UNITED STATES
DEPARTMENT OF THE INTERIOR
BUDGET JUSTIFICATIONS, F.Y. 1999

MINERALS MANAGEMENT SERVICE

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FY 1999 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 1999, the MMS will account for an estimated $5.5 billion in Federal receipts, including $4.2 billion from Outer Continental Shelf (OCS) rents, bonuses, and royalties, and $1.3 billion in onshore receipts. From a taxpayer's perspective, that converts to a $4.0 billion deposited to the General Fund of the U.S. Treasury to pay for Federal programs. Of local significance are $606 million in mineral revenue payments made to onshore States, approximately $900 million transferred to the National Park Service for the Land and Water Conservation Fund, $479 million credited to the Bureau of Reclamation Fund, $101 million to Indian tribes and allottees, and $150 million transferred to the Historic Preservation Trust Fund. Additionally, coastal States will receive $115.8 million in shared mineral revenue receipts.

FY 1999 Proposed Operating Appropriations/Offsetting Collections
dollars in thousands

Royalty and Offshore Minerals Management	$122,402
Offsetting Collections	$94,000
Oil Spill Research	$6,118
Total	**$222,520**

The largest portion of the MMS operating budget is obtained from the Royalty and Offshore Minerals Management (ROMM) appropriation. This account is comprised of both direct appropriations and offsetting collections. Direct appropriations from ROMM have declined since FY 1993, while MMS's reliance on offsetting collections has grown significantly. Initially, these offsetting collections were only used in the OCS Lands program, however with progressively more of MMS's budget being received from offsetting collections, authority for use of these receipts is now bureau-wide. The MMS request proposes raising the cap on offsetting collections to $94,000,000.

In addition to appropriations for operations, the MMS receives appropriations for distribution of the States' share of onshore mineral receipts. Those permanent appropriations are:

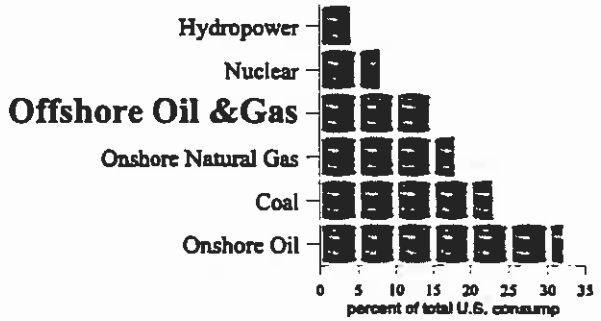
FY 1999 Proposed Permanent Appropriations
(dollars in thousands)

Mineral Leasing Associated Payments *(MLAP)*	606,581
National Forest Fund Payments to States *(Forest Fund)*	3,311
Payments to States from Lands Acquired for Flood Control, Navigation, and Allied Purposes *(Flood Control)*	756
Total	**$610,648**

The United States currently depends on natural gas and oil for nearly two-thirds of its energy consumption. Promising new sources of energy appear on the horizon, but our reliance on natural gas and oil is not likely to change dramatically over the next 2 to 3 decades. Because of this dependence, obtaining sufficient natural gas and oil supplies at reasonable prices is crucial to our security and the well-being of our economy. For this reason, MMS's OCS programs are vitally important to the Nation; they contribute to both its economic well-being and energy security.

While OCS mineral resource development is a major focus of its efforts, MMS places its highest priority on safety and environmental protection and devotes significant funding to it. The MMS strives for the proper balance between providing a domestic energy source for the American people and protecting sensitive coastal and marine environments.

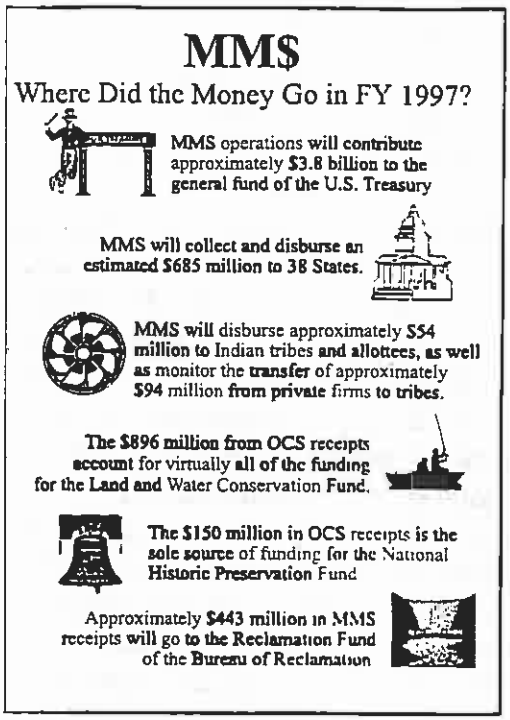
U.S. Primary Energy Consumption



All other energy sources constitute less than 1 percent.

The Federal Government is the largest mineral royalty owner in the United States. The MMS is responsible for ensuring that on average $4 billion in annual revenues from Federal and Indian mineral leases is collected, accounted for, verified, and disbursed to appropriate recipients in a timely manner. In addition to a broad range of financial services, MMS also pursues a comprehensive compliance strategy that includes an automated

compliance verification program to validate the accuracy and timeliness of revenues paid and an audit program staffed by MMS, State, and tribal auditors. The business environment in which MMS administers royalty payments is similar in many respects to that in which private and State land minerals owners operate. However, in scale of activity and variety and complexity of lease terms, it is significantly different. Currently, MMS administers the rental, royalty, and other financial terms for approximately 26,000 producing and 46,000 nonproducing mineral leases.



An MMS hallmark has been its ability to evolve in response to changing economic and business climates. Perhaps the best description of MMS's our experience, especially during the last 4 years, would be learning to maintain high standards of customer service while ensuring safe OCS operations and collecting, distributing, and verifying mineral revenues. Tight budgets have challenged MMS to become more efficient while maintaining high quality service. The MMS is meeting this challenge with enthusiasm, dedication, and innovation throughout the bureau.

Challenges for FY 1998 and FY 1999

1998 Supplemental Request

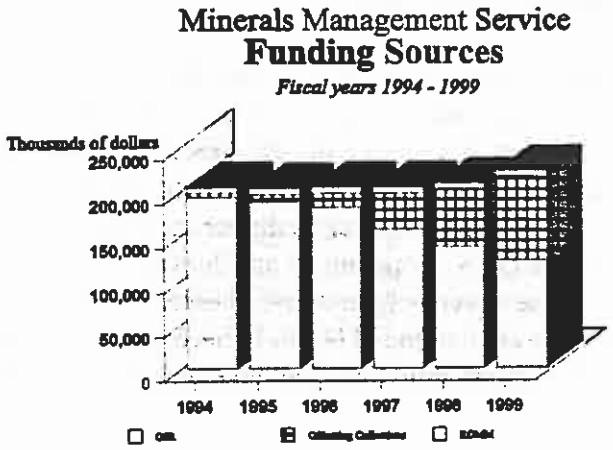
MMS's FY 1998 President's Budget request and Congressional action provided a $6.3 million increase in the Offshore Program in response to the surging leasing activity that had occurred in the Gulf of Mexico (GOM). As it turns out, actual leasing activity greatly exceeded such bullish expectations. The three lease sales conducted since development of the 1998 request were not simply robust, but instead were all record breakers. This phenomenal leasing has outstripped MMS's ability to effectively perform its regulatory responsibilities to ensure continued safe and environmentally sound development of the OCS.

To not jeopardize continued development of the Nation's OCS resources, with the potential loss of billions of dollars in OCS revenues, the Administration has proposed a 1998 supplemental appropriation of $6.7 million that will provide MMS with the additional manpower and scientific information needed to maintain its vigilant oversight of the OCS and to provide timely service to industry. The MMS delays in bid evaluations, permit reviews, and other required actions can cause expensive "down-time" for industry and ultimately delay the receipt of government revenues from the OCS.

The supplemental request includes approximately $1.7 million in Regulatory Operations to support an expanded inspection and enforcement workforce. The prolific growth in the number

of inspectable units in the GOM, and the geographical dispersion of these units over a much greater area, has simply spread the existing inspector force too thin, thus threatening its effectiveness. The proposed increase will strengthen the regulatory program to better ensure and maintain MMS's commitment to the safe and environmentally sound development of the OCS.

The supplemental request includes $4.8 million in the Leasing and Environmental Program, most of which will support environmental studies focusing on deepwater regions of the GOM. Very little is currently known about the deepwater topography and habitat in this region. Addressing these information needs now is essential to MMS decision-making for environmentally sound development. The rapid pace of deepwater leasing has accelerated the need for these studies. Industry has already invested heavily in deepwater regions, both in technology development and in bonus bids on deepwater leases. This investment, or the environment, could be put at risk if MMS lacks the information it needs to evaluate exploration and development plans, develop appropriate lease stipulations, and evaluate oil-spill response plans.



The 1998 supplemental request also proposes $0.2 million in Resource Evaluation (RE). The RE workload related to lease sales and deepwater royalty relief has resulted in an increasing backlog of work necessary to the ongoing exploration and development of existing leases, such as reserves inventory, field determinations, and regional mapping and assessment. Additional personnel are needed to clear up the backlog and enable the GOM Region office to keep up with the downstream RE workload resulting from the record sales.

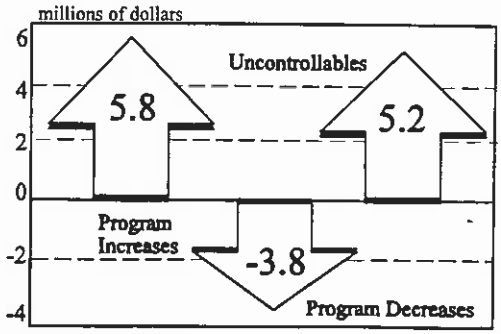
FY 1999 Budget Request

The MMS budget request is approximately $222.5 million, an increase of roughly $13.9 million above the 1998 enacted level of $208.6 million. The $13.9 million increase includes continuing the work provided by the $6.7 million requested supplemental discussed above plus a further $7.2 million increase for 1999 to meet legislative and workload increases. The proposed increases are covered by raising the cap on offsetting receipts from $65.0 million to $94.0 million. In turn, the request for direct appropriations is only $128.5 million, a decrease of $15.1 million from the 1998 level of $143.6 million. At the FY 1999 request level, offsetting collections would cover over 40 percent of MMS's operating budget. In addition to the current budget, three permanent appropriations totaling $610.6 million provide States their statutory shares of mineral leasing revenues generated on Federal lands.

The net increase of $7.2 million over the 1998 adjusted level (including the proposed 1998 Supplemental) will enable MMS to fully fund its $5.2 million in uncontrollable cost increases. The remaining $2.1 million net increase, coupled with selective programmatic reductions of $3.8

million, will enable MMS to fund the full-year costs of the proposed 1998 supplemental (an additional $0.8 million), and provide $5 million to initiate a major reengineering effort for the Royalty Management Program (RMP).

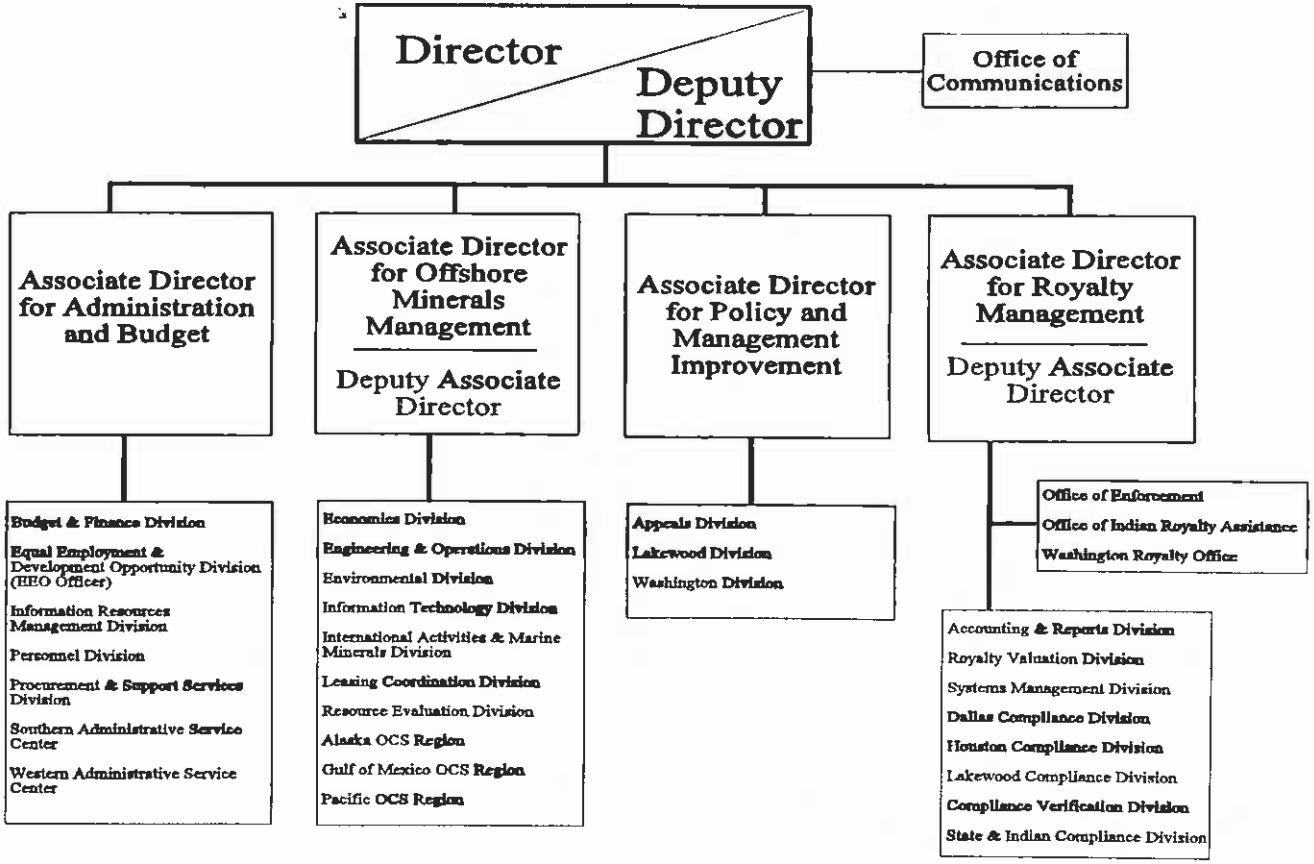
Minerals Management Service
Components of Proposed FY 1999 Increase
Total Proposed Increased of $7.2 Million



The $5 million proposed in 1999 for RMP reengineering will be used to design and begin development of new automated systems to implement redesigned business processes. The RMP faces the dilemma of responding to new legislative requirements, most notably the Royalty Simplification and Fairness Act (RSFA) with aging systems that already exceed accepted life cycle standards. Without this investment, a major risk of system failure and operational instability exists. Furthermore, the RSFA-authorized delegation of royalty management functions to States cannot be accommodated with the current RMP systems configuration. The RMP modernization is also essential for MMS to continue fulfilling its basic goal of ensuring the timely collection, accounting, verification, and disbursement of mineral revenues.

The $3.8 million in proposed program reductions include $1.2 million for Marine Minerals Technology Centers program. This program cannot be continued because of the far more pressing needs in MMS's core mission areas, as discussed above. The request also reflects a general reduction of $2.4 million to the RMP program that is made possible by improved efficiencies and streamlining. Finally, a savings of $0.2 is possible in the Offshore Program due to the reduced costs associated with MMS's offshore air quality monitoring activities.

Minerals Management Service Organizational Chart



Performance Goals Summary Table		
Goals	**Strategic Objectives**	**Budget Request**
Provide for safe and environmentally sound mineral development on the Outer Continental Shelf, and ensure that the public receives fair value.	Ensure safe OCS mineral development	$41,989
	Ensure environmentally sound OCS mineral development	$47,848
	Ensure that the public receives fair value for OCS mineral development	$24,481
	Provide for mineral development on the OCS	$20,994
Provide timely, accurate, and cost-effective mineral royalty collection and disbursement services.	Improve the timeliness and accuracy of payments to States, Indian tribes, BIA offices, and other Federal agencies.	$7,142
	Improve the cost effectiveness of mineral royalty collection and disbursement services.	$2,586
	Improve reporter's compliance with lease terms, rules, regulations, and laws.	$67,490
	Provide Indian tribes with increased opportunities for education and for assuming functional responsibilities with respect to the Royalty Management Program.	$1,246
	Improve customer service and communications.	$8,745

Summary of GPRA Strategic Objectives

Minerals Management Service

(appropriated budget authority, appropriated offsetting collections, Oil Spill research)

dollars in thousands

Comparison by Strategic Objective	FY 1998 Enacted		Uncontrollable Related Change		Programmatic Changes		FY 1999 Request		Decrease(-) from 1998	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
Ensure safe OCS mineral development.	316	39,048	0	1,341	18	1,600	334	41,989	18	2,941
OCS portion	274	33,626		928	18	1,600	292	36,154	18	2,528
OCS portion of General Admin	42	5,422		413	0	0	42	5,835	0	413
Ensure environmentally sound OCS mineral development	237	42,823	0	386	6	4,639	243	47,848	6	5,025
OCS portion	205	36,877		267	6	4,639	211	41,783	6	4,906
OCS portion of General Admin	32	5,946		119	0	0	32	6,065	0	119
Ensure that the public receives fair value for OCS mineral development.	223	23,358	0	788	3	335	226	24,481	3	1,123
OCS portion	193	20,115		545	3	335	196	20,995	3	880
OCS portion of General Admin	30	3,243		243	0	0	30	3,486	0	243
Provide for mineral development on the OCS	223	21,058	0	386	3	(450)	226	20,994	3	(64)
OCS portion	193	18,134		267	3	(450)	196	17,951	3	(183)
OCS portion of General Admin	30	2,924		119	0	0	30	3,043	0	119
Improve the timeliness and accuracy of payments to States, Indian tribes, BIA offices, and other Federal agencies.	66	6,756	0	186	0	200	66	7,142	0	386
RMP portion	57	5,635	0	129	0	200	57	5,964	0	329
RMP portion of General Admin	9	1,121	0	57	0	0	9	1,178	0	57
Improve cost-effectiveness of mineral royalty collection and disbursement services.	23	2,442	0	68	0	76	23	2,586	0	144
RMP portion	20	2,033	0	47	0	76	20	2,156	0	123
RMP portion of General Admin	3	409	0	21	0	0	3	430	0	21
Improve reporters' compliance with lease terms, rules, regulations, and laws.	542	63,720	0	1,764	0	2,006	542	67,490	0	3,770
RMP portion	461	53,049	0	1,221	0	2,006	461	56,276	0	3,227
RMP portion of General Admin	81	10,671	0	543	0	0	81	11,214	0	543
Provide Indian tribes with increased opportunities for education and for assuming functional responsibilities.	12	1,176	0	33	0	37	12	1,246	0	70
RMP portion	10	979	0	23	0	37	10	1,039	0	60
RMP portion of General Admin	2	197	0	10	0	0	2	207	0	10
Improve customer service and communication.	79	8,258	0	229	0	258	79	8,745	0	487
RMP portion	69	6,878	0	158	0	258	69	7,294	0	416
RMP portion of General Admin	10	1,380	0	71	0	0	10	1,451	0	71
Total Minerals Management Service	1,721	208,639	0	5,181	30	8,701	1,751	222,520	30	13,882
OCS & RMP portion	1,482	177,326	0	3,585	30	8,701	1,512	189,612	30	12,286
General Admin	239	31,313	0	1,596	0	0	239	32,908	0	1,596

Summary of Requirements

Royalty and Offshore Minerals Management
dollars in thousands

Comparison by Activity/Subactivity	FY 1997 Actual		FY 1998 Enacted		Uncontrol. and Related Changes		Programmatic Changes		Approp To Collections		FY 1999 Request		Inc(+) Dec(-) from 1998	
	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt
OCS Lands														
Leasing & Environment														
Appropriations	130	18,548	178	13,830	0	468	0	4,789	-53	-7,000	125	12,087	-53	-1,743
Offsetting Collections	75	9,725	22	16,265	0	0	9	0	53	7,000	84	23,265	62	+7,000
Supplemental	[0]	[0]	[5]	[4,800]	[0]	[0]	[5]	[0]	[0]	[0]	[5]	[4,800]	[0]	[0]
Total	205	28,273	200	30,095	0	468	9	4,789	0	0	209	35,352	9	+5,257
Resource Evaluation														
Appropriations	138	11,333	204	17,336	0	477	0	-865	-71	-8,000	133	8,948	-71	-8,388
Offsetting Collections	71	7,070	0	4,985	0	0	3	0	71	8,000	74	12,985	74	+8,000
Supplemental	[0]	[0]	[2]	[225]	[0]	[0]	[2]	[0]	[0]	[0]	[2]	[225]	[0]	[0]
Total	209	18,403	204	22,321	0	477	3	-865	0	0	207	21,933	3	-388
Regulatory														
Appropriations	212	22,186	326	28,270	0	813	0	2,200	-118	-14,000	208	17,283	-118	-10,987
Offsetting Collections	118	12,236	0	8,007	0	0	18	0	118	14,000	136	22,007	136	+14,000
Supplemental	[0]	[0]	[9]	[1,650]	[0]	[0]	[9]	[0]	[0]	[0]	[0]	[1,650]	[9]	[0]
Total	330	34,422	326	36,277	0	813	18	2,200	0	0	344	39,290	18	+3,013
Information Mngt														
Appropriations	37	2,154	25	2,198	0	249	0	0	12	0	37	2,447	12	+249
Offsetting Collections	72	11,968	84	11,743	0	0	0	0	-12	0	72	11,743	-12	0
Supplemental	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]
Total	109	14,122	109	13,941	0	249	0	0	0	0	109	14,190	0	+249
Subtotal OCS Lands														
Appropriations	517	54,220	733	61,634	0	2,007	0	-22,876	-230	-29,000	503	40,765	-230	-20,869
Offsetting Collections	336	41,000	106	41,000	0	0	30	29,000	230	29,000	366	70,000	260	+29,000
Supplemental	[0]	[0]	[16]	[6,675]	[0]	[0]	[16]	[0]	[0]	[0]	[16]	[6,675]	[0]	[0]
Total	853	95,220	839	102,634	0	2,007	30	6,124	0	0	869	110,765	30	+8,131

Royalty and Offshore Minerals Management
dollars in thousands

Comparison by Activity/Subactivity	FY 1997 Actual		FY 1998 Enacted		Uncontrol. and Related Changes		Programmatic Changes		Approp To Collections		FY 1999 Request		Inc(+) Dec(-) from 1998	
	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt
Royalty Management														
Valuation & Operations														
Appropriations	291	33,022	254	24,126	0	665	0	582			254	25,373	0	1,247
Offsetting Collections	0	0	0	8,250	0	0	0	0			0	8,250	0	0
Total	291	33,022	254	32,376	0	665	0	582			254	33,623	0	1,247
Compliance														
Appropriations	374	34,235	337	25,369	0	854	0	1,995			337	28,218	0	2,849
Offsetting Collections	0	0	0	8,250	0	0	0	0			0	8,250	0	0
Total	374	34,235	337	33,619	0	854	0	1,995			337	36,468	0	2,849
Indian/Allottee Refunds														
Appropriations	0	15	0	15	0	0	0	0			0	15	0	0
Offsetting Collections	0	0	0	0	0	0	0	0			0	0	0	0
Total	0	15	0	15	0	0	0	0			0	15	0	0
Late Disb. Interest														
Appropriations	0	91	0	0	0	0	0	0			0	0	0	0
Offsetting Collections	0	0	0	0	0	0	0	0			0	0	0	0
Total	0	91	0	0	0	0	0	0			0	0	0	0
Prog. Services Off.														
Appropriations	26	2,700	26	2,564	0	59	0	0			26	2,623	0	59
Offsetting Collections	0	0	0	0	0	0	0	0			0	0	0	0
Total	26	2,700	26	2,564	0	59	0	0			26	2,623	0	59
Subtotal RMP														
Appropriations	691	70,063	617	52,074	0	1,578	0	2,577			617	56,229	0	4,155
Offsetting Collections	0	0	0	16,500	0	0	0	0			0	16,500	0	0
Total	691	70,063	617	68,574	0	1,578	0	2,577			617	72,729	0	4,155

Royalty and Offshore Minerals Management
dollars in thousands

Comparison by Activity/Subactivity	FY 1997 Actual		FY 1998 Enacted		Uncontrol. and Related Changes		Programmatic Changes		Approp To Collections		FY 1999 Request		Inc(+) Dec(-) from 1998	
	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt
Gen. Administration														
Executive Direction														
Appropriations	24	1,902	20	1,815	0	55	0	0			20	1,870	0	55
Offsetting Collections	0	0	0	0	0	0	0	0			0	0	0	0
Total	24	1,902	20	1,815	0	55	0	0			20	1,870	0	55
Policy & Mngt Impr														
Appropriations	49	3,780	37	3,628	0	112	0	0			37	3,740	0	112
Offsetting Collections	0	0	0	0	0	0	0	0			0	0	0	0
Total	49	3,780	37	3,628	0	112	0	0			37	3,740	0	112
Administrative Operations	207	12,514	182	11,618	0	474	0	0			182	12,092	0	474
Appropriations	0	0	0	500	0	0	0	0			0	500	0	0
Offsetting Collections	207	12,514	182	12,118	0	474	0	0			182	12,592	0	474
Total														
Gen. Support Services	0	14,476	0	6,752	0	954	0	0			0	7,706	0	954
Appropriations	0	0	0	7,000	0	0	0	0			0	7,000	0	0
Offsetting Collections	0	14,476	0	13,752	0	954	0	0			0	14,706	0	954
Total														
Subtotal Gen Admin														
Appropriations	280	32,672	239	23,813	0	1,595	0	0			239	25,408	0	1,595
Offsetting Collections	0	0	0	7,500	0	0	0	0			0	7,500	0	0
Total	280	32,672	239	31,313	0	1,595	0	0			239	32,908	0	1,595
Total ROMM														
Appropriations	1,488	156,955	1,589	137,521	0	5,180	0	2,026	-230	-29,000	1,359	122,402	-230	-15,119
Offsetting Collections	336	41,000	106	65,000	0	0	30	0	230	29,000	366	94,000	260	29,000
Supplemental	[0]	[0]	[16]	[6,675]	[0]	[0]	[16]	[6,675]	[0]	[0]	[16]	[6,675]	[16]	0
Total	1,824	197,955	1,695	202,521	0	5,180	30	2,026	0	0	1,725	216,402	30	13,881

Summary of Requirements

Oil Spill Research *dollars in thousands*												
Comparison by Activity/Subactivity	FY 1997 Actual		FY 1998 Enacted		Uncontrollable and Related Changes		Programmatic Changes		FY 1999 Request		Inc(+) Dec(-) from 1998	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
Oil Spill Research												
Oil Spill Research	26	6,440	26	6,118	0	0	0	0	26	6,118	0	0
Total Oil Spill Research	26	6,440	26	6,118	0	0	0	0	26	6,118	0	0

All Appropriations

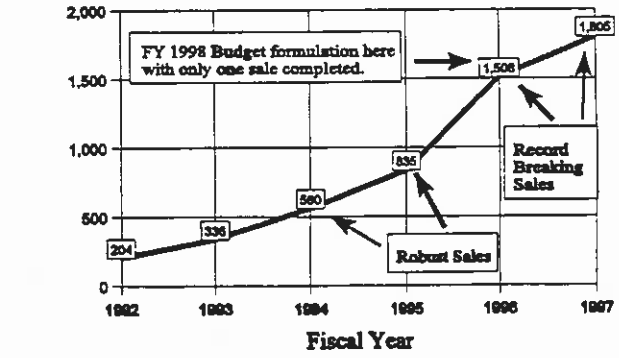
Justification of Uncontrollable Cost Changes *dollars in thousands*		
	FTE	Amount
Working Capital Fund Changes (ROMM; General Support Services)		92
The change reflects expected changes in the charges for Departmental services and other services through the working capital fund.		
Workers Compensation Payments (ROMM; General Support Services)		-328
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 1999 are for the 12-months ending June 1997 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.		
1999 Pay Raise (ROMM; all activities)		3,149
The amount displayed represents the addition costs of funding an estimated 3.0 % January 1999 pay increase for GS-series employees and the associated pay rate changes made in other pay series.		
1998 Pay Raise (ROMM; all activities)		1,077
The adjustment is for an additional amount needed in 1999 to fund the remaining 3-month portion of the estimated cost of the, on average, 2.8 percent pay increases effective in January 1998.		
Unemployment Compensation (ROMM; General Support Services)		31
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 (ROMM; General Support Services)		599
The adjustment is for changes in the cost payable to GSA resulting from changes in rates for office and non-office space.		
Retirement system charges		701
This cost reflects the 1.51% increase cost to the bureau of CSRS retirement payments offset by the OPM-determined FERS charges reductions based on actuarial experience.		
Expiration of $80 per Employee Surcharge		-141
The $80 per employee surcharge included in the Federal Workforce Restructuring Act expires in 1998.		
Total Adjustments		5,180

Justification of Program Change
Gulf of Mexico Initiative

OCS Lands Subactivity	1999 Budget Request	Program Changes (+/-)
Leasing & Environment		
$(000)	35,352	+4,956
FTE	214	+9
Resource Evaluation		
$(000)	21,933	+335
FTE	209	+3
Regulatory		
$(000)	39,290	+2,200
FTE	354	+18
Information Management		
$(000)	14,190	0
FTE	109	0
Offshore Minerals Management		
$(000)	110,765	+7,491
FTE	886	+30

The President has requested a FY 1998 budget supplemental for MMS's Outer Continental Shelf (OCS) Lands Activity of $6.675 million due to the huge and sudden increase of workload in the Gulf of Mexico Region. In addition to continuing the work provided by the FY 1998 Supplemental, the FY 1999 request includes a net increase of $816 thousand. The increase is needed in FY 1999 for the full-year cost of the additional personnel requested in the supplemental. This increase is partially offset by decreases from one-time costs associated with space acquisition and redesign.

Gulf of Mexico Leasing Activity
Fiscal Years 1992 - 1997

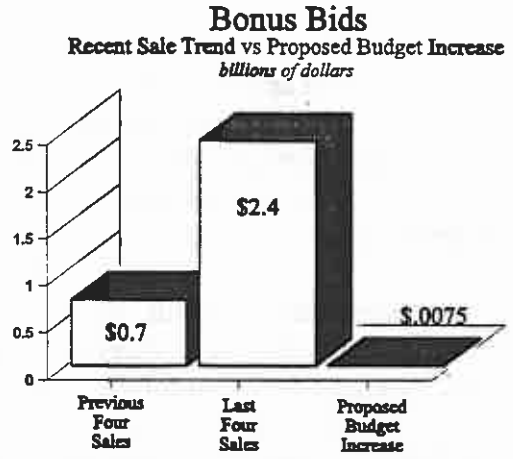


* Each year includes leases from one Central GOM sale and one Western GOM sale.

Background

Since the formulation of the FY 1998 budget request for the Outer Continental Shelf Lands Activity of the MMS, three record-breaking oil and gas lease sales have occurred in the Gulf of Mexico. When the FY 1998 request was

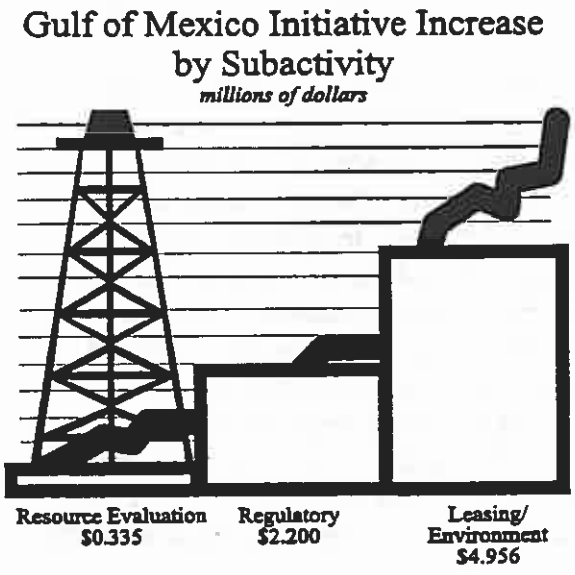
formulated, there had been several robust lease sales, but only one record-breaking sale. The MMS did not expect that trend to continue. However, advances in technology, along with legislative incentives and increasing demand combined to produce four record-breaking sales. The last sale, the Western Gulf of Mexico Sale 168, held in August 1997, was 33 percent larger than the one held a year earlier. This Western Gulf Sale, which is traditionally smaller than the Central Gulf sale, set a record for the largest number of tracts bid on in ultra-deep water (800+ meters).



These record lease sales bring increased revenue from bonuses, rents and royalties. The last four record sales in the Gulf of Mexico produced over $2.4 billion in bonuses as compared to $0.7 billion from the four previous sales. The next step is the realization of rents and royalties from increased oil and gas production. Without the staff and resources to support and oversee this increased production activity, the benefits of increased domestically produced energy resources, royalty revenues, and employment opportunities may not be realized. That is why the FY 1998 supplemental and this FY 1999 increase are so critically needed.

Safety and Environmental Protection Concerns

The MMS has a strong commitment to safety and environmental protection. The phenomenal rise in activity has outstripped the ability of MMS to perform environmental reviews of proposed projects on a timely basis. For example, in the past fiscal year MMS received 14 percent more requests for approvals of long distance pipeline rights-of-way than the year before. These requests had already increased 21 percent in the previous 2 years. More pipeline applications are requiring full environmental reviews -- those that required full reviews rose from 9 to 21 in 1997 (133 percent). The number of industry applications that requires more complicated technical and environmental reviews has also risen dramatically. The increasing sophistication and complexity of offshore operations, which now include subsea production systems, riserless drilling, remote operations, etc., have placed a demand on MMS staff that can only be met with better training for existing staff and hiring of additional personnel to share the workload. These are only a few examples, from a very long list of activities, where MMS is being



inundated with record numbers of requests to permit complex activities (e.g., deepwater operations plans and commingling applications). When we formulated our FY 1998 budget request, we estimated that we would receive 730 plans of exploration/development. Instead we actually received 995, or 36 percent more. Industry shows no sign of slacking off this pace. A significant number of new drilling rigs are under construction.

The significant escalation of activity in the Gulf of Mexico has also increased both the level and complexity of MMS's OCS monitoring activities. The number of operators has grown over the past several years from approximately 100 to over 130. Some of these operators are not as experienced as the more seasoned players and require more oversight. This is coupled with the fact that the offshore industry downsized significantly during the 1980s, which reduced the skilled labor pool. The presence of workers without much offshore experience is placing an added burden on the inspection and compliance program.

The MMS is committed to ensuring that industry maintains its excellent safety and environmental protection record. Unless this record is maintained, industry will not be able to go forward with its ambitious plans for the Gulf of Mexico because the public will lose confidence in the integrity of the program. In addition, the Nation will lose the significant contributions that the Gulf of Mexico makes to the economy in the form of revenues and natural gas and oil.

Proposed Increase: FY 1998 Supplemental (+16 FTE; + $6.675 million)
FY 1999 Request (+14 FTE; + $0.816 million)

The FY 1998 Supplemental and the FY 1999 programmatic increases divided into three basic categories: Environmental Studies and Environmental Assessment Study; staffing; and staffing support.

Environmental Studies (+$4.0 million) and Environmental Assessment Study (+$.350 million)
FY 1998 Supplemental (+$4.350 million)
FY 1999 Request (assumed continuation of Supplemental)

The MMS's ability to provide the energy resources for the Nation in an environmentally safe manner is dependent on MMS's ability to make informed decisions based on the best available science. Little of the scientific data MMS has obtained on the Gulf of Mexico has been in deepwater which is the focus of current industry activity. A Deepwater Workshop and the Deepwater Subcommittee of the OCS Scientific Committee identified the need for considerable more information about the deepwater environment and the effects of industry activity on that environment. Workshop deliberations, involving experts from industry, academia, and the government, took into consideration past and ongoing studies. A strong consensus developed that little is known about the deep ocean habitat in terms of the biology and physical oceanography. Information needs were framed around the likelihood of dramatically higher production flow rates, possibly resulting in large oil spills with difficult response options, and a complex but poorly known bottom topography, which may increase the hazards associated with facility anchoring and pipeline routing. Addressing these information needs is essential to MMS

decision-making for environmentally sound development. Information provided by the studies will be used for preparation of Environmental Impact Statements, Environmental Assessments (EAs), development of lease stipulations, and evaluation of plans of exploration and development and oil spill response.

Staffing Increases:

FY 1998 Supplemental (+$1.55 million)
FY 1999 Request (assumed continuation of Supplemental which was partial year funding plus an additional $1.216 million to bring to full year funding)

The following table summarizes how the proposed increase in 30 FTE would be utilized.

FTE	JUSTIFICATION
2	Prepare statements of work and manage deepwater studies.
4	Perform environmental reviews and prepare (NEPA) documents in support of the expanding inventory of Gulf of Mexico OCS leases.
3	Perform document and data management associated with the tremendous growth in sales activity.
3	Perform work related to the ongoing exploration and development of existing leases, such as reserves inventory, field determinations, and regional mapping and assessment.
12	The rapid buildup of exploration and production activities of industry within the past year has caused a considerable workload strain on the New Orleans, Houma, Lafayette and Lake Jackson District Offices. A recent resource allocation study recommended expanding the Lake Charles Subdistrict to a full District Office and shifting the boundaries of the current districts. This will balance the inspection and application review workload among the Districts and strengthen the program. The new alignment will result in five Districts with 550 to 900 platforms each and approximately 30-40 drilling rigs.
6	Perform safety management and technical reviews. The surge of industry activity demands more focus on safety management, along with more technical reviews of drilling and production operations, more accident investigations, more civil penalty cases, and more special inspections. One indicator of this is the increased civil penalty workload arising from inspections of offshore operations. Civil penalties are sought when a violation of environmental and safety regulations is so egregious as to constitute a threat of serious, irreparable, and immediate harm to the environment. The total workload on civil penalty cases has grown from 50 in FY 1995 to 84 in FY 1997. In FY 1998, over 100 cases are estimated to be worked. Fines collected rose from $131K in FY 1995 to $759K in FY 1997.

Staffing Support Increases: *FY 1998 Supplemental (+$.775 million)*
FY 1999 Budget Request (-$.400 million)

Provision is made within the FY 1998 Supplemental for acquisition, renovation and rental of space for the additional personnel required to perform the aforementioned work. The FY 1998

Supplemental includes some one-time startup costs for acquisition, construction and provision of proper space and office equipment. In FY 1999 the acquisition costs will not be necessary.

Technical training for safety management and technical reviews (+$.100 million) and geoscientist recruitment costs (+$.075 million) are requested in the FY 1998 Supplemental and are assumed continued within the FY 1999 base, as these are ongoing critical requirements for recruiting and maintaining a "state of the science" technical staff.

Cross walk to GPRA Objectives

Strategic Objectives Code	Strategic Objectives	1999 Budget Request	Program Changes (+/-)
01.xx.01.99	Ensure safe OCS mineral development	32,201	+2,200
01.xx.02.99	Ensure environmentally sound OCS mineral development	39,618	+4,806
01.xx.03.99	Ensure that the public receives fair value for OCS mineral development	20,995	+335
01.xx.04.99	Provide for mineral development on the OCS	17,951	+150
	Totals	110,765	+7,491

Justification of Program Change
Reduction in Air Quality Funding

OCS Lands Subactivity	1999 Budget Request	Program Changes (+/-)
Leasing & Environment		
$(000)	35,352	-167
FTE	214	0
Resource Evaluation		
$(000)	21,933	0
FTE	209	0
Regulatory		
$(000)	39,290	0
FTE	354	0
Information Management		
$(000)	14,190	0
FTE	109	0
Offshore Minerals Management		
$(000)	110,765	-167
FTE	886	0

In FY 1996, Congress appropriated $267 thousand for air quality support expenditures in the Gulf of Mexico (GOM). During FY 1997, these funds were used to:

1. contract for a study that compared the capabilities of existing air quality models, relative to MMS's regulatory and environmental assessment needs;

2. purchase a trajectory model to support GOM regulatory modeling needs; and

3. acquire computer hardware and software for air quality modeling or for technical review of digital deliverables from existing MMS air quality study contracts.

In FY 1998, the GOM Region plans to acquire a Region-scale grid-based model to support future OCS lease sale Environmental Impact Statement analyses and other similar Region-scale environmental assessment needs. The model purchased will be based on the results of the FY 1997 air quality model comparison study.

In FY 1999, the GOM Region anticipates that $100 thousand will be sufficient for air quality support, allowing MMS to propose a reduction of $167 thousand. The $100 thousand retained will be used for support costs, as well as air quality modeling or monitoring needs.

Strategic Objectives Code	Strategic Objectives	1999 Budget Request	Program Changes (+/-)
01.xx.01.99	Ensure safe OCS mineral development	32,201	-167
01.xx.02.99	Ensure environmentally sound OCS mineral development	39,618	0
01.xx.03.99	Ensure that the public receives fair value for OCS mineral development	20,995	0
01.xx.04.99	Provide for mineral development on the OCS	17,951	0
	Totals	110,765	-167

Justification of Program Change
Reduction in Funding for Marine Minerals Research Centers

OCS Lands Subactivity	1999 Budget Request	Program Changes (+/-)
Leasing & Environment		
$(000)	35,352	0
FTE	214	0
Resource Evaluation		
$(000)	21,933	-1,200
FTE	209	0
Regulatory		
$(000)	39,290	0
FTE	354	0
Information Management		
$(000)	14,190	0
FTE	109	0
Offshore Minerals Management		
$(000)	110,765	-1,200
FTE	886	0

The Marine Minerals Research Centers (MMRCs) were reauthorized under the Marine Minerals Resources Research Act of 1996, and placed under oversight of the Department of the Interior. The MMRCs were funded in the amount of $1.2 million in FY 1998 and the Minerals Management Service is providing management of the program. The mission of the MMRC's is to conduct research on the exploration and extraction of nonenergy minerals from the seabeds of the continental shelves, deep ocean, and arctic regions.

The MMS recognizes the importance of the investigations and technological development that these centers pursue, particularly the longer term research. However, due to the urgent need for increased funds for deepwater oil and gas research, and higher research priority for oil and gas exploration and extraction, in general, MMS is proposing to eliminate funding for the MMRC's in FY 1999 and focus limited research funds on deepwater oil and gas studies.

Strategic Objectives Code	Strategic Objectives	1999 Budget Request	Program Changes (+/-)
01.xx.01.99	Ensure safe OCS mineral development	32,201	-600
01.xx.02.99	Ensure environmentally sound OCS mineral development	39,618	0
01.xx.03.99	Ensure that the public receives fair value for OCS mineral development	20,995	0
01.xx.04.99	Provide for mineral development on the OCS	17,951	-600
	Totals	110,765	-1,200

Justification of Program Change
Royalty Management Reengineering

RMP Subactivity	1999 Budget Request	Program Changes (+/-)
Valuation & Operations		
$(000)	25,391	2,500
FTE	254	0
Compliance		
$(000)	28,200	2,500
FTE	337	0
Indian/Allottee Refunds		
$(000)	15	0
FTE	0	0
Late Disb. Interest		
$(000)	0	0
FTE	0	0
Program Services Office		
$(000)	2,623	0
FTE	26	0
Royalty Management Program		
$(000)	72,729	5,000
FTE	617	0

In FY 1996, the Royalty Management Program (RMP) began a reengineering effort to improve the business processes of its compliance operations. On April 1, 1997, the Associate Director for Royalty Management, supported by the Minerals Management Service (MMS) Director, expanded the scope of this initiative to include RMP's financial and accounting operations and declared it RMP's highest priority. The principal objective of this initiative is to design, develop, and implement reengineered core business processes, with supporting systems and procedures, for the 21st century. The MMS requests a program increase of $5 million ($2.5 million in Valuation and Operations and $2.5 million in Compliance) to initiate implementation of these reengineering improvements.

The $5 million increase will enable MMS to begin modernization of its existing automated systems as needed to support reengineered RMP processes. A reengineered process is essential to achieving the high levels of performance and efficiency sought by MMS managers and customers. Modernization of the systems infrastructure is essential for MMS to continue fulfilling its mission to timely collect, verify, and distribute mineral revenues from Federal and Indian lands.

The MMS envisions a phased implementation of the new processes, culminating in a radically different program than we have today. This initiative will lead to a program that is highly integrated, process centered, focused on outcomes, less costly, and viewed by both customers and others in the financial services industry as the best. The new business processes must be flexible and capable of meeting customers' and suppliers' needs, which include:

- Supporting the collection of royalties, both in-cash and in-kind.
- Supporting delegated activities related to royalty administration.
- Permitting the use of a variety of methodologies to value production.

The strategy of the reengineering initiative is to provide better service with less cost. This strategy, combined with the principal objective of improving core business processes, supports MMS's Strategic Goal Number 2 - Provide Timely, Accurate, and Cost-Effective Mineral Royalty Collection and Disbursement Services. The reengineering initiative, once successfully implemented, will also enhance RMP's ability to perform related financial services for other customers. In the development of new business processes, RMP's reengineering design team has been guided by the following performance stretch goals:

- Ensure compliance with applicable laws, lease terms, and regulations for all leases in the shortest possible time, but no later than 3 years from the due date.
- Provide revenue recipients with access to their money within 24 hours of the royalty due date.

The RMP is currently examining different approaches to gathering baseline data for these stretch goals. We will include these goals in a later version of our GPRA plan.

Background:

The RMP faces the dilemma of responding to new legislative requirements, most notably the Royalty Simplification and Fairness Act (RSFA), with aging systems that already exceed accepted life cycle standards. The aging systems represent a major risk to RMP and its customers that future system reliability and operational stability will be jeopardized. Furthermore, one particular new challenge for MMS, the RSFA-authorized delegation of royalty management functions to States, cannot be effectively accommodated with the current RMP systems configuration.

Other factors that were highly influential in pursuing a strategy for change are Royalty Policy Committee recommendations for streamlined reporting and Inspector General reports calling for greater operational efficiency. In addition, continued Federal downsizing and growing expectations for better service at less cost led RMP managers to conclude that maintaining the status quo, with improvements on the margin, was not an acceptable strategy for RMP's future.

To address these issues and to improve operating efficiency and effectiveness, RMP established the Program Reengineering Office in FY 1997 within existing resources to manage and coordinate its programwide reengineering initiative. Initial tasks of this office included mapping core business processes, bench marking with others to determine best business practices, identifying customer needs and expectations, investigating reengineering approaches, evaluating RMP's current system, and identifying necessary system revisions.

The RMP is finalizing a preliminary design report of the future RMP. The design calls for sweeping changes in RMP's organization and business processes, automation infrastructure, and information reporting needs. The report recommends RMP abandon its current functional orientation and organize and manage future work in two end-to-end core business processes: the financial management process and the compliance and asset management process. Further, the report recommends retaining the financial management process in its centralized location to collect reports and payments. It recommends instituting regional basin teams to focus the compliance and asset management process on producing mineral leases to assure that royalties are correctly paid. Significant changes in current regulatory reporting requirements are also being recommended to reduce reporting burden for RMP and industry. Final designs for future RMP operations are scheduled for summer 1998.

The proposed increase will enable RMP to begin its phased implementation of its new business processes and automated support systems. The following table spreads this proposed increase across RMP's GPRA Strategic Objectives.

Crosswalk to GPRA Strategic Objectives
in thousands of dollars

Strategic Objectives Code	Strategic Objectives	1999 Budget Request	Program Changes (+/-)
02.xx.05.99	Improve the timeliness and accuracy of payments to States, Indian tribes, BIA offices, and other Federal agencies.	5,964	+400
02.xx.06.99	Improve cost-effectiveness of mineral royalty collection and disbursement services.	2,156	+148
02.xx.07.99	Improve reporters' compliance with lease terms, rules, regulations, and laws.	56,276	+3,880
02.xx.08.99	Provide Indian tribes with increased opportunities for education and for assuming functional responsibilities.	1,039	+71
02.xx.09.99	Improve customer service and communication.	7,294	+501
	Totals	72,729	+5,000

Justification of Program Change
Royalty Management Buyouts/Streamlining

RMP Subactivity	1999 Budget Request	Program Changes (+/-)
Valuation & Operations		
$(000)	25,391	-1,900
FTE	254	0
Compliance		
$(000)	28,200	-523
FTE	337	0
Indian/Allottee Refunds		
$(000)	15	0
FTE	0	0
Late Disb. Interest		
$(000)	0	0
FTE	0	0
Program Services Office		
$(000)	2,623	0
FTE	26	0
Royalty Management Program		
$(000)	72,729	-2,423
FTE	617	0

RMP proposes this reduction as savings achieved through: (1) FY 1997 buyouts authorized by the Federal Workforce Restructuring Act of 1994 and (2) an FY 1998 reduction to the accounting support services contract. In the President's FY 1998 Budget, RMP proposed a $3.6 million budget reduction for these savings, but the House and Senate conferees reconciled a difference in their respective funding levels for RMP by restoring $2.4 million of that proposed reduction. This FY 1999 proposal eliminates that restored funding.

In FY 1998 RMP achieved buyout savings attributable to 36 employees who left government service in FY 1997. The RMP absorbed the work of these employees. Additionally, RMP's accounting support services contract, which is essentially a labor contract, was recompeted at a lower level of effort in FY 1998. This contract has been used over the past several years to provide a wide range of support for royalty mission operations. RMP's streamlining efforts produced internal efficiencies enabling us to absorb the work of several contractor staff, so contractor workload is now performed by the RMP workforce. Savings from the FY 1997 and FY 1998 payroll reductions and other efficiencies were not fully reflected in RMP's FY 1998

appropriation. Therefore, RMP proposes that the remaining savings be reflected in our FY 1999 proposal.

MMS plan 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 continue high performance levels in the future.

The following table spreads this proposed reduction across RMP's GPRA Strategic Objectives.

Crosswalk to GPRA Strategic Objectives
in thousands of dollars

Strategic Objectives Code	Strategic Objectives	1999 Budget Request	Program Changes (+/-)
02.xx.05.99	Improve the timeliness and accuracy of payments to States, Indian tribes, BIA offices, and other Federal agencies.	5,964	-200
02.xx.06.99	Improve cost-effectiveness of mineral royalty collection and disbursement services.	2,156	-72
02.xx.07.99	Improve reporters' compliance with lease terms, rules, regulations, and laws.	56,276	-1,874
02.xx.08.99	Provide Indian tribes with increased opportunities for education and for assuming functional responsibilities.	1,039	-34
02.xx.09.99	Improve customer service and communication.	7,294	-243
	Totals	72,729	-2,423

Appropriations 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; [$137,521,000 of which not less than $68,574,000 shall be available for royalty management activities;]/\ and an amount not to exceed [$65,000,000] $122,402,000
/\to be credited to this appropriation and to remain available until $ 94,000,000
expended, from additions to receipts resulting from increases to rates in effect on August 5, 1993, from rate increases to fee collections for Outer Continental Shelf administrative activities performed by the Minerals Management Service over and above the rates in effect on September 30, 1993, and from additional fees for Outer Continental Shelf administrative activities established after September 30, 1993: *Provided*, That $3,000,000 for computer acquisitions shall remain available until September 30, [1999] /\ 2000
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 provisions of law, $15,000 under this heading 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. (*Department of the Interior and Related Agencies Appropriations Act, 1998.*)

OIL SPILL RESEARCH

For necessary expenses to carry out title I, section 1016, title IV, sections 4202 and 4303, title VII, and title VIII, section 8201 of the Oil Pollution Act of 1990, $6,118,000, which shall be derived from the Oil Spill Liability Trust Fund, to remain available until expended. (*Department of the Interior and Related Agencies Appropriations Act, 1998.*)

Justification of Proposed Language Changes

Royalty and Offshore Minerals Management

Deletion: "of which not less than $68,574,000 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.

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, coal, and other mineral 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 1998 and FY 1999 receipt estimates.
- A summary description of current onshore and offshore royalty and rental rates, and bonus criteria and other lease information.
- For FY 1998 - FY 2003, tables of the:
    - o estimated receipts by source type and by account,
    - o detailed backup information from which the gross estimates are developed (estimated price, production, etc.)

- o 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, coal, other minerals royalties, etc.);

Land category (acquired Forest, public domain, OCS, etc.); and

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 (NPRA) lands from which Alaska and the General Fund receive 50 percent shares. Since there is no production from the NPRA, 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 also reports the following 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.

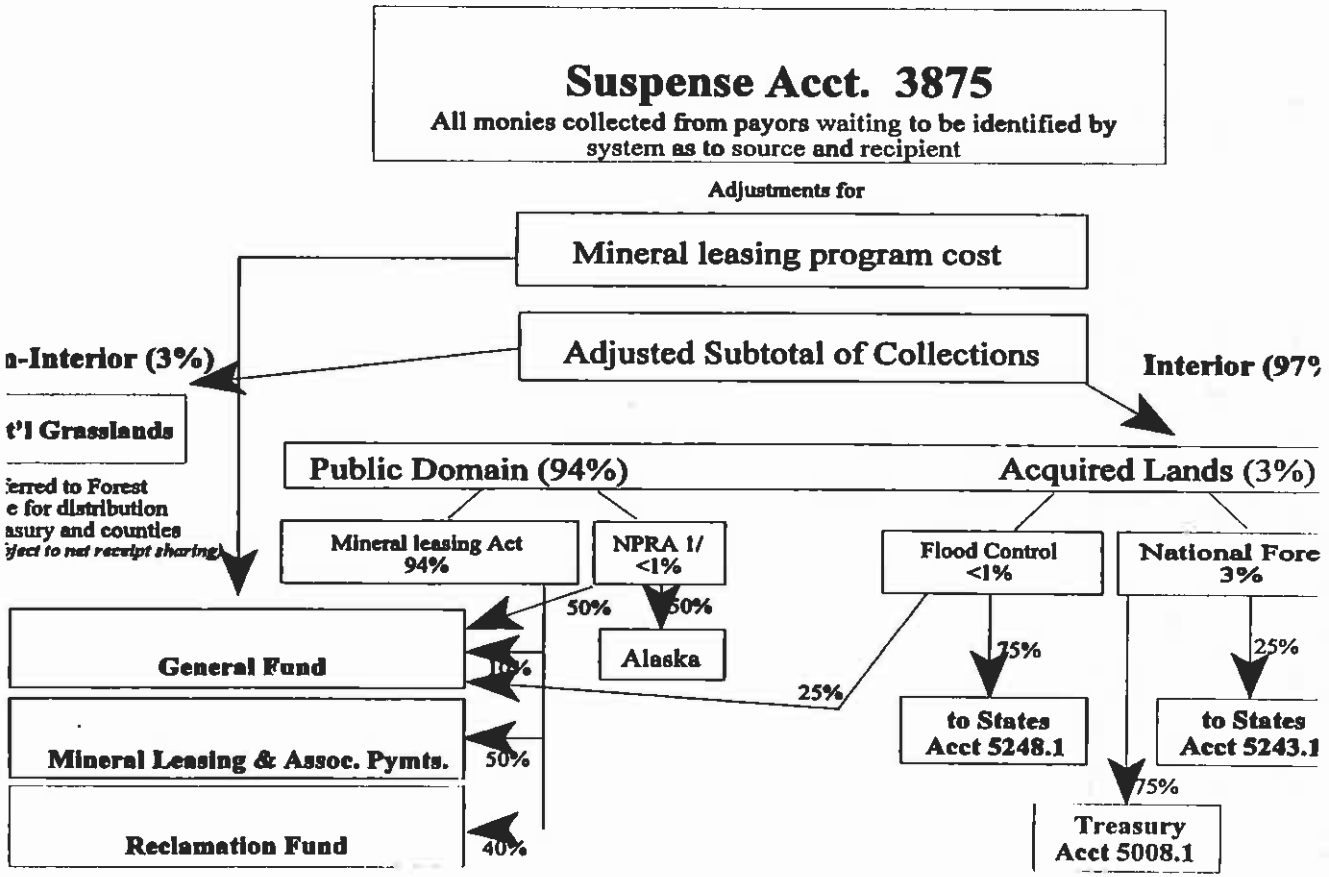
In order to bid on an OCS lease tract offered for sale, a bidder must submit an upfront cash deposit equal to 1/5 of the entire proposed bid. This money is deposited into escrow (account 6705), accruing interest, until MMS has determined the proposed bonus is at least equal to the fair market value of 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).

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 $442 million. The legal issues have been analyzed by a Special Master appointed by the United States Supreme Court. The Supreme Court reached a decision in FY 1997 and distribution instructions are expected by mid FY 1998. The total estimated interest is approximately $1.119 billion and total for rents and bonuses is $442 million. Upon receipt of distribution instructions, an estimated $559.6 million will be deposited into a Treasury interest account (Account 1493) and the $221.3 million in principal will be deposited into the Treasury account for rents and bonuses (Account 1820). The remaining half of the interest ($559.6 million) and the rents and bonuses ($221.3 million) will be deposited to accounts established for Environmental Improvement and Restoration Fund, enacted November 14, 1997 (Title 4, Section 401) (5425.10, Court Award rents and bonuses; 5425.20 Interest earned on rents and bonuses; 5425.30 Court Award OCS escrow interest).

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 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 Onshore Receipts



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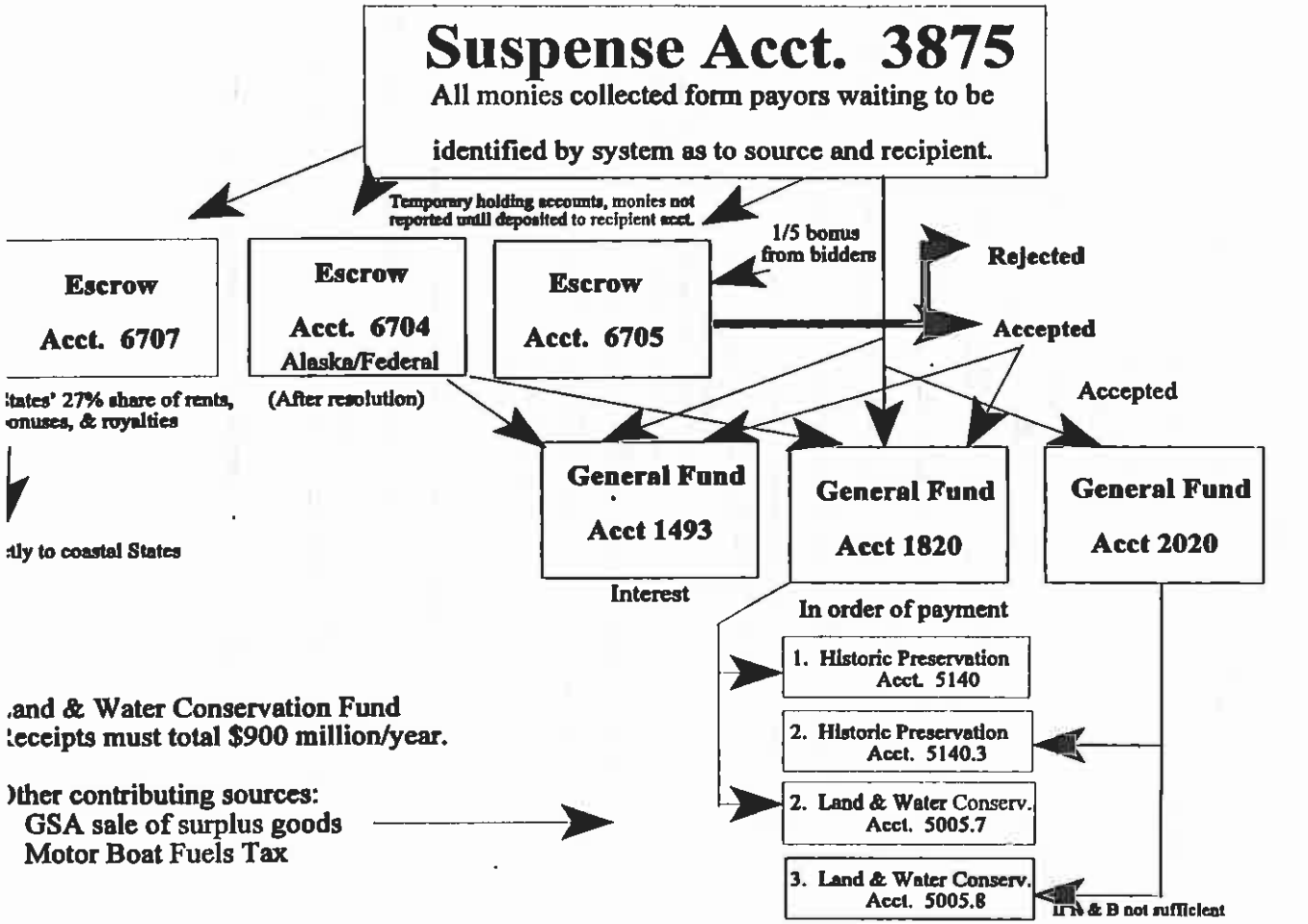
Distribution of Offshore (OCS) Receipt Accounts



Onshore Mineral Receipts
FY 1998 Estimates vs. FY 1999 Estimates
(Dollars in thousands)

	1998	1999	Change	Explanation
DOI Proprietary Onshore Mineral Receipts				
Rents & Bonuses				
Oil & Gas	56,757	56,096	-661	Continued relinquishment of leases. Level bonus activity
Coal	61,593	61,593	—	Continued leasing in Powder River Basin. Level rent
Geothermal	838	838	—	Level interest in leasing and rentals
Oil Shale	5	5	—	Expect constant rental level
All other	1,700	1,700	—	Anticipated level interest in leasing and rentals
R & B	*120,893*	*120,232*	*-661*	
Royalties				
Oil & Gas	736,818	771,779	+34,961	Increase is due to higher gas royalties based on increasing price (+1.85%) and production (+7.19%). Oil royalties will remain stable due to price increases offsetting a continued decline in production.
Coal	305,830	313,441	+7,611	Increases in production (+3.0%).
Geothermal	21,830	20,380	-1,450	Small decrease based on production decreases at some locations, new projects scheduled to go on line late in fiscal year will affect future year royalties..
All other	36,436	36,836	+400	Small increases in lead, potash, sodium and zinc
Royalties	*1,100,914*	*1,142,436*	*+40,855*	(Audit collections included in above figures)
TOTAL	**1,221,807**	**1,262,668**	**+40,855**	

Outer Continental Shelf Mineral Receipts
FY 1998 vs. FY 1999 Estimates
(Dollars in thousands)

	1998	1999	Change	Explanation
DOI Undistributed Propriety OCS Mineral Receipts				
Rents	126,000	163,000	+37,000	Due to anticipated new leasing
Bonuses	1,084,000	820,000	-264,000	Despite new technology for locating oil and gas reserves, the bonus trend is slightly downward as better prospects are leased first.
subtotal, R & B	1,210,000	983,000	-227,000	
Royalties				
Oil royalties	1,352,900	1,540,300	+187,400	Increase based on 1.95% price increase which is augmented by a 14.14% increase in production .
Gas royalties	1,689,000	1,694,500	+5,500	Increase based on decline in production (-1.13%) which is more than offset by price increase (+1.85%)
Minimum royalties	35,000	35,000	—	
Other (audits, suspense, sulphur, etc.)	2,343,500	53,900	—	
subtotal, royalties	*3,130,800*	*3,323,700*	*+192,900*	
Escrow (principal & interest)	1,561,962	0	-1,561,962	Resolution of Alaska/Federal boundary dispute in FY 97, with expected disbursement April 1, 1998.
TOTAL	**5,902,762**	**4,306,700**	**-1,596,062**	

Mineral Leasing Receipts by Account

dollars in thousands

Account		FY 1998 Estimate	FY 1999 Estimate	FY 2000 Estimate	FY 2001 Estimate	FY2002 Estimate	FY 2003 Estimate
	Onshore Mineral Leasing						
1811	Rents and Bonuses	11,375	11,328	11,263	10,907	10,744	10,565
2039	MLR Royalties	104,389	108,496	108,214	111,623	113,774	116,792
	NRS - States share	22,058	22,058	22,058	22,058	22,058	22,058
	NRS - Federal share	21,683	21,683	21,683	21,683	21,683	21,683
	Total 2039	148,130	152,237	151,955	155,364	157,515	160,533
XXXXXX	Hardrock	0	0	0	0	0	0
5000.24	Reclamation Fund	462,318	478,521	481,143	489,330	497,261	508,589
5003.02	Payments to States	586,327	606,581	609,858	620,092	630,006	644,166
5243.10	Forest Fund, states share	3,233	3,311	3,294	3,341	3,379	3,433
5008.10	Forest Fund, Govt share	9,699	9,932	9,882	10,022	10,137	10,300
5248.10	Flood Control (States share)	726	756	749	766	781	803
	Subtotal, Onshore	**1,221,808**	**1,262,666**	**1,268,144**	**1,289,822**	**1,309,823**	**1,338,389**
2419.10	Royalty-in-kind fees	400	400	400	400	400	400
2259.00	Sale of publications	100	100	100	100	100	100
	Outer Continental Shelf						
1820	OCS Rents and Bonuses	425,350	157,338	0	0	0	0
2020	OCS Royalties	3,011,400	3,204,300	2,905,200	3,086,600	3,230,400	2,838,800
5005.7	LWCF (OCS R & B)	855,988	897,000	758,000	727,000	639,000	575,000
5005.8	LWCF (OCS royalties)	0	0	139,000	170,000	258,000	322,000
5140.00	Historic Preservation (OCS R & B)	150,000	150,000	150,000	150,000	150,000	150,000
5140.02	Historic Preservation (OCS royalties	0	0	0	0	0	0
5160.03	Everglades Restoration Fund	0	0	0	0	0	0
1493.00	OCS Escrow Interest	559,644	590,453	0	0	0	0
5425.10	Court award, OCS rent and bonuses	221,338	(221,338)				
5425.20	Interest earned, environmental impr	20,540	(20,540)				
5425.30	Court award, OCS escrow account I	559,644	(559,644)				
	Subtotal, OCS	5,803,902	4,197,570	3,952,200	4,133,600	4,277,400	3,885,800
	TOTAL, Mineral Receipts	7,026,210	5,460,736	5,220,844	5,423,922	5,587,723	5,224,689

Department of Interior
Mineral Leasing Receipts by Commodity Source

dollars in thousands

		FY 1998 Estimate	FY 1999 Estimate	FY 2000 Estimate	FY 2001 Estimate	FY2002 Estimate	FY 2003 Estimate
	Onshore Mineral Leasing						
Rents and Bonuses							
	Oil and Gas	56,757	56,096	55,367	54,571	53,774	52,796
	Coal	61,593	61,593	61,593	58,598	57,600	56,602
	Geothermal	838	839	839	839	839	839
	Oil Shale	5	5	5	5	5	5
	All Other	1,700	1,700	1,700	1,700	1,700	1,700
	Subtotal, Rents and Bonuses	**120,893**	**120,233**	**119,504**	**115,713**	**113,918**	**111,942**
Royalties							
	Oil and Gas	736,818	771,779	765,850	786,872	805,324	832,520
	Coal	305,830	313,441	323,127	326,472	329,819	333,165
	Geothermal	21,830	20,380	23,780	23,480	23,180	22,880
	Oil Shale	0	0	0	0	0	0
	All Other	36,436	36,836	36,885	37,285	37,585	37,884
	Subtotal, Royalties	1,100,914	1,142,436	1,149,643	1,174,109	1,195,907	1,226,449
	Subtotal, Onshore	**1,221,807**	**1,262,668**	**1,269,147**	**1,289,822**	**1,309,825**	**1,338,391**
2419.10	Royalty-in-kind fees	400	400	400	400	400	400
2259.00	Sale of publications	100	100	100	100	100	100
	Outer Continental Shelf						
	OCS Rents and Bonuses	1,210,000	983,000	908,000	877,000	789,000	725,000
	OCS Royalties	3,011,400	3,204,300	3,044,200	3,256,600	3,488,400	3,160,800
	OCS Escrow Payout	442,675					
	OCS Escrow Interest	1,119,287					
	Interest Earned; Environ Improvm	20,540					
	Subtotal, OCS	5,803,902	4,187,300	3,952,200	4,133,600	4,277,400	3,885,800
	TOTAL, Mineral Receipts	7,026,209	5,450,468	5,221,847	5,423,922	5,587,725	5,224,691

Onshore Rents and Bonuses

dollars in thousands

		FY 1998 Estimate	FY 1999 Estimate	FY 2000 Estimate	FY 2001 Estimate	FY2002 Estimate	FY 2003 Estimate
	Oil and Gas						
Rents							
	NPRA	0	0	0	0	0	0
	Lower 48	24,079	24,402	24,656	24,842	25,026	25,026
	ANILCA	0	0	0	0	0	0
Bonuses	NPRA	0	0	0	0	0	0
	Lower 48	34,000	33,000	32,000	31,000	30,000	29,000
	ANILCA	0	0	0	0	0	0
	Subtotal, O&G	**58,079**	**57,402**	**56,656**	**55,842**	**55,026**	**54,026**
	Coal						
	Bonuses	60,000	60,000	60,000	57,000	56,000	55,000
	Rents	1,700	1,700	1,700	1,700	1,700	1,700
	Subtotal, Coal	**61,700**	**61,700**	**61,700**	**58,700**	**57,700**	**56,700**
	Geothermal Rents and Bonuses	**838**	**838**	**838**	**838**	**838**	**838**
	Oil Shale Rents and Bonuses	**5**	**5**	**5**	**5**	**5**	**5**
	Other Minerals Rents and Bonuses	**1,700**	**1,700**	**1,700**	**1,700**	**1,700**	**1,700**
	Total, R&B	**122,322**	**121,645**	**120,899**	**117,085**	**115,269**	**113,269**

OCS Rents and Bonuses

Bonus Revenue Estimates ($MM)

Sale Number	Actual Date	Scheduled Date	Sale Area	High Bids	% in FY	Total 8(g)	8(g) to States	Receipt Estimate
155	9/13/95		Western Gulf of Mexico	110	100%	6	1	109
157	4/24/96		Central Gulf of Mexico	512	100%	26	7	505
161	9/25/96		Western Gulf of Mexico	352	0%			0
144	9/18/96		Beaufort Sea	14	0%			0
			Bonus Total					614
			Rents					77
			Total - Actual FY 1996 Receipts					**691**
161	9/25/96		Western Gulf of Mexico	352	100%	18	5	347
144	9/18/96		Beaufort Sea	14	100%	1	0	14
166	3/5/97		Central Gulf of Mexico	811	100%	41	11	800
158		deferred	Gulf of Alaska-Yakutat					0
149	6/11/97		Cook Inlet	0	100%			0
168		8/27/97	Western Gulf of Mexico	599	0%			0
			Bonus Total					1,161
			Rents					81
			Total - FY 1997 Receipt Actuals					**1,242**
168	8/27/97		Western Gulf of Mexico	599	100%	30	8	591
169		mid 98	Central Gulf of Mexico	500	100%	25	7	493
171		late 98	Western Gulf of Mexico	380	0%			0
170		late 98	Beaufort Sea	20	0%			0
			Bonus Total					1,084
			Rents					120
			Total - FY 1998 Receipt Estimates					**1,204**
170		late 98	Beaufort Sea	20	100%	1	0	20
171		late 98	Western Gulf of Mexico	380	100%	19	5	375
172		mid 99	Central Gulf of Mexico	430	100%	22	6	424
173		late 99	Cook Inlet	1	100%	0	0	1
174		late 99	Western Gulf of Mexico	340	0%			0
			Bonus Total					820
			Rents					129
			Total - FY 1999 Receipt Estimates					**949**
174		late 99	Western Gulf of Mexico	340	100%	17	5	335
175		mid 00	Central Gulf of Mexico	400	100%	20	5	395
177		late 00	Western Gulf of Mexico	290	0%			0
176		late 00	Beaufort Sea	5	0%			0
			Bonus Total					730
			Rents					145
			Total - FY 2000 Receipt Estimates					**875**

OCS Rents and Bonuses

Bonus Revenue Estimates ($MM)

Sale Number	Actual Date	Scheduled Date	Sale Area	High Bids	% in FY	Total 8(g)	8(g) to States	Receipt Estimate
177		late 00	Western Gulf of Mexico	290	100%	15	4	286
176		late 00	Beaufort Sea	5	100%	0	0	5
178		mid 01	Central Gulf of Mexico	370	100%	19	5	365
179		late 01	Gulf of Alaska-Yakutat	1	100%	0	0	1
181		late 01	Eastern Gulf of Mexico	30	100%	2	0	30
180		late 01	Western Gulf of Mexico	270	0%			0
			Bonus Total					687
			Rents					157
			Total - FY 2001 Receipt Estimates					**844**
180		late 01	Western Gulf of Mexico	270	100%	14	4	266
182		mid 02	Central Gulf of Mexico	340	100%	17	5	335
183		mid 02	Chukchi Sea	20	100%	1	0	20
		late 02	Western Gulf of Mexico	240	0%			0
			Bonus Total					621
			Rents					134
			Total - FY 2002 Receipt Estimates					**756**
		late 02	Western Gulf of Mexico	240	100%	12	3	237
		mid 03	Central Gulf of Mexico	320	100%	16	4	316
		late 03	Western Gulf of Mexico	220	0%			0
			Bonus Total					552
			Rents					140
			Total - FY 2003 Receipt Estimates					**692**
		late 03	Western Gulf of Mexico	220	100%	11	3	217
		mid 04	Central Gulf of Mexico	300	100%	15	4	296
		late 04	Western Gulf of Mexico	190	0%			0
			Bonus Total					513
			Rents					129
			Total - FY 2004 Receipt Estimates					**642**
		late 04	Western Gulf of Mexico	190	100%	10	3	187
		mid 05	Central Gulf of Mexico	300	100%	15	4	296
		late 05	Western Gulf of Mexico	190	0%			0
			Bonus Total					483
			Rents					95
			Total - FY 2005 Receipt Estimates					**578**

OCS Rents and Bonuses

Bonus Revenue Estimates ($MM)

Sale Number	Actual Date	Scheduled Date	Sale Area	High Bids	% in FY	Total 8(g)	8(g) to States	Receipt Estimate
		late 05	Western Gulf of Mexico	190	100%	10	3	187
		mid 06	Central Gulf of Mexico	300	100%	15	4	296
		late 06	Western Gulf of Mexico	190	0%			0
			Bonus Total					483
			Rents					72
			Total - FY 2006 Receipt Estimates					**556**
		late 06	Western Gulf of Mexico	190	100%	10	3	187
		mid 07	Central Gulf of Mexico	300	100%	15	4	296
		late 07	Western Gulf of Mexico	190	0%			0
			Bonus Total					483
			Rents					53
			Total - FY 2007 Receipt Estimates					**537**

Offshore Royalties

dollars in thousands

	FY 1998 Estimate	FY 1999 Estimate	FY 2000 Estimate	FY 2001 Estimate	FY2002 Estimate	FY 2003 Estimate
Oil (mil.bbls.)						
Alaska	0	0	0	2	3	13
POCS	48	43	38	34	30	27
Total GOM	433	511	563	577	594	613
GOM Royalty Production	433	506	543	543	542	536
Total Royalty Production	481	549	581	579	575	576
Royalty Rate	0.1478	0.1446	0.1417	0.1396	0.1392	0.1381
Est./OMB Price per barrel	19.02	19.39	19.80	20.21	20.63	21.06
Royalty Receipts ($MM)	**$1,352.9**	**$1,540.3**	**$1,632.6**	**$1,634.6**	**$1,653.6**	**$1,675.7**
Gas (mil. Mcf)						
POCS	36	32	29	26	23	20
Total GOM	4,933	4,896	4,902	4,811	4,639	4,568
GOM Royalty Production	4,932	4,880	4,841	4,688	4,394	4,104
Total Royalty Production	4,968	4,912	4,870	4,714	4,417	4,124
Royalty Rate	0.1574	0.1568	0.1551	0.1524	0.1486	0.1465
Actual/OMB Price	2.16	2.20	2.25	2.30	2.35	2.40
Royalty Receipts ($MM)	**$1,689.0**	**$1,694.4**	**$1,699.5**	**$1,652.4**	**$1,542.5**	**$1,450.0**
Total Oil and Gas Royalty	**$3,041.9**	**$3,234.7**	**$3,332.1**	**$3,287.0**	**$3,196.1**	**$3,125.7**
Minimum Royalty	35	35	35	35	35	35
Audit Settlements	53.9	53.9	53.9	53.9	53.9	53.9
Other Suspense	0	0	(258)	0	258	0
State's Share 8(g)	(119.4)	(119.4)	(119.4)	(119.4)	(54.4)	(54.4)
Total	**$3,011.4**	**$3,204.2**	**$3,044.1**	**$3,256.5**	**$3,488.1**	**$3,160.2**

Actual and Estimated Payments to Coastal States Under Section OCSLA 8(g)

(actual dollars)

State	Royalties & Rents	Sale Bonuses	Mandated Payment	Section 7 Rents	Total
FY 1997 Actual Payments					
Alabama	12,738,521	0	700,000		13,438,521
Alaska	146,409	574,255	13,400,000	3,210,286	14,120,664
California	3,695,644	0	28,900,000		32,595,644
Florida	11,962	0			11,962
Louisiana	12,541,505	5,689,689	8,400,000		26,631,194
Mississippi	521,215	0	200,000		721,215
Texas	10,901,907	1,098,845	13,400,000		25,400,752
Total	**40,557,163**	**7,362,789**	**65,000,000**	**3,210,286**	**112,919,952**
FY 1998 Estimated Payments					
Alabama	12,816,755	0	700,000		13,516,755
Alaska	146,409	0	13,400,000		13,546,409
California	3,295,895	0	28,900,000		32,195,895
Florida	12,035	0			12,035
Louisiana	12,618,529	5,312,337	8,400,000		26,330,865
Mississippi	524,416	0	200,000		724,416
Texas	10,968,861	1,025,967	13,400,000		25,394,828
Total	**40,382,900**	**6,338,304**	**65,000,000**		**111,721,204**
FY 1999 Estimated Payments					
Alabama	14,938,323	0	700,000		15,638,323
Alaska	146,409	0	13,400,000		13,546,409
California	2,944,840	0	28,900,000		31,844,840
Florida	14,028	0			14,028
Louisiana	14,707,285	3,920,544	8,400,000		27,027,828
Mississippi	611,223	0	200,000		811,223
Texas	12,784,546	757,171	13,400,000		26,941,718
Total	**46,146,654**	**4,677,715**	**65,000,000**		**115,824,369**

Summary Description - Federal Onshore Leases

Royalty Rate	Rents	Lease Duration	Bonus
Oil & Gas			
Competitive: 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 Nat'l Energy Policy Act of 1992. After commercial production, the lessor pays minimum royalty.	Under MLA, bonuses are based on fair market value.
Competitive: 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 years 6-10.	see above	Under LRA, bonus is not less than $2.00/acre.
Non-Competitive: Based on 12.5% of production.	Under MLA, rent is $1/acre/yr for years 1-10. 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
NPRA: Set by regulation at 16.66%. However, no production anticipated.	$3/acre/yr	10 years or less	
Coal			
Post-FCLAA (1976): 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.
Pre-FCLAA: $.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.	**Competitive:** $2/acre/yr or $5/acre/yr for yrs 1-5 if choose not to file report showing significant expenditures to develop. **Non-Competitive:** $1/acre/yr for yrs 1-5 and $4/acre/yr for subsequent years.	10 years; continued if capable of producing commercial quantities.	**Competitive:** if within a Known Geothermal Resource Area, lease is by sealed bid **Non-Competitive:** if outside KGRA, lease is by over-the-counter basis.
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 Act of 1976

Summary Description - Federal OCS Leases

Royalty Rate	Rents	Lease Duration	Bonus
Is set for each sale area in its Final Notice of Sale. It may be: 1. Based on water depth– Leases issued after 1/93 on a sale by sale basis: 12.5% for Gulf water depths > 200m or 16.66% for water depths < 200m. Issued before 1/93: 12.5% for water depths > 400m or 16.66% for water depths < 400m. The 12.5% is also used for Alaska & certain parts of California 2. Sliding-scale (12.5-65%) based on average of all production 3. Step-scale which increases by steps as production increases 4. Flat rate of 33.33% + 5. Net profit share which require royalty only after certain expenditures are recovered	Pre-1993: $3/acre/year 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.	5 years (not to exceed 10 yrs). Continued if capable of commercial production.	Based on fair market value. Minimum bid of $25 to $150/acre subject to sale by sale review.

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.

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, bonuses, rentals, and royalties collected from Federal onshore mineral leases and payor late payment interest 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
dollars in thousands

Appropriation	States Share	FY 1997 Actual	FY 1998 Estimate	FY 1999 Estimate	Change from 1998 Estimate
Mineral Leasing Associated Payments (MLAP)	50%	564,392	586,327	606,581	20,254
National Forest Fund Payments to States (Forest Fund)	25%	3,515	3,233	3,311	78
Payments to States from Lands Acquired for Flood Control, Navigation, and Allied Purposes (Flood Control)	75%	807	726	756	30
Total		**568,714**	**590,286**	**610,648**	**20,362**

Note: For an explanation of how mineral leasing collections are distributed among the various Sates 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 Sates' 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, coal, other mineral 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 statues to permanently provide for NRS. The OBRA adjusted the methodology for calculating a States'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 1998, $42.3 million of program costs are to be recovered through NRS with the Federal share totaling $21.0 million and the States' shares totaling $21.3 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

Account / State	FY 1997 Actual	FY 1998 Estimate	FY 1999 Estimate
Alabama	599	622	643
Alaska	5,515	5,724	5,922
Arizona	48	50	52
Arkansas	1,000	1,038	1,074
California	20,290	21,060	21,786
Colorado	37,329	38,745	40,082
Florida	4	4	4
Idaho	2,202	2,286	2,364
Illinois	68	71	73
Kansas	1,329	1,379	1,427
Kentucky	123	128	132
Louisiana	817	848	877
Michigan	712	739	765
Minnesota	13	13	14
Mississippi	952	988	1,022
Missouri	1,273	1,321	1,367
Montana	20,361	21,133	21,862
Nebraska	16	17	17
Nevada	5,706	5,922	6,127
New Mexico	188,626	195,781	202,535
North Carolina	0	0	0
North Dakota	3,892	4,040	4,179
Ohio	153	159	164
Oklahoma	2,137	2,218	2,295
Oregon	41	43	44
Pennsylvania	21	22	23
South Dakota	566	587	608
Texas	637	661	684
Utah	34,291	35,592	36,820
Virginia	85	88	91
Washington	818	849	878
Wisconson	1	1	1
West Virginia	326	338	350
Wyoming	238,762	247,819	256,368
Total	**568,713**	**590,286**	**610,648**

Department of the Interior
Minerals Management Service
Royalty and Offshore Minerals Management
Program and Financing

dollars in millions

Treasury Account ID: 14-1917		FY 1997 Actual	FY 1998 Estimate	FY 1999 Estimate
Obligations by program activity				
	Direct program			
0001.00	Outer Continental Shelf Lands	55	62	41
0002.00	Royalty Management	69	53	57
0003.00	General Administration	33	23	24
0900.01	Reimbursable program	41	65	94
1000.00	Total obligations	198	203	216
Budgetary resources available for obligation				
2140.01	Unobligated balance available, start of year	5	5	5
2200.00	New budget authority	198	203	216
2390.00	Total budgetary resources available for obligations	203	208	221
2395.00	New obligations	-198	-203	-216
2440.01	Unobligated Balance Available, End of Year	5	5	5
New budget authority (gross), detail				
4000.01	Appropriation	157	138	122
6800.01	Spending authority from offsetting collections	41	65	94
7000.00	Total new budget authority (gross)	198	203	216
Change in unpaid obligations				
7240.01	Obligated balance, start of year	67	63	103
7310.00	New obligations	198	203	216
7320.00	Total outlays (gross)	-202	-163	-195
7440.01	Obligated balance, end of year	63	103	124
Outlays (gross), detail				
8690.01	Outlays from new current authority	110	97	85
8693.01	Outlays from current balances	60	15	30
8697.01	Outlays from new permanent authority*	29	46	66
8698.01	Outlays from permanent balances*	3	5	14
8700.00	Total outlays (gross)	202	163	195
Offsets				
8840.01	Offsetting collections from non-Federal sources	41	65	94
Net budget authority and outlays				
8900.00	Budget authority	157	138	122
9000.01	Outlays (net)	161	98	101

*Note: Offsetting collections reported by MMS are not permanent authority but are categorized under this heading in accordance with OMB instructions (Circular A-11).

Department of the Interior
Minerals Management Service
Royalty and Offshore Minerals Management
Object Classification

dollars in millions

Treasury Account ID: 14-1917		FY 1997 Actual	FY 1998 Estimate	FY 1999 Estimate
Direct Obligations				
1111.01	Total personnel compensation	76	68	58
1121.01	Civilian personnel benefits	17	20	20
1210.01	Travel and transportation of person	3	3	3
1230.01	Rent, communications, utilities & misc. charges	12	18	19
1252.01	Other services	44	20	15
1260.01	Supplies and materials	1	3	3
1310.01	Equipment	4	6	4
1990.00	Subtotal, Direct obligations	157	138	122
Reimbursable Obligations				
2111.01	Total personnel compensation	22	22	39
2252.01	Other services	13	32	44
2310.01	Equipment.	6	11	11
2990.00	Subtotal, Reimbursable obligations	41	65	94
9999.00	Total Obligations	198	203	216

Notation of error on FY99 MAX.

There is an error in the spread of estimated obligations by object class; the total is correct. Specifically, Schedule O, Object Classification, Line 1231.01, Rental payments to GSA, should be 10 in FY 98 and FY99 rather than 16. The numbers in BOLD are the corrected estimates.

	FY98	FY98	FY99	FY99
GSA rental	16	**10**	17	**11**
Comm, utilities, etc.	2	2	2	2
Other services	53	59	58	64

Department of the Interior
Minerals Management Service
Royalty and Offshore Minerals Management
Account Object Class Information

dollars in millions

	1998 Estimate Amount		Uncontrollable and Related Changes		Programmatic Changes		1999 Budget Request	
Object Class	FTE	AMT	FTE	AMT	FTE	AMT	FTE	AMT
Total Appropriation and Offsetting Collections	1,695	$203	0	$6*	31	$7	1,725	$216
Total personnel compensation		$90		$5*		$2		$97
Civilian personnel benefits		$20		0		0		$20
Travel & transportation of persons		$3		0		0		$3
Rents, communication, utilities & misc charges**		$18		$1		0		$19
Other services**		$53		0		$5		$58
Supplies & materials		$3		0		0		$3
Equipment		$16		0		0		$16

Note: Amount reflected include Uncontrollables (+$5million) and an additional estimate of $1M to cover within-grade increases and other pay increases.

**Note: These are the amounts reported in MAX to OMB in January 1998. Upon reevaluation of the FY98 and FY99 estimates, Other Services should be higher by $6M and Rent, Communications and Utilities should be lower by $6M (FY98 should be $12 & $59 & FY99 should be $13 & $64).

Department of the Interior
Minerals Management Service
Oil Spill Research
Program and Financing

dollars in millions

Treasury Account ID: 14-8370		FY 1997 Actual	FY 1998 Estimate	FY 1999 Estimate
Obligations by program activity				
0001.00	Oil spill research	6	6	6
1000.00	Total obligations	6	6	6
Budgetary resources available for obligation				
2140.01	Unobligated balance available, start of year	1	1	1
2200.00	New budget authority	6	6	6
2390.00	Total budgetary resources available for obligations	7	7	7
2395.00	New obligations	-6	-6	-6
2440.01	Unobligated Balance Available, End of Year	1	1	1
New budget authority (gross), detail				
4000.01	Appropriation	6	6	6
Change in unpaid obligations				
7240.01	Obligated balance, start of year	5	5	5
7310.00	New obligations	6	6	6
7320.00	Total outlays (gross)	-6	-6	-5
7440.01	Obligated balance, end of year	5	5	6
Outlays (gross), detail				
8690.01	Outlays from new current authority	5	4	4
8693.01	Outlays from current balances	1	1	1
8700.00	Total outlays (gross)	6	5	5
Net budget authority and outlays				
8900.00	Budget authority	6	6	6
9000.01	Outlays (net)	7	6	5

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

		FY 1997 Actual	FY 1998 Estimate	FY 1999 Estimate
Treasury Account ID: 14-8370				
Direct Obligations				
1111.01	Total personnel compensation	1	1	1
1252.01	Other services	5	5	5
1990.00	Subtotal, Direct obligations	6	6	6

Department of the Interior
Minerals Management Service
Oil Spill Research
Account Object Class Information

dollars in millions

	1998 Estimate Amount		Uncontrollable and Related Changes		Programmatic Changes		1999 Budget Request	
Object Class	FTE	AMT	FTE	AMT	FTE	AMT	FTE	AMT
Total Appropriation	26	$6	0	0	0	0	26	$6
Total personnel compensation		$1		0		0		$1
Other Services		$5		0		0		$5

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

	FY 1997 Actual	FY 1998 Estimate	FY 1999 Estimate
ES-6	3	3	3
ES-5	3	3	3
ES-4	6	6	6
ES-3	1	1	1
ES-2	1	1	1
ES-1	1	1	1
Subtotal	15	15	15
GS-15	70	70	70
GS-14	169	169	169
GA-13	405	414	426
GS-12	511	516	524
GS-11	161	163	170
GS-10	5	5	5
GS-9	56	56	56
GS-8	41	41	41
GS-7	121	121	121
GS-6	83	83	83
GS-5	79	79	79
GS-4	33	33	33
GS-3	4	4	4
GS-2	7	7	7
GS-1	6	6	6
Subtotal	1,751	1,767	1,797
Total	**1,766**	**1,782**	**1,812**

Bureau Overview

The Minerals Management Service (MMS), a relatively small bureau — about 1,700 employees nationwide — has two very clear missions:

- ✔ management of the Nation's Outer Continental Shelf (OCS) mineral resources in an environmentally sound and safe manner; and
- ✔ timely collection, verification, and distribution of mineral revenues from Federal and Indian lands.

The Offshore Minerals Management (OMM) directorate, headquartered in Washington, DC, with regional offices in Alaska, California, and Louisiana, oversees all OCS minerals activities, from initial lease offerings through exploration, development, production, and lease abandonment. More than 27 million acres on the OCS are under active lease.

The Royalty Management Program (RMP) collects and disburses bonuses, rents, and royalties paid on Federal (onshore and on the OCS) and Indian mineral leases. The RMP processes more than 200,000 transactions each month (involving over $300 million per month) from over 26,000 producing Federal and Indian leases.

The directorates of Administration and Budget, Policy and Management Improvement, and the Office of Communications provide policy and administrative support for the MMS missions.

The MMS receives funding for operations from three sources: the Royalty and Offshore Minerals Management (ROMM) appropriation, Oil Spill Research (OSR) appropriation, and offsetting collections (mainly from rental receipts from offshore leases). While total MMS funding has remained relatively stable at around $200 million, there has been a dramatic shift in the makeup of

MMS

Benefits Everyone!

✔ National Energy Supply

The OCS accounts for approximately 27 percent of U.S. natural gas production and approximately 18 percent of U.S. oil production. To date, the OCS has produced over 120 trillion cubic feet of natural gas and over 11 billion barrels of oil.

✔ Economic Benefit

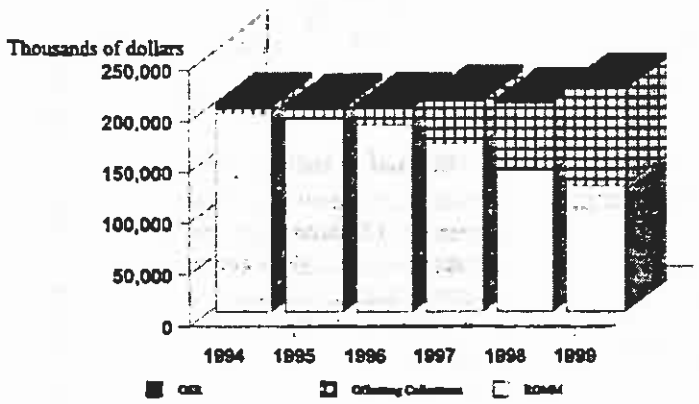
The MMS collected and distributed over $6.2 billion to the Federal Treasury, States, tribes, and Indian allottees in fiscal year 1997, and $92 billion since 1982. This makes MMS one of the Federal Government's greatest sources of non-tax receipts.

✔ Enhanced Lifestyle

The MMS disburses over $400 million in onshore revenues to States each year. This money is then used for schools, roads, and other public works or placed in general funds and used as needed. Additionally, over $1 billion in OCS revenues is deposited each year into trust funds to acquire, restore, and create parks, rivers, wildlife preserves, wilderness areas, and recreation facilities and to restore and preserve national historic sites for future generations. The OCS revenues provide over 90 percent of the money for the Land and Water Conservation Fund and 100 percent the National Historic Preservation Fund, which oversees these activities.

MMS's funding sources. Funding from ROMM. direct appropriations, (MMS's only source of funding before FY 1993) has declined by 58 percent, while offsetting collections have increased from $5 million in 1994 (the first year they were available) to a proposed $94 million in 1999. Funding from OSR has remained relatively unchanged at around $6 million.

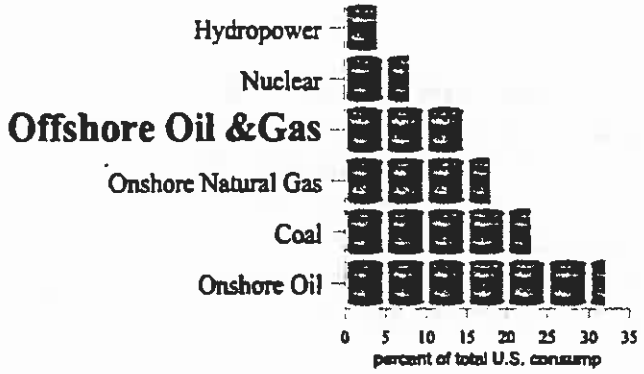
Minerals Management Service
Funding Sources
Fiscal years 1994 - 1999



Offsetting collections are receipts scoreable to the ROMM appropriation from an increase in the offshore natural gas and oil lease rental rates. The ability for MMS to collect and retain these receipts has been a significant benefit in that it has enabled the Department to utilize the offset budget authority to fund other critical programs.

The MMS programs clearly benefit the Nation. They contribute significantly to domestic energy supplies, the U.S. Treasury, the Nation's economy and protection of the OCS environment. The OCS accounts for approximately 27 percent of U.S. natural gas production and approximately 18 percent of U.S. oil production. The return on investment of MMS programs is enormous. Over the years, the MMS has collected and distributed more than $90 billion to the U.S. Treasury, States, tribes, and Indian allottees.

U.S. Primary Energy Consumption



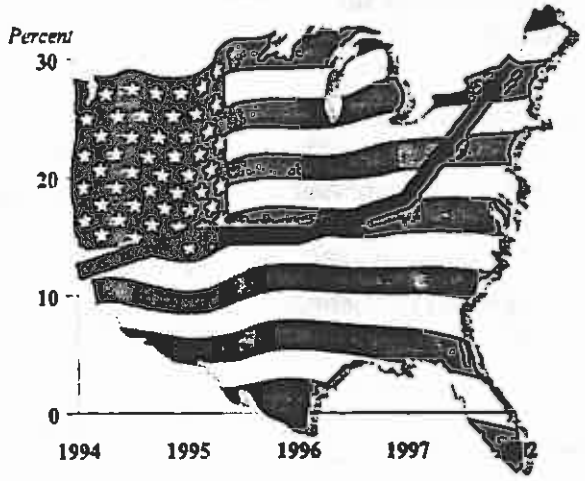
All other energy sources constitute less then 1 percent.

The Big Picture

The world is changing, government is changing, industry is changing–and MMS is changing with them. Political instabilities, energy-dependent emerging economies, and development of new OCS natural gas and oil programs worldwide have catapulted the domestic industry and MMS to becoming significant actors on the world stage. Worldwide as developing countries become more industrialized, the demand for these nonrenewable resources has become greater, thereby elevating the need for and importance of a strong national OCS program.

The United States currently depends on natural gas and oil for nearly two-thirds of its energy consumption. Promising new sources of energy appear on the horizon, but our reliance on natural gas and oil is not likely to change dramatically over the next 2 to 3 decades. Because of this dependence, obtaining sufficient natural gas and oil supplies at reasonable prices is crucial to our security and the well-being of our economy. For this reason, MMS programs are vitally important to the Nation, they contribute to both its economic well-being and energy security.

Federal OCS Oil
Share of National Production



Energy production from the OCS continues to increase. Oil produced from the OCS is critical in helping reduce the amount of imported oil. The OCS produced about 1.2 million barrels of oil per day in 1996 and about 20 million barrels more per year in 1997. The increased natural gas produced from the OCS continues to play a key role in the Nation's efforts to reduce air pollution and will likely contribute to global warming mitigation strategies. The OCS has produced over 120 trillion cubic feet of natural gas.

Increased offshore production is a result of a number of recent developments including:

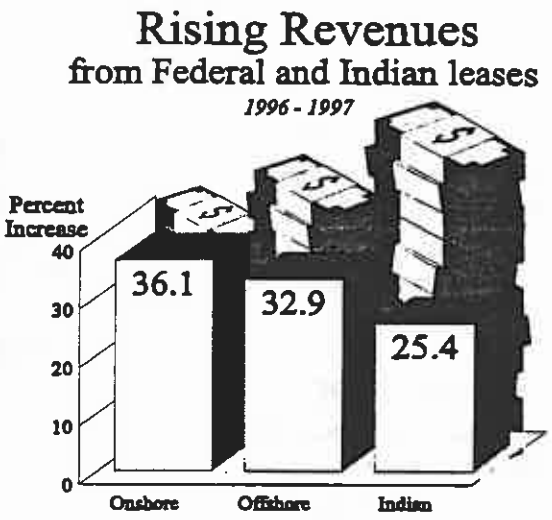
- ✓ New three-dimensional (3-D) and subsalt geophysical technologies.
- ✓ New technology for deepwater drilling and development.
- ✓ Passage of the Deep Water Royalty Relief Act.
- ✓ Renewed interest in shallow water activity due to new technology.

The intense interest in the natural gas and oil potential of the Gulf of Mexico has signaled a new era of growth. For example:

- ✓ Bidding on leases jumped by more than 155 percent (in number of tracts leased) from 1993 to 1996 due to strong industry interest in OCS natural gas and oil resources in the region.

- ✓ From 1993 to 1996, production rates have risen more than 16 percent.
- ✓ The last four record breaking sales produced over $2.4 billion in bonuses as compared with $0.7 billion from the four previous sales.

While OCS mineral resource development is a significant portion of its efforts, MMS places a high priority on safety and environmental protection and devotes significant funding to it. The MMS strives for the proper balance between providing a domestic energy source for the American people and protecting sensitive coastal and marine environments.



The Federal Government is the largest mineral royalty owner in the United States. The MMS is responsible for ensuring that on average over $4 billion in annual revenues from Federal and Indian mineral leases is collected, accounted for, verified, and disbursed to appropriate recipients in a timely manner. In addition to a broad range of financial services, MMS also pursues a comprehensive compliance strategy that includes (1) an automated compliance verification program to validate the accuracy and timeliness of revenues paid and (2) an audit program staffed by MMS, State and Tribal auditors. The business environment in which MMS administers royalty payments is similar in many respects to that which private and State land minerals owners operate. However, in scale of activity and variety and complexity of lease terms, it is significantly different. Currently, MMS administers the rental, royalty, and other financial terms for approximately 26,000 producing and 46,000 nonproducing mineral leases.

MMS Fact

Royalties from offshore oil and gas activities provide funding for the National Historic Preservation Fund (NHPF). Through its many programs the NHPF has contributed to the restoration of over 26,000 historic buildings all across the Nation.

Royalty management reengineering is a top priority for MMS for the year 2000. The objective in FY 1999 is to begin to implement new core business processes and support systems for the 21st Century. While this is largely an internal effort, MMS expects the outcome to have substantial its impact on stakeholders. Case studies indicate that major improvements and savings are realized by focusing on the business

from a process rather than a functional perspective. Current royalty management operations are rigidly organized around and focused on functions and tasks and measure performance by outputs. The reengineering effort focuses on redesigning processes that can yield benefits much greater than attempts to improve the operations within a functional area. The MMS's future royalty management operations will likely be radically different.

An MMS hallmark has been its ability to evolve in response to changing economic and business climates. Perhaps the best description of MMS's experience, especially during the last 4 years, would be learning to maintain high standards of customer service while ensuring safe OCS operations and collecting, distributing, and verifying mineral revenues. Tight budgets have challenged MMS to become more efficient while maintaining high quality service. The MMS is meeting this challenge with enthusiasm, dedication, and innovation throughout the Bureau.

The Driving Forces and Major Initiatives

Although MMS is a relatively young Bureau, it has changed dramatically over the years and continues to evolve and become more streamlined and efficient. Many changes in MMS organizations and functions are internally initiated, designed to improve program efficiency and effectiveness. Other changes are in response to an array of external forces including industry, States, local governments, tribes, Indian allottees, and environmental and public interest organizations. Arguably, the most dramatic changes have been made in response to external driving forces challenging MMS every day to keep pace:

- ✓ Evolving Offshore Technology
- ✓ Changing Energy Markets
- ✓ Emerging Global Markets
- ✓ Compelling Safety and Environmental Issues
- ✓ Transforming Legislation
- ✓ Increasingly Sophisticated Constituencies
- ✓ Advancing Information Technology
- ✓ Challenging Governmental Initiatives

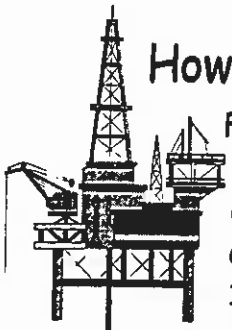
Evolving Offshore Technology

The OCS industry is employing new technologies and moving farther offshore into deeper waters. As industry makes this important transition, MMS faces the challenge of keeping pace with the new technology and adapting its regulatory and royalty regimes to satisfy its Congressional mandate and serve as effective stewards of the public resources.

Deepwater operations differ from those conducted in shallow water in that they tend to be significantly more remote.

- ✓ Subject to different environmental conditions.
- ✓ Technically more sophisticated.
- ✓ Productive at much higher rates.
- ✓ Typically subject to different economic determinants.

MMS Responds: Keeping pace with evolving deepwater issues, MMS is enhancing its expertise in drilling and production engineering, safety, and bonding in the deepwater environment. The MMS continuously reviews and improves the regulatory framework required to effectively manage risk to address the technical, safety, and environmental challenges associated with complex deepwater developments. In addition, MMS is vigorously working with its stakeholders to identify deepwater information needs that may be addressed through the Environmental Studies Program and its Technology Assessment and Research Program in order to initiate workshops and studies that identify issues and preventive measures specific to deep water.



How Deep is Deep?

From an operational perspective, MMS considers deepwater as greater than 1,000 feet. For royalty relief purposes, deep water is defined as greater than 656 feet.

Currently there are 25 drilling rigs operating in the Gulf of Mexico in waters at least 1,000 feet deep, representing more than one half of the world's deepwater rig fleet. Several of these are operating in water depths exceeding 4,500 feet.

The MMS will continue to acquire 3-D seismic data and incorporate it into the Gulf of Mexico database for deepwater and subsalt activities. Additionally, MMS will continue to acquire 2-D seismic data in order to evaluate acreage for scheduled lease sales in Alaska. Digital seismic data are collected over existing fields in California for lease management, reserves inventory, and field studies. Economic sale-related analysis will concentrate on examining policies that will make: (1) frontier areas more attractive to potential lessees, and (2) developed areas a continuing source of revenues.

The complexity of the deepwater issues combined with the renewed interest in shallow waters in the Gulf of Mexico and ongoing operations in Alaska and California will require fiscal resources beyond those available within the existing program.

Changing Energy Markets

Over the past several years, energy markets have undergone a significant transformation. Many factors have contributed to this change:

- ✓ Deregulation of natural gas production and open access to transportation facilities have created a new gas-marketing environment.
- ✓ Problems with the validity of posted prices historically used to value crude oil production.
- ✓ Shift in energy markets from regulatory-based to almost completely market-based.

MMS Responds: These dynamics, among others, have created a need for new MMS valuation regulations that more accurately reflect market conditions and provide greater certainty to royalty payors, the Federal Government, and other Federal mineral revenue recipients. In addition, new regulations will help ensure that the correct valuation of the public's resources is accurately reflected in royalties received by MMS. The valuation regulations currently under revision include a Federal oil rule, an Indian gas rule, an Indian oil rule, and a possible Federal gas rule. The MMS is proposing methodologies for calculating royalty value based on widely available information about market values for natural gas and oil.

The MMS is also exploring receiving the Federal Government's share of production "in kind" (by taking volumes of natural gas or oil equal to the royalty percentage) rather than "in value" (as a cash percentage of sales proceeds). The MMS conducted a Royalty-in-Kind (RIK) gas pilot in 1995 and performed a 1997 RIK Feasibility Study. While results of the 1995 pilot were mixed, interest in Government RIK continues, and the 1997 study concluded that, if implemented correctly, RIK programs could be workable, revenue positive, and administratively more efficient for all parties, where appropriate.

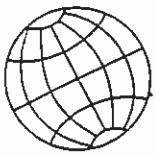
MMS Fact

Since 1980 natural seeps off southern California. have leaked a thousand times more oil into the marine environment than has spilled from all of the offshore oil platforms off the southern California coast.

An enhanced RIK program could potentially streamline the royalty reporting and auditing process and enhance revenues to the U.S. Treasury. Adoption of RIK programs could be beneficial to producers, marketers, States, and, most importantly, the taxpayer. The RIK program may provide opportunities to substantially

reduce disputes between lessees and the Government over the value of Federal production. The MMS is implementing RIK pilots in three areas: natural gas production in the Gulf of Mexico, oil production in Wyoming, and 8(g) natural gas production offshore Texas. These pilots will allow MMS to test RIK programs without placing over $4 billion in royalty collections at significant risk

An outward focus on dynamic market conditions is needed in today's processes, priorities, and systems. Shifting to a market-focused business environment is one of the most significant recommendations of the RMP reengineering team. The MMS will reengineer processes, regulations, and systems to focus on dynamic market conditions and plans to begin prototyping in 1998.



Emerging Global Markets

Today's offshore natural gas and oil industry is global in scope. A growing number of nations are opening up their offshore areas to private investment. Many of the companies who operate in the U.S. OCS also operate overseas, thereby spreading their investment dollars between local and international opportunities. The U.S. companies who wish to work abroad want to make sure that when foreign governments implement their rules, a level playing field is established. The concern is that other nations do not exercise undue influence effectively limiting U.S. access to these offshore resources.

Interdependent nations, those with emerging or developed natural gas and oil programs, have a growing interest in the establishment of international standards for offshore natural gas and oil operations. The expanding scope and effects of international and regionally developed environmental and operational standards on the activities of the domestic industry require increased monitoring.

MMS Responds: Today's MMS activities are global in scope. Therefore, it is no longer prudent or possible to limit focus to what is happening domestically. The MMS is becoming an international leader by expanding its collaborative efforts with other countries to advance safe and environmentally sound natural gas and oil operations world wide and to promote the use of effective royalty management principles and techniques.

It is important for the MMS to be knowledgeable about the systems being employed by other nations to ensure that the United States remains competitive, consistent with the national commitment to environmentally sound and safe operations. Numerous industry and international organizations require monitoring and MMS participation because standards, including equipment adopted, affect how the natural gas and oil industry operates worldwide, including in the United States's own backyard. The

MMS has an ongoing dialogue with Canada, the United Kingdom, Australia, and Norway to exchange engineering, scientific, and systems information to improve the safety of offshore natural gas and oil operations among participating countries.

The MMS, with third party funding, is working as a partner with Norway and Russia to assist the Russian Federation examine the feasibility of establishing a comprehensive offshore natural gas and oil safety and environmental regime. In FY 1999, based on the results of the study, the Russian government is expected to decide whether to proceed.

In a recent groundbreaking move, MMS signed a Science and Technology Memorandum of Understanding with China to exchange information on offshore and royalty programs. Implementation of that agreement is expected in FY 1999.

MMS Fact

MMS, through its Environmental Studies Program, has been at the forefront of developing the ability to tag and track the migratory movements of whales by satellites.

As a part of its royalty management reengineering efforts, MMS has benchmarked with Alberta, Canada, and with Norway on their natural gas and oil royalty management. The MMS has identified several of their practices that may have useful application in the U.S. royalty management activity.

Compelling Safety and Environmental Issues

The move into deep water and overall heightened industry activity have increased both the level and complexity of monitoring OCS operations. The number of operators has grown over the past several years from approximately 100 to over 130. Some of these operators are not as experienced as the more tempered operators and require more oversight. This is coupled with the fact that the offshore industry downsized significantly before the recent increase in activity, which reduced the skilled labor pool. The presence of workers without much offshore experience is placing an added burden on the inspection and compliance program.

Little is known about the deep ocean habitat and the effects of natural gas and oil development upon that habitat. Addressing these information needs is essential to decisionmaking for environmentally sound development.

MMS Responds: Leading the way as an international advocate for environmentally sound and safe operations, MMS held a Deepwater Workshop and formed a Deepwater Subcommittee of the OCS Scientific Committee to help define

environmental studies needs for deep water. Information provided by the studies will be used to prepare environmental impact statements and environmental assessments, to develop lease stipulations, and to evaluate plans of exploration and development and oil-spill response.

To make its safety and inspection strategies more effective, MMS inspects drilling and production facilities on the OCS using both scheduled and unannounced inspections. The frequency of incidents of noncompliance at a facility has proven to be a good indicator of risk. To enhance its inspection program, MMS targets high risk facilities. Companies with questionable performance are dealt with and monitored closely until performance improves to an acceptable level. The MMS has also updated its Civil Penalties program required under the Oil Pollution Act of 1990 (OPA), instituted annual performance reviews of operators, and is proposing a rule that will allow it to debar operators with a poor performance record.

The MMS is launching a new program to determine the environmental impact rate for OCS activities. While it is not possible to determine all potential impacts in the marine environment, the index rate will be used to make yearly comparisons and determine trends.

The MMS has also rearranged and redirected resources to keep up with the increasing activities in the Gulf of Mexico OCS. Finally, MMS is seeking additional funds to increase its inspector workforce and procure studies for deepwater environmental information needs.

MMS Fact

If all the oil and gas pipelines in the GOM were laid in a straight line they would circle the earth.

Transforming Legislation

Over the last few years Congress has passed new legislation and amended existing statutes to reflect constituent's concerns, changes in the oil and gas industry, and changes in the way government should work. The following include some of the more significant legislative actions.

Royalty Simplification & Fairness Act (RSFA) Enacted August 13, 1996, RSFA is the first major legislation affecting royalty management since the Federal Oil and Gas Royalty Management Act of 1982. It challenged MMS to make substantial changes and introduced a host of new requirements including:

- ✓ MMS payment of interest on all Federal natural gas and oil royalty overpayments.
- ✓ Specific royalty reporting standards for Federal natural gas and oil leases and pooling agreements.
- ✓ Reporting options for marginal natural gas and oil properties.
- ✓ Payment liability standards and a new statute of limitations for Federal natural gas and oil leases.

MMS Responds: The MMS has made significant progress in implementing RSFA. Over 20 outreach workshops with State and industry representatives have been held, focusing on specific implementation areas. To date MMS has:

- ✓ Published an interim final rule regarding lessee/designee payment responsibility, and a final rule expanding the list of delegable royalty management functions to States.
- ✓ Completed a host of software changes necessitated by RSFA, including paying and accepting interest, reporting taxpayer identification number, creating a lessee/payor update data base, and 1099 reporting.
- ✓ Begun paying interest to companies who overpay royalties and accepting interest reporting from companies.
- ✓ Implemented the repeal of section 10 of the OCS Lands Act (OCSLA) regarding time limits on refunds.

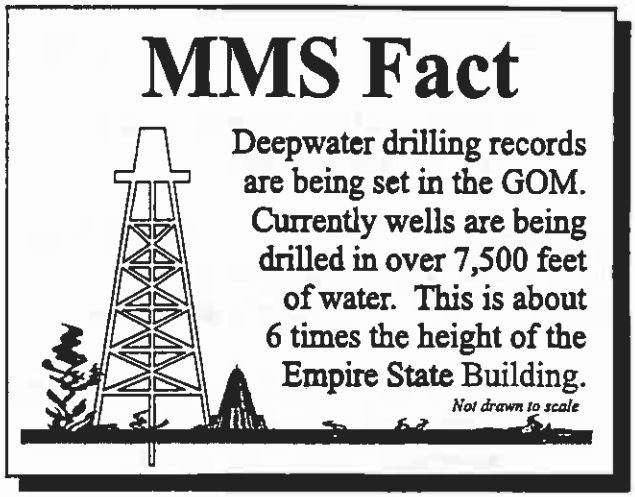
OCS Deep Water Royalty Relief Act (DWRRA)--Deepwater royalty relief was initiated to encourage development in the frontier deepwater areas of the Gulf of Mexico. In November 1995, the DWRRA became public law.

MMS Responds: Interim deepwater rules were in effect from July 1996 until February 1998. Final rules for the DWRRA, both for new leases and for existing leases, were published in January 1998. The MMS evaluated many industry suggestions to improve the workability of the system for implementing DWRRA and incorporated some in the final rules. As a result, the case load of royalty relief applications is expected to increase with the publication of the final regulation.

The MMS has also developed additional rules to grant royalty relief under the OCSLA to encourage production on existing leases. Increased recovery may be achieved by reducing royalties on producing leases approaching the end of their economic lives, thereby enabling them to extend operations beyond the point where they would shut down under full royalties.

OPA Amendments –Changes in OPA now allow for the amount necessary to meet an offshore facility's oil-spill financial responsibility requirement to be based on the facility's location and the amount of oil that could be released in an oil spill.

MMS Responds: The MMS has proposed a rule to implement the 1996 amendments to OPA (30 CFR Part 253). The MMS had actively urged Congress for the change based on information received from the public, industry, as well as many Members of Congress. The amended legislation will now allow MMS to base each facility's financial responsibility requirement on the actual cost that might arise in cleaning up an oil spill.



The Information Technology Management Reform Act (Clinger-Cohen Act)–Enacted in 1996, this law repeals the General Services Administration's (GSA) central authority for acquisition of information technology and provides that executive agencies have authority to invest in information technology (IT). It promotes improving the acquisition, use, and disposal of IT.

MMS Responds: The MMS is actively responding to the requirements of the Act by interactively working with the Department of the Interior and Office of Management and Budget staff on key IT acquisitions. These interactions and analyses have led MMS to more critical evaluation and better presentation of the large scale IT improvements necessary for continued customer support and performance excellence.

Increasingly Sophisticated Constituencies

The MMS has a very active and committed constituency spanning the cultural and economic breadth of this country. A sampling of MMS's daily activities have it involved with:

- ✓ Tribes and Indian allottees who receive the mineral revenues generated from the leasing and production of leaseable minerals from Indian lands;
- ✓ States that receive a share of mineral revenues from onshore and 8(g) offshore activities;
- ✓ Industry as it strives to identify, lease, explore, produce, pay and account for significant natural gas and oil resources from the OCS;
- ✓ Environmental and citizen groups as they want assurance that all due caution has been exercised in the development of the OCS; and
- ✓ Congressional and Administration officials as they oversee the collection and distribution of royalties to the U.S. Treasury, in addition to the aforementioned items.

The MMS Responds: The Indian Self-Determination and Education Assistance Act mandates that the Federal Government provide opportunities for self-governance and self-determination efforts of Indian tribes and tribal organizations. To help tribes prepare to assume royalty management services, MMS offers a number of opportunities, including

Responding to our Constituents

Appeals

It has taken many years to decide some appeals at the MMS level, followed by many years at the Interior Board of Land Appeals (IBLA) stage. Both the Congress and the Administration launched efforts to improve the timeliness. These efforts resulted in the 33-month time- frame set out in RSFA for Federal natural gas and oil royalty appeals to be decided by the Department (both MMS and IBLA) and the 16-month timeframe self-imposed by MMS for all appeals to be decided internally.

Offshore

The OCS is a natural resource used by many different groups with goals and objectives that are often in conflict with one another. In order to implement its mission, MMS has established an extensive network of working relationships with States, localities, native Americans, industry, and environmentalist. Working through this network of relationships, MMS attempts to understand the concerns of all groups and to devise rules to mitigate the impact of MMS activities.

The bowhead whale is a listed endangered species and by law must be protected from activities that could affect it or its environment. In addition, Inupiat hunters also harvest some of the whales as an essential element of their food supply and culture. To assure OCS oil and gas activities do not impact the Bowhead whale or the Inupiat people, MMS has conducted annual surveys that plot the migratory patterns of the Bowhead whales. Using data from these annual surveys, MMS has been able to supply information on distribution, abundance, habitat, and behaviors of endangered whales in the arctic to the National Marine Fisheries Service and to develop mitigation measures that set timing and restrictions for drilling and geological/ geophysical exploration in the area. Lease stipulations incorporating these mitigation measures help protect the normal migration patterns of this species and allow for the continuation of the traditional Native Alaskan bowhead whale hunt.

on-line monitoring of royalties and accounts and an internship program for tribal employees to learn the royalty collection process on cooperative agreements for handling royalty audit work.

The Minerals Management Advisory Board–was established to provide a formal interface with other constituent groups. This board, comprised of four committees and chartered under the provisions of the Federal Advisory Committee Act, is primarily made up of active constituents with a significant interest in the performance of MMS. The committees:

- ✓ OCS Policy Committee
- ✓ Royalty Policy Committee
- ✓ OCS Scientific Committee
- ✓ Alaska OCS Region Offshore Advisory Committee

provide advice to the Secretary of the Interior or other Departmental officials in implementing the laws, rules, leases, and agreements that MMS administers. The committees also conduct meetings, workshops, and conferences throughout the year that are open to the public. A sampling of the workshops include:

- ✓ an oil spill response workshop in the spring of 1998;
- ✓ a platform decommissioning and use of artificial reefs workshop; and
- ✓ an International Workshop on Marine Pipeline Safety Assessment and Risk Management planned in FY 1998, to address strengths and weaknesses of the various approaches to pipeline safety assessment and risk management.

In each of the OCS Regions, key constituents have virtually unlimited access to the Bureau and report that their concerns are heard by the appropriate decisionmakers. Meetings are now the common place to discuss critical issues and develop solutions by consensus, where possible. Federal, State, and local agencies, as well as community business and environmental interests, are involved in problemsolving groups, where appropriate.

Advancing Information Technology

Twenty-five years ago, hand-held calculators that added, subtracted, multiplied, and divided cost $200. Ten years ago, personal computers were rare in the workplace, and two way radios with relay stations were state-of-the-art. Five years ago, cellular phones were in their infancy, and e-mail was just becoming universally available. Today, the OCS program uses 3-D seismic imagery to "see" fields and to estimate their size, production rates, and the best drilling methods for maximum resource recovery. Tomorrow . . . .

MMS Responds: The MMS's implementation strategy for IT is "technology for a purpose." Evaluating the ever-increasing capabilities of advancing IT, MMS has

decided to deliver products that will provide not only enhanced performance for the Government, but also for its customers.

Electronic Commerce - The MMS offers a variety of electronic reporting and paying options to companies. This has reduced errors significantly. Electronic options currently include:

- ✓ Submitting royalty and production reports.
- ✓ Paying funds for royalties, rents, bonuses and assessments.
- ✓ Transmitting bills for collection.
- ✓ Receiving electronic bids for OCS lease sales.

Internet - The MMS has established a home page on the World Wide Web (www.mms.gov). Features include program descriptions and contacts, an archive of news releases, and a listing of publications. Regulations published in the *Federal Register* are also available. Regular updates are made to share new and timely information. Additionally this medium enables MMS to fully comply with the Electronic Freedom of Information Act.

Environmental Studies Program Information System (ESPIS) - ESPIS allows any Internet user to easily access much of the $600 million of research conducted by the MMS's Environmental Studies Program over the last 15 years. Available to the user are more then 600 technical summaries of the most important ESP studies, complete text of many recent studies, as well as information on studies cost and contractors.

Challenging Government Initiatives

The National Performance Review (NPR) is a long-term White House initiative to make government work better, but at less cost. Working better means delivering better service to the American public; costing less means accomplishing this goal with fewer staff and tightly controlled budgets. To achieve these NPR goals, the President and Vice President challenged the Federal Government to reinvent itself; that is, to improve public confidence in Government operations and to succeed in a balanced budget world. Real reinvention is required–nibbling around the edges to improve processes and services will not accomplish the goal.

MMS Responds: To meet the challenge of working better at less cost and to confront the realities of mission and workload growth, MMS has embarked on a project to reengineer itself. For FY 1999, this project is centered on reengineering the Royalty Management Program.

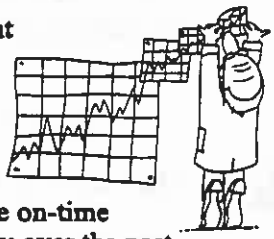
The MMS was awarded Vice-President Gore's NPR "Hammer Award" for the Bureau's Innovative Achievements Program, a bureauwide, staff-driven improvements initiative. Since MMS's first innovative achievement was announced in September 1995, employees have developed and implemented 22 additional ideas, including:

- ✓ Establishing an internship program for Indian tribes with mineral resources.
- ✓ Issuing new well-naming and well-numbering standards.
- ✓ Revising testing requirements for blowout preventers.
- ✓ Simplifying environmental impact statements.
- ✓ Reducing paperwork for industry by offering free electronic reporting software.

This initiative began as a grass-roots effort and has become a widely accepted, bureauwide initiative to change MMS's culture, to encourage employee creativity, to streamline work processes, and to improve customer service.

MMS Fact

The Royalty Management Program distributed approximately $700 million to individual states in FY 1997 with an on-time disbursement rate of 98.9 percent. The on-time rate has increased steadily over the past 10 years with the exception of FY 1996. The on-time rate in FY 1996 fell to 92.9 percent due to extended Government-wide furloughs.



Franchising - In recent years there has been considerable growth of cross-servicing within the Government. The Government Management and Reform Act of 1994 (GMRA) encourages franchising agreements with other organizations. Enterprising government service organizations have expanded their services to customers in other organizations on a reimbursable basis. Currently, MMS's procurement office has provided their services and expertise to the GSA in the form of procurements valued at $60 million. This track record has generated interest from a broad range of other agencies for similar services. In this instance, franchising has enabled MMS to maintain a high skill mix in its own procurement office while providing a valuable service to other parts of the Federal Government. Successes such as these, in improving service and reducing costs, set the stage for expansion of this concept throughout Government. Franchising will allow MMS to further use its mission-related knowledge and skill base to provide services to others and to create a synergy in the Federal Government that mutually benefits both organizations and better serves the American people.

Streamlining - Within weeks of assuming office, the Clinton Administration challenged the Federal workforce to reduce itself and to eliminate layers of management. The MMS vigorously undertook this call for efficiency. As a result, MMS reached the target staffing level for FY 1999 by the end of FY 1997. This was accomplished by:

- ✓ implementing advanced IT technology
- ✓ eliminating unnecessary regulations,
- ✓ refocusing on core responsibilities and missions, and
- ✓ challenging employees to "work smarter not harder."

These efforts and the dedication of MMS to provide same or better service have resulted in an organization that has reduced staffing by 20 percent while striving and achieving the goal of being "the best minerals resource manager."

Strategic Plan and Performance Plan

STRATEGIC FRAMEWORK

MISSION

To manage the mineral resources on the Outer Continental Shelf in an environmentally sound and safe manner and to timely collect, verify, and distribute mineral revenues from Federal and Indian lands.

MMS's Strategic Plan covers the years 1997-2002, in accordance with the Government Performance and Results Act of 1993 (GPRA). The Strategic Plan includes objectives and performance measurement goals linked directly to our two mission goals and to our human resources goal. The goals and objectives are clear, measurable, and relevant to the fundamental MMS mission. Performance measures are vital and designed to serve program managers.

MMS's mission goals are:

GOAL 1. PROVIDE FOR SAFE AND ENVIRONMENTALLY SOUND MINERAL DEVELOPMENT ON THE OUTER CONTINENTAL SHELF AND ENSURE THAT THE PUBLIC RECEIVES FAIR VALUE.

Goal 1 reflects three primary facets of the MMS mission as mandated in the Outer Continental Shelf (OCS) Lands Act, the National Environmental Policy Act and related legislation: 1) to make OCS lands available for mineral development to meet national needs, 2) to ensure that any such development is conducted in a safe and environmentally sound manner, and 3) to ensure that fair value is received for making these resources available. The goal and performance objectives were selected to reflect these obligations.

and

GOAL 2. PROVIDE TIMELY, ACCURATE, AND COST-EFFECTIVE MINERAL ROYALTY COLLECTION AND DISBURSEMENT SERVICES.

Goal 2 reflects the MMS mission as primarily mandated by the Federal Oil and Gas Royalty Management Act of 1982. The goal also reflects our compliance with related legislation: 1) the Outer Continental Shelf Lands Act; 2) the Mineral Leasing Act and the Mineral Leasing Act for Acquired Lands; 3) the Indian mineral leasing laws; 4) the Geothermal Steam Act; 5) Indian Self-Determination and Education Assistance Act; and 6) the Royalty Simplification and Fairness Act of 1996.

Under GPRA, FY 1999 is the first year for performance planning. The Annual Performance Plan describes what MMS expects to accomplish in FY 1999, given the level of funding in the FY 1999 budget, and provides the connection to the long-term goals outlined in the Strategic Plan.

The Annual Plan provides information on annual performance goals for MMS' programs and activities, the measures that will be used to gauge performance, the means and strategies required to meet the performance goals, and the procedures to verify and validate performance.

This linkage allows progress to be measured over the life of the strategic plan and allows trending of data to indicate long term progress in achieving the intended programmatic results and outcomes. These indicators will measure program outcomes using available data and will provide a quantitative assessment of our annual progress towards reaching MMS's long-range goals.

Throughout development of the Strategic and Annual Plans extensive consultation sessions were held with OMB, Congress, key constituency and stakeholder organizations, and other Federal and Department of the Interior offices.

The following chart presents MMS's strategic framework and shows strategic goals and objectives and linked to annual performance goals for FY 1999.

MMS's Strategic Framework

STRATEGIC GOALS	STRATEGIC OBJECTIVES	PERFORMANCE GOALS	FY 1999 ANNUAL GOALS
1. Provide for safe and environmentally sound mineral development on the Outer Continental Shelf, and ensure that the public receives fair value.	Ensure safe OCS mineral development.	By 2002, show a decrease in the accident index below the 1996 level of .612.	The accident index is not greater than .594.
	Ensure environmentally sound OCS mineral development.	By 2002, show a decrease in the number of adverse environmental impacts per OCS mineral development activity below the 1998 baseline.	Baseline less 0.5-10%.
		By 2002, show a decrease in the amount of oil spilled below the 1992-96 average level of 5.09 barrels spilled per million barrels produced.	Oil spill rate not greater than 5.07 barrels/million barrels produced.
	Ensure that the public receives fair value for OCS mineral development.	From 1997-2002, the ratio of high bids received for OCS leases to the greater of MMS's estimate of value or the minimum bid does not decrease below the 1989-95 average level of 1.8 to 1.	Ratio at 1.8.
		By 2002, decrease below the 1989-96 average level of 7 percent the tracts classified as nonviable but on which a lessee makes a discovery within 5 years that a well is capable of producing in paying quantities.	Discoveries in no more than 6.8 % tracts classified nonviable.
	Provide for mineral development on the OCS.	By 2002, show an increase in the annual number of leases on which exploratory wells are drilled above the 1992-96 average level of 250 leases.	Exploratory wells drilled on 265 leases.
		By 2002, show a reduction in the rate of decline in the oil and gas reserves-to-production ratio that occurred from 1990-95, which was 11.5 to 7.3 for oil (.84 per year) and 7.6 to 6.0 for gas (.32 per year).	Reserves to production rate at 0.82 for oil and 0.31 for gas.
		By 2002, show an increase in annual OCS production above the 1996 level of 429 million barrels of oil, 5.0 trillion cubic feet of gas, 2.1 million long tons of sulphur, and .81 million cubic yards of sand and gravel.	OCS production goals: 591 million barrels of oil, 4.9 trillion cubic feet of gas, 2.2 million long tons of sulphur and 22.7 million cubic yards of sand and gravel.

MMS's Strategic Framework

STRATEGIC GOALS	STRATEGIC OBJECTIVES	PERFORMANCE GOALS	FY 1999 ANNUAL GOALS
2 Provide timely, accurate, and cost-effective mineral royalty collection and disbursement services.	Improve the timeliness and accuracy of payments to States, Indian tribes, BIA offices, and other Federal agencies.	Through 2002, maintain or increase the percentage of the collected dollars and accompanying information that is provided timely to States and Indians at 98 percent.	98.75 percent of collected dollars and information are provided timely.
		By 2002, decrease the late disbursement interest costs to $30,000 per year.	Interest costs not more than $50,000.
	Improve the cost effectiveness of mineral royalty collection and disbursement services.	By 1999, increase the percentage of royalty reports, production reports, and dollars received electronically to 100 percent.	100 percent of royalty and production reports and dollars are received electronically.
	Improve reporters' compliance with lease terms, rules, regulations, and laws.	Through 2002, maintain or increase the percentage of royalty and production reports submitted by reporters without fatal errors. Current rate is 97 percent.	98% of royalty and productions reports are submitted without fatal errors.
		By 2002, achieve a Compliance Index (actual voluntary royalty payments/expected royalty payments) of .98.	Achieve a Compliance Index of .975.
	Provide Indian tribes with increased opportunities for education and for assuming functional responsibilities with respect to the Royalty Management Program.	By 2002, increase the number of Indian tribes that take part in one or more educational opportunities or that assume one or more functional responsibilities.	Sixteen tribes are participating.
	Improve customer service and communication.	By 2002, improve RMP's rating (data from customer surveys) in the areas of credibility, responsiveness, professional image, and quality.	Customer rating based on 1998 baseline.

Gathering Baseline Data

MMS's Offshore Program has established baselines based on existing information for seven of eight MMS performance measures. The most recent data available was used for each measure. Baselines have not been established for the performance measure that deals with adverse environmental impacts. MMS is beginning a new program to determine the number of incidences of adverse environmental impacts that result from OCS mineral development. This value will be divided by the number of OCS mineral development activities to determine an environmental impact rate for OCS activities. Since it is not possible to measure all potential impacts in the marine environment, this rate will be an indicator of environmental impacts, and should not be construed as the number of impacts per activity or a measurement of all impacts that could occur. Instead, the index should be compared between years. Development of this approach was completed in December 1997. By the end of calendar year 1998, MMS expects to have sufficient data to establish baselines for this performance measure.

MMS's Royalty Management Program (RMP) has participated in the GPRA pilot since 1994. Therefore, their measures for Goal 2 have historical baseline information available. The RMP continues to define new measures and once they are tested to ensure they are meaningful and appropriate, they will be incorporated into future years' annual performance plans.

Strategies for Achieving Goals

Many of our strategies for achieving the goals are inherent in good management and are focused on improving the way we do business. We continue to look for ways to simplify and streamline our processes and for re-engineering opportunities.

We will incorporate a variety of approaches and strategies as we move to implement the goals we have established. We will improve our decisionmaking process, apply modern information systems to improve work quality and service, maintain a high level of scientific expertise and base decisions on high quality science, issue regulations that focus on results rather than processes, and reward innovation.

The MMS strategies for achieving the goals and objectives embodied in MMS's strategic plan include:

- Improving the decisionmaking process through increased internal coordination and involvement of relevant staff;
- Ensuring that customers and stakeholders are involved in the decision making process;
- Assisting and encouraging customers and stakeholders to comply with regulations;
- Recognizing and responding to the public's concerns;
- Using modern information tools to improve processes and to receive and disseminate information;
- Streamlining operations and simplifying processes;
- Maintaining a high level of scientific and technical expertise;
- Issuing regulations that focus on results rather than processes; and
- Providing a consistently high level of customer service.

Operational Processes

The cornerstone process for the MMS offshore program is the lease-sale decision making process which involves a determination of OCS areas that are prospective for natural gas, oil and other marine minerals, and a parallel determination of the potential environmental impacts that may result from leasing and developing these natural resources in these prospective areas. Information critical to the decision process is derived from numerous sources internal and external to the agency including studies, public hearings, results of modeling technical information, and national policies and goals. Where leasing has been permitted, other factors operate to insure that activities conducted on the OCS are consistent with terms of a decision. Such activities include establishing and enforcing regulations, conducting inspections of OCS

activities, monitoring impacts, and gathering technical information that could result in improvements in procedures and
in projected outcomes.

The MMS royalty program recently embarked upon a business process reengineering initiative to address all of its core business processes including financial, accounting and compliance operations. The objective of this program-wide effort is to design and implement new royalty management business processes and support systems for the 21st century. To guide the effort, RMP senior managers established stretch goals calling for radical improvements in accounting and compliance operations. Accomplishing these goals will require a major refocusing and reorganizing of RMP around its processes and a shift of performance perspective from outputs to outcomes. The expected result is a much different RMP for the future that is process centered, focused on outcomes, less costly, and well positioned to meet a changing and expanding mission.

Skills and Technology

The MMS decision making process requires a wide array of skills and technology. The work requires capable administrators and managers, technical specialists in such fields as geology, geophysics, auditing, petroleum engineering, accounting, economics, environmental science, law, legislative affairs, public affairs and other supporting professions. The information needs of this process are significant, and MMS employs modern information technology tools to make most efficient and effective use of the data. The MMS also offers various electronic reporting alternatives, including electronic data interchange, magnetic tape, diskettes, and electronic mail. The MMS is rapidly increasing use of the Internet as a vehicle to communicate with customers and stakeholders.

Resources

MMS capital resources include headquarters facilities in the Washington D.C. metropolitan area, and facilities in several other locations throughout the United States Capital resources are typical for business settings in terms of space, communications, and modern office equipment. MMS has made a significant investment in modernizing its important data processing capabilities. MMS employed 1,702 full-time equivalent positions in FY 1997 with a budget of $204.4 million. In FY 1998, those figures, including an FY 1998 supplemental appropriation request, are projected at 1,737 full-time equivalents and a budget of $215.3 million. The MMS budget includes offsetting collections of $65 million in 1998.

Verifying and Validating Performance

A number of efforts are used by MMS to verify and validate its performance. Data and information from the performance measures used in support of the plan will be gathered and analyzed using standard, statistically valid methods to ensure that accurate and verifiable information is produced. Methods and procedures for collecting this information will be

routinely evaluated and validated by program managers responsible for collecting and reporting the information.

The evaluation system is a balance of cyclical, in-depth appraisals and ongoing self-analysis and quality improvements of program components. The approach relies on performance measurement and internal and external customer feedback. Program performance is evaluated through: management assessments, business process reengineering, participation in pilot projects, quality improvement reviews, management control reviews, OIG and GAO audits, process action teams, and customer satisfaction.

For all but a few specific measures, baselines have been developed and the information has been tested and validated. Much of the information for developing the baselines has been collected from existing systems. To track performance, we are exploring the available performance management software systems designed to collect performance data, analyze results against established goals in various configurations linked to budget activities, and provide clear and useful reports for managers.

Linking Performance to Budget

While MMS's strategic plan describes the long-term course, the annual plan defines what will be accomplished in any one year as we proceed on that course. The annual plan sets out measurable goals to be accomplished during the fiscal year linked to the budget request using program activity structures.

The two tables at the back of the attached Annual Performance Plan for 1999 show the direct linkage of MMS's performance goals to the budget. The first table lists each goal and measurement indicator and shows the program and finance codes that provide funds for its accomplishment. The second table shows how the goals relate to each individual account program and finance program activity.

OUTER CONTINENTAL SHELF LANDS ACTIVITY

dollars in thousands

Subactivity		1998 Enacted	Uncontrollable and Related Changes	Programmatic Changes	1999 Budget Request	Change from 1998
Leasing & Environmental	$	30,095	468	4,789	35,352	+5,257
	FTE	200	0	9	209	+9
Resource Evaluation	$	22,321	477	-865	21,933	-388
	FTE	204	0	3	207	+3
Regulatory	$	36,277	813	2,200	39,290	+3,013
	FTE	326	0	18	344	+19
Information Management	$	13,941	249	0	14,190	+249
	FTE	109	0	0	109	0
Total, Offshore Minerals Management	$	102,634	2,007	6,124	110,765	+8,131
	FTE	839	0	30	869	+30

Goal:

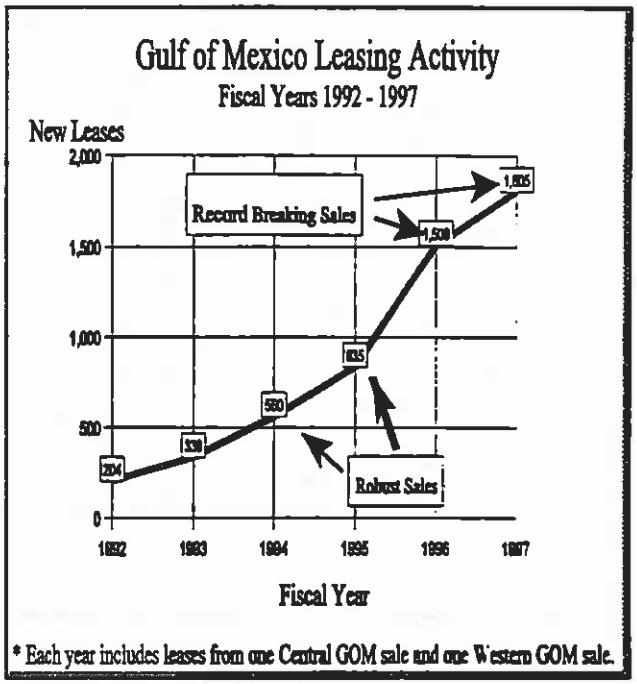
- Provide for safe and environmentally sound mineral development on the Outer Continental Shelf (OCS) and ensure that the public receives fair market value.

Performance Objectives:

- Ensure safe OCS mineral development.
- Ensure environmentally sound OCS mineral development.
- Ensure that the public receives fair value for OCS mineral development.
- Provide for mineral development on the OCS.

The Outer Continental Shelf Lands program is experiencing a phenomenal rise in activity. The Gulf of Mexico (GOM) OCS is currently one of the most exciting exploration and development areas in the world. The MMS is experiencing record levels of exploration and development activities. Advances in technology, along with legislative incentives, are producing oil and gas lease sales in the GOM that keep exceeding all expectations. The Beaufort Sea area offshore Alaska is also receiving renewed interest and experiencing increased activity. Offshore California, industry plans to decommission three of the deepest and largest conventional platforms ever from the world's oceans. With the passage of sand and gravel legislation, MMS has received numerous requests to use OCS sand for beach and wetlands restoration projects.

Today's offshore oil and gas industry is global in scope. The MMS, as one of the most technologically advanced regulators in the world, continues to expand its collaborative projects with other technologically advanced regulatory countries to promote safe and environmentally sound oil and gas operations, worldwide. There is a growing interdependence among nations with developed oil and gas programs, as well as a need for emerging nations to develop regulatory regimes that facilitate, or at a minimum, do not discourage, investment from foreign companies. Because of its regulatory expertise and its record of environmentally safe and sound operations, MMS is increasingly being called upon to assist and participate in international forums and projects that further our Nation's foreign policy goals. The growing scope and effects of international and regionally developed environmental and operational standards on the activities of the domestic industry require increased monitoring by the Bureau.



In FY 1996 and FY 1997, four record-breaking sales occurred in the GOM. These four record sales produced over $2.4 billion in bonuses as compared with $0.7 billion from the previous four sales. The last record sale, the Western GOM Sale 168, held in August 1997, was 33 percent larger than the Western Gulf sale held a year earlier. Historically, the Western Gulf sales are smaller than the Central Gulf sales. However, this last Western Gulf sale set a record for the largest number of tracts bid on in ultradeep water (800+ meters). Accompanying this has been a record pace in drilling wells and installing new pipelines.

While the Nation is reaping significant economic and energy benefits from increased OCS activities, MMS is facing many new challenges as a lessor and regulator.

BENEFITS TO THE PUBLIC

Offshore operations have historically generated approximately $3 billion per year in revenues from bonuses, rents, and royalties. In FY 1997, receipts from offshore activities totaled $4.7 billion. In addition, offshore operations supply about 27 percent of the Nation's domestic natural gas production and about 18 percent of its domestic oil production. It is projected that the current oil production of 940,000 barrels per day from the GOM OCS will increase to a minimum of 1.7 million barrels per day over the next 3 years, an increase of 80 percent. This could translate into approximately $600 million per year in additional royalty revenue by FY 2000. The rate of production is expected to accelerate after 2000.

More difficult to measure, but equally important, is the benefit to local and national economies. Not only is employment up in the oil and gas industry, but also in supporting industries. For example, the petroleum industry is predicted to create 3,500 direct jobs and thousands of support jobs in Louisiana alone during 1998 and 1999.

A concrete illustration of the impact on the national economy of the increased GOM activity may be seen in the adjacent map. This map displays by State the distribution and number of vendors that have supplied material or services in support of a single GOM deepwater project, the $1.2 billion Mars production system of Shell Offshore, Inc. and B.P. Exploration. While the majority of vendors are located in Texas and Louisiana, vendors from all over the country are involved and benefit from the burgeoning activity in the GOM OCS.

MEETING THE CHALLENGES

Overview of Deepwater Activity

Encouraged by world class well producibility as high as 30,000 barrels per day (two orders of magnitude higher than the average for GOM shallow water), industry is moving into deeper waters faster than anyone thought possible just a few years ago. Industry is now producing in water depths that were once considered technologically impossible water deeper than 400 meters. Analysis of recently awarded leases indicates that industry is now going into what is the next frontier, ultradeep waters. Ultradeep water is generally considered greater than 800 meters. Shell has recently set permanent production system world records at 1,639 meters.

During the 1995-1997, the overall number of tracts awarded leases in waters greater than 400 meters multiplied 400 percent from the average of the previous two years. These deepwater leases accounted for 33 percent of all leases awarded. Increases in active OCS leases, coupled with movement into the frontier areas of deep water, have increased regulatory workload factors, from postlease permitting analysis with new environmental considerations to a dramatic increase in offshore inspections of more complex and differently configured OCS production facilities.

Record setting GOM activity

- There were approximately 60 *announced* deepwater discoveries as of 1997, as compared with a handful as of 1990. In March 1997, there were 19 deepwater discoveries in production, all of which are on leases issued prior to 1996.

- Mars, at a water depth of 900 meters, began production in 1996 and at the time, set a water depth world record using a permanent platform. Production from platform (more then one well) reached 100,000 barrels per day in May 1997 (world-class producibility).

- Ram-Powell was installed in 1997 at a depth of 980 meters; this represented a water depth world record using a permanent production platform.

- Ursa is expected to commence production in 1999 using a tension leg platform at a water depth of almost 1,219 meters. This will represent another water depth world record using a permanent production system.

- Mensa began production in late June 1997 at a water depth of 1,639 meters by means of a subsea well completion; this set world records for deepest and longest production.

- BAHA exploratory No. 1 well, "spudded" in April 1996, was drilled at a water depth of 2,326 meters. This set a new world record for an exploratory well.

- In November 1997, a record 30 (permanent and temporary) rigs were simultaneously drilling in the GOM in water depths of over 400 meters, as compared with 9 in 1990. Industry drilling is constrained by rig availability.

- The number of applications for approval of development plans is the highest it has been in 10 years.

- Rates of employment on the OCS are going up and the job market is tight.

Safety and Environmental Protection

The MMS has a very strong commitment to safety and environmental protection. The move into deep water and overall increased industry activity have increased both the level and complexity of monitoring of OCS operations. The number of operators has increased over the past several years from approximately 100 to over 130. Some of these operators are not as experienced as the more seasoned players and require more oversight. There is also a much heavier reliance on the use of contractors. This is coupled with the fact that the offshore industry downsized significantly during the 80's, which reduced the skilled labor pool. The presence of workers without much offshore experience is placing an added burden on the inspection and compliance program.

Revenue Receipts Collections

In FY 1994 through FY 1997, MMS received $70.2 million of its funding from the increase in rental rates on OCS leases. With the recent record sales in the GOM, these receipts have increased far beyond original estimates. In FY 1998, $65 million of these receipts will fund MMS activities, while an additional $27 million is expected to be returned to the Treasury.

The MMS feels particularly committed to ensuring that industry maintain its excellent safety and environmental record as the level of activity increases in both amount and complexity. Unless this record is maintained, industry will not be able to go forward with its ambitious plans for the GOM because the public will lose confidence in the integrity of the

program. In addition, the Nation will lose the significant contributions that the Offshore Program makes to the economy in the form of revenues and secure supplies of oil and natural gas.

Funding Offsets

The MMS has continuously sought methods of implementing new legislation and meeting its increased workloads without increased appropriations.

In FY 1993, MMS obtained authority to keep the additional funds from higher rentals for its automated data processing (ADP) modernization effort. In FY 1996, MMS requested and received the authority to charge and retain fees for the cost of processing royalty rate relief applications. This enabled MMS to process these applications without additional resources. The MMS has recently amended its regulations to increase filing fees for processing pipeline rights-of-way and lease assignments. Increased collections due to this initiative are estimated at $670 thousand in FY 1999.

The Outer Continental Shelf Lands Budget Activity is composed of four subactivities: Leasing and Environmental, Resource Evaluation, Regulatory, and Information Management. Descriptions of the programs they fund and recent accomplishments are described in the following sections.

Leasing and Environmental Programs

Justification of Program and Performance
Analysis by Subactivity
dollars in thousands

Leasing and Environmental Program		1998 Enacted	Uncontrollable and Related Changes	Programmatic Changes	1999 Budget Request	Change from 1998
Leasing & Environmental Assessment	$	15,724	468	789	16,981	1,257
	FTE	200	0	9	209	+9
Environmental Studies	$	14,371	0	4,000	18,371	+4,000
	FTE	0	0	0	0	0
Total	$	30,095	468	4,789	35,352	+5,257
	FTE	200	0	9	209	+9

Leasing and Environmental Assessment

Proposed Lease Sales Schedule				
Sale Number, Area	FY 1999	FY 2000	FY 2001	FY 2002
172 - Central GOM	■			
174 - Western GOM	■			
175 - Central GOM		■		
177 - Western GOM		■		
176 - Beaufort Sea		■		
178 - Central GOM			■	
180 - Western GOM			■	
173 - Cook Inlet/Shelikof Strait			■	
181 - Eastern GOM				■
182 - Central GOM				■
179 - Gulf of Alaska				■
183 - Chukchi Sea/Hope Basin				■

This subactivity funds leasing, environmental assessment, and environmental studies programs. Leasing activities include Five-Year Program Planning, Prelease Planning and Decision Process, Postlease Adjudication Process, and Advisory Board Coordination.

Five-Year Program Planning - Section 18 of the Outer Continental Shelf Lands Act (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, for the 5-year period following its approval. Development of a 5-year Program allows an efficient allocation of planning resources

by coastal States, Federal agencies, the oil and gas industry, and other stakeholders. The current 5-year Program covers the period from July 1997 to July 2002. During FY 1999, MMS will conduct an annual review of the current 5-year Program.

Prelease Planning and Decision Process - The MMS does extensive consultation with States, coastal communities, and other concerned parties regarding areas considered for leasing.

The prelease planning and decision process has been modified to reflect the different leasing circumstances in the Central and Western GOM and Alaska. Starting with 1998 sales, a single multisale Call for Information and Nominations was issued for all sales in the Central and Western GOM. A multisale Area Identification and Environmental Impact Statement (EIS) is used, which enables MMS to conduct the prelease decision processes for subsequent GOM sales more efficiently. After the multisale EIS and Consistency Determination (CD) for the first GOM sale, there is complete National Environmental Policy Act and Coastal Zone Management Act coverage for each subsequent GOM sale (an Environmental Assessment or Supplemental EIS) and a CD. The prelease process for the first sale generally takes about 2 years; it is estimated the prelease process for subsequent sales identified in the multisale process will takes only about 11 months.

Alaska will continue to prepare an EIS for each sale. In addition, Alaska uses the Alaska OCS Region Offshore Advisory Committee during the decision process as a forum so affected constituents can collectively make recommendations on a specific lease sale proposal in a timely manner consistent with leasing schedules. The prelease process for Alaska sales generally takes less than 3 years to complete.

Following are the steps in the prelease planning and decision process:

- **Call for Information and Nominations** - Invites potential bidders to nominate areas of interest within planning areas identified for leasing consideration in the 5-year Program.
- **Area Identification** - Identifies area for proposed action based on information gathered from the Call.
- **Draft EIS** - Evaluates environmental effects of proposed actions, alternatives, and mitigating measures.
- **Final EIS** - Incorporates responses to public comments on draft EIS.
- **Consistency Determination** - Assures that the proposed sale is consistent with the State's Coastal Zone Management Plan.
- **Proposed Notice of Sale** - Provides information to the public on the size, timing, terms, and conditions of the proposed lease sale.

- **Letters to the Governors** - Governors of the affected States are sent copies of the proposed Notice for their review and recommendations regarding the size, and timing/location of a proposed lease sale.

- **Balancing Letters** - Informs Governors as to whether their recommendations were accepted or rejected.

- **Final Notice of Sale** - Published a minimum of 30 days before sale is held. Includes date, time and location of the bid opening, blocks offered, and terms and conditions of the sale.

- **Sale**

Recent Resolutions

At the October, 1997 meeting of the OCS Policy Committee, resolutions were passed on the following:

Coastal Impact Assistance - The Committee urged the Secretary, DOI, to take timely action to prepare and support draft legislation to implement sharing of revenues with States and U.S. Territories that are impacted by OCS development.

Sand and Gravel - The Committee endorsed the use of a negotiated agreements process for OCS sand, gravel, and shell for publicly-beneficial projects and urged MMS to adopt and make available its "Proposed Policy and Guidelines on Fees."

Postlease Adjudication Process - Supplemental bond compliance is considered during the lease assignment process. This involves consideration of the financial strength of the company. The transfer of producing leases 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 prompted MMS to require additional supplemental bonding security. Each lease assignment process may take anywhere from 4 weeks to 1 year.

Advisory Board Coordination - The Minerals Management Advisory Board was established to provide advice to the Secretary and other officers of the Department of the Interior (DOI) in performing discretionary functions of the OCSLA and to address royalty-related issues. The OCSLA requires that DOI 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 and includes several committees:

OCS Policy Committee, which advises the Secretary on the national policy implications of managing the OCS oil, gas, and mineral resources;

Alaska OCS Region Offshore Advisory Committee, which advises the Alaska Regional Director and represents stakeholders during the lease sale process;

OCS Scientific Committee, which advises MMS on the feasibility, appropriateness, and scientific value of the Environmental Studies Program; and

Royalty Policy Committee, which advises MMS on royalty management related policies .

The MMS provides support for all the Advisory Board committees, including the service of an Executive Secretary.

Planned Activities for FY 1999

- Implement prelease steps for sales scheduled in the 5-year Program for 1997-2002 and conduct Sale 172 and Sale 174, Central and Western GOM.

- Continue improving the bidding and leasing process for OCS lease sales through the use of technology.

U.S.-Mexico Maritime Boundary

A treaty, defining the maritime boundary between the United States and Mexico in the GOM and Pacific Ocean out to a distance of 200 miles, was ratified by the Senate on October 23, 1997, and signed by both countries on November 13, 1997. This treaty had been ratified by Mexico in 1978. Recent interest by industry in deep water prompted the U.S. ratification of the treaty to set the stage for negotiations with Mexico regarding a continental shelf delimitation agreement to establish the boundary between the two countries in the GOM beyond the Exclusive Economic Zone (beyond 200 miles from each country) in the area known as the "Western Gap."

August 1997, Western GOM Sale 168 - MMS received bids on tracts in the northern portion of the Western Gap. The MMS set aside these bids, pending a decision by the Secretary, DOI. In December 1997, Secretary Babbitt determined that it is in the best interest of the United States to return all unopened bids from Sale 168.

Spring 1998 and Future GOM Sales - In light of the United States and Mexico announcing in December 1997 that that the two nations will commence discussions to resolve the above boundary dispute, Secretary Babbitt will withdraw the tracts in the Western Gap area proposed for lease in Sale 169 (scheduled for Spring 1998).

Environmental Assessment

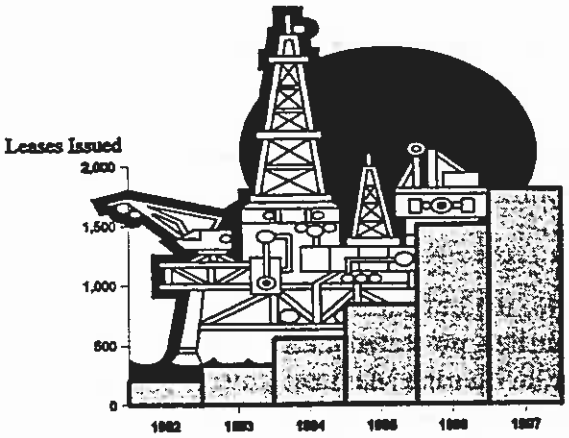
The MMS is committed to environmentally sound management of minerals activities on the OCS. This commitment to environmental stewardship becomes more challenging each year with the increase in activities at all phases-leasing, exploration, production, and decommissioning. The MMS's environmental processes integrate requirements of the National Environmental Policy Act (NEPA) into planning for OCS oil and gas lease sales, with the commitment to environmental protection continuing throughout the life of each lease.

The conditions under which the Federal Offshore (OCS mineral) program operates have fundamentally changed over the last several years.

First, 3-dimensional seismic exploration technology greatly reduced the risk involved in finding viable deposits of natural gas and oil. Then, new approaches to drilling and production opened up the deep waters of the Gulf of Mexico to unprecedented levels of leasing, exploration, development, and production. Passage of the OCS Deep water Royalty Relief Act of 1995 has added to the attractiveness of deepwater prospects. The MMS expects these changes to double oil production by the year 2000 (compared with 1995).

In addition, MMS is reviewing the development and production plan for the Northstar project off the coast of Alaska. This project promises the first oil from the Federal OCS of the Alaska OCS. Production is expected to commence in 1999 or 2000. The initial OCS development is expected to be followed by many more as the completion of pipeline infrastructure makes development of more deposits financially viable. A plan for development of the Liberty prospect is currently under consideration.

New Leases Issued
Fisacl Years 1992 - 1997



The active development of shallow-water tracts in the Gulf of Mexico and continuing production in the Pacific Region, together with

decommissionings, mean that deep water and arctic activity will only add more responsibilities to an already heavy workload.

Assuring the environmental soundness of the Offshore Program has become a daunting responsibility in the face of the technological transformation and the workload associated with increased lease sales, exploration and production permit applications, and decommissioning. To assure environmental soundness, MMS the evaluates potential environmental effects of OCS activities, both prelease and postlease sale activities. The key product of this effort is the identification of mitigation measures that allow the natural gas and oil extraction activity to continue while protecting the vulnerable environmental resources identified in the analysis.

The prelease phases of the offshore production process consist of the 5-year Program and the various planning area lease sales. Environmental Impact Statements (EIS's) are written for both of these phases. Work on lease sale EIS's has become more difficult because of the technological changes that must be analyzed. In addition, MMS is planning an environmental assessment (EA) covering the entire breadth of deepwater development in the Gulf of Mexico. This EA may find that a full-blown EIS on this topic is necessary.

In the postlease phase, MMS permits at least five different steps in the production process. Due to the size and complexity of the new technology, permits that traditionally required the less resource-intensive Categorical Exclusion Reviews will begin to require the more complex Environmental Assessments. The technological complexity of EA's performed on an increasing number of projects tax the resources MMS can dedicate to any one assignment. Some of the EA's may conclude that a potential for significant impact is present which will trigger the need for a full EIS. Of course, oil spill analyses will still be needed for all lease sales and exploration and development plans.

In addition to evaluating potential environmental effects of OCS activities, MMS also:

- meets formally and informally with other Federal and State agencies to coordinate work where activities and jurisdiction overlap;
- provides policy direction for OCS activities connected with environmental laws; and
- reviews and prepares technical comments and information in response to congressional legislative activities,

MMS environmental prelease and postlease assessment analysis has resulted in several mitigating measures that allow OCS oil and gas development to continue, while protecting the marine environment:

- **Gulf of Mexico Platform Decommissioning** - Two major concerns related to platform decommissioning activities are ensuring that sea turtles, protected under the Endangered Species Act (ESA), and dolphins, protected under the Marine Mammal Protection Act, are not harmed. In June 1988, MMS and National Marine Fisheries Service (NMFS)

completed a formal section 7 consultation under the ESA to ensure minimal harm to sea turtles and dolphins. An observer program to monitor explosive removals was one result of the consultation. Between 1988 and 1996, 1,035 platforms have been removed from the Gulf of Mexico OCS Region planning areas. Since 1988, 146 sea turtle observations and 12,660 dolphins have been reported. During that time period, only one turtle injury has occurred. No turtle or dolphin mortalities have occurred.

- **Bowhead Whale Protection and Monitoring** - The bowhead whale is a listed endangered species. Under International Whaling Commission authority, Inupiat hunters also harvest some of the whales as an essential element of their food supply and culture. The Alaska OCS Region conducts aerial surveys of bowhead whale migration. The resulting reports provide data to the Alaska OCS Region and to the NMFS on distribution, abundance, habitat, and behaviors of endangered whales in the arctic. They also help plot progress of the fall migration of the whales across the Alaskan Beaufort Sea. This information forms the basis for mitigation measures that set timing and restrictions for drilling and geological/geophysical exploration in the area. Lease stipulations incorporating these mitigation measures help protect the normal migration patterns of this species and allow for the continuation of the traditional Native Alaskan bowhead whale hunt, a critical component of the spiritual and subsistence activity for these indigenous peoples.

- **Chemosynthetic Communities** - Chemosynthetic communities are thriving invertebrate communities found in deep water near hydrocarbon (usually methane) seeps. To protect these unusual communities, MMS requires that plans (of exploration or development) in water depths greater than 400 meters include data to assess the likelihood that these communities are present. The MMS carefully examines all pertinent geophysical data to see if the project area could be conducive to the growth of such communities. Mitigation may include relocation of proposed operations, photo-survey documentation, and setting anchors so that these communities are not impacted. In recent years, MMS has reviewed about 75 affected plans per year assuring protection for these resources on those sites.

- **Pacific OCS Decommissioning** - Industry plans to remove some California OCS platforms shortly after the year 2000, which include some of the deepest and largest structures ever removed from the world's oceans. The MMS and the California State Lands Commission have worked closely to develop a plan for the environmentally safe removal of offshore platforms. This is an issue that has captured the attention of the international community because of interest in international platform removal guidelines and the technological complexity of the undertaking.

- **Gulf of Mexico OCS Topographic Features Protection** - This stipulation requires the lessee to refrain from disturbing the bottom at the crests of the topographic features that support corals, sponges, or other marine organisms and requires the disposal of drill muds and cuttings in such a manner that these organisms are not harmed.

- **High Energy Seismic Survey (HESS) Team Initiative** - As a basis for planning future OCS natural gas and oil exploration and development work in southern California, industry wants to conduct high-energy seismic surveys. The MMS has created a HESS Team to develop a standard procedure for reviewing high-energy seismic surveys that will reduce or eliminate redundancy between State and Federal agency reviews, determine the appropriate level of NEPA review and coordination, and work jointly with the State of California to produce a document on the possible environmental impacts from seismic surveys. The HESS Team members include the oil and gas industry, seismic industry, fishing industry, NMFS, Channel Islands National Marine Sanctuary, California State and local governments, and national environmental groups.

- **Archaeological Resources** - Both historic resources (such as shipwrecks) and prehistoric sites (such as early-man activity sites) are protected by laws and regulations. The MMS has funded archaeological studies to identify areas of high probability for shipwrecks and to determine the water depths that could include prehistoric sites. This allows identification of certain blocks where archaeological surveys are required for approval of offshore operations. For operations in these blocks, industry must submit the archaeological surveys as part of their plan. About 900 such archaeological plans are reviewed annually. Of those reviewed, about 75 percent of pipeline applications and one percent of plans require that industry take some measure, such as avoidance, to protect the resources.

U.S. Year of the Ocean (YOTO)

Because of its management responsibility for the Nation's ocean energy and mineral resources, MMS is playing a key role in YOTO. The MMS has the Federal lead for development of a background paper on ocean energy and mineral resources and is colead with NOAA for the ocean resource management paper.

- **Arctic Offshore Oil and Gas Guidelines; Protection of the Arctic Marine Environment** - The MMS played a large role in writing and developing these guidelines, which cover all stages of offshore oil and gas activity in the arctic. The arctic States (Canada, Denmark, Iceland, Finland, Russia, Sweden, Norway, and the United States of America) adopted the guidelines in June 1997. The guidelines define a set of recommended practices for regulation of offshore oil and gas activities in the arctic for protection of human health and safety and protection of the environment. These guidelines constitute an important step in efforts to preserve the natural and cultural features of the fragile arctic environment for present and future generations.

Environmental Studies

The Environmental Studies Program (ESP) is responsible for providing the research and environmental information necessary to make informed decisions on OCS activities. Environmental studies are designed to address specific issues about the environmental and

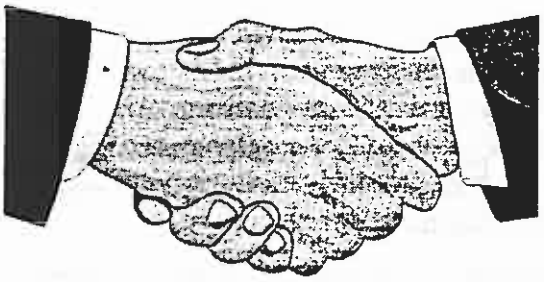
socioeconomic health of a region, both before and after OCS leasing. Studies provide the information necessary to develop measures to minimize adverse impacts on the environment.

Technology Assessment and Research

A team was formed to review the decisionmaking processes of the Environmental Studies, Technology Assessment and Research, and Oil Spill Research programs to prioritize of limited research funds. Synergisms between the programs, leveraging of funds, and involvement of proper management in the process were explored. Adequate, quality research is essential to meeting the Bureau's strategic plan goal of basing decisions on sound science.

The ESP actively seeks partnerships with stakeholders who are involved with, or affected by, OCS activities. Not only does this result in important consensus building, but it also affords an opportunity for leveraging dollars and accomplishing research objectives that otherwise might not be attainable. The MMS has established key research partnerships through the Coastal Marine Institute (CMI) initiative in Louisiana, Alaska, and California. In addition; several partnerships focusing on development of Geographic Information Systems (GIS) resources are in place with the Gulf coast States and the National Oceanic and Atmospheric Administration (NOAA). The MMS also work with several other Federal agencies with relevant mandates to meet its information requirements to support OCS development and resource management decisions. The MMS is working with the NMFS and the Fish and Wildlife Service on marine mammal studies, the Environmental Protection Agency on air quality and drilling discharge studies, and 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.

Cooperative Research Efforts



Planned Activities for FY 1999

Most of the studies have been conducted on the continental shelf out to 305 meters (1000 feet) of water. Rapid technological advances and recently passed legislation have resulted in a rush to develop both deep water and subsalt oil and gas resources. To meet the information needs created by this new development, the ESP is joining with other Federal, State, and academic institutions in an attempt to provide the information needed in the most cost-effective manner.

Of special concern, are the effects onshore facilities and infrastructure needed to support deepwater activities may have on Gulf coast socioeconomic conditions. A good example of this is the study, "A Socioeconomic Analysis of Port Expansion at Port Fourchon," awarded to document the growth of OCS support activities in the Port Fourchon, Louisiana, area. This study

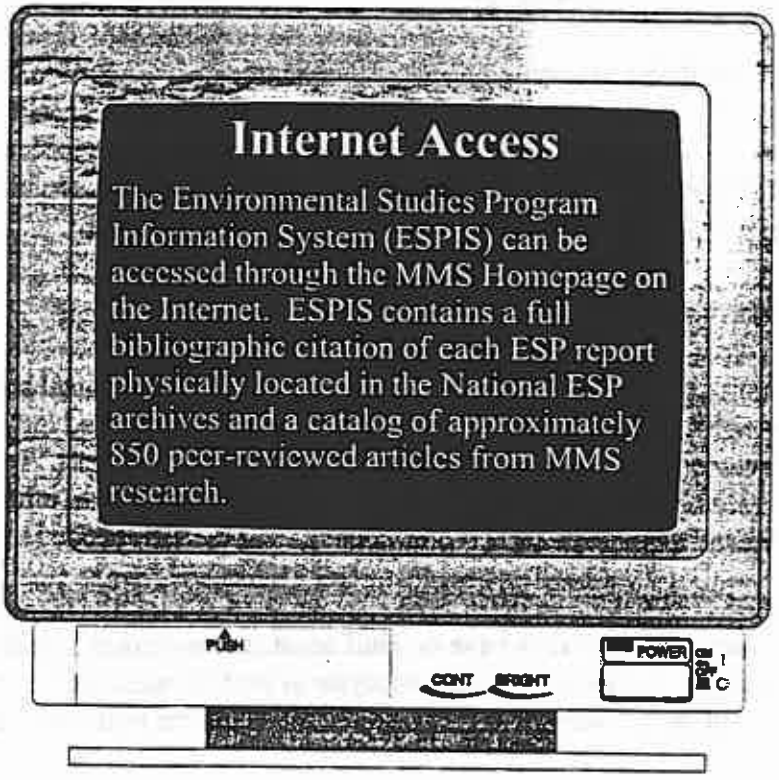
will also develop a model of the economy of the area that will allow the projection of future economic effects of OCS activities. Other studies on these potential impacts and on the potential impacts to water quality, air quality, and wetlands are being planned.

In addition, the proposed increase in FY 1999 will allow MMS to fund studies in the following areas.

- OCS-Related Infrastructure in the GOM
- Northern Gulf of Mexico Continental Slope Habitats and Benthic Ecology
- Workshop on the Status of and Human Impacts on Marine Mammals and Sea Turtles in the Gulf of Mexico and Atlantic Ocean
- Assessment of Potential Conflict Between the Fishing and Oil Industries in Deepwaters of the Gulf of Mexico
- A Joint Federal/Industry Cooperative Studying Synthetic Drilling Muds and Cuttings Discharged into Deepwaters
- Study of Physical Processes in the Slope and Rise Using Numerical Models
- The Technology and Economics of Deepwater Rigs

Pacific Region - In the Pacific Region, monitoring of the coastal marine environment and onshore socioeconomic impacts will be conducted through partnerships with the State and local governments, and through the CMI at the University of California at Santa Barbara. An additional partnership in the Pacific Region with Scripps Institute of Oceanography and the State of California will allow MMS to collect needed information on physical oceanographic processes in the Santa Maria Basin-Santa Barbara Channel area at a substantially reduced cost.

Alaska Region - Studies in the Alaska Region will be designed to provide information for management decisions associated with the Beaufort Sea and Cook Inlet plans for lease sales, exploration, and development. Physical oceanographic data will be collected, and much-needed research on the fates and effects of oil in the arctic marine environment will be conducted through the CMI at the University of Alaska at Fairbanks. With increased industry interest in the Beaufort Sea, studies of bowhead whales and other subsistence valued species will be conducted to protect those important marine mammals.



Sand and Gravel - The rapidly expanding interest for using sand and gravel resources from the OCS will require environmental studies as coastal States continue to enter into cooperative agreements with the MMS for use of these resources. In addition, there is also interest by commercial firms and local jurisdictions for the use of sand and gravel for construction projects.

Resource Evaluation Program

Justification of Program and Performance
Analysis by Subactivity
dollars in thousands

		1998 Enacted	Uncontrollable and Related Changes	Programmatic Changes	1999 Budget Request	Change from 1998
Resource Evaluation Program	$	22,321	477	-865	21,933	-388
	FTE	204	0	3	207	+3

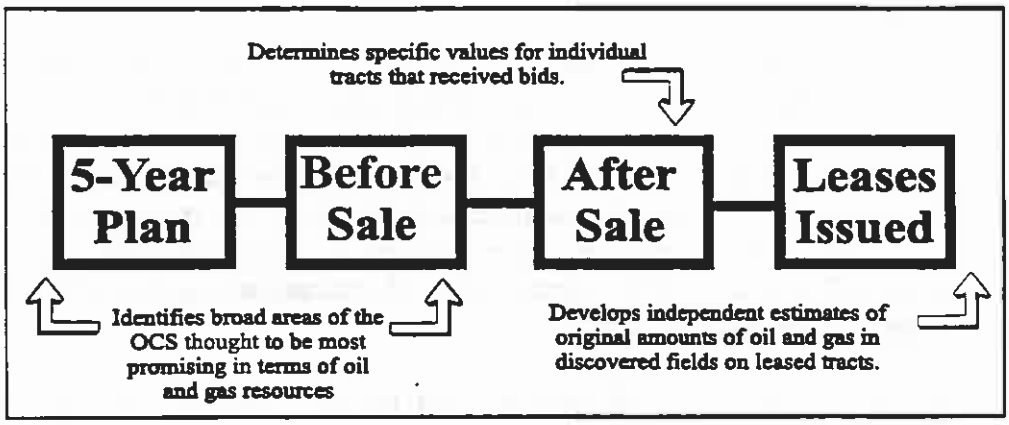
Resource Evaluation

This subactivity funds resource evaluation, economic analysis, marine minerals activities, and international activities.

Elements of Resource Evaluation include

- Regulation of data collection;
- Geological and Geophysical data acquisition and analysis;
- Resource assessment;
- Resource estimation;
- Tract evaluation;
- Reserves inventory;
- Technical information distribution.

The Resource Evaluation (RE) program is involved in all cycles of OCS program activities. For the 5-year plan and individual lease sales, RE identifies broad areas of the OCS thought to be most promising to contain oil and natural gas. After a sale is held, RE determines specific values for individual tracts offered for sale. Once leases are issued, RE ensures that discoveries are developed and produced in accordance with the goals and provisions of the OCSLA.



Regulation of Data Collection - The MMS is charged with developing and implementing regulations (30 CFR Parts 251 and 280), rules, and procedures that 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. Adherence to these regulations ensures that exploration and research activities will be conducted in an environmentally safe manner and not interfere with other activities occurring in the area. The regulations govern the permitting, data collection, and release of information.

G&G Data Acquisition and Analysis - The primary source of the Geological and Geophysical data and information used by the RE program is the oil and gas industry. While the MMS does not directly collect any data, permits issued to industry for collecting such 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.

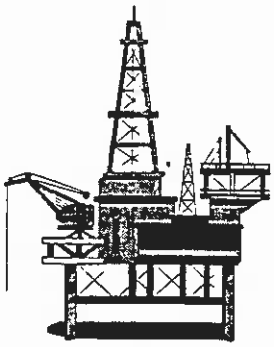
The data are used by MMS for lease sale tract evaluation for fair market value (FMV), for resource assessment, royalty relief determinations, preparation of EIS's, lease sale decision-making, and general offshore program management. These data are, therefore, very important to MMS because so many decisions are made based on the interpretation of geoscience data and information. The interpretations generated by MMS data are held proprietary by MMS in accordance with regulations.

The RE program is converting its entire seismic database into a digital form usable by the new computer workstations, a project that will take several years at current funding levels. Digital seismic data is needed to support tract evaluation; reserves inventory and field determinations, regional mapping and assessment, review of deepwater royalty relief applications, and unitization functions. In the case of digital well logs, 100,000+ paper well logs in the GOM will be converted into digital format by a private contractor.

Resource Assessment - The RE program identifies geologic plays on the OCS that offer the highest potential for oil and natural gas and nonenergy development and production. Following the identification of these 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 and economic models. This will focus the necessary environmental and technical studies to identify environmental and operational constraints as well as to assist in the consideration of eventual leasing decisions, as leasing activity moves into deep water.

All of this information (e.g., identification of plays, the assessment of the hydrocarbon resources that may be present, and their economic viability), is used in the 5-year Program formulation process, as well as specific lease sale decisions. This information is also needed for analysis of Administration and Congressional policy and legislative proposals affecting OCS lands activities.

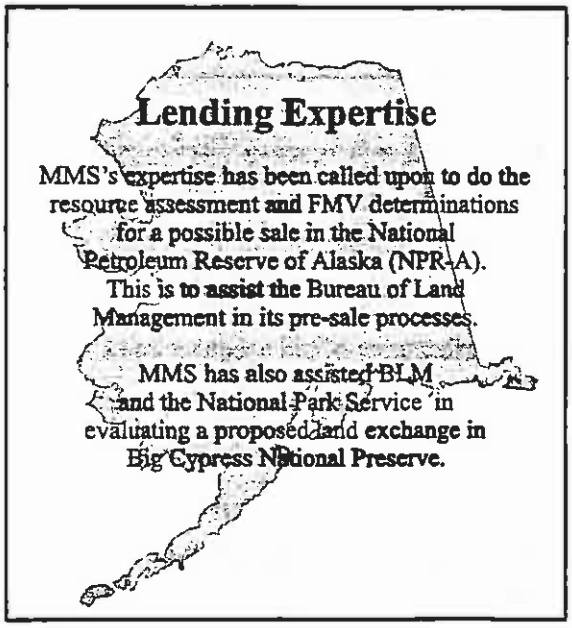
Resource Estimation - The MMS estimates the possible amounts of undiscovered oil and natural gas believed to exist under Federal waters. The estimates are developed using complex computer models and methodologies that incorporate specific geologic information, mathematical and statistical analyses, risk and probability theories, and a variety of assumptions pertaining to economic scenarios, petroleum engineering data, and additional technical assumptions. Resource estimates have addressed vast areas, such as the GOM, offshore Alaska, or the entire OCS, and 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" as well as "economically recoverable" oil and natural gas. Similarly, estimates of undiscovered resources on tracts currently leased are estimated separately from those on unleased lands. These are periodically revised as economic scenarios, and lease inventory changes occur in each planning area. Resources must also be estimated support critical analyses of potential impacts of policy options, legislative proposals, EIS's, and industry activities affecting current and future OCS oil and natural gas activities.



Recoverable Resources

The OCS is estimated to contain over half of the Nation's conventionally recoverable oil and gas resources.

Tract Evaluation - The MMS is responsible for assuring that the Federal Government receives fair market value (FMV) for rights to mineral resources on individual OCS tracts. Immediately after a lease sale, 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.



Lending Expertise

MMS's expertise has been called upon to do the resource assessment and FMV determinations for a possible sale in the National Petroleum Reserve of Alaska (NPR-A). This is to assist the Bureau of Land Management in its pre-sale processes.

MMS has also assisted BLM and the National Park Service in evaluating a proposed land exchange in Big Cypress National Preserve.

Phase 1 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 (at least three bidders on a tract with general agreement on the three highest bids) can be relied upon to assure receipt of FMV. Additionally, bids are accepted on tracts where Government data indicate the tract does not contain an economically viable prospect; therefore, no further FMV analysis is required.

Those high bids not accepted in phase 1 receive further evaluation in phase 2. For those high bids, MMS geoscientists 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.

Tract evaluation uses mathematical and statistical models to integrate geophysical, geological, engineering, and economic data to derive tract values. The process accounts for 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 into FY 1999, is underway to improve the tract evaluation model (MONTCAR) to ensure receipt of FMV. MONTCAR was revised to handle the royalty suspension volumes mandated by the Deep Water Royalty Relief Act (DWRRA).

Reserves Inventory - The MMS develops independent estimates of original amounts of oil and natural gas in discovered fields by conducting field reserve studies on the OCS. Determining which specific leases comprise individual fields is a critical factor in deciding the eligibility of leases for royalty relief pursuant to the DWRRA. Each of these determinations could potentially involve hundreds of millions of dollars to the U.S. Treasury. The estimates are revised periodically to reflect new discoveries and incorporate development information and annual production. Studies of unproven fields are especially critical in 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 support other OCS program activities as well as Royalty Management Program functions and cooperative efforts with the Energy Information Administration of the Department of Energy.

Technical Information Distribution - The MMS develops important technical information regarding the hydrocarbon resources on the Federal OCS, which is useful to industry, Federal and State agencies, and the general public. By FY 1999, Volumes I and II of the GOM Oil and Gas Atlas Series will provide important information to the operators in the GOM because the series will focus on producing reservoirs and plays and will tie the geology together. Other OCS reports that contain other technical information, such as the geology of OCS planning areas, certain offshore wells, G&G data acquisition, production projections, and annual reserveare also prepared. The Field and Reservoir Reserve Estimates Reports give a perspective on national trends of production, additions to the offshore reserves base, and drilling activity.

Economic Analysis

The RE Program also prepares an annual report to Congress evaluating bidding results and competition on the previous year's sales and addresses work on specific economic issues and program-related analysis, including the potential effects of alternative policies on MMS customers. The focus of this work is to enable the MMS to ensure that the public receives FMV for OCS mineral development and to provide for mineral development on the OCS. Economic and statistical analyses are performed that

Economic Analysis Priorities

Design and study alternate auction and leasing arrangements.

Assess the performance of bid adequacy rules for lease sales.

Evaluate policies to expand royality relief authorities.

Provide economic analysis to other MMS program activities.

incorporate RE program data and information into overall MMS and DOI leasing policies and program decisions. These activities require sophisticated statistical and analytical modeling capabilities and access to a diverse array of OCS data.

Marine Minerals Activities

The Marine Minerals Program is responsible for all minerals other than gas, oil, or sulphur. Interest in OCS sand resources has been steadily increasing the past few years and has been the dominant concern of the marine minerals staff. Demand for OCS sand is rising due to continued State concerns over coastal erosion and the environmental concerns involved in using nearshore sands. There is also a growing need for offshore sources of construction aggregate material. Amendments to sections 8(k) and 20(a) of the OCSLA in 1994 provide for negotiated agreements in lieu of competitive bidding for obtaining OCS sand, gravel, or shell resources for certain public works projects. The MMS and coastal States use a cooperative approach toward mineral resources development questions. States and the MMS engage in jointly funded cooperative studies to identify the need for, and availability of, OCS sand resources for beach nourishment purposes. When warranted and when funds are available, environmental studies are developed and conducted within the identified sites. Both types of studies provide the information base needed for negotiated agreements.

International Activities

The MMS's international activities focus on the commitment to environmentally safe and sound offshore oil and gas operations worldwide through:

- Technical and information exchanges with advanced and emerging nations;
- Providing technical advice to the State Department on a broad spectrum of international instruments (protocols, treaties, growing number of regional agreements) that affect domestic offshore oil and gas regulatory responsibilities; and
- Participating in regional/international forums that address the need to integrate sound science into the regulatory process.

Technical and Information Exchange - MMS has an ongoing dialogue with Canada, the United Kingdom, and Norway via an established International Regulators Forum to exchange engineering, scientific, and systems information to improve the safety of offshore oil and gas operations among participating countries. The MMS sees the need for this dialogue to expand in order to gain first hand experience of these countries' oil and gas operations. Plans include participating in joint research projects with other international oil and gas producing nations, leveraging funds, and exchanging personnel. The MMS is pursuing a Memorandum of Understanding with Norway to broaden its research and personnel exchange opportunities.

The MMS is also copartners with Norway and Russia in a study to assist the Russian Federation and examine the feasibility of establishing a comprehensive offshore oil and gas safety and environmental regime. This cost-reimbursable effort represents a consortia of regulators - the

MMS, the Norwegian Petroleum Directorate (NPD), and the Russian government's Ministry of Natural Resources. In FY 1999, based on the results of the study, the Russian government is expected to decide whether to proceed with developing such a regime. The MMS sees a growing need for a similar effort in the Caspian Sea region based on the strategic importance of this region and the involvement of U.S. companies. These nations who are making the transition to privatization of their downstream oil and gas operations benefit from the hands-on experience of the MMS in fostering environmentally sound oil and gas activity in a way that private firms can make stable investment decisions.

The MMS signed a Science and Technology Memorandum of Understanding with China to exchange information on offshore and royalty programs. Implementation of that agreement is expected in FY 1999.

Technical Advice to the Department of State (DOS) - Historically, MMS has provided technical input and monitoring of instruments of international law and organizations that bear upon the Bureau's domestic regulatory authority/domain. In FY 1999, MMS expects to continue assisting and monitoring the activities of the Arctic Council, Convention on the Law of the Sea, London Convention 1972, International Convention for the Prevention of Pollution from Ships, and the Gore-Chernomyrdin Commission.

Technical assistance on negotiations with Mexico regarding the boundary in the "Western Gap" of the Gulf of Mexico will be a major focus of MMS assistance to the State Department. This issue impacts Federal offshore oil and gas lease sales in the Gulf of Mexico and the expanding investment in the Gulf's deepwater regions. In FY 1998, MMS played an active role in developing regional Arctic Guidelines for offshore oil and gas operations with littoral Arctic Ocean countries. The MMS anticipates that these regional efforts will continue in FY 1999, both the need to monitor and to participate when requested by the State Department.

Participating in Regional/International Forums - In the spring of 1998, an oil-spill response workshop was held in India. A workshop on platform decommissioning and use of artificial reefs is also being planned with Indonesia, Malaysia, and Thailand. The subject of decommissioning will bear directly upon the United States due to the substantial number of platforms maintained in the U.S. OCS. In FY 1999, MMS will participate in meetings of the Western Hemisphere Oil and Gas Environmental Forum to discuss topics affecting the offshore oil and gas industry in the Western Hemisphere nations. In addition, there are numerous industry and international organizations (e.g., International Organizations for Standardization, International Maritime Organization, the London Convention of 1972, the Oil Industry Exploration and Production Forum, the Western Hemisphere Oil and Gas Environmental Forum, the World Conservation Forum, the International Convention for Prevention of Pollution from Ships, the International Regulators Forum, the United Nations Convention on Law of the Sea, the Asia-Pacific Economic Commission) that require monitoring and MMS participation because standards, including equipment adopted, affect how the oil and gas industry operates worldwide to include our own U.S. waters.

Regulatory Program

Justification of Program and Performance
Analysis by Subactivity
dollars in thousands

Regulatory Program		1998 Enacted	Uncontrollable and Related Changes	Programmatic Changes	1999 Budget Request	Change from 1998
Regulation of Operations	$	35,392	813	2,200	38,405	+3,013
	FTE	326	0	18	344	+18
Technology Assessment & Research	$	885	0	0	885	0
	FTE	0	0	0	0	0
Total	$	36,277	813	2,200	39,290	+3,013
	FTE	326	0	18	344	+18

The Regulatory Program subactivity includes two program elements: Regulation of Operations and Technology Assessment and Research. The MMS governs offshore operations with the goal of ensuring that mineral development is conducted in a safe and environmentally sound manner. This goal becomes more challenging each year with the increase in operational activity, especially as evidenced in the Gulf of Mexico OCS, which is one of the most exciting exploration and development areas in the world.

Regulation of Operations

Regulation of Operations activities include:

- Inspections;
- Safety and Environmental Management Program (SEMP);
- Annual Operator Performance Reviews;
- Approval of industry activities and requests;
- Civil and Criminal Penalties;
- Incident Analysis;
- Industry Training; and
- Rulemaking.

Inspections -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. An inspection can range from two hours in duration by a single inspector to several days by two or more inspectors, depending upon the operation being inspected (drilling, production, workover, well completion, measurement, etc.) and the complexity of the facility.

for many scheduled inspections and makes available time and resources for unannounced inspections at facilities that pose a greater risk. The total time spent inspecting will not be decreased. These alternate methods however, will allow MMS to shift the focus onto higher risk operations without diminishing the effectiveness of the inspection process.

The MMS developed a strategy to target high-risk facilities to further improve its inspection program. The frequency of incidents of noncompliance (INC's) at a facility has proven to be a good indicator of risk. The risk factors are to be used in a matrix which will indicate the level of risk (i.e., high, medium, low) for each facility analyzed. Pilot projects have been developed for mid-FY 1998, and the target for implementation of risk-based inspections is early FY 1999.

Companies with questionable performance are dealt with and monitored closely until performance improves to an acceptable level. Inspection frequency is based on the risk posed by individual OCS facilities and company performance. The MMS will impose civil and criminal penalties whenever warranted and may go as far as to disbar operators from OCS activities if poor performance is sustained. Rules are written to enhance industry performance. The MMS is proposing a rule that would further expand the bureau's ability to limit the activities of, or remove, an operator based upon poor performance. The bureau plans to institute a phased approach for removal of an operator where the operator will have ample opportunity to demonstrate improved performance. Criteria are being established to determine operator performance.

The focused facility inspections were initiated to enhance the inspection program. These inspections are based on a systematic (focused) approach emphasizing the Saftey and Environmental Management Program (SEMP) concept. In this approach, 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 may include personnel from industry, other Federal, State, and county agencies as appropriate. The U. S. Coast Guard may also play a significant and distinct role in these inspections.

In response to the changing climate on the OCS, the increasing number of independent oil and gas operators, the development of new technologies for deepwater operations, new inspection strategies, and the heightened focus on the importance of human factors in OCS operations, 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 jobs in a professional manner. The goal of the program is to develop the long-term capabilities of this workforce and improve current on-the-job performance. Training is presented to the inspector workforce in an interactive (CD-I or CD-ROM) format, through videotapes, or in a conventional classroom setting. An emphasis is also put on conducting inspections consistently among regions, districts, and within districts.

Safety & Environmental Management Program (SEMP) - Both 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. The 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, among other things, the responsibilities of company officials, employees, and contractors; training programs; audit systems; and the means for assuring regulatory compliance.

The American Petroleum Institute (API), the Independent Petroleum Association of America, and the Offshore Operators Committee, with MMS participation, developed an industry-wide recommended practice. The MMS subsequently requested that industry voluntarily adopt the recommended practice, and monitor performance to decide whether or not regulations were necessary. The API's third-year draft report on the status of SEMP implementation was received in late FY 1997 and provided input for a *Federal Register* notice. This notice stated that the voluntary approach to operator implementation would be continued, but it also provided clear statements that MMS will increasingly scrutinize operator performance.

Through cooperative reviews, MMS has begun experimenting with what role, if any, it might bring to operator's audits of their own SEMP plans. Another element of SEMP is the Performance Measures Pilot Project, which attracted 17 companies who provided data at two, 1-day workshops in late FY 1997. These workshops presented measures, uses and methods for reporting performance. The MMS continues to work collaboratively with industry representatives to refine clearly articulated and consistently-applied measures of performance for all operators.

Annual Operator Performance Reviews - In mid-FY 1997, MMS developed and implemented a program to conduct annual operator performance reviews. The reviews assess how well the industry is performing relative to regulatory compliance measures. To share information, MMS meets with companies at regional and district offices to learn and understand how operators plan to maintain/improve their compliance, safety, and environmental performance levels. The annual reviews focus on history of compliance, violations forwarded and assessed for civil penalty review, accident/incident history, and SEMP implementation. The MMS will continue to meet with operators annually to discuss the previous year's performance. Information gathered from operators may lead to MMS/industry workshops where "lessons learned" and successful performance will be discussed. The MMS is maintaining a database regarding annual performance review meetings for several reasons, one being that inspectors may refer to the database when a "new" operator enters their district.

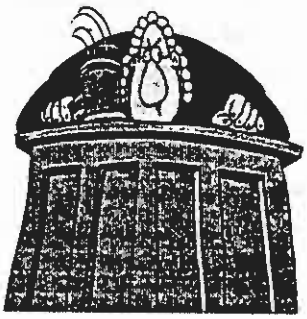
Approval of Industry Activities and Requests - Operators are required to obtain MMS approval at various stages of certain activities.

Unitization and Lease Suspensions	"Unitization" is the term used when two or more leases, or parts of leases, are combined, effectively erasing the lease boundaries and creating one "lease" (unit) handled by one operator. The purpose is expedient and efficient exploration and development of the unitized area.

Royalty Relief Requests	The Deep Water Royalty Relief Act provides for royalty volume suspensions on pre-enactment leases in water depths of 200 meters or more after submission of an application and determination that new production from the lease would be uneconomic without royalty relief.
Downhole Commingling Requests	The MMS may grant approval to commingle hydrocarbons produced from multiple reservoirs within a common wellbore (commingle two zones and produce as one). The goal is to maximize ultimate recovery of the hydrocarbons by reducing costs and making the operation more efficient.
New Conservation Initiatives	Reviewing requests to abandon completions in deep water and investigate high-production-rate wells.
Surface Commingling and Measurement	This primarily involves pipeline systems, where requests are received to commingle production from two or more leases/units.
Conservation in Deepwater Operations Plans	Conservation reviews (reviewes to assure that the maximum amount of resources are produced) are done for several reasons: the enormous cost of deepwater ventures can lead an operator into a position necessitating quick recovery of investment at the expense of long-term conservation considerations, and waste of hydrocarbon resources could occur if producible hydrocarbon reservoirs are bypassed in an operator's development scheme in favor of production from more prolific, higher-rate zones.
Gas-cap Production Requests	This involves extracting a layer of gas that sits on top of an oil deposit prior to extracting the oil. The concern is that producing the gas prior to extracting the oil will cause the reservoir energy to deplete, and with insufficient pressure to produce the oil, oil reserves will be left behind.

Civil and Criminal Penalties - By pursuing, assessing, and collecting civil penalties, MMS encourages compliance with OCS statutes and regulations. On August 8, 1997, MMS published a Final Rule that amended 30 CFR Part 250, Subpart "N—Remedies and Penalties," which simplified the regulations and increased the maximum civil penalty to $25,000 per day per violation.

In addition to the OCSLA civil penalty authority (which includes the current OCSLA financial responsibility regulations), the Oil Pollution Act (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.



Civil Penalties

August 1990 - November 1997

$1,293,820

Incident Analysis - In FY 1997, the MMS initiated an incident analysis program that uses accident statistics to:

- Identify operational trends, determine their root cause, and gain a better understanding of safety problems; and

- Assess individual companies' performance as related to the number, type, and frequency of offshore incidents.

Incident data reside in the Offshore corporate database. The MMS is working to normalize incident data to ensure equitable comparisons among companies. Thus far, MMS has produced statistics that have helped assess the safety performance of companies.

Industry Training - Newly enacted industry training regulations have provided flexibility and reduced some regulatory burden for the lessee and contract employees in drilling, well-completion, workover, well-servicing, well-control, and production safety system operations. To further modernize, the MMS published a proposed rule in FY 1998 to implement a new performance-based training system for OCS oil and gas activities. This system primarily focuses on training results rather than on the process by which the employees are trained. By developing appropriate performance measures, MMS will be able to evaluate the effectiveness of the lessee and contractor training programs by:

- written testing;
- simulator or live well testing for well-control;
- hands-on production testing;
- employee interviews; and
- training system review

This approach makes lessees and contractors responsible for the quality and level of training of their employees, a concept basic to the performance-based system. In FY 1999, written testing will be used as a regular measure of performance under the new Subpart "O" training program. The program will focus on lessees and contractor personnel that are not performing to industry standards. Also, written testing along with other performance measures will be used to further develop and adjust MMS regulatory and research programs.

Rulemaking - Rules and regulations implement redundant actions necessary to improve and ensure safe and environmentally sound offshore operations. New regulations are written to implement recent statutes, and existing regulations are revised so that those affected (such as new companies and small entities) can easily understand them and know how to comply. Rules are also revised to reflect technological advances and changes in industry practices.

The MMS continually strives to improve the rulemaking process. The process mandates that rules:

- follow *Federal Register* format;
- are written clearly;
- meet information collection (Paperwork Reduction Act) requirements;
- clear the necessary rulemaking analyses (E.O. 12866, Regulatory Flexibility Act etc);
- are legally sound and reflect MMS policy; and
- act responsively to public and industry concerns.

Priorities in the rulemaking process reflect areas of concern with increased activity:

- **Production safety** - to reflect current technology and industry practices, evolution of deepwater technology, electric and computer driven systems; changes in standard practices.

- **Abandonment of wells** - decommissioning of nonproducing or shut-in wells.

- **Exploration, development and production plans** - to meet environmental information needs and reflect changes in technology, for compliance with NEPA and Coastal Zone Management Act (CZMA).

- **Pipelines** - to improve standards for reviewing and approving pipelines (known to have a significant environmental impact) and interaction on State pipelines.

- **Disqualification of operators** - to provide criteria the MMS will consider, individually or collectively, in evaluating whether to disqualify operstors with repeated poor performance from acquiring additional leases; or in particularly serious cases, to disapprove or revoke a company's status as a designated operator.

- **Training** - to move the MMS towards performance based training providing less perspective and less burdensome training requirements on lessees and operators.

- **Oil Spill Financial Responsibility** - to implement the OPA 90 mandate for lessees to demonstrate financial responsibility, including facilities in State waters seaward of the line of ordinary low water.

Planned Activities for FY 1999 by Area

Alaska

- Increase operational commitments associated with the development of the Joint Federal State Alaska Northstar unit Liberty development plan in the Beaufort Sea, Alaska.

- Continue implementation of OPA 90 by (1) working on oil spill contingency plans and prevention of oil spills in State waters with the State and other Federal agencies; (2) active participation in implementation of the new OPA rules for financial responsibility; and (3) increasing coordination with the State of Alaska to administer provisions of 5(j) of the OSCLA and certificate of financial responsibility (COFR) responsibilities under the OPA for oil and gas facilities on submerged lands in state waters.

- Increase regulatory responsibilities associated with two new development projects, Northstar and Liberty, and new exploratory drilling activity on the Sandpiper Unit.

Gulf of Mexico

- A record number of requests to permit a long list of complex activities are anticipated. For example, between 1992 and 1996, the number of submitted exploration and development plans almost doubled from 407 in FY 1992 to approximately 800 in FY 1997. Based on 1996-1997 activity, it is anticipated that the number of exploration and development plans will continue to rise rapidly in FY 1999. Each development plan will require more focused environmental analysis and complex technical review, platform approval, visits to construction yards for onsite inspections, and safety inspections 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, all present new challenges.

- The increased sophistication and complexity of deepwater structures will require longer inspection periods and transit flight times. Not only will individual inspections take longer (the most complex inspections could take two or more inspectors several days to complete), but the total number of inspections conducted by the Region is expected to increase by 15 percent over the FY 1996 level.

- In FY 1997, requests for approvals for long-distance pipeline rights-of-ways was up by 14 percent. The number was already up 21 percent in the previous 2 years. Due to the increased number of active leases and the fact that many deepwater finds are located in areas where there is no existing pipeline infrastructure, future pipeline right-of-way and installation applications are expected to continue to increase in number as well as complexity.

Pacific

- Two areas of significant cooperative effort for FY 1998 and FY 1999 will involve offshore facility decommissioning and seismic requalification of offshore oil and gas structures. The Region and the California State Lands Commission have established joint working groups with the goal of developing consistent policies and regulations.

Technology Assessment and Research

In 1978 the OCSLA was amended to include the requirement that the Best Available and Safest Technologies (BAST) be used for offshore production of oil and gas. The goal of Technology Assessment and Research (TA&R) are to determine the current state of technology being used offshore and to improve that technology.

The TA&R studies investigate and assess safety-related technologies. 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 focus of TA&R Research effort include:

- deepwater operations to include operational safety issues as well as the integrity of structures and pipelines;
- human and organizational factors and how they can be addressed to mitigate accidents;
- the aging offshore infrastructure to include both platforms and pipelines and use of new materials; and
- Arctic technology.

Deepwater - facilities that are being developed are based on new operational and structural concepts. The MMS and industry have little past experience with the new concepts on which to base technical or regulatory decisions. The TA&R Program will continue to support deepwater research initiatives to ensure that technical issues are adequately addressed for sound regulatory decisions. Production systems are being designed for depths of 1,825 meters (6,000 feet) and greater. The product pipeline networks for oil and gas will be extended well off the continental shelf and down the continental slope. Large reservoirs will be serviced by newly designed production facilities, with extended capability to handle distant subsea completions, and will be operated by consortia of large companies. Smaller reservoirs will be produced using small moored floating platforms, many of which will be capable of reuse in other locations.

As more reserves are being discovered in deep water, the technology needed to design and build deep-ocean compliant structures, such as tension leg platforms (TLP's), continues to evolve to meet operational and economic needs. This rapid evolution in technology used by industry needs to be independently verified by MMS to ensure continued safety of operations and protection of the environment.

Human and Organizational Factors (HOF) - The TA&R Program has a leadership role in promoting research relative to human and organizational factors (HOF) and how their contributions to accidents and pollution events may be mitigated. The MMS will continue to support HOF and other research initiatives to improve and assist SEMP efforts. Studies have been initiated that emphasize human and organizational factors that affect responses during normal and emergency operations on offshore platforms. Offshore facilities provide a minimum of space for placement and operations of complex and densely configured drilling, production, and processing equipment. 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. Facility systems must be designed, arranged, operated, and inspected to minimize the potential for failure of any element.

Offshore Infrastructure Continues to Age - Also, as the offshore infrastructure continues to age, one emphasis of the TA&R Program will be to promote appropriate research to assess the integrity of older offshore facilities. In addition, much progress has been made in producing new materials such as metal matrix composites and fiber-reinforced plastic materials for application to offshore oil and gas operations. Further progress can be made for engineered materials offering properties that allow for new designs of offshore structures and operational components

such as risers. 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 use of advanced materials for offshore oil and gas operations.

Arctic Technology - Sea ice is the most severe environmental factor in the arctic. The hazards it creates are potentially greater than the hazards faced in open-ocean operations. Such hazards range from the forces that moving sea ice exerts against offshore structures to the gouging of the seafloor (a factor to be considered in the placement of pipelines). Engineering data for these hazards are important as operations move from exploration to production and as structures are considered for deeper water.

Maximizing Research Dollars - The program operates through contracts with universities, private firms, and government laboratories, and jointly funds studies with other Federal agencies, State and local government agencies, government agencies of Canada, Norway, and the United Kingdom, universities, and industry. Joint funding of projects is popular because of shared interest and the recognition that this is the most effective and efficient method to leverage available funds.

A team was formed to review the decisionmaking processes of the Environmental Studies, TA&R, and Oil Spill Research programs to ensure the best possible prioritization of limited research funds. Synergisms between the programs, leveraging of funds, and involvement of proper management in the process were explored. Adequate, quality research is essential to meeting the Bureau's strategic plan goal of basing decisions on sound science.

Planned Activities for FY 1999

- ***Study of Human Factors in Offshore Operations*** - This study will define factors that affect responses during normal and emergency operations on offshore platforms. The study will focus on three topics: tasks and responses associated with managing a "kick" during drilling operations, crane operations, and service vessel activities.

- ***Support for the Composites Engineering and Applications Center for Petroleum Exploration and Production*** - The specific goals proposed for the Center are to: (1) identify and quantify the opportunities for using composite materials in the petroleum industry; (2) develop composite applications that will reduce the cost of petroleum operations; (3) establish the technical infrastructure needed by the industry to use composite products; (4) develop composite applications that extend exploration and production capabilities beyond current limits; (5) facilitate joint industry projects to develop experience and study the performance and reliability of composite products in critical operations; (6) bridge technology gaps with research and development, and technology transfer programs; and (7) serve as a liaison between the U.S. petroleum industry and the certification/regulatory agencies on issues concerning the use of composite products.

- ***Support of the Offshore Technology Research Center (OTRC)*** - The OTRC will develop solutions to structural problems that are faced in drilling and production in deep water. Research focuses on the interactions between structures and fluid materials and the seafloor. As a joint participant, the MMS will receive access to all the research results and will be able to apply this information to regulatory decisionmaking.

Information Management Program

Justification of Program and Performance
Analysis by Subactivity
dollars in thousands

		1998 Enacted	Uncontrollable and Related Changes	Programmatic Changes	1999 Budget Request	Change from 1998
Information Management Program	$	13,941	249	0	14,190	+249
	FTE	109	0	0	109	0

The Information Management Program (IMP) subactivity funds information technology (IT) personnel support costs, hardware, software, training, maintenance, and IT technical support for the Offshore Program. The IMP provides a central foundation for the management of the large volume of information and data used in Offshore's scientific, engineering, and management activities.

To ensure that IMP provides the infrastructure and services that are required to support IT activities Offshore-wide, an Information Management Committee (IMC) was established with managers from all major program areas in Headquarters and the three MMS Regions. The IMC regularly revisits Offshore IT needs, reprioritizes based on new circumstances, and collectively determines the most efficient distribution of limited IMP resources.

Headquarters staff (located in Washington and the GOM Regional office) provide single-point management and coordination/standardization of IT activities, resulting in an efficient centralized operation. Responsibilities include:

- Nationwide policy coordination and standardization for Offshore's IT program;
- Leadership in the design, development, and implementation of the Offshore corporate database;
- Coordination of Offshore-wide area network activities and Bureau-wide technology integration;
- Planning, technical editing, and graphic illustration services for scientific and technical publications and programmatic documents used by Congress, States, and the public for decisionmaking; and
- Information and publication distribution services for Offshore Headquarters program offices.

The ADP units in each of the three MMS OCS Regions (Alaska, GOM, and Pacific), as well as Headquarters, provide onsite support to program staff in those localities. This includes:

- Maintaining the computer facilities in each location;
- Technical support for Local Area Networks (LAN);
- Locally implementing Offshore-wide standards and policy; and
- Providing help desk, training, and computer room operations support for the program offices.

The IT needs have evolved rapidly, increasing many-fold over what was envisioned just a few years ago. New developments in Offshore and general requirements of the information age are affecting the IMP in the following general areas:

- Users are more mobile and need remote access to information and systems;
- More applications must be developed and maintained;
- More data must be stored and processed;
- Data management methods must be refined to support the additional data;
- Computers and networks must be faster and more powerful;
- Data must be structured according to industry data standards;
- More resources must be applied to coordinating, testing, and implementing administrative systems and reengineering projects;
- Deployment and management of Offshore-wide systems and standards must be more carefully coordinated;
- Increased security requirements must be addressed; and
- Skill levels must keep pace continually with the rapid rate of technology change.

Planned activities for Upcoming Years

The IMP activities work towards completing the TIMS project, as an element of a redefined OMM IT Program Plan to support the OMM strategic objectives. The focus is on meeting the challenge of maintaining current levels of operation while supporting new or enhanced program activities in such areas as deep water and seismic interpretation. This includes maintaining and expanding the benefits realized by the TIMS project through on-going life cycle management, maintenance, and support of the existing information technology systems and infrastructure thereby facilitating changing information requirements inherent in the OMM program. Examples include maintaining and expanding the TIMS corporate data bases, supporting and testing new technologies, developing and supporting computer based applications, and upgrading computer networks.

Royalty Management Program

Justification of Program and Performance
Analysis by Subactivity
dollars in thousands

Subactivity		1998 Enacted	Uncontrollable and Related Changes	Programmatic Changes	1999 Budget Request	Change from 1998
Valuation & Operations	$	32,376	665	582	33,623	+1,247
	FTE	254	0	0	254	0
Compliance	$	33,619	854	1,995	36,468	+2,849
	FTE	337	0	0	337	0

Goal:

- Provide timely, accurate, and cost-effective mineral royalty collection and disbursement services.

Performance Objectives:

- Improve the timeliness and accuracy of payments to States, Indian tribes, Bureau of Indian Affairs (BIA) offices, and other Federal agencies.
- Improve cost-effectiveness of mineral royalty collection and disbursement services.
- Improve reporters' compliance with lease terms, rules, regulations, and laws.
- Provide Indian tribes with increased opportunities for education and for assuming functional responsibilities with respect to the Royalty Management Program.
- Improve customer service and communication.

The Royalty Management Program (RMP) collects, accounts for, and disburses about $4 billion yearly in revenues from offshore Federal mineral leases and from onshore mineral leases on Federal and Indian lands.

Mineral leasing revenues are one of the Federal Government's greatest sources of nontax receipts.

The Federal Government has been collecting revenues from mineral production on Federal onshore lands since 1920 and from offshore lands since 1953. However, it was in 1982 that the Federal Government created MMS, establishing a comprehensive, consolidated system for collecting, accounting for, and disbursing these revenues. Since that time, RMP has provided more than $86 billion to Federal, State, and Indian accounts, including nearly $2 billion from compliance activities. Roughly $54 billion has gone to the U.S. Treasury and $20 billion to the Land and Water Conservation Fund, the National Historic Preservation Fund, and the Reclamation Fund. In addition, over $9.5 billion has been distributed to 38 States and $2.2 billion has gone to 29 Indian Tribes and 20,000 individual Indian mineral owners (allottees). Average annual collections total approximately $4 billion with approximately 81 percent going to the U.S. Treasury, 15 percent to States, and 4 percent to Indian tribes and allottees.

Revenues directed to the Federal Government fund appropriations for programs approved by Congress. Monies that go to the States are used as the States deem necessary, oftentimes for schools, roads, libraries, public buildings, and general operations. Revenues generated from mineral production on Indian lands go directly to those tribes and allottees, meeting a wide variety of needs.

Although, headquartered in Washington, DC, RMP has its primary operations in Denver, Colorado, with field offices in Texas, Oklahoma, and New Mexico. With sophisticated computerized accounting systems, RMP processes more than 200,000 transactions each month from over 26,000 producing Federal and Indian leases. The RMP coordinates its royalty management efforts with the MMS Offshore Minerals Management Program, the BIA, the Bureau of Land Management (BLM), the Office of the Special Trustee, the U.S. Forest Service, the Army Corps of Engineers, and the U.S. military. The RMP also works closely with State governments, Indian tribes and allottees, and industry to improve overall royalty management.

Key Program Initiatives

The Royalty Program must meet a changing and expanding mission. Several major initiatives are driving change in RMP and have led to a period of steady evolution:

- Reengineer the program
- Involve constituents
- Implement the Federal Oil & Gas Royalty Simplification and Fairness Act of 1996 (RSFA)
- Improve valuation regulations
- Recommend royalty-in-kind (RIK) improvements
- Protect Indian trust
- Improve the appeals process

Reengineer the Program

The RMP began its reengineering initiative in FY 1996. The principal objective was to design, develop, and implement new core business processes. Reengineering challenges underlying assumptions upon which the organization is built and fundamentally redesigns systems, processes, and structures around desired outcomes, rather than functions, departments, inputs, and outputs.

Initially, RMP's reengineering effort was focused on its activities ensuring compliance. In March 1997, RMP expanded the reengineering initiative beyond compliance activities to conduct an in-depth reengineering of all RMP core business processes. Several factors contributed to this decision including:

- Passage of RSFA
- Royalty Policy Committee recommendations for improved reporting

- Inspector General reports calling for greater operational efficiency and replacement of aging computer systems
- Continued Federal downsizing and public expectations for better service at less cost
- Management recognition that maintaining the status quo with improvements at the margin was not an acceptable long-term strategy

The RMP senior leaders gave the following "stretch goals" to the reengineering team as a guide in developing new process approaches for the Program:

- Assure compliance with applicable laws, lease terms, and regulations for all leases in the shortest time possible, but no later than 3 years from the reporting due date
- Provide revenue recipients with access to their money within 24 hours of the due date

Revolutionary rather than evolutionary change is implicit in these "stretch goals." The RMP of the future will be:

- Highly integrated
- Fully supported by state-of-the-art technology
- Process centered
- Less costly
- Viewed by customers and competitors as the best

The reengineering team developed a communications strategy to obtain feedback and suggestions from individual employees, companies, and organizations who have a vested interest in the RMP. Agendas are designed to educate customers about reengineering, provide information regarding progress, and obtain input from the RMP customers.

The reengineering initiative will span several years from inception to final implementation. However, improvements will be introduced into the work environment as early in the process as possible. Contractor and reengineering team analysis now underway will ultimately yield final reengineered process designs and plans for future implementation.

Involve Constituents

The passage of RFSA has created an interest on the part of some states and industry on the possibility of transferring certain royalty management functions now conducted by MMS. In response to this interest MMS established a "205 Delegation Team" composed of State representatives and MMS staff. This team worked to develop the proposed regulation authorizing the delegation of Federal royalty management functions to State governments. The MMS also met with industry in four locations in January and again in June 1997, prior to publication of the final rule.

The MMS has involved its constituents in participatory decisionmaking through multiconstituent teams of MMS, State, Indian, and industry representatives. Constituents welcome the

opportunity to review and recommend improvements to the royalty accounting process through various National Performance Review work groups, negotiated rulemaking committees, workshops, and focus groups.

To obtain timely and constructive advice on collection policies and procedures, the Department of the Interior established the Royalty Policy Committee (RPC) in 1995 as part of the Minerals Advisory Board. The MMS believes it can best reinvent its activities and serve the needs of its customers by working closely with constituents. Accordingly, RPC includes representatives from States, tribes, Indian allottees, industry, Federal agencies and the public. The RPC has provided recommendations to MMS on a variety of royalty management issues, including audit, report streamlining, disbursements to the States, net receipts sharing, appeals, settlements and alternative dispute resolution, phosphate, trona, and other leasable nonenergy minerals, coal, and alternatives to conventional royalty collection methods. A new RPC subcommittee was formed recently to address the RSFA payment designation issues.

Implemented RPC Recommendations

- Extended the due date by 10 days for production reports submitted electronically.
- Eliminated the need to report drilling wells on the production reports since they are already reported to BLM and Offshore Minerals Management (OMM) on different forms.
- Eliminated unnecessary status codes from the production report
- Reduced submission of the Gas Analysis Report - only required if requested by MMS.
- Eliminated unnecessary data fields on the Payor Information Form.
- Established a study group for Federal royalty oil taken in kind.

The RMP is improving its relationships and coordination efforts with State and tribal auditors by recognizing them as partners in compliance strategies. The MMS regularly participates in quarterly meetings of the State and tribal Royalty Audit Committee (STRAC), providing information and receiving input. States and Tribes have input to RMP policy formulation and regulatory development and representation on RMP's reengineering team.

Implement the Federal Oil & Gas Royalty Simplification and Fairness Act of 1996 (RSFA)

President Clinton signed the Federal Oil and Gas Royalty Simplification and Fairness Act (RSFA) on August 13, 1996, to improve the management of royalties from Federal onshore and Outer Continental Shelf oil and gas leases. This is the first major legislation affecting royalty management since the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA) was passed in January 1983.

The MMS has made significant progress in implementing RSFA and is on target to fully implement RSFA by the end of 2000. Implementation of RSFA is a complex process involving several critical events:

- Numerous rulemakings to establish or modify regulations.
- Significant modifications to MMS computer systems.
- Reporting changes and accompanying payor guidance.
- New operational processes within MMS.

Improve Valuation Regulations

In response to the need for simplified valuation and continuing issues related to the validity of posted prices and application of the existing benchmarks for nonarm's-length transactions, RMP is in the process of reevaluating and revising the rules for calculating the value of natural gas and crude oil. In several instances, RMP has used the Negotiated Rulemaking as a process to involve constituents in rulemakings:

- The proposed Indian gas rule focuses on improving gas valuation under the following circumstances: gas sold under arm's-length and nonarm's-length contracts subject to the major portion requirements of Indian lease terms; gas processed and subject to the dual accounting requirements of Indian lease terms; and gas sold under percentage-of-proceeds contracts. The proposed rule would maximize royalty revenues for Indian tribes and allottees consistent with the Secretary's discretion to establish value. The regulations would further satisfy industry concerns by increasing certainty to compute royalty in an accurate, timely manner.

- The recently-published supplementary proposed Federal oil rule is the culmination of two earlier proposed rules, comments received, and several workshops held to gain input from constituents. As a whole, this rule addresses the primary concerns of many of the oil and gas companies who have to calculate and pay royalty on crude oil produced from Federal leases. At the same time, it provides assurance to the Federal and State royalty recipients that value will be based on the best indicators of market value available for any given area of the country. In developing this proposed rule, MMS adhered to five basic principles of royalty valuation: royalty must be based on the value of production at the lease; for arm's-length contracts, royalty obligations should be based on gross proceeds; for other than arm's-length contracts, index prices are the best measure of value in most areas of the country; the lessee has a duty to market at no cost to the lessor; and customized regulations for unique producing areas are preferable to a "one size fits all" approach.

- The RMP has developed a separate rule for valuing oil produced from Indian lands due to the unique terms in most Indian leases. The proposed rule would value crude oil at the higher of the following: a NYMEX-based value; the lessee's or its affiliate's gross proceeds; or a 75 percent major portion value of arm's-length prices in the area. Under the NYMEX option, location differences would be applied from the reservation boundary to the NYMEX pricing point.

- The MMS published a final rule to clarify the royalty implications of the Federal Energy Regulatory Commission (FERC) Order 636. The regulation identifies which cost components or other charges are deductible, or related to transportation, and which costs

are not deductible, or related to marketing. Deductible transportation costs include firm demand charges, commodity charges, and wheeling costs. Nondeductible marketing costs include long-term storage, aggregator fees, and intrahub title transfer fees.

- The proposed Federal Gas rule was not published as final for a variety of reasons, including the continued dramatic changes to the gas market and the results of an internal cost/benefit analysis, which indicated a potential $20 million or more annual revenue loss. However, MMS is continuing to evaluate ways to improve valuation of Federal gas.

The RMP is proposing methodologies for calculating royalty value based on widely available information about market values for oil and gas. With such changes, RMP believes that it will enhance reporters' ability to report timely and accurately.

Recommend Royalty-in-Kind (RIK) Improvements

Under the terms of standard Federal oil and gas leases, the Government is entitled to a share (royalty) of production removed or sold from the lease. Historically, the Government has received this share in value (i.e., as a percentage of the sales proceeds received by the mineral lessee).

There are several emerging reasons to examine whether the Government should receive at least some of its royalties not in value, but "in kind," that is, by taking and selling volumes of oil or gas equaling the percentage royalty share. A primary reason to examine this issue is that taking royalty-in-kind (RIK) may provide opportunities to substantially reduce disputes between lessees and the Government over the value of Federal production.

In 1995, MMS conducted a Royalty Gas Marketing Pilot, a limited RIK test for offshore leases that was an operational success but which resulted in decreased royalties compared to in-value collections for the same leases. Despite these mixed results, interest in Government RIK continues. Committee report language accomping the FY 1997 Interior Appropriations directed MMS to consider additional RIK projects.

The September 1997 *RIK Feasibility Study* assessed the potential for the United States to take its oil and natural gas royalties in kind. It concluded that, under the right conditions, RIK programs could be workable, revenue positive, and administratively more efficient for all parties. We have established an implementation team to pursue these recommendations.

The MMS has also completed a study, *Oil RIK Value and Volume Reporting Recommendations*, at the request of the Royalty Policy Committee. This study focused on key value and volume issues and problems with the current eligible refiner oil RIK program and recommended possible solutions. The study team met with industry representatives on three occasions to obtain feedback and thoughts regarding problems with the current program. In addition to the value and volume study, the oil RIK study team is reviewing certain other eligible refiner RIK program issues.

Protect Indian Trust

Under the Secretary's American Indian trust responsibilities, MMS is responsible for Indian mineral royalty collection and disbursement functions. The Secretary of the Interior supports facilitating the efforts of Indian tribes to plan, conduct, and administer Indian royalty management functions.

To help tribes prepare to assume royalty management services, MMS offers a number of opportunities, including on-line monitoring of royalties and accounts, learning the royalty collection processes through a new internship program for tribal employees, and handling royalty audit work through cooperative agreements.

The Royalty Internship Program is designed to 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 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 will improve and strengthen MMS's service to the tribes. Section 202 of the Federal Oil and Gas Management Act of 1982 (FOGRMA) allows MMS to provide funding to tribes to perform audits on their leases.

Major Portion Pricing Initiative

Indian lease terms require payors to pay royalties on the higher of the gross proceeds or the highest price paid for the major portion of production from the field. The RMP is required to compare the gross proceeds price to the major portion price. Therefore, we collect the necessary information, calculate the major portion price, and bill the payor for any additional royalties due, if necessary. Additional royalty collections for the Indians, since the initiative's inception in FY 1992, total approximately $4.0 million.

In 1992, the Department created a pilot tri-agency office in Farmington, New Mexico, to coordinate the mineral activities of BIA, BLM, and MMS. In 1996, a National Performance Review Laboratory recommended implementation of a pilot to expand this coordination to provide a seamless organization consolidated under a single official with authority to meet customer needs. The pilot is to identify innovative ways to provide for the needs of the Navajo Nation allottees. The MMS's goal is to successfully complete this pilot by March 1999.

Improve the Appeals Process

The MMS is committed to a faster appeals process and is working with other affected offices in the Department to implement RSFA requirements and to incorporate the March 1997 recommendations of the Royalty Policy Committee, as amended by the Secretary in September 1997.

Final MMS decisions and orders are appealable first to the MMS Director and then to the Interior Board of Land Appeals (IBLA). The vast majority of these appeals–about 400 per year–involve decisions that would result in the collection of additional royalties, rentals, or interest from companies that produce oil, gas, or coal from Federal or Indian leases. About one-quarter of these can be decided by officials in RMP. Many others can be settled or otherwise resolved, and about one-third of these appeals ultimately result in formal decisions. Appellants dissatisfied with a formal decision from MMS or BIA generally may appeal further to IBLA or the Interior Board of Indian Appeals.

Because it has taken many years to decide some appeals at the MMS level, followed by many years at the IBLA stage, both the Congress and the Administration launched efforts to improve the timeliness. These efforts resulted in the 33-month timeframe set out in RSFA for Federal oil and gas royalty appeals to be decided by the Department (both MMS and IBLA) and the 16-month timeframe proposed by MMS for all appeals to be decided by MMS.

However, many critics of the appeals process, particularly representatives of oil, gas, and coal companies, have argued that a more fundamental reform is needed. Their arguments are reflected in the recommendations of the Royalty Policy Committee (RPC):

- Increase efforts to resolve policy disputes before conducting audits of royalty payments
- Further encourage informal resolution of disputes
- Clarify the standing of Indian lessors and States in the administrative appeals process
- Restructure the appeals process to encourage earlier development of the administrative record, facilitate settlement efforts, impose time limitations on the appeals process, and allow for appeals to be filed with the Interior Board of Land Appeals (IBLA) rather than with MMS so that appellants can obtain a faster, more independent review of legal issues raised on appeal

The Secretary of the Interior approved all RPC recommendations, with these modifications:

- Clarify that appellants must clearly identify their factual and legal disagreements with the appealed action at the beginning of the appeals process, prior to the efforts to develop the administrative record and discuss settlement

- Have MMS issue a decision on each appeal before formal, legal briefing begins at IBLA. This would allow for MMS to rescind or modify bills or orders issued by MMS offices or by States or tribes under delegated authority, so that MMS would only defend at IBLA bills or orders that are consistent with MMS policy

- Allow for Assistant Secretaries to take jurisdiction of appeals prior to formal briefing at IBLA and make final decisions for the Department

The oil, gas, and coal industries generally support efforts to make the appeals process faster. States and Indian mineral owners generally support a faster appeals process but also want to

ensure that they have an ample opportunity to participate in the appeals process when the royalties at issue affect their revenues.

The Department has formed teams, including staff from the IBLA and the Office of the Solicitor, to prepare a revised proposed rule incorporating the RPC recommendations and to begin implementing any recommendations that do not require new regulatory authority.

Mineral Revenue Valuation & Operations

Justification of Program and Performance
Subactivity Funding Summary
dollars in thousands

Subactivity		1998 Enacted	Uncontrollable and Related Changes	Programmatic Changes	1999 Budget Request	Change from 1998
Valuation & Operations	$	32,376	665	582	33,623	+1,247
	FTE	254	0	0	254	0

The Valuation and Operations subactivity includes the functional areas of Revenue Receipt and Disbursements, Data Collection and Reporting, Information Technology, and Royalty Valuation.

Revenue Receipt and Disbursements

The RMP develops and maintains industry reporting and payment requirements, in part, through industry and constituent forums, payor training, and publications of notices and regulations. Additionally, RMP manages revenue and production accounting systems to:

- Ensure accurate reporting and payment of royalties
- Collect, distribute, and disburse revenues - with Explanation of Payments - to States, Indian tribes, and other Federal agencies
- Administer the eligible refiner oil Royalty-In-Kind program

- Historically, RMP has collected offshore mineral lease revenues in excess of $3 billion per year in bonuses, rents, and royalties.
  Since 1982, this effort has provided an average of:
  - $1.9 billion per year to the U.S. Treasury
  - $90 million per year to State treasuries
  - $1 billion per year to the Land and Water Conservation Fund and the National Historic Preservation Fund

- Similarly, RMP collects onshore mineral leases revenues averaging $1 billion per year in bonuses, rents, and royalties. Approximately half are distributed to States and the remainder is split between the U.S. Treasury and the Reclamation Fund.

- In FY 1997, RMP distributed over $6.2 billion to its various constituents:
  - $4.8 billion from Outer Continental Shelf (OCS) activities
  - $1.4 billion from Federal onshore and Indian activities

Data Collection and Reporting

The RMP processes all incoming royalty and production reports related to oil, gas, geothermal, and solid minerals on Federal and Indian leases. The RMP uses two automated systems to process this reporting data.

- Auditing and Financial System (AFS) processes and stores royalty and revenue information
- Production Accounting and Auditing System (PAAS) processes and stores production information

In FY 1997, reporters submitted over 8,228,000 lines of data, 63 percent of which were received electronically. The AFS accounted for 3,567,917 rent, bonus and royalty lines; PAAS accounted for 4,660,227 lines. These reported lines provide the details necessary for MMS to distribute revenues to the proper recipients.

The RMP provides technical reporting assistance and training to industry and routinely helps individual reporters correct erroneously reported lines.

Additionally, the RMP maintains a Common Reference Database (CRD) that is the central collection point for all nonrevenue data--the legal information essential to execute royalty processing functions. Specifically, the CRD contains automated reference data files attributable to Federal and Indian mineral leases, payor files, and agreements. The AFS, PAAS, and CRD databases allow the RMP to retrieve and compare reported data to verify accurate payment.

MMS Provides Free Software!

The MMS provides free electronic royalty and production reporting software to reporters to reduce data entry costs and increase reporting efficiencies.

Reporters can use other electronic reporting options, including Electronic Data Interchange, Comma Separated Values and ASCII record formats, and magnetic/cartridge tape.

In FY 1997, electronic reporting increased to:

- 78 percent or 2,691,353 royalty lines
- 54 percent or 2,496,921 production lines

Errors in reporting decrease with electronic reporting. The royalty error rate for electronically reported lines was 1.4 percent, compared with a 7.4 percent error rate on the paper reports.

Information Technology

The RMP manages and maintains a sophisticated configuration of automated systems to ensure that the large volume of data collected by MMS is accurately processed, maintained, and readily available for internal use and for the States, tribes, BIA, BLM, and other agencies.

The MMS's objective is to ensure that our users and constituents can easily access and maintain the data collected. The MMS focuses on enhancing information technology performance and productivity, improving communications access to MMS information, and supporting mandates and program initiatives, through:

- Information and data systems management
- Data center operations and maintenance
- Telecommunications network development and maintenance
- Strategic and tactical information technology planning
- Automated Data Processing contract management
- Disaster recovery and risk assessment
- Technology assessment, planning, and acquisition
- Information technology training
- Electronic data interchange and integrated communications

Royalty Valuation

Royalty is generally 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. Several others factors can add to the complexity of determining royalty value such as sales to affiliates, changes in market conditions, and deregulation of natural gas pipelines and electric utilities. In these instances, RMP prepares guidance documents detailing the proper methods for determining royalty value based on product specific information, applicable laws and regulations, and legal precedent/bureau policy.

This guidance provides a consistent basis for value determination. Additionally, the RMP:

- Interprets and enforces valuation regulations and guidelines
- Computes and verifies major portion values
- Provides regulatory training to industry, Government agencies, and RMP entities on new and revised product valuation regulations and policy and reporting requirements
- Approves certain transportation and processing/washing royalty deductions from royalties owed by payors
- Provides technical guidance to Government agencies and industry on allowances, valuation, reporting, and related issues

The RMP reviewed and processed 96 transportation and processing allowance requests in FY 1997 and also provided technical guidance and assistance on 201 compliance valuation issues.

Mineral Revenue Compliance

Justification of Program and Performance
Subactivity Funding Summary
dollars in thousands

Subactivity		1998 Enacted	Uncontrollable and Related Changes	Programmatic Changes	1999 Budget Request	Change from 1998
Compliance	$	33,619	854	1,995	36,468	+2,849
	FTE	337	0	0	337	0

The RMP's compliance subactivity has collected $2 billion since fiscal year 1982. The compliance subactivity is responsible for the resolution of instances of noncompliance, resulting in the collection of additional royalties, and is based on a cooperative effort involving States, Indians, and the industry. The compliance process encompasses verification, audit, collection and enforcement, and Indian royalty assistance.

$weet Rewards!

Royalty compliance activities resulted in collections of $75.9 million in FY 1997 alone and $2 billion since 1982.

Verification

The RMP uses a variety of automated and manual verification activities to ensure that companies comply with several aspects of royalty reporting and paying and that volumes reported for royalty purposes match reported sales and transfer volumes on production reports. This verification process:

- Monitors the timeliness of all payments and calculates interest for those that are late
- Identifies and bills for under and nonpayment of rents, minimum royalties, advance royalties, and bonuses
- Identifies and resolves discrepancies relating to the reporting of recoupments, adjustments, incorrect royalty rates, severance taxes, and allowance transactions
- Compares AFS data with PAAS data to ensure that all volumes reported for royalty purposes match reported production
- Verifies stripper oil property royalty rate reduction calculations for BLM

Financial compliance activities resulted in the collection of $14.4 million in FY 1997, and $190.5 million since FY 1985.

The AFS/PAAS exception resolution activities resulted in an additional $21.3 million in royalties in FY 1997, with total additional collections since FY 1985 passing the $200 million milestone.

The RMP resolves identified differences through a comprehensive analysis of AFS and PAAS reporting requirements, database setup, and extensive communication with operators and payors, other RMP offices, and other Federal agencies.

During FY 1997, the RMP began work on several internal initiatives:

- Reviews of royalties reported and paid for lease use gas on OCS section 6 leases and agreements
- Reviews of royalties reported and paid on New Mexico leases that produce coalbed methane for compliance with directed valuation and allowance requirements
- Joint reviews of operations with BLM at selected gas plants to determine the risk for substantial royalty underpayment

Audit

With auditors located primarily in Colorado, Oklahoma, and Texas, RMP develops, directs, and conducts a comprehensive compliance audit program for royalty management activities. The RMP also provides direction, guidance, and support to State and Indian auditors. Audit activities resulted in collections of $40.16 million in FY 1997, and $1.56 billion since FY 1982.

Based on an analysis of the previous five years of royalty payment information for each company, the Five-Year Audit Strategy provides audit coverage for nearly 86 percent of all royalties paid. Eleven residency company audits, 115 major payor company audits, 33 company audits selected by States and tribes, plus select issue audits and random company and lease audits comprise the audit strategy.

In June 1994, the Department of the Interior (DOI) commissioned an interagency team to address possible royalty underpayments of Federal onshore and offshore California crude oil production. The team issued its report in June 1996 and concluded that companies often received gross proceeds higher than the posted prices used as a basis for calculating royalties. The MMS has conducted reviews and issued demands to 19 of the top 20 crude oil producers in California. The RMP has developed a nation-wide audit strategy to address this issue for more current periods.

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 manage all phases of audit excluding issuances of enforcement documents and appeal administration.

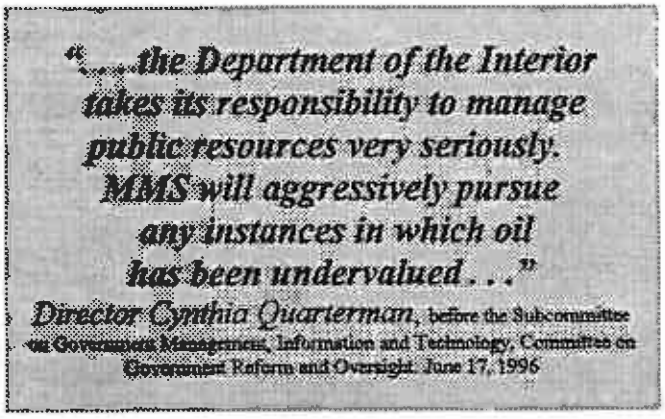
- State participants include California, Colorado, Louisiana, Montana, New Mexico, North Dakota, Oklahoma, Texas, Utah, and Wyoming and are 100 percent funded by MMS through delegated audit agreements under the provisions of Section 205 of FOGRMA.

- Indian participants are the Blackfeet Nation, Navajo Nation, and the Shoshone/Arapaho, Southern Ute, Ute, and Ute Mountain Ute Tribes and are 100 percent funded by MMS through cooperative audit agreements under the provisions of Section 202 of FOGRMA.

Collections and Enforcement

Lease terms require payors to make their payments on a timely basis. Therefore, RMP does not routinely bill payors for royalty or rent; however, it generates bills when automated verification determines discrepancies or when audits discover underpayments.

When bills are not paid, RMP begins a debt collection process, following a process including telephone followup, issuance of demand letters to payor/designees, and notification to the lessees. Approximately 80 to 90 percent of delinquencies are paid after the first telephone call or letter. If this process is unsuccessful, MMS then pursues additional collection steps which are authorized by FOGRMA, as amended, and by the various mineral leasing acts.



In the past 2 years, MMS has increased its cooperation with the Department of Justice and the Department's Office of the Inspector General in investigating potential instances of knowing or willful underpayment or misreporting. Additionally, MMS continues to aggressively pursue instances of noncompliance for oil and gas leases under section 109 of FOGRMA through the issuance of notices of non-compliance, which may evolve into civil penalties if the recipient fails to comply within 20 days.

Alternative Dispute Resolution (ADR) is used to resolve disputes when it is more efficient and effective than the administrative appeals process and judicial litigation and when no decision is necessary for its precedential effect. Most of the monies collected over the past 5 years through the compliance activities have been through ADR. The ADR process is conducted within the MMS, with the assistance of the Department's Office of the Solicitor. All settlements are approved by the MMS Director or, in certain more routine matters, by the Associate Director. The Department of Justice approves settlements of cases in judicial litigation.

Indian Royalty Assistance

The RMP operates a field office in Oklahoma City, Oklahoma, to provide accessible service to a major allottee population in Oklahoma. The Navajo Nations allottees receive royalty assistance from a tribureau pilot office located in Farmington, New Mexico. At this office, Indian mineral owners receive one-stop assistance from Department employees who can resolve issues associated with BLM, BIA, and MMS activities. Tribes and allottees in all other States are served by another office in Lakewood, Colorado.

Through its field office structure, RMP provides direct assistance to Indian mineral owners who have questions and concerns about their mineral revenue payments. The RMP invites allottees to use the toll-free telephone lines, visit offices, or arrange to meet with RMP staff at more convenient locations. Many questions are outside RMP's scope of responsibility and require close coordination with the BIA or the BLM offices to provide a complete response.

Program Services Office

Justification of Program and Performance
Subactivity Funding Summary
dollars in thousands

Subactivity		1998 Estimate	Uncontrollable and Related Changes	Programmatic Changes	1999 Budget Request	Change from 1998
Program Services Office	$	2,564	59	0	2,623	+59
	FTE	26	0	0	26	0

The RMP's Program Services Office performs a variety of functions 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.
- Responses to inquiries from Congressional and Administration officials and non-Federal constituents.
- Special projects for program issues such as legislation, policy, Chief Financial Officers (CFO) Act reporting, and Government Performance Review Act (GPRA) implementation.
- Freedom of Information Act responses and reporting.
- Program statistics to meet the requirements of FOGRMA sections 302 and 602, the public, and the frequent and continuing needs of Federal, State, Indian, and industry constituents.
- Certain RMP-wide training activities.
- Program support functions such as coordination and management of facilities, security, and printing.
- Coordination activities and support for the Royalty Policy Committee.

Interest on Late Disbursements

Justification of Program and Performance
Subactivity Funding Summary
dollars in thousands

Subactivity		1998 Estimate	Uncontrollable and Related Changes	Programmatic Changes	1999 Budget Request	Change from 1998
Late Disbursement Interest	$	0	0	0	0	0
	FTE	0	0	0	0	0

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 U.S. 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.

The MMS typically incurs a late disbursement interest liability when disbursements to State accounts are delayed pending a proper determination of the lease source of the royalties. For example, a payor error that 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, interest earning authority has been granted to the Office of the Special Trustee/Office of Trust Funds Management (OST/OTFM); thus, Indian lease revenues begin earning interest in the appropriate OTFM accounts the day after receipt at MMS. Earned interest is then paid out to the eventual recipients by the BIA, making it rare that late-disbursement interest is accrued on Indian lease revenues received at MMS.

Refunds on Behalf of Allottees

Justification of Program and Performance
Subactivity Funding Summary
dollars in thousands

Subactivity		1998 Estimate	Uncontrollable and Related Changes	Programmatic Changes	1999 Budget Request	Change from 1998
Refunds on Behalf of Allottees	$	15	0	0	15	0
	FTE	0	0	0	0	0

The 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).

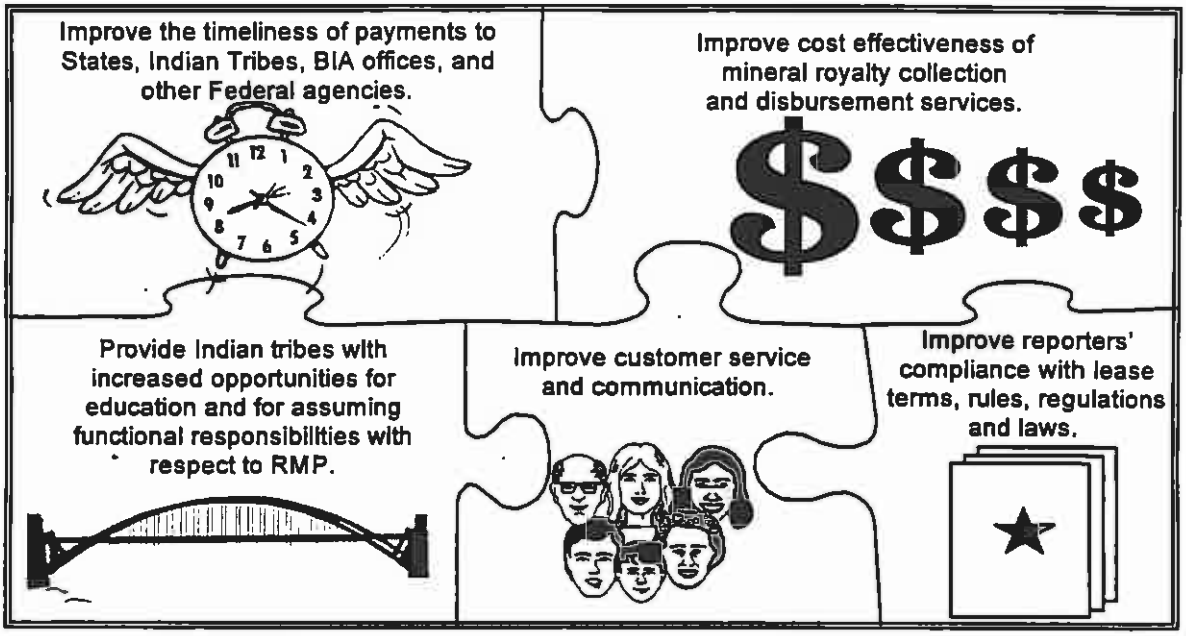
The need for these refunds arises from past policy that required a payor who appealed a bill to pay the bill, pending the outcome of the appeal. Additionally, the policy required MMS to distribute BIA's portion of an appealed bill to BIA regional offices as soon as possible so they could subsequently disburse the revenues to the individual Indian allottees. 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; MMS then suspends requirement for payment. Only after the appeal is settled does MMS distribute BIA's portion.

The RMP also uses this authority to make adjustments to BIA accounts for prior unrecoverable erroneous payments. This authority allows RMP to correct minor errors and make refunds to payors on behalf of allottees.

Royalty Management Program GPRA Crosswalk

Goal: **Timely, accurate, and cost-effective mineral royalty collection and disbursement services**

Objectives:



How GPRA Performance Objectives are related to key Program Initiatives and Current Key Operations.

Key Program Initiatives

- Reengineer the Program
- Involve Constituents
- Implement RSFA
- Improve Valuation Regulations
- Recommend RIK Improvements
- Protect Indian Trust
- Improve the Appeals Process

Current key Operations

- Revenue Receipt and Disbursements
- Data Collection and Reporting
- Information Technology
- Royalty Valuation
- Verification
- Audit
- Collections and Enforcement
- Indian Royalty Assistance

Accomplishments and Planned Activities

Reengineering

Recent Accomplishments

- Benchmarked "best practices" with corporations and other Government entities.
- Mapped current RMP business processes.
- Conducted multiple outreach sessions with employees and customer groups. Outreach meetings to date have included various segments within MMS, the State and Tribal Audit Committee, Royalty Policy Committee, and Council of Petroleum Accountants Societies.
- Awarded a contract in July 1997 to Performance Engineering Corporation to:
    - Conduct a technical assessment of the current systems environment and develop information technology options that will support redesigned business processes.
    - Assist the reengineering team in developing new business process designs.
    - Establish, generate, and maintain an automated environment to prototype and evaluate design options.
- Completed several process changes, including:
    - Reduced audit work papers and simplified field report requirements
    - Streamlined audit processes and Audit Procedures Manual revisions
    - Developed a new compliance tracking system and automated statistical sampling modules
    - Identified multiple short-term process improvements that can be quickly implemented with very limited resource requirements.

FY 1998 & 1999 Planned Activities

- Conduct further outreach sessions with employees and customer groups.
- Complete preliminary design of.
- Complete prototyping and testing.
- Complete final design and implementation plans.
- Commence design of new automated systems.

Royalty Simplification and Fairness Act of 1996

Accomplishments

- Published an interim final rule regarding payment designations for persons making royalty and other payments on behalf of operating rights owners/lease record title holders.
- Published a final rule expanding the list of delegable royalty management functions to States.
- Completed a host of software changes necessitated by RSFA, including:
  - Paying and accepting interest
  - Reporting taxpayer identification number
  - Lessee/payor update database
- Began paying interest to companies who overpay royalties and accepting interest reporting from companies. For the first 5 months of the program, interest on overpayments totaled $868,000.
- Designed and began populating the Lessee Payor Update database necessary to implement the liability provisions of RSFA.
- Streamlined the RMP billing and followup process for production from oil and gas leases after September 1, 1996, to comply with RSFA payment liability/responsibility requirements.
- Implemented the repeal of section 10 of the Outer Continental Shelf Lands Act (OCSLA) regarding time limits on refunds.
- Reduced the number of pre-August 1996 exceptions by over 50 percent, working toward the August 1998 deadline mandated by RSFA.
- Established procedures to report interest payments on Internal Revenue Service Form 1099 to all recipients.
- Defined refund-request procedures and established timeframes within which MMS must complete the refund process.
- Held over 20 outreach workshops with State and industry representatives, focusing on specific implementation areas.

FY 1998 & 1999 Planned Activities

- Publish RSFA rulemakings for:
  - Interest payment and repeal of OCSLA section 10
  - Self-bonding
  - Takes/entitlements
  - Accounting relief for marginal properties
  - Prepayment of revenues
  - Monitoring adjustments
  - Chronic erroneous reporting
  - Payment liability
  - Appeals
  - Statute of limitations

- Coordinate with States requesting delegable functions to ensure an effective transition.

- Begin collecting designation forms from lessees (owners of operating rights/lease record title holders) that identify who they have designated to pay MMS on their behalf.

- Send confirmation letters to designees in conjunction with the Lessee Payor Update Project, asking for confirmation that they are the designated payor.

- Finish Populating the lessee/payor databases with this information to comply with the RSFA mandate requiring RMP to, upon sending an invoice to designees for obligations owed, also notify the lessee of the obligation.
- Begin a new administrative appeals process that will include settlement discussions for every appeal, as mandated by the RSFA for production from Federal oil and gas after September 1, 1996.

- Complete development of new software to implement several RSFA requirements, including:
  - Accounting relief for marginal properties
  - 205 delegations to States
  - Takes/Entitlements
  - Debt Collection from lessees/designees

- Close or bill the remaining pre-August 1996 open exceptions as required by RSFA. Only 5,430 of the initial 14,330 pre-August exceptions remain.

Valuation Regulations and Royalty Valuation

Accomplishments

- Published an Indian Gas Valuation Notice of Proposed Rulemaking in September 1996. Reopened the comment period for 30 days in March of 1997. Discussed revenue effects of this proposal with Indian constituents. Conducted an economic impact analysis on effects of valuation under the new rule.

- Published a notice withdrawing the proposed Federal Gas Valuation Negotiated rulemaking and requesting comments on supplemental valuation options.

- Published a Federal Oil Valuation proposed rulemaking on January 24, 1997. A supplementary proposed rulemaking was published on July 3, 1997. Published another supplementary proposed Federal Oil Valuation rule February 6, 1998.

- Published a final FERC Order 636 rule in 1997.

- Published a revised proposed Indian Gas Valuation rule in February 1998.

- Increased Indian royalty collections $2.6 million by significantly expanding major portion coverage to include 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 Ute Tribe, the Shoshone and Arapaho Tribes, the Navajo Nation and Allottees, and the Jicarilla Apache Tribe.

- Contracted with the *Oil and Gas Journal* to gather information on 125 gas plants throughout the country and received 100 survey responses.

- Established policy on allowable transportation costs for coalbed methane production through the Royalty Policy Board.

- Conducted 6 training sessions for 172 internal auditors to provide royalty valuation guidance and improve communication.

- Conducted 16 training sessions for 128 participants on solid minerals reporting and valuation.

FY 1998 & 1999 Planned Activities

- Expand major portion coverage for FY 1998 and 1999 to cover the Rocky Boys, Fort Peck, Fort Berthold, Fort Belknap, and Turtle Mountain Tribes and allottees, and those Oklahoma tribes and allottees not currently covered.

- Design a database, using gas plant survey data, to assist in evaluating extraordinary cost allowance requests and estimated plant processing costs.

- Provide outreach and guidance to MMS auditors, Indian tribes, and the gas industry regarding transportation service components that can be deducted as transportation costs.

- Complete long-term valuation projects on unique situations:
  - Nonarm's length soda ash sales to foreign affiliates
  - Caustic soda
  - Feedstock to sodium tripolyphosphate plant
  - Arm's length sales to foreign markets through an export marketing association
  - Sales to potash export trade association

  - Indian copper
  - Federal nonarm's length lead

- Issue guidance concerning:
  - Joint ventures
  - POP dual accounting/theoretical dual accounting
  - Sulfur dioxide bundling credits
  - Brokered or structured coal sales
  - Incremental sales

- Identify results of Federal phosphate valuation reviews, resolve exceptions, and when appropriate, issue bills for improper valuation.

- Perform valuation reviews on allowance limits and resolve all exceptions.

- Complete review of allowable transportation segments for mine mouth generating stations.

Royalty-In-Kind (RIK)

Accomplishments

- Released the final *RIK Feasibility Study* report in September 1997, which assesses the potential for the United States to take its Federal oil and natural gas royalties-in-kind. The report recommends that MMS conduct pilots and develop detailed royalty-in-kind strategies for:
  - Oil production in Wyoming
  - Natural gas production in the Gulf of Mexico
  - 8(g) production offshore Texas

- Established an implementation team to pursue the recommendations of the September 1997 *RIK Feasibility Study.*

- Issued a 1997 report, *Oil RIK Value and Volume Reporting Recommendations*, involving the existing eligible refiner oil RIK program, recommending a pilot study with industry to test its findings.

- Published recommendations on reporting, administrative fees, and conducting a Federal lease RIK pilot.

- Verified correct valuation for RIK crude oil billings to small refiners and made adjustments as necessary. Billed two RIK purchasers and three in-value payors.

- Began in an eligible refiner oil RIK pilot in 1998 as recommended in the *Oil RIK Value and Volume Reporting Recommendations* report. This pilot has been designated a National Performance Laboratory.

FY 1998 & 1999 Planned Activities

- Implement a revised RIK administrative fee structure.
- Develop a RIK needs assessment process to determine whether small refiners have access to adequate oil supplies.

- Expand valuation verification to additional onshore and offshore areas for small refiner RIK crude oil billings.

Appeals

Accomplishments

- Issued 198 decisions on non-routine appeals (appeals not decided by RMP); 72 of these were appealed to IBLA
- Published a proposed rule on appeals, imposing 16 month time limit on MMS appeals process, leaving 17 months for a final Department decision from IBLA.
- Formed teams, including staff from IBLA and Office of the Solicitor, to prepare a revised proposed rule incorporating RPC recommendations and RSFA requirements.

FY 1998 & 1999 Planned Activities

- Issue a revised proposed rule on appeals, incorporating RPC recommendations.

Revenue Receipt and Disbursements

Accomplishments

- Received 92 percent ($5.6 billion) of collections electronically in FY 1997.
- Improved and upgraded the Standard General Ledger to comply with the Chief Financial Officer's Act and to be compatible with client server applications and the current main frame application.
- Revised the *PAAS Reporter Handbook*, making it a more user-friendly document and reducing its size by one-third.
- Disbursed 98.9 percent of Federal and State revenues on-time to the proper recipients and 97.9 percent of Indian revenues to OST/OTFM on time in FY 1997.
- Began reporting payor interest to the IRS and to recipient companies using Form 1099-INT software in January 1998 in compliance with RSFA.

FY 1998 & 1999 Planned Activities

- Convert and update the automated general ledger functions from outdated COBOL legacy software to client server-based customized software.
- Create a fully automated process to generate the Online Payment and Collection documents, Federal Journal Vouchers, and U.S. Treasury SF 1166 Requests to eliminate transcription errors and reduce manual workload.

Data Collection and Reporting

Accomplishments

- Achieved a 97.3-percent accuracy rate for royalty reporting and a 98.3-percent rate for production reporting.
- Drafted an Electronic Commerce proposed rule requiring electronic reporting for implementation by the end of FY 1998 for all reporters.
- Converted well data interface to BLM's Automated Fluid Mineral Report System, which enables RMP to exchange data electronically and obtain more timely, accurate information.
- Transferred production error corrections to RMP personnel, which eliminated $1.3 million in contracted services.
- Increased efficiencies and improved customer service to reporters and BLM counterparts by integrating producing and nonproducing lease workloads and by cross-training employees to correct both production and royalty errors.
- Conducted nine training sessions with 564 reporters from 343 companies on oil and gas royalty, payment, and production reporting requirements.
- Published the *Geothermal Payor Handbook* and the *Solid Minerals Payor Handbook.*

FY 1998 & 1999 Planned Activities

- Pursue franchising opportunities with States to produce their production reports at a competitive fee.
- Publish and implement the mandatory electronic reporting rule in FY 1998.
- Complete reconciliation of RIK contracts and establish a contemporaneous schedule of future reconciliations.
- Conduct a pilot test to determine whether all BLM reference data can be transmitted electronically to RMP ensuring a more accurate, current database.
- Implement a redesigned Payor Information Form (PIF) which will reduce the amount of data required from reporters and the time required to distribute revenues to recipients.
- Compare the OCS Technical Information Management System (TIMS) and RMP's Common Reference databases for accuracy.
- Develop a data sharing arrangement with the Bureau of Indian Affairs (BIA) and assist them in imaging their paper files so that RMP and BIA personnel can access each other's electronic data.
- Automate the Interagency Data Verification System so that all data element corrections to the CRD and BLM's Automated Lands Management Records System (ALMRS) databases can be made online.
- Verify with BLM that its new Automated Fluid Minerals Support System (AFMSS) database, which will replace the current ALMRS database, provides all the information required by MMS.

Information Technology

Accomplishments

- Upgraded RMP network to provide state-of-the-art telecommunications capabilities to all MMS users nationwide, including:
  - State and Tribal Royalty Audit Committee Network (STRACNET), which provides States and Tribes direct access to RMP automated systems
  - MMS local metropolitan network
  - MMS-wide area network

- Enhanced and expanded the use of Internet and Intranet, upgraded all PC workstations to Windows 95 and related 32-bit desktop software, developed imaging applications, and enhanced data warehouse access for users nationwide.

- Met RMP's 50 percent paper reduction goal by archiving mainframe system reports and the thousands of paper reports RMP receives using electronic imaging and storage systems. Now multiple users can access those reports electronically at their desktop computers.

FY 1998 & 1999 Planned Activities

- Replace outdated mainframe processor with new systems server. This new system is compatible with current mainframe legacy systems and client-server based system(s). This hardware is also an appropriate bridge for RMP's transition to reengineered business processes and systems.

- Complete LAN consolidation and workstation standardization. This centralized approach will be more efficient and ensure effective end-user support.

- Upgrade data warehouse to allow RMP users ready access to historical production information.

- Assist with bureauwide information technology initiatives, including upgrade and standardization of desktop hardware and software.

- Increase availability of information and systems to public and customers via enhanced web technology.

- Complete the year 2000 conversion project to identify and resolve potential concerns with date-related processing in hardware, systems software, and applications on both the client/server and enterprise server platforms. Completion is targeted for first quarter FY 1999.

- Upgrade the electronic imaging and storage systems to archive and access large quantities of paper documents including solid minerals and FOIA information. The RMP is beginning to use these systems' advanced capabilities as platforms for the development of workflow systems.

- Make information frequently requested under FOIA and other frequently requested information available to the public in an electronic format by September 30, 1999. This effort will lessen the response time to the public and the burden on programs to provide information manually.

Verification

Accomplishments

- Increased efficiency to improve service to our industry clients by restructuring the workforce. This restructuring changed previous workload distribution from functional based to payor-based monitoring. Now, one individual, instead of several, works with a company to resolve its issues; industry's feedback has been positive to this approach.

- Implemented the Automated Front-end Enhancement (AFEE) with the computer generation of some 700 to 800 initial operator contact letters during the first month. The AFEE continued to generate more than 1,000 contact letters during each of the succeeding months thus saving the equivalent of 5 FTE in front-end analysis. The benefits of AFEE combined with streamlined work processes, the increased use of the Notice of Noncompliance and billing processes, the implementation of a new branch award program, and the augmentation of the staff allowed RMP to close a record 18,509 cases during FY 1997.

New Record Set!

In FY 1997, MMS closed a record number-18,509- of AFS/PAAS exception cases. This represents a 61 percent increase over FY 1996, and an almost 50 percent increase in closed cases over the average annual rate of the past 3 years.

The RMP also experienced a 41 percent average increase in AFS/PAAS individual analyst productivity in FY 1997.

This increased productivity is due to streamlined work processes, implementation of system improvements, enhanced use of enforcement tools, and an employee award program that recognizes high performers.

FY 1998 & 1999 Planned Activities

- Transfer contracted financial workloads currently performed by a contractor to current Federal employees.

- Implement processes to identify and correct overpayments to reduce the amount of interest being paid to payors.

- Reach an FY 1998 stretch goal of closing 26,000 exceptions, 8,000 more than were closed in FY 1997. This would represent a 40 percent productivity increase above FY 1997's record number of closed cases.

- Close or bill all remaining open exceptions, as required by RSFA.

- Complete final releases of AFEE for fully automated updating capability and case file creation; develop software to send initial contact letters electronically.

- Begin the resolution process for Gas Verification Program generated gas exceptions, following 1998 issuance of final regulations.

- Complete work on the OCS section 6 lease use gas initiative.

- Continue work on coalbed methane compliance reviews in the State of New Mexico and on the joint RMP/BLM review of selected gas plants.

Audit

Accomplishments

- Met our 1-year commitment to complete review and billing efforts—to the extent that records were made available—of major California oil producing companies for alleged underpayments of royalties.

- Issued bills and orders, including interest, for $431 million, which was adjusted based on company responses down to $257.1 million.

- Collected $142.9 million from contract settlement audits through FY 1997.

- Provided 18 training sessions in Wyoming, Utah, Texas, Oklahoma, and Colorado for 300 MMS, State and tribal auditors on:
  - Plain English for Auditors
  - Crude Oil Premium Auditing

- Developed internal guidance on Auditing Crude Oil Premiums, Auditing Affiliate Sales of Natural Gas, and Auditing Affiliate Sales of Coal and made this guidance available to payors.

FY 1998 & 1999 Planned Activities

- Complete carryover audits on an estimated 31 major payors, 44 other companies, and over 500 non-company audits.

- Initiate:
  - Approximately 25 major payor company audits
  - Approximately 30 other company audits conducted by States and tribes
  - Non-company audits including the Rangely Weber Unit and the Point Pedernales Unit
  - Additional randomly selected property audits

- Initiate several pilot projects to support compliance integration and potential reengineered audit processes and approaches.

- Provide added emphasis on auditing transportation allowances (including FERC tariffs).

- Develop and present two new audit training classes: "Reengineering the Audit Process" and "Cost Audits of Transportation/Processing Allowances." These classes will be presented to over 300 auditors, of which 100 will be State and Indian auditors.

Collections and Enforcement

Accomplishments

- Initiated 457 settlement discussions (or other ADR processes) since FY 1992 and closed 348 of them, collecting over $507 million related to violations identified by compliance processes. By 1996, most large companies had completed settlements for production prior to 1989. A net additional $37 million has been collected in 79 settlements from January 1, 1996, through September 30, 1997.

- Participated in first judicial action under the False Claims Act. A settlement was reached, which resulted in a payment of $200,000, constituting treble damages on the unpaid royalties plus nearly $50,000 in penalty.

FY 1998 & 1999 Planned Activities

- Conduct settlement meetings on approximately 300 orders appealed in the administrative appeals process.

- Reach settlement on approximately one-half to one-third of the above appeals.

- Continue to aggressively pursue misreporting, false reporting, and underpayments through the use of civil penalties and affirmative civil enforcement, together with the Department of Justice, under the False Claims Act.

Protecting Indian Trust/Indian Royalty Assistance

Accomplishments

- Inaugurated the Royalty Internship Program with the Cherokee Nation in February 1997. Provided their employee on-the-job training in all RMP functions except audit.
- Resolved 792 inquiries from allottees (individual Indian mineral lease owners).
- Conducted 34 Indian Allottee and 12 Indian tribal meetings.
- Converted the Four Corners office to a pilot–under one supervisor–to provide multiagency service to Navajo Indian lease owners from a single office. Reassigned other four-corners workload to other RMP offices during pilot. The pilot has:
  - Modified the Social Services Income Verification process so that allottees can get their income verification information quicker.
  - Improved the working interest assignment process so that it is more timely and accurate.
  - Improved the leasing process, resulting in a highly successful lease sale on July 16, 1996, in Santa Fe, New Mexico.
  - Cross-trained BIA, BLM, and MMS employees in various disciplines and different mineral lease functions.
  - Led Indian Minerals Steering Committee subcommittees on the BIA Explanation of Payments Report redesign and on Indian Communication and Outreach.

FY 1998 & 1999 Planned Activities

- Continue to operate the Farmington National Performance Review Laboratory pilot and ensure successful completion by March 1999.
- Issue internship announcements to all tribes and recruit more candidates to enter into the internship program.
- Expand outreach program to include two more tribes. The RMP has several programs available to tribes to help them learn more about the functions performed by RMP in managing their mineral revenues. Programs available to the tribes, which will be discussed in the outreach sessions, include:
  - Royalty Internship Program
  - Online access
  - Section 202 audit agreements
  - Self-governance and self-determination contracts
- Increase assistance to tribes to improve their expertise and expand the number of audits they conduct.
- Revise the data collection survey to obtain more relevant Indian customer satisfaction feedback from outreach and education sessions.

General Administration
Justification of Program and Performance
Analysis by Subactivity
dollars in thousands

		1998 Enacted	Uncontrollable and Related Changes	Programmatic Changes	1999 Budget Request	Change from 1998
Executive Direction	$	1,815	55	0	1,870	+55
	FTE	20	0	0	20	0
Administrative Operations	$	12,118	474	0	12,592	+474
	FTE	182	0	0	182	0
General Support Services	$	13,752	954	0	14,706	+954
	FTE	0	0	0	0	0
Policy & Management Improvement	$	3,628	112	0	3,740	+112
	FTE	37	0	0	37	0
Total	$	31,313	1,595	0	32,908	+1,595
	FTE	239	0	0	239	0

Overview

General Administration activity provides leadership, direction, management coordination, communications strategy and outreach (Executive Direction); policy, management and strategic planning (Policy and Management Improvement (PMI)); financial, personnel, procurement, facilities and information management services (Administrative Operations); and infrastructure support (General Support Services) to the Offshore Minerals Management and the Royalty Management programs.

MMS programs operate within two primary segments of the economy - the oil and gas exploration and production sector, and the financial sector responsible for valuation, collection, and auditing of marketed natural resources.

Among the key reasons for MMS current programmatic achievements is the ability of its senior managers to develop a sense of the direction of the industry and public it serves. This has been achieved through utilization of communication outreach via advisory councils, discussions with members of Congress, Congressional committees and their key staff, industrial and environmental spokesmen and community representatives affected by ongoing and proposed MMS activities.

These efforts, recent technological developments, fundamental changes in the auditing and accounting philosophies, and MMS response to enactment of recent legislation have yielded a clear vision of where the MMS of the twenty first century needs to be headed. Providing the

leadership, securing the resources, developing the organizational capabilities, building the infrastructure and assuring appropriate delivery of services are the responsibility of General Administration.

Key Initiatives

Strategic Planning

With political, legislative, judicial, administrative, environmental, and economic pressures molding MMS, the task of focusing and directing the organization has become herculean. The strategic planning process has been fully integrated in the MMS culture. The MMS has diligently studied, tested and evaluated the impacts of GPRA on the vision and mission of MMS. PMI has been charged with preparing the MMS Strategic Plan and guiding the development of performance goals, objectives, and indicators for the OCS and RMP programs, and in doing so has constantly interfaced with the Director and Associate Directors to ensure adherence with their vision. MMS implemented a "team" approach to the development of these documents so that the concerns of a full cross-section of the Offshore and Royalty employees would have full voice in the process.

Upon completion of the draft Annual Performance Plan, the indicators were evaluated to determine their impact on for the budget presentation, and to assess whether the existing budget structure could present them in a intergrated manner. Extensive discussions with the OCS and RMP program staff have guided the bureau to a keener understanding how of to fully implement GPRA. During FY 1999, through extensive teaming with the OCS and RMP programs the current budget structure will be evaluated to ascertain its effectiveness under a fully implemented GPRA.

Strategic planning within MMS and the Department of the Interior is not limited to GPRA. The Deputy Secretary for the Department of the Interior created a task force to develop a strategic plan for improving diversity in the Department. MMS is developing a Diversity Strategic Plan that fully incorporates the vision as set forth in the Department's strategic plan. The plan will be implemented through hiring, or training and advancement of employees within the MMS.

New ways of doing business

Royalty in Kind (RIK)

Under the terms of standard Federal oil and gas leases, the government is entitled to a share of production (royalty) removed or sold from the lease. Historically, the government has received this share in value, i.e., as a percentage of the sale's proceeds received by the mineral lessee. But, there are reasons to examine whether the government should receive at least some of its royalties "in-kind", i.e., taking oil or gas in quantities equaling the percentage royalty share. A primary reason to examine this issue is that taking the royalty in-kind may provide opportunities to substantially reduce disputes between lessees and the government over the value of Federal

production. Such disputes are now common and expensive to resolve. In addition to reduce administrative burdens on MMS and industry, RIK presents opportunities, in certain circumstances, to enhance royalty revenues.

In 1995, MMS's PMI conducted its Royalty Gas Marketing Pilot, a limited RIK test for offshore leases that was an operational success but which resulted in decreased royalties compared to in value collections for the same leases. Despite these mixed results, interest in government RIK possibilities continued. Committee language in FY 1997 Appropriations legislation directed MMS to consider additional RIK projects and in response PMI completed a feasibility study that identified 3 prospects for new pilot initiatives. MMS has formed teams to develop these pilot projects and evaluate their potential for collecting royalties in the future.

Royalty Reengineering

The Royalty Re-engineering initiative is a fundamental change in the way MMS will do business with its customers. Because MMS hopes to place reengineering on a fast track for implementation this effort has required MMS to explore several different acquisition strategies. The chosen strategy will enable RMP to move through the reengineering process without any institutional delays. Together RMP and procurement have evaluated numerous implementation strategies and are continuing to selectively apply the most favorable for each stage of the process consistent with funding availability.

As the implementation of the Royalty Reengineering initiative shifts into high gear the effects upon personnel, financial and facilities support will be profound. People may be asked to perform tasks that are different from those they currently undertake, and to perform these tasks with an entirely different array of skills. Successful implementation will match job skill requirements and current MMS employees. Where necessary, mandatory training to develop these skills will be utilized to proactively counteract any constraints on reengineering that may arise due to personnel related issues.

The implications of the Re-engineering effort do not stop here. The total restructuring of the Royalty operations will require space, communications (telephone and computer networking), organizational, and financial reconfigurations. This will effectively change all the underlying administrative support fundamentals, the majority of which will have to be in place and operational prior to full implementation.

Management Controls

Answering the call to work smarter and better, in FY 1997 MMS pilot tested, for the Department of the Interior, an automated approach for assessing management controls over program resources and processes. The 1995 revision to OMB Circular A-123 opened the door to innovation and gave agencies freedom to design more cost effective, simplified systems that met their needs while meeting the requirements of the Federal Managers Financial Integrity Act. The MMS pilot resulted in a quick, concise comparison of all the assessed measurement areas at a glance and pinpointed areas where more in-depth analysis was needed. Considerable savings were achieved in both cost and manpower. After reviewing the results, in FY 1998 the

Department expanded the pilot to include all bureaus and offices and will adopt the new process Department-wide in FY 1999.

Administrative Appeals of Royalty Assessments

Sometimes companies disagree with actions taken by MMS staff. These disagreements arise most frequently when RMP finds that the company did not pay sufficient royalties and orders the company to correct the error. When such disagreements arise, companies file a formal administrative appeal with the Director of MMS. The program office (generally RMP) reviews the appeal, and if it is not resolved at that stage, they forward the appeal to the Appeals Division, PMI, for review.

The Appeals Division reviews the facts and arguments presented by both the appellant and the program office, analyzes the case against legal and policy precedents, and recommends a decision for signature by the Director, the Associate Director, PMI, or the Deputy Commissioner of Indian Affairs for cases involving Indian leases. If the appellant disagrees with the decision of MMS or BIA, they can appeal further to the Interior Board of Land Appeals (IBLA).

The Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 requires the Department to render final decisions on administrative appeals involving Federal oil and gas leases within 33 months of the filing of the appeal. MMS and the IBLA are taking steps to ensure that this time frame can be met. Over the past two years, MMS has made substantial strides in deciding old cases, such that decisions on active cases generally are being issued within 12 months of filing (except for certain cases affected by ongoing litigation or involved in productive settlement negotiations).

In addition, the Royalty Policy Committee (RPC) recommended to the Secretary of the Interior that the entire appeals process be substantially restructured. A team of staff from the IBLA, MMS, and the Office of the Solicitor is preparing new regulations to implement most of the RPC recommendations, which should further expedite the processing of appeals. In particular, the reforms recommended by the RPC include:

- increasing efforts to resolve policy disputes before conducting audits of royalty payments.
- further encouraging informal resolution of disputes.
- clarifying the standing of states and Indian lessors in the administrative appeals process.
- restructuring the process to encourage earlier development of the administrative record, facilitate settlement efforts, impose time limitations on the appeals process, and allow for appeals to be filed with the IBLA rather than the MMS so that appellants can obtain a faster, more independent review of legal issues raised on appeal.

Information Technology Acquisition Process

Faster, better, less costly, more efficiently, with more functionality - this is the mantra for the information management within MMS. With information resource technology still advancing in leaps and bounds the quandary faced is the frequency of upgrades and the methods of assuring that program functionality is not constrained by computing limitations. OMB is now the agency with primary responsibility for managing and tracking federal information technology (IT)

investments with their interests oriented towards the GPRA and the attainment of mission outcomes. To this end all of the steps in the current IT acquisition process are being examined to see what's still appropriate and what's not. This will be followed by development of a new process that is streamlined and customer focused. The two distinct outcomes of this undertaking are a redefinition of program versus administrative support roles and responsibilities to be performed for small, medium and large IT acquisitions, and unambiguous guidance needed by the program staff to develop information to support IT acquisitions for the Department, OMB and Congress.

Federal Personnel and Payroll System (FPPS)

This application of technology can provide its customers with better service at a lower cost. MMS has been the DOI forerunner in the implementation of FPPS by being the first FPPS client to pick up responsibility for data entry and processing of certain pay maintenance functions instead of sending employee paperwork to the Bureau of Reclamation's Payroll Operations Division in Denver. This change will significantly reduce the amount of time required to change an employee's address, bonds, etc, and provide a more improved tracking capability. Further justifying its gold medal performance, MMS will implement a Windows interface for one of the personnel/payroll modules - the Time and Attendance (T&A) Reporting System. This interface will make T&A reporting and certification much easier for employees.

Building on these FY 1998 successes, FY 1999 will see the replacement of the current interface with a single, seamless desktop which will accommodate all of the FPPS modules and satellite systems such as retirement scenario planning and report generation, to name a just a couple.

Franchising

MMS has a host full of professionals who have a track record of success and are eager to demonstrate their capabilities. When the Office of the Secretary was looking for support of their personnel functions, they turned to the MMS Division of Personnel. A cooperative agreement between the two organizations has been mutually beneficial. The Office of Secretary is now provided exceptional personnel service in a timely manner, and the MMS has received the benefits of professionals within the field of personnel management who have been allowed to stretch to their professional limits. The MMS Division of Personnel has developed the skill to:

- use different and varied recruitment methods and authorities,
- deal directly with executives and managers at the highest level of the Department,
- take the lead in resolving highly unusual and precedent-making cases, and
- assist in developing human resources policy.

In addition, MMS has developed the customer service orientation to fully understand the customer's wants, needs and constraints prior to procurement. As a result of this record of success, most especially in the information technology arena, MMS's procurement capabilities have been sought after by the General Services Administration's FEDSIM customers. This has enabled the MMS professionals to stretch themselves "out of the box" in developing newer more expedited methods of acquisition.

The immediate benefit of these activities to MMS has been an empowered, challenged professional staff, with a broader and more sophisticated sets of tools for performing their jobs. This is the epitome of doing things smarter, faster, and at less cost - the hallmark of better government.

Intranet/Internet

Report.Web

MMS generates over 70,000 hard copy pages per year of financial reports which are distributed MMS-wide. In addition, we also create and distribute tapes that are provided to RMP staff. By introducing this new technology, Report.Web, the cost of printing and distributing reports is eliminated in favor of electronic distribution. Report.Web provides the capability to publish reports on the Intranet (Pipeline), allowing MMS to solve the problems of distributing and managing these voluminous number of ABACIS reports in a cost effective, timely, and efficient manner. This will allow program office personnel Servicewide to have online access to their financial reports via the Pipeline. The result is giving users new tools to access business information, without compromising security and data integrity.

Electronic Commerce Activities - Electronic Posting System (EPS)

MMS is hosting a pilot Web site for the Department that allows all Bureaus to post Requests for Information, Quotes, and Proposals (RFI, RFQ's, and RFP's) and other solicitations on the Web, effectively automating this part of the procurement process. Potential vendors and offerors can review the postings and are provided an e-mail link to the responsible procurement officials to ask questions and get clarification about the solicitations. Another feature of this pilot project for the Department is that it offers the capability to send a Commerce Business Daily notification. Automating these procurement processes will provide a more cost effective, efficient service to our offices. Once the pilot is completed in mid-FY98, a full implementation will take place in FY99.

Customer Support

Gulf of Mexico Initiative

The resurgence in the GOM leasing activity poses challenges for general administration in terms of providing the GOM office with the administrative support it needs to keep up with its increased workload and provide responsible service to the natural gas and oil industry. Significant breakthroughs in imaging technology and engineering have enabled the natural gas and oil industry to explore with greater certaintude the Outer Continental Shelf for these petroleum resources. The result has been a mind boggling increase in interest and bids for OCS lease sales. The workload increase has been phenomenal and prolonged. Bid evaluations, lease permit processing, environmental study design and monitoring, engineering evaluation of drilling technology are some of the short term effects. Longer term will be monitoring exploratory and production drilling, conducting inspections, assessing cumulative effects of deepwater production.

Examples of the type of administrative support required in the GOM includes the following.

Personnel

- All of this work must be performed by people, either MMS employees or contractors. Each require special administrative support. Personnel staff will continue to work with OCS managers to assess what skill mix they need within their employees and secure these people. This also includes devising ways of retaining MMS employees. With the burgeoning oil and gas industry in the Gulf, individuals with experience, such as MMS employees are being recruited by industry. This has exacerbated the personnel problem. Skill and professional development are mandatory to assure compliance with MMS's goal of "providing for safe and environmentally sound mineral development on the Outer Continental Shelf, and ensure that the public receives fair value."

Information Management

- Information management is faced with an equally complicated task. How to provide for adequate connectivity, while enabling hardware and software configurations to run the sophisticated technical programs required in the Gulf of Mexico.

Procurement

- Procurement will work with the OCS managers to develop strategic approaches to issuing, monitoring and funding environmental studies necessary for the Environmental Assessments and Environmental Impact Statements required for each of the permitting stages.

- Historical Well Data Clean Up- GOMR has 35,000 well data documents with varying degrees of data integrity. The information is recorded on paper forms. There may be 15,000 to 20,000 other records on bypasses and sidelines for which they have limited information. They want a contractor to verify key data elements and record those data elements for wells showing the greatest benefit. Greatest benefit, although not defined, may mean deep water. A performance/solution-based procurement will be implemented to acquire these services.

- Digitizing Well Log Data -The Gulf of Mexico Region wants to scan their historical Well Log Data and record the information on CD-ROM using non-proprietary software. The CD-ROM must run on a stand alone PC, LAN, Windows 95 and NT. The image should be a TIF or GIF file. They have competing interests within the Region and industry that use these documents. Some documents are limited to one copy. When those documents are in demand, it's difficult to meet the Region's and industry's expectation for timely delivery. By scanning the documents, they will be able to provide copies of the documents to all interested parties on a timely basis and accommodate their document storage requirements in a more effective manner. The procurement will specify that work must be performed within a limited radius from the Regional office to ensure prompt recall of documents if requested by staff or industry.

- Support services will have to ensure adequate space and personnel as well as data and facility security. Acquiring space, reconfiguration, information systems and infrastructure development all have to be performed in a manner that is not disruptive of the ongoing critical workload.

Information Collection

Congress passed the Paperwork Reduction Act of 1995 (PRA) to minimize the paperwork burden of the federal government on the public and to control the quality and use of the information collected. Implementation of this legislation has been a sizable task for MMS because the legislation established more rigorous procedures for federal agencies to collect and keep information, even when the information is viewed by an agency as being vital to the enforcement of its compliance and safety programs. MMS's task has been even more difficult because other recent legislation, most notably the Federal Oil and Gas Royalty Simplification and Fairness Act of 1996, has impacted the data requirements of its program operations. Whenever a regulation is proposed, a notice is issued to lessees or operators, or a survey is conducted an information collection issue is generally involved.

The information collection liaison function in MMS has been working closely with the Offshore and Royalty Programs, the Department's Office of Policy Analysis, the Office of Management and Budget and MMS's customer base (which includes industry, States, and Indian Tribes) to implement the new and stricter requirements of the legislation. This intense transitional phase of changing requirements and collecting better but presumably less data will continue through this fiscal year.

To continue to improve customer service to the Royalty Management and Offshore Minerals Management Programs, and facilitate the procurement process, MMS will actively use oral proposals and other innovative procurement techniques. MMS will utilize the technological advances of the Internet and the MMS Home Page as tools for the electronic posting of solicitations and Commerce Business Daily announcements as well as electronic invoicing.

Clinger-Cohen Act IT Activities

While still in its infancy, the Clinger-Cohen Act presents a series of sweeping changes within the IT regulatory environment. These changes will require a continual effort to evaluate and recommend IT investments within the Service. General Administration will be able to provide insight and direction to the program areas and champion these efforts to the Department's Chief Information Officer to obtain their approval for major IT acquisitions.

Looking Ahead

As General Administration looks into the future a few significant issues appear on the horizon. Perhaps the most intriguing and complicating for MMS' RMP program is the possible restructuring of the electricity market and its implication for the royalty collection process. As was true with gas contract settlements of 1996, the nuances of gas supply contracts, the effects of deregulation, and growth in complexity between producers and providers will further complicate MMS's royalty valuation functions. Resolving these valuation issues will require significant analytical resources, and most probably audits and appeals to establish a benchmark for

establishing the criteria and expectations of royalties owed. Throughout MMS work in the establishment of these standards will be a high priority.

The future of natural gas and oil development in the Outer Continental Shelf is shining brighter now than it has for the past decade. New technology, increased industry interest, and a legislative and regulatory environment that encourages development have all spurred renewed interest in the Gulf of Mexico and have supported continuing efforts in Alaska. The natural gas and oil exploration and recovery systems are pushing engineering, imagery, and environmental sciences into areas scarcely even dreamed of a few years ago. This has increased MMS's need for better understanding of sensitive ecosystems; of advanced sophisticated drilling and production technologies, and assessment models for resource and bid valuations. General Administartion will play an important role in meeting these needs. Procurement has to have the capability of discerning responsive and nonresponsive bids in areas of scientific research never before explored. Personnel recruitment and training activities have to provide MMS with professionals with a peer status to their industry counterparts. Policy and legislative implications of the new technologies not only affect the United States, but the entire world. MMS is world class in its capabilities - more so now than ever before MMS will be called upon to provide assistance to nations developing their regulatory, legislative and industrial capabilities.

MMS's leadership has come to understand that rapid change is the order of the day. Technological advances affect the discovery, exploration, and production of natural gas and oil. The world of royalty payments, production verification, and market structures evolve equally as quickly requiring a virtually perpetual evolution and adaptation of methodologies.

Strategic planning, full incorporation of GPRA, integration with and adoption of Departmental procurement and property systems, enabling employees, implementation of cost accounting systems, cooperative development of delivery systems for information technology with the Department, and strategic development of budgetary resources are more than contemporary issues. These initiatives or similar ones will always be pushing and prodding the MMS to continually improve to look for ways of doing business better, and to provide the American taxpayer with:

- Safe and environmentally sound mineral development on the outer continental shelf, and ensure that the public receives fair value.
- Timely, accurate, and cost effective mineral royalty collection and disbursement services.

	Responsibilities
Executive Direction	
Office of the Director	Provides leadership, policy direction, and management.

	Responsibilities
Office of Communications (OOC)	Serves as the primary point of contact with Congress, State and local governments, the news media, external constituencies and the general public.
Policy & Management Improvement	Provides the director a single point of contact for addressing issues that cut across program areas or fall outside of the responsibilities of either major program. Additionally, it: o initiates pilot projects at the director's request o assures implementation of recommendations derived from internal reviews, Inspector General audits, and GAO reviews o adjudicates administrative appeals o conducts internal reviews at the request of the director o coordinates audits by the IG and GAO o manages MMS's compliance with the Departmental regulatory process.
Administrative Operations	
Budget & Finance	Responsible for planning and effective utilization of budgetary and financial resources. This includes: o developing bureau budget estimates for the department and OMB o providing guidance for budget and program formulation and justifications o assuring proper funding, staffing, and execution in accordance with the law and Congressional and department directives o operating the administrative accounting system o preparing the bureau's annual financial report as well as serving as the bureau's focal point for other duties under the CFO Act.
Personnel	Administers the human resource management program and provides operational personnel services to the major program areas. This includes: o recruiting and employing o conducting labor management relations o reviewing, processing, and representing management in employee grievances, appeals, and adverse/performance based actions o consulting with and referring actions related to allegations based on discrimination to Equal Employment and Development Opportunity Division staff o providing personnel services to the Office of the Secretary on a reimbursable basis through an Interagency franchise agreement.
Procurement & Support Services	Responsible for the execution and administration of procurement, space and facilities management, property management, safety and health management, transportation, and general office services functions. This includes: o awarding and administering contracts, small purchase agreements, cooperative agreements, and interagency agreements o administering support functions for 31 buildings in 18 cities o maintaining inventory system for all bureau controlled property o managing bureau's vehicle fleet.

	Responsibilities
Information Resources Management	Responsible for providing direction, guidance, and coordination for IRM activities, including computer security, acquisition management, data networking and infrastructure support, desktop computing and end-user services, and records management activities. This includes: o Assisting the Department's data network, DOINET o Participating in the implementation efforts identified in the Strategic Plan, such as the establishment of hardware and software standards o Assisting the Office of the Secretary (OIRM) with Department-wide contracts for encryption software and software that will aid the Bureau to identify and assess the impact of the Year 2000 date problem in legacy code o Supporting cc:Mail electronic mail between all Bureau users and between other DOI Bureaus and Internet/Intranet activities and provides coordination of FTS 2000 services.
Equal Employment & Development Opportunity	Develops, directs, monitors, and operates the MMS EEO Program. This includes: o Maintaining and operating the discrimination complaint system o Implementing the equal employment opportunity and affirmative action plans o Implementing programs for minority higher education and related partnerships o Managing employee training and development o Managing the special initiative programs to involve more women and minorities and people with disabilities in the program areas and throughout all levels of management.
General Support Services	Provides the funding to cover uncontrollable (fixed) costs and other support services for all office locations. This includes such expenses as rent, mail service, commercial communications/Federal telecommunications system, and employees' compensation fund.

Accomplishments

- Made substantial strides during 1996 and 1997 in eliminating the backlog of administrative appeals. The cases disposed of during this period were over twice the number of new cases received. Issued decisions in 493 cases, settling 371 cases, and otherwise resolved 570 cases.

- Completed the GPRA required Strategic and Annual Performance Plans on time, and with input from our customers and stakeholders.

- Streamlined and improved MMS's regulation development process by implementing recommendations proposed by the Regulatory Review Team.

- Performed a feasibility study to identify potential pilot projects for MMS to collect oil and gas royalties in-kind rather than in value.

- Conducted successful pilot project for the Department which evaluated automating some Management Control Reviews (MCR). Automated MCR's could save time, staff involvement and money.

- Completed study of the Royalty Management Program's direct and indirect cost structure to assess current and future cost allocations for charging or delegating functions to states.

- Completed an independent study bench marking State royalty collection activities to determine how the Royalty Management Program costs and services compare to state activities.

- Hosted workshops and met with companies to obtain current information on oil and gas marketing practices and efforts. This was to obtain a knowledge base of information on current private sector practices to apply in developing new regulations.

- Oversee the implementation bureau-wide of the MMS Diversity Strategic Plan. Established a top-level Management Recruitment Committee to assure priority of strategic planning activities.

- To reduce the administrative burden on supervisors, implemented a Windows interface for the Time and Attendance Reporting System of FPPS.

- Evaluated the requirements of GPRA budgeting on budget, financial, and organizational structures.

- Continued to maintain and expand one to the Department's first Intranets, thereby improving the interchange of information among employees and speeding the performance of business requirements.

- Implemented web based applications to support administrative functions in a more cost effective manner, e.g, a system to place RFP's on the Internet for access by the commercial community which expands the opportunity for all vendors, including small, minority and woman-owned vendors, to bid on our needs; and a tool for retrieving financial management information on the bureau's Intranet which will alleviate the need for printing financial reports.

- Prepared an Annual Financial Report that once again, (sixth time in six audits) received an unqualified clean opinion from the Inspector General's office.

- Expanded the use of Purchase Cards by MMS staff, thus accelerating the receipt of acquisitions supporting program activities and reducing the administrative burden on staff.

- Became one of the first Interior bureaus to convert to the new Federal Payroll Personnel System, thus improving the ease with which personnel and payroll actions can be accomplished and reducing the administrative burden on MMS staff.

- Obtained and realigned additional space in the Gulf of Mexico region to support the expanded program operations. These efforts have provided modern high tech offices which are safer as well as customer and employee friendly.

- Assessed the Year 2000 computing problems of MMS's five mission critical applications. Completed system renovations, testing/validation, and initiated implementation within OMB's milestone dates.

Planned Activities

- Work to issue decisions within 12 months of filing for all cases except those that are on hold for productive settlement discussions or are tied up in litigation. At the same time, work with the Interior Board of Land Appeals and the Office of the Solicitor to develop new regulations in response to recommendations by the Royalty Policy Committee, which will substantially reform the appeals process.

- Design and implement a process to measure our performance in achieving organizational goals.

- Lead an MMS-wide team identifying and examining policy options for addressing movement of bulk offshore production upstream of initial processing, a situation becoming more common in deep water areas offshore.

- Form teams to develop RIK pilot projects identified in the feasibility study and evaluate potential of collecting royalties differently than currently being done.

- Implement EEO initiatives, developed in consultation and cooperation with BLM and OSM, to coordinate and consolidate training, targeted recruitment, conflict resolution for prevention of EEO complaints, and partnerships with academic and professional organizations.

- Develop a single, seamless PC desktop application accommodating all of the FPPS modules and satellite systems and further improving the user friendliness of the system.

- Continue the transition to GPRA budgeting and reporting to support a fuller understanding of the planned and subsequent application of bureau resources.

- Begin evaluation of space, design and functional requirements for RMP's request to move into a single building in 2001.

- Increase franchising opportunities for the range of administrative services while continuing to provide timely and quality support to all MMS and external customers. (The expansion of franchising activities allows for the development and maintenance of a larger body of expert knowledge than would be possible otherwise and, thus, provides better support for all customers.)

- Begin assessment of requirements for conversion of MMS's financial system to a more current software package.

- Create a culture that brings out the best in MMS employees by providing appropriate training and development opportunities, employee recognition, and other types of motivation.

- Develop and maintain an internal communication strategy that makes use of a variety of tools, both interpersonal and electronic, to communicate with employees the reasons for and the specifics of the administrative policies of the MMS.

- Develop and lead an MMS-wide policy that, through effective information management systems, fosters integration and standardization where necessary while preserving creativity and program ownership of program specific systems.

- Complete implementation of Year 2000 computer renovations by the end of calendar year 1998.

Oil Spill Research Appropriation

Justification of Program and Performance
Analysis by Subactivity
dollars in thousands

		1998 Enacted	Uncontrollable and Related Changes	Programmatic Changes	1999 Budget Request	Change from 1998
Oil Spill Research	$	6,118	0	0	6,118	0
	FTE	26	0	0	26	0

The Oil Spill Research Appropriation, funded by the Oil Spill Liability Trust Fund (OSLTF), supports: oil spill research, oil spill prevention and response planning activities (see Regulation of Operations section), and financial responsibility.

Goal:

- Provide for safe and environmentally sound mineral development on the OCS.

Performance Objectives:

- Ensure safe OCS mineral development.
- Ensure environmentally sound OCS mineral development.
- Provide for mineral development on the OCS.

The MMS research supports the bureau goal of safe and environmentally sound operations by enhancing capabilities to detect and respond to an open ocean oil spill. The research program complies with Title VII of OPA and is conducted in cooperation with the Interagency Coordinating Committee on Oil Pollution Research, as called for in the OPA.

The Oil Spill Research Appropriation funds:

- Research to further oil spill detection and response capabilities in the event of an oil spill in the marine environment.
- The operation and maintenance of Ohmsett - The National Oil Spill Response Test Facility.
- Management of Financial Responsibility.

Oil Spill Detection and Response Capabilities - MMS is the principal U.S. Government Agency funding offshore oil spill response research. 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 are considered key elements in improving

the future capabilities of minimizing damage from spills. The program operates through contracts and other agreements with universities, private industry, State governments, government laboratories, and foreign countries with the expertise to perform the necessary research. Funding is leveraged by cosponsoring research whenever possible. The scope of MMS's oil spill response program was increased in 1986 by aligning the MMS program with that of Environment Canada and the National Institute of Standards and Technology. The cooperative nature of the program encourages innovation and creativity in the accomplishment of its mission.

Knowledge gained from this research has significantly improved the ability to reduce the impact and damage caused from oil spills. Instrumental in the preparation of oil spill response plans is knowledge of oil properties and how they change over time. Oil properties dictate whether the oil is dispersable or ignitable, which in turn affects response options. .

Current research projects:

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 have demonstrated 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. It has the potential to remove up to 98 percent of the spilled oil from the water's surface and is now being considered for use throughout many areas of the United States.

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. 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. MMS pipeline research is intended 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.

Environmental Fates and Effects Projects. MMS continues 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 (HAZMAT) Group continued cooperating in the project by deploying MMS drifters in actual spills. The results of these efforts have been used to improve oil spill trajectory analysis and modeling for use in spill contingency planning.

Other Oil Spill Response Technology. Promising results have been obtained in many technology areas such as the examination of mechanical containment and storage devices, airborne remote sensing, and oil spill chemical treating agents such as dispersants.

Oil Spill Research Accomplishments

- The MMS is the primary sponsor of the "International Workshop on Marine Pipeline Safety Assessment and Risk Management" which was conducted by the University of California at Berkeley in FY 1998. During the workshop the strengths and weakness of the various approaches to pipeline safety assessment and risk management will be discussed. A further objective of the workshop is to identify research and development efforts that are needed to improve the safety, inspection and maintenance of offshore pipelines.

- The cooperative agreement between Scripps Institution of Oceanography has yielded a greater understanding of the circulation of the Santa Barbara Channel and Santa Maria Basin.

- MMS sponsored development of the ALOFT (A Large Outdoor Fire plume Trajectory) model, widely recognized as a tool for computing and displaying smoke plume trajectories.

- An MMS sponsored study examined the available literature on soot production during in situ burning of oil with the purpose of determining the range of smoke yields generated by in situ burning of petroleum oils on water, and determining the effects of fire size and the type of fuel that is burned.

- MMS and Environment Canada jointly funded the "Catalog of Crude Oil and Oil Product Properties." The catalog data on various chemical and physical properties of over 380 types of crude oil and petroleum products. The properties reported are those which will likely determine the environmental behavior and effects of spilled oil. No catalog of this type previously existed.

- The Svalbard Shoreline Field Trials were highly successful in developing a better understanding of the behavior of oil on shorelines and in designing response options. This project is jointly funded by an international partnership of State, Federal, and foreign government agencies, and private industry.

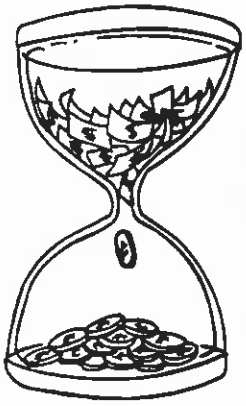
Planned Activities for FY 1999

- In situ burning research will focus on information required to properly regulate and conduct safe in situ burning operations at sea.

- Work will continue to develop a model for personal computers, which computes smoke plume trajectories and concentrations of particulate matter from in situ burning of oil spills. The National Institute of Standards and Technology will add a 3-D graphical animation of smoke plume to the flat terrain model to aid in visualizing the model output.

- The MMS will continue efforts on development and testing of satellite-tracked drifters and physical oceanographic circulation field studies.

- The MMS will begin research on the behavior of subsea releases of full well stream flows into the middle of the water column, typically 300-3,000 meters below the surface.



Who Pays?

Other government agencies, foriegn governments, or private firms who use the Ohmsett facility pay a fee which covers the full cost of their testing. The cost of testing has also declined at Ohmsett. In 1994 it cost about $7,000 a day to fully cover the cost of using the facility, but through better management, the cost of using the facility has declined to about $5,000 a day.

Ohmsett - The National Oil Spill Response Test Facility - Ohmsett, the National Oil Spill Response Test Facility, is located in Leonardo, New Jersey. It is a vital component of MMS's research program. The Ohmsett facility provides testing and research capabilities to help the government fulfill its regulatory requirements and meet its goal of maintaining an environmentally clean record while providing energy for the American people. This unique facility is capable of replicating various conditions at sea. Ohmsett features a fully computerized data collection system, above and below waterline video capability, and a complete oil storage and handling system. Ohmsett is the only facility in the United States where full scale equipment can be easily tested, without going out into the ocean. Through testing, valuable performance data on equipment are provided to manufacturers and suppliers to develop new or to improve existing equipment. Industry personnel can be trained in the use of their equipment in a safe, controlled environment (as compared to the open sea). Performance data used by response planners in reviewing and approving facility contingency plans.

Usage rate at Ohmsett facility over the last few years.

FY 1995 - 80 test days
FY 1996 - 114 test days
FY 1997 - 91 test days (*tank closed for 2 months for upgrading)*
FY 1998 - 70 test days have already been reserved.

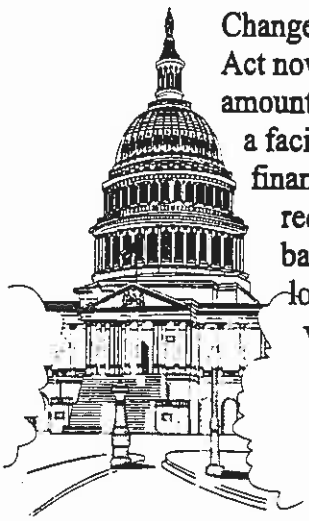
Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

With offshore oil and gas operations moving into deeper waters, the potential for a spill increases. There are many questions about dealing with an oil spill or blowout in deep water. The best place to test new equipment and ideas on cleaning up oil in deep water is at Ohmsett, where tests can be conducted in a safe environment and can be repeated until product results are achieved. Additionally, testing at Ohmsett is much less expensive than open ocean testing. In many MMS funded studies, Ohmsett is used to

demonstrate successful completion of a current set of tasks before funding is approved for additional tasks.

To increase utilization, especially with the oil and gas industry, the mission of Ohmsett is being broadened to include and possibly emphasize training individuals who work in the marine environment in oil spill response methodology. Ohmsett could possibly become a major training facility for government mariners (e.g. U.S. Coast Guard, U.S. Navy), commercial mariners, offshore workers, and others.

Congress Amends Oil Spill Act



Changes in the Oil Spill Act now allow for the amount necessary to meet a facility's oil spill financial responsibility requirement to be based on the facility's location and the volume of oil released in a worse case oil spill.

Oil Spill Financial Responsibility

MMS implements the financial responsibility provisions of OCSLA and OPA, which require companies responsible for certain offshore oil and gas facilities to demonstrate their ability to pay the costs of facility oil spill discharge removal and damages. Several methods may be used to demonstrate oil spill financial responsibility (OSFR), including insurance, bonds, self-insurance, and guarantee. The MMS has proposed a rule to implement the 1996 amendments to OPA (30 CFR Part 253). Under OSCLA, the amount of OSFR is set at $35 million. Under the new rule, the amount of OSFR needed is based on facility location and the volume of the potential worst-case oil spill discharge that could occur. The OSFR amount required ranges from $10 million to $150 million. The rule covers facilities located in the OCS and State coastal waters. Implementation of the new program will begin in late FY 1998, and the existing OCSLA based OSFR program will be phased out.

Explanation of Authorizing Statues

Outer Continental Shelf Lands:

43 U.S.C. 1331, et seq.	The Outer Continental Shelf (OCS) Lands Act of 1953, as amended, extended the jurisdiction of the United States to the 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 the 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.
16U.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 nonexcepted 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 archaeologic resource.
30 U.S.C. 21(a)	The Mining and Minerals Policy Act of 1970 and the Materials and Minerals Policy, Research and Development Act of 1970 set forth the continuing policy et seq. of the Federal Government to foster and encourage private enterprise in the orderly and economic development of domestic mineral resources and reserves.
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.

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 the Interior prior to designating marine sanctuaries. The 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 provides for the protection and welfare of marine mammals.
P.L. 104-58	Deepwater Royalty Relief Act provides royalty rate relief for offshore drilling in deepwater of the Gulf of Mexico (GOM).

Royalty Management Program:

25 U.S.C. 397, et seq.	The Indian Mineral Leasing Act of 1891, as amended, authorizes mineral leasing on land bought and paid for by Indians.
25 U.S.C. 396, et seq.	The Indian Minerals Leasing Act of 1909authorizesoil 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 lease 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 Stram Act of 1979 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 Minerals Development Act of 1982 provides that any Indian Tribe may enter into lease agreements for minerals 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 of accurately determine oil and gas royalties, interest, fines, penalties, fees, deposits, and other payments owned and to collect for such amounts in a timely manner.
106 Stat. 1374	The FY 1993 Department of the 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 for royalty collection program by establishing a 7-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
31 U.S.C. 3901-3906	Prompt Payment Act of 1982
31 U.S.C. 3512©	Federal Manages' Financial Integrity Act of 1982
5 U.S.C. 552	Freedom of Information Act of 1966, as amended
31 U.S.C. 7501-7507	Single Audit Act of 1984

41 U.S.C. 35045	Walsh Healy Public Contracts Act of 1936
41 U.S.C. 351-357	Service Contract Act of 1965
41 U.S.C. 601-613	Contract Disputes Act of 1978
44 U.S.C. 35	Paperwork Reduction Act of 1980
44 U.S.C. 2101	Federal Records Act 1950
40 U.S.C.. 486©	Federal Acquisition Regulation of 1984
31 U.S.C. 3501	Privacy Act of 1974
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 et seq.	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	False Claims Act of 1982
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	Federal Property and Administrative Services Act of 1949
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)	Truth in Negotiations Act of 1962 Authorization
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, et seq.	Title VII of the Oil Pollution Act of 1990 authorizes the use of the Oil Spill Liability Trust fund, established by Section 9505 of the Internal Revenue Code of 1986, for oil spill research.
33 U.S.C. 2701, et seq.	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.
43 U.S.C. 1331, et seq.	Section 21(b) of the Outer Continental Shelf Land Act, as amended, requires the use of the best available and safety technologies (BAST) and assurance that the use of up-to-date technology is incorporated into the regulatory process.
Executive Order 12777	E.O. 1277, 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).

Minerals 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 stature on Federal lands within their boundaries.

30 U.S.C. 351 et seq.	The Minerals 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 authorized the 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 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 the July 1, 1988, shall not be recouped form any recipient.

MINERALS MANAGEMENT SERVICE

Annual Performance Plan for Fiscal Year 1999

February 1998

QUICK REFERENCE TO GPRA-REQUIRED ELEMENTS

Requirement	Location
1. Establish performance goals to define the level of performance to be achieved by a program activity.	See discussion on pages 5 and 9 and chart on pages 6-8.
2. Express goals in an objective, quantifiable, and measurable form, unless authorized to be in an alternative form.	See discussion on pages 5 and 9-10 and chart on pages 6-8.
3. Describe the operational processes, skills and technology, and the human, capital, information, or other resources required to meet performance goals.	See discussion on pages 10-12 and tables on pages 19-20.
4. Establish performance indicators to be used in measuring or assessing the relevant outputs, service levels, and outcomes of each program activity.	See discussion on page 15 and table on pages 16-18.
5. Provide basis for comparing actual program results with the established performance goals.	See discussion on pages 12-14.
6. Describe the means to be used to verify and validate measured values.	See discussion on pages 12-14.

MISSION

To manage the mineral resources on the Outer Continental Shelf in an environmentally sound and safe manner and to timely collect, verify, and distribute mineral revenues from Federal and Indian lands.

INTRODUCTION

The Minerals Management Service (MMS) manages the Nation's natural gas, oil and other mineral resources on the Outer Continental Shelf (OCS), and collects, accounts for, and disburses revenues from offshore federal mineral leases and from onshore mineral leases on federal and Indian lands.

MMS was established by the Secretary of the Interior in 1982 following the Independent Commission on Fiscal Accountability's recommendation that proper fiscal accountability and management of the public's mineral resources would be best served by an agency devoted solely to minerals management. The Federal Oil and Gas Royalty Management Act passed in 1982 established a framework to improve management of Federal and Indian mineral royalties.

Although a relatively small bureau (approximately 1800 employees located in 20 cities across the United States), MMS activities provide major economic and energy benefits to the Nation, taxpayers, States and the Indian community -- benefits that have both national and local significance.

Since 1982, roughly $86 billion in revenues from mineral activities on Federal lands has been distributed by MMS to the Federal Treasury, States, tribes and Indian allottees. A portion of the revenues distributed to the Treasury goes into accounts that support the Land and Water Conservation Fund and the National Historic Preservation Fund.

The Outer Continental Shelf continues to play a significant role in our Nation's energy picture. MMS administers 27 million acres of the OCS under active lease, which supplies over 25 percent of the natural gas and 12 percent of the oil produced in the United States. To date, the OCS has produced about 120 trillion cubic feet of natural gas and about 11 billion barrels of oil. While development of offshore mineral resources has already meant billions of dollars in revenues to

the United States, MMS is especially mindful of safety and environmental concerns – striving for the proper balance between providing a domestic energy source and protecting sensitive coastal and marine environments.

MMS is composed of two specialized operating programs, Offshore Minerals Management (OMM) and the Royalty Management Program (RMP). The Associate Directorates of Policy and Management Improvement and Administration and Budget, and the Office of Communications provide support for the programs.

THE STRATEGIC PLAN

In the Spring of 1996, MMS developed and issued its first MMS-wide long term strategic plan. Historically, long term planning has been an integral part of MMS' management practices. For example, to accomplish its mission to manage the Outer Continental Shelf, MMS from inception has used the OCS 5-year program planning process. Long-term and tactical planning were implemented by each program office, but prior to 1994, no overarching, long-term strategy existed at the bureau level.

Developing the Strategic Plan

Responding to the need for a single MMS-wide strategic plan, development began in 1994 through an approach that encouraged input from all members of the organization – managers, supervisors, and staff. Drafts of the strategic plan were distributed to stakeholders and their feedback was used to revise the plan. This version of the strategic plan contained our mission statement, goals, and strategies.

MMS has identified three strategic goals to help achieve its mission and realize its vision to be recognized as the best minerals resource manager. Two strategic goals are directly linked to our mission and are based on legislative mandates, the mission and commitments of the Department of the Interior, stakeholder input, and our experiences. The third goal, our human resources goal, encourages improved performance at all levels of the organization by providing a work environment that supports excellence and productivity.

After the initial publication of the plan, work began to develop performance measurement elements required by the Government Performance and Results Act (GPRA). Performance measurement teams were created in the program areas. MMS' Royalty Management Program participated in the GPRA pilot program and the experience and knowledge gained through this process was used by all MMS programs to develop measures and indicators.

Today, MMS's strategic plan includes objectives and performance measurement goals linked directly to our two mission goals and to our human resources goal. The goals and objectives are lear, measurable, and relevant to the fundamental MMS mission. Performance measures are vital and designed to serve program managers. Again, throughout this phase of plan development,

extensive consultation sessions were held with OMB, Congress, key constituency and stakeholder organizations, and other Federal and Department of the Interior offices.

Assumptions

The following assumptions were made regarding key factors in the external environment in which MMS operates.

- Domestic and international demand for minerals will remain stable. Demand for oil and gas will grow slowly, consistent with the Department of Energy's most recent forecasts.
- No significant natural disasters will occur that effect production capabilities on leased properties (for example, a major hurricane in the Gulf of Mexico that destroys offshore platforms).
- No major changes in MMS's mission responsibilities will occur.
- Funding and staffing levels will stay relatively stable.

Some changes in these factors are inevitable and can be accommodated. However, a significant change may adversely impact MMS's ability to achieve its goals.

Limiting Factors

While many factors can have an impact on program accomplishments, the following discussion focuses on only the most significant external factors.

An external factor that may affect MMS accomplishments is the impact of a tanker accident and subsequent spill. Even though the vast majority of our OCS production is transported by pipelines, which have an outstanding safety record, oil spills from tankers (for example, the Exxon Valdez incident) can dramatically impact our program and its planned accomplishments.

One section of the recently enacted *Federal Oil and Gas Royalty Simplification and Fairness Act of 1996* authorizes delegation of additional royalty activities to States. This section as well as others will require RMP to change royalty and production accounting systems, develop and issue new regulations, and implement new procedures. The law also may change the way MMS relates to its customers, especially in the areas of royalty reporting, distribution, and verification and in the determination of liability.

MMS's performance could also be affected by major funding cuts. Congressional action to reduce budget requests either directly or across the board are very real possibilities. Apart from specific funding cuts, even limiting funding levels can quickly force significant changes in program approach and accomplishments.

The impact of oil and gas price changes could also be important. If prices fall, there is less incentive for companies to explore for new resources or develop existing leases. Conversely, when prices rise, companies seek to increase production from existing leases, explore for new resources, and develop existing leases. While price changes are driven by many factors that are outside the control of MMS, they can significantly affect our accomplishments.

Finally, legal disputes may prevent or delay oil and gas activity. National and local shifts in public attitudes toward energy exploration and production can have the same effect.

THE ANNUAL PERFORMANCE PLAN

The Annual Performance Plan describes what MMS expects to accomplish in FY 1999, given the level of funding in the FY 1999 budget, and provides the connection to the long-term goals outlined in the Strategic Plan. The Annual Plan provides information on annual performance goals for MMS' programs and activities, the measures that will be used to gauge performance, the means and strategies required to meet the performance goals, and the procedures to verify and validate performance.

Non-Federal Parties Involved in Preparing the Plan

The Annual Performance Plan was prepared solely by MMS employees. A contractor was used only in a minor role to assess the extent to which the plan met the requirements of GPRA and, where appropriate, to recommend improvements.

Adjustments to the Strategic Plan

No adjustments are being made at this time to the Strategic Plan through this Annual Performance Plan.

Requests for Waivers

No requests for waivers of administrative requirements to provide managerial flexibility are being requested in this plan.

LINKING THE ANNUAL PLAN TO THE STRATEGIC PLAN

The Annual Performance Plan is directly linked to the Strategic Plan through the strategic goals and objectives and annualized performance goals. The Annual Plan connects the three long-range or strategic goals with performance goals that are annualized to determine progress in meeting those goals. MMS's Strategic Plan covers the years 1997-2002, in accordance with the

Government Performance and Results Act of 1993. Fiscal Year 1999 is the first year for performance planning, making this MMS's first Annual Performance Plan.

Measuring Performance

MMS has developed quantifiable performance goals for each strategic goal and performance objective. Annual performance goals represent the annual increment of accomplishment for a strategic goal or objective and provide the specific annual measure or indicator for measuring progress on an annual basis. This linkage allows progress to be measured over the life of the strategic plan and allows trending of data to indicate long term progress in achieving the intended programmatic results and outcomes. These indicators will measure program outcomes using available data and will provide a quantitative assessment of our annual progress towards reaching MMS's long-range goals.

The following chart presents MMS's strategic framework and shows strategic goals and objectives and linked to annual performance goals.

STRATEGIC FRAMEWORK

STRATEGIC GOALS	STRATEGIC OBJECTIVES	PERFORMANCE GOALS	FY 1999 ANNUAL GOALS
1. Provide for safe and environmentally sound mineral development on the Outer Continental Shelf, and ensure that the public receives fair value.	Ensure safe OCS mineral development.	By 2002, show a decrease in the accident index below the 1996 level of .612.	The accident index is not greater than .594.
	Ensure environmentally sound OCS mineral development.	By 2002, show a decrease in the number of adverse environmental impacts per OCS mineral development activity below the 1998 baseline.	Baseline less 0.5-10%.
		By 2002, show a decrease in the amount of oil spilled below the 1992-96 average level of 5.09 barrels spilled per million barrels produced.	Oil spill rate not greater than 5.07 barrels/million barrels produced.
	Ensure that the public receives fair value for OCS mineral development.	From 1997-2002, the ratio of high bids received for OCS leases to the greater of MMS's estimate of value or the minimum bid does not decrease below the 1989-95 average level of 1.8 to 1.	Ratio at 1.8.
		By 2002, decrease below the 1989-96 average level of 7 percent the tracts classified as nonviable but on which a lessee makes a discovery within 5 years that a well is capable of producing in paying quantities.	Discoveries in no more than 6.8 % tracts classified nonviable.
	Provide for mineral development on the OCS.	By 2002, show an increase in the annual number of leases on which exploratory wells are drilled above the 1992-96 average level of 250 leases.	Exploratory wells drilled on 265 leases.
		By 2002, show a reduction in the rate of decline in the oil and gas reserves-to-production ratio that occurred from 1990-95, which was 11.5 to 7.3 for oil (.84 per year) and 7.6 to 6.0 for gas (.32 per year).	Reserves to production rate at 0.82 for oil and 0.31 for gas.
		By 2002, show an increase in annual OCS production above the 1996 level of 429 million barrels of oil, 5.0 trillion cubic feet of gas, 2.1 million long tons of sulphur, and .81 million cubic yards of sand and gravel.	OCS production goals: 591 million barrels of oil, 4.9 trillion cubic feet of gas, 2.2 million long tons of sulphur and 22.7 million cubic yards of sand and gravel.

STRATEGIC GOALS	STRATEGIC OBJECTIVES	PERFORMANCE GOALS	FY 1999 ANNUAL GOALS
2. Provide timely, accurate, and cost-effective mineral royalty collection and disbursement services.	Improve the timeliness and accuracy of payments to States, Indian tribes, BIA offices, and other Federal agencies.	Through 2002, maintain or increase the percentage of the collected dollars and accompanying information that is provided timely to States and Indians at 98 percent.	98.75 percent of collected dollars and information are provided timely.
		By 2002, decrease the late disbursement interest costs to $30,000 per year.	Interest costs not more than $50,000.
	Improve the cost effectiveness of mineral royalty collection and disbursement services.	By 1999, increase the percentage of royalty reports, production reports, and dollars received electronically to 100 percent.	100 percent of royalty and production reports and dollars are received electronically.
	Improve reporters' compliance with lease terms, rules, regulations, and laws.	Through 2002, maintain or increase the percentage of royalty and production reports submitted by reporters without fatal errors. Current rate is 97 percent.	98% of royalty and productions reports are submitted without fatal errors.
		By 2002, achieve a Compliance Index (actual voluntary royalty payments/expected royalty payments) of .98.	Achieve a Compliance Index of .975.
	Provide Indian tribes with increased opportunities for education and for assuming functional responsibilities with respect to the Royalty Management Program.	By 2002, increase the number of Indian tribes that take part in one or more educational opportunities or that assume one or more functional responsibilities.	Sixteen tribes are participating.
	Improve customer service and communication.	By 2002, improve RMP's rating (data from customer surveys) in the areas of credibility, responsiveness, professional image, and quality.	Customer rating based on 1998 baseline.

STRATEGIC GOALS	STRATEGIC OBJECTIVES	PERFORMANCE GOALS	FY 1999 ANNUAL GOALS
3. Encourage a culture that brings out the best in our employees.	Ensure continuous development and growth of MMS employees.	By 2000, core competencies for major occupational groups will be documented in occupational training plans (OTP).	Seven OTP's completed.
		By 2002, 75 percent of employees will meet the continuing education requirement specified in the OTP's.	Fifty-five percent will meet requirements.
		By 2002, 20 percent of employees will experience a formal detail or some form of rotational assignment, from a baseline of 10 percent.	Fourteen percent will have experienced a detail or rotational assignment .
		By 2002, the MMS workforce will more closely reflect the diversity in the civilian labor force and comply with the DOI Diversity Strategic Plan.	Measures will be taken from DOI and MMS Diversity Strategic Plans when published.
	Increase employee innovation, involvement, and decisionmaking.	By 2002, the number of employees who experience a process team opportunity will increase to 75 percent from a baseline of approximately 50 percent.	Sixty-five percent will have experienced a process team opportunity.
		By 2002, employee surveys show the MMS work environment, which fosters trust and encourages employees to take responsible risks, will show an improvement of 10 percent over the 1998 baseline.	Baseline to be established in 1998.
		End-user computing will be strengthened by means of a common suite of desktop tools and use of WEB-based applications:	
		By 1999, increase the number and variety of information technology training opportunities for 50 percent of MMS employees, with the ultimate goal of providing these opportunities to all employees. (Current rate is estimated at 10 percent.)	Fifty percent of employees will have been given information technology training opportunities.
		By 2002, a common desktop suite will be in use by all MMS employees. (Current rate is estimated at 10 percent.)	
		By 1999, at least 20 percent of applications will be WEB-based for use by all MMS employees. (Current rate is estimated at 5 percent.)	Seventy-five percent of all employees will be using common desktop suite.
	Provide timely recognition and reward for contributions that support the MMS mission.	By 1998, an employee survey will establish a baseline of employee satisfaction with MMS's success in providing equitable and timely recognition for contributions that support the MMS mission and improve on that baseline by 50 percent by the year 2002	Twenty percent will be using WEB-based application.
			Baseline to be established in 1998.

Goal 1 reflects three primary facets of the MMS mission as mandated in the Outer Continental Shelf (OCS) Lands Act, the National Environmental Policy Act and related legislation: 1) to make OCS lands available for mineral development to meet national needs, 2) to ensure that any such development is conducted in a safe and environmentally sound manner, and 3) to ensure that fair value is received for making these resources available. The goal and performance objectives were selected to reflect these obligations.

Goal 2 reflects the MMS mission as primarily mandated by the Federal Oil and Gas Royalty Management Act of 1982. The goal also reflects our compliance with related legislation: 1) the Outer Continental Shelf Lands Act; 2) the Mineral Leasing Act and the Mineral Leasing Act for Acquired Lands; 3) the Indian mineral leasing laws; 4) the Geothermal Steam Act; 5) Indian Self-Determination and Education Assistance Act; and 6) the Royalty Simplification and Fairness Act of 1996.

Goal 3 reflects MMS philosophy that our strength is our employees, who directly influence our ability to accomplish the MMS mission. Our employees are our greatest asset; therefore, our objectives are to develop, empower, and recognize our work force. Since responsibility for meeting this goal--our "human resources" goal--rests with management throughout the Bureau, and to be meaningful the indicators should be outcomes rather than outputs, we established these particular indicators because they are universal in nature and strive to an end result of bringing out the best in our employees.

Gathering Baseline Data

MMS's Offshore Program has established baselines based on existing information for seven of eight MMS performance measures. The most recent data available was used for each measure. Baselines have not been established for the performance measure that deals with adverse environmental impacts. MMS is beginning a new program to determine the number of incidences of adverse environmental impacts that result from OCS mineral development. This value will be divided by the number of OCS mineral development activities to determine an environmental impact rate for OCS activities. Since it is not possible to measure all potential impacts in the marine environment, this rate will be an indicator of environmental impacts, and should not be construed as the number of impacts per activity or a measurement of all impacts that could occur. Instead, the index should be compared between years. Development of this approach was completed in December 1997. By the end of calendar year 1998, MMS expects to have sufficient data to establish baselines for this performance measure.

MMS's Royalty Management Program (RMP) has participated in the GPRA pilot since 1994. Therefore, their measures for Goal 2 have historical baseline information available. The RMP continues to define new measures and once they are tested to ensure they are meaningful and appropriate, they will be incorporated into future years' annual performance plans.

Information to establish Goal 3 baselines was available in existing systems or was obtained through data calls to program offices. The performance goals that refer to employees' access to information technology tools are consistent with MMS's IRM Strategic Plan. Measures for the workforce diversity indicator will be taken from the Department of the Interior and MMS Diversity Strategic Plans when they are published. Two performance goals are included where no baselines are available. These indicators are designed to show employee satisfaction with MMS' success in empowerment and employee recognition. An employee survey is planned in 1998 to obtain data to establish baselines for these measures.

STRATEGIES FOR ACHIEVING GOALS

Many of our strategies for achieving the goals are inherent in good management and are focused on improving the way we do business. We continue to look for ways to simplify and streamline our processes and for re-engineering opportunities.

We will incorporate a variety of approaches and strategies as we move to implement the goals we have established. We will improve our decisionmaking process, apply modern information systems to improve work quality and service, maintain a high level of scientific expertise and base decisions on high quality science, issue regulations that focus on results rather than processes, and reward innovation.

The MMS strategies for achieving the goals and objectives embodied in MMS's strategic plan include:

- Improving the decision making process through increased internal coordination and involvement of relevant staff;
- Ensuring that customers and stakeholders are involved in the decision making process;
- Assisting and encouraging customers and stakeholders to comply with regulations;
- Recognizing and responding to the public's concerns;
- Using modern information tools to improve processes and to receive and disseminate information;
- Streamlining operations and simplifying processes;
- Maintaining a high level of scientific and technical expertise;
- Issuing regulations that focus on results rather than processes; and
- Providing a consistently high level of customer service.

Operational Processes

The cornerstone process for the MMS offshore program is the lease-sale decision making process which involves a determination of OCS areas that are prospective for natural gas, oil and other

marine minerals, and a parallel determination of the potential environmental impacts that may result from leasing and developing these natural resources in these prospective areas. Information critical to the decision process is derived from numerous sources internal and external to the agency including studies, public hearings, results of modeling technical information, and national policies and goals. Where leasing has been permitted, other factors operate to insure that activities conducted on the OCS are consistent with terms of a decision. Such activities include establishing and enforcing regulations, conducting inspections of OCS activities, monitoring impacts, and gathering technical information that could result in improvements in procedures and in projected outcomes.

The MMS royalty program recently embarked upon a business process reengineering initiative to address all of its core business processes including financial, accounting and compliance operations. The objective of this program-wide effort is to design and implement new royalty management business processes and support systems for the 21st century. To guide the effort, RMP senior managers established stretch goals calling for radical improvements in accounting and compliance operations. Accomplishing these goals will require a major refocusing and reorganizing of RMP around its processes and a shift of performance perspective from outputs to outcomes. The expected result is a much different RMP for the future that is process centered, focused on outcomes, less costly, and well positioned to meet a changing and expanding mission.

Skills and Technology

The MMS decision making process requires a wide array of skills and technology. The work requires capable administrators and managers, technical specialists in such fields as geology, geophysics, auditing, petroleum engineering, accounting, economics, environmental science, law, legislative affairs, public affairs and other supporting professions. The information needs of this process are significant, and MMS employs modern information technology tools to make most efficient and effective use of the data. The MMS also offers various electronic reporting alternatives, including electronic data interchange, magnetic tape, diskettes, and electronic mail. The MMS is rapidly increasing use of the Internet as a vehicle to communicate with customers and stakeholders.

Resources

MMS capital resources include headquarters facilities in the Washington D.C. metropolitan area, and facilities in several other locations throughout the United States. Capital resources are typical for business settings in terms of space, communications, and modern office equipment. MMS has made a significant investment in modernizing its important data processing capabilities. MMS employed 1,702 full-time equivalent positions in FY 1997 with a budget of $204.4 million. In FY 1998, those figures, including an FY 1998 supplemental appropriation request, are projected at 1,737 full-time equivalents and a budget of $215.3 million. The MMS budget includes offsetting collections of $65 million in 1998.

VERIFYING AND VALIDATING PERFORMANCE

A number of efforts are used by MMS to verify and validate its performance. Data and information from the performance measures used in support of the plan will be gathered and analyzed using standard, statistically valid methods to ensure that accurate and verifiable information is produced. Methods and procedures for collecting this information will be routinely evaluated and validated by program managers responsible for collecting and reporting the information.

The evaluation system is a balance of cyclical, in-depth appraisals and ongoing self-analysis and quality improvements of program components. The approach relies on performance measurement and internal and external customer feedback. Program performance is evaluated through: management assessments, business process reengineering, participation in pilot projects, quality improvement reviews, management control reviews, OIG and GAO audits, process action teams, and customer satisfaction.

For all but a few specific measures, baselines have been developed and the information has been tested and validated. Much of the information for developing the baselines has been collected from existing systems. To track performance, we are exploring the available performance management software systems designed to collect performance data, analyze results against established goals in various configurations linked to budget activities, and provide clear and useful reports for managers.

Management Assessments

MMS executives and senior managers meet periodically to assess organizational performance. Critical operating components and policy issues are targeted for discussion and review to solve

problems and make improvements. These periodic assessments occur in small group settings among program managers and in larger group settings where all bureau managers participate.

A reent large-scale initiative occurred when MMS management spearheaded a review, commonly referred to as MMS 2000, which resulted in a new organizational structure, one which delayered each of the program and support areas.

In May 1996, all MMS executives and senior managers met to discuss, within the framework of the strategic plan, many issues facing the organization. They formed six work groups to address some very real problems facing the agency and provided a number of ideas on how to best meet the goals of our strategic plan as we move to the year 2000.

Business Process Reengineering

The RMP reengineering effort includes trends of findings from program evaluations as it analyzes current RMP processes. In 1996, the RMP began a reengineering effort to improve the business processes in its compliance operations. In March 1997, a formal decision was made to expand reengineering beyond compliance activities and conduct an in-depth reengineering of all RMP core business processes. Reengineering in the business environment challenges the underlying assumptions on which the organization is built, and fundamentally redesigns the systems, processes, and structures around desired outcomes, rather than functions, departments, inputs and outputs. The reengineering effort undertaken by RMP involves mapping of core business processes as they now exist; assessing the impact of new legislation; benchmarking with others to determine "best practices"; identifying customer needs and expectations; redesigning business processes for dramatic improvement; testing and prototyping new designs; and ultimately implementing the redesigned processes. Central to the reengineering effort is refocusing and reorganizing the RMP around its processes and shifting its performance perspective from outputs to outcomes.

The Offshore program has evaluated certain aspects of its business practices to determine where business processes or sub-components could be redesigned for greater effectiveness. The initial focus has been on the Gulf of Mexico Region, where Offshore activity is greatest. Several process-level changes have been initiated, including the Application for Permit to Drill process which has resulted in up to an 80% time saving. Other reviews, such as the "Open-Hole Data Submission" project have produced numerous significant recommendations which are being implemented piecemeal.

A further effort to extend the search for reengineering candidates across the MMS Offshore program was initiated in June 1997 and is expected to identify reengineering targets by Fall.

GPRA Pilot

Through RMP's participation as a GPRA pilot organization, MMS gained insight into its performance measurement systems. A team has been involved in advancing the state of performance measurement in MMS and integrating performance measures into the MMS Strategic Plan. The team members experience in developing performance measures will be used as a valuable resource on which to draw as we continue in the future to evaluate the validity and usefulness of our measures.

Program Reviews

These reviews are conducted on the basis of perceived need as determined from internal and external input. Recent reviews include:

- Inspection consistency;
- Multi-sale EIS process;
- Supplemental bonding;
- Offshore ADP functional assessment (Gulf of Mexico Region);
- Gulf of Mexico Region organizational review;
- Availability of prelease permits on the internet (Oct. 1997);
- Regulatory process review;
- Review of all MMS administrative functions; and
- Budget justification redesign.

Management Control Reviews and Audits

Management control reviews are conducted on a rotating basis among the various program and functional areas under a 5-year plan. These reviews examine whether adequate controls are in place to assure intended results are achieved, resources are protected, and management information is reliable.

The RMP is a major source of revenue to the Federal Government, and therefore is continuously under review by oversight agencies such as the Office of Inspector General and the U.S. General Accounting Office. Such agencies have issued more than 150 reports containing more than 450 recommendations.

Customer Satisfaction

Customer satisfaction is one of the most important measurable outcomes for MMS. We have actively pursued customer and stakeholder participation throughout the strategic planning process and the plan contains many customer-based goals.

MMS continues to actively survey customers about what is important to them, whether the results of our programs are meeting their expectations, and where they believe improvements can be made. Customer satisfaction surveys are sent out to thousands of our customers and the results of these surveys are reported back to them.

LINKING PERFORMANCE GOALS TO BUDGET

While MMS's strategic plan describes the long-term course, the annual plan defines what will be accomplished in any one year as we proceed on that course. The annual plan sets out measurable goals to be accomplished during the fiscal year linked to the budget request using program activity structures. Indicators are embedded within the goals and are shown annualized in the first table.

The following two tables show the direct linkage of MMS's performance goals to the budget. The first table lists each goal and measurement indicator and shows the program and finance codes that provide funds for its accomplishment. The second table shows how the goals relate to each individual account program and finance program activity. Funding for Goal 3 is contained within the programs' budgets.

PERFORMANCE GOALS

Perf. Goal Codes	Goals and Indicators	Goal Attainment Level			P&F Codes
		1997	1998	1999	
01.xx.01.99	Ensure safe OCS mineral development.				00.0101 00.0301
01.03.01.19	Ind.1. By 2002, show a decrease in the accident index below the 1996 level of .612. *	.606	.600	.594	
01.xx.02.99	Ensure environmentally sound OCS mineral development.				00.0101 00.0301
01.01.02.19 01.03.02.19	Ind.1. By 2002, show a decrease in the number of adverse environmental impacts per OCS mineral development activity below the 1998 baseline level (to be determined).	—	Establish baseline	Baseline - 0.5-1.0%	
01.01.02.29 01.03.02.29	Ind.2. By 2002, show a decrease in the amount of oil spilled below the 1992-1996 average level of 5.09 barrels spilled per million barrels produced.	5.09	5.08	5.07	
01.xx.03.99	Ensure that the public receives fair value for OCS mineral development.				00.0101 00.0301
01.02.03.19	Ind.1. From 1997-2002, the ratio of the high bids received for OCS leases to the greater of MMS's estimate of value or the minimum bid does not decrease below the 1989-1995 average level of 1.8 to 1.	1.8	1.8	1.8	
01.02.03.29	Ind.2. By 2002, decrease below the 1989-1996 average level of 7 percent the tracts classified as nonviable but on which a lessee makes a discovery within 5 years that a well is capable of producing in paying quantities.	7%**	6.9%	6.8%	
01.xx.04.99	Provide for mineral development on the OCS.				00.0101 00.0301
01.01.04.19 01.02.04.19 01.03.04.19	Ind.1. By 2002, show an increase in the annual number of leases on which exploratory wells are drilled above the 1992-1996 average level of 250 leases.	255	260	265	
01.01.04.29 01.02.04.29 01.03.04.29	Ind.2. By 2002, show a reduction in the rate of decline in the oil and gas reserves-to-production ratio that occurred from 1990-1995, which was 11.5 to 7.3 for oil (.84 per year) and 7.6 to 6.0 for gas (.32 per year).* ***	0.83(oil) 0.32 (gas)	0.82 (oil) 0.31 (gas)	0.82 (oil) 0.31 (gas)	
01.01.04.39 01.02.04.39 01.03.04.39	Ind.3. By 2002, show an increase in annual OCS production above the 1996 level of 429 million barrels of oil (o), 5.0 trillion cubic feet of gas (g), 2.1 million long tons of sulphur (s), and .81 million cubic yards of sand and gravel (s/g). ****	545 (o) 5.1 (g) 2.0 (s) 0 (s/g)	571 (o) 4.9 (g) 2.1 (s) 3.9 (s/g)	591 (o) 4.9 (g) 2.2 (s) 22.7 (s/g)	

* The accident index and reserves-to-production ratios are calendar year values; the rest are fiscal year.

** For FY 1997, the decrease in the number of non viable tracts is not expected to be sufficient to break the 7% level. The reductions will be gradual reflecting the longer learning curve needed to achieve proficiency in the use of new interactive geologic interpretive tools and an escalating workload. These tools are being integrated into MMS program offices through a phased procurement, testing and training process.

*** A sharp change in the rate of decline for the oil and gas reserves-to-production ratio cannot be induced rapidly owing to long cycles for field development and other external variables. Consequently, the impacts of policy or regulatory change are unlikely to be felt as soon as FY 1997.

**** Although current base projections show a slight decline in gas production through 1999, actual production figures are expected to increase in outyears. Sand and gravel production for FY 1997 is zero because no projects could progress to the point of dredging and transporting sand or gravel until after the end of the fiscal year.

Perf. Goal Codes	Goals and Indicators	Goal Attainment Level			P&F codes
		1997	1998	1999	
02.xx.05.99	Improve the timeliness and accuracy of payments to States, Indian tribes, BIA offices, and other Federal agencies.				00.0201 00.0301
02.06.05.19	Ind. 1: Through 2002, maintain or increase the percentage of the collected dollars and accompanying information that is provided timely to States and Indians at 98%.	98 %	98.25%	98.75%	
02.08.05.29	Ind. 2: By 2002, decrease the late disbursement interest costs to $30,000 per year. *	$ 65,000	$ 60,000	$ 50,000	
02.xx.06.99	Improve cost-effectiveness of mineral royalty collection and disbursement services.				00.0201 00.0301
02.06.06.19	Ind. 1: By 1999, increase the percentage of royalty reports, production reports, and dollars received electronically to 100%.	80%	90%	100%	
02.xx.07.99	Improve reporters' compliance with lease terms, rules, regulations, and laws.				00.0201 00.0301
02.06.07.19	Ind. 1: Through 2002, maintain or increase the percentage of royalty and production reports submitted by reporters without fatal errors. Current rate is 97%.	97.5%	97.75%	98%	
02.06.07.29	Ind. 2: By 2002, achieve a Compliance Index (actual voluntary royalty payments/expected royalty payments) of .98.	.97**	.9725	.975	
02.xx.08.99	Provide Indian tribes with increased opportunities for education and for assuming functional responsibilities with respect to the Royalty Management Program.				00.0201 00.0301
02.07.08.19	Ind. 1: By 2002, increase the number of Indian tribes that take part in one or more educational opportunities or that assume one or more functional responsibilities.	14	15	16	
02.xx.09.99	Improve customer service and communication.				00.0201 00.0301
02.06.09.19 02.07.09.19 02.10.09.19	Ind. 1: By 2002, improve RMP's rating (data from customer surveys) in the areas of credibility, responsiveness, professional image, and quality. ***	———	1998 data will show 5-10% increase.	———	

* We anticipate major reengineering changes by the year 2000 that will enable use to achieve the goal of $30,000 interest by the year 2000.

** Before MMS calculate this index, we wait one year for industry to make adjustments to their royalty and production reports and payments. In 1997 we calculated the 1995 index. We show the projection for the 1996 index in 1998 and for the 1997 index in 1999.

*** Baseline charts appear in MMS's 5-Year Strategic Plan based on comprehensive customer. In the future, selected customer groups will be targeted for gathering data.

Perf. Goal Codes	Goals and Indicators	Goal Attainment Level			P&F codes
		1997	1998	1999	
04.01 through 14.10.99	Ensure continuous development and growth of MMS employees				00.0101 00.0201 00.0301
04.01 through 14.10.19	Ind. 1: By 2000, core competencies for major occupational groups will be documented in occupational training plans (OTP).	2 OTP	4 OTP	7 OTP	
04.01 through 14.10.29	Ind. 2: By 2002, 75 percent of employees will meet the continuing education requirement specified in theOTPs [measure percentage relates to number of plans cumulative through previous year, see above].	—	50%	55%	
04.01 through 14.10.39	Ind. 3: By 2002, 20 percent of employees will experience a formal detail or some form of rotational assignment, from a baseline of 10 percent.	10%	12%	14%	
04.01 through 14.10.49	Ind. 4: By 2002, the MMS workforce will more closely reflect the diversity in the civilian labor force and comply with the DOI Diversity Strategic Plan.*	—	—	—	
04.01 through 14.11.99	Increase employee innovation, involvement, and decisionmaking.				00.0101 00.0201 00.0301
04.01 through 14.11.19	Ind. 1: By 2002, the number of employees who experience a process team opportunity will increase to 75 percent from a baseline of approximately 50 percent.	55%	60%	65%	
04.01 through 14.11.29	Ind. 2: By 2002, employee surveys show the MMS work environment, which fosters trust and encourages employees to take responsible risks, will show an improvement of 10 percent over the 1998 baseline.**	—	Estab-lish base-line	—	
04.01 through 14.11.39	Ind.3: End-user computing will be strengthened by means of a common suite of desktop tools and use of WEB-based applications:	10%	40%	50%	
	By 1999, increase the number and variety of information technology training opportunities for 50 percent of MMS employees, with the ultimate goal of providing these opportunities to all employees. (Current rate is estimated at 10 percent.)	10%	40%	75%	
	By 2002, a common desktop suite will be in use by all MMS employees. (Current rate is estimated at 10 percent.)	5%	10%	20%	
	By 1999, at least 20 percent of applications will be WEB-based for use by all MMS employees. (Current rate is estimated at 5 percent.)				
04.01 through 14.12.99	Provide timely recognition and reward for contributions that support the MMS mission.				00.0101 00.0201 00.0301
04.01 through 14.12.19	Ind. 1: By 1998, an employee survey will establish a baseline of employee satisfaction with MMS's success in providing equitable and timely recognition for contributions that support the MMS	—	Estab-lish base-line	—	

* Measures for this indicator will be taken from the MMS Diversity Strategic Plan when it is published.

**MMS will conduct employee surveys bi-annually starting in FY 1998. By year 2000, we expect to show a 5 percent improvement.

***MMS will conduct employee surveys bi-annually starting in FY 1998. By year 2000, we expect to show a 20 percent improvement.

PROGRAM ACTIVITIES TABLES

P&F Code	Account/Activity	Obligations			Perf. Goal Codes
		1997 Actual	1998 Estimate	1999 Estimate	
00.0101 00.0301	OCS Lands	101,660,000	115,427,000	122,834,000	
	-Leasing & Environ.	28,273,000	34,895,000	41,263,000	01.01.02.19, 01.01.02.29, 01.01.04.19, 01.01.04.29, 01.01.04.39, 04.01.10.99, 04.01.11.99, 04.01.12.99
	-Resource Evaluation	18,403,000	22,546,000	21,973,000	01.02.03.19, 01.02.03.29, 01.02.04.19, 01.02.04.29, 01.02.04.39, 04.02.10.99, 04.02.11.99, 04.02.12.99
	-Regulatory	34,422,000	37,927,000	39,290,000	01.03.01.19, 01.03.02.19, 01.03.02.29, 01.03.04.19, 01.03.04.29, 01.03.04.39, 04.03.10.99, 04.03.11.99, 04.03.12.99
	-Info. Management*	14,122,000	13,941,000	14,190,000	-
"	Oil Spill Research	6,440,000	6,118,000	6,118,000	01.03.01 19 01.01.02.39 01.03.02.39

*Information Management is integrated into all OCS program activities, therefore specific performance goals were not developed

P&F Code	Account Activity	Obligations			Perf. Goal Codes
		1997 Actual	1998 Estimate	1999 Estimate	
00.0201 00.0301	Royalty Management	70,061,000	68,574,000	72,752,000	
	Valuation and Operations	33,022,000	32,376,000	33,641,000	02.06.05.19, 02.06.06.19 02.06.07.19, 02.06.07.29 02.06.09.19, 04.06.10.99 04.06.11.99, 04.06.12.99
	Compliance	34,233,000	33,619,000	36,473,000	02.06.07.29, 02.07.08.19 04.07.10.99, 04.07.11.99 04.07.12.99
	Late Distribution Interest	91,000	0	0	02.08.05.29
	Indian Allottee Refunds	15,000	15,000	15,000	N/A
	Program Services Office	2,700,000	2,564,000	2,623,000	02.10.09.19, 04.10.10.99 04.10.11.99, 04.10.12.99

P&F Code	Account Activity	Obligations			Perf. Goal Codes
		1997 Actual	1998 Est.	1999 Est.	
00.0301	General Administration	32,672,000	31,313,000	32,898,000	01.01.01.99 through 04.14.12.99
	Executive Direction	1,902,000	1,815,000	1,870,000	
	Policy & Management Improvement	3,780,000	3,628,000	3,794,000	
	Administrative Operations	12,514,000	12,118,000	12,591,000	
	General Support Services	14,476,000	13,752,000	14,643,000	