UNITED STATES
DEPARTMENT OF THE INTERIOR
BUDGET JUSTIFICATIONS, F. Y. 1987

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MINERALS MANAGEMENT SERVICE

DEPARTMENT OF THE INTERIOR
MINERALS MANAGEMENT SERVICE
Fiscal Year 1987 Budget

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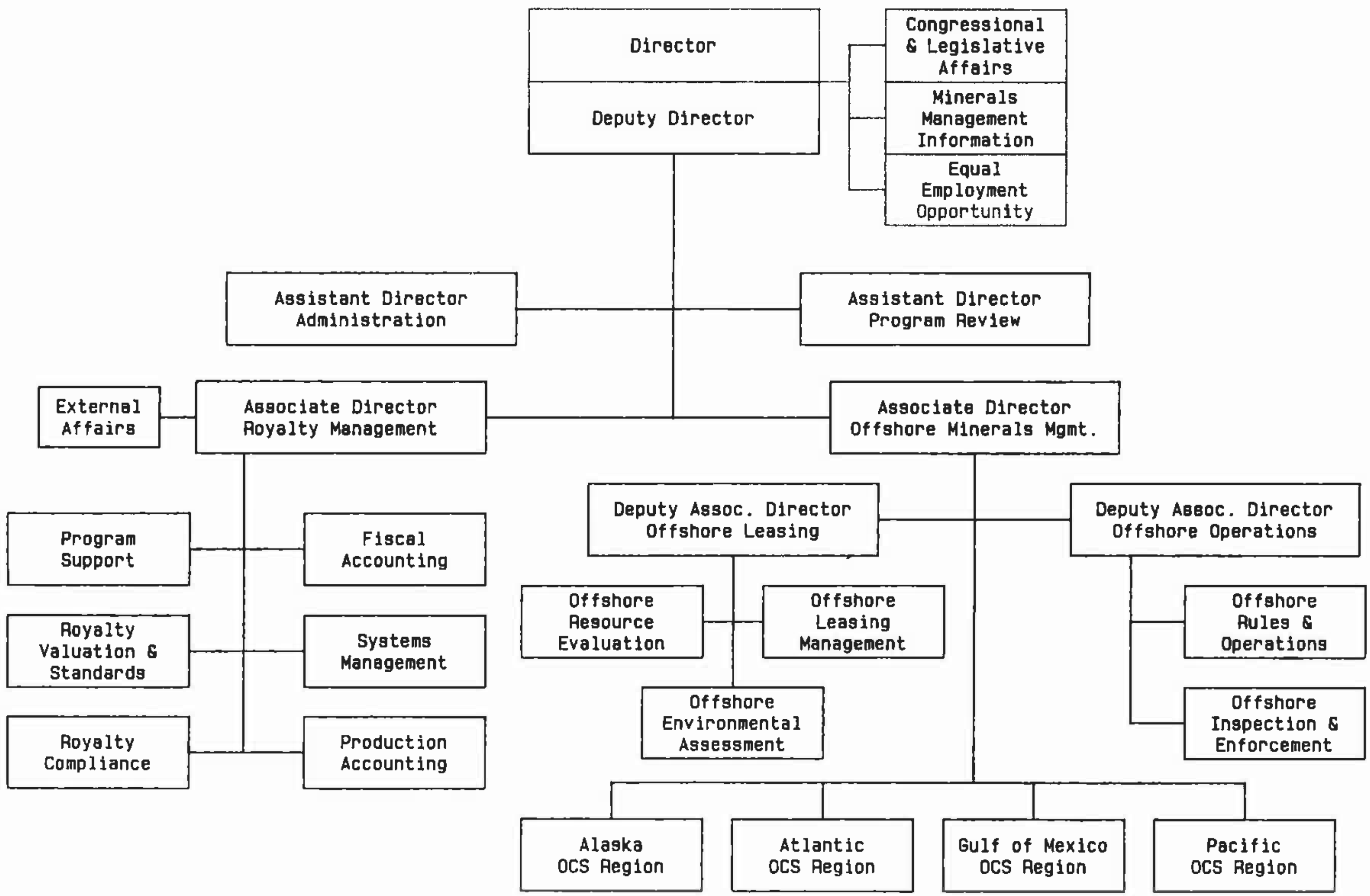
MINERALS MANAGEMENT SERVICE



GENERAL STATEMENT

The Minerals Management Service (MMS) is responsible for offshore minerals leasing and lease management under the OCS Lands Act and other statutes and for collection and distribution of mineral revenues from Federal onshore and offshore leases and, in most instances, leases on Indian lands pursuant to the Federal Oil and Gas Royalty Management Act and a variety of mineral leasing acts.

Comparison of 1987 Estimate with 1986 Estimate

(Dollar amounts in thousands)

		FY 1986 Enacted to Date	FY 1986 Adjusted Approp.	FY 1987 Estimate	Inc. (+) or Dec. (-) from Enacted	Perm. Employ. 12/31/85
Minerals and Royalty Management 1/	($)	167,010	159,829	160,100	-6,910	1,929
	(FTE)	(2,066)	(2,066)	(2,015)	(-51)	
Payments to States from Receipts under Mineral Leasing Act	($)	574,391	574,391 2/	551,486	-22,905	—
	(FTE)	(--)	(--)	(--)	(--)	
Total, MMS	($)	741,401	734,220	711,586	-29,815	1,929
	(FTE)	(2,066)	(2,066)	(2,015)	(-51)	

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

1/ Reflects proposal to change title from "Leasing and Royalty Management" to "Minerals and Royalty Management."

2/ Includes $23.9 million in total obligations that are to be sequestered by P.L. 99-177. The $23.9 million will not be paid during 1986, but will remain in the account and will be available at a future date to the extent permitted by law.

The appropriation "Payments to States from Receipts under Mineral Leasing Act" provides States with a statutory share of bonuses, rentals, and royalties collected by the Federal Government for minerals produced on onshore Federal lands. Total receipts have been reduced, prior to any allocation, to reflect the cost of collecting and distributing these revenues. This appropriation also provides for interest to be paid to States and Indian accounts when mineral leasing revenues due them are not disbursed within the timeframes established by the Federal Oil and Gas Royalty Management Act of 1982.

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

Highlights of the 1987 Request

The proposed funding level represents a total decrease of $6.91 million from the 1986 enacted amount in the Minerals and Royalty Management appropriation and a $22.91 million decrease in the appropriation for Payments to States from Receipts under Mineral Leasing Act. These amounts are roughly the same as the amounts proposed to be sequestered in 1986 pursuant to P.L. 99-177. Program changes totalling a net decrease of $5.59 million and 33 FTE are proposed in the OCS Program and a $2.20 million reduction is proposed in Royalty Management. In addition, a decrease of $0.78 million and 18 FTE to continue the Administration's initiative of reducing the costs of management and support activities throughout the Executive Branch is proposed. These decreases are partially offset by a base increase of $0.83 million for rental of office and other facilities space and an increase for the headquarters office consolidation which is also $0.83 million. The program changes are highlighted below by appropriation.

Minerals and Royalty Management

Outer Continental Shelf Lands

Due to decreased activity by industry and the proposed 5-year Oil and Gas Leasing Schedule, a reduced workload is projected for the oil and gas leasing program in 1987. This allows for proposed decreases in the Leasing and Environmental Program (8 FTE and $0.29 million), the Environmental Studies Program ($4.24 million), and the Resource Evaluation Program (20 FTE and $0.73 million). A reduced level of contractual effort in the Strategic and International Minerals Program is proposed for a decrease of $0.45 million. These decreases are partially offset by a proposed increase of $0.90 million for geologic and geophysical data acquisition. More efficient utilization of personnel and program resources acquired through experience and programmatic initiatives will allow a reduction of 5 FTE and $0.18 million in resources needed to oversee offshore development and production operations. By reducing the range of topics addressed in the Technology Assessment and Research Program and the number of reports in the Oil and Gas Information Program, two decreases are proposed totalling $0.60 million.

Royalty Management Program

The 1987 request reflects continued implementation of the Management Action Plan that was published in April of 1985. Full funding for the Royalty-In-Kind Program is also provided, as the program is now charging administrative fees to the buyers for this service. Decreases of $1.50 million for computer operations and maintenance and $0.20 million for computer leasing costs are proposed due to the reimplementation of the Auditing and Financial System (AFS) from minicomputers to a new mainframe computer. Additionally, the nonrecurring 1986 hardware and software costs to establish an information access system for States and Indians will not be required in 1987, resulting in a proposed decrease of $0.50 million.

General Administration

An increase of $0.83 million is proposed to improve administrative efficiency by consolidating the Virginia staff into a single location. This consolidation will eliminate the communication problems and numerous other inefficiencies attributable to having headquarters staff located in five widely separated offices.

Payments to States from Receipts under the Mineral Leasing Act

The Minerals Management Service is responsible for the collection and distribution to the States of a share of bonuses, royalties, and rentals from the leasing of onshore Federal mineral resources in accordance with applicable laws. Payments to the States in 1987 are estimated to total $550.69 million, a decrease of $23.71 million from 1986.

The 1987 request proposes that the cost of Federal onshore mineral leasing programs and activities be deducted from receipts before revenues are distributed between the States and the Treasury. This will ensure that the beneficiaries of receipts from Federal onshore mineral leasing will share in the net, rather than the gross, returns from mineral leasing activities. Enactment of the proposal will increase Treasury receipts by $53.46 million in 1987, thereby helping to decrease the Federal budget deficit.

A new budget activity, Interest on Late Payments, is proposed to provide for payment of interest to States and Indian accounts when mineral leasing receipts are not disbursed by the dates prescribed by the Federal Oil and Gas Royalty Management Act of 1982. Funding needed for these payments is estimated at $0.80 million in 1987.

Authorizations

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

Appropriation Summary Statement

Minerals Management Service

Appropriation: Minerals and Royalty Management

This is the annual operating appropriation that enables the Service to carry out its responsibilities of: implementing the 5-year OCS Oil and Gas Leasing Schedule approved in July 1982 and developing the next 5-year schedule; supervising pre-lease resource and environmental activities, and the exploration for and production of leasable energy and mineral commodities on the Outer Continental Shelf (OCS) lands; classifying and evaluating the energy and strategic and critical mineral resources of the OCS lands; performing environmental assessments to ensure compliance with the National Environmental Policy Act (NEPA); and collecting, depositing, and distributing royalties and other mineral revenues due the Federal Government, States, and Indian Tribes on all onshore and offshore leases. The 1987 appropriation request for these activities totals $160,100,000. This total represents a decrease from the 1986 enacted appropriation of $6,910,000 and a decrease of $6,954,000 from the 1987 base. A summary of the program changes proposed from the base for 1987 is provided below:

Outer Continental Shelf Lands: (-$5,587,000, -33 FTE)

This budget activity funds the Offshore Oil and Gas Leasing and Environmental, Resource Evaluation, and Regulatory Programs which accomplish: (1) performance of environmental assessments to ensure compliance with the National Environmental Policy Act (NEPA) and oil spill trajectory analyses to support the leasing program; (2) conduct of lease sales; (3) classification of OCS lands for resource potential for oil, gas, and strategic and critical minerals; (4) evaluation of tracts offered for lease by competitive bidding; (5) assurance that the Government receives fair market value for leased lands through determination of bid adequacy; (6) regulation and supervision of leasable mineral prospecting, development, and production operations on the OCS lands; (7) conduct and maintenance of an inventory of oil and gas activities; and (8) providing information concerning oil and gas activities to affected State and local governments. Additionally, funding is provided for examination of possible strategic and critical mineral leasing and for resource evaluation activities on the OCS and in the Exclusive Economic Zone (EEZ). MMS's activities related to strategic and critical minerals are coordinated with and draw directly upon work carried out by the U.S. Geological Survey and the Bureau of Mines.

Program changes, resulting in a net decrease of $5,587,000 are distributed as follows:

-- Leasing and Environmental Program. Staffing reductions due to a projection of reduced workload (-8 FTE and -$291,000) and a reduced funding level for environmental studies (-$4,237,000).

-- Resource Evaluation Program. Staffing reductions resulting from a projection of decreased activity in oil and gas leasing (-20 FTE and -$727,000); a reduced level of effort in the Strategic and International Minerals Program (-$450,000); and an increase for geologic and geophysical data acquisition (+$900,000).

-- Regulatory Program. Increased efficiency in regulating offshore operations (-5 FTE and $182,000); reduction in the range of topics for technology assessment and research studies (-$300,000) and reduction in the number of information products (-$300,000).

Royalty Management: (-$2,200,000)

The Royalty Management Program provides accounting, auditing, and compliance activities for royalties, rentals, and bonuses owed the Federal Government, States, and Indian lessors from minerals produced on Federal onshore, Indian, and Outer Continental Shelf Lands. The foundation of the program is the three automated revenue and production accounting systems supported by a variety of auditing programs to better assure that revenues owed are properly collected and disbursed.

Program decreases in Royalty Management are proposed for:

-- Systems Development and Operation. Savings in computer operations and maintenance relative to AFS reimplementation on the mainframe computer (-$1,500,000); second year savings in the cost of leasing the new mainframe computer (-$200,000); and reductions in hardware and software costs following initial development and installation of the State and Tribal Support System (-$500,000).

General Administration: (+$833,000)

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

The increase in General Adminstration is proposed for:

-- General Support Services. Consolidate the number of MMS offices located in Virginia into a single location (+$833,000). These costs are primarily non-recurring in future years.

Management Reductions: (-$783,000, -18 FTE)

Base reductions of $783,000 and 18 FTE are proposed to continue the efforts to reduce the costs of management and support activities throughout the Executive Branch of the Federal Government.

Appropriation Language Sheet

[LEASING] MINERALS AND ROYALTY 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 8 passenger motor vehicles for replacement only; [$168,018,000, of which not less than $45,260,000 shall be available for royalty management activities including general administration: Provided, That notwithstanding any other provision of law, when in fiscal year 1986 and thereafter any permittee provides data and information to the Secretary pursuant to section 1352(a)(1)(C)(iii) of title 43, United States Code, the Secretary shall pay only the reasonable cost of reproducing such data and information: Provided further, That notwithstanding any other provision of law, funds appropriated under this Act shall be available for the payment of interest in accordance with 30 U.S.C. 1721(b) and (d).] $160,100,000: Provided that in fiscal year 1987 and thereafter, the Minerals Management Service is authorized to accept land, buildings, equipment and other contributions, from public and private sources, which shall be available for the purposes provided in this account and shall be available until expended: Provided further, that notwithstanding any other provision of law, $125,000,000 shall be deducted from Federal onshore mineral leasing receipts prior to the division and distribution of such receipts between the States and the Treasury and shall be credited to miscellaneous receipts of the Treasury. (30 U.S.C. 181 et seq., 1701 et seq.; 43 U.S.C. 1331 et seq., 1801-1802; Department of the Interior and Related Agencies Appropriations Act, 1986, as included in Public Law 99-190.)

Justification of Proposed Language Changes

Minerals and Royalty Management

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

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

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

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

3. Deletion: "of which not less than $45,260,000 shall be available for royalty management activities including general administration:"

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

4. Deletion: "Provided, That notwithstanding any other provision of law, when in fiscal year 1986 and thereafter any permittee provides data and information to the Secretary pursuant to Section 1352(a)(1)(C)(iii) of title 43, United States Code, the Secretary shall pay only the reasonable cost of reproducing such data and information:"

   This provision is effective each fiscal year after enactment of the FY 1986 appropriation. Thus, it does not need to be repeated in the FY 1987 appropriation language.

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

   Language for this provision is being requested in FY 1987 in the Payments to the States appropriation.

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

   The Minerals Management Service performs many services which benefit private sources and State and local governments (e.g., South Central Coast Cooperative Aerometric Monitoring Program (SCCCAMP) and negotiated air quality rulemaking), as well as the Federal Government. In order to continue to provide beneficial services within reduced funding levels, the MMS will negotiate for funds from the beneficiaries of those services. This language will allow MMS to accept those funds.

7. Addition: "Provided further, That notwithstanding any other provision of law, $125,000,000 shall be deducted from Federal onshore mineral leasing receipts prior to the division and distribution of such receipts between the States and the Treasury and shall be credited to miscellaneous receipts of the Treasury."

   Beginning in FY 1987, the Administration proposes that the relevant onshore mineral leasing costs of the MMS, the Bureau of Land Management, and the Forest Service be deducted from Federal onshore mineral leasing receipts before such receipts are distributed between the Treasury and the States. Historically, the States have shared in gross receipts from the onshore minerals program without taking into account the Federal costs of obtaining and distributing these receipts. States receive at least fifty (50) percent of the receipts from onshore mineral leasing, but this percentage is now proposed to be based on net receipts after deducting the cost of program management. This formula represents an equitable distribution of the receipts remaining after paying the Federal costs necessary in obtaining those receipts.

Appropriation Language Citations

Minerals and Royalty Management

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

30 U.S.C. 181 et seq.

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

30 U.S.C. 1701 et seq.

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

43 U.S.C. 1331 et seq.

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

43 U.S.C. 1801

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

43 U.S.C. 4321-4347

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

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

30 U.S.C. 189

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

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

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

3. and for matching grants or cooperative agreements.

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

This provision was included in the appropriation language in the 1984 and 1985 fiscal year budgets.

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

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

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

5. $160,100,000: In fiscal year 1987 and thereafter, the Minerals Management Service is authorized to accept land, buildings, equipment and other contributions, from public and private sources, which shall be available until expended.

No specific authority

This provision is proposed to allow the Minerals Management Service to accept funds from State governments and industry when services performed by MMS are mutually beneficial (e.g., negotiated rulemaking).

6. Provided, that notwithstanding any other provision of law, $125,000,000 shall be deducted from Federal onshore mineral receipts prior to the division and distribution of such receipts between the States and the Treasury and shall be credited to miscellaneous receipts of the Treasury.

No specific authority

This provision is proposed by the Administration to assure that States share the actual net return to the Government after taking into account the Federal costs of realizing and distributing the receipts.

Summary of Requirements

Appropriation: Minerals and Royalty Management

(Dollar amounts in thousands)

Summary of Base Adjustments	FTE	Amount	FTE	Amount
Appropriation Enacted To Date, 1986			2,066	167,010
P.L. 99-177 Reduction			- -	-7,181
Adjusted Appropriation, 1986			2,066	159,829
Base Adjustments:				
Adjustment for impact of P.L. 99-177			- -	+7,181
Other increases and/or decreases:				
Rental Payments to GSA (SLUC) and others for rate increase	- -	+827		
Savings from Management Initiatives	-18	-783		
Net, other increases and/or decreases			-18	+44
1987 Base Budget			2,048	167,054

Summary of Requirements (continued)

(Dollar amounts in thousands)

Comparison by Activity/Subactivity	FY 1985 Actual		FY 1986 Enacted to Date		P.L. 99-177 Reduction	FY 86 Adjusted Appropriation	FY 1987 Base		FY 1987 Estimate		Inc.(+)/Dec.(-) Enacted		Inc.(+)/Dec.(-) From 1986 Appropriation	Inc.(+)/Dec.(-) from 1987 Base	
	FTE	Amount	FTE	Amount	Amount	Amount	FTE	Amount	FTE	Amount	FTE	Amount	Amount	FTE	Amount
OCS Lands															
Leasing & Environmental Program	349	42,386	356	43,660	-1,877	41,783	356	43,660	348	39,132	-8	-4,528	-2,651	-8	-4,528
Resource Evaluation Program	332	26,031	338	24,004	-1,032	22,972	332	23,736	312	23,459	-26	-545	+487	-20	-277
Regulatory Program	513	30,392	484	31,902	-1,372	30,530	480	31,720	475	30,938	-9	-964	+408	-5	-782
Subtotal	1,194	98,809	1,178	99,566	-4,281	95,285	1,168	99,116	1,135	93,529	-43	-6,037	-1,756	-33	-5,587
Royalty Management															
Mineral Revenue Collections	331	12,294	316	15,079	-646	14,370 1/	312	14,893	312	14,893	-2	-60	+523	- -	- -
Mineral Revenue Compliance	186	10,050	200	10,463	-450	10,013	198	10,382	198	10,382	-2	-81	+369	- -	- -
Systems Development and Operation	57	16,524	76	19,448	-836	18,612	76	19,434	76	17,234	- -	-2,214	-1,378	- -	-2,200
Subtotal	574	38,868	592	44,990	-1,932	42,995	586	44,709	586	42,509	-4	-2,355	-486	- -	-2,200
General Administration															
Executive Direction	65	3,278	70	3,259	-140	3,119	69	3,223	69	3,223	-1	-36	+104	- -	- -
Admin.Operations	248	9,995	226	9,408	-407	9,064 1/	225	9,392	225	9,392	-3	-142	+328	- -	- -
Gen.Support Services	- -	9,846	- -	9,787	-421	9,366	- -	10,614	- -	11,447	- -	+1,660	+2,081	- -	+833
Subtotal	313	23,119	296	22,454	-968	21,549	294	23,229	294	24,062	-4	+1,482	+2,513	- -	+833
Total Requirements	2,081	160,796	2,066	167,010	-7181	159,829	2,048	167,054	2,015	160,100	-51	-6,910	+271	-33	-6,954

1/Reflects a realignment of an ADP security function ($63,000 and 1 FTE) from Royalty Management to General Administration.

Justification of Adjustments to Base

Minerals and Royalty Management

	FTE	Amount ($000)
Adjustment for FY 1986 P.L. 99-177 B.A. Cancellations.......	--	+7,181

The Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177), requires a 4.3 percent reduction in non-exempt programs in FY 1986. Since the 4.3 percent reduction applies to FY 1986 only, this adjustment is made to allow a more comparable basis for showing program changes from FY 1986 to FY 1987.

	FTE	Amount ($000)
Increase in Rental Payments to GSA........................	--	+827

The base amount of $6,539,000 provided in the FY 1986 appropriation for rent was compared with the FY 1987 estimate of $7,366,000. The increase of $827,000 from FY 1986 results primarily from two factors. First, there is an increase in estimated FY 1986 costs of $622,000. This is caused mainly by increases in space costs in Golden, Colorado, and Lakewood, Colorado, for space occupied by the Royalty Management Program; and increased costs of office space in Metairie, Louisiana, that resulted from a GSA directed office relocation. Second, there is a net bureauwide increase of $205,000 in FY 1987 rent costs.

	FTE	Amount ($000)
Savings from Management Initiatives.........................	-18	-783

This adjustment reflects the MMS portion of the Administration's initiative to reduce the costs of management and support activities throughout the Executive Branch.

Activity Summary

Activity: Outer Continental Shelf (OCS) Lands

(In thousands of dollars)

Subactivity	FY 1985 Actual	FY 1986 Appro-priation Enacted	FY 1986 Adjusted Appro-priation	FY 1987 Base	FY 1987 Estimate	Inc.(+) Dec.(-) from Base
Leasing & Environ-mental Program	42,386	43,660	41,783	43,660	39,132	-4,528
Resource Evaluation Program	26,031	24,004	22,972	23,736	23,459	-277
Regulatory Program	30,392	31,902	30,530	31,720	30,938	-782
Total	98,809	99,566	95,285 3[illegible] 95,9[illegible]	99,116	93,529	-5,587

The Outer Continental Shelf (OCS) Lands budget finances the sale and award of energy and mineral leases and regulation of exploration, development, and production on Federally-leased OCS lands. The budget for the program is described in three subactivities entitled: Leasing and Environmental Program, Resource Evaluation Program, and Regulatory Program. This division is a useful description of the major activities of the Minerals Management Service on the Outer Continental Shelf Lands, and each subactivity represents an integral component of a highly coordinated program. OCS program activities are conducted pursuant to the OCS Lands Act, the OCS Lands Act Amendments of 1978 (OCSLAA), the National Environmental Protection Act (NEPA), the Coastal Zone Management Act (CZMA), and other relevant statutes.

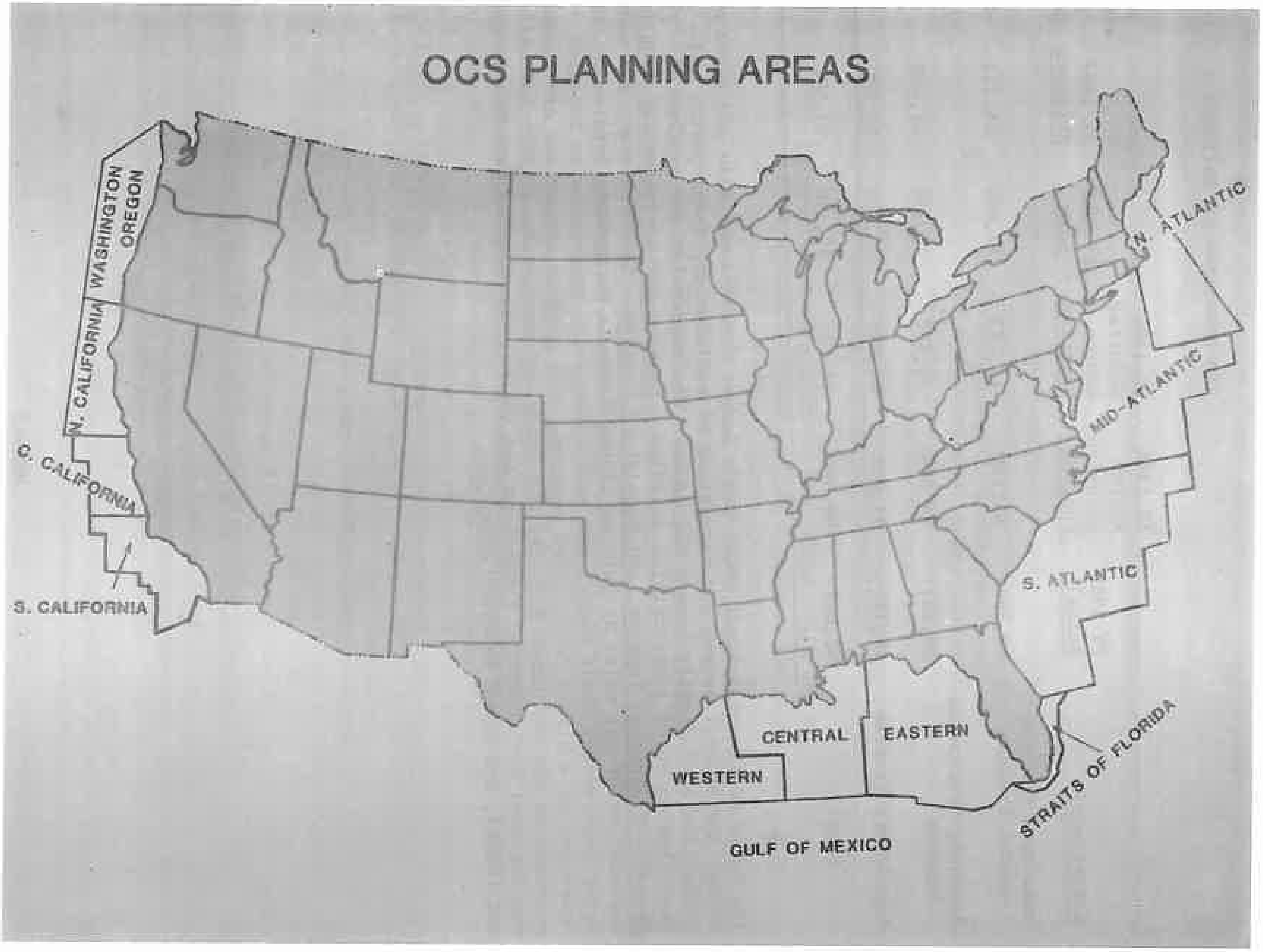

OCS PLANNING AREAS
WASHINGTON OREGON
N. CALIFORNIA
C. CALIFORNIA
S. CALIFORNIA
N. ATLANTIC
MID-ATLANTIC
S. ATLANTIC
STRAITS OF FLORIDA
WESTERN
CENTRAL
EASTERN
GULF OF MEXICO

Figure 1

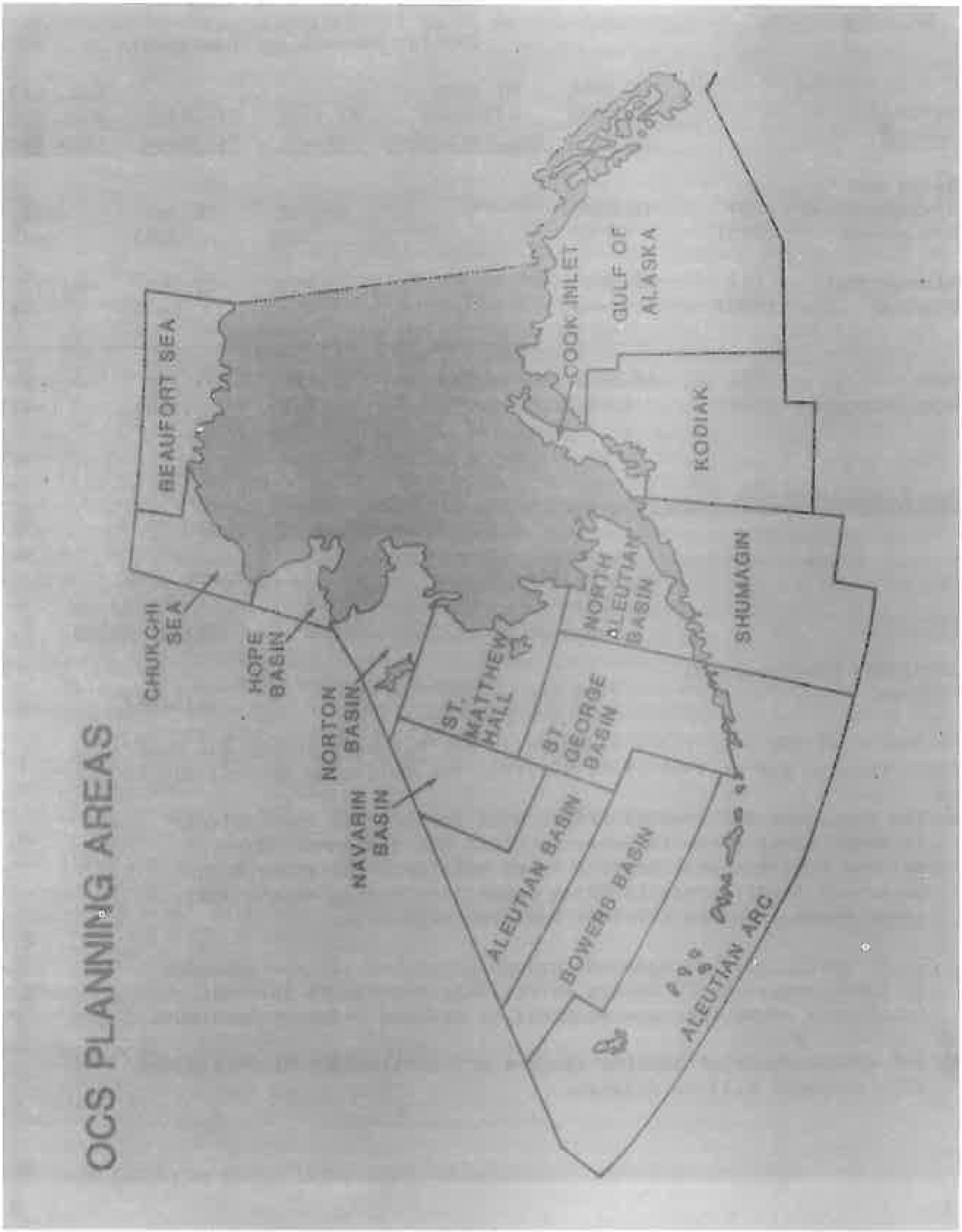

OCS PLANNING AREAS
BEAUFORT SEA
CHUKCHI SEA
HOPE BASIN
NORTON BASIN
NAVARIN BASIN
ST. MATTHEW HALL
ST. GEORGE BASIN
NORTH ALEUTIAN BASIN
ALEUTIAN BASIN
BOWERS BASIN
ALEUTIAN ARC
SHUMAGIN
KODIAK
COOK INLET
GULF OF ALASKA

Figure 2

Justification of Program and Performance

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

(Dollar amounts in thousands)

Program Elements		FY 1986 Enacted to Date	FY 1986 Adjusted Appropriation	FY 1987 Base	FY 1987 Estimate	Inc. (+) Dec. (-) from Base
Leasing and Environmental Assessment	($)	16,458		16,458	16,167	-291
	(FTE)	(356)		(356)	(348)	(-8)
Environmental Studies	($)	27,202		27,202	22,965	-4,237
	(FTE)	(--)		(--)	(--)	(--)
Total Requirements	($)	43,660	41,783	43,660	39,132	-4,528
	(FTE)	(356)	(356)	(356)	(348)	(-8)

Gramm-Rudman-Hollings Impact

(In thousands of dollars)

Subactivity	FY 1986 Enacted to Date	P.L. 99-177 Reduction	FY 1986 Adjusted Appropriation
Leasing and Environmental Program	43,660	-1,877	41,783

As a result of the reductions mandated in the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177), the following actions may be taken:

- o The Environmental Studies effort will be reduced, particularly in those areas where industry interest has declined. Remaining Environmental Studies funds will focus on those high potential areas, areas in which insufficient data exist, and areas where industry interest has been expressed.

- o Staff levels will be reduced through attrition, in anticipation of lower budgeted FTE levels in FY 1987, especially in those functional areas that are affected by reduced industry interest.

- o ADP enhancements of mapping systems and replacement of antiquated ADP equipment will be delayed.

Authorizations

43 U.S.C. 1331-1343 P.L. 83-212 and P.L. 93-627	The Outer Continental Shelf Lands Act of 1953, as amended, extended the jurisdiction of the United States to the Outer Continental Shelf and provided for granting of leases to develop offshore energy and minerals.
43 U.S.C. 4321, 4331-4335, 4341-4347 P.L. 91-190	The National Environmental Policy Act of 1969 required preparation of environmental impact statements for Federal projects having a significant effect on the environment.
43 U.S.C. 1801 P.L. 95-372	The Outer Continental Shelf Lands Act Amendments of 1978 established a policy for the management of oil and gas in the Outer Continental Shelf and required revision of bidding systems and lease administration, coordination and consultation with affected State and local governments, development of environmental studies for lease sale areas, and development of a 5-year leasing program.

Leasing and Environmental Assessment

Objectives

Long Term

- o Implement the 5-Year OCS Oil and Gas Leasing Schedule.
- o Insure informed decisionmaking and compliance with the National Environmental Policy Act (NEPA) and other statutes in support of the OCS Leasing and Regulatory Programs, including the performance of oilspill risk analyses and environmental and socioeconomic studies.
- o Implement and refine procedures for the conduct of a strategic and critical minerals leasing program.
- o Issue leases as quickly as possible after each lease sale to ensure early receipt of revenues.

Specific 1987 Objectives

- o Complete all major prelease planning milestones on oil and gas lease sales in progress during the fiscal year.
- o Conduct 7 oil and gas lease sales.
- o Continue to improve knowledge base for possible OCS oil and gas and strategic and critical mineral leasing through environmental and other studies.
- o Issue the next 5-year OCS Oil and Gas Leasing Schedule.

Base Program

The primary functions of the Leasing and Environmental Assessment Program are: (1) To develop an OCS oil and gas leasing program which indicates as precisely as possible the schedule of lease sales which will best meet national energy needs for the 5-year period following its approval; (2) to manage and directly support the OCS oil and gas leasing activities, which for each sale begins with the Call for Information and Nominations, continues through the preparation of draft and final Environmental Impact Statements (EIS's) and Secretarial Issue Documents (SID's) and other decision documents, and ends with the conduct of the sale and the issuance of leases; and (3) to review and assess the environmental impacts associated with permits issued under the Resource Evaluation and Regulatory Program subactivities. Active coordination of the oil and gas leasing program with other Federal agencies, and active consultation with affected State and local governments and the public occurring throughout the development of the schedule and leasing process, are major tasks of this program. Additionally, the activities required to develop OCS strategic and critical minerals leasing procedures and expand the information base for potential future minerals development in the Exclusive Economic Zone (EEZ) will continue, and the viability of strategic and critical minerals lease sales will continue to be studied and evaluated.

Leasing

Oil and Gas Program: The OCS Oil and Gas Leasing Program, while accomplishing its objectives, also supports the Administration's goals of reducing the Nation's reliance on foreign oil sources, enhancing national security, and strengthening the Nation's economy. OCS oil and gas production currently provides approximately 12 percent of oil and 21 percent of gas of domestic production.

Federal budget benefits which result from the OCS Leasing Program are the bonuses and rents paid for leases and royalties from subsequent production. Approximately $5.5 billion were received in FY 1985 and approximately $5.3 billion is estimated to be collected in FY 1987. Of this amount, royalty receipts from producing OCS leases are estimated to be $3.6 billion in FY 1987.

Under the OCS Lands Act, the Secretary of the Interior must develop a 5-year OCS oil and gas leasing program that indicates as precisely as possible the size, timing, and location of leasing activity for the 5-year period following approval. In FY 1987, it is anticipated that the last steps leading to the issuance of the next 5-year OCS oil and gas leasing program will be taken. The Secretarial decision process for and issuance of the Proposed Final Program (PFP) are scheduled for FY 1987. The PFP will be submitted to the Congress and the President for 60 days, after which the Secretary can give final approval to the new program and a document explaining the new program can be prepared and distributed.

The schedule is a planning document. The specific size, timing, and location of lease sales are determined through the prelease process, the major steps of which are shown on Figure 3.

To support the 5-Year OCS Oil and Gas Leasing Schedule, the Minerals Management Service must complete a number of major steps in the leasing process, described below in chronological order. These activities rely both on environmental assessment and environmental studies data produced in this subactivity, on

CHRONOLOGY OF THE OCS LEASING PROCESS

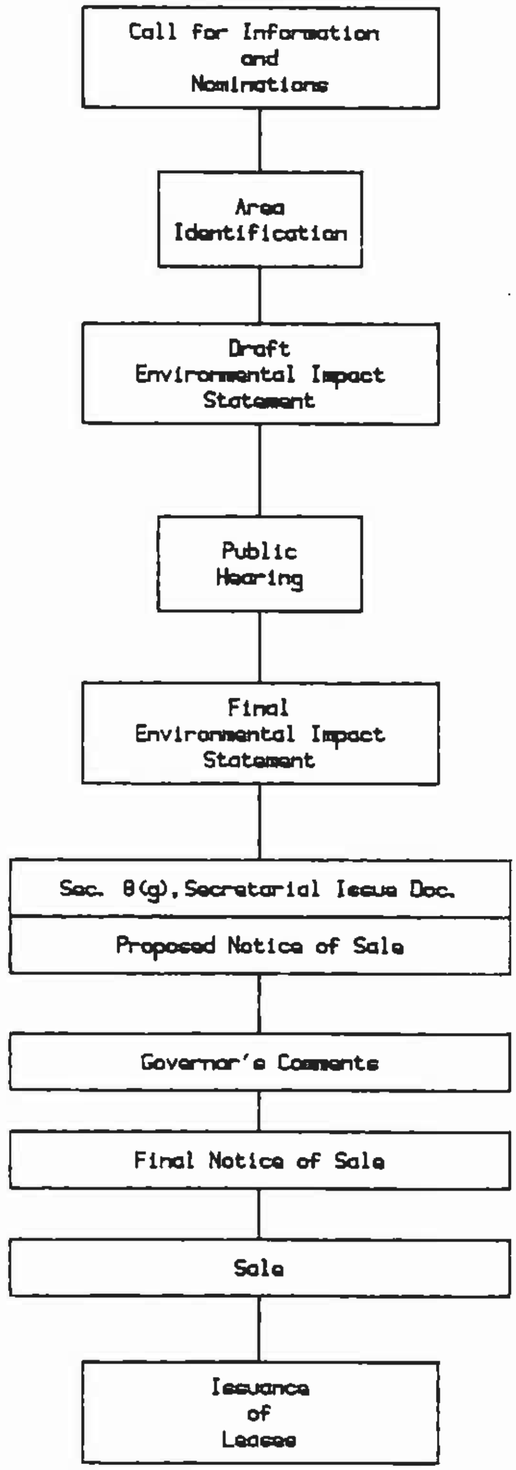


Figure 3

basic and interpretive data and outputs produced by programs within the Resource Evaluation subactivity, and on results of consultations with States and other Federal agencies. The 5-year program currently under development may result in modifications of these steps; in particular, there may be supplemental steps for specific sales because of conditions specific to those sales. For example, there may be a step preceding the Call for Information and Nominations for those sales (if any) on the schedule for which relatively low value brings into question whether the leasing process should be initiated. Such a step would allow evaluation under the then current economic and other conditions. Current major steps are:

The Call for Information and Nominations: Response to this Federal Register publication provides a basis for making the Area Identification which determines the area to be analyzed in National Environmental Policy Act (NEPA) documents as the proposed lease sale. It solicits nominations by industry on specific portions of the planning area which they believe have potential for discovery of oil and gas and priority ranking of those areas. It also invites comments by States, local governments, and other parties regarding areas or topics of concern that should be considered in defining the sale proposal and in further steps in the leasing process. The detailed information from industry and other respondents provides an opportunity for early balancing of hydrocarbon potential with significant environmental concerns. Also solicited in the Call is information on potential coastal zone management (CZM) conflicts associated with future exploration and development and production proposals. These concerns are addressed in the NEPA process for the individual sales. The Call typically opens all or most of an entire planning area for consideration and highlights the area having hydrocarbon potential as determined directly from work carried out by the Resource Evaluation staff. A Notice of Intent to prepare an Environmental Impact Statement (EIS) is published in the Federal Register as a companion to the Call and includes information regarding the initiation of the NEPA process including, when available, the date and location of the public meetings for EIS scoping.

Area Identification: Following the Call for Information and Nominations, the area that is believed to have potential for commercial production of oil and gas is identified from information collected through the Call for Information and from resource estimates and economic analyses developed by the Resource Evaluation program staff. This Area of Hydrocarbon Potential is considered along with information from the Call, and then the area to be proposed for leasing and to be analyzed in the NEPA document is identified.

Where a State or other major users identify conflicts which exist with other uses for any area, attempts are made at early resolution. If such areas do not meet essential tests of potential energy value and pose significant multiple-use conflicts, they may be removed from further consideration. Early consultation with States and other affected parties may yield possible mitigating measures that can be analyzed in the NEPA document and be considered in the decision process for the specific sale.

National Environmental Policy Act (NEPA) Process: This process is more fully described in a following section entitled Environmental Assessment but is briefly described here since it is an integral part of the leasing process. The process consists of the preparation of a draft and final EIS and related public hearings and may begin as early as a year before the Call for Information and Nominations with the development of general descriptive material on the planning area. Environmental and socioeconomic modelling efforts must be planned and information needs identified during this early phase. Usually this preliminary analysis occurs before detailed, lease-sale specific information and resource estimates are available.

The information that is developed during the NEPA process is carried torward during preparation and review of the Secretarial Issue Document (SID) and proposed and final Notices of Sale. The NEPA documents contain a detailed analysis of the potential environmental, economic, and social effects of the proposal based on resource estimates and development scenarios formulated by the Resource Evaluation Program. Additionally, the preparation of NEPA documents identifies information needs that the Environmental Studies Program can later satisfy for use in postlease activities or subsequent sale processes.

A Draft Environmental Impact Statement (DEIS) is filed with the Environmental Protection Agency (EPA) and released for public review about 8 months after the Area Identification.

Public Hearings are usually held 30 to 45 days after the DEIS is released to allow additional opportunity for interested individuals and groups to comment and provide information prior to the preparation of the final EIS.

Minerals Management Service considers all of the comments provided during the public review, revises the DEIS as appropriate, and releases a Final EIS and a Proposed Notice of Sale (discussed below) approximately 5 months after the Public Hearings.

The Lease Sale Decision Process is comprised of several critical elements. First, a Secretarial Issue Document (SID) and a companion decision memorandum are prepared summmarizing the findings of the planning work, such as resource potential, economic benefits, and bidding systems (derived from the Resource Evaluation Program subactivity); risks to the marine, coastal, and human environment derived from the EIS; a consideration of the potential for conflicts with State Coastal Zone Management Programs; and the views of governors and local governments of affected States and other Federal agencies as reflected in comments in response to the Call for Information and Nominations and on the DEIS. Consideration and analysis of State views is facilitated by consultation with State representatives. Second, based on the Secretarial-level decision, a proposed Notice of Sale is prepared, which contains all of the terms and conditions, including bidding systems and stipulations, proposed for the lease sale. Third, the proposed Notice is sent to the governors of the potentially affected coastal States for their comments (required by Section 19 of the OCS Lands Act) and is published in the Federal Register for public review.

In addition, Section 8(g) of the OCS Lands Act requires notification of a governor of any tract that is to be offered for lease that is located within three miles of the State's seaward boundary. The governor is provided with information on the proposed sale area such as the leasing schedule, geophysical, geological, and ecological characteristics, and estimates of the oil and gas resources. Much of this information is developed in the Resource Evaluation Program subactivity. In addition, prior to the decision process for the proposed Notice of Sale, detailed maps are produced of each block in the sale which will be subject to Section 8(g). This entails archival research into the State/Federal boundary history, mathematical computations, and mapping of both the State's seaward boundary (split block) and the 8(g) zone seaward line. Also, diagrams are reviewed by the affected State(s) which can require additional technical negotiations before both parties agree.

Under Section 8(g), the governor of each affected State must be provided with an opportunity to enter into an agreement with the Federal Government concerning disposition of revenues which may be generated by a Federal lease of a tract with common oil and gas pools with State submerged lands. This offer is made concurrent with the decision process on the Proposed Notice of Sale.

State/Federal boundary disputes can also cause extensive mapping and associated data collection efforts. The Alaska Federal/State Boundary Project is an interagency, cooperative project which provides technical data to assist in establishing the Federal-State boundary around the State of Alaska. The boundary will delineate the offshore lands administered by the Federal Government from the submerged lands administered by the State.

In addition to receipt of State comments on the proposed Notice of Sale, extensive negotiations may be carried out with State officials regarding terms and conditions of the lease sale, especially tracts to be offered and applicable stipulations. The comments of the governors, and any Federal agencies or other parties commenting on the Proposed Notice, are reviewed, analyzed, and summmarized in a Final Decision Memorandum, along with late arriving data or information for a final Secretarial decision on size, timing, location, terms and conditions of the sale. This decision is reflected in the Final Notice of Sale, which is published in the Federal Register at least 30 days prior to the lease sale. In addition, the Secretary responds to Governors' comments on the Proposed Notice of Sale and explains his rationale for either accepting or rejecting them.

Lease Sale and Issuance of Leases: The lease sale is held for the purpose of publicly opening the sealed bids that have been submitted on tracts listed in the Notice. Bidders are required to submit one-fifth of their bonus bids at the time of the sale, as well as the first year's rental. At the sale, no decisions are made concerning which high bids will be accepted. Evaluation of high bids leads to decisions to accept or reject high bids and to offer leases to successful (acceptable) bidders; this occurs within 90 days of the sale except under special circumstances. Although personnel in the Leasing and Environmental Program subactivity develop the decision material, personnel in the Resource Evaluation Program subactivity perform the bid-adequacy evaluation. Leases are offered to successful bidders who have 11 business days to accept and pay the remaining four-fifths of the bonus bid, as well as the first year's rental on the lease.

Throughout the life of the lease, any adjudication and maintenance of leases is the responsibility of the Leasing and Environmental Program staff. This includes developing and updating bidder qualification files and lease records and processing of lease assignments and relinquishments. All rents on undeveloped leases beyond the first year, and royalties on producing leases, are collected and accounted for by the Royalty Management Program.

In addition to major elements of the OCS leasing process described above, the process includes other significant activities. The OCSLAA requires consultation by Minerals Management Service with affected States and other interested parties on all aspects of leasing, exploration, development, and production of the resources on the OCS. This requirement is partially fulfilled through the activities of the OCS Advisory Board, which is composed of: (1) A Policy Committee; (2) Regional Technical Working Group Committees; and (3) a Scientific Committee. The Policy Committee, which meets two or three times each year, includes representatives of the Governors of all coastal States, various Federal agencies, and the private and public sector, and provides policy advice to the Secretary on various aspects of the OCS Program.

Six Regional Technical Working Group Committees, which operate at the field level and meet as needed during the year, provide advice to the Director on technical questions and issues relating to OCS activities. Membership totals about 110-120 technical level representatives of coastal States, Federal agencies, and members of the private and public sector.

The Scientific Advisory Committee is composed of 15 scientists, each selected on the basis of technical expertise in a discipline of importance to the Environmental Studies Program. The Committee meets three times each year and advises the Director on the feasibility, appropriateness, and scientific value of the OCS Environmental Studies Program described later in this document.

Consultation is carried out throughout the leasing process with Federal agencies such as the Department of Defense (DOD), the National Aeronautics and Space Administration (NASA), the Coast Guard, the Fish and Wildlife Service, and the National Oceanic and Atmospheric Administration regarding potential multiple-use conflicts within a proposed sale area. The Department of the Interior has a formal Memorandum of Agreement with DOD providing for consultation and resolution of joint use conflicts prior to leasing. Similar approaches are used with NASA and the Coast Guard, although no formal agreements exist.

Strategic and Critical Minerals Program, Including EEZ. Exploratory studies for possible future sales for critical and strategic minerals are conducted. Decisions on what, if any, commodities to offer will be based on work carried out under Cooperative Agreements with States, the results of participation in workshops and conferences on related topics, and indications of industry interest. The planning stage will begin with a Federal Register Notice of Intent to prepare an EIS, which will solicit comments to help design the proposal. A Draft EIS, hearings, and Final EIS would follow. Next, a Federal Register Notice of Preliminary Terms and Conditions would solicit comments on possible lease terms and conditions, such as sale configuration, bidding system, etc. After receiving comments, decision material would be prepared, decisions made, and a Notice of Sale would be published in the Federal Register. Comments from affected States and others would be solicited through the Notice of Intent, draft EIS publication and hearing, and the Notice of Preliminary Terms and Conditions.

The planning, evaluation, and development of leasing procedures and the identification of potential and viable lease areas for strategic and critical commodities will be accomplished by joint Federal/State working groups. These working groups will include interested Federal agencies and affected States.

Environmental Assessment

Oil and Gas Program. All OCS NEPA-related work, both prelease and postlease, is accomplished within the Leasing and Environmental Program.

Prelease NEPA Process. As previously noted, this process may be started as early as one year before the Call for Information and Nominations with the development of general descriptive material. Following the Call for Information and Nominations, the scope of the issues and alternatives to be addressed in the EIS is determined.

Contacts with the public and various State and local governments are made by Minerals Management Service staff and scoping meetings are held to assist in identifying significant issues and alternatives to be analyzed in the EIS. Additionally, the information gathered and developed during scoping assists in the design of the sale proposal. When this is completed, the major work on preparation of the EIS can begin.

One of the most useful and critical inputs to the prelease environmental assessment process is the oil spill risk analysis. This is an environmental modelling technique which incorporates the best available physical oceanographic and meteorological data; the estimated location and volumes of oil expected to be produced and transported as a result of the lease sale; the location of environmental resources (e.g., fish spawning areas, recreational beaches, whale migration routes, etc.); transportation routes; and the likelihood of accidents based on past records. The model provides a measure of the likelihood of oil spill occurrence, as well as the likely trajectories of spills in relation to recreational and biological resources. To report model results, an oil spill risk analysis report is prepared for each lease sale. The availability of adequate environmental data, such as that on wind and ocean currents, is a critical factor. The Environmental Studies Program provides for timely gathering and analysis of these data as well as for examination of historical oil spill and accident statistics. Oil resource estimates are provided by the Resource Evaluation Program subactivity.

The need occasionally arises for special model runs to analyze issues raised after completion of the EIS; for example, an issue raised by a State in response to the Proposed Notice of Sale.

The development of mitigating measures appropriate to the pertinent environmental concerns is another critical phase of the prelease NEPA process. Lease stipulations and Information to Lessees clauses, which are implemented through work in the Regulatory Program subactivity, are developed in conjunction with the environmental analyses. These mitigating measures, in conjunction with the existing regulatory framework, have proven to be an effective and economical means of minimizing many potential environmental effects while allowing the search for offshore oil and gas resources to proceed. Additionally, much of the analytical environmental work carried out at this stage provides background information that directly supports environmental analyses related to review and permitting of postlease activities.

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

A Draft Environmental Impact Statement (DEIS) is filed with the Environmental Protection Agency (EPA) and released for public review about 8 months after the Area Identification. The public, State and local governments, other Federal agencies, and the oil and gas industry review and comment on the document. Public Hearings are usually held 30 to 45 days after the draft is released to allow additional opportunity for interested individuals and groups to comment and provide information prior to the preparation of the final EIS.

Minerals Management Service analyzes all of the comments provided during the public review, revises the draft EIS as appropriate, and releases a Final EIS about 5 months after the Public Hearings.

Additionally, numerous technical papers are published. These papers support the lease sale EIS's, and can be incorporated by reference into the EIS, thus avoiding lengthy technical and descriptive material, while maintaining the usefulness of the EIS as a decisionmaking document.

Included under prelease environmental activities are reviews and analyses performed for geological and geophysical activities permitted under the Resource Evaluation Program subactivity. These activities require Categorical Exclusion Reviews (CER's) or Environmental Assessments.

Postlease Environmental Activities. After the issuance of a lease, lessees are notified of any special requirements (outside of the normal requirements set forth in OCS regulations) on a lease needed to mitigate potential impacts identified during the prelease NEPA process and the Secretarial decision process. Such special requirements include those measures needed to fulfill the stipulations developed through the prelease NEPA process and are applicable only to specific tracts.

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

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

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

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

Major Leasing and Environmental Activities	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate	Inc.(+) or Dec.(-)
Call for Information and Nominations	2	5	8	+3
Area Identification Decision Memo	3	4	6	+2
Secretarial Issue Document	5	4	7	+3
Review of 5-Year Program	1	1	1	--
Decision Memo - Proposed Notice	5	4	7	+3
Section 19 State Consultations	10	31	48	+17
Proposed Notice of Sale	5	5	6	+1
Decision Memo-Final Notice	3	9	6	-3
Request for Information	7	3	3	--
Final Notice of Sale	3	7	7	--
Preliminary Sale Consultation	4	3	4	+1
Lease Sale	3	6	7	+1
Prelease Draft EIS	5	5	5	--

Major Leasing and Environmental Activities	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate	or Dec.(-)
Prelease Public Hearing.............	5	9	4	-5
Prelease Final EIS..................	5	0	7	+7
Prelease Environmental Assessment...	2	4	3	-1
Technical Paper.....................	9	14	14	--
Oil Spill Risk Analysis Run.........	6	6	5	-1
Oil Spill Risk Analysis Report......	2	6	5	-1
Endangered Species Consultation.....	14	17	18	+1
CER for Resource Evaluation Action..	522	580	629	+49
EA for Resource Evaluation Action...	6	13	13	--
CER for Regulatory Action...........	1,315	1,454	1,604	+150
EA for Regulatory Action............	103	59	73	+14
EIS for Regulatory Action...........	3	3	2	-1
Environmental Report Reviewed.......	1,506	1,661	1,827	+166
Regional/National Study Plan........	6	6	6	--
Statement of Work...................	49	50	53	+3
Technical Proposal Evaluation Process..........................	46	62	60	-2
Active Contracts Monitored..........	134	156	118	-38
Synthesis Meeting...................	3	8	6	-2
Information Transfer Meeting........	4	4	4	--

Decrease from 1987 Base

(Dollar amounts in thousands)

	FY 1987 Base	FY 1987 Estimate	Difference
($)	16,458	16,167	-291
(FTE)	(356)	(348)	(-8)

During 1985 and 1986, the focus of the Leasing Program on extensive consultation with all concerned public and private parties has resulted in better identification of State and environmental group concerns as well as better definition of industry interest for planned sales. For example, two Atlantic sales (#90, North Atlantic and #111, Mid-Atlantic) that had been scheduled for 1985 have been delayed based on indications of the level of interest by industry at this time. All the environmental work previously completed for these sales will remain valid and will not have to be repeated when the sales are ultimately held. This enables the MMS staff to concentrate work efforts on areas where industry has expressed a more immediate interest and where additional data remains to be developed.

Much information has been gathered through consultation on individual sales and from comments received on the proposed 5-year Oil and Gas Leasing Schedule. These factors, combined with decreased industry interest in certain areas and organization efficiencies being implemented during 1986, will result in a reduced workload in the program for FY 1987. Thus, a decrease of 8 FTE and $291,000 is proposed.

Distribution of change by object class

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

	Amount ($000)
Personnel Compensation....................	-254
Personnel Benefits........................	-37
Total	-291

Environmental Studies

Objectives

Conduct a studies program:

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

Base Program

The resources of the Environmental Studies Program were originally devoted to prelease decisions involving the prediction and assessment of environmental impacts of OCS oil and gas operations. This strategy was based on the need for this information in the numerous frontier regions existing during FY 1973-1977 and on the limited areas in which to conduct well-defined monitoring studies.

Since its inception in 1973, the program has supported prelease studies in all areas on the OCS leasing schedules. The program has produced a significant amount of relevant information on environmental and socioeconomic characteristics of currently proposed leasing areas. This existing information is used in the analyses of risks and benefits of OCS leasing as required by Section 18 of the OCSLAA and in the production of sale-specific and programmatic Environmental Impact Statements (EIS's), Secretarial Issue Documents (SID's), and other decision documents. In 1980, the Environmental Studies Program began to invest a substantial proportion of its funds in issues related to postlease management decisions. This action could be taken because the number of studies required in frontier areas had decreased, most lease areas had several years of completed study, and opportunities for scientifically credible monitoring experiments became available.

At present, particular emphasis is being given to air quality issues in Southern California, fisheries studies and wetlands loss in the Gulf of Mexico, and long-term monitoring and ecosystem studies in several regions. The South Central Coast Cooperative Aerometric Monitoring Program (SCCCAMP) will be completed with 1986 funding. In 1987 a post-SCCCAMP photochemical model evaluation will be conducted. Programs to observe the effects of OCS operations on endangered species (Bowhead and Gray Whales, sea otters, and ringed seals) are continuing. A number of studies in the Alaska OCS are conducted for MMS by the National Oceanic and Atmospheric Administration (NOAA) through the OCS Environmental Assessment Program (OCSEAP). Funding for this effort in 1987 is estimated to be approximately $7.0 million. Deep-water reconnaissance and processes studies begun in FY 1983-1984 in the Atlantic and and Gulf of Mexico planning areas will be completed in 1987. Study topics proposed for 1987 are displayed in Table 1. The information from these studies is used in postlease determinations on the effectiveness of stipulations to protect the environment under such requirements as the Endangered Species Act (ESA), Marine Mammals Protection Act (MMPA), and the National Pollutant Discharge Elimination System (NPDES). The information gained from these studies is also used in development of the overall leasing program under Section 18 of the OCS Lands Act Amendments of 1978 and in lease-sale EIS's, SID's, etc.

The Environmental Studies Program is designed to support both regional and national information needs. Regional information needs are assessed annually through the development of Study Plans. These plans are developed in close consultation with the Regional Technical Working Groups. During FY 1987, regional offices will develop a draft and then a final Regional Study Plan for studies to be completed in FY 1989. Development of these plans requires several months from initiation to final approval, including extensive review. During the annual formulation of the National Study Plan, regional needs are combined with national needs and ranked in order of their importance to decisionmakers. Studies are ranked using a set of criteria based on a system developed for the program. The Minerals Management Service is assisted in defining nationally important information needs by the OCS Advisory Board through its Technical and Scientific Committees.

The ranking system includes the following criteria:

1. Importance of the information to the decisionmaker.

2. Date of the leasing or management decision for which the study is designed.

3. Generic applicability of study results.

4. Availability of information in the subject of the study.

5. Applicability of the study to issues of regional or programmatic concern.

Decrease from 1987 Base

(Dollar amounts in thousands)

	FY 1987 Base	FY 1987 Estimate	Difference
($)	27,202	22,965	-4,237
(FTE)	(--)	(--)	(--)

In 1986, Congress provided an additional $1,280,000 for the Environmental Studies Program for support of the South Central Coast Aerometric Monitoring Program (SCCCAMP) in California. The work requiring MMS participation in this study was fully funded in FY 1986. Therefore, this one-time addition to the MMS budget can be reduced from the 1987 request.

Areawide reconnaissance studies (a variety of studies to characterize biological and cultural resources) have been conducted in most OCS planning areas over the last 14 years to support prelease and leasing decisions. The need for new initiatives for this type of study has been greatly reduced and generally is restricted to new planning areas being evaluated for leasing (e.g., Washington-Oregon). Emphasis will be placed on updating older data and on more detailed studies of particular problems.

Since the leasing program's presale process has begun to focus on promising acreage and early consultation with all concerned parties, early identification of industry interest has been made possible. Studies can be cancelled or reduced in effort in planning areas where industry has indicated low interest. New initiatives planned for the Environmental Studies Program will focus on areas of higher industry interest. Savings will also be realized through increased administrative efficiency with some reduced dissemination of information within the studies program and to the public. Reduction of effort is planned in the following areas and studies subjects:

o Air Quality................................	$1,523,000
o Bathymetric Mapping	200,000
o Chemical Quality Assurance.................	25,000
o Marine Mammals/Endangered Species..........	850,000
o Prelease Studies..........................	779,000
o Program Support (Information Transfer and Scientific Committee Meetings).......	660,000
o Socioeconomic Studies......................	200,000

While estimates within this list may be adjusted as program priorities change or are modified, the overall reduction of $4,237,000 will be achieved.

Distribution of change by object class

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

	Amount ($000)
Other Services.........................	-4,237

Table 1
FY 1987 Environmental Studies Program

OCS Region/ 1/ Lease Sale No.	Study Categories: ENDANGERED SPECIES	POLLUTANT TRANSPORT	HAZARDS	MARINE ECOLOGY	MONITORING	FATES & EFFECTS	SOCIOECONOMICS	METEOROLOGY	OTHER	Remarks
North Atlantic: 96, Mid Atlantic South Atlantic: 108		X		X	X			X		Completion of reconnaissance of biological communities and physical oceanographic processes on the lower continental slope and continental rise in all planning areas.
Eastern Gulf of Mexico Central Gulf of Mexico: 110 Western Gulf of Mexico	X	X		X		X	X			Continued refinement of oil spill trajectory modeling; evaluation of the effect of OCS operations on coastal wetlands; socioeconomic analysis of regional impacts; and regional ecosystem characterization in lesser developed regions.
Central/Northern California: 91 Southern Calif: 95 Washington-Oregon	X	X		X	X		X	X		Continued emphasis on field effects monitoring to evaluate long-term chronic discharge impacts of OCS operations; evaluation of the vulnerability of the sea otter to OCS development; continued study to define the physical oceanography of northern and central California. Collection and analysis of existing information and a studies planning conference for Washington-Oregon.
Gulf of Alaska Gulf of Alaska/ Cook Inlet Kodiak Shumagin: 86				X						Emphasis on updating information base developed for previous offerings in this area; reconnaissance of commercially important organisms.
Bering Sea Navarin Basin St. George Basin: 101 North Aleutian Basin Norton Basin	X	X	X		X	X	X			Continued development of reconnaissance information on endangered species, biological communities, and physical oceanographic features; monitoring of effects of OCS operations on whales, native communities, and fishing resources;evaluation of hazards to operations posed by sea ice.
Arctic Ocean Chukchi Sea: 109 Beaufort Sea Hope Basin	X	X	X		X	X	X			Continued monitoring of effects of OCS operations on Bowhead whales and other marine mammals; monitoring of OCS development effects on native populations; evaluation of hazards to operations posed by sea ice; continued analysis of pollutant transport by oceanographic features and sea ice.
Programmatic Studies						X	X		X	Continued emphasis on program quality assurance and integrity; development of consistent data for analyses of environmental and socio-economic impacts of a potential new 5-year schedule; management of information transfer; design and coordination of a long-term effects program.

1/ Studies included will also be applicable to sales in the next 5-Year Program from FY 1987 through FY 1992 (most sales beyond FY 1987 are currently unnumbered).

Justification of Program and Performance

Activity: Outer Continental Shelf Lands
Subactivity: Resource Evaluation Program

(Dollar amounts in thousands)

		FY 1986 Enacted to Date	FY 1986 Adjusted Appropriation	FY 1987 Base	FY 1987 Estimate	Inc. (+) Dec. (-) from Base
Resource Evaluation Program 1/	($)	24,004	22,972	23,736	23,459	-277
	(FTE)	(338)	(338)	(332)	(312)	(-20)
Total Requirements	($)	24,004	22,972	23,736	23,459	-277
	(FTE)	(338)	(338)	(332)	(312)	(-20)

Gramm-Rudman-Hollings Impact

(In thousands of dollars)

Subactivity	FY 1986 Enacted to Date	P.L. 99-177 Reduction	FY 1986 Adjusted Appropriation
Resource Evaluation Program	24,004	-1,032	22,972

As a result of the reductions mandated in the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177), the following actions may be taken:

- o Staff and associated support costs will be reduced through attrition. These reductions will be consistent with the lower budgeted FY 1987 staff levels, and will be accomplished by redirecting program efforts from areas of declining workload due to lower projected activity by industry.
- o Planned upgrading of ADP software and improvements in resource ADP models will be delayed.
- o Funding of data acquisition in the Alaska and Gulf of Mexico OCS Regions will be reduced by $240,000.

1/ Funding for acquistion of geologic and geophysical data:

(In thousands of dollars)

FY 1986 Enacted To Date	FY 1986 Adjusted Appropriation	FY 1987 Base	FY 1987 Estimate	Inc. (+) Dec. (-) from Base
4,900	4,660	4,900	5,800	+900

- o Staff training and travel will be reduced.
- o Special studies associated with the Strategic and International Minerals/Exclusive Economic Zone efforts will be reduced in scale or have study time extended.

Authorizations

43 U.S.C. 1331-1343, P.L. 83-212	The Outer Continental Shelf Lands Act of 1953, as amended, extended the jurisdiction of the United States to the Outer Continental Shelf (OCS) and provided for granting of leases to develop offshore energy and minerals.
43 U.S.C. 1801, P.L. 95-372	The Outer Continental Shelf Lands Act Amendments of 1978 established a policy for the management of oil and gas in the Outer Continental Shelf and required revision to bidding systems and lease administration, coordination and consultation with affected State and local governments, development of environmental studies for lease sale areas, and development of a 5-year leasing program.
43 U.S.C. 4321, 4331-4335, 4341-4347, P.L. 91-190	The National Environmental Policy Act of 1969 required preparation of environmental impact statements for Federal projects having a significant effect on the environment.
43 U.S.C. 1301, P.L. 92-532	The Marine Protection, Research, and Sanctuaries Act of 1972 provides that the Secretary of Commerce must consult with the Secretary of Interior prior to designating marine sanctuaries. The Minerals Management Service (MMS) provides information regarding the mineral resource potential in areas being considered for designation as marine sanctuaries.

Objectives

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

Base Program

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

In preparation for each lease sale, tract and prospect specific maps and analyses are updated and evaluations are completed to provide inputs for determination of bid adequacy, which occurs at the end of the sale process. In addition, economic and engineering analyses of minimum economic field size, minimum bid level, and lease terms, among others, are also carried out. These analyses, while directly related to specific lease sales, also provide necessary input for overall program decisions such as the annual review of the current leasing schedule and any subsequent revisions. Regional mapping and analyses are important early in the leasing process and later serve to identify promising areas that are used in reviewing and developing future oil and gas leasing schedules. Additionally, the Resource Evaluation Program provides information on the availability of offshore oil and gas resources; these resources are essential to the national security of the United States and may need to be made available to meet future energy supply emergencies. A schedule of the major outputs of this subactivity related to the Proposed 5-year Outer Continental Shelf (OCS) Oil and Gas Leasing Schedule is given in Table 2.

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

- o An identification and schedule of the areas and regions proposed to be offered for leasing;
- o All information concerning the geographical, geological, and ecological characteristics of such regions;
- o An estimate of the oil and gas reserves in the areas proposed for leasing; and
- o An identification of any field, geologic structure, or trap located within three miles of the seaward boundary of such costal State.

The Resource Evaluation Program is responsible for providing all of this information, except for the identification and schedule of the areas proposed for lease, estimates of oil and gas reserves and ecological data characteristics. Additionally, at the time of Area Identification, the Resource Evaluation

*: Completed in prior fiscal years.
P: In progress during FY 1987.

Table 2
Schedule of Major Products of the
Resource Evaluation Program Subactivity Planned for FY 1987
That are Directly Related to Lease Sales

OCS Planning Area	Sale	G&G Data Acquisitions	Geology Report	Area of Hydrocarbon Potential	Exploration and Development Report	Area Identification	Bidding System Design	Cost & Economic Assumptions	Fair Market Value Determinations
W. Gulf of Mexico	105	*	*	*	*	*	*	*	Oct. 86
N. Aleutian	92	*	*	*	*	*	*	*	Oct. 86
Gulf of AK/CI	88	*	*	*	*	*	*	Oct. 86	Nov. 86
S. Atlantic	90	*	*	*	*	*	*	Nov. 86	Dec. 86
Mid-Atlantic	111	*	*	*	*	*	*	Nov. 86	Dec. 86
C. Gulf of Mexico	110	*	*	*	*	*	Oct. 86	Apr. 87	June 87
Beaufort	97	*	*	*	*	*	Feb. 87	July 87	Aug. 87
W. Gulf of Mexico	112	*	*	*	*	*	Mar. 87	Aug. 87	P
Supplemental 1	Su 1	*	*	*	*	*	Apr. 87	Sept. 87	P
Chukchi Sea	109	*	*	*	*	*	May 87		
S. California	95	P	*	*	*	*	Sept.87		
C. Gulf of Mexico	113	P	*	*	Oct. 86	*	P		
Navarin	107	P	*	*	*	*			
Shumagin	86	P	*	*	*	*			
N. California	91	P	*	*	Oct. 86	*			
Gulf of Alaska	114	P	*	*	Dec. 86	Oct. 86			
W. Gulf of Mexico	115	P	*	*	Oct. 86	*			
Supplemental 2	Su 2	P							
N. Atlantic	96	P	*	*	Mar. 87	Jan. 87			
E. Gulf of Mexico	116	P	*	*	Oct. 86	*			
N. Aleutian	117	P	*	Oct. 86	May 87	Mar. 87			
C. Gulf of Mexico	118	P	*	Mar. 87	P	Aug. 87			
C. California	119	P	*	Mar. 87	P	Aug. 87			
Norton	120	P	*	Mar. 87	P	Aug. 87			
Mid-Atlantic	121	P	Nov. 86	May 87		P			
W. Gulf of Mexico	122	P	*	Mar. 87	P	Aug. 87			
St. George	101	P	Dec. 86	June 87		P			
Supplemental 3	Su 3	P							
S. Atlantic	108	P	July 87						
C. Gulf of Mexico	123		Sept.87						
Beaufort Sea	124		Aug. 87						
W. Gulf of Mexico	125		Sept.87						
Supplemental 4	Su 4								

Program staff is responsible for making a determination of whether or not a common structure exists with State submerged lands on each tract in the Section 8(g) zone. This information is then provided to the Governors of affected States.

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

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

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

1. Acquisition of G&G Data

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

   Industry collects G&G data under permits issued through the Resource Evaluation Program. A condition of the exploration permits issued to industry allows MMS to selectively acquire G&G data to directly support the analyses required throughout the leasing process. These data include logs and other data from deep stratigraphic tests and significant amounts of Common Depth Point (CDP) seismic data. Since 1968, over 940,000 line miles of CDP data have been acquired in OCS areas. These data are analyzed and interpreted in order to map a proposed lease sale and determine areas having potential for the occurrence of hydrocarbon resources. They are also used to specifically locate and map geologic structures capable of trapping hydrocarbons, and to establish values for the geologic parameters necessary for resource economic evaluation in support of determinations of the adequacy of bids received at a lease sale.

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

In FY 1985, it was determined by the Department's Office of the Solicitor, that language included in the Appropriations Bill for FY 1986 cannot be applied to permits issued prior to the enacted change in the statute. Permits issued prior to FY 1986 for data collection on the OCS state that the permittee will be reimbursed for both data processing and reproduction costs. Therefore, the Government has a contractual liability to reimburse permittees for data provided to MMS under the terms of the permit. As a result it became necessary to budget funds for: (1) Reproduction cost of data acquired under permits, special processing, interpretations, special data, special data storage, 8(g) data acquisitions; and, (2) processing of data acquired under permits issued prior to enactment of the FY 1986 appropriation language which contain specific provisions requiring reimbursement for processing costs.

A comparison of these costs for the period FY 1985-1987 is given below:

(In thousands of dollars)

	FY 1985 1/ Actual	FY 1986 Enacted	FY 1987 Estimate	Inc.(+) or Dec.(-)
Data reproduction and special processing of data not available under permit to support litigation, section 8(g) and boundary disputes	--	2,000	2,000	—
Processing costs for data acquired under permits issued prior to enactment of the FY 1986 appropriation language	--	2,900	3,800	+900
Total Funding	7,800	4,900	5,800	+900

The CDP seismic data provide the primary data base required for much of the effort in the area identification and evaluation process and to support the activities of other Federal Agencies. Seismic data in a planning area are used not only for products related to a specific sale, but are supplemented, as required, with new data for later sales in the same planning area. As indicated in Table 2, products requiring G&G data will be completed or in progress for more than 32 planned OCS oil and gas lease sales. Substantial amounts of CDP data (estimated at 75,000 line miles) are planned to be acquired in FY 1987 in order to augment and update previously acquired data.

Products:

a. G&G Permits Processed and Approved

Prelease data gathered by industry on the OCS require the issuance of G&G permits. Processing and approval of exploration permits includes: Review of applications for permits and agreements for OCS geologic or geophysical scientific research or exploration for mineral resources; the issuance of permits and agreements, including terms, conditions, and stipulations; the monitoring of permit activity; and all correspondence with prospective permittees.

b. G&G Data Acquisition Actions

After data have been collected by permittees, MMS selectively acquires those data which are needed to augment the existing data base. The steps in acquiring data from permittees include: Preparation and approval of a proposed data acquisition list; onsite inspection of data; selection

1/ In FY 1985 expenditures for G&G data acquisition ($7,800K) included funding for data processing and reproduction.

of data; preparation and submittal of requisition forms to reimburse permittees for data reproduction and the cost of special reprocessing requested by MMS; preparation of justifications for selection of data and lists of deliverable items; and contact and correspondence with permittees, administrative personnel, and headquarters personnel.

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

A comparison of these major products for the period FY 1985-1987 is given below:

Major Products	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate	Inc. (+) or Dec. (-)
G&G permits processed and approved	465	400	400	—
G&G data acquisition actions	120	130	140	+10
Line miles of CDP data acquired	61,450	63,300	75,000 1/	+11,700

Estimated FY 1987 costs:

- o To process and approve 400 G&G permits and accomplish 140 G&G data acquisition actions totals $825,000.
- o Reproduction and processing or reprocessing of selected G&G data totals $5,800,000.

2. Production of Regional G&G Maps and Analyses

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

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

1/Represents an estimate of the total FY 1987 CDP data requirements needed to support the leasing program. This estimate includes data acquired under permits issued prior to FY 1986 which require reimbursement for processing costs.

early stages of the leasing process that describe the geology, geologic risk, and resource potential of the planning area.

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

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

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

Products:

a. Geology Report: This report consists of the following specific sections:

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

(2) The petroleum geology section analyzes and provides data and information on the resource potential, probability of hydrocarbon occurrence and items such as source and reservoir rock, traps, and maturation.

(3) The environmental geology section provides general information over the planning area about potential shallow geologic features, such as shallow faults, accumulations of shallow gas, and slumps which could be hazardous to exploration and development operations. This section also provides information on the occurrence of ice and ice hazards, if any, and seismic and volcanic activity.

During FY 1987, general regional geohazards information will be updated to support the preparation of NEPA documents and, combined with the site-specific geohazards data submitted by industry, to support review of Exploration and Development Plans and Applications for Permit to Drill. As shown in Table 2, six (6) Geology Reports are planned to be completed in FY 1987.

b. Determinations of Area of Hydrocarbon Potential

Maps and associated documents are required prior to the issuance of the Call for Information and Nominations to identify those portions of the planning area having various ranges of hydrocarbon potential.

This information represents a significant refinement to that contained in the Geology Report, which describes general geologic aspects of the entire planning area.

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

c. Recommendations for Area Identification

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

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

A comparison of the major products of Regional G&G Maps and Analyses for the period FY 1985-1987 is given below.

Major Products:	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate	Inc. (+) or Dec. (-)
Geology Reports	8	7	6	-1
Determination of Area of Hydrocarbon Potential	5	6	7	+1
Area Identification Recommendations	5	6	7	+1

Estimated FY 1987 costs directly associated with preparing these products totals $3,190,000.

3. Production of Tract and Prospect Specific Maps and Analyses

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

A comparison of the major products of the Tract and Prospect Specific Maps and Analyses for the period FY 1985-1987 is presented below.

Major Products For:	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate	Inc. (+) or Dec. (-)
Completed Sales	4	6	7	+1
Sales in Progress	21	26	25	-1

For FY 1987, the following seven oil and gas lease sales will be completed: 88 (Gulf of Alaska); 111 (Mid Atlantic); 97 (Beaufort Sea); 90 (S. Atlantic); 110 (C. Gulf of Mexico); 112 (W. Gulf of Mexico); and Supplemental 1. Products for 25 sales proposed beyond FY 1987 will also be prepared. Generally, work devoted to mapping and analysis of tracts commences 2 years prior to a proposed lease sale, with the exception of sales in the Gulf of Mexico, where mapping and analysis begins 1 year prior to the sale. Estimated FY 1987 costs associated with the analyses related to the above products total $5,490,000.

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

Planning area resource estimates are developed for:

a. Biennial reports to Congress containing estimates of undiscovered recoverable oil and gas resources on the OCS as required by Section 606 of the OCSLAA of 1978.

b. Use in the annual review of the 5-year OCS oil and gas leasing schedule and any subsequent development of a new 5-year leasing schedule.

Lease sale area resource estimates are developed for use in:

a. E&D Reports, NEPA documents, and other decision documents.

b. Summary reports and updates produced by the OCS Information Program.

A comparison of the annual number of Resource Estimates for Planning Areas developed during the period FY 1985-1987 for use in reports, review, etc., are given below:

Resource Estimates for:	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate	Inc. (+) or Dec. (-)
Section 606 Reports	--	1	--	-1
Review of 5-Year Leasing Schedule	1	1	1	--
NEPA and Decision Documents	11	13	13	—

Estimated FY 1987 costs associated with development of the above products totals $890,000.

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

   Products:

   a. E&D Reports. These reports contain infrastructure and exploration, development, and production scenarios that serve as the basis of the analyses related to the NEPA process. The reports are updated during the leasing process and are used for the design of the specific bidding system to be used in the sale.

   b. Cost Estimates and Price Assumptions. These are prepared for each lease sale and include: oil and gas prices; transportation costs (pipeline, tanker, etc.); real price increases; inflation and discount rates; windfall profits tax rates; and exploration, development, and production costs.

   c. Bidding System Design. This product consists of the analyses to support designation of bidding systems, lease terms, rental policies, and minimum bid requirements for a particular lease sale. Alternative bidding systems provided for in the OCSLAA are considered. Unique lease-sale costs and market conditions require examination of the various revenue components which comprise a bidding system. An analysis is made of the impacts of alternative royalty rates, minimum bid requirements, rental policy, length of lease terms, various bidding systems, etc., on the multiple goals of the OCSLAA, such as the maintenance of competition and expeditious exploration, development and production. In addition, an analysis of the impacts of existing leases issued under alternative systems are reviewed in terms of newly arising information on exploration and development effects.

d. Fair Market Value Determinations. These are decisions regarding the adequacy of high bids received at a sale. This includes determinations of viable prospects and tract types, tract-specific resource economic values, when required, and the development and analysis of economic criteria to determine the final acceptance or rejection of high bids.

e. Economic Value Estimates. This product includes cost/benefit analyses and economic and social value estimates for SID's, the formulation of the 5-year leasing schedule, each lease sale, revenue projections for budget purposes, and other estimates associated with statutory or policy changes.

The schedule of products planned for FY 1987 is shown on Table 2.

A comparison of the major products of Economic and Engineering Evaluations for Lease Sales during the period FY 1985-1987 is given below.

Estimated costs of developing these products in 1987 total $1,470,000.

Major Products	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate	Inc. (+) or Dec. (-)
E&D Reports	5	8	7	-1
Cost Estimates and Price Assumptions	4	6	7	+1
Analysis for Design of Specific Bidding System	6	5	6	+1
Analysis for Fair Market Value Determinations	2	5	7	+2
Economic Value Estimates	18	16	16	--

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

a. Development, refinement, modification, and maintenance of discounted cash flow and resource assessment computer models and methodologies, including the design of new computer models for resource assessment and resource economic evaluation.

b. Design, development, refinement, maintenance, and update of ADP data bases and systems to support lease sale fair market value determinations, and to provide a historical data base for economic studies, other analyses, and reports such as the Annual Report to Congress on alternative bidding systems.

c. Economic Studies and Congressional Report to Congress. Sections 205 and 207 of the OCSLAA each require an annual report to Congress on the scheduling and use of alternative bidding systems in the OCS program and the costs and benefits derived from their use, as well as joint bidding and new market entrants. To prepare these reports and to make recommendations on leasing policy for the overall program and for each offering, economic studies are conducted on specific bidding system parameters such as viable royalty rates, minimum bid levels, regulatory changes, lease terms, rental policies, and tract size.

d. Various generic program-wide studies applicable to the entire leasing process are performed. Study issues include the effects of areawide versus tract selection sales, the costs and benefits associated with the OCS program, various changes, bid adequacy procedures, and effects of various policies on Government receipts.

e. Economic Value Estimates and Cost/Benefit Studies for Formulation of the 5-year OCS Leasing Schedule. These are economic value estimates and cost/benefit studies for use in developing new 5-year leasing schedules or the required annual review.

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

A comparison of the major products of Economic and Engineering Methodologies and Studies for the OCS Leasing Program during the period FY 1985-1987 is given below. Estimated FY 1987 costs related to the development of these products total $1,925,000.

Major Products	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate	Inc. (+) or Dec. (-)
Economic Studies	25	25	25	--
Engineering Studies	5	6	6	--

Cooperative Agreement: Texas Bureau of Economic Geology

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

In FY 1985-1986, funding for the MMS/University of Texas agreement totaled approximately $605,000 per year with approximately 21 coastal States participating in the program.

Strategic and International Minerals/EEZ

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

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

Decrease from 1987 Base

(Dollar amounts in thousands)

	FY 1987 Base	FY 1987 Estimate	Difference
($)	23,736	23,459	-277
(FTE)	(332)	(312)	(-20)

The FY 1987 decrease is comprised of the following:

G&G Data Acquisition (+$900,000)

During FY 1987, approximately 75,000 line miles of seismic data will be needed to support: (1) fair market value determinations for seven sales (105-Western Gulf of Mexico, 92-North Aleutian Basin, 88-Gulf of Alaska/Cook Inlet, 97-Beaufort Sea, 90-South Atlantic, 110-Central Gulf of Mexico, and 111-Mid-Atlantic); (2) the design of bidding systems for six sales (95-Southern California, 110-Central Gulf of Mexico, 109-Chukchi Sea, 112-Western Gulf of Mexico, Supplemental 1, and 97-Beaufort Sea; (3) preparation of exploration and development reports for seven sales (91-Northern California, 96-North Atlantic, 117-North Aleutian Basin, 113-Central Gulf of Mexico, 114-Gulf of Alaska Basin, 116-Eastern Gulf of Mexico, and 115-Western Gulf of Mexico; and (4) the determination of area of hydrocarbon potential for seven sales (121-Mid-Atlantic, 118-Central Gulf of Mexico, 120-Norton Basin, 119-Central California, 122-Western Gulf of Mexico, 101-St. George Basin, and 117-North Aleutian Basin).

For FY 1986, funding available for reimbursement of processing costs of geologic and geophysical (G&G) data was reduced from the estimated requirement of $4.914 million to $2.9 million (a decrease of $2.014 million). The proposed increase of $0.9 million in FY 1987 is, therefore, necessary to: (1) purchase a portion of G&G data gathered under permits issued prior to FY 1986 which could not be acquired by the government within the reduced FY 1986 funding level; and (2) allow additional acquisition of pre FY 1986 G&G data due to the declining availability of data collected during FY 1986. It is noteworthy that a decline of 25 percent in G&G permit activity occurred during FY 1985. This trend of decreasing exploration activity has been accompanied by a significant increase in reprocessing of older data.

The FY 1987 budget request includes: $2.0 million to cover reimbursement for data reproduction, special processing requested by MMS, and acquisition of G&G data not available under permit to support litigation, Section 8(g) actions, and boundary disputes; and $3.8 million for reimbursement costs for data acquired under permits issued prior to FY 1986. This represents an increase of $0.9 million from the FY 1986 level of $2.9 million available for reimbursing industry for data processing costs.

<u>Decreased activity in Oil and Gas leasing: (-$727,000, -20 FTE)</u>

A programwide reduction of 20 FTE is proposed as a result of the development of priorities for the workload in the oil and gas leasing program and decreased activity indicated by industry. A projection of the workload resulting from the proposed 5-year oil and gas leasing schedule combined with program efficiencies and restructuring will permit further workload savings.

Resource studies have been conducted in most OCS planning areas to support prelease and leasing decisions. The need for new initiatives in frontier areas has been reduced as a result of diminished interest as indicated by projected industry exploration plans. During FY 1987, program activities will focus on areas of higher industry interest and will be reduced in planning areas for which little industry interest has been indicated.

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

The proposed reduction in FTE employment will be primarily accomplished through limiting new hires and delaying the replacement of employees leaving the Service.

<u>Decreased activity in Strategic and International Minerals (-$450,000)</u>

In the Strategic and International Minerals program, funding for contractual study efforts will be decreased by $450,000. The determination of OCS solid nonenergy minerals potential and commercial viability will focus primarily on the cobalt crusts, offshore Hawaii. Studies of other solid mineral commodities (carbonate sands, phosphates, placers, and construction materials) will be on a reduced scale as a result of a reassessment of priorities and a reduction of program activities resulting from projections of industry interest.

Distribution of change by object class

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

	Amount ($000)
Personnel Compensation	-609
Personnel Benefits	-93
Travel	-19
Supplies and Materials	-6
Other Services:	
Strategic & International Minerals	-450
G&G Data	+900
Total	-277

Justification of Program and Performance

Activity: Outer Continental Shelf Lands
Subactivity: Regulatory Program

(Dollar amounts in thousands)

Program Elements		FY 1986 Enacted to Date	FY 1986 Adjusted Appropriation	FY 1987 Base	FY 1987 Estimate	Inc. (+) Dec. (-) from Base
Regulation of Operations 1/	($)	29,574		29,392	29,210	-182
	(FTE)	(472)		(468)	(463)	(-5)
Technology Assessment and Research	($)	1,164		1,164	864	-300
	(FTE)	(5)		(5)	(5)	(--)
Oil and Gas Information	($)	1,164		1,164	864	-300
	(FTE)	(7)		(7)	(7)	(--)
Total Requirements	($)	31,902	30,530	31,720	30,938	-782
	(FTE)	(484)	(484)	(480)	(475)	(-5)

Gramm-Rudman-Hollings Impact

(In thousands of dollars)

Subactivity	FY 1986 Enacted to Date	P.L. 99-177 Reduction	FY 1986 Adjusted Appropriation
Regulatory Program	31,902	-1,372	30,530

As a result of the reductions mandated in the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177), the following actions may be taken:

- o Staff levels will be reduced through attrition, as a result of consolidating regional office permit review staffs in the Gulf of Mexico.
- o Reports and indices will be published less frequently, while still meeting mandated reporting requirements set by law.
- o The level of independent research will be reduced in lieu of more participation in industry projects.

1/ Includes prior year element, Reserve Inventory.

Authorizations

43 U.S.C. 1331-1343 P.L. 83-212	The Outer Continental Shelf Lands Act of 1953, as amended, extended the jurisdiction of the United States to the Outer Continental Shelf and provided for granting of leases to develop offshore energy and minerals.
43 U.S.C. 1801 P.L. 95-372	The Outer Continental Shelf Lands Act Amendments of 1978 reaffirmed the established policy for the management of oil and gas in the Outer Continental Shelf, including coordination and consultation with affected State and local governments, the preparation of an environmental assessment for each plan, the development and maintenance of estimates of Federal Outer Continental Shelf (OCS) oil and gas reserves, and providing information to the affected States.
33 U.S.C. 1101-1108 P.L. 89-454	The Coastal Zone Management Act of 1972, Section 307(C.3) established consistency provisions for certification that proposed activities affecting land or water uses in the coastal zone of an affected State complies with that State's management program.

Objectives

- o Regulate and supervise OCS oil, gas and nonenergy minerals exploration, development, and production operations in a manner that ensures protection of the environment, protection of the natural resources, and prompt and efficient exploration and development.

- o Provide a comprehensive technological base for the supervision of leasehold operations, including the use of best available and safest technologies (OCSLAA Sec. 21(b)). Provide timely technical data for determination of reliability and risk associated with OCS operations.

- o Conduct and maintain an inventory of oil and gas reserves on OCS leases.

- o Provide information concerning OCS oil and gas and other mineral activities to affected State and local governments.

The Regulatory Program consists of several component elements: Regulation of Operations; Technology Assessment and Research; and Oil and Gas Information.

Regulation of Operations

Objectives

- o Assuring a safe and pollution-free environment through careful supervision of the management of activities such as exploration, development, and production operations, the transportation of production to shore, and pipeline design and maintenance.

- o Identifying and reporting the cause of major fires, oilspills, deaths, or significant injuries.

- o Conducting an effective inspection and enforcement program.

- o Assuring ample opportunity for participation by affected States in the decisionmaking process during the review and approval of lessee-submitted exploration plans and development and production plans.

- o Assure that affected States are provided with copies of exploration plans and development and production plans to enable them to deal with actual and potential onshore effects of OCS activities.

- o Assure that industry personnel engaged in activities on the OCS are properly trained in safety, environmental protection, and natural resource protection.

- o Develop and maintain an accurate and timely data file of oil and gas resources.

- o Determine the maximum attainable rate (MAR) of production of crude oil and gas from significant fields on the Outer Continental Shelf.

- o Provide an analysis of whether the actual production has been less than the MAR, and, if so, the reasons for the difference.

- o Provide an estimate of the total discovered crude oil and natural gas reserves by field (including proved and indicated reserves).

- o Provide technology support to MMS operations personnel as the industry moves into the hostile frontiers of the deep oceans and ice infested Arctic.

- o Provide maximum assurance of structural integrity of production platforms, especially those located in deep waters or hostile environments.

- o Assure proper lease development and preventing waste of hydrocarbons in the reservoir through review of maximum efficient rates of production, verification of shut-in wells, reviewing requests for flaring of gas, reviewing requests for suspension of production, and evaluating opportunities for enhanced recovery.

- o Determine pricing categories for natural gas production from new leases, new reservoirs on existing leases, high cost natural gas reservoirs, and stripper wells.

- o Assure that appropriate Minerals Management Service regulations and management systems are in place to make certain that procedures for leasing and mining operations for nonenergy minerals are available.

<u>Base Program</u>

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

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

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

Oil and gas reserves are increasing in the Gulf of Mexico. Significant discoveries in deep water areas of the Gulf of Mexico are expected to continue to contribute to these reserves. Recent lease sales off the Alaskan Arctic coast will be subjects of exploration drilling during the near term. These Arctic areas are considered to be highly promising and could lead to additional economic discoveries that may result in development and production early in the 1990's.

To accomplish the regulatory program in accordance with statuatory requirements, and to assure acceptable leasehold operations, the Minerals Management Service performs a number of related tasks. These tasks are generally performed in response to lessee submitted proposals and requests and are detailed below:

Approval of Exploration and Development and Production Plans. Lessees are required to submit to the Minerals Management Service statements of offshore and onshore impacts expected to be associated with the implementation of proposed exploration plans or development and production plans (in the western Gulf of Mexico development operations coordination documents are used in lieu of development and production plans). The Minerals Management Service's Supervisor for Offshore Field Operations (S-OFO) in each region must determine the adequacy of these statements, along with the plans, and transmit copies of both documents to affected States. The States may then make comments on these documents to the supervisor who, in turn, must respond in writing to these comments. The

Minerals Management Service Offshore Minerals staff periodically reviews each plan to determine if operations are in accordance with the approved plan and appropriate results are being obtained.

Particular emphasis is placed on the postsale evaluation of geologic hazards to determine whether additional stipulations should be placed on lease exploration and development activities when lessees submit proposed exploration plans and development and production plans for approval. These geologic hazards analyses are based upon lessee-submitted high resolution surveys and other hazards data and information in support of individual applications for plan approval.

Safety and Technology. The Minerals Management Service must ascertain that the lessee proposes to use the best available and safest technologies. This is accomplished by a formal program of reviewing technologies used by the industry and conducting applied research where deemed necessary to provide technology support to MMS operations personnel. The program concentrates on operational functions, such as well control training requirements, permit and plan approvals and accident investigations. It is accomplished during the plan review and approval process and through review of current technology improvements by the Operations Technology Assessment Committees at the regional and headquarters levels. Risk analysis is currently being evaluated as a part of the Technology Assessment and Research Program element. This will determine if risk analysis can be used in the OCS regulatory process and to determine the limitations of its applicability.

Platform Structures. Lessees are required to submit for approval the design, fabrication, and installation plans for the siting of fixed platforms in deeper water or other unique settings. Such plans are reviewed by the Minerals Management Service, and each project is monitored by a third party certification or verification agent who is approved by the Minerals Management Service.

Application for Permits. The processing of Applications for Permit to Drill (APD) is ongoing and anticipated to increase. This workload is predicated on and postdates the processing of exploration/development and production plans. The APD is a much more definitive document that deals with the specific technology and engineering that an operator proposes to use in drilling a particular well, after receiving approval for an exploration plan or development and production plan.

Various other types of applications for performing work on production wells, including workovers, recompletions, and abandonments are likely to continue increasing, especially in the existing producing areas of the Gulf of Mexico. Workovers are often necessary during the life of a well to restore or increase production. Recompletion usually involves setting a cement plug and perforating the well bore in a different pay zone. Abandonments are accomplished by plugging the well and removing casing to a specified depth below the mud line. These types of activities must be reviewed and approved by MMS officials to assure that the provisions of the OSCLAA and the Department of the Interior regulations are followed.

Enhanced Recovery Operations. The analysis of enhanced recovery operations involves a technical review of operator proposals pertaining to various producing fields and reservoirs. The Gulf of Mexico is currently the largest production area within the OCS. Some, but not all, of the producing reservoirs in the Gulf of Mexico are susceptible to enhanced recovery operations. These analyses examine reservoirs and provide technical analysis and review to assure optimum recovery in mature producing areas. These efforts will continue and quite likely increase as the current and newly discovered reservoirs are produced through the various stages of their life cycle. To a degree, the economics of the oil market will play a role in the rate at which this work progresses.

Inspection of Operations. The inspection of OCS operations is a major work unit of this program. The number of inspections that are completed must be viewed in an overall context as representing a compilation of numerous checks and examinations performed by the MMS Inspectors. Some of the inspections conducted may take as long as 30 hours or more to complete. These are highly technical in nature and consist of the inspection of a number of small individual items that in the aggregate state the overall condition and compliance record of the particular operation being examined. The inspection program has provided significant results in assuring both safe operations on the OCS as well as assuring that environmental concerns are protected.

In late FY 1984, the MMS approved the Offshore Inspection Program Handbook. The Handbook requires that documented procedures be developed for all aspects of the inspection program. In addition, the Handbook requires the establishment of a formal "Internal Review" process so that all elements of the MMS offshore inspection program are reviewed at least annually. With the establishment of the formal documented program and the Internal Review followup, the MMS inspection program will be implemented in a more consistent and effective manner on a national basis. Full implementation of this program will be completed in FY 1986.

Oilspill Containment and Cleanup Activities. The Minerals Management Service is a member of an Interagency Committee (including the Canadian Government) which funds the evaluation of oilspill containment and cleanup equipment and methods. Testing is conducted both offshore and at the Oil and Hazardous Materials Simulated Environmental Test Tank (OHMSETT) facility under open ocean and broken ice conditions. Information is used to quantify the effectiveness of manufactured equipment and alternative methods and is provided to MMS managers to assist in the evaluation of oilspill contingency plans which must be developed by industry.

Reserve Inventories

The Reserve Inventory Program was initiated in FY 1977 to develop and maintain accurate, up-to-date estimates of Federal OCS oil and gas reserves in developing and developed fields. This program was later mandated by the OCS Lands Act Amendments of 1978 (OCSLAA) (PL 95-372 Section 606(d)(2)). Reserve inventories are generated from well and reservoir data supplied by leasehold operators. Data are tabulated by individual field, reservoir, and lease holdings. A computerized storage and retrieval system, referred to as the Field and Reservoir Reserve Estimates (FRRE), has been developed to accomplish the detailed information analyses required in this program. This system updates estimates and provides current reserve statistics for publication.

The information from field and reservoir analysis and mapping directly supports the supervision of field and reservoir development, including production rate control, approval of drilling permits, unitization considerations, and geological and engineering data for lease offering evaluation.

The program includes developing estimates of the reserves for new field discoveries as well as updating information on the remaining reserves in those fields previously inventoried. Additional geologic, engineering, and production data are periodically obtained and utilized in accomplishing this work.

Selected program outputs for Regulation of Operations are:

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate	Inc. (+) or Dec. (-)
Inspections	14,633	15,142	15,300	+158
Exploration/Development and Production Plans Processed	1,129	1,132	1,200	+68
Applications for Permit To Drill Processed	1,375	1,420	1,452	+32
Platform Installation Applications Processed	231	234	244	+10
Pipeline Applications Processed	1,869	1,865	1,870	+5
Production Rate Control (MER,MPR,MAR).	15,100	15,152	15,205	+53
NGPA Category Determinations	731	742	753	+11
Commingling Agreements	131	164	167	+3
Unitizations and Other Agreements Processed	508	509	510	+1
Review Development Activities/ Lease Drainage	209	254	258	+4
Accident Investigations	73	78	80	+2
Applications for Workover, Recompletion, and Abandonments	10,040	10,551	10,565	+14
Suspensions of Production	228	297	295	-2
Enhanced Recovery Operation Analyses.	7	9	9	--
Gas Flaring Approvals	460	468	474	+6
Verification of New Platforms........	158	170	177	+7
Examinations and Verifications of Shut-In Wells	2,558	2,567	2,678	+111
Civil Penalty Proceedings	7	8	7	-1
Well Control School Certification Activities	50	75	90	+15
Water Survival Training Actions	15	30	30	--
Inspector Training Program Activities.	3	4	43	+39
Field Reserve Estimates..............	95	95	95	--

Decrease from 1987 Base

(Dollar amounts in thousands)

	FY 1987 Base	FY 1987 Estimate	Difference
($)	29,392	29,210	-182
(FTE)	(468)	(463)	(-5)

During FY 1987, MMS will enter its sixth operating year. The agency's experience in regulation of offshore operations, coupled with ongoing program and management initiatives has resulted in a more efficient organization that can better utilize available personnel and program resources. Consolidation of regional office permit staffs in the Gulf of Mexico allows for a proposed reduction of $182,000 and 5 FTE. The Regulatory Program will continue to maintain each work unit at the same level as before in accordance with the provisions of the Outer Continental Shelf Lands Act, as amended, and the Coastal Zone Management Act, as amended.

Distribution of change by object class

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

	FTE	Amount ($000)
Personnel Compensation........................	-5	-155
Personnel Benefits		-27
Total		-182

Technology Assessment and Research (TA&R)

Objectives

- o To conduct independent review of OCS technologies to identify technology gaps and to assure the use of the Best Available and Safest Technologies (OCSLAA Section 21(b)-BAST). The program provides industry and Minerals Management Service personnel a continuing exchange of information on operational technologies.
- o To provide a single point technical source within the Minerals Management Service for other Federal agencies which have special proficiencies in the various offshore technologies.
- o To recognize and evaluate the various levels of operational risk involved in the development of OCS minerals.
- o To assist in the development of technical and operational requirements for leaseholders to assure safe, pollution-free operations. These requirements are incorporated in OCS orders, regulations, and the conditions for granting permits.

Base Program

Offshore operations conducted by oil and gas lessees and monitored by the Minerals Management Service are becoming increasingly involved in pioneering efforts in a number of complex technologies as exploration and production operations move into deeper and more hostile marine environments of the open oceans and the ice infested Arctic. The Technology Assessment and Research Program provides a comprehensive technological base for the Minerals Management Service in the supervision of leasehold operations. This support is stated within the OCS Lands Act Amendments of 1978 (OCSLAA), Section 21, that requires the use of the Best Available And Safest Technologies (BAST) on all offshore operations. The program also provides timely technical data for the determination of reliability and risks associated with equipment or design features on leasehold operations.

The Technology Assessment and Research Program operates through contracts with universities, private firms, and government laboratories. It takes advantage of participatory or collaborative studies with industry, other agencies, and with other countries such as Canada, the United Kingdom, and Norway, where similar operations, programs, and concerns exist.

Examples of activities and accomplishments include:

1. The development of improved blowout prevention procedures for deepwater drilling operations.

2. Collaboration with Canadian and Norwegian Governments on the development of subsea collection technology for oil emanating from blowing wells. Preliminary work on the "Steel Sombrero" concept used on the IXTOC-I blowout in Campeche Bay, Mexico, 1979, has led to new concepts applicable to under ice collection and to conditions where excess gas could render the original "Sombrero" system ineffective.

3. Development of data to provide vibrational fatigue (strumming) information concerning marine risers and compliant structures situated in high current regions of the ocean. This information is being used to critique leaseholders' operation plans in frontier areas.

4. Development, in collaboration with industry, of a program to obtain technical information to verify structural integrity for structures subjected to ice loadings in the Beaufort Sea.

5. Determination that an operational failure of a mooring system was based on a design which used insufficient data and an inadequate computer program. New studies are directed toward providing Minerals Management Service personnel with adequate guidelines to determine reliability of operator proposals for mooring systems.

6. Oilspill containment and clean-up technologies are being investigated in collaboration with North Sea and Canadian Government agencies. These projects supplement the evaluation of equipment described in the base program.

7. Investigations on the behavior of spilled oil in a range of conditions for development of a predictive base relative to what will be encountered as a result of a spill. This program correlates closely with item 6 above.

8. Conducts international workshops on issues such as the application of risk assessment for offshore operations.

Selected program outputs for the Technology Assessment and Research program are:

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate	Inc. (+) or Dec. (-)
Technological Investigations	11	11	9	-2
Technological Assessments	2	3	3	--
Technology Seminars Conducted	2	2	2	--
Technical Reports Published	2	1	1	--

Decrease from 1987 Base

(Dollar amounts in thousands)

	FY 1987 Base	FY 1987 Estimate	Difference
($)	1,164	864	-300
(FTE)	(5)	(5)	(--)

The Technology Assessment and Research (TA&R) Program provides the formal technology base for use by the Department of the Interior for the proper and timely management of leasing and mineral operations on the OCS. A large number of studies have been completed over the past several years which have greatly expanded the technical and engineering information available to the Offshore Regulatory Program. This reduction is proposed as a result of the expanded data base available and will be implemented by narrowing the range of topics which will be addressed and by reducing the scope of some studies.

The following general guidelines will be applied:

1. Analyses of subject areas will be less intensive; project report writing and distribution will be reduced.

2. MMS independent confirmatory research will be decreased, but efforts will be made to maximize participation in industry projects.

By adopting the above actions, and by maximizing MMS participation in industry projects, the TA&R Program will maintain its support to the Regulatory Program and its technical dialogue with the industry, thereby assuring continuity in fulfilling the Program's objectives.

Distribution of change by object class

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

	Amount ($000)
Other Services	-300

Oil and Gas Information

Objectives

- Update regional Indexes to reflect new activity, as well as the 5-year OCS Oil and Gas Leasing Schedule. Each regional Index will contain a revised directory.

- Provide affected States with revisions to Summary Reports in the Atlantic, Gulf of Mexico, Pacific, and Alaska lease sale areas.

Base Program

The Oil and Gas Information Program is required by Section 26 of the OCSLAA of 1978. The Amendments and subsequent regulations (30 CFR Part 252) require that the Minerals Management Service provide governors of affected States and, upon request, executives of affected local governments and other interested parties, data and information in the form of Summary Reports and Indexes. The Summary Reports and Indexes are provided to aid States and local governments in planning for onshore impacts of OCS development and production operations. The Summary Reports and the Regional Indexes are updated annually.

Summary Reports and Indexes provide data designed to assist State and local governments in planning for the potential onshore impacts of possible oil and gas exploration, development, and production. These data are not as detailed as the Environmental Impact Statement (EIS) or Environmental Assessment (EA) documents which precede these publications, but the Summary Reports and Indexes provide the State and local government entities with more recent information. Since they appear after the lease offering, the documents concentrate on the actual leased areas rather than offered areas.

Coastal States use the Summary Reports and Indexes in differing ways depending on the level of OCS activity and the level of their own expertise. However, all States report that they rely on the Summary Reports for information and history as well as descriptions of future plans and ongoing activities. The Oil and Gas Information Program documents provide the only comprehensive OCS data and information source that is updated on a regular basis. Unlike the Environmental Impact Statements that project what might happen, at one point in the process, the Summary Reports and Indexes provide planners with a continuing overview of OCS activity and enable them to incorporate the information in their own planning processes. The Summary Report contains current information on operations, transportation strategies, and onshore facilities that are actually proposed as well as those already in the permitting process.

Selected Oil and Gas Information Program outputs are:

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate	Inc. (+) or Dec. (-)
Annual Update of Regional Indexes and Summary Reports --------	12	8	4	-4

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

Decrease from 1987 Base

(Dollar amounts in thousands)

	FY 1987 Base	FY 1987 Estimate	Difference
($)	1,164	864	-300
(FTE)	(7)	(7)	(--)

The proposed decrease in the Oil and Gas Information Program is made possible by consolidating program outputs. Regional Summary Reports and Regional Indexes have historically been published separately. Since the information in these reports is often distributed to many of the same users, it has been determined that the two publications can be combined. By implementing this change the number of reports will be reduced from eight (plus revisions) to four documents per year--one for each region. Since the reports are prepared primarily through contract support, annual savings of $300,000 can be realized through this management action. Support and information available to the public will continue to meet all statutory requirements.

Distribution of change by object class

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

	Amount ($000)
Other Services..............................	-300

Activity Summary

Activity: Royalty Management

(In thousands of dollars)

Subactivity	FY 1985 Actual	FY 1986 Appro-priation Enacted	FY 1986 Adjusted Appro-priation	FY 1987 Base	FY 1987 Estimate	Inc.(+) Dec.(-) from Base
Mineral Revenue Collections	12,294	15,079	14,370 1/	14,893	14,893	--
Mineral Revenue Compliance	10,050	10,463	10,013	10,382	10,382	--
Systems Development and Operation	16,524	19,448	18,612	19,434	17,234	-2,200
Total	38,868	44,990	42,995 1/	44,709	42,509	-2,200

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

Figure 4 is a flowchart of the major functions of the Royalty Management Program. All accounting operations are located in the Lakewood Accounting Center to provide efficiency and economies of scale in the collection process and to assure consistent guidance to lessees and operators. However, functions are clearly separated to provide essential counterchecks for proper internal control (see Mineral Revenue Collections subactivity). Auditors are located geographically close to major workload areas to provide a more efficient audit capability (see Mineral Revenue Compliance subactivity). A systems function is responsible for the development, operation, and maintenance of the complex automated systems (see Systems Development and Operation subactivity).

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

- Relocation of the headquarters for Royalty Management from Washington, D.C., to Lakewood, Colorado, to place the decisionmaking authority geographically closer to the States, Indians, and industry with the resources to promptly address their concerns.

1/Reflects a realignment of an ADP security function ($63,000 and 1 FTE) from Royalty Management to General Administration.

- Expansion of the RMP Office of External Affairs, appointment of an Indian Ombudsman, and development of a comprehensive Outreach Program.

- Establishment of a Royalty Management Advisory Committee to assure external oversight and advice.

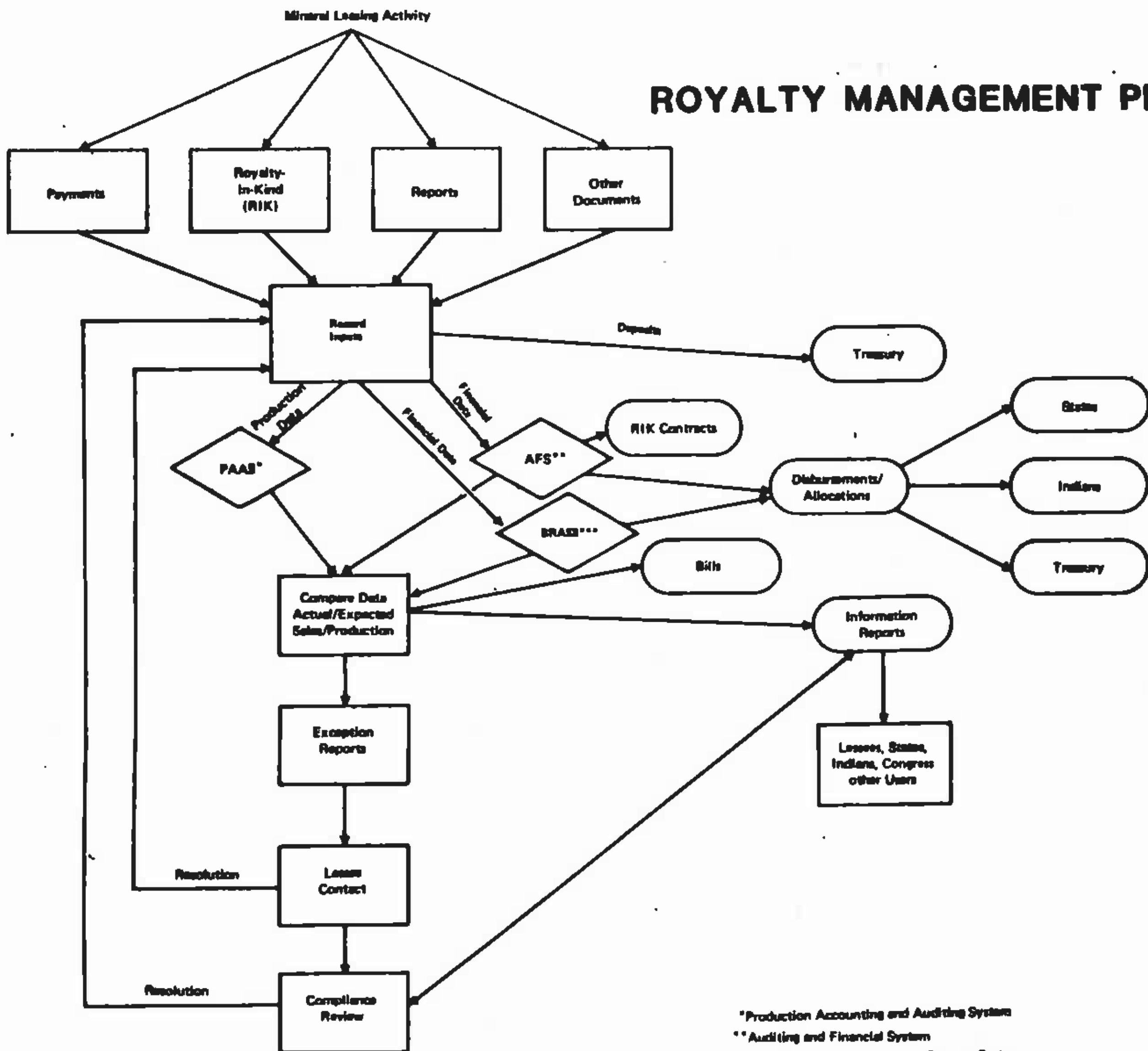
- Development of standards for funding of activities under Sections 202 and 205 of the Federal Oil and Gas Royalty Management Act (FOGRMA).

- Installation of new computer hardware and reimplementation of the Auditing and Financial System (AFS) onto the new hardware.

- Purging and purifying the AFS data base and concurrent realignment of the RMP staff to maintain AFS data base information on a lease or payor basis.

- Establishment of access for States and Indian tribes to MMS data systems. First, access to AFS will be provided by April, 1986. Then, PAAS and the Bonus and Rental Accounting Support System (BRASS) access will be provided upon the migration of their data bases to the new system.

ROYALTY MANAGEMENT PROGRAM



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

FIGURE 4

Justification of Program and Performance

Activity: Royalty Management
Subactivity: Mineral Revenue Collections

(Dollar amounts in thousands)

Subactivity	FY 1986 Enacted To Date	FY 1986 Adjusted Appro-priation	FY 1987 Base	FY 1987 Estimate	Inc. (+) Dec. (-) from Base
Mineral Revenue ($) Collections (FTE)	15,079 (316)	14,370 1/ (315)	14,893 (312)	14,893 (312)	-- (--)
Total ($) Requirements (FTE)	15,079 (316)	14,370 1/ (315)	14,893 (312)	14,893 (312)	-- (--)

Gramm-Rudman-Hollings Impact

(In thousands of dollars)

	FY 1986 Enacted To Date	P.L. 99-177 Reduction	FY 1986 Adjusted Appropriation
Mineral Revenue Collections	15,079	-646	14,370 2/

As a result of the reductions mandated in the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177), the following actions will be taken:

- Reduction in contractual support for exception processing.
- Reduction in the size and scope of a contract for general accounting and systems advice.

Through the exception processing contract, the Minerals Management Service compares what a payor reports and pays to what the system expects the payor to report and pay. The decrease in exception processing resources will significantly reduce anticipated FY 1986 revenue collections from the review of 1983 and 1984 payments. It may be possible to cover the costs of exception processing for this period in a later fiscal year. As part of its Management Action Plan, the Royalty Management Program plans to contract with a major accounting/auditing firm for expert accounting and systems advice. However, this contract will be performed at a reduced level.

1/Reflects a realignment of an ADP security function ($63,000 and 1 FTE) from Royalty Management to General Administration.
2/Does not add across due to the realignment of $63,000.

Authorizations

30 U.S.C. 181, et seq. P.L. 66-146	The Mineral Lands Leasing Act of 1920, as amended, provides for classification and leasing of coal, oil, oil shale, natural gas, phosphate, potassium, sulfur, and sodium and the payment of bonuses, rents, and royalties on such leases.
43 U.S.C. 1331, et seq. P.L. 83-212	The Outer Continental Shelf Lands Act of 1953, as amended, extended the jurisdiction of the United States to the Outer Continental Shelf; provided for granting of leases to develop offshore energy and minerals; and provided for bonuses, rents, and royalties to be paid in connection with such leases.
30 U.S.C. 1001, et seq. P.L. 91-581	The Geothermal Steam Act of 1970 authorizes the Secretary to issue leases for the development of geothermal energy and provides for receipt sharing with the States.
30 U.S.C. 181, et seq. P.L. 97-78	The Combined Hydrocarbon Leasing Act of 1981 provides for combined hydrocarbon leases and receipt sharing with the States for such leases within their boundaries.
30 U.S.C. 1701, et seq. P.L. 97-451	The Federal Oil and Gas Royalty Management Act of 1982 provides for comprehensive fiscal and production accounting and auditing systems to provide the capability to accurately determine oil and gas royalties, interest, fines, penalties, fees, deposits, and other payments owed, and to collect for such amounts in a timely manner.

Mineral Revenue Collections

Objective

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

Base Program

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

In addition, this subactivity provides funds for the Royalty-In-Kind (RIK) Program, which was instituted to provide a long-term secure supply of crude oil at a reasonable price to small, independent refiners. MMS has extended all offshore RIK contracts to July 1, 1986. Also, starting in 1985, MMS began charging a fee to recover the administrative costs of the RIK Program on all new and extended contracts. The fees recovered in this manner are deposited in the General Fund of the Treasury Department. With each contract extension or new sale, the RIK contracts will be amended to include a new article containing the agreement that an administrative fee will be charged and paid. By January 1, 1987, all RIK contracts will contain the fee provision, and the Treasury will recover one-twelfth of program costs each month.

Accurate and efficient collection of royalties is an important matter of equity and good government. In FY 1987, it is estimated that the Royalty Management Program will collect and account for approximately $6.6 billion in mineral leasing revenues. Undercollection of current royalties due can result in losses of millions of dollars to the Federal Government, States, and Indian tribes. The Royalty Management Program has been developed to minimize potential undercollections and will continue to work toward increasing the efficacy of collection and reporting mechanisms in FY 1987.

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

- Corporate consolidations and mergers have significantly increased the number of lease reassignments. This in turn has impacted the reference database maintenance workload by requiring additional revisions to the payor information forms.

- The number of energy companies ceasing business operations has increased substantially. The RMP must assure that the Government's interest is protected in these cases and that all feasible steps are being taken to recover revenues due the Government.

- The restructuring of energy markets over the last 2 years has created a large number of complex ownership patterns which have complicated the royalty paying and collection process.

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

Auditing and Financial System (AFS)

This system was developed to replace the Royalty Accounting System (RAS) which had been in use for 30 years. AFS was designed to fulfill eight principal objectives: (1) Process royalties reported by the payors promptly and efficiently; (2) distribute mineral revenues to State, Indian, and General

Treasury accounts on a monthly basis in accordance with the FOGRMA; (3) calculate, distribute, and disburse interest and penalty payments to States and Indians in those instances where it is required by FOGRMA; (4) identify, using data provided by the payors, underreporting and nonreporting at a level of detail which enables MMS to effectively and quickly communicate with payors and promptly collect revenues due; (5) account for all mineral revenues due, collected, and disbursed in a system of accounts which enhances MMS's ability to control and report on the Royalty Management Program; (6) provide royalty accounting and statistical information to those parties, including State and Indian tribes, which have a need for such information; (7) build and maintain a data base which can effectively be matched with production data in the Production Accounting and Auditing System; and (8) create an automated billing process for all receivables generated by the system.

Recognizing that the present hardware was clearly undersized to meet the Department's needs in mineral revenue accounting, MMS proceeded with the procurement of a new computer. As a result, the AFS is being reimplemented on the new mainframe computer during FY 1986. The contractor responsible for the reimplementation of the AFS software recently informed MMS of a 5-month slippage from the original April 1986 completion date; however, the AFS is scheduled to be operational in the new environment by early FY 1987. Following AFS reimplementation and subsequent software enhancements, the new computer will allow the AFS to run for the first time as designed, with sufficient on-line capacity to allow for interactive error correction and file updating. In FY 1987, data in the system will also be made available to States, Indian tribes, and other Interior Department users such as the Bureau of Indian Affairs (BIA) and the Bureau of Land Management (BLM).

<u>Exception Processing</u>: In FY 1986, MMS will initiate billings for late payments, non-respondents, royalty underpayments, and insufficient estimated payments for gas from exceptions generated by the AFS. Billable exceptions are generated by comparing what a payor reports and pays to what the system expects the payor to report and pay. Although the AFS generates these exceptions each month, a manual effort is necessary to assure that a true discrepancy exists and that the royalty payor is in fact responsible for the problem. During 1985, this exception processing was performed on a limited scale totally with internal RMP staff resources. Starting in FY 1986, exception processing is being performed primarily by contractor employees from resources enacted in the FY 1986 budget. During FY 1987, MMS expects to reach the full level of funding for contractual support of exception processing anticipated in the FY 1986 budget. It is projected that exception processing could result in net revenue increases of as much as approximately $11.1 million in FY 1986 (depending on the impact of P.L. 99-177) and approximately $14.8 million in FY 1987. This additional revenue will be shared, as appropriate, with States and Indian tribes.

<u>Error Correction</u>: Significant progress has been made in reducing payor error rates in the AFS and in improving payor compliance. In FY 1986, an aggressive payor training program is being continued and the Payor's Handbook (the official guide to royalty payors on how to report to the AFS) is being rewritten. Compliance with payor requirements is also being obtained through a vigorous program of assessments and penalties (i.e., for incorrect reporting and failure to submit payor information forms) levied under the provisions of FOGRMA regulations. While the revenue from these assessments and penalties is not great, the improvement in payor compliance with paying and reporting requirements can be seen as reflected in the continuing drop in payor error rate for the AFS.

As displayed in Figure 5, the percentage of rejected fatal lines (those data lines which have errors which make it impossible to accurately disburse funds) is depicted by type of data input -- tape and other than tape -- for an 20-month period. The data shows a sharp increase in the percentage of fatal lines in the month of July 1985; however, this was attributable to a single payor submitting approximately 35,000 lines with similar errors. This action was associated with a court decision affecting Federal Energy Regulatory Commission (FERC) 93 and 93A guidelines. The general trend over this time period has been a decline in the percent of total fatal lines from 17.3 percent to 6.5 percent, or a decrease in fatal lines of over 60 percent.

Electronic Funds Transfer: MMS, in an effort to run an efficient accounting operation and realize savings to the Federal Government, initiated the use of Electronic Funds Transfer (EFT). As a result of the effectiveness demonstrated. the use of EFT for payors will be accelerated. Regulations now in place require all payors with transactions in excess of $50,000 to use EFT. Complete EFT transition for all companies that pay at the $50,000 threshold or above is planned to be completed by April 1986. The advisability of extending EFT to lower payment thresholds, in keeping with Treasury Department standards, will then be evaluated.

Selected Program Outputs Relative to the AFS are:

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate	Inc. (+) or Dec. (-)
AFS Exceptions Billings Issued	1,400	7,000	14,000	+7,000
AFS Reporting Error Corrections Completed	450,000	400,000	400,000	--
Industry Guidance - Written Verbal/Visits/Inquiries	51,000	51,000	51,000	--
Checks Deposited	43,000	42,000	40,000	-2,000
Payor Information Forms Processed (New and Revised)	36,600	36,600	42,000	+5,400 1/
EFT Messages Received	2,750	4,000	4,600	+600

Production Accounting and Auditing System (PAAS)

The Royalty Management Program's automated production accounting system (PAAS) is designed to accomplish the following objectives: (1) Compare production volumes against sales data and identify exceptions which may indicate unpaid royalties; (2) trace mineral production from point of origin to point of sale; (3) account for all volumes produced on the lease; (4) allow MMS to control system "tolerances" so that minimal differences in sales/production data do

1/Additional workload due to the conversion to AFS of smaller, working interest owners from a single large payor.

ROYALTY REPORTING ERROR RATES BY TYPE OF DATA INPUT

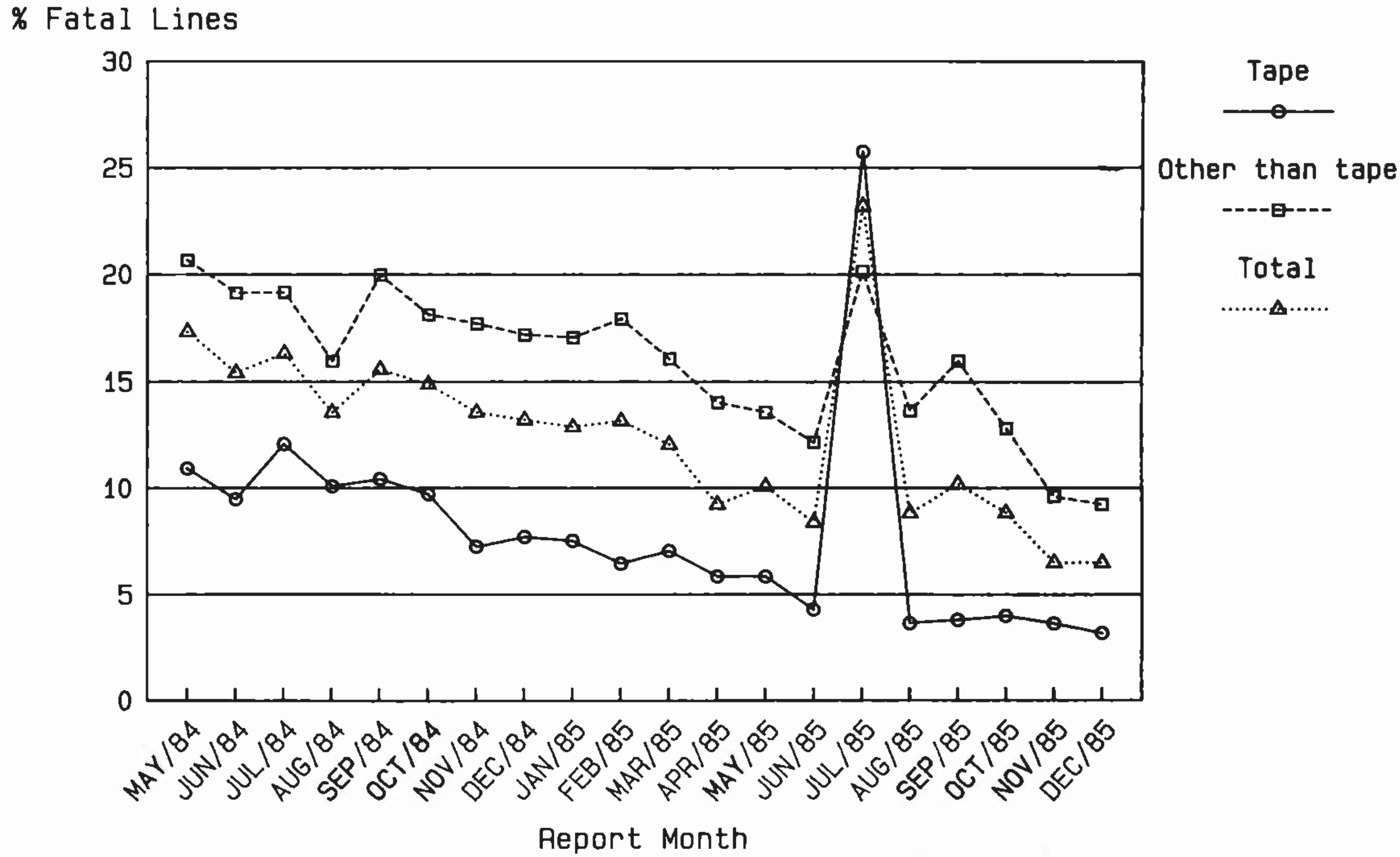


Figure 5

not generate exceptions; (5) support lease management functions by allowing MMS Offshore Regional Offices and the Bureau of Land Management (BLM) field offices to access production data from each lease; (6) provide production data on a lease-by-lease basis to States and Indian tribes; and (7) facilitate comparisons of company data (production reports) with internal data (site inspection reports).

The PAAS system became operational as a pilot program in January 1984. Currently, four groups of operators have been brought into the system: (1) the original pilot operators; (2) all offshore operators (brought into the system in February 1985); (3) all coal operators; and (4) most operators for the other solid minerals.

The conversion of the remainder of onshore Federal and Indian leases has been deferred pending the completion of a study of data collected from Federal and Indian leases. At present, the system collects data on over 75 percent of all production as measured by royalties paid. Comparisons of AFS/PAAS data are being made on a regular basis and exceptions representing differences between sales and production data are being examined and reconciled. When exceptions cannot be reconciled, the operator is being contacted to assure reports are corrected and additional royalties are paid. Through December 1985, this effort has resulted in additional royalty collections of $5 million.

It is expected that decisions on proceeding with the remaining phase of conversion to PAAS will be made during the third or fourth quarter of FY 1987.

Selected Program Outputs Relative to the PAAS are:

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate	Inc. (+) or Dec. (-)
Technical Assistance				
Operators	10	15	15	--
Other DOI Offices	10	10	10	--
Error Corrections				
Reference Document Errors	3,780	5,000	5,000	--
Operation Document Errors	25,944	36,000	36,000	--
Exception Resolution				
AFS/PAAS Comparison Exceptions	600	2,400	2,400	--
Other PAAS Exceptions	3,500	12,000	12,000	--

Bonus and Rental Accounting Support System (BRASS)

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

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

Selected Program Outputs Relative to the BRASS are:

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate	Inc. (+) or Dec. (-)
Unidentified Checks	15,600	14,000	12,000	-2,000
Delinquent Payment Follow-up	225	225	175	-50
Overpayments Researched	1,200	1,200	1,200	--
Checks Deposited	77,000	75,000	75,000	--

The PAAS and BRASS systems continue to run the same type of mini-computers originally purchased by the Minerals Management Service. The decision of possible reimplementation of either of these systems to the new mainframe has not been made.

After 3 years of operation, the RMP systems have stabilized and are performing the major functions for which they were designed. The systems have the following characteristics:

- o While payor and system error rate has continued to drop toward systems integrity levels, this has required a continued resource intensive effort on the part of RMP staff.
- o Ninety-eight percent of all dollars collected each month are disbursed within 30 days of receipt.
- o The penalty and assessment procedures contained in the FOGRMA regulations have been helpful in reducing error rates and improving payor and reporter compliance.

Justification of Program and Performance

Activity: Royalty Management
Subactivity: Mineral Revenue Compliance

(Dollar amounts in thousands)

Subactivity		FY 1986 Enacted To Date	FY 1986 Adjusted Appro- priation	FY 1987 Base	FY 1987 Estimate	Inc. (+) Dec. (-) from Base
Mineral Revenue Compliance	($) (FTE)	10,463 (200)	10,013 (200)	10,382 (198)	10,382 (198)	-- (--)
Total Requirements	($) (FTE)	10,463 (200)	10,013 (200)	10,382 (198)	10,382 (198)	-- (--)

Gramm-Rudman-Hollings Impact

(In thousands of dollars)

	FY 1986 Enacted To Date	P.L. 99-177 Reduction	FY 1986 Adjusted Appropriation
Mineral Revenue Compliance	10,463	-450	10,013

As a result of the reductions mandated in the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177), the following actions will be taken:

- o Decrease in travel funds for Royalty Compliance auditors.
- o Decrease in funding for FOGRMA Section 202/205 activities.
- o Delay in the filling of positions for the Valuation and Standards and Compliance functions.

Since much of the auditors' workload is accomplished by traveling to different audit sites, it is anticipated that the travel decrease will reduce audit effectiveness in FY 1986. Under FOGRMA Section 202/205, MMS provides funds for cooperative and delegated audits to States and Indian tribes. Funding is also provided for an Intergovernmental Personnel Act (IPA) Program. The result of the decrease in funding for these activities in FY 1986 will be a potential further loss in audit recoveries. Filling of existing position vacancies and positions that become vacant during the remainder of FY 1986 will be delayed. The resulting decrease in staff will add to the workload of the remaining employees.

Authorizations

30 U.S.C. 181, *et seq.* P.L. 66-146	The Mineral Lands Leasing Act of 1920, as amended, provides for classification and leasing of coal, oil, oil shale, natural gas, phosphate, potassium, sulfur, and sodium and the payment of bonuses, rents, and royalties on such leases.
43 U.S.C. 1331, *et seq.* P.L. 83-212	The Outer Continental Shelf Lands Act of 1953, as amended, extended the jurisdiction of the United States to the Outer Continental Shelf; provided for granting of leases to develop offshore energy and minerals; and provided for bonuses, rents, and royalties to be paid in connection with such leases.
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30 U.S.C. 1701, *et seq.* P.L. 97-451	The Federal Oil and Gas Royalty Management Act of 1982 provides for comprehensive fiscal and production accounting and auditing systems to provide the capability to accurately determine oil and gas royalties, interest, fines, penalties, fees, deposits, and other payments owed, and to collect for such amounts in a timely manner.

Mineral Revenue Compliance

Objectives

- To provide accurate and effective product value guidance to royalty payors which will better assure that royalties paid on all products removed from Federal and Indian lands are in accord with law and regulation.

- To assure that those who report and pay to MMS are in compliance with statutes and regulations governing royalty payments and that revenue due from mineral production on Federal and Indian lands has been properly reported and paid.

Base Program

The Mineral Revenue Compliance subactivity consists of two major functions: (1) Valuation and Standards and (2) Compliance.

The Royalty Valuation and Standards function is responsible for providing the technical support needed by the Royalty Management Program to assure that royalties are being calculated on the fair market value of minerals produced on Federal, Indian, and Outer Continental Shelf Lands.

The Royalty Compliance function performs continuing audits of lessee and payor activities; resolution of exceptions noted through the automated royalty management systems; and special audits and reviews in support of Minerals Management Service (OCS) and Bureau of Land Management lease management activities. Audit activities delegated to States or carried out under the provisions of FOGRMA are monitored to assure that audit work is being performed in accord with consistent standards and applicable regulations and statutes.

Valuation and Standards

Royalty payments due are determined by the value of the commodity produced and the level of production reported on the lease. In the past, the product value set by industry--normally the sales price--was usually accepted as fair market value for royalty purposes. (This is also standard private practice.) The value of the commodity, however, cannot always be determined by the reported sales price. Several factors add to the complexity in determining the value of the commodity sold, such as: Vertically integrated companies selling to themselves; Government price controls; long-term sales contracts; complicated marketing agreements; and complex relationships among the various owners and operators of producing leases. As a result of these complexities, new product value regulations for all major royalty bearing products are under development. These will require individual interpretation in site specific cases resulting in a large number of valuation determinations. Workload in this area has continued to increase over the past 2 years.

Most actions taken by the Product Value staff are official actions of the agency, subject to administrative review through the appeals process. The table below estimates workload to be accomplished by the Valuation and Standards Division in FY 1986 and 1987.

Selected Program Outputs for Valuation and Standards are:

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate	Inc. (+) or Dec. (-)
Valuation Determinations	166	170	170	--
Advice and Assistance	293	300	300	--
Processing Allowance Applications Reviewed	273	290	290	--
Transportation Allowance Applications Reviewed	309	325	325	--
Appeals of Royalty Valuation Determinations	35	40	40	--

Compliance

Since the inception of the MMS audit program in October 1981, about $216 million has been recovered in previously unpaid or underpaid royalties. In the 61 years prior to that time, audit collections totaled $33.6 million, less than one quarter of 1 percent of all the royalties paid during that period.

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

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

Residency Audits

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

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

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

By the beginning of FY 1987, RMP will have residency audits in place at the 13 largest royalty payors responsible for the payment of 75 to 80 percent of all royalties. The major focus of the residency program has been on the follow-up to findings contained in the lookback audit reports. To date, over $10.1 million in lookback audit findings have been collected. The resident audit force also reviews refund requests from the company. During FY 1987, it is expected that the residency audits will begin to focus on exceptions emanating from the AFS and PAAS systems.

State and Tribal Audit Activities

By the end of FY 1985, eight States (Alaska, California, Colorado, Montana, Oklahoma, North Dakota, Utah, and Wyoming) had executed delegated audit agreements under the provisions of Section 205 of FOGRMA. One Indian tribe, the Navajo, has executed an agreement under the provisions of Section 202.

These audit activities are expected to continue through FY 1987. In addition, two other tribes, the Southern Utes and the Jicarilla Apaches and the State of New Mexico have non-funded cooperative audit activities underway with RMP. In all instances, audit work is performed by the State and tribal auditors under standards developed by MMS. Enforcement action is reserved to MMS staff who take action on the basis of the audit work done by the States and tribes.

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

Funding criteria to distribute funds under Sections 202 and 205 are planned to be developed for use in FY 1986 and subsequent fiscal years.

Exception Resolution

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

Litigation Support

Litigation support is an increasing compliance workload factor which continues to grow due to the testing in court of MMS positions expressed in demand letters, implementing regulations of FOGRMA, and production valuation guidelines. Litigation support entails staff-hour intensive efforts such as responding to requests for documents, preparing responses to interrogatories, gathering statistical royalty data, preparing position papers in defense of the Government's position in appeals and legal actions, and preparing for and undergoing deposition. It is estimated that litigation support will be necessary for 140 cases during FY 1987, many of which will involve new or unique issues.

Referrals and Requests from other Organizations

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

Indian Audits

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

The compliance function is presently devoting over 20 staff years to Indian audit activities (exclusive of litigation support and account reconciliation activities) and the resources devoted to this area are expected to increase during FY 1987. The following specific items make up the Indian audit workload.

- Audits of royalties paid on tribal lands.

- Individual allottee audits to determine that allottees have received their proper allotment of royalties.

- Joint venture audits to determine that the payout from joint tribal/industry arrangements is proper.

The Indian Self Determination Act of 1975, as well as FOGRMA, have increased MMS's audit workload. In addition, a particularly sharp increase in Indian allottee audits has occurred during FY 1985 and is expected to continue to increase during FY 1986 and 1987. Joint venture audits are also time-consuming and complex since most joint venture contracts contain unique terms which require the application of special audit techniques.

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

Selected Program Outputs for the Compliance function are:

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate	Inc. (+) or Dec. (-)
Residency Audits	13	13	13	--
Company Audits	12	12	17	+5

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate	Inc. (+) or Dec. (-)
Lease/Unit Audits	57	50	60	+10
Exception Resolution Resulting in:				
- Company Audits	--	9	10	+1
- Lease/Unit Audits	--	12	15	+3
Litigation Support (Caseload)	108	120	140	+20
Cooperative Audits				
- Section 202 of FOGRMA	1	1	1	--
- Unfunded Cooperative	3	3	3	--
Delegated Audits	8	8	8	--

The increases in program outputs in FY 1987 will be accommodated through redirection from within the Royalty Compliance Program base. In FY 1987, it is anticipated that the workload associated with account reconciliation, OIG lookback audit resolution, and FERC 93/93A refund requests will be reduced. The resource savings realized will then be redirected to company audits, lease/unit audits, and litigation support.

Justification of Program and Performance

Activity: Royalty Management
Subactivity: Systems Development and Operation

(Dollar amounts in thousands)

Subactivity		FY 1986 Enacted To Date	FY 1986 Adjusted Appropriation	FY 1987 Base	FY 1987 Estimate	Inc. (+) Dec. (-) from Base
Systems Development and Operation	($)	19,448	18,612	19,434	17,234	-2,200
	(FTE)	(76)	(76)	(76)	(76)	(—)
Total Requirements	($)	19,448	18,612	19,434	17,234	-2,200
	(FTE)	(76)	(76)	(76)	(76)	(--)

Gramm-Rudman-Hollings Impact

(In thousands of dollars)

Subactivity	FY 1986 Enacted To Date	P.L. 99-177 Reduction	FY 1986 Adjusted Appropriation
Systems Development and Operation	19,448	-836	18,612

As a result of the reductions mandated in the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177), the following actions will be taken:

- o Reduction in the operations and maintenance contract.
- o Decrease in the procurement of user hardware for the new mainframe computer.

The reduction to the operations and maintenance contract will result in a decrease in funding for system changes/enhancements for RMP's three operating systems. Because of the cuts, RMP will postpone all but the most critical of these improvements, resulting in diminished system effectiveness and user productivity. When MMS entered into the contract to procure the mainframe computer and reimplement the Auditing and Financial System (AFS) onto it, the intention was to expand AFS usage by allowing on-line access for activities such as error corrections, audit inquiries, and management information. The decrease in the procurement of computer terminals and printers for the new system will also affect user efficiency and system usage.

Authorizations

30 U.S.C. 181, et seq. P.L. 66-146	The Mineral Lands Leasing Act of 1920, as amended, provides for classification and leasing of coal, oil, oil shale, natural gas, phosphate, potassium sulfur, and sodium and the payment of bonuses, rents, and royalties on such leases.
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30 U.S.C. 1001, et seq. P.L. 91-581	The Geothermal Steam Act of 1970 authorizes the Secretary to issue leases for the development of geothermal energy and provides for receipt sharing with the States.
30 U.S.C. 181, et seq. P.L. 97-78	The Combined Hydrocarbon Leasing Act of 1981 provides for combined hydrocarbon leases and receipt sharing with the States for such leases within their boundaries.
30 U.S.C. 1701, et seq. P.L. 97-451	The Federal Oil and Gas Royalty Management Act of 1982 provides for comprehensive fiscal and production accounting and auditing systems to provide the capability to accurately determine oil and gas royalties, interest, fines, penalties, fees, deposits, and other payments owed, and to collect for such amounts in a timely manner.

Systems Development and Operation

Objectives

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

Base Program

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

Planning, designing, and installing new software systems.

Royalty Management has three major operating systems. Although these systems and their functions are described in the Royalty Collections subactivity, the design, development, installation, maintenance, and hardware operations of these systems is provided for in this subactivity.

After the AFS began operation in FY 1983, it became evident that the mini-computer configuration initially purchased to handle both the AFS and PAAS would be inadequate. Hence, after a 2-year procurement process a contract was awarded in April 1985 to install a new mainframe computer and to reimplement the AFS applications software on the new computer. The leasing costs associated with the new computer are included in the FY 1987 base.

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

All three RMP systems continue to need enhancement and software modification as the systems operate in the production mode. In the case of the AFS, the system will have been "frozen" for 19 months during the software reimplementation process. Many user changes were pending at the time the reimplementation process started and many other improvements have been identified since. It is estimated that over 300 enhancements to the AFS will be ready to be made when the AFS becomes operational in the mainframe environment. These enhancements will be assigned priorities and made ready for development. Most of the changes will improve the production cycle or produce reports in the mainframe operating environment which were not possible on the mini-computer configuration.

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

A major element of the Royalty Management Action Plan was to improve access of States and Indian tribes to data available on the MMS systems. By about April 1986, AFS data will be made available to States and Indian tribes from State or tribal leases. Equipment will be provided to selected Indian tribes and States to allow interaction with the MMS computer. Training will be provided so that full use of the data can be realized. Funding for this effort initiated in FY 1986 has been reduced in FY 1987 (see decrease statement). The remaining funding is required to cover the costs of telecommunications and system operation and maintenance.

Operating and maintaining the systems.

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

- o Computer operations - Computer operations will be performed in two environments during FY 1987. The mainframe computer will run the AFS software, while a mini-computer configuration will run the PAAS and BRASS software.

- o Data entry - Data entry and data validation services for all three systems.

- o Software maintenance - Maintenance of all applications code and support systems code, systems testing and the installation of fully tested software into the production mode.

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

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

Determining, obtaining, and installing necessary hardware.

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

Decrease from 1987 Base

(Dollar amounts in thousands)

	FY 1987 Base	FY 1987 Estimate	Difference
($)	19,434	17,234	-2,200
(FTE)	(76)	(76)	(--)

Computer Operations and Maintenance (-$1,500,000)

During FY 1986, RMP is utilizing three contractors to operate and maintain its automated systems. These contractors operate the three RMP systems (AFS, PAAS, and BRASS) on a total of six mini-computers plus a mainframe computer. In FY 1987, with the reimplementation of the AFS completed, RMP will eliminate the need for one of the computer sites. The net savings from this streamlining is anticipated to be $1.5 million in operations and maintenance (O&M) costs.

Computer Hardware Leasing Costs (-$200,000)

The FY 1986 leasing costs of the new mainframe computer are estimated to be $3.5 million, while in FY 1987 these costs are projected to decrease to $3.3 million. The decrease of $200,000 is scheduled in FY 1987 as part of the 5-year lease purchase agreement for the mainframe computer and related equipment.

State and Tribal Support System Costs (-$500,000)

In FY 1986, the RMP is designing, developing, and installing the State and Tribal Support System (STATSS), a remote access system to enable States and Indians to obtain MMS automated data. As a result of non-recurring costs for initial design and equipment purchases, a savings of $500,000 is expected in FY 1987.

Distribution of change by object class

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

	Amount ($000)
Other Services......................................	-2,000
Equipment...	-200
Total	-2,200

Activity Summary

Activity: General Administration

(In thousands of dollars)

Subactivity	FY 1985 Actual	FY 1986 Appro-priation Enacted	FY 1986 Adjusted Appro-priation	FY 1987 Base	FY 1987 Estimate	Inc.(+) Dec.(-) from Base
Executive Direction	3,278	3,259	3,119	3,223	3,223	--
Administrative Operations	9,995	9,408	9,064 1/	9,392	9,392	--
General Support Services	9,846	9,787	9,366	10,614	11,447	+833
Total	23,119	22,454	21,549 1/	23,229	24,062	+833

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

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

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

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

1/ Reflects a realignment of an ADP security function ($63,000 and 1 FTE) from Royalty Management to General Administration.

Justification of Program and Performance

Activity: General Administration
Subactivity: Executive Direction

(Dollar amounts in thousands)

Subactivity		FY 1986 Enacted To Date	FY 1986 Adjusted Appropriation	FY 1987 Base	FY 1987 Estimate	Inc. (+) Dec. (-) from Base
Executive Direction	($) (FTE)	3,259 (70)	3,119 (70)	3,223 (69)	3,223 (69)	-- (--)
Total Requirements	($) (FTE)	3,259 (70)	3,119 (70)	3,223 (69)	3,223 (69)	-- (--)

Gramm-Rudman-Hollings Impact

(In thousands of dollars)

Subactivity	FY 1986 Enacted To Date	P.L. 99-177 Reduction	FY 1986 Adjusted Appropriation
Executive Direction	3,259	-140	3,119

As a result of the reductions mandated by the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177), the following impacts are expected:

- o Filling of existing position vacancies and positions that become vacant during the remainder of FY 1986 will be delayed. The resulting decrease in staff will add to the workload of the remaining employees.

Authorization

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

Executive Direction

Objectives

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

Base Program

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

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

The Office of Congressional and Legislative Affairs serves as the primary point of contact between the Minerals Management Service and the Congress and provides information and assistance in response to inquiries by Members of Congress or congressional staff and committee personnel. Specifically, the Office evaluates, or coordinates the evaluation of, legislative proposals affecting MMS responsibilities, maintains continuing communication regarding programs and policies, items of legislative action, statements of positions on matters under consideration by the Congress, legislative initiatives, preparation and coordination of testimony for witnesses, coordinating arrangements for congressional authorizing committee hearings and meetings, and congressional activity that affects or may affect the Minerals Management Service.

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

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

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

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

Internal Review. The Internal Review Division conducts evaluations of MMS programs to determine the degree of program performance and success and conducts spescial studies and analyses of Minerals Management Service programs and policies. It provides an analytical consultation and review capability within the agency to assure proper policy analysis and development of programs. It is responsible for monitoring follow-up and implementations of internal review and evaluation recommendations.

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

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

Justification of Program and Performance

Activity: General Administration
Subactivity: Administrative Operations

(In thousands of dollars)

Program Elements		FY 1986 Enacted to Date	FY 1986 Adjusted Appropriation	FY 1987 Base	FY 1987 Estimate	Inc. (+) Dec. (-) from Base
Administrative Direction and Coordination	($)	184		184	184	--
	(FTE)	(4)		(4)	(4)	(--)
Financial Management	($)	966		962	962	--
	(FTE)	(25)		(25)	(25)	(--)
Personnel Management	($)	1,293		1,288	1,288	--
	(FTE)	(35)		(35)	(35)	(--)
Procurement and General Services	($)	1,877		1,846	1,846	--
	(FTE)	(52)		(51)	(51)	(--)
Information Resources Management	($)	1,805		1,863	1,863	--
	(FTE)	(35)		(36)	(36)	(--)
Field Administrative Services	($)	3,283		3,249	3,249	--
	(FTE)	(75)		(74)	(74)	(--)
Total Requirements	($)	9,408	9,064 1/	9,392	9,392	--
	(FTE)	(226)	(227)	(225)	(225)	(--)

Gramm-Rudman-Hollings Impact

(In thousands of dollars)

Subactivity	FY 1986 Enacted to Date	P.L. 99-177 Reduction	FY 1986 Adjusted Appropriation
Administrative Operations	9,408	-407	9,064 2/

As a result of the reductions mandated by the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177), the following impacts are projected:

1/ Reflects a realignment of an ADP security function ($63,000 and 1 FTE) from Royalty Management to General Administration.
2/ Does not add across due to transfer of $63,000.

- o Filling of existing position vacancies and positions that become vacant during the remainder of FY 1986 will be delayed or deferred, resulting in increased workload for the remaining staff and potential delays in providing administrative support and services to operating programs.

- o Conversion to MMS's computers of three administrative systems currently operated by another agency through a reimbursable agreement will be delayed. The purchase of supplies and equipment, such as software and terminals, which will be required after the conversion will also be postponed.

- o Training of employees in technical and administrative areas will be minimized throughout the administrative divisions and service centers.

- o Field visits by headquarters personnel to provide guidance and administrative oversight to the field administrative service centers will be reduced. Other less effective means of communication, such as conference calls, will be relied on more to accomplish the same purpose.

Authorizations

31 U.S.C. 65 P.L. 84-863	Budget and Accounting Procedures Act of 1950
31 U.S.C. 3901-3906 P.L. 97-177,452	Prompt Payment Act of 1982
31 U.S.C. 3512(c) P.L. 97-255	Federal Managers' Financial Integrity Act of 1982
5 U.S.C. 552 P.L. 89-487, 93-502	Freedom of Information Act of 1966, as amended
P.L. 98-502	Single Audit Act of 1984
41 U.S.C. 35-45 P.L. 74-846	Walsh Healy Public Contracts Act of 1936
41 U.S.C. 351-357 P.L. 89-286	Service Contract Act of 1965
41 U.S.C. 601-613 P.L. 95-563	Contract Disputes Act of 1978
44 U.S.C. 35 P.L. 96-511	Paperwork Reduction Act of 1980
44 U.S.C. 2101 P.L. 81-754	Federal Records Act of 1950
40 U.S.C. 486(c)	Federal Acquisition Regulation of 1984

31 U.S.C. 3501 P.L. 93-597	Privacy Act of 1974
31 U.S.C. 3501 P.L. 97-452	Accounting and Collection
31 U.S.C. 3711,3716-19 P.L. 97-452	Claims
31 U.S.C. 1501-1557	Appropriation Accounting
5 U.S.C. 1104 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 P.L. 98-369	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 P.L. 95-224	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 P.L. 98-191	Office of Federal Procurement Policy Act of 1974, as amended
15 U.S.C. 631 P.L. 85-536	Small Business Act of 1953, as amended
15 U.S.C. 637 P.L. 98-72	Small Business Act Amendments of 1978
10 U.S.C. 137 P.L. 98-577	Small Business and Federal Competition Enhancement Act of 1984
15 U.S.C. 638 P.L. 97-219	Small Business Innovation Research Program of 1983
10 U.S.C. 2306(f)	Truth in Negotiations Act of 1962

Administrative Operations

Objective

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

Base Program

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

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

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

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

Priorities for FY 1987 will continue to be incorporating user requirements in the financial management system installed in FY 1985. Further expansion of financial commitment data from field locations, a FY 1986 initiative, will be pursued to provide management with more complete information on funding status. Emphasis will also be placed on integration of a procurement management information system with the financial system. Internal control reviews and accounting system compliance reviews that are required by OMB Circular A-123 and the Federal Manager's Financial Integrity Act of 1982 will be performed in FY 1987.

Major selected program outputs for the Financial Management Division are:

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate	Inc.(+) or Dec.(-)
Employee Payroll Processed 1/	2,130	2,100	--	-2,100
Recording Obligations	19,500	20,000	20,000	--
Auditing & Paying Invoices	26,300	25,500	25,500	--
Auditing & Paying Travel Vouchers	9,500	9,100	9,100	--
Miscellaneous Financial Documents Processed	10,200	10,000	10,000	--
Cash Management Reports Processed	16	16	16	--
Debt Management Reports Processed	16	16	16	--
Financial Policies & Procedures Developed	10	10	10	--
Internal Reports Prepared	40	100	100	--
External Reports Prepared	60	60	60	--

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

The Personnel Division will continue to accomplish its basic personnel support to the MMS in FY 1987. In addition, several personnel management projects and programs will receive emphasis. One personnel management evaluation is scheduled. This evaluation will cover operating practices; merit promotion and recruitment; classification accuracy; performance management; compliance with governing policies, regulations, and guidelines; management assistance activities; and personnel processing. The development of supervisors, managers, and executives will receive continued attention. Training courses in technical

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1/Per pay period.

and administrative areas will be developed for employees and supervisors. Policies, guidance, and programs will be reviewed and modified, as necessary, to meet the needs and objectives of the MMS and the Office of Personnel Management guidelines. Portions of the Minerals Management Service Manual (MMSM) have still not been completed because there have been continual changes to the Federal personnel regulations. Chapters will be developed and implemented to provide policy and guidance for use throughout the organization in FY 1987.

Selected program outputs for Personnel Management are:

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate	Inc. (+) or Dec. (-)
Positions Reviewed	550	500	450	-50
Vacancy Announcements Processed	130	125	125	--
Classification Audits Conducted and Positions Reviewed	280	275	250	-25
Personnel Actions Processed	2,230	2,000	1,800	-200
PAY/PERS Processing	2,640	2,400	2,200	-200
Employment and Financial Interest and Public Disclosure Statements Processed	2,160	2,000	2,000	--
Personnel Management Evaluations Conducted	3	2	1	-1
Personnel Policies/ Procedures Issued	60	55	50	-5
Training Requests Processed	775	800	800	--
Executive/Managerial Training Processed	175	150	150	--
Training Courses Developed/Presented	10	9	10	+1
Performance Appraisal/ Merit Pay Reviews Conducted	1,400	1,300	1,300	--
Employee Relations Cases Processed/ Guidance Given	810	825	875	+50

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate	Inc. (+) or Dec. (-)
Labor Relations Cases Processed/Guidance Given	180	200	200	—
Worker Compensation Cases, Incentive Awards, Beneficial Suggestions, and Retirements Processed	450	460	480	+20

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

The Division is responsible for six distinct programs which will be performed in FY 1987 in support of MMS:

1. Procurement. The procurement program includes entering into and administering contracts, small purchases, grants, cooperative agreements, and interagency agreements essential for fulfilling the mission of the MMS. Other responsibilities include managing the Small and Disadvantaged Business Utilization Program and Historically Black Colleges and Universities Program; conducting procurement management reviews of field offices; conducting cost and price analyses; developing annual Advance Procurement Plans; and issuing procurement policy guidance to a variety of target groups, including private industry, senior management, contracting officers, and the Offshore and Royalty Management Programs.

2. Facilities Management. The facilities program manages or oversees 663,278 square feet of assigned space in 30 buildings in 22 cities. Other responsibilities include processing space requests, conducting space utilization surveys, processing reimbursable work authorizations, conducting annual space inventories, and issuing facilities management policy and guidelines Bureauwide. At headquarters, the program is also responsible for office moves and telephone design and ordering.

3. Property Management. The property program maintains accountability records for over 8,000 line items of personal property valued at $25 million. Specific responsibilities include conducting an annual inventory of property assigned to over 190 accountable and custodial property officers; managing a nationwide data system, including property in the possession or control of contractors; managing a printing and duplicating activity; processing property transfer requests; and issuing property policy guidance Bureauwide.

4. Security. The security program involves personnel security, physical security, and document security Bureauwide. Specific duties include requesting investigations through the Office of Personnel Management for positions designated as sensitive (e.g., background investigation for critical sensitive, top secret, and ADP I or National Agency Check for noncritical sensitive, secret, and ADP II positions) when previous investigations do not meet MMS's Manual Chapter standards on personnel security (Part 441, Chapter 1); adjudication of completed reports of investigations; granting security clearances and ADP authorizations; and conducting security investigations and physical security reviews.

5. Safety. The safety program ensures that employees are provided safe and healthful working conditions. Specific duties include conducting safety inspections of facilities, providing guidance to collateral duty safety officers Bureauwide, developing a water survival safety program, providing employees with safety training, overseeing the disposal of toxic materials, investigating accidents and incidents, and developing and implementing a safety program.

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

Selected program outputs for Procurement and General Services are:

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate	Inc. (+) or Dec. (-)
Award Contracts	214	206	200	-6
Award Small Purchases	3,098	3,000	2,950	-50
Administer Contracts	500	500	450	-50
Conduct Procurement Management Reviews	--	1	1	--
Conduct Space Utilization Studies Layouts	3	2	2	--
Design Office Space Layouts	256	307	868	+561
Inhouse Office Moves	256	307	868	+561
Process Telephone Orders 1/	689	830	2,500	+1,670
Update Property Management Records	7,800	7,800	8,751	+951
Conduct Property Management Reviews of ASC's	3	3	3	--

1/Includes installation and removal of telephone equipment.

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate	Inc. (+) or Dec. (-)
Issue Individual Inventories of Controlled Property	1,600	200 1/	200	--
Review Property Survey Board Actions	55	45	45	--
Review and Adjudicate Completed Reports of Investigation	271	325	340	+15
Printing Requests	630	670	700	+30
Grant ADP Security Authorizations	194	180	180	--
Conduct Physical Security Surveys	5	36	35	-1
Conduct Safety Inspections	11	8	8	--
Investigate Accident Reports	47	50	50	--
Develop Procurement Policy Directives	17	25	30	+5
Issue Information Requests or Transmittals	83	80	80	--
Review and Adjudicate GAO/OIG/Departmental (PAM) Audit Investigations	6	5	5	--
Respond to GAO/GSA Protests	1	2	2	--

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

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

During FY 1987, the Automated Data Processing Plan will be integrated with the 5-year ADP and Telecommunications Acquisition Plans and Exhibit 43B of the A-11 budget submission. At the same time, an analysis of existing ADP systems will be conducted to ensure accuracy, efficiencies, eliminate duplication, and reduce costs. Existing telecommunications facilities will be reviewed to improve data transmission throughout MMS. Data standards should be developed which will improve the sharing of data between Offshore Minerals Management, Royalty Management, and other Bureaus. The system life cycle management program will continue. ADP security will continue to receive major emphasis. The integration of major MMS's administrative systems also will be examined. Maintenance of and improvement to existing administrative systems, such as correspondence control and the training information management system, will be undertaken.

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

Selected program outputs for Information Resources Management are:

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate	Inc. (+) or Dec. (-)
Maintain Administrative Systems	9	12	13	+1
Develop/Enhance (Major) Administrative Systems	3	6	6	--
Operate Systems	12	18	19	+1
Conduct Management Reviews/ Studies	9	6	6	--
Review Policy Documents (Directive System)	140	120	180	+60
Process Other Documents 1/	243	240	265	+25

1/ Includes documents such as the Freedom of Information Act (FOIA), Federal Register, Information Collection Budget (ICB), and Privacy Act.

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate	Inc. (+) or Dec. (-)
Conduct Records Management Training	9	3	2	-1
Conduct ADP Security Reviews	2	3	3	--
Participate in Departmental IRM Projects	7	11	8	-3
Respond to Requests for ADP Data	12	12	12	--
Perform Studies of Bureau ADP/Telecommunications Operations	6	6	6	--
Prepare Planning Documents (5 yr. ADP/Telecommunication Plan)	2	2	2	--
ADP Acquisition Reviews	183	200	200	--

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

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

Service Center	Region/Activity	Location
Office of the Assistant Director for Administration	Minerals Management Service Headquarters Atlantic OCS Region	Herndon, Virginia
Alaska Administrative Service Center	Alaska OCS Region	Anchorage, Alaska
Central Administrative Service Center	Royalty Management Pacific OCS Region	Lakewood, Colorado
Southern Administrative Service Center	Gulf of Mexico OCS Region Royalty Management	Metairie, Louisiana

Selected program outputs for the Field Administrative Service Centers are:

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate	Inc. (+) or Dec. (-)
Small Purchases Processed	2,638	3,060	3,270	+210
Contracts Awarded	125	167	175	+8
Contracts Administered	242	219	182	-37
Property Actions	3,889	5,850	5,660	-190
Space Utilization Studies/Layouts (work stations)	41	60	33	-27
Work Authorizations/ Building Repairs	312	490	155	-335
Telephone Connects/ Disconnects	2,247	2,400	1,350	-1,050
Safety Inspection/ Accident Reports	47	60	57	-3
Security Clearances	642	455	415	-40
Positions Reviewed	1,053	1,030	935	-95
Vacancy Announcements Processed	299	285	235	-50
Training Courses Developed	11	14	16	+2
Training Requests Processed & Reviewed	3,243	3,350	3,350	--
Personnel Actions Processed	8,057	6,500	6,500	--
Employee Relations Cases Processed	2,601	2,310	2,215	-95
PMIS Data Base Transactions 1/	4,695	5,525	5,700	+175
BPA Calls Processed 2/	3,294	3,025	3,225	+200

1/PMIS - Procurement Management Information System
2/BPA - Blanket Purchase Agreement

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate	Inc. (+) or Dec. (-)
Imprest Fund Actions	1,847	2,025	2,000	-25
PAY/PERS Input	51,400	51,600	51,600	--
Reproduction Work	8,381,627	8,400,000	8,500,000	+100

Justification of Program and Performance

Activity: General Administration
Subactivity: General Support Services

(Dollar amounts in thousands)

Subactivity		FY 1986 Enacted to Date	FY 1986 Adjusted Appropriation	FY 1987 Base	FY 1987 Estimate	Inc. (+) Dec. (-) from Base
General Support Services	($) (FTE)	9,787 (--)	9,366 (--)	10,614 (--)	11,447 (--)	+833 (--)
Total Requirements	($) (FTE)	9,787 (--)	9,366 (--)	10,614 (--)	11,447 (--)	+833 (--)

Gramm-Rudman-Hollings Impact

(In thousands of dollars)

Subactivity	FY 1986 Enacted to Date	P.L. 99-177 Reduction	FY 1986 Adjusted Appropriation
General Support Services	9,787	-421	9,366

As a result of the reductions mandated in the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177), the following impacts are projected:

- o Fixed costs funded by the General Support Services subactivity will have to be accommodated by charging other areas of the MMS budget. This action can be expected to have a further negative impact on mission accomplishment in FY 1986.

The General Support Services subactivity is comprised of funding for fixed and other operational costs of the MMS. This includes such costs as the rental of space; communications; postage; reimbursable services that are provided by other bureaus, such as payroll; employees' compensation; and nonemployment compensation. All of these costs are for services essential in supporting the operating programs in achieving their goals and objectives. Therefore, a reduction of $421,000 in this subactivity will result in an assessment of the operating programs to cover any shortfall in administrative expenses. Such action would lead to the redirection of mission-related funds for support service expenses. Redirections would have programmatic impacts since the operating programs have also been reduced by 4.3 percent.

Authorization

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

General Support Services

Objectives

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

- o Provide appropriate services to support the operating programs.

Base Program

The General Support Services subactivity includes funding for fixed costs and related support services for all of the MMS. Fixed costs include expenses for rental of office space and other required physical facilities, Federal Telecommunications System (FTS) service, and postage, etc. Rent, which is estimated at $7.366 million in FY 1987, is the payment to General Services Administration (GSA) for all Federal building space rental and associated expenses for the normal 40 hour, 5-day workweek.

Expenses for rental of office and other space requirements are based on cost projections provided by GSA. In FY 1987, existing offices in Virginia will be consolidated into one location to facilitate management and operations. Rental expenses include the costs of this consolidated space.

The FTS cost of $0.174 million is based on estimates developed by the Department. Commercial communication expenses of $0.573 million are based on FY 1986 estimates and include local and long distance telephone and telecommunications expenses for headquarters offices and the Atlantic OCS Region located in the Washington, D.C., area. Postage expense of $0.686 million is based on a postal audit that was conducted by postal officials in June 1985.

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

(In thousands of dollars)

Estimated FY 1987 Expenses	Cost
Rent................................	7,366
Miscellaneous Services 1/...........	1,451

1/ Includes such expenses as reimbursable work authorizations, dedicated line for the transmittal of PAY/PERS data, office move to new location, commercial communication expenses for new location, and shuttle service,.etc.

(In thousands of dollars)

Estimated FY 1987 Expenses	Cost
Postage	686
Commercial Communications 1/	573
Department of Interior Working Capital Fund Charges	420
Reimbursable Services	258
Employees' Compensation Fund	216
Federal Telecommunications System	174
Security and Overtime Utility Services 2/	167
Unemployment Compensation	136
Total	11,447

Increase from 1987 Base

(Dollar amounts in thousands)

	FY 1987 Base	FY 1987 Estimate	Difference
($)	10,614	11,447	+833
(FTE)	(--)	(--)	(--)

The proposed increase of $833,000 is for expenses related directly to the FY 1987 consolidation of the Washington, D.C., metropolitan area offices located in Virginia. Since establishment in 1982, MMS has operated headquarters functions in five geographically separated locations. This situation has proved difficult for communications and detrimental to efficient program management. Locating all Northern Virginia staff in a single office has been impossible due to the lack of adequate space in any one building currently occupied.

The Department and GSA have approved a proposal to acquire adequate office space in a single location for the consolidation of these employees. The consolidation is extremely important in achieving the intent of the Department in establishing MMS - to improve the management of and provide greater

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

2/ Includes $115,000 for the purchase, installation, and monitoring of a new security system for the new headquarters office location.

management oversight and accountability for royalty management, offshore leasing, and related support activities. The consolidation will enhance communications and coordination and facilitate daily operations between program personnel by reducing the staff time required for local travel between offices. The improved communication and access to both staff and management will enable MMS to enhance the effectiveness of program planning and management and to respond to short turn-around situations. As communication and access to other headquarters program staffs is achieved, the ability to perform program functions will contribute to savings through reduced travel costs and improved information flow. The costs estimated to be incurred during FY 1987 will provide for the physical relocation, office configuration, security, and equipment and systems installations, etc. Specific cost estimates for the office space consolidation are:

Expense	Cost
Office alterations of new location and repairs to vacated office space	$310,000
Commercial communication expenses for new location	120,000
Office move to new location	103,000
Shuttle service...............................	104,000
Purchase and installation of security system..	100,000
Miscellaneous	96,000
Total....................................	$833,000

Distribution of change by object class

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

	Amount ($000)
Other Services..................................	833

Summary of Requirements by Object Class

(Dollar amounts in thousands)

Appropriation: Minerals and Royalty Management	1987 Base FTE	1987 Base Amount	1987 Estimate FTE	1987 Estimate Amount	Inc. (+) or Dec. (-) FTE	Inc. (+) or Dec. (-) Amount
Object Class						
11. Personnel compensation:						
11.1 Full-time permanent..................	1,883	62,403	1,850	61,385	-33	-1,018
11.3 Other than full-time permanent........	165	3,472	165	3,472	- -	- -
11.5 Other personnel compensation..........	25	1,449	25	1,449	- -	- -
11.8 Special personal services payments....	- -	74	- -	74	- -	- -
Total personnel compensation........	2,073	67,398	2,040	66,380	-33	-1,018
Other Objects						
12.1 Personnel benefits: civilian..........		10,368		10,211		-157
13.0 Benefits for former personnel.........		250		250		- -
21.0 Travel and transportation of persons.......................		3,450		3,431		-19
22.0 Transportation of things.............		479		479		- -
23.1 Standard level user charges...........		6,858		6,858		- -
23.2 Rental payments to others.............		508		508		- -
23.3 Communications, utilities and miscellaneous charges.............		4,039		4,039		- -
24.0 Printing and reproduction.............		1,863		1,863		- -
25.0 Other services........................		67,341		61,787		-5,554
26.0 Supplies and materials................		1,797		1,791		-6
31.0 Equipment.............................		2,699		2,499		-200
42.0 Insurance claims and indemities.......		4		4		- -
Total requirements.................		167,054		160,100		-6,954

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

14-1917-0-1-302	FY 1985 Actuals	FY 1986 Estimate	FY 1987 Estimate
Program by activities:			
Direct program:			
00.0101 Outer Continental Shelf Lands...	98,767	99,187	93,529
00.0201 Royalty Management..............	38,783	44,927	42,509
00.0301 General Administration..........	23,083	22,517	24,062
00.9101 Total direct program..........	160,633	166,631	160,100
01.0101 Reimbursable program............	690	1,000	2,250
10.0001 Total obligations..............	161,323	167,631	162,350
Financing:			
Offsetting collections from:			
11.0001 Federal funds...................	-690	-1,000	-1,000
14.0001 Non-Federal sources............	- -	- -	-1,250
25.0001 Unobligated balance lapsing.....	163	379	- -
39.0001 Budget authority................	160,796	167,010	160,100

14-1917-0-1-302	FY 1985 Actuals	FY 1986 Estimate	FY 1987 Estimate
Budget authority:			
40.0001 Appropriation...................	161,718	168,018	160,100
40.0002 Reduction pursuant to PL 99-190.	- -	-1,008	- -
41.0001 Transferred to other accounts...	-922	- -	- -
43.0001 Appropriation (adjusted)........	160,796	167,010	160,100

14-1917-0-1-302	FY 1985 Actuals	FY 1986 Estimate	FY 1987 Estimate
Relation of obligations to outlays:			
71.0001 Obligations incurred, net.......	160,633	166,631	160,100
72.4001 Obligated balance, start of year.........................	69,297	69,748	58,738
74.4001 Obligated balance, end of year.........................	-69,748	-58,738	-56,362
77.0001 Adjustments to expired accounts........................	-113	- -	- -
90.0001 Outlays.........................	160,069	177,641	162,476

Reduction Pursuant to Public Law 99-177

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

14-1917-6-1-302	FY 1985 Actuals	FY 1986 Estimate	FY 1987 Estimate
Program by activities:			
10.0001 Total obligations...............	--	-7,181	--
Financing:			
40.0001 Budget Authority................	--	-7,181	--
Relation of obligations to outlays:			
71.0001 Obligations incurred, net.......	--	-7,181	--
72.4001 Obligated balance, start of year.........................	--	--	-2,334
74.4001 Obligated balance, end of year.........................	--	2,334	--
90.0001 Outlays.........................	--	-4,847	-2,334

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

14-1917-0-1-302	FY 1985 Actuals	FY 1986 Estimate	FY 1987 Estimate
Direct Obligations:			
Personnel compensation			
111.101 Full-time permanent	60,324	63,081	61,385
111.301 Other than full-time permanent	3,320	3,472	3,472
111.501 Other personnel compensation	1,386	1,449	1,449
111.801 Special personal services payments	71	74	74
111.901 Total personnel compensation	65,101	68,076	66,380
112.101 Personnel benefits: civilian	9,844	10,473	10,211
113.001 Benefits for former personnel	209	250	250
121.001 Travel and transportation of persons	3,012	3,631	3,431
122.001 Transportation of things	512	479	479
123.101 Standard level user charges	5,503	5,732	6,858
123.201 Rental payments to others	835	807	508
123.301 Communications,utilities and miscellaneous charges	3,463	4,039	4,039
124.001 Printing and reproduction	1,510	1,863	1,863
125.001 Other services	65,695	66,781	61,787
126.001 Supplies and materials	1,549	1,797	1,791
131.001 Equipment	3,339	2,699	2,499
141.001 Grants,subsidies and contributions	50	- -	- -
142.001 Insurance claims and indemities	11	4	4
199.001 Subtotal, direct obligations	160,633	166,631	160,100
Reimbursable Obligations:			
225.001 Other services	690	1,000	2,250
299.001 Subtotal, reimbursable obligations	690	1,000	2,250
999.901 Total obligations	161,323	167,631	162,350

DEPARTMENT OF THE INTERIOR
Minerals Management Service
Minerals And Royalty Management
Personnel Summary

14-1917-0-1-302	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate
Direct:			
Total number of full-time permanent positions..........................	1,907	1,921	1,870
Total compensable workyears:			
Full-time equivalent employment..	2,081	2,066	2,015
Full-time equivalent of overtime and holiday hours................	25	25	25
Average ES salary..................	$68,506	$68,506	$68,506
Average GS grade...................	10.26	10.24	10.25
Average GS salary..................	$31,047	$29,694	$29,282
Average salary of ungraded positions..........................	$10,064	$10,328	$9,812

DEPARTMENT OF THE INTERIOR
Minerals Management Service
Consolidated Schedule Of Permanent Positions
Detail Of Permanent Positions

	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate
ES-6	3	3	3
ES-5	2	2	2
ES-4	5	5	5
ES-3	3	3	3
ES-2	2	2	2
ES-1	--	--	--
Subtotal	15	15	15
GS/GM-15	69	69	67
GS/GM-14	162	162	158
GS/GM-13	360	360	353
GS-12	424	426	418
GS-11	153	155	152
GS-10	36	36	33
GS-9	116	118	115
GS-8	32	32	29
GS-7	128	131	125
GS-6	144	145	141
GS-5	155	155	152
GS-4	92	95	94
GS-3	11	10	8
GS-2	3	4	4
GS-1	2	3	3
Subtotal	1887	1901	1852
Ungraded	5	5	3
Total permanent positions	1907	1921	1870
Unfilled positions, end of year	--	--	--
Total permanent employment, end of year	1907	1921	1870

Narrative Explanation of Reduction for
Administrative and Overhead Activities

Minerals Management Service will reduce both funds ($783,000) and FTE (18) in FY 1987 to support the Administration's continuing efforts toward efficient and effective Federal program operations. A total of $450,000 and 10 FTE are reduced in the Offshore Program as a result of its efforts to streamline administratve and other support activities. In Royalty Management, the program management and support functions have been transferred to Lakewood, Colorado. The transfer of these functions will result in staff savings. In addition, the exercising of lease/purchase options on selected pieces of equipment will generate savings. The total savings from these initiatives are expected to total $218,000 and 5 FTE. Minerals Management Service staffs in the Executive Direction subactivity will be reduced in 1987 by 1 FTE and $46,000. The Administrative Operations' staff and budget decreases of 2 FTE and $79,000 are attributed to the implementation of the improvements in the Department of the Interior's study on administrative improvements.

(Dollar amounts in thousands)

Appropriation/Activity		FY 1986 Enacted to Date	Administrative and Overhead Reduction
Minerals and Royalty Management			
Outer Continental Shelf Lands	($)	99,566	-450
	(FTE)	(1,178)	(-10)
Royalty Management	($)	44,927	-218
	(FTE)	(591)	(-5)
General Administration	($)	22,517	-115
	(FTE)	(297)	(-3)
TOTAL	($)	167,010	-783
	(FTE)	(2,066)	(-18)

Appropriation Summary Statement

Minerals Management Service

Appropriation: Payments to States from Receipts under Mineral Leasing Act

In accordance with 30 U.S.C. 181 et seq. (the Mineral Lands Leasing Act of 1920, as amended), all States (except Alaska) are paid 50 percent of the receipts from bonuses, royalties, and rentals resulting from the leasing of mineral resources under the Act, on public lands. Alaska is paid 90 percent of the receipts from leasing outside of the National Petroleum Reserve-Alaska (NPRA). This appropriation provides for monthly payments to all States for their share of revenues realized as a result of mineral leasing activities on Federal lands within their boundaries; and for interest to States and Indian accounts when mineral leasing revenues are not disbursed by the dates prescribed in 30 U.S.C. 191 and 1714.

Appropriation Language Sheet

PAYMENTS TO STATES FROM RECEIPTS UNDER
MINERAL LEASING ACT

Notwithstanding any other provision of law, in fiscal year 1987, moneys received from sales, bonuses, royalties (including interest charges collected under the Federal Oil and Gas Royalty Management Act of 1982), and rentals of the public lands under the provisions of the Mineral Lands Leasing Act of 1920, as amended, and the Geothermal Steam Act of 1970, which are not payable to a State or to the Reclamation Fund, shall be available for the payment of interest in accordance with 30 U.S.C. 1721 (b) and (d), prior to the crediting of such funds to miscellaneous receipts of the Treasury.

Justification of Proposed Language Changes

Payments to States from Receipts under Mineral Leasing Act

1. Addition:

"Notwithstanding any other provision of law, in fiscal year 1987, moneys received from sales, bonuses, royalties (including interest charges collected under the Federal Oil and Gas Royalty Management Act of 1982), and rentals of the public lands under the provisions of the Mineral Lands Leasing Act of 1920, as amended, and the Geothermal Steam Act of 1970, which are not payable to a State or to the Reclamation Fund, shall be available for the payment of interest in accordance with 30 U.S.C. 1721 (b) and (d), prior to the crediting of such funds to miscellaneous receipts of the Treasury."

The Federal Oil and Gas Royalty Management Act of 1982 requires the Government to make payments of interest to States and Indian accounts when onshore mineral leasing revenues due them are not disbursed within the timeframes prescribed by the Act. These payments from receipts under the Mineral Leasing Act cannot be disbursed until a proper determination is made of the source of all incoming royalties. Although the primary causes of delays in disbursement (payor input errors and processing errors) can be minimized, absolute eradication of errors is unlikely. The MMS currently has no source of available funds from which to pay this interest. Therefore, this language is proposed to provide for indefinite authority (since absolute amounts cannot be accurately estimated in advance) to pay the interest owed from the Federal Government's share of mineral leasing revenues received prior to credit of such funds to miscellaneous receipts of the Treasury.

Appropriation Language Citations

Minerals Management Service

Appropriation: Payments to States from Receipts under Mineral Leasing Act

1. Notwithstanding any other provision of law, in fiscal year 1987, moneys received from sales, bonuses, royalties (including interest charges collected under the Federal Oil and Gas Royalty Management Act of 1982).

   30 U.S.C. 1701 et seq.

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

2. and rentals of the public lands under the provisions of the Mineral Lands Leasing Act of 1920, as amended.

   30 U.S.C. 191 et seq.

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

3. and the Geothermal Steam Act of 1970.

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

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

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

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

Summary of Requirements

Appropriation: Payments to States from Receipts under Mineral Leasing Act

(Dollar amounts in thousands)

Summary of Base Adjustments	FTE	Amount	FTE	Amount
Appropriation Enacted to Date, 1986			--	574,391
Base Adjustments:				
Proposed 1986 Supplemental			--	+800
1987 Base Budget			--	575,191

Comparison by Activities	FY 1985 Actual		FY 1986 Enacted to Date		P.L. 99-177 Reserve	FY 86 Adjusted Appropriation	FY 1987 Base		FY 1987 Estimate		Inc.(+)/Dec.(-) From 1986 Enacted		Inc.(+)/Dec.(-) From 1986 Adjusted Appropriation	Inc.(+)/Dec.(-) from 1987 Base	
	FTE	Amount	FTE	Amount	Amount	Amount	FTE	Amount	FTE	Amount	FTE	Amount	Amount	FTE	Amount
Payments to States	--	537,523	--	574,391	-23,895	574,391 1/	--	574,391	--	550,686	--	-23,705	-23,705	--	-23,705
Interest on Late Payments	--	1,051	--	--	--	--	--	800	--	800	--	+800	+800	--	--
Total Requirements	--	538,574	--	574,391	-23,895	574,391	--	575,191	--	551,486	--	-22,905	-22,905	--	-23,705

1/ Includes $23.9 million in total obligations that are to be sequestered by P.L. 99-177. The $23.9 million will not be paid during 1986, but will remain in the account and will be available at a future date to the extent permitted by law.

Justification of Adjustments to Base

Payments to States from Receipts under Mineral Leasing Act

(Dollar amounts in thousands)

	FTE	Amount ($000)
FY 1987 effect of the pending FY 1986 supplemental....	--	+800

The Federal Oil and Gas Royalty Management Act of 1982 requires the Government to make payments of interest to States and Indian accounts when Federal onshore mineral leasing revenues due them are not disbursed within the timeframes prescribed by the Act. Since MMS has no source of available funds from which to pay this interest, an FY 1986 supplemental is being proposed to provide the required funding. This increase reflects the effect in FY 1987 of the pending FY 1986 supplemental request.

Justification of Program and Performance

Activity: Payments to States from Receipts under Mineral Leasing Act

(Dollar amounts in thousands)

Activity		FY 1986 Enacted To Date	FY 1986 Adjusted Appropriation	FY 1987 Base	FY 1987 Estimate	Inc.(+)/ Dec.(-) from Base
Payments to States	($)	574,391	574,391 1/	574,391	550,686	-23,705
	(FTE)	(--)	(--)	(--)	(--)	(--)

Gramm-Rudman-Hollings Impact

(In thousands of dollars)

Activity	FY 1986 Enacted To Date	P.L. 99-177 Reserve	FY 1986 Adjusted Appropriation
Payments to States	574,391	-23,895	574,391

The Gramm-Rudman-Hollings reduction will result in a decrease in revenue to the States and a corresponding increase in net revenue to the Federal Treasury (See Table 3).

Authorizations

30 U.S.C. 191, *et seq.* P.L. 66-146	The Mineral Lands Leasing Act of 1920, as amended, provides for the sharing of receipts with States on a monthly basis from various mineral leasing activities on Federal lands within their boundaries.
30 U.S.C. 151 *et seq.*	The Mineral Leasing Act for Acquired Lands provides for leasing coal, oil, oil shale, natural gas, phosphate, and sodium on acquired lands and the sharing of receipts from such leasing with the States on acquired lands within their boundaries.

1/ Includes $23.9 million in total obligations that are to be sequestered by P.L. 99-177. The $23.9 million will not be paid during 1986, but will remain in the account and will be available at a future date to the extent permitted by law.

Table 3

FY 1986 Impact of P.L. 99-177 on
MINERAL REVENUE PAYMENTS TO THE STATES
(Dollar amounts in thousands)

	FY 1985 Outlays	FY 1986 Estimated Payments	Reduction Under P.L. 99-177	FY 1986 Est. Net Payments	FY 1987 Est. Net Payments
Alabama	200	214	9	205	205
Alaska	13,026	14,185	590	13,595	14,209
Arizona	1,129	1,206	50	1,156	1,155
Arkansas	718	767	32	735	735
California	41,833	44,681	1,859	42,822	42,788
Colorado	42,752	45,663	1,900	43,763	43,729
Florida	73	78	3	75	75
Idaho	3,767	4,023	167	3,856	3,853
Kansas	761	813	34	779	778
Louisiana	795	849	35	814	813
Michigan	44	47	2	45	45
Mississippi	1,073	1,146	48	1,098	1,097
Montana	21,140	22,579	939	21,640	21,623
Nebraska	320	342	14	328	327
Nevada	9,903	10,577	440	10,137	10,129
New Mexico	149,878	160,082	6,660	153,422	153,301
North Dakota	9,481	10,126	421	9,705	9,698
Oklahoma	2,916	3,115	130	2,985	2,983
Oregon	1,761	1,881	78	1,803	1,801
South Dakota	1,227	1,311	55	1,256	1,255
Utah	34,771	37,138	1,545	35,593	35,565
Washington	640	684	28	656	655
Wyoming	199,274	212,840	8,855	203,985	203,824
Minnesota	2	2	--	2	2
Texas	11	12	--	12	12
West Virginia	28	30	1	29	29
Subtotal	537,523	574,391	23,895	550,496	550,686
Interest on Late Payments	1,051	800	--	800	800
TOTAL	538,574	575,191	23,895 1/	551,296	551,486

1/ The FY 1986 appropriation includes $23,895,000 in total obligations that are to be sequestered by P.L. 99-177 in the Payments to the States account. This amount will not be paid during FY 1986, but will remain in the account and will be available at a future date to the extent permitted by law.

30 U.S.C. 1001, et seq. P.L. 91-581	The Geothermal Steam Act of 1970 authorizes the Secretary to issue leases for the development of geothermal energy and provides for receipt sharing with the States.
30 U.S.C. 181, et seq. P.L. 97-78	The Combined Hydrocarbon Leasing Act of 1981 provides for combined hydrocarbon leases and receipt sharing with the States for such leases within their boundaries.
30 U.S.C. 191 P.L. 97-451	The Federal Oil and Gas Royalty Management Act of 1982 provides for monthly distribution of mineral leasing receipts to the States.

Objectives

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

Base Program

This appropriation provides for payments to all States due shares of revenues realized as a result of the leasing of minerals on Federal lands located within the boundaries of the States. Revenues for these payments are accrued from bonuses, rentals, and royalties collected from Federal onshore mineral leases. Amounts paid to States are determined in accordance with various laws which specify the percentages of revenues to be paid. The payment a State receives is determined by the total revenues received from minerals leasing and production within their boundaries. A provision of the Federal Oil and Gas Royalty Management Act of 1982 required that, effective October 1, 1983, payments be made on a monthly basis, rather than semi-annually, as had previously been the case.

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

Distribution to the States

The method of estimating the mineral revenue distribution to States is displayed on Table 4. First, the total estimate of revenues from onshore minerals production is developed. From this total, the cost of producing, collecting, and distributing Federal onshore mineral leasing revenues borne by the MMS Royalty Management Program, the Bureau of Land Management, and the Forest Service are deducted. Next, the amount collected for distribution by other Federal agencies is deducted. This amount is estimated to be 6 percent of the total revenues collected, as historically experienced. Alaska's estimated receipts are then deducted prior to determination of amounts available for the distribution to the Lower 48 States because of Alaska's unique revenue sharing arrangements.

Table 4

Method of Estimating the FY 1987 Mineral Revenue Distribution to States

(Dollars in millions)

	Receipts	Payments to States
Estimated Onshore Mineral Leasing Receipts for FY 1987-------	$1,293	
Deduct:		
Cost of Collecting and distributing Federal onshore revenues--	125	
Amounts collected for other distribution (6% of receipts less cost recovery). ------------------------------------	70	
SUBTOTAL ---	$1,098	
Deduct:		
Designated revenues of $15 million for Alaska; $3 million for ANILCA; and $16 million for NPRA (revenue sharing formula for Alaska uses a different percentage for Alaskan payments, hence, Alaska estimated revenues are deducted prior to lower 48 States distribution)	34	
SUBTOTAL---	$1,064	
91% (11/12) of $1,064 million is distributed in FY 1987;-----	968	
plus 9% of FY 1986 collections of $1,124.-------------------	101	
TOTAL Lower 48 States' net receipts to be collected in FY 1987 before distribution between Federal and States' share -------------------------------------	1,069	
Less--Federal Government's share (50%). -------------	534	
Distribute to Lower 48:---		$ 535
		=====
Distribute to Alaska:		
91% of Alaska and ANILCA FY 1987 monies of $18 million;	16	
plus 9% of FY 1986 collections of $17 million.	2	
TOTAL Alaska and ANILCA net receipts to be collected------- States' share	18	
Less--Federal Government's share (10%). -------------	2	
Distribute to Alaska:---		$ 16
		=====
Mineral Leasing Receipts Distributed to States		551
Interest on late payments		1
DISTRIBUTION AMOUNTS TO ALL STATES -------------------------------------		$552
		=====

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

Under the Federal Oil and Gas Royalty Management Act of 1982, receipts are to be distributed to the States in the month immediately following the month of collection beginning in October, 1983. When estimating the annual amount available for distribution to the States, there is a lag between fiscal years that must be taken into account. Receipts that are collected in September, 1987 (the current fiscal year), will be distributed in October, 1987 (the following fiscal year). Thus, 91 percent of current fiscal year collections and 9 percent of prior year collections are calculated to derive the current year distribution amount. The estimated distribution of this amount is based on the percentage of total mineral leasing revenues historically generated within the boundaries of each State.

Cost Recovery

Beginning in FY 1987, the relevant onshore mineral leasing costs of the MMS, the Bureau of Land Management, and the Forest Service are proposed to be deducted from Federal onshore mineral leasing receipts before such receipts are distributed between the Treasury and the States. Historically, the States have shared the gross receipts of the onshore minerals programs without taking into account the Federal costs of obtaining and distributing those receipts. The onshore minerals programs have been funded entirely by the Federal Treasury while the States have shared only in distribution of revenues. States receive at least fifty (50) percent of the receipts from onshore mineral leasing, but this percentage would now be based on net receipts after deducting the cost of program management. This formula represents an equal distribution of these costs to the direct beneficiaries of the program rather than to the general public.

Approximately 74 percent of the MMS's Royalty Management Program workload is dedicated to Federal onshore lease activities, based primarily on the percentage of producing leases. The cost recovery formula thus deducts 74 percent of the total Royalty Management Program's costs (which includes a prorata share of administrative costs) from the onshore mineral leasing receipts before distribution between the States and the Treasury. The offsets related to MMS's collection and disbursement costs total \$37.6 million. Also, the relevant costs of BLM's fluid and solid energy mineral and nonenergy minerals leasing programs are deducted (\$62.4 million), along with a prorata share of BLM administrative costs, (\$11.9 million), for a total offset in BLM of \$74.3 million. In addition, cost recovery includes the relevant onshore mineral leasing costs of the Forest Service's Minerals Area Management Program (\$13.1 million). This brings the total cost sharing proposal to \$125.0 million in FY 1987.

As can be seen on Table 5, the net effect to the States of the \$125.0 million FY 1987 cost recovery will be \$53.5 million. Minerals Management Service will review annually the formula for allocating royalty management costs to assure equity among all States that share in these revenues.

Table 5

ESTIMATED FY 1987
MINERAL REVENUE PAYMENTS TO THE STATES
(Dollar amounts in thousands)

	FY 1985 Outlays	FY 1986 Estimated Payments	FY 1987 Gross Payments	Cost Recovery	FY 1987 Est. Net Payments
Alabama	200	214	225	20	205
Alaska	13,026	14,185	15,588	1,379	14,209
Arizona	1,129	1,206	1,267	112	1,155
Arkansas	718	767	806	71	735
California	41,833	44,681	46,942	4,154	42,788
Colorado	42,752	45,663	47,974	4,245	43,729
Florida	73	78	82	7	75
Idaho	3,767	4,023	4,227	374	3,853
Kansas	761	813	854	76	778
Louisiana	795	849	892	79	813
Michigan	44	47	49	4	45
Mississippi	1,073	1,146	1,204	107	1,097
Montana	21,140	22,579	23,722	2,099	21,623
Nebraska	320	342	359	32	327
Nevada	9,903	10,577	11,112	983	10,129
New Mexico	149,878	160,082	168,184	14,883	153,301
North Dakota	9,481	10,126	10,639	941	9,698
Oklahoma	2,916	3,115	3,273	290	2,983
Oregon	1,761	1,881	1,976	175	1,801
South Dakota	1,227	1,311	1,377	122	1,255
Utah	34,771	37,138	39,018	3,453	35,565
Washington	640	684	719	64	655
Wyoming	199,274	212,840	223,612	19,788	203,824
Minnesota	2	2	2	- -	2
Texas	11	12	13	1	12
West Virginia	28	30	32	3	29
Subtotal	537,523	574,391	604,148	53,462	550,686
Interest on Late Payments	1,051	800	800	- -	800
TOTAL	538,574	575,191	604,948	53,462	551,486

Decrease from 1987 Base

(Dollar amounts in thousands)

	FY 1987 Base	FY 1987 Estimate	Difference
($)	574,391	550,686	-23,705
(FTE)	(--)	(--)	(--)

In FY 1987 payments to the States are expected to decrease due to the deduction of the costs of program management from gross receipts of onshore mineral leasing, before such receipts are shared between the Federal Treasury and the States.

Justification of Program and Performance

Activity: Interest on Late Payments

(Dollar amounts in thousands)

Activity		FY 1986 Enacted to Date	FY 1986 Adjusted Appropriation	FY 1987 Base	FY 1987 Estimate	Inc.(+) Dec.(-) from Base
Interest on Late Payments	($)	--	--	800	800	--
	(FTE)	(--)	(--)	(--)	(--)	(--)

30 U.S.C. 191, *et seq.* P.L. 66-146	The Mineral Lands Leasing Act of 1920, as amended, provides for the sharing of receipts with States on a monthly basis from various mineral leasing activities on Federal lands within their boundaries.
30 U.S.C. 1714, 1721(b),1721(d)	The Federal Oil and Gas Royalty Management Act of 1982 provides for timely payments of royalty funds from oil and gas production on Indian lands to Indian accounts and for payments of interest to States and Indian accounts when funds are not disbursed as required by 30 U.S.C. 191 and 1714.

Interest on Late Payments

Objective

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

Base Program

The Federal Government shares revenues from Federal mineral leasing activities with States in which the revenues were generated. Indian lessors receive all the revenue from mineral leasing activities on their land. The Minerals Management Service collects, processes, accounts for, audits, and distributes bonuses, rents, royalties, and interest due the Federal Government to States and various Indian accounts from mineral leasing activities. Funding for this service is provided by three subactivities within the Royalty Management budget activity of the Leasing and Royalty Management appropriation--Mineral Revenue Collections, Mineral Revenue Compliance, and Systems Development and Operation. This activity provides annual indefinite authority to make payments of interest to States and Indian accounts when mineral leasing revenues due them are not disbursed within the timeframes prescribed by the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA).

Need for these Payments

The FOGRMA of 1982 changed the distribution of payments to the States for their share of mineral leasing revenues from a semi-annual to a monthly schedule. For States, payments must be made by the last business day of the month in which receipts are warranted by the United States Treasury. In addition, FOGRMA provides that deposits of any royalty funds from oil or gas production on Indian lands will be made to appropriate Indian accounts at the earliest practicable date, but in no case later than the last business day of the month in which such funds are received. Section 111 of the Act provides that interest computed at a rate applicable under Section 6621 of the Internal Revenue Code of 1954 is owed if the payment schedules listed above are not met.

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

Cash Shortfall

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

-- A payor reports (MMS-2014) royalties owed but remits less than the total reported liability, or pays late. MMS issues bills to payors who underpay (principal and interest) their royalty liability.

-- A payor makes an error in reporting the royalty liability (over reports) but pays the correct amount.

-- Payor cash is credited to the incorrect account, due to either an MMS or payor error.

-- Adjustment (negative) lines are rejected by the system edits (while the positive lines clear), giving the appearance to the system that a cash shortfall exists. Until the negative (-) lines are corrected, apparent shortfalls will continue.

Errors

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

Lease errors

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

Other data base errors

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

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

Errors in royalty/sales reports

-- This occurs when a payor omits certain information, or provides incomplete, erroneous and/or inconsistent information from the royalty report (MMS-2014). The opportunity for payor errors is far greater than the opportunity for lease-related or other data base errors.

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

In contrast to the State interest situation, interest on Indian late payments does generally not result from cash shortfalls or royalty errors. Indian cash is transferred to the Bureau of Indian Affairs (BIA) as soon as practicable (normally within two to four working days) after it is collected. End of the month collections will normally be subjected to interest calculations, because MMS is unable to transfer them to BIA until the beginning of the next month.

As long as this system relies on people to maintain it, as well as the dependence on other agencies and royalty payors to input data, there will always exist a set of conditions which will cause MMS to incur late payment interest liability.

In FY 1985, the AFS processed approximately 2.3 million lines of data. Of that total, almost 300 thousand lines (containing 416 thousand errors) were rejected. As a result, MMS has undertaken several initiatives to reduce errors.

On September 21, 1984, the Department promulgated regulations (30 CFR 241) which establish monetary penalties for improper reporting. Since errors related to the royalty/sales reports constitute a large percentage of the total number of errors, it can be expected that the regulations will provide an incentive for reporter accuracy, and thus reduce interest payments in the future. In addition, an intensive effort involving MMS contractor personnel is presently underway to reduce the error rate in the system (in particular, the error rate associated with the reference data base). The principal focus of this effort to date is the reconciliation of lease data to assure that each lease is properly identified in the system and to clean up the backlog of payor information forms (PIF's) which had accumulated. Moreover, MMS has made substantial progress in reducing the backlog of uncorrected, rejected lines by nearly 50 percent during the past year (from 30,375 uncorrected lines at the end of September 1984, to 15,834 lines at the end of September 1985) and by nearly 25 percent in the last quarter alone. This also compares to the approximately 200,000 lines of data received each month.

MMS also established a contract with Martin Marietta Data Systems to install a new hardware configuration and reimplement the Auditing and Financial System (AFS) software onto it. Starting in early FY 1987 when the new hardware is in operation and AFS has been reimplemented, improvements may be realized due to increased access time to make online error corrections. This will also result in savings in interest payments. In addition, MMS currently is publishing addenda to the Payor Handbook which, over time, will help to reduce errors in payor submitted royalty/sales reports.

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

14-5003-0-2-852	FY 1985 Actuals	FY 1986 Estimate	FY 1987 Estimate
Program by activities:			
Direct program:			
00.0101 Payments to States....................	537,523	574,391	550,686
00.0201 Interest on late payments............	1,051	- -	800
10.0001 Total obligations (object class 41.0).	538,574	574,391	551,486
Financing:			
39.0001 Budget authority......................	538,574	574,391	551,486
Budget authority:			
Current:			
40.0001 Appropriation (indefinite)...............	1,051	- -	800
Permanent:			
60.0001 Appropriation (indefinite)...........	537,523	574,391	550,686
Relation of obligations to outlays:			
71.0001 Obligations incurred, net............	538,574	574,391	551,486
90.0001 Outlays...............................	538,574	574,391	551,486

Reduction Pursuant to Public Law 99-177

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

14-5003-6-2-852	FY 1985 Actuals	FY 1986 Estimate	FY 1987 Estimate
Program by activities:			
10.0001 Total obligations.....................	--	-23,895	--
Financing:			
Offsetting collections from:			
21.4001 Unobligated balance available, start of year: Appropriation..............	--	--	-23,895
24.4001 Unobligated balance available, end of year: Appropriation..............	--	23,895	23,395
39.0001 Budget authority......................	--	--	--
Relation of obligations to outlays:			
71.0001 Obligations incurred, net.............	--	-23,895	--
90.0001 Outlays...............................	--	-23,895	--

Authorizing Language

Interest on Refunds

Authorizing language is currently being developed and will be submitted to the Congress during February 1986.

Justification for Proposed Legislation

Activity: Royalty Management
Subactivity: Interest on Refunds

(Dollar amounts in thousands)

Subactivity		FY 1986 Enacted To Date	FY 1986 Adjusted Appropriation	FY 1987 Base	FY 1987 Estimate	Inc.(+)/ Dec.(-) from Base
Interest on Refunds	($)	--	--	--	200	+200
	(FTE)	(--)	(--)	(--)	(--)	(--)

Authorization

Authorizing language is currently being developed and will be transmitted to the Congress during February 1986.

Objective

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

Justification for Proposed Legislation

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

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

Proposed for later transmittal, proposed legislation

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

14-1917-2-1-302	FY 1985 Actuals	FY 1986 Estimate	FY 1987 Estimate
Program by activities:			
10.0001 Total obligations (object class 43.0).	—	—	200
Financing:			
40.0001 Budget Authority (appropriation)......	—	—	200
Relation of obligations to outlays:			
71.0001 Obligations incurred, net.............	—	—	200
90.0001 Outlays.........................	—	—	200

DEPARTMENT OF THE INTERIOR

MINERALS MANAGEMENT SERVICE

Payments to States from Receipts under Mineral Leasing Act

(Supplemental now requested under existing legislation)

Notwithstanding any other provision of law, in fiscal year 1986, moneys received from sales, bonuses, royalties (including interest charges collected under the Federal Oil and Gas Royalty Management Act of 1982), and rentals of the public lands under the provisions of the Mineral Lands Leasing Act of 1920, as amended, and the Geothermal Steam Act of 1970, not payable to a State or to the Reclamation Fund, shall be available for the payment of interest in accordance with 30 U.S.C. 1721 (b) and (d), prior to crediting of such funds to miscellaneous receipts of the Treasury.

EXPLANATION OF REQUEST

The Federal Oil and Gas Royalty Management Act of 1982 requires the Government to make payments of interest to States and Indian accounts when Federal onshore mineral leasing revenues due them are not disbursed within the timeframes prescribed by the Act. These payments from receipts under the Mineral Leasing Act cannot be disbursed until a proper determination is made of the source of all incoming royalties. Although the primary causes of delays in disbursement (payor input errors and processing errors) can be minimized, absolute eradication of errors is unlikely. Based on experience during FY 1985, it is estimated that $800,000 will be needed to pay interest to States and Indian accounts on FY 1986 late disbursements. The MMS currently has no source of available funds from which to pay this interest. Therefore, this supplemental is proposed to provide for annual, indefinite authority since absolute amounts cannot be accurately estimated in advance.

Minerals Management Service
FY 1986 Supplemental Request
Interest on Late Payments

SUMMARY OF REQUIREMENTS

Appropriation: Payments to States from Receipts under Mineral Leasing Act

(Dollars in thousands)

Comparison by Activities:	1985 Actual	1986 Pending	1986 Supple.	1987 Estimate
Payments to States	537,523	574,391	--	574,391
Interest on Late Payments	1,051	--	800	800
Total, Payments to States ...	538,574	574,391	800	575,191

Justification of Program and Performance

Activity: Interest on Late Payments

(Dollar amounts in thousands)

Activity		1986 Presently Available	1986 Proposed Supplemental	1986 Revised Estimate
Interest on Late Payments	($)	--	800	800
	(FTE)	(--)	(--)	(--)

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

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

Interest on Late Payments

Objective

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

Base Program

The Federal Government shares revenues from Federal mineral leasing activities with States in which the revenues were generated. Indian lessors receive all the revenue from mineral leasing activities on their land. The Minerals Management Service collects, processes, accounts for, audits, and distributes bonuses, rents, royalties, and interest due the Federal Government to States and various Indian accounts from mineral leasing activities. Funding for this service is provided by three subactivities within the Royalty Management budget activity of the Leasing and Royalty Management appropriation--Mineral Revenue Collections, Mineral Revenue Compliance, and Systems Development and Operation. These three subactivities exist under annual, definite budget authority. A permanent, indefinite appropriation consisting of only one budget activity (Payments to States from Receipts under Mineral Leasing Act) exists to provide payment of the States' share of revenues. The activity proposed by this supplemental would be included in the Payments to States from Receipts under Mineral Leasing Act appropriation and would have annual, indefinite authority to provide payments of interest to States and Indian accounts when mineral leasing revenues due them are not disbursed within the timeframes prescribed by the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA).

Need for Supplemental

The FOGRMA of 1982 changed the distribution of payments to the States for their share of mineral leasing revenues from a semi-annual to a monthly schedule. For States, payments must be made by the last business day of the month in which receipts are warranted by the United States Treasury. In addition, FOGRMA provides that deposits of any royalty funds from oil or gas production on Indian lands will be made to appropriate Indian accounts at the earliest practicable date, but in no case later than the last business day of the month in which such funds are received. Section 111 of the Act provides that interest computed at a rate applicable under Section 6621 of the Internal Revenue Code of 1954 is owed if the payment schedules listed above are not met.

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

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Other data base errors

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

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

Errors in royalty/sales reports

-- This occurs when a payor omits certain information, or provides incomplete, erroneous and/or inconsistent information from the royalty report (MMS-2014). The opportunity for payor errors is far greater than the opportunity for lease-related or other data base errors.

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

In contrast to the State interest situation, interest on Indian late payments does generally not result from cash shortfalls or royalty errors. Indian cash is transferred to the Bureau of Indian Affairs (BIA) as soon as practicable (normally within two to four working days) after it is collected. End of the month collections will normally be subjected to interest calculations, because MMS is unable to transfer them to BIA until the beginning of the next month.

As long as this system relies on people to maintain it, as well as the dependence on other agencies and royalty payors to input data, there will always exist a set of conditions which will cause for MMS to incur late payment interest liability.

In FY 1985, the AFS processed approximately 2.3 million lines of data. Of that total, almost 300 thousand lines (containing 416 thousand errors) were rejected. As a result, MMS has undertaken several initiatives to reduce errors.

On September 21, 1984, the Department promulgated regulations (30 CFR 241) which establish monetary penalties for improper reporting. Since errors related to the royalty/sales reports constitute a large percentage of the total number of errors, it can be expected that the regulations will provide an incentive for reporter accuracy, and thus reduce interest payments in the future. In addition, an intensive effort involving MMS contractor personnel is presently underway to reduce the error rate in the system (in particular, the error rate associated with the reference data base). The principal focus of this effort to date is the reconciliation of lease data to assure that each lease is properly identified in the system and to clean up the backlog of payor information forms (PIF's) which had accumulated. Moreover, MMS has made substantial progress in reducing the backlog of uncorrected, rejected lines by nearly 50 percent during the past year (from 30,375 uncorrected lines at the end of September 1984, to 15,834 lines at the end of September 1985) and by nearly 25 percent in the last quarter alone. This also compares to the approximately 200,000 lines of data received each month.

MMS also established a contract with Martin Marietta Data Systems to install a new hardware configuration and reimplement the Auditing and Financial System (AFS) software onto it. Starting in early FY 1987 when the new hardware is in operation and AFS has been reimplemented, improvements may be realized due to increased access time to make online error corrections. This will also result in savings in interest payments. In addition, MMS currently is publishing addenda to the Payor Handbook which, over time, will help to reduce errors in payor submitted royalty/sales reports.

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

The establishment of a separate budget activity in this account with annual, indefinite authority is being requested for the following reasons:

- o While an estimate of the amount required for interest payments has been made, the actual amount cannot be accurately predicted in advance and is only partially within the control of Royalty Management personnel. Indefinite authority is most appropriate in this situation. Further, the amount of these payments will fluctuate with the amount and timeliness of mineral leasing revenue disbursements. Indefinite authority will avoid surplus or deficit funding situations in the operational subactivities funded by a definite appropriation. This, in turn, will minimize the unpredictability and potentially damaging impact of interest payment fluctuations on other MMS operations.

- Payments of interest on late payments to the States and Indian accounts is mandatory under 30 U.S.C. 1721(b) and (d).

Supplemental now requested, existing legislation

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

14-5003-1-2-852	FY 1985 Actuals	FY 1986 Estimate	FY 1987 Estimate
Program by activities:			
10.0001 Total obligations (object class 41.0).	--	800	--
Financing:			
40.0001 Budget Authority (appropriation) (indefinite)........................	--	800	--
Relation of obligations to outlays:			
71.0001 Obligations incurred, net.............	--	800	--
90.0001 Outlays..........................	--	800	--