



MINERALS MANAGEMENT SERVICE

Mission – The Minerals Management Service manages access to the Nation's energy and mineral resources of the Outer Continental Shelf to help meet the domestic demands and other needs of the United States while balancing such access with the protection of the human, marine, and coastal environments.

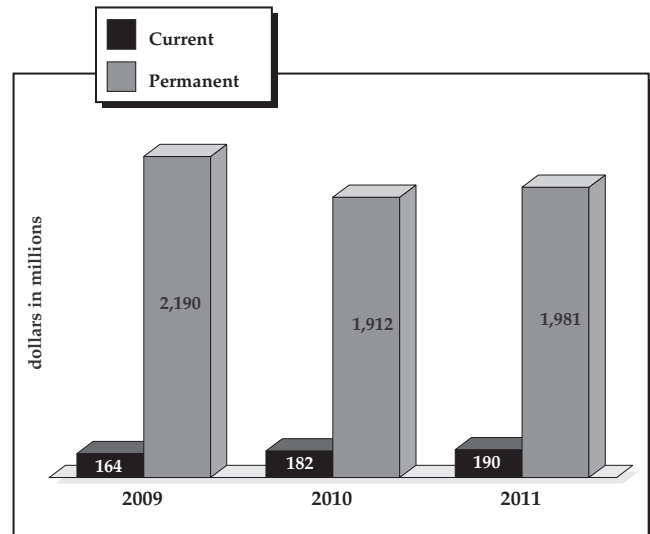
Background – The MMS was formed by Secretarial Order in 1982 to facilitate the Nation's mineral revenue collection efforts and the management of its Outer Continental Shelf offshore lands. The MMS manages energy and mineral resources, including renewable energy resources, on the Nation's OCS in an environmentally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

Program Overview – Currently, MMS administers more than 8,000 active mineral leases containing over 32,000 wells, and oversees production from nearly 3,800 facilities on the OCS. Production from these mineral leases generates billions of dollars in revenue for the Federal Treasury and State governments and supports thousands of jobs. The MMS oversees production of 11 percent of the natural gas and 25 percent of the oil produced domestically. The MMS is also developing a robust renewable energy program that will complement traditional energy sources and contribute to the Nation's transition to a low-carbon economy.

To ensure OCS development is carried out in a safe and environmentally responsible manner, MMS inspects all offshore facilities, reviews plans for exploration and development, analyzes statements of financial responsibility, and funds scientific and engineering research related to mineral and renewable energy development on the OCS.

Revenues collected from onshore and offshore Federal lands by MMS are one of the largest sources of non-tax revenue to the Federal government. In 2009, MMS disbursed \$10.7 billion in mineral revenues to States; the Office of the Special Trustee for American Indians

MMS Funding



for distribution to Indian Tribes and individual owners; other Federal agencies; and U.S. Treasury accounts. Additionally, MMS delivered oil valued at \$268.5 million to the Department of Energy for the Strategic Petroleum Reserve. Total revenues are expected to be \$11.0 billion in 2011. The MMS comprehensive compliance strategy includes an automated compliance verification program to validate the accuracy and timeliness of revenues paid and an audit program staffed by MMS, State, and tribal auditors to ensure proper revenues are collected and disbursed. Since 1994, a portion of OCS rental revenues has been used to offset MMS appropriations.

Budget Overview – The 2011 MMS budget request is \$364.8 million, including \$189.9 million in current appropriations and \$174.9 million in offsetting collections from rental receipts and fees. Current appropriations are increased by \$8.4 million above 2010.

OCS Inspection Fee – The Royalty and Offshore Minerals Management account has traditionally been credited with offsetting collections to help defray the cost of MMS operations. These include certain rental receipts and cost recovery fees. To defray increasing inspection

costs, the 2010 appropriation established an inspection fee on OCS above-water oil and gas facilities subject to inspection, except mobile offshore drilling units. The MMS developed the fee structure based on the complexity of the facility, as determined by the number of wells. The 2011 budget proposes an increase in inspection fees to require OCS energy developers to fund approximately 50 percent of MMS compliance inspection costs. This represents a reasonable contribution on the part of the energy developers, who are the primary beneficiaries of the OCS development program. The fee would support Federal efforts to provide services that not only ensure human safety, but also protect the environment and conserve energy and marine resources.

New Energy Frontier Initiative – The OCS program is a major component of the Department’s New Energy Frontier initiative. With substantial enhancements in the 2010 budget, MMS has a new mandate to implement a comprehensive offshore renewable energy program on the OCS. Secretary Salazar has increased efforts to support the development of renewable energy first by working with Federal Energy Regulatory Commission Chairman Jon Wellinghoff to reach an agreement regarding the process by which permits and licenses related to hydrokinetic energy resources in offshore waters are to be handled. Interior then finalized the first regulatory framework to guide development of significant domestic offshore renewable energy sources including wind, wave, and ocean current forces. More recently, Secretary Salazar announced the creation of a new Renewable Energy Office in the Atlantic region to focus efforts on developing the abundant wind resources on the eastern seaboard. The 2010 budget provided a substantial increase of \$24.0 million that MMS is using to establish that office and expand its expertise and capacity to consider OCS renewable energy leasing in collaboration with coastal States, as well as development proposals presented by industry. In 2009, MMS achieved a significant milestone when it issued the first exploratory leases for renewable energy along the Atlantic coast.

The 2011 budget request under the New Energy Frontier initiative includes an increase of \$16.5 million to support comprehensive energy development activities on the OCS and effective royalty management. The initiative includes a program increase of \$3.5 million to advance renewable energy development and enhance capabilities in the Atlantic and Pacific regions. The funding will increase the capacity to evaluate project proposals, accumulate knowledge of local resources and regulations, and foster development of valuable renewable resources. The initiative also includes an increase of \$4.4 million to ensure safe operations and fair market value for public mineral resources. This is partially offset by the redirection of \$2.0 million for environmental studies. The initiative

also includes \$1.0 million for marine spatial planning activities to ensure OCS energy resources are considered as ocean management plans are developed. The MMS will use an increase of \$13.7 million to improve royalty compliance and auditing operations to ensure proper revenues are collected and disbursed in a timely manner.

Royalty Reforms – The Administration believes that American taxpayers should get a fair return on the development of energy resources on their public lands. A 2008 Government Accountability Office report suggests that taxpayers could be getting a better return from Federal oil and gas resources, at least in some areas. In 2010, Interior will take steps to implement reforms, including the completion of a rulemaking to adjust onshore royalty rates. The budget assumes these reforms will increase Federal oil and gas revenues by \$1.0 billion over the next ten years.

In addition, on September 16, 2009, Secretary Salazar announced that the Royalty-in-Kind program will be discontinued. The Secretary directed MMS to “. . . ensure that the termination of the RIK program will not adversely affect MMS’ commitment to ensure that the Nation’s Federal and Indian energy and mineral revenues are accurately reported and paid in compliance with laws, regulations, and lease terms and that the American people receive fair market value for their valuable energy and mineral resources.” As RIK oil and natural gas sales contracts expire, RIK properties will revert to in-value status. The MMS is requesting an increase of \$10.0 million in appropriated funds to support royalty-in-value compliance and auditing activities resulting from this transition. This increase in appropriations will be offset by an equivalent reduction in outlays from receipts previously used to fund RIK activities.

Oil and Gas Leasing – The Gulf of Mexico Energy Security Act of 2006 expanded OCS oil and gas leasing activities in the Gulf of Mexico, significantly increasing MMS responsibilities. The 2011 MMS budget request includes an increase of \$4.4 million, offset by the redirection of \$2.0 million from environmental studies, to support the additional leasing areas now included in the 2007-2012 Five-Year OCS Oil and Gas Leasing program. The five-year program includes six lease sales in 2011 including two in the Gulf of Mexico and one in the Beaufort Sea, Alaska. There is the potential for a “special interest” sale in Alaska’s Cook Inlet. However, the resolution of ongoing litigation and the level of industry interest in certain frontier areas may affect the number of sales actually held.

Offshore Energy and Minerals Management – The goal of the Offshore Energy and Minerals Management program is to provide for safe and environmentally

sound energy and mineral development on the OCS and to ensure that the public receives fair market value for these resources. To carry out this goal, MMS activities include administration of OCS leases for renewable and mineral energy resources, review of new exploration and development plans, examination of pipeline rights-of-way applications, environmental assessments, and annual safety inspections of nearly 3,800 mineral extraction and exploration facilities. The MMS requests \$200.6 million in 2011 for Offshore program activities, \$3.8 million above 2010.

The Department has significantly increased responsibility for renewable energy development on the OCS as a result of the Energy Policy Act of 2005. The 2011 budget continues the 2010 investment in the development of offshore renewable energy resources. Completion of a Memorandum of Agreement with the Federal Energy Regulatory Commission to cooperate on permitting the development of wave and current energy offshore resolved differences that languished since Congress passed the Energy Policy Act of 2005. The MMS subsequently released the first framework for developing renewable energy on the OCS and has issued the first exploratory leases for renewable energy on the Atlantic Coast. The MMS continues to work with coastal States to consider the impacts, requirements, and potential to harness wind resources and has established several State-based task forces to support this cooperation. The new Atlantic Renewable Energy Office will implement and manage the offshore renewable energy program, including leasing, environmental programs, the formation of task forces, State consultation, and post-lease permitting in Federal waters off the East Coast.

The MMS continues to focus on developing a robust OCS-based renewable energy program and is requesting a program increase of \$3.5 million to support those efforts in the 2011 budget. Funding will be directed to the Atlantic and Pacific regions to increase the capacity to evaluate project proposals, accumulate knowledge of local resources and regulations, and foster development of valuable renewable resources. This funding will advance OCS renewable energy leasing activities, including collaboration with coastal States, federally recognized Indian Tribes, and other stakeholders; conducting environmental and technological studies; preparing environmental analyses; initiating up to four competitive renewable energy lease sales, or comparable noncompetitive individual renewable energy projects; and processing limited leases for offshore resource data collection and technology testing.

The budget also recognizes that as the Nation works to transition its economy toward cleaner, renewable energy sources, America's oil and gas supplies remain an

important component of a comprehensive energy plan. Interior is working to ensure that the oil and gas resources it manages are developed in a safe and responsible manner and that Americans receive fair market value for public resources. The Department conducts regular lease sales in OCS areas open to development according to a five-year OCS Oil and Gas Leasing program.

The 2011 President's budget request includes an increase of \$4.4 million to invest in the systems and people necessary to ensure fair market value for America's OCS energy resources. The increase will also fund additional inspection staff required to ensure that expanding deepwater energy development occurs in a safe and environmentally responsible manner. This investment is offset by a redirection of \$2.0 million from environmental studies funding that will result in the deferral or cancellation of lower priority oil and gas studies.

The MMS is also requesting a \$1.0 million increase to enhance its marine spatial planning capabilities and coordinate efforts with the U.S. Geological Survey, Fish and Wildlife Service, and other government entities to optimize management of offshore ecosystems. The Administration's Interagency Ocean Policy Task Force released an interim framework to guide marine spatial planning in December 2009, and MMS will use the additional funding requested to support the framework's call for increased "integration, cooperation, and coordination."

Secretary Salazar has stressed the Administration's view that decisions about the future development of OCS resources should be based on the best available information and public input. The Department is currently analyzing the public comments submitted in response to publication of the draft proposed five-year program for the OCS. The MMS and USGS have assembled a report on the available resources in the OCS, and Secretary Salazar held four regional meetings around the country to gather public input. The information collected throughout this process will guide the Administration's decisions as it considers the next five-year OCS Oil and Gas Leasing program.

Minerals Revenue Management – The goal of the MRM program is to ensure that revenue from Federal and Indian mineral leases are effectively, efficiently, and accurately collected, accounted for, and disbursed to recipients. These revenue distributions, which totaled nearly \$11 billion last year, are disbursed to 38 States, 41 Indian Tribes, some 30,000 American Indian mineral royalty owners, and to U.S. Treasury accounts. In the 2011 budget request, the MRM program is funded at \$100.4 million, an increase of \$11.0 million above 2010. The primary element of this request is a \$10.0 million increase to enhance compliance activities and increase auditing

capacity to cover a larger set of royalty payments that will be collected through traditional “in value” collections. This funding will offset an anticipated reduction in RIK mandatory funding as RIK operations are phased out.

The MMS also requests an increase of \$1.7 million to enhance the capabilities and integration of compliance tools. The two-year initiative will address several overlapping recommendations from external entities including the Government Accountability Office. The funding will support the development of a compliance tool suite that will convert current manual calculations and analyses to automated formats. The tools will provide a single, reliable and consistent source for compliance planning, tracking, analysis, performance measurement, and records management.

To support the accurate collection and accounting of royalties owed for the production of natural gas, the MRM program must establish a value for natural gas. The MMS requests an increase of \$2.0 million to complement the production assurance efforts currently underway by increasing its valuation and market research capabilities. This increase will provide reliable and timely access to gas index and location differential data, which will be used in valuation. The MMS will also review and audit targeted gas plants and transportation systems. With

more than 100 different index points for gas, 500 pipeline systems transporting gas, and 200 gas plant systems, all of which complicate the valuation process, this funding is a key element to ensure taxpayers receive a fair return on Federal resources.

Oil Spill Research Program – This program supports oil pollution research and other duties related to oil spill prevention, as authorized by the Oil Pollution Act of 1990. The National Oil Spill Response Test Facility is the only one of its type in the world providing full-scale equipment and methodology testing in a safe, controlled environment. The budget proposes total funding of \$6.3 million in 2011, which is equal to 2010.

Fixed Costs and Related Changes – Fixed costs are estimated at \$4.0 million and are expected to be absorbed. There is a fixed cost adjustment of \$16,000 for a decrease in the Departmental Working Capital Fund bill.

Management Efficiencies – The 2011 budget request includes reductions that are proposed Interior-wide based on SAVE Award nominations reflecting anticipated efficiency savings of \$402,000 from travel and relocation, \$480,000 from information technology, and \$261,000 from strategic sourcing.

SUMMARY OF BUREAU APPROPRIATIONS

(all dollar amounts in thousands)

Comparison of 2011 Request with 2010 Enacted:

| | 2010 Enacted | | 2011 Request | | Change from 2010 | |
|---|--------------|------------------|--------------|------------------|------------------|----------------|
| | FTE | Amount | FTE | Amount | FTE | Amount |
| Appropriations | | | | | | |
| Royalty and Offshore Minerals Management..... | 1,666 | 175,217 | 1,706 | 183,587 | +40 | +8,370 |
| Oil Spill Research | 18 | 6,303 | 18 | 6,303 | 0 | 0 |
| Subtotal, Direct Appropriations..... | 1,684 | 181,520 | 1,724 | 189,890 | +40 | +8,370 |
| Offsetting Collections | | | | | | |
| Offsetting Collections | 0 | 166,730 | 0 | 174,890 | 0 | +8,160 |
| Subtotal, Appropriations..... | 1,684 | 348,250 | 1,724 | 364,780 | +40 | +16,530 |
| Permanents and Trusts | | | | | | |
| Mineral Leasing and Associated Payments..... | 0 | 1,647,999 | 0 | 1,960,045 | 0 | +312,046 |
| Leases of Lands Acquired for Flood Control, Navigation, and Allied Purposes..... | 0 | 2,116 | 0 | 2,303 | 0 | +187 |
| National Forests Funds, Payments to States | 0 | 5,009 | 0 | 5,448 | 0 | +439 |
| Qualified OCS Revenue to Gulf Producing States . | 0 | 2,220 | 0 | 1,894 | 0 | -326 |
| National Petroleum Reserve - Alaska | 0 | 4,900 | 0 | 11,650 | 0 | +6,750 |
| Coastal Impact Assistance Program | 24 | 250,000 | 24 | 0 | 0 | -250,000 |
| Subtotal, Permanents and Trusts | 24 | 1,912,244 | 24 | 1,981,340 | 0 | +69,096 |
| TOTAL, MINERALS MGMT. SERVICE (w/o OC) | 1,708 | 2,093,764 | 1,748 | 2,171,230 | +40 | +77,466 |
| TOTAL, MINERALS MGMT. SERVICE (w/ OC) | 1,708 | 2,260,494 | 1,748 | 2,346,120 | +40 | +85,626 |

HIGHLIGHTS OF BUDGET CHANGES

By Appropriation Activity/Subactivity

APPROPRIATION: Royalty and Offshore Minerals Management

| | 2009 Actual | 2010 Enacted | 2011 Request | Change from 2010 |
|--|-------------|--------------|--------------|---------------------|
| Offshore Energy and Minerals Mgmt. | | | | |
| Renewable Energy | | | | |
| Appropriation..... | 0 | 7,413 | 9,840 | +2,427 |
| Offsetting Collections | 0 | 14,000 | 13,795 | -205 |
| Total, Renewable Energy | 0 | 21,413 | 23,635 | +2,222 |
| Leasing and Environmental Program | | | | |
| Appropriation..... | 20,457 | 24,955 | 25,602 | +647 |
| Offsetting Collections | 34,506 | 34,506 | 33,938 | -568 |
| Total, Leasing/ Environmental | 54,963 | 59,461 | 59,540 | +79 |
| Resource Evaluation Program | | | | |
| Appropriation..... | 19,572 | 21,159 | 22,822 | +1,663 |
| Offsetting Collections | 14,126 | 14,126 | 13,797 | -329 |
| Total, Resource Evaluation Prog | 33,698 | 35,285 | 36,619 | +1,334 |
| Regulatory Program | | | | |
| Appropriation..... | 36,219 | 29,212 | 19,907 | -9,305 |
| Offsetting Collections | 21,049 | 31,049 | 40,473 | +9,424 |
| Total, Regulatory Program..... | 57,268 | 60,261 | 60,380 | +119 |
| Information Management Program | | | | |
| Appropriation..... | 721 | 9,205 | 9,205 | 0 |
| Offsetting Collections | 19,549 | 11,249 | 11,249 | 0 |
| Total, Info Management Program | 20,270 | 20,454 | 20,454 | 0 |
| Total, Offshore Energy /Minerals Mgmt.. | 76,969 | 91,944 | 87,376 | -4,568 |
| Offsetting Collections | 89,230 | 104,930 | 113,252 | +8,322 |
| Subtotal, Offshore Energy /Minerals Mgmt | 166,199 | 196,874 | 200,628 | +3,754 |
| Minerals Revenue Management | | | | |
| Compliance and Asset Management | | | | |
| Appropriation..... | 26,465 | 27,887 | 38,381 | +10,494 |
| Offsetting Collections | 21,500 | 23,053 | 23,053 | 0 |
| Total, Compliance/ Asset Mgmt..... | 47,965 | 50,940 | 61,434 | +10,494 |
| Revenue and Operations | | | | |
| Appropriation..... | 18,719 | 16,883 | 17,536 | +653 |
| Offsetting Collections | 20,000 | 21,551 | 21,434 | -117 |
| Total, Revenue and Operations | 38,719 | 38,434 | 38,970 | +536 |
| Total, Minerals Revenue Management | 45,184 | 44,770 | 55,917 | +11,147 |
| Offsetting Collections | 41,500 | 44,604 | 44,487 | -117 |
| Subtotal, Minerals Revenue Mgmt | 86,684 | 89,374 | 100,404 | +11,030 |
| General Administration | | | | |
| Executive Direction | | | | |
| Appropriation..... | 1,741 | 1,818 | 2,198 | +380 |
| Offsetting Collections | 1,000 | 1,000 | 998 | -2 |
| Total, Executive Direction | 2,741 | 2,818 | 3,196 | +378 |

| | 2009 Actual | 2010 Enacted | 2011 Request | Change from 2010 |
|--|-------------|--------------|--------------|---------------------|
| Policy and Management Improvement | | | | |
| Appropriation..... | 3,236 | 3,328 | 3,414 | +86 |
| Offsetting Collections | 1,000 | 1,000 | 997 | -3 |
| Total, Policy/Mgmt Improvement ... | 4,236 | 4,328 | 4,411 | +83 |
| Administrative Operations | | | | |
| Appropriation..... | 16,099 | 17,474 | 18,302 | +828 |
| Offsetting Collections | 1,555 | 2,555 | 2,548 | -7 |
| Total, Administrative Operations | 17,654 | 20,029 | 20,850 | +821 |
| General Support Services | | | | |
| Appropriation..... | 14,144 | 15,883 | 16,380 | +497 |
| Offsetting Collections | 12,445 | 12,641 | 12,608 | -33 |
| Total, General Support Services | 26,589 | 28,524 | 28,988 | +464 |
| Total, General Administration..... | 35,220 | 38,503 | 40,294 | +1,791 |
| Offsetting Collections | 16,000 | 17,196 | 17,151 | -45 |
| Subtotal, General Administration..... | 51,220 | 55,699 | 57,445 | +1,746 |
| TOTAL | | | | |
| Appropriation..... | 157,373 | 175,217 | 183,587 | +8,370 |
| Offsetting Collections | 146,730 | 166,730 | 174,890 | +8,160 |
| TOTAL | 304,103 | 341,947 | 358,477 | +16,530 |

Highlights of Budget Changes

Fixed Costs

Fixed costs of \$4,016 are absorbed. There is a fixed cost adjustment of \$16 for a decrease in the Departmental Working Capital Fund.

Offshore Energy and Minerals Management

Renewable Energy Program

A net increase of \$2,222 is proposed for this subactivity. An increase is proposed for renewable energy (+\$2,500). The proposal reduces funding for information technology, travel, acquisitions, operating efficiencies, and strategic sourcing (-\$73), and offsetting collections for a reduction in eligible rental receipts and cost recoveries (-\$205).

Leasing and Environmental Program

A net increase of \$79 is proposed for this subactivity. Increases are proposed for ensuring fair market value and safe operations (+\$850), renewable energy (+\$1,000), and marine spatial planning (+\$1,000). The proposal redirects environmental studies (-\$2,000) and reduces funding for information technology, travel, acquisitions, operating efficiencies, and strategic sourcing (-\$203), and offsetting collections for a reduction in eligible rental receipts and cost recoveries (-\$568).

Resource Evaluation Program

A net increase of \$1,334 is proposed for this subactivity. An increase is proposed for ensuring fair market value and safe operations (+\$2,680). The proposal reduces unrequested funding for the Center for Marine Resources and Environmental Technology (-\$900); information technology, travel, acquisitions, operating efficiencies, and strategic sourcing (-\$117); and offsetting collections for a reduction in eligible rental receipts and cost recoveries (-\$329).

Regulatory Program

A net increase of \$119 is proposed for this subactivity. An increase is proposed for ensuring fair market value and safe operations (+\$900). The proposal reduces funding for information technology, travel, acquisitions, operating efficiencies, and strategic sourcing (-\$205), and offsetting collections for a reduction in eligible rental receipts and cost recoveries (-\$576).

Minerals Revenue Management

Compliance and Asset Management

A net increase of \$10,494 is proposed for this subactivity. Increases are proposed for transition to royalty-in-value (+\$7,077), to enhance capabilities and integration of compliance tools (+\$1,717), and to ensure proper royalties are paid on transported and processed natural gas (+\$1,850). The proposal reduces funding for information technology, travel, acquisitions, operating efficiencies, and strategic sourcing (-\$150).

Revenue and Operations

A net increase of \$536 is proposed for this subactivity. An increase is proposed for transition to royalty-in-value (+\$879). The proposal reduces funding for information technology, travel, acquisitions, operating efficiencies, and strategic sourcing (-\$226), and offsetting collections for a reduction in eligible rental receipts and cost recoveries (-\$117).

General Administration

A net increase of \$1,746 is proposed for this subactivity. Increases are proposed for transition to royalty-in-value (+\$2,044) and ensuring proper royalties are paid on transported and processed natural gas (+\$150). The proposal reduces funding for information technology, travel, acquisitions, operating efficiencies, and strategic sourcing (-\$403), and offsetting collections for a reduction in eligible rental receipts and cost recoveries (-\$45).

APPROPRIATION: Oil Spill Research

| | 2009 Actual | 2010 Enacted | 2011 Request | Change from 2010 |
|---------------------------|-------------|--------------|--------------|---------------------|
| TOTAL APPROPRIATION | 6,303 | 6,303 | 6,303 | 0 |