF were built and tested in the laboratory. In FY 1997, the SLEAF will undergo acceptance testing, both in the factory and in an airborne environment. MMS and Environment Canada will participate in two operational missions to assess the capabilities of the sensor.

MMS is also co-sponsoring the development of a 24-hour, all weather, airborne sensor called a frequency scanning radiometer. This device, if successful, will allow us to track oil spills and remotely measure the thickness of the slick. Since roughly 80% of the volume of an oil spill is contained in 20% of the slick area, this sensor will allow more rapid and efficient deployment of spill clean-up assets.

MMS continues to publish the results of its spill response research program at major conferences and workshops. In addition, researchers make approximately 50 annual submissions to major public and trade journals.

### Mitigation of Pollution Associated with Pipelines

Pipelines are the source of about 97 percent of oil-spill volume associated with OCS oil and gas operations. The MMS is actively pursuing research to ascertain the integrity of the 20,000 miles of oil and gas pipelines on the OCS. A like number of miles of pipeline exist in state waters and with MMS's additional responsibility for pollution control in state waters, these projects will serve a dual purpose.

The objectives of this program are to improve leak detection capabilities, improve internal and external inspection practices, improve shutdown systems, and develop a better understanding of the environmental forces active on pipelines. In addition to these technology developments, a risk analysis and management database is being devised

to provide valid assessments of the conditions of aging pipeline systems as well as the probabilities and consequences of leaks.

#### **Environmental Fates and Effects Projects**

The MMS has conducted studies of the fates and effects of oil in the marine environment since the 1970's through the Environmental Studies Program. In FY 1996 and FY 1997, MMS continued efforts to develop and test satellite-tracked drifters designed to behave like oil slicks on the ocean surface. These drifters are a valuable tool in both applied and modeling situations. The NOAA Hazardous Materials Group is cooperating in the project by deploying MMS drifters in actual spills. The Risk Assessment Modeling Verification Study is ongoing, and like the previous study, is intended to improve oil spill trajectory analysis and modeling for use in spill contingency planning. MMS, in collaboration with Florida State University, continues to carry out experiments to develop a better understanding of very near surface ocean physics so that oil spill motions may be better quantified and simulated. These efforts will continue in FY 1998.

### **Oil Spill Financial Responsibility**

As discussed under Offshore Operations Program Priorities, the Oil Pollution Act of 1990 brought two oil spill financial responsibility initiatives to MMS. The first, promulgation of regulations to implement the increased level and coverage, has been a considerable effort. However, even if new regulations are not promulgated, the second, administration of the financial responsibility program that began under the U.S. Coast Guard, will continue for all facilities located on the OCS at a level of \$35 million.

Administration of existing oil spill financial responsibility (OSFR) requirements:

- ☛ The OPA replaced Title III of the Outer Continental Shelf Lands Act, as amended, (OCSLA), but provided that existing financial responsibility regulations under OCSLA would continue in effect until new regulations were promulgated under OPA.
- ☛ The OSFR program created under the OCSLA was administered by the U.S. Coast Guard (USCG). Under OPA, the responsibility for offshore facilities was transferred to the Department of the Interior (DOI) pursuant to Executive Order 12777, and delegated to the MMS under DOI Manual (218 DM 2.1).
- ☛ The MMS continues to process new facility applications for facilities that are newly installed, or assigned or otherwise transferred between companies.
- ☛ Existing Certificates of Financial Responsibility (COFR's) are reviewed on an annual basis to ensure that evidence of financial responsibility is maintained by the responsible party. This includes a detailed analysis of company financial statements and/or recertification of insurance documents.
- ☛ Training sessions are being planned to help affected companies and their agents better understand the current COFR application requirements.

Developing regulations to implement the OSFR requirements of the Oil Pollution Act of 1990.

- ☛ The MMS published an Advance Notice of Proposed Rulemaking (ANPR) in the *Federal Register* on August 25, 1993. More than 1,700 written comments were received before the comment period closed.
- ☛ The MMS conducted public meetings around the country to help the public understand the potential implications of the OPA OSFR requirements.



- ☛ The Department of the Interior Solicitor issued a formal opinion on November 29, 1994, which holds that the MMS has little flexibility in interpreting which facilities are covered by the OPA OSFR requirements, how much financial responsibility must be evidenced, and whether exemptions are allowable for minimum risk facilities.

The OCS Policy Committee approved, in November, 1994, the establishment of a subcommittee to assist the Secretary of the Interior and the MMS in resolving issues related to implementing the OPA OSFR requirements.

The subcommittee presented a final report to the OCS Policy Committee in May, 1995. The full committee adopted the report without change, and forwarded the recommendations to the Secretary of the Interior.

The Congress used the Policy Committee's report in the deliberations over changes to the OPA 90 financial responsibility provisions. The amendments that were enacted reflect the recommendations of the report.

The amendments established minimum amounts of oil spill financial responsibility in both OCS and State waters and provided for a maximum amount of \$150 million where justified by the Secretary. The amendments also required the promulgation of regulations within 12 months to implement the provisions for filing claims. The MMS will published a proposed rule in 1997, which will included provisions for filing claims.

As noted earlier, the MMS continues to process new and existing submittals of evidence of oil spill financial responsibility under the existing OCSLA regulations.

### **Oil Spill Prevention and Response Planning**

OPA '90 expanded MMS responsibility and authority for oil spill prevention and response for both platforms and pipelines in Federal and State coastal waters. In order to comply with OPA '90 requirements, MMS has executed Memorandums of Understanding (MOU's) with the States of Texas, Louisiana, California, and Alaska to allow a single response plan to satisfy State and Federal requirements; to ensure compatible regulations; to conduct joint investigations, drills, and inspections; and to assist in training State personnel. MMS has also executed an MOU with the EPA and the Department of Transportation to limit MMS jurisdiction to open waters seaward of the "coast line" as defined in the Submerged Lands Act.

For some time, the MMS has been working with industry, other federal agencies, and States, to develop a response plan rule. During the fourth quarter of FY 1996, the MMS completed the final response plan rule, and it is currently undergoing departmental review.

Previously, industry reported spills of under one barrel to both the MMS and the U.S. Coast Guard (USCG). The MMS has been able to reduce the spill reporting burden on industry, by 95%, by obtaining spill reports from the USCG.

The MMS has been taking measures to ensure accurate and readily-accessible location data for all platforms and pipeline segments. The Gulf of Mexico Region, has taken Global Positioning System (GPS) readings of 100 State facilities (platforms) in State waters and will take GPS positions of additional State platforms in the near future. These readings will show the accurate location of platforms in State waters. All State platform data will be digitized, and the information will be shared with the States. In addition, a database has been completed on all Federal platforms. The USCG has requested, and will be granted, access to this database.

Approximately one-third of the pipeline segment data for State and Federal waters in the Gulf of Mexico has been digitized, and all Pacific Region pipeline and facilities data has been digitized.

***Justification of Program Changes***

	1998 Budget <u>Request</u>	Program Changes <u>(+/-)</u>
\$(000)	6,118	-322
FTE	0	0

**Oil Spill Research (- \$322,000, 0 FTE)**

The budget reduction to the Oil Spill Research Program will be accommodated through a combination of increased program efficiencies and adjustments to the funding schedules of existing research projects and usage of carry over funds.

Offshore Minerals Management will continue to process the oil spill financial responsibility (OSFR) program under OCSLA by transferring administration of the program from the Headquarters group to the Gulf of Mexico Region. Headquarters will transfer 3 FTE to the Region to supplement their current staff who are already doing financial analysis work. The OSFR process will be streamlined by reducing redundant filings in the current process, and by simplifying the current financial tests.

In addition to efficiencies gained in the OSFR program, a decrease in FY 1998 in fates and effects research (Environmental Studies Program) will be possible due to the completion of the Arctic ice-ocean modeling project for the Beaufort Sea by the end of FY 1997.

**Impact of MMS 2000**

Three Headquarters FTE will be transferred to the Gulf of Mexico Region to administer the Financial Responsibility Program.

## Permanent Appropriations

This section addresses permanent appropriations which are administered by the MMS. These appropriations provide for the sharing of mineral leasing receipts collected from the sale, lease, or development of mineral resources located on Federal lands. Revenues for these payments are derived from payor late payment interest, bonuses, rentals, and royalties collected from Federal onshore mineral leases. MMS distributes these funds in accordance with various laws that specify the basis for and timing of payments.

MMS disburses all the monthly mineral leasing payments to States. All States' monthly payments include late disbursement interest. The Bureau of Land Management (BLM) disburses those payments which are made semi-annual or annually. The largest in this category (about \$25 thousand/year) is the payment made by BLM to Alaska for its share of National Petroleum Reserve-Alaska (NPRA) receipts.

Included under this heading are the following permanent appropriations:

Permanent Appropriations <i>dollars in thousands</i>					
Appropriation	States Share	FY 1996 Actual	FY 1997 Estimate	FY 1998 Estimate	Change from 1997 Estimate
Mineral Leasing Associated Payments (MLAP)	50%	452,861	546,276	580,541	34,265
National Forest Fund, Payments to States (Forest Fund)	25%	3,128	3,137	3,287	150
Payments to States from Lands Acquired for Flood Control, Navigation, and Allied Purposes (Flood Control)	75%	850	676	751	75
<b>Total</b>		<b>456,839</b>	<b>550,089</b>	<b>584,579</b>	<b>34,490</b>
Note: For an explanation of how mineral leasing collections are distributed among the various State and Federal accounts, please refer to the following section titled Receipts. This section also includes details on the assumptions used to develop the gross mineral receipt estimates such as additional amounts due to the audit of contract settlements, and production and price forecasts.					

### Distribution Statutes

For MLAP, the Mineral Leasing Act (MLA), 30 U.S.C. 181 *et seq.*, provides that all States be paid 50 percent of the revenues resulting from the leasing of mineral resources on Federal public domain lands within their borders (except Alaska which receives 90 percent).

Forest Fund payments to a State are determined by the total revenues collected from mineral leasing and production within its boundaries except for the Forest Fund payments. Law requires a States' payment be based on national forest acreage and where a national forest is situated in several States, an individual State's payment is proportionate to its area within that particular national forest.

Flood Control payments to States are shared according to the Flood Control Act of 1936 (33 U.S.C. 701 *et seq.*) which provides that 75 percent of revenue collected be shared with the State in which it was collected. These funds are to be expended as the State legislature may prescribe for the benefit of the public schools and roads in the county from which the revenue was collected or for defraying any of the expenses of county government. These types of expenses include public obligations of levee and drainage districts for flood control and drainage improvements.

## Calculation of States' Payments

The total amount for each of the three appropriations is calculated as follows:

- ☞ For each land category - public domain, Forest Fund, Flood Control and National Grasslands administered and distributed by the Forest Service, a three-year average for each source type (oil and gas rents, coal royalties, other minerals royalties, etc.) is developed.
- ☞ Within each land category, each source type's three-year average is applied to the three-year average for all source types to determine the percent that each source type within each land category contributes to total collections.
- ☞ This percent is applied to the gross revenue estimate for each source type to determine, for each land category, its share of the gross revenue estimated for that source. This ensures that the source type revenue estimates are distributed to the correct land category and therefore to the proper accounts.
- ☞ For each land category, the appropriate distribution formula are applied to each source type and summed into the various account totals. For example, Public domain lands: the MLAP Account 5003 (States' share) calculates and sums 50% from all source types; the General Fund Account 1811 (Federal share of rent and bonuses) calculates and sums 10% of all rents and bonuses, and the General Fund Account 2039 (Federal share of royalties) calculates and sums 10% of all royalties.

The estimate of the gross payment to a State for any future fiscal year is based on the percent of mineral receipts disbursed to that State to the total mineral receipts disbursed to all States in the prior year. However, when an unusually large one-time adjustment is made for a State in the prior year, the actual for the year before that is substituted and the total amount adjusted accordingly.

After a gross payment is estimated, the States' net receipts sharing (NRS) deductions are applied to arrive at the final fiscal year estimate. NRS refers to the recovery of approximately 50 percent of the Departments' of the Interior (Bureau of Land Management and MMS) and Agriculture (U.S. Forest Service) mineral leasing administrative program costs before statutory distribution of mineral revenues to States and Treasury. In the past, NRS was enacted through appropriations acts.

The Omnibus Reconciliation Act of 1993 (OBRA) amended the Mineral Leasing Act and other applicable statutes to permanently provide for NRS. The OBRA adjusted the methodology for calculating a State's NRS deduction.

In the past, program costs were allocated to each State based on the monies disbursed to the State during the current fiscal year as compared to total disbursements (this is called the "Revenue-based method").

The OBRA changed the revenue-based approach by 1) recovering the prior year's enacted budget authority in the current year, and 2) prorating costs to States based on the previous year's disbursements. Additionally, OBRA added a ceiling to this calculation which provided that a State's NRS deduction cannot exceed the Secretary of the Interior's estimated cost to administer each State's onshore mineral leases (this is called the "Cost-based method").

In FY 1997, \$43.7 million of program costs are to be recovered through NRS with the Federal share totaling \$21.7 million and the States' shares totaling \$22.1 million. The NRS deductions determined by the revenue-based method were used for all States except New Mexico and Wyoming which were computed under the cost-based method.

**Mineral Revenue Payments to States***dollars in thousands*

<b>Account</b>	<b>FY 1996</b>	<b>FY 1997</b>	<b>FY 1998</b>
<b>State</b>	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>
Alabama	197	237	252
Alaska	4,646	5,594	5,945
Arizona	17	20	22
Arkansas	920	1,108	1,177
California	25,968	31,269	33,229
Colorado	34,438	41,468	44,068
Florida	27	33	35
Idaho	2,144	2,582	2,744
Illinois	79	95	101
Kansas	1,093	1,316	1,399
Kentucky	112	135	143
Louisiana	943	1,135	1,207
Michigan	702	845	898
Minnesota	6	7	8
Mississippi	551	663	705
Missouri	1,205	1,451	1,542
Montana	20,253	24,387	25,916
Nebraska	13	16	17
Nevada	5,748	6,921	7,355
New Mexico	118,270	142,412	151,341
North Carolina	0	0	0
North Dakota	2,369	2,853	3,031
Ohio	165	199	211
Oklahoma	1,716	2,066	2,196
Oregon	63	76	81
Pennsylvania	22	26	28
South Carolina	0	0	0
South Dakota	633	762	810
Texas	647	779	828
Utah	34,071	41,026	43,598
Virginia	90	108	115
Washington	468	564	599
West Virginia	197	237	252
Wyoming	199,065	239,699	254,728
<b>Total</b>	<b>456,838</b>	<b>550,089</b>	<b>584,579</b>



## Receipts

The Minerals Management Service (MMS) is responsible for the collection of all mineral leasing receipts collected from Indian, and Federal onshore and offshore (Outer Continental Shelf) lands. Mineral leasing receipts are derived from rents, bonuses, minimum royalties, royalties, and payor late payment interest. The disposition of these collections between the General Fund of the U.S. Treasury, other Federal funds, and the States and counties is determined by statute which in most part is based on land category (various types of public domain and acquired lands) and source type (oil and gas rents, coal royalties, etc.).

MMS is responsible for the disposition of all OCS collections and about 97 percent of all Federal onshore collections into receipt accounts. The remaining 3 percent of collections are from acquired national grasslands administered by the Department of Agriculture (USDA). As these collections are shared between the General Fund and counties (versus States), the policy has been to transfer them to the USDA for disposition. All monies collected on Indian lands are transferred to the Bureau of Indian Affairs for distribution to Tribal and Indian Allottee accounts.

Legislation also determines how receipts are classified for budgetary purposes. Mineral leasing receipts are classified as offsetting receipts because they arise from business-type transactions with the public versus governmental receipts which arise from the Government's power to tax or fine. Offsetting receipts are further defined as: 1) Proprietary receipts which offset budget authority and outlays (most onshore receipts fall into this category), or 2) Undistributed proprietary receipts which are offsetting against total Federal budget authority and outlays as a bottom-line adjustment (currently, all OCS receipts fall into this category).

This Receipts section includes:

- ☞ An explanation as to the distribution of onshore and offshore royalty revenues into receipt accounts.
- ☞ A discussion of the changes between the FY 1997 and FY 1998 receipt estimates.
- ☞ A summary description of current onshore and offshore royalty and rental rates, and bonus criteria and other lease information.

For FY 1997 - FY 2002, tables of the:

- ☞ estimated receipts by source type and by account,
- ☞ detailed backup information from which the gross estimates are developed (estimated price, production, etc.)
- ☞ transfer payments made to coastal states under section 8(g) of the OCSLA (payments to onshore states are provided in the Permanents section).

### Distribution of Receipt Accounts

The following flowcharts describe the flow of onshore (Diagram 1) and OCS (Diagram 2) mineral leasing collections into receipt accounts. First, as checks or electronic transfer payments are received from payors, they are deposited into a holding or suspense account until the accounting system has identified the payments by the:

- ☞ Source type (oil and gas rents, coal royalties, other minerals bonuses, etc.);
- ☞ Land category (acquired Forest, public domain, OCS, etc.); and

## Receipts

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- ☞ Location (to determine recipient States' or counties' shares if applicable).
- ☞ If reports are filed correctly by payors, this process usually takes about one month.

### **Onshore Accounts**

After the payments are identified by the above three criteria, they are redirected immediately into all accounts based on land category and source type. Detailed State information is necessary to disburse States' shares to States' treasuries. The acquired lands collections shared with counties are electronically transferred to the USDA for disposition into receipt accounts.

The collections from public domain lands leased under Mineral Leasing Act (MLA) authority are shared 50% with the States (Account 5003), 40% with the Reclamation Fund (Account 5000.24) which funds western water projects, and 10% with the General Fund. The General Fund share is deposited into two accounts depending on whether the collections are from rents and bonuses (Account 1811) or from royalties (Account 2039). Because by law, Alaska receives no funds from the Reclamation Fund, Alaska receives a 90% share of mineral leasing receipts.

MMS transfers to the Bureau of Land Management, for distribution, the monies collected from public domain lands not leased under MLA authority, such as the National Petroleum Reserve-Alaska (NPR) lands from which Alaska and the General Fund receive 50 percent shares. Since there is no production from the NPR, all the General Fund share is deposited into Account 1811 (rents and bonuses). MMS transfers Alaska's share (account 5045) to Bureau of Land Management for semi-annual disbursement.

The Energy Policy Act of 1992 requires the Secretary of the Interior to disburse monthly to States all mineral leasing payments authorized by Section 6 of the Mineral Leasing Act for Acquired Lands. Therefore, MMS is now reporting additional accounts: Accounts 5008.1 and 5243.1 are the Federal and States' shares (25 and 75 percent respectively) of receipts collected from National Forest lands, and Account 5248.1 is the States' 75 percent share of receipts collected from Lands Acquired for Flood Control, Navigation and Allied Purposes. The Government's 25 percent share of these collections will be deposited to the General Fund (either Account 1811 or 2039). In the past, MMS transferred these collections to USDA and the Corps of Engineers for annual disbursement to States and Treasury.

As required by the Omnibus Budget Reconciliation Act of 1993, the amount deducted from onshore mineral leasing receipts prior to the division and distribution of such receipts between the States and the Treasury (net receipts sharing) is credited to the miscellaneous receipts of the Treasury. For tracking purposes, this amount is deposited into the General Fund Account 2039. The previous section, *Permanents*, provides details on net receipts sharing.

### ***OCS Accounts***

OCS receipts are deposited into accounts depending on source: rents, bonuses, or royalties. Also, interest earned on collections held in escrow are deposited to a separate account. Amounts held in escrow accounts are not included in receipt totals.

In order to bid on an OCS lease tract offered for sale, a bidder must submit an upfront cash deposit equal to 1/5 of the entire proposed bid. This money is deposited into escrow (account 6705), accruing interest, until MMS has determined the proposed bonus is at least equal to the fair market value of that tract. If rejected, the 1/5 upfront deposit, plus interest, is returned to the bidder. If the bid is accepted, the 1/5 bonus, the remaining 4/5 bonus, and the first year's rent are deposited into the receipt account for OCS rents and bonuses (Account 1820). Accrued interest is deposited into Account 1493. Future OCS rents, due on the anniversary date of lease issuance, are also deposited into Account 1820. OCS royalties, due from payors at the end of the month following the month of production, are deposited into the OCS royalty account (Account 2020).

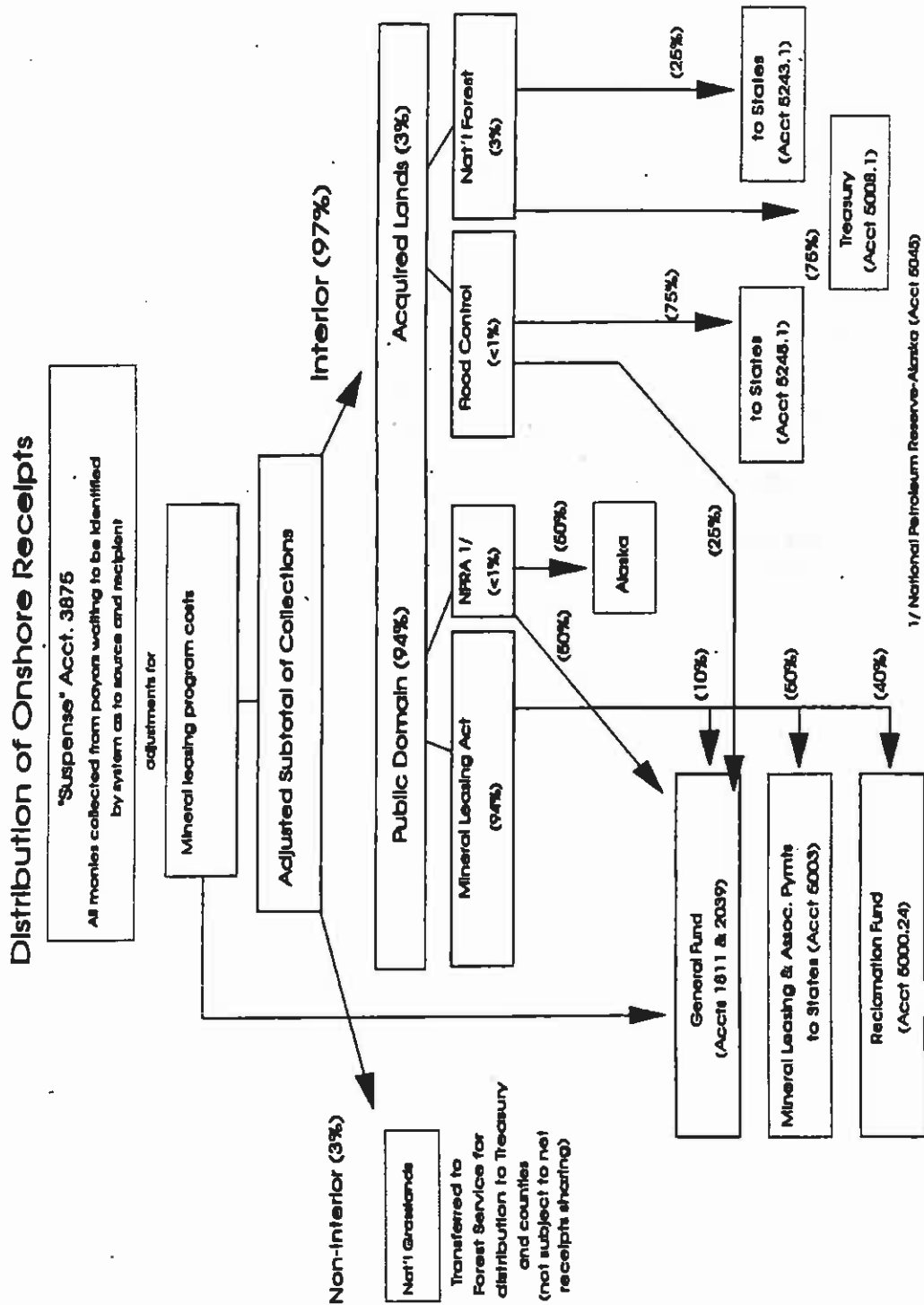


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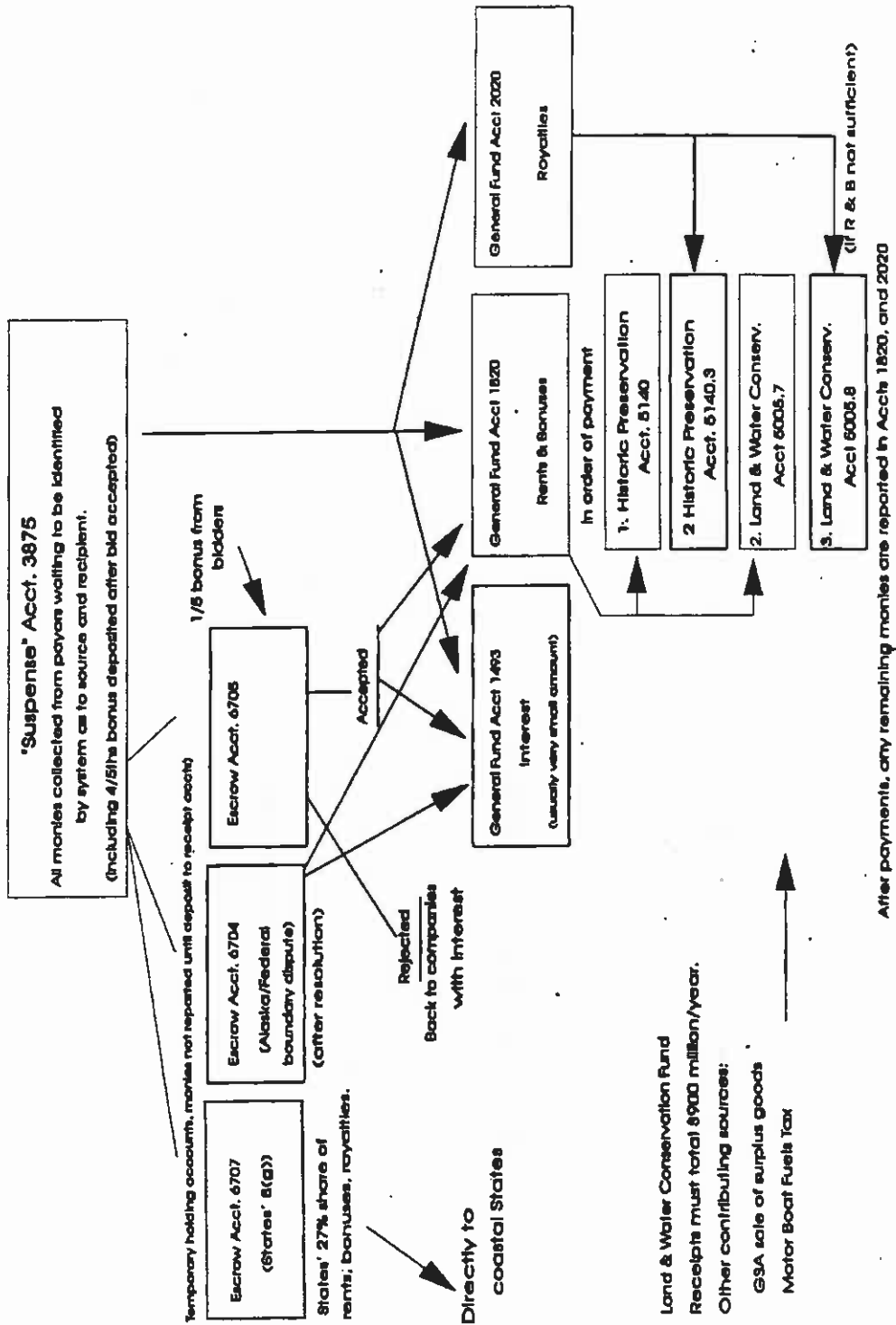
The payments made to coastal states for their 27 percent share of OCS collections within the 8(g) zone, the area approximately 3 miles seaward from the State/Federal boundary, flow through Escrow Account 6707. The last table provides information as to actual and estimated payments for these states.

Deposits are also made into Escrow Account 6704 pending the resolution of a dispute between Alaska and the Federal Government as to the location of the State/Federal boundary in the Beaufort Sea. Sale bonuses collected between 1979 and 1991, as well as rental payments, total over \$434 million. The legal issues have been analyzed by a Special Master appointed by the United States Supreme Court. Based on the current schedule, a Supreme Court decision will mostly likely be reached in the later part of FY 1997. Implementation of the court decision in early FY 1998 is expected to result in an estimated \$1 billion will be deposited into a Treasury interest account (Account 1493) and the \$434 million in principal will be deposited into the Treasury account for rents and bonuses (Account 1820).

Most of the OCS receipts accumulated throughout the year in General Fund accounts is transferred at the end of the fiscal year to the National Park Service administered Historic Preservation Fund (HPF) (Account 5140 and 5140.3) and the Land and Water Conservation Fund (LWCF) (accounts 5000.7 and 5000.8). OCS receipts are the sole funding source of the HPF (\$150 million) and the major funding source (about 85 percent) of the mandated \$900 million required for the LWCF. The other two sources for the LWCF are \$1 million from motor boat fuel taxes and receipts from the sale of surplus government property and materials. Because the HPF was enacted first, the HPF and then the LWCF must be funded from OCS receipts. Accounting procedures require payments be made first from rents and bonuses and then any further needed payments should be made from royalties. The HPF and LWCF are subject to appropriation and the amount of States' grants is determined by various criteria which are not related to the amount of OCS receipts collected offshore their coastlines.



### Distribution of Offshore (OCS) Receipt Accounts



### Onshore Mineral Receipts

FY 1997 Estimates vs. FY 1998 Estimates  
*dollars in thousands*

**DOI Proprietary**

	FY 1997 Estimate	FY 1998 Estimate	Change	Explanation
<b>Rents and Bonuses</b>				
Oil and Gas	62,671	57,734	(4,937)	Continued relinquishment of leases reducing rents. Level bonus activity.
Coal	56,801	35,638	(21,163)	Decreasing bonus revenue. Level rent.
Geothermal	838	838	0	Level interest in leasing and rentals.
Oil Shale	5	5	0	Expect constant rental level.
All Other	32	32	0	Anticipate level interest in leasing and rentals.
<b>Subtotal, R &amp; B</b>	<b>120,348</b>	<b>94,248</b>	<b>(26,100)</b>	
<b>Royalties</b>				
Oil and Gas	665,679	761,217	95,538	Decline in oil production more than offset by increase in gas.
Coal	299,272	302,266	2,994	Increased production.
Geothermal	19,800	16,200	(3,600)	Decline at some facilities and lower prices.
All Other	36,156	36,556	400	Decline in copper and potash offset by increases in phosphate, sodium, and sand/gravel.
<b>Subtotal, Royalties</b>	<b>1,020,907</b>	<b>1,116,239</b>	<b>95,332</b>	
<b>Total</b>	<b>1,141,255</b>	<b>1,210,486</b>	<b>69,232</b>	

### Outer Continental Shelf Mineral Receipts

FY 1997 Estimates vs. FY 1998 Estimates

*dollars in thousands*

**DOI Undistributed Proprietary  
OCS Mineral Receipts**

	FY 1997 Estimate	FY 1998 Estimate	Change	Explanation
<b>Rents and Bonuses</b>				
OCS Rents	68,000	99,000	31,000	Increased acreage and rates from recent sales.
OCS Bonuses	710,000	562,000	(148,000)	Based on better prospects being leased in earlier sales.
<b>Subtotal, R&amp;B</b>	<b>778,000</b>	<b>661,000</b>	<b>(117,000)</b>	
<b>Royalties</b>				
Oil	1,552,600	1,513,800	(38,800)	Increased production offset by lower price and royalty rate.
Gas	1,816,200	1,796,500	(19,700)	Lower production and royalty rate.
Other	5,600	(30,600)	(36,200)	FY 97 contained a \$36m payout from escrow.
<b>Subtotal, Royalties</b>	<b>3,374,400</b>	<b>3,279,700</b>	<b>(94,700)</b>	
<b>Escrow (principle and interest)</b>	<b>0</b>	<b>1,575,874</b>	<b>1,575,874</b>	Alaska dispute expected to be decided by Supreme Court.
<b>Total OCS</b>	<b>4,152,400</b>	<b>5,516,574</b>	<b>1,364,174</b>	

### Mineral Leasing Receipts by Account

dollars in thousands

Account	FY 1997		FY 1998		FY 1999		FY 2000		FY 2001		FY 2002	
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
<b>Onshore Mineral Leasing</b>												
1811 Rents and Bonuses	11,354	8,748	10,095	11,196	12,497	13,597						
2039 Royalties	140,124	149,608	150,057	152,345	154,080	157,724						
XXXX.XX Hardrock	0	0	42,000	63,000	35,000	35,000						
5000.24 Reclamation Fund	430,277	457,689	464,873	478,403	490,532	509,464						
5003.02 Payments to States	546,276	580,541	589,521	606,433	621,595	645,259						
5243.10 Forest Fund, states share	3,137	3,287	3,309	3,330	3,375	3,457						
5008.10 Forest Fund, Govt share	9,411	9,862	9,928	9,990	10,126	10,370						
5248.10 Flood Control (States shares)	676	751	754	769	783	814						
<b>Subtotal, onshore</b>	<b>1,141,254</b>	<b>1,210,486</b>	<b>1,270,538</b>	<b>1,325,466</b>	<b>1,327,989</b>	<b>1,375,685</b>						
<b>Outer Continental Shelf</b>												
2419.1 Royalty-in-kind fees	400	400	400	400	400	400						
2259.0 Sale of publications	100	100	100	100	100	100						
1820 OCS Rents and Bonuses	0	47,874	0	0	0	0						
2020 OCS Royalties	3,105,412	3,179,700	2,888,500	2,737,900	2,903,000	3,207,300						
5005.7 LWCF (OCS R & B)	628,000	897,000	513,000	470,000	448,000	398,000						
5005.8 LWCF (OCS royalties)	268,988	0	384,000	427,000	449,000	499,000						
5140.00 Hist. Pres. (OCS R & B)	150,000	150,000	150,000	150,000	150,000	150,000						
5140.02 Hist. Pres. (OCS Roy)	0	0	0	0	0	0						
5160.03 Everglades Restoration Fund	0	100,000	100,000	100,000	100,000	100,000						
1493.00 OCS Escrow Interest	0	1,142,000	0	0	0	0						
<b>Subtotal, OCS</b>	<b>4,152,400</b>	<b>5,516,574</b>	<b>4,035,500</b>	<b>3,884,900</b>	<b>4,050,000</b>	<b>4,254,300</b>						
<b>TOTAL, Mineral Receipts</b>	<b>5,294,154</b>	<b>6,727,560</b>	<b>5,306,538</b>	<b>5,210,866</b>	<b>5,378,489</b>	<b>5,630,485</b>						

Mineral Leasing Receipts by Commodity Source						
<i>dollars in thousands</i>						
	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
<b>Onshore Mineral Revenues</b>						
<b>Rents and Bonuses</b>						
Geothermal	838	838	838	838	838	838
Oil Shale	5	5	5	5	5	5
All Other	32	32	32	32	32	32
<b>Subtotal, R &amp; B</b>	<b>875</b>	<b>875</b>	<b>875</b>	<b>875</b>	<b>875</b>	<b>875</b>
<b>Royalties</b>						
Oil and Gas	665,679	761,217	763,466	780,188	794,758	828,299
Coal	299,272	302,266	305,260	308,353	311,347	314,541
Geothermal	19,800	16,200	14,700	18,200	17,900	17,600
Oil Shale	0	0	0	0	0	0
All Other	36,156	36,556	36,955	36,356	36,756	37,055
Hardrock	0	0	42,000	63,000	35,000	35,000
<b>Subtotal, Royalties</b>	<b>1,020,907</b>	<b>1,116,239</b>	<b>1,162,381</b>	<b>1,206,097</b>	<b>1,195,761</b>	<b>1,232,495</b>
<b>Subtotal, Onshore</b>	<b>1,021,782</b>	<b>1,117,114</b>	<b>1,163,256</b>	<b>1,206,972</b>	<b>1,196,636</b>	<b>1,233,370</b>
<b>Royalty-in-Kind admin. fees</b>	400	400	400	400	400	400
<b>Sale of Publications</b>	100	100	100	100	100	100
<b>Outer Continental Shelf</b>						
OCS Rents and Bonuses	778,000	661,000	663,000	620,000	598,000	548,000
OCS Royalties	3,374,400	3,279,700	3,372,500	3,264,900	3,452,000	3,706,300
OCS Escrow Payout	0	433,874	0	0	0	0
OCS Escrow Interest	0	1,142,000	0	0	0	0
<b>Subtotal, Offshore</b>	<b>4,152,400</b>	<b>5,516,574</b>	<b>4,035,500</b>	<b>3,884,900</b>	<b>4,050,000</b>	<b>4,254,300</b>
<b>TOTAL, MINERAL RECEIPTS</b>	<b>5,294,155</b>	<b>6,727,560</b>	<b>5,306,539</b>	<b>5,210,866</b>	<b>5,378,490</b>	<b>5,630,485</b>

## Onshore Rents and Bonuses

*dollars in thousands*

	FY 1997 Estimate	FY 1998 Estimate	FY 1999 Estimate	FY 2000 Estimate	FY 2001 Estimate	FY 2002 Estimate
<b>Oil and Gas</b>						
<b>Rents:</b>						
NPRA	0	0	0	0	0	0
Lower 48	29,131	24,079	24,420	24,656	24,842	25,026
ANILCA	0	0	0	0	0	0
<b>Bonuses:</b>						
NPRA	0	0	0	0	0	0
O&G Bonuses-Low 48	35,000	35,000	35,000	35,000	35,000	35,000
ANILCA	0	0	0	0	0	0
<b>Subtotal, O&amp;G</b>	<b>64,131</b>	<b>59,079</b>	<b>59,420</b>	<b>59,656</b>	<b>59,842</b>	<b>60,026</b>
<b>Coal</b>						
Rents	1,000	1,000	1,000	1,000	1,000	1,000
Bonuses	55,900	34,700	48,300	59,300	72,000	82,800
<b>Subtotal, Coal</b>	<b>56,900</b>	<b>35,700</b>	<b>49,300</b>	<b>60,300</b>	<b>73,000</b>	<b>83,800</b>
<b>Geothermal</b>						
Rents & bonuses	838	838	838	838	838	838
<b>Oil Shale</b>						
Rents & bonuses	5	5	5	5	5	5
<b>Other Minerals</b>						
Rents & bonuses	32	32	32	32	32	32
<b>Total, R&amp;B</b>	<b>121,906</b>	<b>95,654</b>	<b>109,595</b>	<b>120,831</b>	<b>133,717</b>	<b>144,701</b>



## Onshore Royalties

*dollars in millions*

	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
<b>Oil</b>							
Oil (mil. bbls.)	119.8	116.3	111.5	108.7	104.4	100.5	97.3
Actual/OMB Price	\$17.12	\$20.31	\$20.29	\$20.82	\$21.36	\$21.91	\$22.48
Royalty Rate	10.56%	10.20%	9.90%	9.60%	9.60%	9.60%	9.60%
Oil Royalty	\$216.6	\$240.9	\$224.0	\$217.3	\$214.1	\$211.4	\$210.0
Oil Min. Royalty	2.8	2.7	2.6	2.5	2.5	2.4	2.3
<b>Subtotal Oil</b>	<b>\$219.4</b>	<b>\$243.6</b>	<b>\$226.6</b>	<b>\$219.8</b>	<b>\$216.6</b>	<b>\$213.8</b>	<b>\$212.3</b>
<b>Gas</b>							
Gas (mil. Mcf)	1,837	1,834	1,870	1,865	1,899	1,916	1,988
Actual/OMB Price	\$1.33	\$1.80	\$2.32	\$2.38	\$2.44	\$2.50	\$2.57
Royalty Rate	11.21%	11.15%	11.10%	11.05%	11.00%	11.00%	11.00%
Gas Royalty	\$273.9	\$368.1	\$481.6	\$490.5	\$509.7	\$526.9	\$562.0
CO2 Royalty	\$9.4	\$9.0	\$9.9	\$9.9	\$9.9	\$9.9	\$9.9
Gas Plant Products	\$21.2	\$17.1	\$17.4	\$17.6	\$18.7	\$19.2	\$19.9
Gas Min. Royalties	\$4.2	\$4.2	\$4.2	\$4.2	\$4.2	\$4.2	\$4.2
<b>Subtotal Gas</b>	<b>\$308.7</b>	<b>\$398.4</b>	<b>\$513.1</b>	<b>\$522.2</b>	<b>\$542.5</b>	<b>\$560.2</b>	<b>\$596.0</b>
<b>Total Oil &amp; Gas</b>	<b>\$528.1</b>	<b>\$642.0</b>	<b>\$739.6</b>	<b>\$741.9</b>	<b>\$759.1</b>	<b>\$774.0</b>	<b>\$808.3</b>
<b>Coal</b>							
Coal (mil. tons)	320.1	323.2	326.3	329.5	332.7	335.9	339.2
Act./Est. Price	\$8.97	\$9.19	\$9.19	\$9.19	\$9.19	\$9.19	\$9.19
Royalty Rate	10.40%	10.40%	10.40%	10.40%	10.40%	10.40%	10.40%
<b>Total Coal</b>	<b>\$298.6</b>	<b>\$308.9</b>	<b>\$311.9</b>	<b>\$314.9</b>	<b>\$318.0</b>	<b>\$321.0</b>	<b>\$324.2</b>
Geothermal	\$22.6	\$19.8	\$16.2	\$14.7	\$18.2	\$17.9	\$17.6
All Other Minerals	\$35.6	\$36.2	\$36.6	\$37.0	\$36.4	\$36.8	\$37.1
Audit/C Settlements	\$2.2	\$3.0	\$3.0	\$3.0	\$3.0	\$3.0	\$3.0
<b>Total</b>	<b>\$887.1</b>	<b>\$1,009.9</b>	<b>\$1,107.3</b>	<b>\$1,111.6</b>	<b>\$1,134.7</b>	<b>\$1,152.7</b>	<b>\$1,190.2</b>

Receipts

OCS Rents and Bonuses						
Bonus Revenue Estimates (\$MM)						
Scheduled Date	Sale Area	High Bids	% in FY	Total \$ (g)	\$ (g) States	Receipt Estimate
late 95	Western Gulf of Mexico	110	100%	6	1	109
mid 96	Central Gulf of Mexico	521	100%	26	7	514
deferred	Cook Inlet					0
late 96	Western Gulf of Mexico	356	0%			0
late 96	Beaufort	14	0%			0
	Bonus Total					622
	Rents					69
	<b>Total - Actual FY 1996 Receipts</b>					<b>691</b>
late 96	Western Gulf of Mexico	356	100%	18	5	351
late 96	Beaufort	14	100%	1	0	14
mid 97	Central Gulf of Mexico	350	100%	18	5	345
deferred	Gulf of Alaska-Yakutat					0
late 97	Western Gulf of Mexico	250	0%			0
	Bonus Total					710
	Rents					68
	<b>Total - FY 1997 Receipt Estimates</b>					<b>778</b>
late 97	Western Gulf of Mexico	250	100%	13	3	247
mid 98	Central Gulf of Mexico	320	100%	16	4	316
late 98	Western Gulf of Mexico	230	0%			0
late 98	Beaufort	20	0%			0
	Bonus Total					562
	Rents					99
	<b>Total - FY 1988 Receipt Estimates</b>					<b>661</b>
late 98	Western Gulf of Mexico	230	100%	12	3	227
late 98	Beaufort	20	100%	1	0	20
mid 99	Central Gulf of Mexico	290	100%	15	4	286
late 99	Cook Inlet	5	100%	0	0	5
late 99	Western Gulf of Mexico	210	0%			0
	Bonus Total					538
	Rents					125
	<b>Total - FY 1999 Receipt Estimates</b>					<b>663</b>
late 99	Western Gulf of Mexico	210	100%	11	3	207
mid 00	Central Gulf of Mexico	270	100%	14	4	266
late 00	Western Gulf of Mexico	190	0%			0
late 00	Beaufort	5	0%			0
	Bonus Total					474
	Rents					146
	<b>Total - FY 2000 Receipt Estimates</b>					<b>620</b>
late 00	Western Gulf of Mexico	190	100%	10	3	187
late 00	Beaufort	5	100%	0	0	5
mid 01	Central Gulf of Mexico	240	100%	12	3	237
late 01	Gulf of Alaska-Yakutat	2	100%	0	0	2
late 01	Eastern Gulf of Mexico	5	100%	0	0	5
late 01	Western Gulf of Mexico	175	0%			0
	Bonus Total					436
	Benefits					162
	<b>Total - FY 2001 Receipt Estimates</b>					<b>598</b>
late 01	Western Gulf of Mexico	175	100%	9	2	173
mid 02	Central Gulf of Mexico	220	100%	11	3	217
mid 02	Chukchi Sea	20				0
late 02	Western Gulf of Mexico	160	0%			0
	Bonus Total					390
	Benefits					158
	<b>Total - FY 2002 Receipt Estimates</b>					<b>548</b>

## Outer Continental Shelf Royalties

dollars in millions

	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
<b>Oil (Million barrels)</b>							
Alaska				2	2	2	2
POCS	71	72	71	69	66	63	60
Total GOM	362	413	450	480	574	610	629
GOM Royalty Production+	362	411	440	460	541	566	573
Total Royalty Production	433	483	511	531	609	631	635
Royalty Rate	15.19%	14.91%	14.60%	14.29%	14.00%	13.79%	13.75%
Est./OMB Price per barrel	\$16.85	\$21.56	\$20.29	\$20.82	\$21.36	\$21.91	\$22.48
Royalty Receipts (\$MM)	\$1,108.9	\$1,552.6	\$1,513.8	\$1,579.8	\$1,821.2	\$1,906.5	\$1,962.8
<b>Gas (Billion cubic feet)</b>							
POCS	45	54	53	52	50	47	45
GOM	4,726	4,999	4,884	4,905	4,675	4,385	4,398
GOM Royalty Production+	4,726	4,994	4,851	4,818	4,511	4,076	3,743
Total Royalty Production	4,771	5,048	4,904	4,870	4,561	4,123	3,788
Royalty Rate	16.40%	15.92%	15.79%	15.73%	15.56%	15.29%	14.91%
Est./OMB Price per mcf	\$2.22	\$2.26	\$2.32	\$2.38	\$2.44	\$2.50	\$2.57
Royalty Receipts (\$MM)	\$1,740.7	\$1,816.2	\$1,796.5	\$1,823.2	\$1,731.8	\$1,576.0	\$1,451.5
<b>Total Oil &amp; Gas Royalty</b>	<b>\$2,849.6</b>	<b>\$3,368.9</b>	<b>\$3,310.2</b>	<b>\$3,403.0</b>	<b>\$3,552.9</b>	<b>\$3,482.5</b>	<b>\$3,414.3</b>
Minimum Royalty	\$54.6	\$35.0	\$35.0	\$35.0	\$35.0	\$35.0	\$35.0
Audit/Settlements	\$19.1	\$53.9	\$53.9	\$53.9	\$53.9	\$53.9	\$53.9
Other/Suspense	\$216.1	\$36.0	\$0.0	\$0.0	\$(257.5)	\$0.0	\$257.5
State's Share 8(g)	\$(89.9)	\$(119.4)	\$(119.4)	\$(119.4)	\$(119.4)	\$(119.4)	\$(54.4)
<b>Total</b>	<b>\$3,049.5</b>	<b>\$3,374.4</b>	<b>\$3,279.7</b>	<b>\$3,372.5</b>	<b>\$3,264.9</b>	<b>\$3,452.0</b>	<b>\$3,706.3</b>

Note: Production is net of that production which is not subject to royalties because of the Deep Water Royalty Relief Act.

<b>Actual and Estimated Payments to Coastal States</b>				
<b>Under Section OCSLA 8(g)</b>				
<b>(actual dollars)</b>				
<b>FY 1996 Actual Payments</b>				
<b>State</b>	<b>Royalties &amp; Rents</b>	<b>Sale Bonuses</b>	<b>Mandated Payment</b>	<b>Total</b>
Alabama	10,199,118	124,382	490,000	10,813,500
Alaska	148,055	0	9,380,000	9,528,055
California	4,735,950	(429)	20,230,000	24,965,521
Florida	10,194	0	0	10,194
Louisiana	12,575,840	4,666,400	5,880,000	23,122,240
Mississippi	405,821	0	140,000	545,821
Texas	9,428,583	2,076,713	9,380,000	20,885,296
<b>Total</b>	<b>37,503,561</b>	<b>6,867,066</b>	<b>45,500,000</b>	<b>89,870,627</b>
<b>FY 1997 Estimated Payments</b>				
Alabama	12,074,439	181,128	700,000	12,955,567
Alaska	175,278	1/	13,400,000	13,575,278
California	5,606,753	no sales	28,900,000	34,506,753
Florida	12,069	no sales	0	12,069
Louisiana	14,888,172	6,795,332	8,400,000	30,083,504
Mississippi	480,440	0	200,000	680,440
Texas	11,162,226	3,024,163	13,400,000	27,586,389
<b>Total</b>	<b>44,399,376</b>	<b>10,000,624</b>	<b>65,000,000</b>	<b>119,400,000</b>
<b>FY 1998 Estimated Payments</b>				
Alabama	12,890,342	126,790	700,000	13,717,132
Alaska	187,122	2/	13,400,000	13,587,122
California	5,985,617	no sales	28,900,000	34,885,617
Florida	12,884	no sales	0	12,884
Louisiana	15,894,206	4,756,733	8,400,000	29,050,939
Mississippi	512,904	0	200,000	712,904
Texas	11,916,488	2,116,914	13,400,000	27,433,402
<b>Total</b>	<b>47,399,563</b>	<b>7,000,437</b>	<b>65,000,000</b>	<b>119,400,000</b>

\*Note 1/ Beaufort Sea sale FY 1996 has no tracks expected to be leased in the 8(g) zone.

2/ No sales in FY 97. Receipts from Beaufort Sea sale in FY 98 to be received in FY 99.

Summary Description Federal Onshore Leases			
Royalty Rate	Rents	Lease Duration	Bonus
Oil & Gas			
<b>Competitive:</b> Leases issued under MLA (Prior to 12/23/87), royalty assessed on amount of production and ranges from 12.5% to 33%.	Under MLA, for leases 1-5 years, rate is \$2/acre/yr. Secretarial Order on 12/92 reduced to \$1/acre/yr through 2/98.	5 years: continued if capable of commercial production. 10 years: for leases after enacted after the Natl. Energy Policy Act of 1992. After commercial production, the lessor pays minimum royalty.	
<b>Competitive:</b> Leases issued under LRA are set at 12.5%.	Under LRA, rent is \$1.50/acre/yr for years 1-5 and \$2.00/acre/yr for 6-10 years.	See above	Under LRA, bonus is not less than \$2.00/acre.
<b>Non-Competitive:</b> Based on 12.5% of production.	Under MLA, rent is \$1/acre/yr for 1-10 years. SOG leases are \$3/acre/yr and KGS \$2/acre/yr but are subject to above rental reduction.	10 years: continued if capable of commercial production (than lessor pays minimum royalty)	All leases are now offered only by competitive means.
<b>NPRA:</b> Set by regulation at 16.66%. However, no production anticipated.	\$3/acre/yr	10 years or less	
Coal			
<b>Post-FCLAA (1976):</b> 12.5% of value. Secretary may set lower rate for underground mines. Currently 8%.	Rental rate is \$3/acre/yr.	Indefinite period with 20-year readjustments.	Bid amount must be equal to or greater than fair market value. At least 1/2 the amount for lease in a year must be offered through deferred bonus bidding.
<b>Pre-FCLAA:</b> \$.15/ton underground and \$.175/ton surface mines.	Rental rate is \$1/acre/yr.	See above	See above
Geothermal			
Generally set for individual leases. By statute it may not be less than 10% nor more than 15% of the value of steam & not less than 5% of the value of demineralized water.	<b>Competitive:</b> \$2/acre/yr or \$5/acre/yr for 1-5 yrs if choose not to file report showing significant expenditures to develop. <b>Non-Competitive:</b> \$1/acre/yr for 1-5 yrs and \$4/acre/yr for subsequent years.	10 years; continued if capable of producing commercial quantities.	<b>Competitive:</b> if within a Known Geothermal Resource Area, lease is by sealed bid. <b>Non-Competitive:</b> if outside KGRA, lease is by over-the-counter basis.

Receipts

Summary Description Federal Onshore Leases			
Royalty Rate	Rents	Lease Duration	Bonus
Other Minerals			
Royalty is paid based on lease terms and varies by commodity.	Based on statute and regulation, rent varies by commodity and ranges \$0.25 - 1/acre/yr.	Varies by commodity. 20 years subject to readjustment every 10-20 years.	Competitive (vs. Non-Competitive) leases are awarded to highest qualified bid exceeding fair market value.

*MLA - Mineral Leasing Act; LRA - Leasing Reform Act; NPRA - National Petroleum Reserve-Alaska; FCLAA - Federal Coal Leasing Amendments of 1976*

Summary Description Federal OCS Leases			
Royalty Rate	Rents	Lease Duration	Bonus
<p>Is set for each sale area in its Final Notice of Sale. It may be:</p> <p>1. Based on water depth Leases issued after 1/93: on a sale by sale basis: 12.5% Gulf water depths &lt; 200m or 16.66% for water depths &gt; 200m. Issued before 1/93: 12.5% for water depths &lt; 400m or 16.66% for water depths &gt; 400m.. The 12.5% is also used for Alaska &amp; certain parts of California.</p> <p>2. Sliding-scale (12.5-6.5%) based on average of all production.</p> <p>3. Step-scale which increases by steps as production increases.</p> <p>4. Flat rate of 33.33% +</p> <p>5. Net profit share which requires royalty only after certain expenditures are recovered.</p>	<p>Pre-1993: \$3/acre/yr with a few \$10/acre/yr for drainage sales. Post-1993: on a sale by sale basis, the Secretary may charge \$5/acre with \$2/acre transferred to OCS or \$7.50/acre with \$4.50/acre transferred to OCS for deepwater tracts. Most post Minimum royalty at above rate after lease deemed capable of commercial production.</p>	<p>5 years (not to exceed 10 yrs). Continued if capable of commercial production.</p>	<p>Based on fair market value. Minimum bid of \$25 to \$150/acre subject to sale by sale review.</p>

For both onshore and OCS leases, once a lease has been drilled and a commercial discovery been made, a minimum royalty is paid until production actually begins. The minimum royalty rate is the same as the rental rate.

## Explanation of Authorizing Statutes

### *Outer Continental Shelf Lands:*

43 U.S.C. 1331, et seq.

The Outer Continental Shelf Lands Act of 1953, as amended, extended the jurisdiction of the United States to the Outer Continental Shelf (OCS) and provided for granting of leases to develop offshore energy and minerals.

43 U.S.C. 4321, 4331-4335, 4341-4347

The National Environmental Policy Act of 1969 required that Federal agencies consider in their decisions the environmental effects of proposed activities and that agencies prepare environmental impact statements for Federal actions having a significant effect on the environment.

16 U.S.C. 1451, et seq.

The Coastal Zone Management Act of 1972, as amended, established goals for ensuring that Federal and industry activity in the coastal zone be consistent with coastal zone plans set by the States.

16 U.S.C. 1531-1543

The Endangered Species Act of 1973 established procedures to ensure interagency cooperation and consultations to protect endangered and threatened species.

42 U.S.C. 7401, et seq.

The Clean Air Act, as amended, was applied to all areas of the OCS except the central and western Gulf of Mexico. OCS activities in those non-excepted areas will require pollutant emission permits administered by the EPA or the States.

16 U.S.C. 470-470w6

The National Historic Preservation Act established procedures to ensure protection of significant archaeological resources.

30 U.S.C. 21(a)

The Mining and Minerals Policy Act of 1970 and the Materials and Minerals

30 U.S.C. 1601

Policy, Research and Development Act of 1970 set forth the continuing policy et seq. of the Federal Government to foster and encourage private enterprise in the orderly and economic development of domestic mineral resources and reserves.

Explanation of Authorizing Statutes

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33 U.S.C. 2701, et seq.

The Oil Pollution Act of 1990 established a fund for compensation of damages resulting from oil pollution and provided for interagency coordination and for the performance of oil spill prevention and response research. It also expanded coverage of Federal requirements for oil spill response planning to include State waters and the transportation of oil. The Act also addressed other related regulatory issues.

43 U.S.C. 1301

The Marine Protection, Research, and Sanctuaries Act of 1972 provided that the Secretary of Commerce must consult with the Secretary of Interior prior to designating marine sanctuaries. MMS provides information and comments regarding the mineral resource potential in areas being considered for designation as marine sanctuaries.

16 U.S.C. 1361-1362, 1371-1384,  
1401-1407

The Marine Mammal Protection Act of 1972 provided for the protection and welfare of marine mammals.

P.L. 104-58

Deepwater Royalty Relief Act provides royalty rate relief for offshore drilling in deepwaters of the GOM.

***Royalty Management Program:***

25 U.S.C. 397, et seq.

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.

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.

The Indian Mineral Leasing Act of 1938 authorizes oil and gas leases on Indian Tribal lands and provides uniformity with respect to leasing of Tribal lands for mining purposes.

30 U.S.C. 181, et seq.

The Mineral Leasing Act of 1920 (MLA) provides for classification and leasing of coal, oil, oil shale, natural gas, phosphate, potassium, sulphur, and sodium and the payment of bonuses, rents, and royalties on such leases.



- 43 U.S.C. 1331, et seq. The Outer Continental Shelf Lands Act of 1953 provides for granting of leases to develop offshore energy and minerals; provides for bonuses, rents, and royalties to be paid in connection with such leases; and calls for sharing certain revenues with coastal states.
- 30 U.S.C. 1001, et seq. 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. 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. 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. The Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA) 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.
- 106 Stat. 1374 The FY 1993 Department of Interior and Related Agencies Appropriations Bill requires the deduction of \$68.2 million from mineral receipts before their distribution to States and Treasury to recover a portion of the government's mineral leasing program costs.
- 110 Stat. 1700 The Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (P.L. 104-185) changes the royalty collection program by establishing a seven-year statute of limitations, limits of appeals, requires the government to pay interest on royalty overpayments, changes in definitions, and allows for delegation of certain functions.

***General Administration***

- 31 U.S.C. 65 Budget and Accounting Procedures Act of 1950

Explanation of Authorizing Statutes

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31 U.S.C. 3901-3906	Prompt Payment Act of 1982
31 U.S.C. 3512©	Federal Managers' Financial Integrity Act of 1982
5 U.S.C. 552	<u>Freedom of Information Act of 1966, as amended</u>
31 U.S.C 7501-7507	Single Audit Act of 1984
41 U.S.C. 35-45	Walsh Healy Public Contracts Act of 1936
41 U.S.C. 351-357	<u>Service Contract Act of 1965</u>
41 U.S.C. 601-613	Contract Disputes Act of 1978
44 U.S.C. 35	<u>Paperwork Reduction Act of 1980</u>
44 U.S.C. 2101	<u>Federal Records Act of 1950</u>
40 U.S.C. 486©	<u>Federal Acquisition Regulation of 1984</u>
31 U.S.C. 3501	<u>Privacy Act of 1974</u>
31 U.S.C. 3501	Accounting and Collection
31 U.S.C. 3711,3716-19	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)	Anti-Deficiency Act of 1905, as amended
41 U.S.C. 252	Competition in Contracting Act of 1984

18 U.S.C. 1001	<u>False Claims Act of 1982</u>
18 U.S.C. 287	False Statements Act of 1962
41 U.S.C. 501-509	Federal Grant and Cooperative Agreement Act of 1977
41 U.S.C. 253	<u>Federal Property and Administrative Services Act of 1949</u>
41 U.S.C. 401	Office of Federal Procurement Policy Act of 1974, as amended
15 U.S.C. 631	Small Business Act of 1953, as amended
15 U.S.C. 637	Small Business Act Amendments of 1978
10 U.S.C. 137	Small Business and Federal Competition Enhancement Act of 1984
15 U.S.C. 638	Small Business Innovation Research Program of 1983
10 U.S.C. 2306(f)	<u>Truth in Negotiations Act of 1962 Authorization</u>
Secretarial Order No. 3071	The order established the Minerals Management Service in January 1982, under authority provided by Section 2 of Reorganization Plan No. 3 of 1950 (64 Stat. 1262).

***Oil Spill Research:***

33 U.S.C. 2701, <u>et seq.</u>	Title VII of the Oil Pollution Act of 1990 authorizes the use of The Oil Spill Liability Trust Fund, established by section 9509 of the Internal Revenue Code of 1986, for oil spill research.
33 U.S.C. 2701, <u>et seq.</u>	Title I, section 1016, of the Oil Pollution Act of 1990 requires a certification process which ensures that each responsible company, with respect to an offshore facility, has established, and maintains, evidence of financial responsibility in the amount of at least \$150,000,000 to meet potential pollution liability.

Explanation of Authorizing Statutes

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43 U.S.C. 1331, et seq. Section 21 (b) of the Outer Continental Lands Act, as amended, requires the use of the best available and safest technologies (BAST) and assurance that the use of up-to-date technology is incorporated into the regulatory process.

Executive Order 12777 E.O. 12777, signed October 18, 1991, assigned the responsibility to ensure oil spill financial responsibility for OCS facilities to the Secretary of the Interior (Minerals Management Service).

***Mineral Leasing and Associated Payments:***

P.L. 106-33

The Omnibus Budget Reconciliation Act of 1993 requires the recovery of one-half of the Federal Government's mineral leasing program costs, before distribution of receipts to States and the Treasury.

30 U.S.C. 181, et seq.

The Mineral Leasing Act, as amended by the Federal Oil and Gas Royalty Management Act of 1982 (see 30 U.S.C. 191, as amended) provides for the sharing of receipts with States on a monthly basis from various mineral leasing activities under that statute on Federal lands within their boundaries.

30 U.S.C. 351 et seq.

The Mineral Leasing Act for Acquired Lands as amended, provides for leasing coal, oil, oil shale, natural gas, phosphate, and sodium on acquired lands and the sharing of receipts in the same manner as other receipts from the leased lands; receipts from such leasing on military acquired lands are shared with the State.

30 U.S.C. 1001, et seq. 1721(d),  
30 U.S.C. 191,

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

30 U.S.C. 1714, 1721(b),  
30 U.S.C. 191, as amended

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

30 U.S.C. 104(a), 30  
U.S.C. 191, as amended

The Federal Oil and Gas Royalty Management of 1982 authorizes the sharing of oil and gas royalties with States and all other charges collected from oil and gas leases located on public domain lands.

30 U.S.C. 191a

This law authorizes the sharing of all late payment interest collected on all Federal Government lands and from all minerals categories. This law applies to all interest paid to the Federal Government on or after

July 1, 1988. Any interest the Federal Government has improperly shared prior to July 1, 1988, shall not be recouped from any recipient.



## **Performance Budgeting Government Performance and Results Act MMS Performance Measures**

### **Performance Measurement Team (PMT).**

During FY 1996, a project action team was formed to advance the state of performance measurement in the MMS. The PMT's objectives are to:

- ☛ Develop outcome performance measures for the MMS overall.
- ☛ Develop outcome and output measures relating to RMP and OMM.
- ☛ Establish a framework that integrates performance measures with the MMS Strategic Plan and the requirements of the Government Performance and Results Act (GPRA).

Similar teams were also established within RMP and OMMP to develop measures specific to their programs. Numerous outcome and output measures have been identified by these teams and are currently being tested. Where appropriate, these measures are included in this report.

## **The Royalty Management Program**

The MMS Royalty Management Program (RMP) employs 636 Federal staff and 250 contract support personnel. In FY 1996, its operating budget was \$68.9 million with operations in Lakewood, Colorado, and with compliance offices at various major centers of the oil and gas industry.

### ***GOAL***

The MMS's draft goal for our mineral revenue collection function is to provide timely, accurate, and cost-effective revenue collection and disbursement services to our customers. To accomplish this goal, we pursue the following strategies:

- ☛ Assist and encourage royalty payors to submit royalty reports and payments correctly the first time,
- ☛ Streamline and simplify royalty collection and disbursement processes whenever possible,
- ☛ Use modern information management tools to improve the royalty collection and disbursement processes,
- ☛ Involve stakeholders in decision making and make decisions by consensus whenever possible.

In addition to our goal for correct first time reports and payments, we focus on preventing future noncompliance. In each activity, we seek and implement improvements to increase the percentage of mineral revenue from Federal and Indian leases that is paid voluntarily.

The RMP is committed to identifying and resolving problems, and implementing policies or policy changes more efficiently, reaching consensus on solutions more quickly, and managing approval processes more efficiently. The RMP listens to customers, involves them in decision making, and adjusts processes to improve customer service and satisfaction.

### Assisting Royalty Payors to Report and Pay Correctly the First Time.

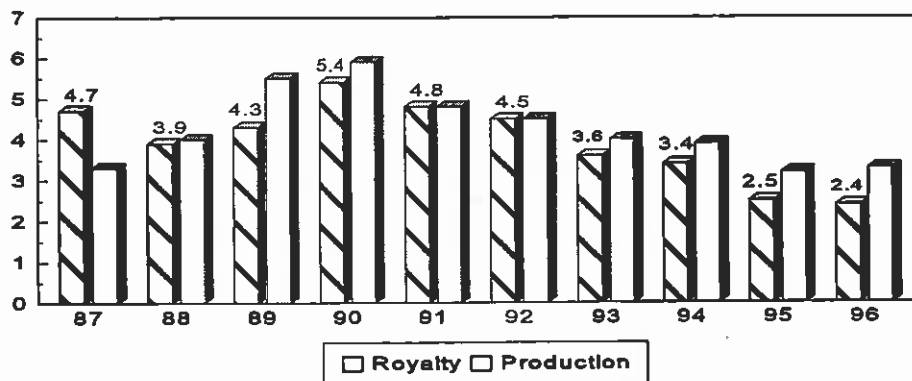
As part of the MMS's efforts to improve reporting, we provide onsite reporter training to oil, gas, and solid mineral companies in cities where their offices are located. To concentrate on reporter assistance rather than assessments, we stopped issuing bills to companies for filing royalty and production reports late or erroneously, unless the overall error rate exceeded 3 percent. The 1996 royalty and production error rates were 2.4 percent and 2.99 percent, respectively. Accordingly, we did not issue any late/erroneous assessments during 1996.

The Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (RSFA), enacted in August 1996, extended the assessment moratorium through March 1, 1998. The MMS benefits primarily through reduced error correction and assessment workloads and a reduction of approximately 35 percent of the appeals workload. The approach to stop the billing and concentrate on assisting reporters to report correctly is working to everyone's benefit.

### Royalty and production reporting accuracy.

We review royalty and production report lines with a series of critical system edits. These edits ensure reported information is consistent with key lease data to permit correct disbursement of revenue. Lines rejected by critical system edits must be corrected manually before disbursement functions can resume. For example, if the reported lease number is invalid, our system rejects the line. Correct disbursement of lease revenue is impossible without a valid lease number. Lower error rates indicate reporters are better at meeting data requirements. In 1996, reporters correctly submitted 98 percent of royalty lines and 97 percent of all production lines, respectively. The chart shows the error rates for the last 10 years.

## Error Rates



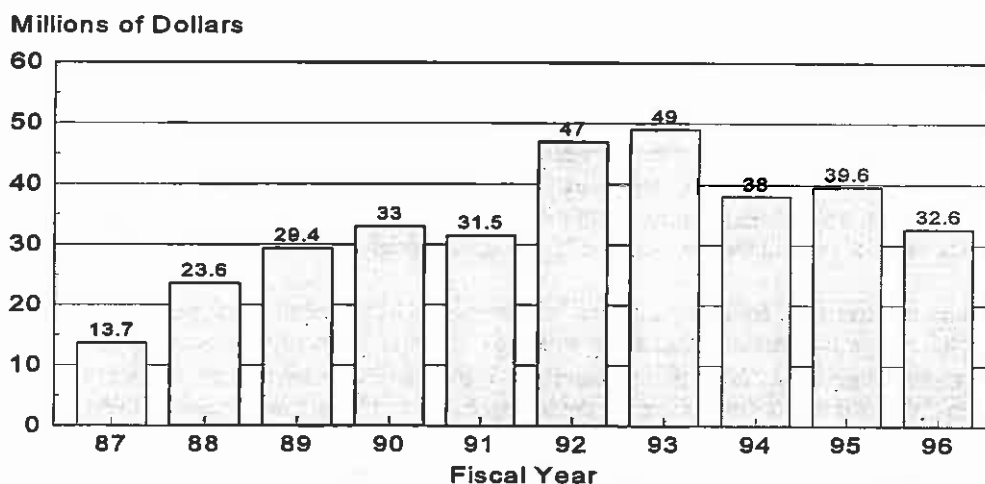


### Compliance Verification and Audit.

An effective compliance program provides incentives for payors to "do it right the first time." Our compliance verification and audit programs meet this need by providing reporting reviews and collections of underpayments we detect. As payors improve their first time payment and reporting, collections for these followup activities will decline.

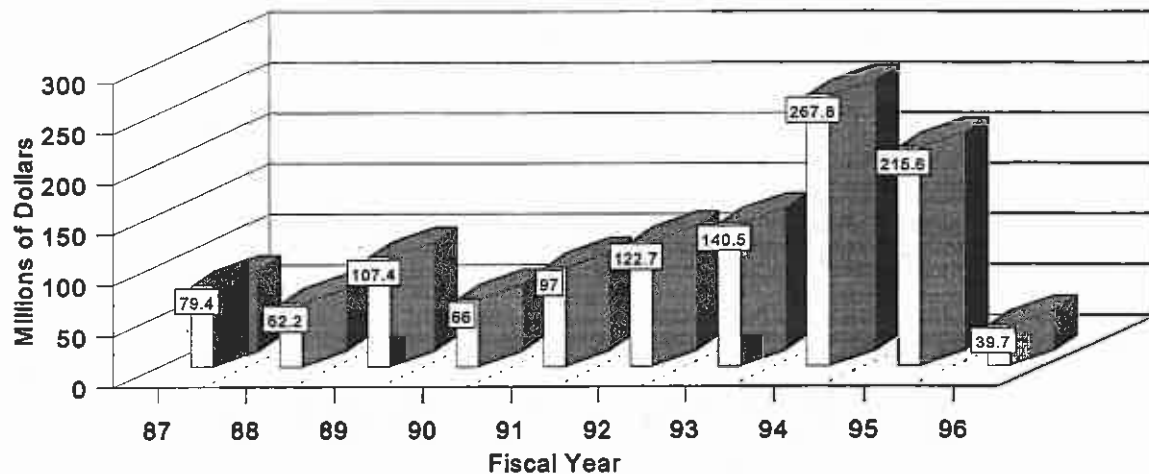
The object of compliance verification is to identify potential royalty underpayments by analyzing computer-generated exceptions and billing royalty payors for underpayments. During FY 1996, the MMS collected \$18.4 million from researching 20,000 variances between production and sales volumes. We collected an additional \$14.2 million through other audit activities for a total of \$32.6 million from compliance verification. The following chart shows compliance verification collections for the past 10 years:

## Compliance Verification Collections



Our auditors also conduct onsite studies of payors' accounting records for underpayment discovery. During FY 1996, RMP auditors collected \$29.2 million in additional revenues and denied refund requests of \$1 million. The 7 Indian Tribes and 10 States, using funded audit authority, collected an additional \$9.5 million in revenues. The funds recovered go to State, Indian, and Treasury accounts. Audit collections and refund denials for the last 10 years are shown in the following chart:

## Audit Collections & Refund Denials



The decline in FY 1996 audit collections and refund denials is caused by the conjunction of several factors including:

- FY 1996 was the first year of a three year audit of the eleven largest companies that together account for approximately 50% of total royalty revenues. Very few bills, if any, are issued during the early years of an audit. Therefore, collections resulting from audits are generally greater in the latter half of an audit cycle, or even in years following the conclusion of audits as issues appealed by the companies are resolved.
- A management decision, following a review of potential underpayments of royalties in California, to expand the review nationwide. This along with the California audits resulted in a substantial redirection of resources that impacted all other billing activities. It should be noted, however, that through December 1996 the California effort has resulted in the issuance of bills totaling more than \$385 million.

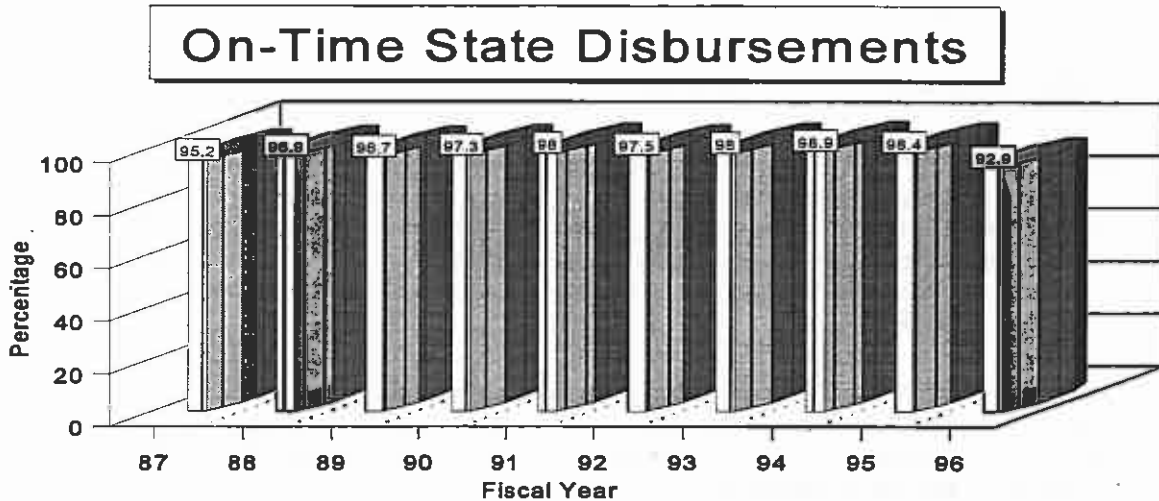
### Streamlining and Simplifying the Collection and Disbursement Processes

#### *Royalty Policy Committee.*

The Department formed the Royalty Policy Committee in 1995 as part of the Minerals Management Advisory Board. Its purpose is to provide advice on the Department's management of Federal and Indian mineral leases, to serve as a sounding board for new procedures and policies, and involve stakeholders in the decision making processes. During FY 1996, the Royalty and Production Reporting and Audit subcommittees submitted final reports recommending streamlined royalty and production reporting, and improved planning, scheduling and communication for audit activities. The Committee believes that implementation of these recommendations will bring about significant administrative savings by both Government and the reporting and paying industry. The MMS is considering these recommendations in our study of changes necessary to comply with RSFA.

***On Time Disbursements to States.***

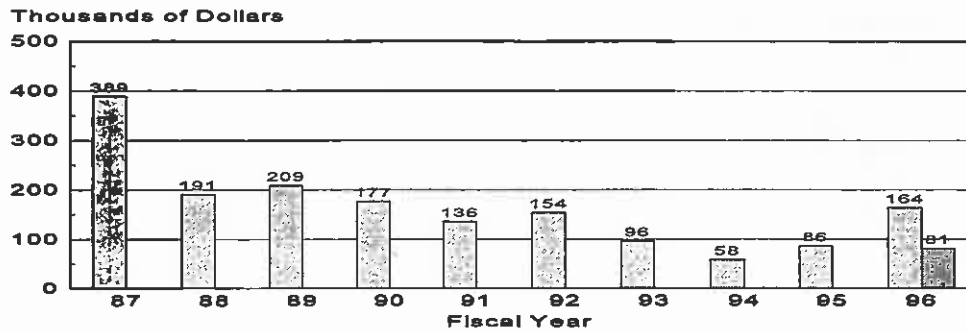
During FY 1995, 98.4% of disbursements to States were on time. In 1996, the rate dropped to 92.9%, primarily due to the Federal Government shutdown from December 18, 1995, through January 7, 1996. During this period, payments due on the last business day of December were disbursed 10 days late. The rate of on-time payments for the last 10 years is shown on the following chart:



***Interest Paid to States for Late Disbursements.***

Less interest paid to States for late disbursements indicates more timely disbursements. For 1995, RMP paid \$86,000 interest to States, and for 1996, \$164,000. Without the Federal Government shutdown, these payments would have been \$81,000. Payments for late disbursements during the last 10 years are shown in the following chart:

**Interest Paid to States for Late Disbursements**



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## Using Modern Information Management Tools

### *Electronic Commerce Technology Development and Implementation*

The MMS offers various electronic reporting alternatives, including electronic data interchange, magnetic tape, diskettes, and electronic mail. Electronic reporting decreases reporting error rates, minimizes delays and eliminates manual reentry, thus increasing our ability to timely disburse revenues to recipients.

### *System Enhanced with More Capabilities.*

**Expand and Upgrade Network.** We have underway a 2-year project to expand our dedicated wide-area network to States and Indian tribes with audit authority. We provide equipment, installation support, and extensive training on RMP systems and applications. Currently, most customers can access MMS E-mail, bulletin boards, and certain computer applications. In addition to electronic communication, our customers can print system reports. This provides State and Tribal auditors with faster retrieval of royalty revenue data and more complete information exchange with the rest of the RMP staff.

**RMP Query System.** We installed a client/server application system that greatly enhances access to and interaction with RMP data. The query system features a set of standard queries and predefined reports. The RMP staff, State, and Indian customers can access up to 6 years of mineral revenue data and all lease information residing on RMP data bases. Customers can graphically display royalty, production, or exception trends. Customers develop their own custom queries and transfer data to spreadsheets or data bases for further analysis.

**Computer Output Laser Disk (COLD).** The COLD and its companion Imaging and Workflow Technologies were introduced into the RMP work environment in FY 1995. The COLD system provides storage for over 300 reports generated by RMP systems. Users can view and retrieve information on selected reports from their workstations. The data can be printed, routed, or stored. The RMP is also piloting a document imaging and workflow capability which will mirror established business processes and automate the flow of companion documents between individuals and work units. These technologies have great potential to improve information access, reduce paperwork, and enhance individual productivity.

## Involving Stakeholders

### *Participatory Rulemaking.*

**Federal Gas Valuation.** In November 1995, the MMS proposed new valuation regulations for natural gas produced from Federal lands. These regulations were based on the recommendations of the Federal Gas Valuation Negotiated Rulemaking Committee. This Committee included representatives from industry, trade associations, States, and the MMS. The purpose of this effort was to simplify valuation and reduce the associated administrative burden on industry and the MMS. When comments on the proposed rule indicated that the consensus believed to have been reached by the Committee was opposed by several of the parties involved, the MMS reconvened the Committee for further consideration, and reopened the comment period to consider other options. A new rule proposal should be published during 1997.

**Indian Gas Valuation.** The MMS established the Indian Gas Valuation Negotiated Rulemaking Committee with representatives from industry, trade associations, Indian Tribes, and the MMS. The committee is working to develop a rule that will satisfy the unique requirements of Indian oil and gas lease terms in a manner that fosters timely compliance, fairness, financial certainty, and administrative ease of reporting. The rule is anticipated to rely on publicly available market indices and will retain flexibility for Tribes and individual companies to negotiate other valuation schemes.

**Allowances.** On February 12, 1996, the MMS published a final rule that eliminates most allowance forms filing requirements for oil, natural gas, and coal produced from Federal leases. This rule amended oil and gas and coal valuation regulations to streamline allowance forms-filing requirements and change associated penalty structures. This change eliminates a substantial reporting burden on industry.

**Crude Oil Rules.** On December 20, 1995, the MMS published an advance notice of proposed rulemaking for Federal and Indian oil valuation regulations. We received 25 comments representing various interests including producers, refiners, States, the State and Tribal Royalty Audit Committee (STRAC), the Navajo Nation, and industry trade groups. Some companies declined to participate, because they are engaged in litigation challenging oil posted price bulletins.

Based on comments received, the RMP assembled a group with representation from the MMS, STRAC, and the Navajo Nation, to draft revised oil valuation regulations in July 1996. The group contracted with energy consultants to advise us on possible options we might consider for oil valuation. Several companies gave the group presentations on oil marketing, in addition to Platt's Oilgram, Bloomberg, and NYMEX. MMS published a proposed rule on Federal lands in January 1997. An Indian rule will follow at a later date.

### ***Alternative Dispute Resolution.***

We use Alternative Dispute Resolution (ADR) to more efficiently resolve differences on royalty issues with royalty payors. It includes both face-to-face settlement and third-party mediation. Resolution of these disputes through ADR resolves the amount of money owed for past production and clarifies the proper payment or valuation method for particular companies. This decreases both government and industry expenses on accounting, auditing, litigation, and also may avoid disputes in the future. In addition, we work out payment plans and other strategies for smaller companies to pay larger accrued debts. In the past 3 years, we have instituted an aggressive ADR program to resolve many old disputes. This workload should continue to increase through 1998.

### ***Royalty Gas Marketing Pilot.***

The MMS conducted a Royalty Gas Marketing Pilot from January 1, 1995, through December 31, 1995. The pilot was an innovative attempt to test a new method of streamlining natural gas royalty collection in response to recent changes in the natural gas market. During the pilot, the MMS took "in-kind" approximately 6 percent of the Federal Government's royalty share of gas produced from leases in the Gulf of Mexico and sold it to competitively selected natural gas purchasers. The pilot was an operational success, due in large part to the fact that the MMS designed the project in collaboration with industry. But we did not achieve our goal of revenue neutrality, as detailed in the pilot team's September 1996 report to the Director of MMS. We are studying the report and other relevant factors to decide whether to pursue future gas royalty-in-kind efforts including both oil and gas.

### ***Compliance Index.***

The RMP is testing an overall royalty management outcome measure—called a compliance index—as a part of its performance measurement efforts. The index is summarized by the following formula:

$$\frac{\text{actual voluntary royalty payments}}{\text{expected royalty payments}}$$

The index will evaluate RMP progress in helping industry report and pay correctly.

We are hopeful that the compliance index, through ongoing refinement, can give important information over time on whether RMP is successfully collecting all revenue due. The RMP compliance index target is 1.00. The index was 0.951 for 1992, 0.948 for 1993, 0.950 for 1994, and 0.970 for 1995, computed on a calendar year basis. The RMP will continue to analyze, refine, and validate this measurement tool.

## **The Offshore Minerals Management Program**

The MMS Offshore Minerals Management Program (OMMP) employs 864 staff. Its headquarters is in Washington, D.C., with major field offices in Anchorage, Alaska; Camarillo, California; and New Orleans, Louisiana. Its FY 1996 operating budget was \$104.5 million.

### ***GOAL***

The MMS's draft goal for our Offshore minerals management function is to maximize development on the outer continental shelf while ensuring fair market value and safe, environmentally sound offshore operations. To achieve this goal, we have developed the following strategies:

- ☛ Improve the decision making process through increased internal coordination and involvement of relevant staff,
- ☛ Ensure that customers have the opportunity to provide input into the decision making process,
- ☛ Recognize and respond to the public's concerns,
- ☛ Use modern information tools to ensure timely dissemination of accurate information,
- ☛ Streamline operations and simplify processes,
- ☛ Maintain a high level of scientific expertise and base decisions on high quality scientific information,
- ☛ Issue regulations that focus on results, rather than processes,
- ☛ Provide a consistently high level of customer service.

### **On Going Program Activities**

In FY 1996, three lease sales were conducted, with bids received totaling about \$888 million on 1,570 tracts. These sales bring the total lease sales held by the Department of the Interior to 120 and the total number of leases issued to 5,900, encompassing 25 million acres, an area the size of Texas and California combined. Over \$113 billion in bonus, rent, and royalty revenue to the Federal Government has been collected from offshore leases. In FY 1996, offshore leases supplied 5,004 trillion cubic feet of natural gas and more than 425 million barrels of crude oil.

## Performance Budgeting

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In keeping the Offshore Program in balance with both energy needs and environmental concerns, the MMS conducted about 1,500 environmental reviews and 250 environmental assessments. These reviews and assessments are used to determine the environmental impact of proposed industry actions. To ensure that OCS operations are conducted in a safe and environmentally sound manner, the MMS's regulation of operations program conducted about 11,500 inspections of offshore platforms. These efforts once again have led to no fatalities from well control incidents during the year.

More than 90 oil spill plans were approved by the MMS during FY 1996. Plans are reviewed to assess the adequacy of preparedness for such accidents. Less than 1,900 oil spills actually occurred in FY 96 and none of those were spills greater than 435 barrels. A total of less than 2,700 barrels spilled was reported for the year. On average, this is only slightly more than 1.4 barrels per spill.

## *Performance Measurement*

During FY 1996, a project action team was formed within OMMP to develop performance measures relating to OMMP. This team is part of the overall MMS effort to develop outcome and output measures in accordance with the GPRA. The team has identified eight potential outcome measures that encompass all aspects of the offshore minerals management goal. The team is currently testing the measures to determine if the required data can be obtained, and if they are otherwise viable. Currently, data are only available for two measures that address the MMS's efforts to maximize mineral development:

### FY 1996 OCS Production \*

Oil	433 (million barrels)
Natural Gas	4,771 (trillion cubic feet)
Sulfur	2.0 (long tons)
Sand and Gravel	0.8 (million cubic yards)

\* Production for July - September 1996 is estimated.

Number of Leases Drilled 286

## *Accomplishments*

During FY 1996, we had many accomplishments in our efforts to effectively manage the mineral resources on the outer continental shelf. Following are significant accomplishments, organized by our strategies for meeting our comprehensive goal for the offshore minerals management function.

**Improve the decision making process through increased internal coordination and involvement of relevant staff.**

The concept of multi-disciplined teams to improve decision making is used frequently within the OMMP. For example, the Gulf of Mexico used teams in the determination of bid adequacy for phase 1 and phase 2 lease award procedures. The efforts of these teams resulted in the creation of a smoother, more efficient flow of data and information needed to decide on whether to accept or reject lease sale bids. In another coordinated effort, members

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of the Gulf of Mexico's Regional Field Names Committee, the Reserves Section staff, and other Regional supervisors combined their efforts to develop a *Field Naming Guidebook* that supports implementation of the Deep Water Royalty Relief Act of 1996 within the Gulf Region.

**Ensure that customers have the opportunity to provide input into the decision making process.**

The MMS published the Proposed Oil and Gas Leasing Program for 1997-2002 and draft Environmental Impact Statement (EIS) in February 1996. Over 150 comments on the proposed program and 170 comments on the draft EIS were received and considered in the preparation of the Final Program document that was issued in 1996. Comments were received from States, Federal agencies, industry, environmental groups, and the general public resulting in changes to the Proposed Program.

The MMS worked with several industry associations including the American Petroleum Institute, the Offshore Operators' Committee, the Independent Petroleum Association of America, and the National Oceans Industries Association to poll all OCS operating companies on how well they were developing and implementing the MMS Safety and Environmental Management Program (SEMP). This poll showed significant progress from similar activity in the previous year.

Four public meetings were held this past summer to provide more accurate and detailed information concerning the Federal OCS sand and gravel lease sale off New Jersey. The meetings included a public meeting of the New Jersey Beach Erosion Commission; a Congressional field hearing by Congressman James Saxton, Chair of the House Subcommittee on Fisheries, Wildlife, and Oceans; an environmental forum by Congressman Frank Pallone; and a meeting requested by Congressman Christopher Smith.

**Recognize and respond to the public's concerns.**

In December 1995, the MMS announced standardized procedures for handling requests for royalty relief on producing leases. This announcement was followed by the publication of detailed guidelines in June 1996. With these new guidelines, companies can determine in advance whether they are likely to qualify for royalty relief, and they can be assured that MMS is prepared to handle their requests in a more standardized, businesslike manner. The new guidelines enable a producer to compute royalties due the government using a formula based on a fixed percentage of net receipts, rather than gross receipts. In this way, the producer can take into account increased costs of production, processing, and transportation on older leases. It gives industry a straightforward set of guidelines when applying for royalty relief on marginally producing wells and provides the economic incentive to ensure continued production on older oil and gas leases and sustain profitability. The guidelines promote the recovery of oil and gas resources that otherwise may be left in the ground when a lease is relinquished.

In November 1995, President Clinton signed the OCS Deep Water Royalty Relief Act, authorizing the Secretary of the Interior to suspend royalties on certain existing and new leases in water depths of 200 meters or greater in parts of the Central and Western Gulf of Mexico planning areas. The MMS published an advance notice of proposed rulemaking in February 1996, and followed with a March 1996, workshop with interested parties soliciting recommendations and comments on rules that would implement the new authority. The MMS published an interim rule on the treatment of royalty relief for newly issued leases in the *Federal Register* on March 25, 1996. The rule



was applied to deep water leases issued in the Central Gulf of Mexico Sale 157 and the Western Gulf of Mexico Sale 161. Industry responded to these initiatives by bidding on a record number of tracts in both sales.

For the past 2 years, the MMS has been actively involved with "outreach" efforts in the northwest Florida area (the Panhandle). Representatives of the Gulf of Mexico OCS Region have held meetings with local leaders and groups, participated in conferences, and made speeches, primarily to civic groups. This form of dialogue and consultation is aimed at opening lines of communication and minimizing misinformation, as well as building a degree of trust that can be used to work through new issues as they arise. To date, some 200 individuals representing 100 different organizations have been contacted by members of the Gulf of Mexico Region's Florida Panhandle Outreach Team.

**Use modern information tools to ensure timely dissemination of accurate information.**

The OMMP is aggressively moving towards using new technology to share information while cutting costs. During FY 1996, we made numerous technical studies and scientific information available via the Internet (see <http://www.mms.gov>).

Information on specific information releases is provided in the Supplemental Information Section (see page 63).

**Streamline operations and simplify processes.**

The MMS announced in June 1996, that it is taking steps to produce shorter, more readable EIS's. As part of the administration's call to simplify and streamline government, EIS's prepared by the MMS will be written in plain English, without jargon, describe the proposed action in simple, non-technical terms, focus on relevant environmental issues, and eliminate redundant material and unnecessary background information. These changes will result in EIS's shortened by 25 percent or more. The new procedures are expected to lead to not only smaller, but cheaper and more effective EIS's.

As part of the new EIS streamlining procedures, the MMS will publish only one EIS per 5-year period for the Central and Western Gulf of Mexico planning areas. The MMS is currently publishing a separate EIS for each annual sale.

Documentation of the 5-Year Program for 1997-2002 was only about one-third the volume of that produced for the previous program. Early focusing and defining of the areas for leasing and extensive referencing of published material greatly reduced the size of the documentation. Streamlining the EIS also resulted in a 5-year EIS that was substantially smaller and more readable.

**Maintain a high level of scientific expertise and base decisions on high-quality scientific information.**

Industry is using a new technique to analyze seismic data below salt layers. This new technique, referred to as "depth migration," serves as a tool to help companies determine their bid amounts on OCS tracts. The MMS has begun to request this data from companies to help determine fair-market value. This has led to a more thorough and consistent fair-market value process based on high-quality scientific information.

In June 1996, the MMS received the *1996 Federal Environmental Quality Award* presented by the President's Council on Environmental Quality and the National Association of Environmental Professionals. The award recognizes excellence achieved through implementing the National Environmental Policy Act. The MMS award was for environmental work done in the Flower Garden Banks National Marine Sanctuary in the Gulf of Mexico offshore Texas.

The MMS has entered into a contract with Stanford University's Petroleum Reservoir Engineering Research Program. The principal objective of sponsoring the research program is to provide the MMS with timely access to important research results in the field of petroleum engineering. The MMS's specific areas of interest include the application of geostatistics to reservoir characterization, horizontal well behavior, and well test interpretation.

**Issue regulations that focus on results, rather than processes.**

The MMS announced revised guidelines for obtaining Suspension of Production (SOP) and Suspensions of Operations (SOO) in July 1996. These guidelines were issued in a Letter to the Lessees and Operators (LTL). The LTL provided an overview of the regulations governing SOP's and SOO's, as well as policies designed to provide flexibility to lessees and encourage the exploration and development of the OCS leases.

**Provide a consistently high level of customer service.**

Changes in industry exploration have increased the time necessary to collect and analyze data associated with drilling operations. Many operations require considerably more time, as industry is now focusing its efforts in areas such as deepwater and subsalt. The MMS proposed to increase from 90 days to 180 days the time allowed between operations for an offshore natural gas and oil lease to continue beyond its primary term. This change, proposed in April 1996, was in response to customer concerns, and gave more flexibility to lessees who are diligently exploring their leases. MMS issued the final rule and it was published in the Federal Register on October 30, 1996.

In support of, and funded by the United States Agency for International Development, the MMS continued its international training/assistance program to the former Soviet Union. The MMS conducted a workshop in Moscow, Russia, this past September on conveying offshore oil and gas exploration and development rights. The workshop was requested by Russia's Ministry of Natural Resources to provide information to Federal policymakers and members of the Russian State Duma Committee on Natural Resources.

In addition to reporting to the MMS, operators of offshore oil and natural gas platforms must file reports on all oil spills with the National Response Center, which is staffed by the U.S. Coast Guard. To reduce the reporting burden and eliminate duplicate reporting requirements, the MMS announced that effective May 31, 1996, we would no longer require operators to report to the MMS oil spills of less than a barrel. For spills of less than one barrel (which comprise 95 percent of all oil spills currently reported), the National Response Center will forward the reports to the MMS. This simple, common sense change reduces industry oil spill reporting requirements for oil spills, without compromising the MMS's environmental stewardship goals.