

**MINERALS MANAGEMENT SERVICE**  
**FY 2006 BUDGET REQUEST**  
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## FY 2006 BUDGET REQUEST

### Director's Preface

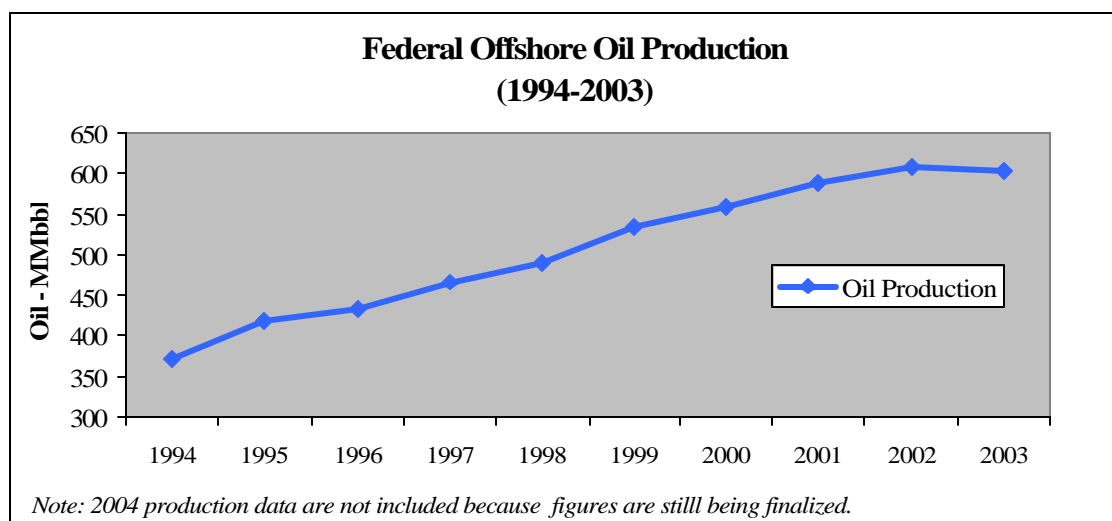
The Minerals Management Service (MMS) is an agency of approximately 1,800 full-time equivalent (FTE) employees and is one of the top collectors of revenue for the United States. With a total requested funding level of \$290 million in Fiscal Year (FY) 2006, of which only \$167 million is from annual appropriations, MMS manages activities that generate 23 percent of America's domestic natural gas production, 30 percent of America's domestic oil production, and an average of over \$6 billion in annual revenues for the Nation, States, and American Indians.

*"A small bureau with a large impact, the Minerals Management Service will continue to work to ensure the Nation receives the highest value for its precious resources now and in the future."*  
- MMS Director, R.M. "Johnnie" Burton

### ***OCS Oil and Natural Gas Production***

The Federal Outer Continental Shelf (OCS) is a major supplier of oil and natural gas for the domestic market, contributing more oil and natural gas for U.S. consumption than any single U.S. state. In addition, the supply of oil and natural gas from the OCS exceeds the amounts the U.S. imports from any one country in the world.

At present, MMS administers over 8,000 producing and non-producing leases on the OCS. The approximately 4,000 production platforms on the OCS account for almost 30 percent of the Nation's domestic oil production and over 23 percent of its domestic natural gas production. Current production levels are about 1.7 million barrels (MMbbls) of oil and about 12.5 billion cubic feet (Bcf) of natural gas per day. Annually, OCS leases produce over 600 million barrels of oil and 4.7 trillion cubic feet of natural gas, which has a total sales value of \$28.5 billion. To date, the OCS has produced approximately 15 billion barrels of oil and more than 155 trillion cubic feet (Tcf) of natural gas.



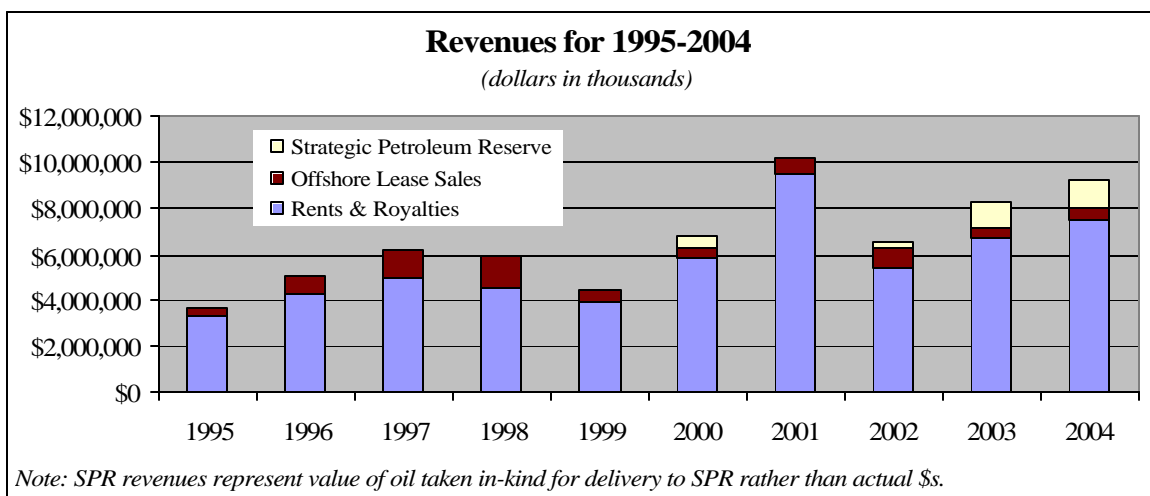
**Figure 1: Federal Offshore Oil Production (1994-2003)**

Over the next decade, oil production in the Gulf of Mexico (GOM) is expected to increase by 43 percent and natural gas production by 13 percent. The increase will come from technologically challenging areas – deep water and greater depths below the seabed.

The current 5-year Oil and Gas Leasing Program (2002-2007) will make available for lease portions of the OCS with potentially recoverable resources of 10 to 22 billion barrels of oil and 40 to 61 Tcf of natural gas. Production from leases issued as a result of these sales will generate billions of dollars in revenue for the Federal Treasury and State governments and create thousands of jobs in the energy industry.

### **Mineral Lease Revenue Collection**

The MMS administers the rental, royalty, and other financial terms for over 26,000 producing and 58,000 non-producing mineral leases on Federal onshore, offshore and Indian lands. Each month MMS processes about a half a million royalty and production report lines from over 3,700 energy companies. As evidenced in Figure 2, over the last ten years, MMS's revenue collections have increased substantially; in FY 2004, MMS collected and accounted for more than \$9.2 billion in minerals revenues. Since its inception in 1982, MMS has disbursed over \$146 billion in mineral royalties, rents, and bonuses to recipients.

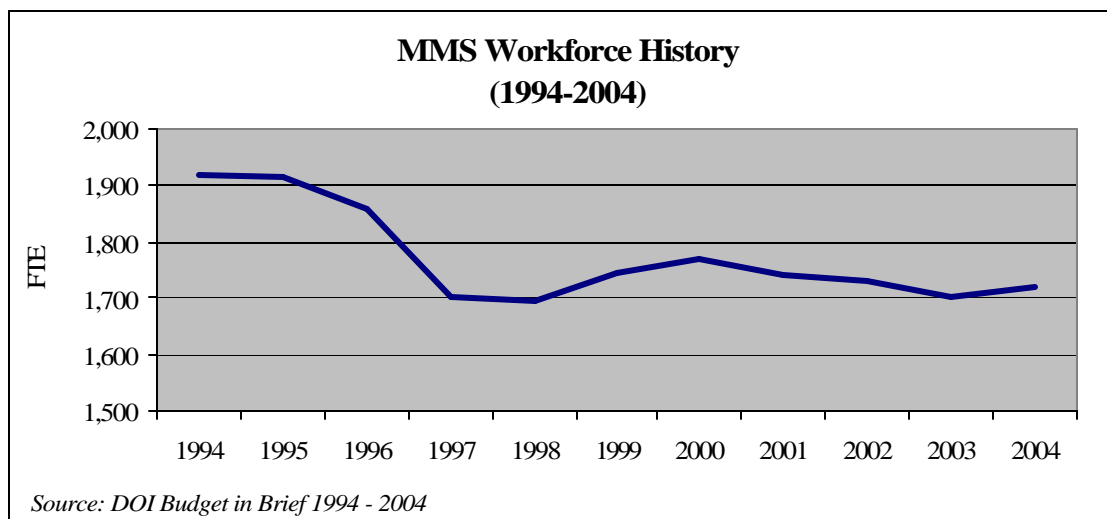


**Figure 2: Mineral Lease Revenues Collected (1995-2004)**

The MMS mineral revenue compliance activities have yielded significant additional revenues to States, Tribes, individual Indian mineral owners, and the Federal Treasury. Between 1982 and 2004, additional collections of royalties and interest attributable to MMS's compliance activities totaled more than \$2.5 billion.

### **Organizational Efficiency**

Consistent with Presidential management objectives, MMS has been aggressive in implementing organizational efficiencies that have allowed for workforce reductions. As demonstrated in Figure 3, MMS has seen a reduction of 17.4 percent in its workforce since 1992. This has been the result of both planned efforts and across-the-board reductions.



**Figure 3: MMS Workforce History (1994-2004)**

*Planned Efforts* – The MMS has, over the years, proposed downsizings and shifts in its workforce to align resources with program needs. In the mid-1990's, Offshore Minerals Management's (OMM) Atlantic Regional Office was closed and the staff levels in the Pacific, Alaska, and headquarters offices were reduced. More recently, in FY 2003/2004, a 46 percent reduction in staff representing 45 positions occurred in the OMM's Pacific Region, allowing MMS to redirect funding to the administration of higher priority oil and gas exploration and development activities in the Gulf of Mexico.

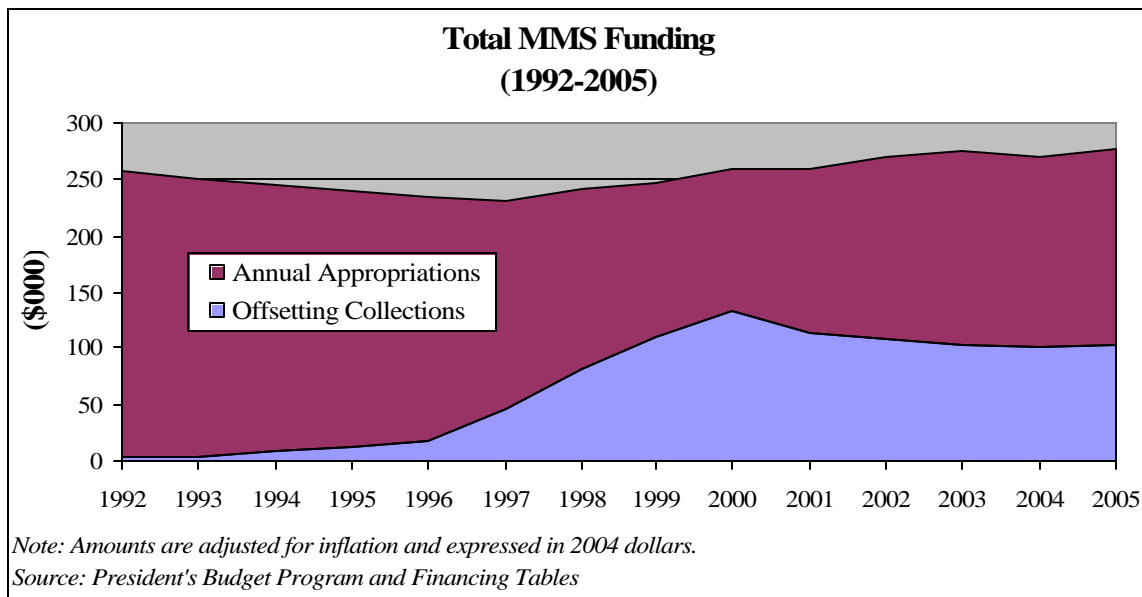
In FY 2004, OMM proposed a decrease of twelve positions and the closure of two district offices, Pensacola, FL and Corpus Christi, TX, allowing resources to be redirected to other high priority needs within the GOM. In FY 2006, MMS will continue these efforts by closing the OMM office in Santa Maria, CA, and closing the Mineral Revenue Management (MRM) compliance office in Jefferson, LA. In total, this will result in a reduction of approximately seven FTEs and a savings of \$764,000.

### **Conclusion**

The MMS strives to ensure that its existing fiscal resources are distributed in a manner that allows the agency to maintain current operations, meet future demands, and achieve Departmental and Bureau-level performance goals. As such, MMS is consistently implementing organizational efficiencies in order to use its limited fiscal resources effectively. However, the workload is steadily increasing.

Since 1994, OCS oil production increased 63 percent and MMS revenue collections increased 155 percent. During the same period, the MMS workforce decreased by 11 percent and MMS's total funding remained relatively flat, as demonstrated in Figure 4. In fact, from 1992 to 2005, the total funding increased by only 7.2 percent or \$19 million.<sup>1</sup>

<sup>1</sup> Dollar amounts are adjusted for inflation and expressed in terms of 2004 dollars using the Consumer Price Index



**Figure 4: Total MMS Fiscal Year Funding (1992-2005)**

The constrained budgetary resources are met with increasing demands and expanding responsibilities, brought on by constantly changing external factors, such as technological and industry innovations on the OCS and regulations and litigation that affect the collection and distribution of mineral revenues. The FY 2006 President's Budget requests the resources MMS needs to meet these challenges.

It includes a request for \$167.4 million in annual appropriations and \$122.7 million in offsetting collections for total budgetary resources of \$290.1 million. In comparison to the FY 2005 Enacted Budget, this represents a decrease in annual appropriations of \$6.4 million and an increase in offsetting collections of \$19 million, for a net increase of \$12.6 million. The additional resources will address such basic needs as ensuring operational safety as helicopters are required to venture further offshore and developing full business capabilities to actively manage mineral records.

All MMS programs are vitally important and contribute significantly to the Nation's economic well-being and energy security. Through all of its programs, MMS works to ensure that the public receives the maximum benefit from America's OCS resources and mineral revenues. As MMS moves forward in the new century, the importance of facilitating the Nation's management of its OCS lands and its mineral revenue collection efforts will remain the agency's top priority.

## FY 2006 BUDGET REQUEST

### Minerals Management Service

**Table 1: Overview of the FY 2006 Budget Request (\$000)**

	FY 2004 Actual (Enacted)	FY 2005 Estimate (Enacted)	FY 2006 Budget Request	Change from 2005	
				Amount	Percent
<b>Budget Authority</b>					
ROMM Appropriations	163,279	166,820	160,416	-6,404	-3.84%
OSR Appropriations	7,017	7,006	7,006	0	0.00%
Offsetting Collections	100,230	103,730	122,730	19,000	18.32%
<b>Total Discretionary Budget Authority</b>	<b>270,526</b>	<b>277,556</b>	<b>290,152</b>	<b>12,596</b>	<b>4.54%</b>
Mandatory Budget Authority 1/	1,103,818	1,827,366	1,798,067	-29,299	-1.60%
<b>Total Budget Authority</b>	<b>1,374,344</b>	<b>2,104,922</b>	<b>2,088,219</b>	<b>-16,703</b>	<b>-0.79%</b>
<b>Total Direct FTE</b>	<b>1,621</b>	<b>1,632</b>	<b>1,630</b>	<b>-2</b>	<b>-0.12%</b>
<b>Total Reimbursable FTE</b>	<b>96</b>	<b>131</b>	<b>131</b>	<b>0</b>	<b>0.00%</b>
<b>Total FTE</b>	<b>1,717</b>	<b>1,763</b>	<b>1,761</b>	<b>0</b>	<b>-0.11%</b>
1/ The FY 2005 and FY 2006 estimates for mandatory budget authority (permanent appropriations) are based on price estimates for oil and natural gas. These price estimates are higher than the estimates MMS has used in the past. For detailed information on permanent appropriations, please refer to the "Mineral Leasing Receipts" section of this document.					

## OVERVIEW

The Minerals Management Service (MMS), a federal agency within the Department of the Interior (DOI), is responsible for managing the Nation's oil, natural gas, and other mineral resources on the Federal Outer Continental Shelf (OCS) and the mineral revenues from OCS, Federal, and Indian lands. Within MMS, the Offshore Minerals Management program (OMM) is responsible for OCS activities, which range from administering OCS leases and monitoring the safety of offshore facilities to protecting our coastal and marine environments. Through the work of OMM, MMS manages the mineral resources on 1.76 billion acres of the OCS.

### MMS Mission Statement

*Manage the mineral resources on the Outer Continental Shelf and Federal and Indian mineral revenues to enhance public and trust benefits, promote responsible use, and realize fair value.*

Also within MMS, the Minerals Revenue Management program (MRM), collects, accounts for, and disburses revenues from mineral leases on OCS, Federal and American Indian lands. Through the work of MRM, MMS processes over 500,000 mineral revenue transactions per month from more than 26,000 producing leases, and it manages over \$6 billion of mineral revenues collected annually.

## FY 2006 BUDGET HIGHLIGHTS

The MMS receives funding for operations from three sources: the Royalty and Offshore Minerals Management (ROMM) appropriation, the Oil Spill Research (OSR) appropriation, and offsetting collections. The MMS first received authority to retain a portion of OCS rental receipts as offsetting collections in 1994 and since then, over \$850 million has been used to fund MMS operations.

For FY 2006, MMS is requesting an operating account level of \$290.1 million, which includes \$122.7 million in offsetting collections obtained from rental charges and cost recoveries, \$160.4 million from ROMM appropriations, and \$7 million from OSR appropriations. The total appropriations amount (ROMM and OSR) is \$167.4 million. The FY 2006 request activity level distribution is presented in the table below.

**Table 2: FY 2006 MMS Budget Summary (\$000)**

	FY 2004 Actual (Enacted)	FY 2005 Estimate (Enacted)	FY 2006 President's Request	Change from FY 2005 to FY 2006
<b>ROMM Appropriation</b>				
Offshore Minerals Management	139,288	148,278	148,341	63
Minerals Revenue Management	79,732	75,417	87,329	11,912
General Administration	44,489	46,855	47,476	621
<b>ROMM Subtotal</b>	<b>263,509</b>	<b>270,550</b>	<b>283,146</b>	<b>12,596</b>
OSR Appropriation	7,017	7,006	7,006	0
Offsetting Collections	-100,230	-103,730	-122,730	-19,000
<b>Total MMS</b>	<b>170,296</b>	<b>173,826</b>	<b>167,422</b>	<b>-6,404</b>

The MMS's ongoing provision of exceptional asset management services requires attention to the detail of maintaining current operations. However, no bureau can expect to maintain a record of quality operations without a vision for the future and the challenges it will bring. The MMS has always made a point of scanning the horizon to see what will be faced in the years to come and these efforts have served well in preparing for tomorrow's requirements today. Therefore, in addition to baseline funding to maintain current operations, the MMS budget request includes funding for FY 2006 initiatives and an increase in uncontrollable costs. In addition, base program funding was thoroughly reviewed and several reductions are proposed to offset the funding requirements of emerging priorities.

## MAXIMIZING PUBLIC BENEFIT

As MMS moves forward into the new century, the importance of its mission to facilitate the Nation's management of its OCS lands and its mineral revenue collection efforts will remain the top priority. The MMS programs are vitally important and contribute significantly to the Nation's economic wellbeing and energy security. Through all of its programs, MMS works to ensure that the public receives the maximum benefit from America's mineral revenues and OCS

resources. The FY 2006 initiatives, presented in the table below, are designed to improve and strengthen our mission-critical work.

**Table 3: FY 2006 Proposed Changes from FY 2005 Request**

Page References	Proposed Initiatives	(\$000)	FTE
152	Records Management Improvement Project	1,200	0
144	CAM Program Funding	5,800	0
143	SPR to RIK Conversion	4,000	0
107	Deepwater Helicopter Safety	1,605	0
90	MONTCAR Evaluation Model	500	0
91	Interpretive Technologies Support Function	500	0
138	Indian Compliance Assurance	630	5
176	Enterprise Information Technology	803	0
26	Uncontrollables	3,505	0
91	3-D Visualization Room Funding	-610	0
109	Closure of Santa Maria, CA District Office	-364	-2
141	Safeguarding Indian Records Initiative	-500	0
141	Closure of Jefferson, LA Audit Office	-400	-5
174, 175, 178	General Administration Reductions	-673	0
94, 95, 109, 110	FY 2005 Earmarks	-3,400	0
<b>TOTAL NET CHANGES</b>		<b>12,596</b>	<b>-2</b>

### ***Transforming Mineral Revenue Collection***

The MRM collects millions of mineral leasing records annually, and is requesting funding through the ***Records Management Improvement Project*** for converting historical paper and tape records to current electronic formats. In FY 2006, the requested funding will enhance the preservation, access, and storage of records and electronic records management. This multi-year initiative is designed to ensure that MMS meets the Department's goal of implementing full electronic records management by FY 2008.

The MMS has also been transforming its royalty collection processes through the Royalty-In-Kind (RIK) program, which has become an integral part of the agency's approach to managing mineral royalties. The RIK Five-Year Business Plan aims to enhance the RIK business model by optimizing transportation and processing returns, expanding MMS's customer base, diversifying contracting mechanisms, and transporting RIK volumes to market centers. The RIK program efforts return fair value on the public's royalty assets, reduce regulatory costs and reporting requirements, shorten the compliance cycle, and improve overall business efficiencies. In addition, taking royalties in-kind simplifies audits, reduces the number of audits performed, and decreases the likelihood of disputes and litigation when compared to taking royalty-in-value cash

payments. The FY 2006 budget includes the movement of \$5.8 million in funding for the RIK program from revenue receipts to ROMM Appropriations (***CAM Program Funding***).

The current MMS appropriation language provides authorization to use RIK receipts to offset transportation, processing, and administrative costs associated with filling the Strategic Petroleum Reserve (SPR). The SPR is expected to reach full capacity by the end of FY 2005. At that point, MMS will shift viable SPR volumes to the commercial RIK program. Therefore in FY 2006, \$4 million is being added to ROMM Appropriations (***SPR to RIK Conversion***) to offset costs which had been drawn directly from RIK revenue receipts.

### ***Developments on the OCS***

Increasingly, industry is moving farther offshore to conduct operations. In the last three years, industry has announced seven new major discoveries in ultra-deepwater areas (7,500 feet or greater). These discoveries have resulted in the increased filing of exploration and development plans for areas 130-200 miles offshore. The ***Deepwater Helicopter Safety*** initiative is designed to ensure that MMS can safely meet the growing regulatory inspection requirements that result from increased deepwater activity. In addition, the ***MONTCAR Evaluation Model*** and ***Interpretive Technologies Support*** initiatives will allow MMS to evaluate industry's bids during OCS lease sales more efficiently, assess OCS mineral resource potential more accurately, and ensure that America receives fair market value for access to OCS oil and natural gas resources.

### ***Expanding Partnerships***

Cooperation and partnerships are essential components of MMS's ability to collect, verify, and distribute mineral revenues from Federal and Indian lands in a timely manner. The ***Indian Compliance Assurance Initiative*** draws upon the success of MMS's existing Indian cooperative audit (202) and State-delegated audit (205) agreements and aims to expand the partnerships with stakeholders. Designed to allow individual tribes and states to assume more responsibility in the areas of compliance and auditing, the delegated and cooperative audit agreements improve the overall performance of MMS, expand its relationships with stakeholders, and promote cooperation.

The MMS will participate in a Department-wide effort (***Enterprise Information Technology***), which includes IT Security Certification and Accreditation, the Enterprise Services Network, and E-Government. This effort is described under the General Administration tab, General Support Services Subactivity.

### ***Increase in Offsetting Collections***

For 2006, the Minerals Management Service anticipates additional revenue from a combination of new fees, existing fees, and increased rental rates. This revenue will be used to offset MMS's operating costs and supports the policy of the Federal Government to charge for its services.

New fees will be proposed for services that MMS currently provides at no charge. Fees may include costs associated with the submittal of permitting and plan requests. The MMS believes it



can recover approximately \$13.5 million in revenue by charging for these services. This amount would compensate MMS for costs associated with providing these services, including indirect and overhead charges. Implementation of these fees will require rule making action. Additionally, upward adjustments in rental rates, unchanged for Gulf of Mexico sales since 1994, and increased revenue from cost recovery fees proposed in 2005 would generate an increase of \$5.5 million.

In total, MMS proposes to collect \$19 million in new cost recovery and other fees for 2006, increasing the total amount of offsetting collections to \$122.7 million, with a corresponding reduction of \$19 million to annual appropriations. Without this funding, MMS would have difficulty carrying out its mission-critical activities.

## SECURING OCEAN ENERGY AND ECONOMIC VALUE FOR AMERICA

*“As stewards of America’s public resources, MMS is achieving a balance between both sides of the American quality of life equation: the quality of life we enjoy from reliable, affordable energy, and the environmental quality of life we appreciate so much.”*

-Interior Secretary, Gale Norton

The MMS is one of America’s leading mineral asset managers. Almost every American benefits from the work of MMS. From the gasoline that powers our cars and the natural gas that heats our homes, to the benefits obtained through the disbursement of collected mineral revenues – funds are provided for critical state programs (such as schools), the Historic Preservation Trust Fund, the Land and Water Conservation Fund, the Reclamation Fund, and the U.S. Treasury – the Nation and its citizens benefit from the efforts of MMS.

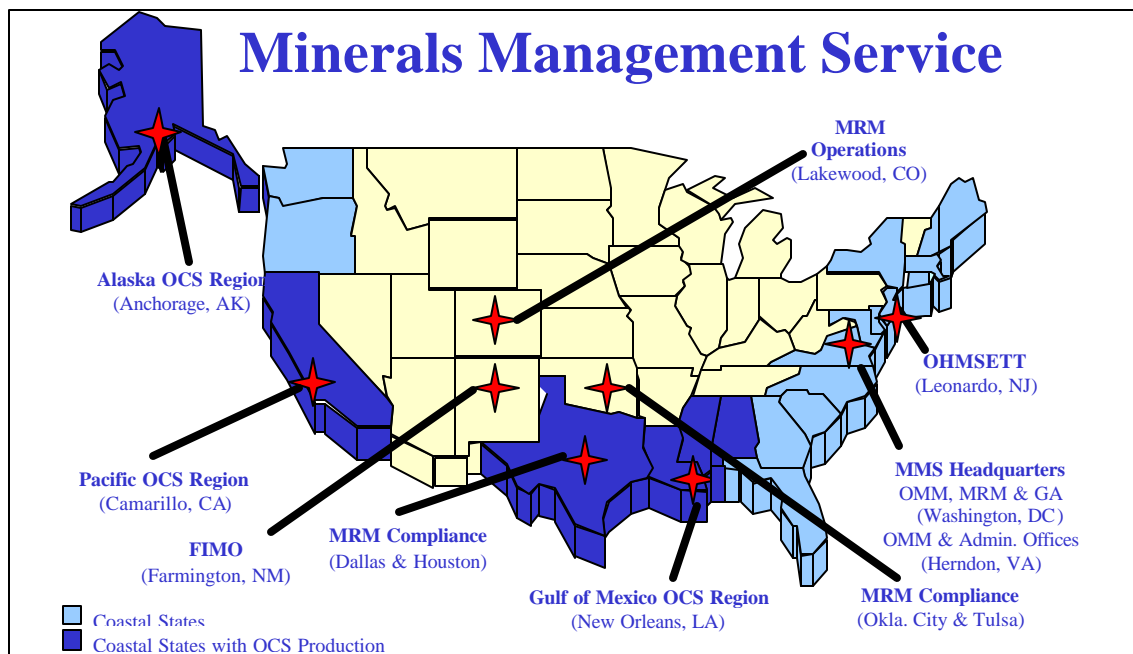


Figure 5: Map of MMS Office Locations

As shown in Figure 5, MMS has major offices throughout the country, most notably in the Washington, DC area (MMS Headquarters, OMM, MRM and administrative offices), Lakewood, CO (MRM Operations), and New Orleans (Gulf of Mexico OCS Regional Office). Other key facilities are located in Anchorage, AK (Alaska OCS Regional Office), Camarillo, CA (Pacific OCS Regional Office), Leonardo, NJ (OHMSETT research facility), and MRM Compliance Offices in Dallas, Houston, Oklahoma City, and Tulsa. In addition, MMS is collocated with the Bureau of Land Management (BLM) and the Bureau of Indian Affairs (BIA) for the operation of the Federal Indian Minerals Office (FIMO) in Farmington, NM.

### ***The Mineral Asset Management Process***

The MMS's mineral asset management process can be broken down into six essential mineral assets analysis components: **pre-leasing, post-leasing and pre-production, production and post-production, revenue collection, fund disbursement, and compliance assurance**. The MMS employees are engaged in these interconnected mineral assets analysis activities to ensure that America receives a fair return on its mineral resources.

The agency's responsibilities as stewards of the physical resources on the OCS begin when MMS conducts **pre-leasing** mineral asset analysis activities, which include the assessment of resource areas that may be offered for lease. Through the pre-leasing assessment, MMS develops a plan for offering OCS resources to developers. Each *Five-Year Plan* for lease sales is designed to consider both the environmental and economic concerns of the Nation by providing opportunities for input from the public, private sector entities, states, and Congress. The MMS also conducts public planning processes for each individual lease sale contained within the *Five-Year Plan*.

After each lease sale, MMS evaluates the bids to ensure that the government receives fair market value and determines whether to accept the bid and issue a lease. Once a lease is assigned to a winning bidder, MMS begins **post-leasing and pre-production** activities, which include a permitting and approval process for all exploration, development, and production activities proposed by the lease operators. In addition, MMS staff must inspect each operation in order to confirm that all activities are conducted in an environmentally and physically safe manner. Similar inspections also occur during the **production** phase of activities with the added responsibility of ensuring that the Federal government is receiving accurate royalties from production, while inspections during the **post-production** phase help ensure that facilities are decommissioned in a manner that protects our marine environment.

*"The MMS is helping secure America's energy future and quality of life, while protecting the environment and providing fair equity for the use of Federal lands."*

-MMS Director, R.M. "Johnnie" Burton

The MMS collects and disburses the mineral revenue assets from Federal and Indian oil, natural gas, coal, geothermal and other solid minerals products. Once a lease is in place, MMS must ensure that the proper share of production or royalties is collected and accounted for, either in value or in kind. Funds are then disbursed as prescribed by law. Through **revenue collection** and **fund disbursement**, MMS achieves optimal value by ensuring that all revenues from

Federal and Indian mineral leases are efficiently, effectively, and accurately collected, accounted for, and disbursed to states, Indians, and the Federal Treasury. The MMS also performs **compliance assurance** activities to ensure that royalty recipients receive fair market value and that companies comply with applicable laws, regulations, and lease terms.

Through this robust mineral asset management process, MMS serves as a leading mineral asset manager for the Federal government, states, Indians, and the American people.

### ***Contributing to America's Energy Supply***

The MMS plays an integral part in the implementation of the President's National Energy Policy (NEP). The NEP is a comprehensive strategy designed to secure America's energy future by reducing dependence on foreign sources, increasing domestic fossil fuel production, improving energy conservation efforts, and developing alternative and renewable energy sources. In order to help ensure the stability and security of America's existing energy supply, in response to a Presidential Order, MMS implemented a program that transferred in-kind royalties from offshore oil production to the Department of Energy for the Nation's Strategic Petroleum Reserve (SPR).

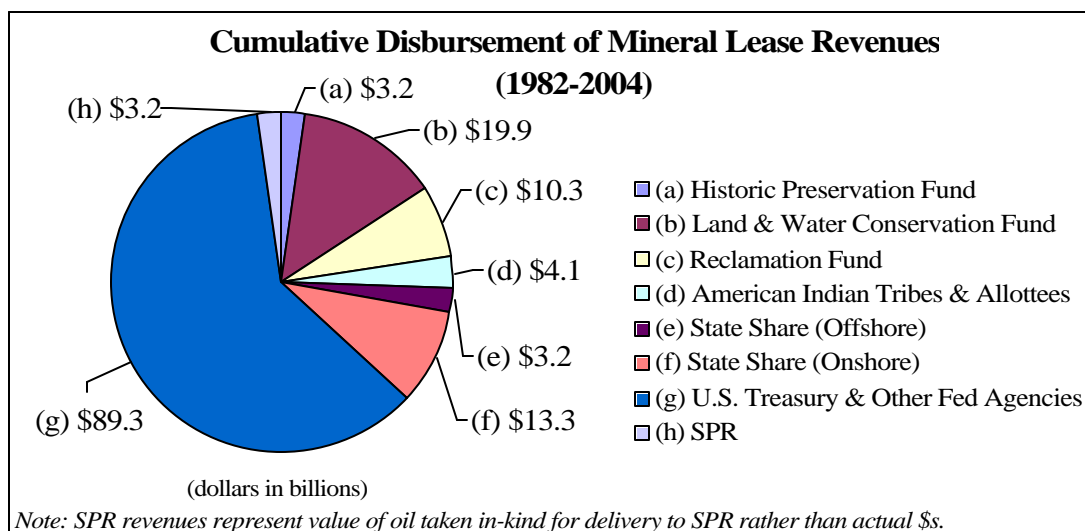
*"Reliable and affordable energy is critical to our economic security ....America will be safer and stronger with a national energy policy that will keep the lights on, the furnaces lit, and the factories running."*

-President, George W. Bush

Since the passage of the OCS Lands Act, more than 50 years ago, OCS lease sales have produced approximately 15 billion barrels of oil and more than 155 trillion cubic feet of natural gas. The offshore areas that MMS has designated for leasing under the current 5-year plan could yield as much as 22 billion barrels of oil and 61 trillion cubic feet of natural gas as additional energy for America. To put these numbers in perspective, 22 billion barrels of oil could fuel 119 million automobiles for nearly six years and 61 trillion cubic feet of gas will serve 50 million families for 15 years. Beyond current energy production and supplies, MMS administers initiatives designed to increase the domestic production of oil and natural gas, such as the *Shallow Water Deep Gas Incentive Program*, which provides royalty suspensions to encourage deeper exploration and development using existing shallow water infrastructure.

### ***Providing Economic Value***

Between 1982 and 2004, MMS distributed \$146 billion in revenues from onshore and offshore lands, an average of over \$6.4 billion per year, to the Nation, states, and American Indians (see Figure 6). The MMS's distribution of mineral revenues to the U.S. Treasury, a 5-year average disbursement of \$5.1 billion a year, is one of the Federal government's greatest sources of non-tax income. In addition to this direct treasury deposit, annual distributions to the *Land and Water Conservation Fund*, the *Historic Preservation Fund* and the *Reclamation Fund* help ensure that America's natural resources, pristine landscapes, and rich history are enjoyed by current and future generations.



**Figure 6: Cumulative Disbursement of Mineral Lease Revenues (1982-2004)**

The American economy also benefits from the annual distributions to states, a vital source of discretionary revenue that many state governments depend on to fund large capital projects, such as schools, roads, and public buildings. As a steward of the royalty assets from Indian trust properties, MMS serves as an advocate for the interests of American Indian mineral owners and ensures the fulfillment of its Indian trust responsibility. Most importantly, the revenues collected from mineral leases on Indian lands work directly to benefit members of the American Indian community.

### MMS PERFORMANCE SUMMARY

The MMS’s mission falls within two key components of the Department of the Interior’s Strategic Plan: Resource Use and Serving Communities. The current budgetary resources contribute to the following Department Strategic Goals:

- The Department’s **Resource Use** goal to manage resources to enhance public benefit, promote responsible use, and ensure optimal value in energy and non-energy areas; and
- The Department’s **Serving Communities** goal to protect lives and property, and to fulfill Indian trust responsibilities.

**Table 4: Budget Request by DOI Mission Component (\$000)**

	FY 2005 Estimate (Enacted)	FY 2006 Budget Request	Change from 2005	
			Amount	Percent
Resource Use - Energy	252,742	260,536	7,794	3.08%
Resource Use - Non-Energy	3,135	2,747	-388	-12.38%
Serving Communities - Indian Trust	21,679	26,869	5,190	23.94%
<b>Total Discretionary Budget Authority</b>	<b>277,556</b>	<b>290,152</b>	<b>12,596</b>	<b>4.54%</b>

Approximately 90 percent of MMS’s budget contributes to Resource Use - Energy, 1 percent contributes to Resource Use - Non-Energy, and 9 percent contributes to Serving Communities - Indian Trust. By utilizing the Strategic Plan, all funding requests are directly tied to achieving specific, well-defined goals and objectives, and MMS staff and managers are increasingly able to assess the value and performance of funded programs.

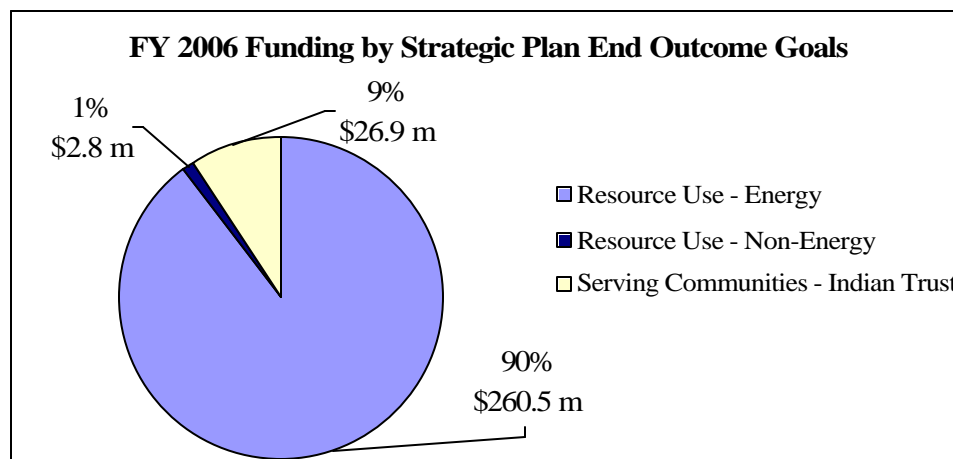


Figure 7: FY 2006 Funding by Strategic Plan End Outcome Goals

**Resource Use**

The MMS contributes to the Department’s Resource Use goal by managing the mineral resources on the OCS and Federal and Indian mineral revenues to enhance public and trust benefit, promote responsible use, and realize fair value. In addition, the MMS is helping to implement the National Energy Policy (NEP) by implementing the offshore 5-Year Oil and Gas Leasing Program and has provided royalty-in-kind oil to fill the Strategic Petroleum Reserve. The MMS strives to meet its multiple mandates to conserve natural resources, provide energy for the Nation, protect people and marine life, and ensure that the American people receive optimal value for their resources throughout the asset management process.

Table 5: Department Strategic Plan Measures – Resource Use

	2003 Actual	2004 Actual	FY 2005 President’s Budget	FY 2005 Revised	FY 2006 Plan	Change 2005-2006	2008 Target
<b>End Outcome Goal Resource Use:</b> Manage or influence resource use to enhance public benefit, promote responsible use, and ensure optimal value – energy.							
Number of lease sales held consistent with Secretary’s 5-Year Program	3	4	4	4	3	-1	TBD
Royalties received for mineral leases are X percent of predicted revenues, based on market indicators, in the production year	N/A – Metric being developed	96.1% of predicted revenues for 75% of 2001 royalty universe	98% of predicted revenues for 69% of 2002 royalty universe	98% of predicted revenues for 2002 royalty universe	98% of predicted revenues for 2003 royalty universe	0	98% of predicted revenues for 2005 royalty universe

**Table 5 continued**

	<b>2003 Actual</b>	<b>2004 Actual</b>	<b>FY 2005 President's Budget</b>	<b>FY 2005 Revised</b>	<b>FY 2006 Plan</b>	<b>Change 2005-2006</b>	<b>2008 Target</b>
Compliance work is completed within the 3-year cycle for X% of royalties for production year X	46% of 2000 royalties	69.4% of 2001 royalties	69% of 2002 royalties	69% of 2002 royalties	74% of 2003 royalties	5%	88% of 2005 royalties
X percent of revenues disbursed on a timely basis per regulation	92.6%	95.5%	95%	96%	96.5%	.5%	98%
<b>Intermediate Outcome: Enhance Responsible Use Management Practices</b>							
Achieve an oil spill rate for offshore dev. of no more than .00001 barrels spilled per barrel produced	0.0000040	.0000100	.0000100	.0000100	.0000100	Maintain	.0000100

**Serving Communities**

The MMS contributes to the Department's Serving Communities goal by serving as a steward of the mineral royalty assets from Indian trust properties and as an advocate for the interests of Indian mineral owners, by ensuring that they receive accurate returns for mineral production on their land. Through its work to protect Indian mineral interests, MMS emphasizes Indian empowerment and ensures the fulfillment of Indian trust responsibilities.

**Table 6: Department Strategic Plan Measures – Serving Communities**

	<b>2003 Actual</b>	<b>2004 Actual</b>	<b>FY 2005 President's Budget</b>	<b>FY 2005 Revised</b>	<b>FY 2006 Plan</b>	<b>Change (2005-2006)</b>	<b>2008 Target</b>
<b>Intermediate Outcome : Improve Management and Natural Resource Assets</b>							
Transfer X percent of revenue to OST within 24 hours of receipt	99%	100%	99%	99%	99.5%	0.5%	100%
Provide lease distribution data to BIA for X% of royalties by 1st semi-monthly distribution	New Measure	84%	65%	75%	80%	5%	90%
<b>Intermediate Outcome: Protect Lives, Resources and Property</b>							
Number of fatalities among workers in DOI permitted activities	11 fatalities	3 fatalities	Reduce from 5 year average (2000-2004)	Reduce from 5 year average (2000-2004)	Reduce from 5 year average (2000-2004)	N/A	Reduce from 5 year average (2000-2004)
Number of serious injuries among workers in DOI permitted activities	23 serious injuries	29 serious injuries	Reduce from 5 year average (2000-2004)	Reduce from 5 year average (2000-2004)	Reduce from 5 year average (2000-2004)	N/A	Reduce from 5 year average (2000-2004)

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## SECTION 333 COSTS

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The MMS has in place a General Administration activity that requests funding each fiscal year through the formulation process and increases are fully justified within the presentation of formulation documents. There are two additional programs within MMS – Offshore Minerals Management (OMM) and Minerals Revenue Management (MRM) – to which the General Administration activity provides various levels of support. The MMS does not charge, deduct, hold reserves, or hold back any funding to support headquarters and regional operations and oversight.

Within the General Administration activity, there are four subactivities: Executive Direction, Policy Management and Improvement, Administrative Operations, and General Support Services. These activities include headquarters and regional staff.

Executive Direction provides bureauwide oversight and leadership, direction, management, coordination, communications strategies, and outreach. Policy Management and Improvement coordinates the Bureau’s policy management and strategic planning efforts. Administrative Operations encompasses operations including budget, financial, personnel, procurement, facilities, and information management services. Lastly, General Support Services (GSS) ensures overhead infrastructure support to OMM and MRM. The types of support the GSS Subactivity provides include expenses such as rental of office space, workers’ compensation, telecommunications, mail services, and necessary printing costs.

Further narrative discussion on these four subactivities and their programmatic increases and decreases for FY 2006 can be found in the General Administration program justifications.

In the Administrative Operations Subactivity, two Field Administrative Service Centers provide direct administrative support to MMS program managers. There is one center in New Orleans, Louisiana, the Southern Administrative Service Center, which provides direct administrative support, direction, and coordination to OMM and MRM offices. The other center, the Western Administrative Service Center, located in Lakewood, Colorado (Denver), offers various types of administrative assistance to both OMM and MRM.

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## THE PRESIDENT’S MANAGEMENT AGENDA

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In accordance with the President’s Management Agenda and the Secretary’s *Plan for Citizen Centered Governance*, MMS is continuing to improve service delivery and increase the efficiency and effectiveness of its operations by listening closely to and working cooperatively with local citizens, tribal leaders, states, and the private sector. Management reform is, and will continue to be, an integral part of MMS operations; while it has been able to achieve many improvements, there will always be opportunities for further growth.

*“The President’s Management Agenda helps agencies and their employees be more successful: to better account for the taxpayers’ money, to determine why important programs aren’t working as they should and do something about them, to deliver information and services to the people more effectively and efficiently...”*

- OMB Deputy Director for Management, Clay Johnson

The MMS has established an Evaluation Integration Council made up of senior staff from across the organization to analyze management, cost, and performance information. The Council will report and provide recommendations quarterly to the MMS Executive Committee based on a consolidated review of the Bureau’s accomplishments. Management information reviewed by the committee includes Activity Based Costing (ABC), performance metrics, Program Assessment Rating Tool (PART), internal/external audits, evaluations, and related factors influencing the business of MMS.

**Budget and Performance Integration**

The MMS issued its first performance budget for the FY 2005 budget, integrating the annual performance plan required by GPRA with the Bureau budget. The performance budget is used as an internal management guidance document and contains performance measures and strategies that are clear and useful to supervisors and managers at all levels of the organization. The performance budget presents “end” and “intermediate” outcome measures that tie directly to the Department’s goals, set annual and five-year targets, and contain measurable outputs of program activities that are tied to costs within the ABC system – all of which forms the basis for making MMS more results-oriented. The PART performance measures are now included in the budget documents.

**Strategic Planning in MMS:** The MMS has a robust and comprehensive planning process. Agency activities are linked to the Department’s Strategic Plan in two major mission component areas: Resource Use and Serving Communities. Careful planning ensures that these goals and strategies are cascaded throughout the organization at both the Activity and Subactivity levels.

**Table 7: FY 2006 Funding by DOI Mission Component (\$000)**

	<b>Resource Use - Energy</b>	<b>Resource Use - Non-Energy</b>	<b>Serving Communities - Indian Trust</b>	<b>FY 2006 Total</b>
<b>Offshore Minerals Management</b>				
Leasing & Environment Programs	36,893	875	0	37,768
Resource Evaluation	27,282	1,400	0	28,682
Regulatory Program	51,766	0	0	51,766
Information Management Program	29,908	217	0	30,125
Subtotal OMM	145,849	2,492	0	148,341
<b>Minerals Revenue Management</b>				
Compliance & Asset Management	38,332	0	13,571	51,903
Revenue & Operations	26,163	0	9,263	35,426
Subtotal MRM	64,495	0	22,834	87,329
<b>General Administration</b>				
Executive Direction	1,892	10	184	2,086
Policy & Management Improvement	3,821	22	373	4,216
Administrative Operations	15,449	93	1,483	17,025
General Support Services	22,024	130	1,995	24,149
Subtotal GA	43,186	255	4,035	47,476
<b>ROMM Subtotal</b>	<b>253,530</b>	<b>2,747</b>	<b>26,869</b>	<b>283,146</b>
<b>Oil Spill Research</b>	<b>7,006</b>	<b>0</b>	<b>0</b>	<b>7,006</b>
<b>MMS Total</b>	<b>260,536</b>	<b>2,747</b>	<b>26,869</b>	<b>290,152</b>



Operating plans, program strategies, and tactical plans are developed as direction for the programs, to hold managers accountable not only for satisfying mandates and base program work, but for achieving the highest level of results, and to serve as a guide for the development of budget documents. These documents are updated as needed as the programs evolve and elements of the tactical plans are completed.

The MMS managers continuously focus on accountability for strategic business priorities. In 2004, MMS published action plans focused on two critical components. The Five Year Royalty-in-Kind (RIK) Business Plan for FY 2005-2009 outlines business principles, objectives, and specific action items that will guide and evolve the Federal RIK program operational activities. The Audit Quality Improvement Action Plan is a comprehensive plan setting forth 39 assigned actions to improve MMS's compliance and audit activities and related internal controls. The agency has begun to implement both of these plans.

**Activity-Based Costing (ABC):** With the close of FY 2004, MMS has gained two years of experience with ABC as well as an initial two years of ABC data. In FY 2005, MMS will begin to use cost and performance information for Bureau products and services in support of determining unit cost and performance trending for management analysis and decisionmaking. The MMS believes that ABC will be the basis for costing items such as royalty-in-kind compared to royalty-in-value, and to support reengineering and E-government. The MMS is continuing to refine the Bureau's Activity-Based Costing and Management (ABC/M) model to ensure quality and appropriateness of data collected and consistency and compatibility with Departmental ABC efforts. In developing the FY 2006 budget request ABC cost data, where appropriate, was considered by management when establishing the agency's performance targets.

**Budget and Performance Analysis:** Faced with constrained budgetary resources and expanding responsibilities, MMS has a history of analyzing base funding to determine how best to apply limited resources. At the beginning of the budget formulation process, each Associate Director meets with budget, performance, and program staff to analyze the entire budget, determine the most effective distribution of fiscal resources, and anticipate future needs that would require additional resources.

A brief review of one program area, OMM, illustrates the ongoing analysis of base budgeting within MMS. Historically, OMM has taken action to shift resources as program needs and priorities shifted, and program efficiencies were realized. In FY 1985, the enacted FTE level was 1,175. In FY 2005, it was 872. In twenty years, OMM has seen a 25 percent reduction in the size of its staff. This has occurred through elimination of the Atlantic Regional Office, and periodic reductions in the Alaska and Pacific Regions and Headquarters Offices while redirecting resources to accommodate increasing workload demands in the Gulf of Mexico. Recent examples from the OMM program area include:

FY 2004:

- IT Reductions, FTE Streamlining, and Office Closures of \$4.7 million
- Resources shifted to fund continuing needs in the Gulf of Mexico (\$1.6 million), OCS Connect (\$2.9 million), Methane Hydrates (\$300,000) and Infrastructure Security (\$350,000)

FY 2005:

- An increase of \$3.5 million in offsetting fees was used, in part, to offset needed increases for the OCS Connect project (\$4.3 million) and GOMR Interpretive Technologies (\$1.9 million).

FY 2006:

- Proposed closing of the Santa Maria, California office (\$364,000) and redirection of Interpretive Technology funding received in FY 2005 (\$610,000) to offset a portion of the costs of new needs (Helicopter Safety - \$1.6 million; MONTCAR model - \$500,000; and Geological Interpretive Needs - \$500,000).

The MMS senior leadership provides policy guidance to help the program areas direct resources to meet the demands brought on by external factors, such as technological and industry innovations on the OCS and changing regulations and litigation that affect the collection and distribution of mineral revenues. The MMS strives to ensure that our existing budgetary resources are distributed in a manner that allows us to maintain current operations, meet future demands, and achieve our Departmental and Bureau-level performance goals.

The MMS Budget staff produces Bureau-level *Status of Funds* quarterly reports, which are analyzed at a Bureau level and then distributed to program level budget staff for their use in budget planning and trend analysis. The *Status of Funds* reports contain information regarding obligations and spending at the Program Element/Subactivity level. The *Status of Funds* reports are utilized during the budget planning and formulation process by each MMS program to evaluate their current and future funding requirements.

In addition to the *Status of Funds* reports, program-level budget and performance staff utilize the cost and performance information that is provided by the Activity-Based Costing (ABC) system to assist in the development of budget decisions. The MMS is continuing to refine the ABC model to assure that program managers and Bureau -level leadership receive effective and informative data and to ensure that the cost and performance information for Bureau products and services will support unit cost and performance trending for enhanced budget and performance integration.

**Program Assessment Rating Tool (PART):** The MMS has completed three PART evaluations: the *Environmental Studies* program and the *Resource Evaluation and Leasing* aspects of the Offshore Minerals Management program, and the complete *Minerals Revenue Management* program.

In response to the recommendations made during the PART evaluation of the MMS Environmental Studies Program (ESP), the ESP Performance Measures Scoring System is being developed to report on individual ESP studies and will provide the basis for a quantitative performance measure.

The MMS's second PART evaluation covered the entire MRM program. Based upon the evaluation, in FY 2004, MRM implemented new performance metrics to measure the amount of RIK revenues received in excess of estimates of what a comparable royalty-in-value program

would yield, and to assess company compliance as a ratio of actual payments compared to expected payments. Baseline data has been collected and analyzed to establish FY 2005-08 targets. The MRM is beginning to plan for FY 2007-2011, and will address other MRM measurements during that process, ensuring that the performance architecture is focused upon organizational processes and their contributions linking to the DOI Strategic Plan and MMS budget structure.

The third PART evaluation covered the Resource Evaluation and Leasing aspects of the OMM program. The program was rated “moderately effective.” The Office of Management and Budget (OMB) commented that MMS “manages access to mineral resources with exceeding proficiency, but some of the existing performance measures are not reflective of program performance.” The OMM has developed new performance measures included in the 2006 budget request to address the recommendation.

**Capital Asset Planning and Control:** The Clinger-Cohen Act of 1996 requires agencies to use a disciplined Capital Planning Investment Control (CPIC) process to acquire, use, maintain, and dispose of information technology. In response, MMS created and documented a formal CPIC process. This policy document provides a framework to improve the productivity, efficiency, and effectiveness of MMS programs, whereby IT investments link to the accomplishment of MMS missions, strategic goals and objectives, as well as comply with applicable Departmental and Federal policies. In March of 2003, MMS chartered an IT Investment Review Board (ITIRB) to coordinate bureauwide planning for IT activities and to monitor the progress of these activities.

**Data Verification and Validation Processes:** The MMS has implemented data verification and validation processes based upon guidance issued by the Department and OMB. To date, MMS has completed the initial process of reviewing its DOI end outcome and key intermediate outcome performance measures and the application of internal control practices to verify the reliability of data collection. This has resulted in weaknesses being identified and addressed in measure definitions and in data collection methods. The MMS will continue to revise, refine and validate other Bureau performance metrics. All non-key and Bureau level performance metrics have definitional dictionaries. The means used are sufficiently credible and specific to support the general accuracy and reliability of the performance information that MMS collects, records, and reports.

### ***Strategic Management of Human Capital***

The MMS continues to implement the strategies outlined in our *Workforce Plan for 2004 – 2007*. This plan serves as a road map for integrating human capital initiatives with program goals and objectives and captures the Bureau’s analysis of workforce supply, demand, and gaps based on historical trends, future projections and expected work demands. The published plan details the specific challenges facing the Bureau.

*“We must have a government that thinks differently, so we need to recruit talented and imaginative people to public service.”*

-President, George W. Bush

The MMS programs have unique workforce planning challenges in addition to the overarching bureauwide challenges, and have identified and integrated human capital initiatives into their budget requests. In addition to basic human resources costs, such as salaries, benefits, awards, and training, MMS has integrated human capital initiatives costs into the 2006 program budget requests, such as employee development programs, recruitment team activities, tuition assistance, quality of work-life programs, and Indian Trust Management workforce planning activities.

The MMS *Workforce Plan* is used in conjunction with the DOI strategic plan, annual operating plan, and budget to ensure that MMS is strategically managing its human capital to meet mission goals. The plan is a living document and will change as new MMS challenges arise and successes are achieved.

### ***Competitive Sourcing***

As part of the *President's Management Agenda*, the Competitive Sourcing initiative directs Federal agencies to identify and implement the most effective and efficient ways to deliver services to our customers. The MMS has expanded its competitive sourcing program by creating a basic infrastructure, appointing a Bureau competitive sourcing coordinator, designating competitive sourcing officials, issuing guidance, and conducting training. Examples of the progress include:

- More accurately classifying positions in MMS's FAIR Act Inventory as either inherently governmental or commercial;
- Taking a strategic approach to identifying areas for competition by incorporating workforce planning and mission considerations;
- Completing all MMS A-76 studies within the required timeframes; and,
- Establishing and participating in inter- and intra-agency forums for sharing competitive sourcing information.

The MMS continues to strategically identify opportunities for competitive sourcing. From FY 2002 to FY 2004, the Bureau evaluated (using competitive market parameters) 154.5 Full Time Equivalents (FTE), which is 21 percent of the total commercially available FTE positions. The agency converted 70 FTE directly to contract and held further studies of the remaining 84.5 FTE, for which MMS in-house staff was determined to be more cost-effective. In FY 2005, MMS plans to evaluate 53 FTE and perform a management review of 20.5 FTE, which in total is 13.5 FTE more than we originally planned in our FY 2005 budget request. From 2006-2008, MMS plans to evaluate 409.5 FTE and review 115.5 FTE.

To date, cost comparison studies show that MMS will save \$6.5 million in costs by retaining work in-house versus contracting for services over a five-year period. In addition, MMS has achieved actual savings of \$1.2 million over five years by realigning its workforce through more efficient organizations. This enabled MMS to move FTE to more mission critical functions and partially absorb the unfunded increase in uncontrollables.

### ***Financial Performance***

In FY 2004, workshops were conducted to begin the process to convert all bureaus within the Department to one financial management system. The MMS is scheduled to fully implement the Financial Business Management System (FBMS) in FY 2006. The new system will include a budget formulation module that will assist in preparing the annual funding requests, allow transfers of information to the execution modules, and provide an informational tool to analyze past budgetary trends. The new financial management system will create a better link between budget formulation and execution each fiscal year and will allow MMS to maintain excellence in financial performance.

The FBMS system will result in changes in how MMS conducts its business. The combination of best business practices and new computer system functionality will enable MMS to improve service and operate more effectively. Benefits include:

- Ability to access and share real-time, accurate business information
- Enhanced support of effective and timely business decisions for mission delivery;
- Reduced time and effort to produce financial reports and managerial reporting;
- Focus on value-added analysis rather than data-gathering; and,
- Elimination of redundant administrative data entry and multiple logon screens.

### ***Expanding Electronic Government***

The MMS is continuing its development of an integrated approach to E-Government comprised of enterprise architecture, program specific applications, and the necessary information technology (IT) infrastructure to support the primary lines of business. The MMS views E-Government as an enhancement that will assist in becoming more efficient and effective through the application of appropriate technology. With the Department issuing its E-Government Strategic Plan, MMS is developing two Bureau-level plans that compliment the Department's plan, a Bureau IT Strategic Plan, and a Bureau E-Government Strategic Plan. The MMS is also engaged in the development of Bureau enterprise architecture to support primary business lines.

MMS is participating in DOI enterprise-wide information technology initiatives to consolidate and centralize IT infrastructure services, which will result in overall cost savings and improved management efficiency for DOI, once fully implemented. The MMS Wide Area Network will transition to the DOI Enterprise Services Network in phases, with the first phase scheduled for FY 2005. MMS is also developing a migration plan to move the MMS Active Directory (AD) to the DOI AD forest by the end of FY 2005. In addition, MMS is in the process of upgrading its Microsoft Exchange e-mail system to the latest release, Microsoft Exchange 2003, which has been selected by DOI as the standard e-mail system for DOI's Enterprise Messaging project. The upgrade project will position MMS to transition smoothly to the planned DOI messaging system.

For e-Authentication, MMS will be issuing each employee and contractor a Smart Card for physical access by September 30, 2005. Implementation of Smart Cards for logical access to IT systems is contingent upon publication of the federal technical standard for the identification cards by the National Institute of Standards and Technology. MMS will initiate the planning

process once the standard has been released. In consultation with the Department's CIO Office, MMS is working to implement the Bureau's IT security program. The MMS's IT security managers work closely with the MMS program areas to review and improve security plans, policies, procedures, standards, practices, and controls to reflect technological changes. A major accomplishment in IT security was the Certification and Accreditation of all MMS systems.

The MMS has developed an E-Government Strategic Plan that utilizes a business process driven approach focusing on strategic goals and objectives that add value to MMS's services, programs, and information. This plan is predicated on three key concepts: that investment in IT makes the organization more efficient and effective, that IT provides better information to our stakeholders, and that IT makes it easier for stakeholders to interact with us. All current and future E-Gov efforts will focus on one or more of these core concepts.

### ***Asset Management***

The MMS leases all of its buildings from the General Services Administration. Since the agency does not own any of these buildings, MMS does not perform condition assessments on them. However, MMS maintains an accurate and complete inventory of all leased space and fleet assets.

In FY 2005, MMS will develop a comprehensive Fleet Management Plan to improve critical mission support while achieving fleet management goals. This plan supports the Department's fleet management strategy. The MMS is in the process of developing a fleet composition baseline and justifications for each vehicle based on mission requirements. The bureau currently maintains a small motor vehicle fleet of less than 50 owned and GSA-leased vehicles that has already been downsized and optimized to meet the Department's goals.

To implement the August 2004 DOI Management Improvement Team's strategy on improving space management, MMS is rewriting its space management policy and handbook. A five-year leasing plan will be developed to provide a basis for leasing or purchasing space, relocations, and termination of leases as required. In FY 2005, a Bureau Space Advisory Board (BSAB) will be activated to ensure the effectiveness and efficiency of the space program within MMS. Standard and special space allocations have been determined for all MMS occupied space including office alterations, reconfigurations, and acquisitions. Space utilization surveys will be conducted to ensure efficient utilization.

### ***Research and Development***

The current R&D investment criteria were developed in response to limited financial resources and the multitude of R&D opportunities that exist government-wide. The criteria are used to rigorously justify new programs and to reevaluate existing programs for modification, redirection, or termination, in keeping with national priorities and needs. The investment criteria evaluate the relevance, quality, and performance for all R&D programs.

The Department reviews R&D investments across its bureaus and weighs the value of existing programs against changing needs and priorities. Estimated R&D funding DOI-wide for 2006 is

\$593 million, a \$27 million decrease over 2005. The Department conducts quarterly Department-wide R&D meetings with senior R&D managers to plan, coordinate, assess, and if necessary, redirect agency R&D activities.

The MMS R&D portfolio proposed for FY 2006 totals over \$20 million and comprises three main elements: the Environmental Studies Program (ESP), Technology Assessment & Research (TA&R), and Oil Spill Research (OSR). The ESP funds applied research through environmental and socioeconomic studies to predict potential impacts of oil and gas development and to develop mitigating measures where needed. The TA&R program funds operational safety and engineering research to address technological issues associated with the complete spectrum of offshore operations, ranging from the drilling of exploratory wells to the removal and decommissioning of platforms and related production facilities. Finally, the OSR program focuses on effective response to pollution events, by assessing risks and evaluating technologies associated with the detection, containment, recovery, and clean-up of oil spills in the marine environment.

Approximately two-thirds of MMS research funding supports the Environmental Studies Program, which provides environmental information that is used by decisionmakers in developing and implementing DOI's OCS Oil and Gas Leasing Program, reviewing the offshore industry's plans and permit applications, and assessing potential sources of sand and gravel resources for coastal restoration projects. Information from the ESP directly supports the bureau's compliance with the National Environmental Policy Act (NEPA) and enables the Offshore Minerals Management (OMM) program to regulate OCS activities in an environmentally sound manner. When formulating multi-year research plans, the ESP integrates advice from a range of stakeholders – including internal customers within MMS as well as external customers in industry; academia; non-government organizations; and federal, state, and local governments. Their inputs, as well as those from the OCS Scientific Committee, contribute to the development of the ESP research plan.

The ESP research is inter-disciplinary, with fields ranging from physical oceanography, to ecology and marine biology, to socioeconomics and archaeology. Some examples of recent ESP research include studies of threatened and endangered species in diverse areas ranging from the temperate waters of the Gulf of Mexico to the arctic waters of the Beaufort Sea. Such research is designed to describe the habitat, distribution, abundance, and behavior of these species, as well as the potential effects of OCS activities so that appropriate mitigating measures can be developed. With increasing exploration and development of oil and gas resources in deepwater areas of the Gulf of Mexico, studies of deepwater ocean currents and deep sea ocean life have been undertaken to gather information on physical processes and biological communities so that environmentally sound resource management decisions can be made with development of the appropriate protective measures.

In addition to stringent planning and project selection processes, MMS is committed to reviewing the effectiveness of research investments. The ESP completed the OMB Program Assessment Rating Tool (PART) review for the FY 2004 budget cycle. This assessment found that the program is very effective in providing timely and peer-reviewed environmental research to decisionmakers. In response to OMB recommendations, MMS developed a Quantitative

Performance Measurement Tool to provide a systematic means for assessing the extent to which ESP projects fulfill the bureau’s needs. The rating system incorporates quality, timeliness, and peer review performance aspects; involves multiple perspectives in project-level review; and supports assessment of program-level effectiveness. The TA&R and OSR efforts will be included in the FY 2007 PART review of OCS Regulatory Affairs and Compliance.

As cited in the President’s U.S. Ocean Action Plan, the MMS will continue to contribute to the advancement of our understanding of the ocean and coastal areas and the use and conservation of our ocean and coastal resources.

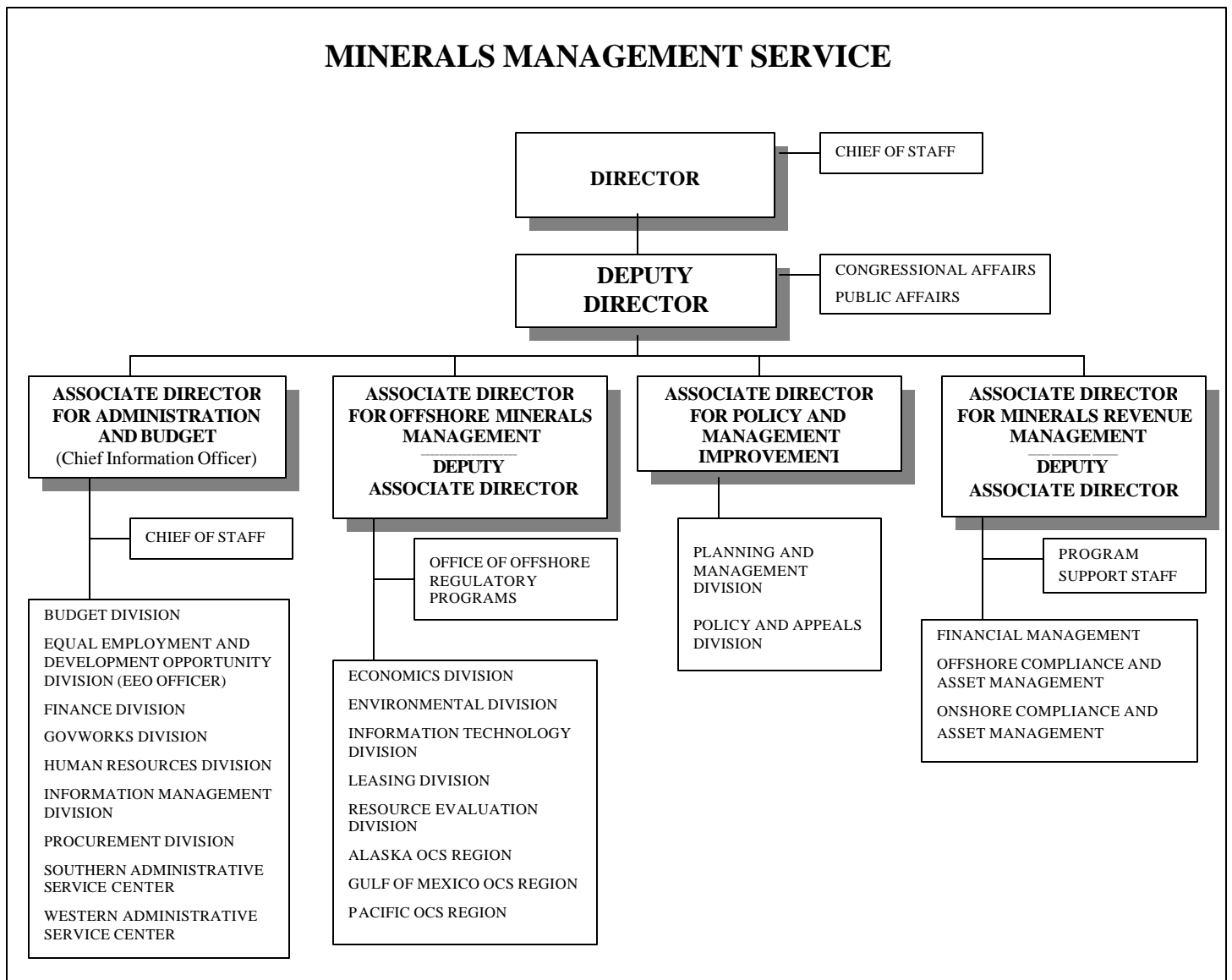


Figure 8: MMS Organizational Chart (November 2004)



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## FY 2006 BUDGET REQUEST

### Budget Tables

#### APPROPRIATIONS LANGUAGE FY 2006

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##### *Royalty and Offshore Minerals Management (ROMM)*

For expenses necessary for minerals leasing and environmental studies, regulation of industry operations, and collection of royalties, as authorized by law; for enforcing laws and regulations applicable to oil, gas, and other minerals leases, permits, licenses and operating contracts; and for matching grants or cooperative agreements; including the purchase of not to exceed eight passenger motor vehicles for replacement only, \$160,416,000 of which \$87,329,000 shall be available for royalty management activities; and an amount not to exceed \$122,730,000, to be credited to this appropriation and to remain available until expended, from additions to receipts resulting from increases to rates in effect on August 5, 1993, from rate increases to fee collections for Outer Continental Shelf administrative activities performed by the Minerals Management Service (MMS) over and above the rates in effect on September 30, 1993, and from additional fees for Outer Continental Shelf administrative activities established after September 30, 1993: Provided, That to the extent \$122,730,000 in additions to receipts are not realized from the sources of receipts stated above, the amount needed to reach \$122,730,000 shall be credited to this appropriation from receipts resulting from rental rates for Outer Continental Shelf leases in effect before August 5, 1993: Provided further, That \$3,000,000 for computer acquisitions shall remain available until September 30, 2007: Provided further, That funds appropriated under this Act shall be available for the payment of interest in accordance with 30 U.S.C. 1721(b) and (d): Provided further, That not to exceed \$3,000 shall be available for reasonable expenses related to promoting volunteer beach and marine cleanup activities: Provided further, That notwithstanding any other provision of law, \$15,000 under this heading shall be available for refunds of overpayments in connection with certain Indian leases in which the Director of MMS concurred with the claimed refund due, to pay amounts owed to Indian allottees or tribes, or to correct prior unrecoverable erroneous payments: Provided further, That MMS may under the royalty-in-kind program, or under its authority to transfer oil to the Strategic Petroleum Reserve, use a portion of the revenues from royalty-in-kind sales, without regard to fiscal year limitation, to pay for transportation to wholesale market centers or upstream pooling points, to process or otherwise dispose of royalty production taken in kind: Provided further, That MMS shall analyze and document the expected return in advance of any royalty-in-kind sales to assure to the maximum extent practicable that royalty income under the pilot program is equal to or greater than royalty income recognized under a comparable royalty-in-value program.

##### *Oil Spill Research (OSR)*

For necessary expenses to carry out title I, section 1016, title IV, sections 4202 and 4303, title VII, and title VIII, section 8201 of the Oil Pollution Act of 1990, \$7,006,000, which shall be derived from the Oil Spill Liability Trust Fund, to remain available until expended.

**Table 8: Royalty and Offshore Minerals Management (ROMM) Summary of Requirements Table**

Offshore Minerals Management (OMM)	FY 2004 Actual (Enacted)		FY 2005 Estimate (Enacted)		Uncontrollable and Related Changes		Programmatic Changes		Appropriations to Collections		FY 2006 Budget Request		Inc(+) Dec(-) From 2006	
	FTE	(\$000)	FTE	(\$000)	FTE	(\$000)	FTE	(\$000)	FTE	(\$000)	FTE	(\$000)	FTE	(\$000)
<b>Leasing &amp; Environmental</b>														
Appropriation	219	16,701	219	16,889	0	544	0	0	0	-1,871	219	15,562	0	-1,327
Offsetting Collections	0	20,335	0	20,335	0	0	0	0	0	1,871	0	22,206	0	1,871
Subtotal	219	37,036	219	37,224	0	544	0	0	0	0	219	37,768	0	544
<b>Resource Evaluation</b>														
Appropriation	221	18,178	221	20,663	0	526	0	-1,410	0	-2,123	221	17,656	0	-3,007
Offsetting Collections	0	8,903	0	8,903	0	0	0	0	0	2,123	0	11,026	0	2,123
Subtotal	221	27,081	221	29,566	0	526	0	-1,410	0	0	221	28,682	0	-884
<b>Regulatory</b>														
Appropriation	336	35,022	336	37,073	0	609	-2	-359	0	-4,006	334	33,317	-2	-3,756
Offsetting Collections	0	14,443	0	14,443	0	0	0	0	0	4,006	0	18,449	0	4,006
Subtotal	336	49,465	336	51,516	0	609	-2	-359	0	0	334	51,766	-2	250
<b>Information Management</b>														
Appropriation	65	11,657	74	12,423	0	153	0	0	0	-3,000	74	9,576	0	-2,847
Offsetting Collections	0	14,049	0	17,549	0	0	0	0	0	3,000	0	20,549	0	3,000
Subtotal	65	25,706	74	29,972	0	153	0	0	0	0	74	30,125	0	153
<b>Total OMM</b>														
Appropriation	841	81,558	850	87,048	0	1,832	-2	-1,769	0	-11,000	848	76,111	-2	-10,937
Offsetting Collections	0	57,730	0	61,230	0	0	0	0	0	11,000	0	72,230	0	11,000
<b>Total</b>	<b>841</b>	<b>139,288</b>	<b>850</b>	<b>148,278</b>	<b>0</b>	<b>1,832</b>	<b>-2</b>	<b>-1,769</b>	<b>0</b>	<b>0</b>	<b>848</b>	<b>148,341</b>	<b>-2</b>	<b>63</b>

**Table 8: Royalty and Offshore Minerals Management (ROMM) Summary of Requirements Table (continuation)**

Minerals Revenue Management (MRM)	FY 2004 Actual (Enacted)		FY 2005 Estimate (Enacted)		Uncontrollable and Related Changes		Programmatic Changes		Appropriations to Collections		FY 2006 Budget Request		Inc(+) Dec(-) From 2006	
	FTE	(\$000)	FTE	(\$000)	FTE	(\$000)	FTE	(\$000)	FTE	(\$000)	FTE	(\$000)	FTE	(\$000)
<b>Compliance &amp; Asset Mgmt</b>														
Appropriation	377	32,622	379	28,315	0	823		9,530	0	-4,000	379	34,668	0	6,353
Offsetting Collections	0	13,235	0	13,235	0	0	0	0	0	4,000	0	17,235	0	4,000
Subtotal	377	45,857	379	41,550	0	823	0	9,530	0	0	379	51,903	0	10,353
<b>Revenue &amp; Operations</b>														
Appropriation	181	20,610	181	20,602	0	359	0	1,200	0	-4,000	181	18,161	0	-2,441
Offsetting Collections	0	13,265	0	13,265	0	0	0	0	0	4,000	0	17,265	0	4,000
Subtotal	181	33,875	181	33,867	0	359	0	1,200	0	0	181	35,426	0	1,559
<b>Total MRM</b>														
Appropriation	558	53,232	560	48,917	0	1,182	0	10,730	0	-8,000	560	52,829	0	3,912
Offsetting Collections	0	26,500	0	26,500	0	0	0	0	0	8,000	0	34,500	0	8,000
<b>Total</b>	<b>558</b>	<b>79,732</b>	<b>560</b>	<b>75,417</b>	<b>0</b>	<b>1,182</b>	<b>0</b>	<b>10,730</b>	<b>0</b>	<b>0</b>	<b>560</b>	<b>87,329</b>	<b>0</b>	<b>11,912</b>

**Table 8: Royalty and Offshore Minerals Management (ROMM) Summary of Requirements Table (continuation)**

General Administration (GA)	FY 2004 Actual (Enacted)		FY 2005 Estimate (Enacted)		Uncontrollable and Related Changes		Programmatic Changes		Appropriations to Collections		FY 2006 Budget Request		Inc(+) Dec(-) From 2006	
	FTE	(\$000)	FTE	(\$000)	FTE	(\$000)	FTE	(\$000)	FTE	(\$000)	FTE	(\$000)	FTE	(\$000)
<b>Executive Direction</b>														
Appropriation	20	1,049	20	1,057	0	29	0	0	0	0	20	1,086	0	29
Offsetting Collections	0	1,000	0	1,000	0	0	0	0	0	0	0	1,000	0	0
Subtotal	20	2,049	20	2,057	0	29	0	0	0	0	20	2,086	0	29
<b>Policy &amp; Mgmt Improv</b>														
Appropriation	33	3,111	33	3,132	0	84	0	0	0	0	33	3,216	0	84
Offsetting Collections	0	1,000	0	1,000	0	0	0	0	0	0	0	1,000	0	0
Subtotal	33	4,111	33	4,132	0	84	0	0	0	0	33	4,216	0	84
<b>Admin Operations 1/</b>														
Appropriation	147	15,084	147	15,409	0	461	0	-400	0	0	147	15,470	0	61
Offsetting Collections	0	1,555	0	1,555	0	0	0	0	0	0	0	1,555	0	0
Subtotal	147	16,639	147	16,964	0	461	0	-400	0	0	147	17,025	0	61
<b>Gen Support Services</b>														
Appropriation	0	9,245	0	11,257	0	-83	0	530	0	0	0	11,704	0	447
Offsetting Collections	0	12,445	0	12,445	0	0	0	0	0	0	0	12,445	0	0
Subtotal	0	21,690	0	23,702	0	-83	0	530	0	0	0	24,149	0	447
<b>Total General Administration</b>														
Appropriation	200	28,489	200	30,855	0	491	0	130	0	0	200	31,476	0	621
Offsetting Collections	0	16,000	0	16,000	0	0	0	0	0	0	0	16,000	0	0
<b>Total</b>	<b>200</b>	<b>44,489</b>	<b>200</b>	<b>46,855</b>	<b>0</b>	<b>491</b>	<b>0</b>	<b>130</b>	<b>0</b>	<b>0</b>	<b>200</b>	<b>47,476</b>	<b>0</b>	<b>621</b>
<b>Total ROMM</b>	<b>FTE</b>	<b>(\$000)</b>	<b>FTE</b>	<b>(\$000)</b>	<b>FTE</b>	<b>(\$000)</b>	<b>FTE</b>	<b>(\$000)</b>	<b>FTE</b>	<b>(\$000)</b>	<b>FTE</b>	<b>(\$000)</b>	<b>FTE</b>	<b>(\$000)</b>
Appropriation	1,599	163,279	1,610	166,820	0	3,505	-2	9,091	0	-19,000	1,608	160,416	-2	-6,404
Offsetting Collections	0	100,230	0	103,730	0	0	0	0	0	19,000	0	122,730	0	19,000
<b>Total</b>	<b>1,599</b>	<b>263,509</b>	<b>1,610</b>	<b>270,550</b>	<b>0</b>	<b>3,505</b>	<b>-2</b>	<b>9,091</b>	<b>0</b>	<b>0</b>	<b>1,608</b>	<b>283,146</b>	<b>-2</b>	<b>12,596</b>

1/ Previous Administrative Operations FTE estimates included 80 FTE that were reimbursed by IFF. These 80 FTE are now displayed in the IFF row of the Summary Table. This aligns the Summary of Requirements Table with the data displayed in the Object Class Tables in this document.

**Table 9: Oil Spill Research (OSR) Summary of Requirements Table**

Oil Spill Research	FY 2004 Actual (Enacted)		FY 2005 Estimate (Enacted)		Uncontrollable and Related Changes		Programmatic Changes		Appropriations to Collections		FY 2006 Budget Request		Inc(+) Dec(-) From 2006	
	FTE	(\$000)	FTE	(\$000)	FTE	(\$000)	FTE	(\$000)	FTE	(\$000)	FTE	(\$000)	FTE	(\$000)
Appropriation	22	7,017	22	7,006	0	0	0	0	0	0	22	7,006	0	0
Offsetting Collections	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>22</b>	<b>7,017</b>	<b>22</b>	<b>7,006</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>22</b>	<b>7,006</b>	<b>0</b>	<b>0</b>

**Table 10: Summary of Requirements Table - Total MMS Funding**

Total MMS	FY 2004 Actual (Enacted)		FY 2005 Estimate (Enacted)		Uncontrollable and Related Changes		Programmatic Changes		Appropriations to Collections		FY 2006 Budget Request		Inc(+) Dec(-) From 2006	
	FTE	(\$000)	FTE	(\$000)	FTE	(\$000)	FTE	(\$000)	FTE	(\$000)	FTE	(\$000)	FTE	(\$000)
ROMM Appropriation	1,599	163,279	1,610	166,820	0	3,505	-2	9,091	0	-19,000	1,608	160,416	-2	-6,404
OSR Appropriation	22	7,017	22	7,006	0	0	0	0	0	0	22	7,006	0	0
Interior Franchise Fund	96	n/a	131	n/a	0	n/a	0	n/a	0	n/a	131	n/a	0	n/a
<b>Total Appropriated</b>	<b>1,717</b>	<b>170,296</b>	<b>1,763</b>	<b>173,826</b>	<b>0</b>	<b>3,505</b>	<b>-2</b>	<b>9,091</b>	<b>0</b>	<b>-19,000</b>	<b>1,761</b>	<b>167,422</b>	<b>-2</b>	<b>-6,404</b>
Offsetting Collections	0	100,230	0	103,730	0	0	0	0	0	19,000	0	122,730	0	19,000
<b>Total MMS Funding</b>	<b>1,717</b>	<b>270,526</b>	<b>1,763</b>	<b>277,556</b>	<b>0</b>	<b>3,505</b>	<b>-2</b>	<b>9,091</b>	<b>0</b>	<b>0</b>	<b>1,761</b>	<b>290,152</b>	<b>-2</b>	<b>12,596</b>

**Table 11: FY 2006 Uncontrollables and Related Costs**

	2005 Budget	2005 Revised	2006 Change
<b>2005 Pay Raise</b>	+\$1,915	+\$3,691	+\$1,050
<b>Amount of 2005 pay raise absorbed</b>	[+\$0]	[\$2,660]	[+\$0]
			2006 Change
<b>2006 Pay Raise</b>			+\$2,111
These adjustments are for an additional amount needed in 2006 to fund the remaining three-month portion of the estimated cost of the, on average, 3.5 percent pay increase effective in January 2005, the additional costs of funding for an estimated 2.3 percent January 2006 pay increase for GS-series employees, and the associated pay rate changes made in other pay series.			
	2005 Budget	2005 Revised	2006 Change
<b>Workers Compensation Payments</b>	\$613	\$613	+\$35
These adjustments are for actual charges through 2004, in the costs of compensating injured employees and dependents of employees who suffer accidental deaths while on duty. Costs for 2005 will reimburse the Department of Labor, Federal Employees Compensation Fund, pursuant to U.S.C. 8147(b) as amended by Public Law 94-273.			
	2005 Budget	2005 Revised	2006 Change
<b>Unemployment Compensation Payments</b>	\$22	\$23	+\$2
The adjustment is for estimated changes in the costs of unemployment compensation claims to be paid to the Department of Labor, Federal Employees Compensation Account, in the Unemployment Trust Fund, pursuant to Public Law 96-499. The amount absorbed in 2005 is due to changes between the estimate of payments for unemployment compensation between the time the 2005 budget was formulated and the July 2004 estimates. The 2006 uncontrollable changes includes a catch-up adjustment for the unbudgeted 2005 costs.			
		2005 Change	2006 Change
<b>Rental Payments to GSA and others</b>		+\$801	+\$239
The adjustment is for changes in the cost payable to General Services Administration (GSA) and others resulting from changes in rates for office and non-office space as estimated by GSA, as well as the rental costs of other currently occupied space. Costs of mandatory office relocations, i.e., relocations in cases where due to external events, in which there is no alternative but to vacate the currently occupied space, are also included.			
	2005 Budget	2005 Revised	2006 Change
<b>Department Working Capital Fund Changes</b>	\$4,040	\$4,305	-\$359
The change reflects expected changes in the charges for Department services and other services through the working capital fund. These charges are displayed in the centralized billing portion of the <i>Working Capital Fund Tables</i> on pages 30-36. In addition to the 2006 uncontrollable change, the 2006 budget included requested program changes (e.g., ESN). The change between 2005 Budget and 2005 Revised is attributable to bureau requested changes in billing methodologies, 2005 requested program increases for e-government payments that will be collected and paid centrally through the WCF, and changes that were approved by the WCF Consortium. These changes are reflected in the Departmental Management Justification.			

Table 11 continued

	2005 Change	2006 Change
<b>Employer Share of Federal Health Benefit Plans</b>	+\$776	+\$945
The adjustment is for changes in the Federal Government's share of the cost of health insurance coverage for Federal employees. The increase is estimated at 11 percent. This is an average increase for the past few years.		
<b>One Less Payday</b>		2006 Change
		-\$518
This adjustment reflects the decreased costs resulting from the fact that there is one less payday in FY 2006 than in FY 2005.		
		2006 Change
<b>Total Uncontrollable and Related Costs - Budgeted</b>		<b>+\$3,505</b>

**Table 12: Summary of Program Changes for FY 2006 (\$000)**

	<b>FY 2006 Funding Change</b>	<b>FY 2006 FTE Change</b>
<b>FUNDING INCREASES</b>		
<b>Deepwater Helicopter Safety</b>	<b>1,605</b>	<b>0</b>
Larger helicopters, capable of reaching platforms further from shore, are needed to ensure that MMS can safely meet the growing regulatory inspection requirements that result from increased deepwater activity.		
<b>Records Management Improvement Project</b>	<b>1,200</b>	<b>0</b>
The MMS collects millions of mineral leasing records annually. The requested funding will enhance the preservation, access, and storage of records and electronic records management.		
<b>Indian Compliance Assurance</b>	<b>630</b>	<b>5</b>
The Indian Compliance Assurance Initiative draws upon the success of MMS's existing Indian cooperative audit (202) agreements. This initiative is designed to allow individual tribes to assume more responsibility in the areas of compliance and auditing.		
<b>MONTCAR Evaluation Model</b>	<b>500</b>	<b>0</b>
The MONTCAR evaluation model, developed in 1973, is used by OCS personnel to develop fair market value estimates on which MMS' bid acceptance/rejection decisions are made. The model is badly in need of updating, and this effort will fund a contracting effort to develop a new evaluation model.		
<b>Interpretive Technologies Support</b>	<b>500</b>	<b>0</b>
Interpretive technologies improve MMS's ability to assess and evaluate resources on the OCS. This effort will fund additional geophysical data acquisition, an additional data management contractor, and technical training.		
<b>Strategic Petroleum Reserve to Royalty-in-Kind (RIK) Conversion</b>	<b>4,000</b>	<b>0</b>
Once the SPR is filled (end of FY 2005), MMS will shift SPR volumes to the commercial RIK program as appropriate. The increase covers administrative costs associated with this RIK program increase.		
<b>Compliance and Asset Management Program Funding</b>	<b>5,800</b>	<b>0</b>
This program change represents the movement of \$5.8 million in funding for the RIK program from revenue receipts to ROMM appropriations.		
<b>Enterprise Information Technology</b>	<b>803</b>	<b>0</b>
This program change is for information technology improvements.		
<b>Uncontrollables and Related Costs</b>	<b>3,505</b>	<b>0</b>
Outlined in Table X on pages 26 and 27.		
<b>TOTAL FUNDING INCREASES</b>	<b>18,543</b>	<b>5</b>



Table 12 continued

	<b>FY 2006 Funding Change</b>	<b>FY 2006 FTE Change</b>
<b>FUNDING DECREASES</b>		
<b>3-D Visualization Room Funding</b>	<b>-610</b>	<b>0</b>
The building of the 3-D visualization room will be completed. Its funding is required only for ongoing operation and maintenance.		
<b>Closure of Santa Maria, CA District Office</b>	<b>-364</b>	<b>-2</b>
In an effort to consolidate offices and reduce expenses, the Santa Maria Office will be closed and functions transferred to the Camarillo, CA Office.		
<b>Safeguarding Indian Records Initiative</b>	<b>-500</b>	<b>0</b>
This one-year initiative will be completed in FY 2005.		
<b>Closure of Jefferson, LA Audit Office</b>	<b>-400</b>	<b>-5</b>
Due to company consolidation in the oil and gas industry, the audit workload has reduced. It is no longer efficient for MMS to maintain an audit staff in Jefferson.		
<b>General Administration Reductions</b>	<b>-673</b>	<b>0</b>
Through operational efficiencies, MMS will realize savings in costs for space, systems consolidation, coordinated training, and other activities.		
<b>Rescind FY 2005 Congressional Adds</b>	<b>-3,400</b>	<b>0</b>
Eliminate added funding for MMTC, CMRET, Hurricane-related expenditures, and the TAR earmark.		
<b>TOTAL DECREASES</b>	<b>-5,947</b>	<b>-7</b>
<b>TOTAL PROGRAMMATIC CHANGES</b>	<b>12,596</b>	<b>-2</b>

**Table 13: Working Capital Fund Centralized Billing – Other OS Activities**

FY 2006 WORKING CAPITAL FUND CENTRALIZED BILLING MINERALS MANAGEMENT SERVICE (\$ in thousands)			
Activity/Office	FY 2004 Actual	FY 2005 Estimate	FY 2006 Estimate
<b>Other OS Activities</b>			
Invasive Species Program	26.1	29.7	31.9
Invasive Species DOI Coordinator	4.4	4.9	5.2
Secretary's Immediate Office	30.5	34.6	37.1
Alaska Field Office	9.8	10.3	10.9
Secretary's Immediate Office	9.8	10.3	10.9
Alaska Resources Library and Information Services	56.3	68.9	73.5
Secretary's Immediate Office	56.3	68.9	73.5
Secretary's Immediate Office			
Secretary's Immediate Office			
Document Management Unit	13.7	34.1	34.8
Office of the Executive Secretariat	13.7	34.1	34.8
Departmental News and Information	21.2	40.1	42.8
Departmental Newsletter	12.3	12.9	14.2
Hispanic Media Outreach	8.5	20.3	23.0
Office of Communications	41.9	73.2	80.0
Fish, Wildlife, and Parks			
Financial Management Training	19.8	26.9	27.5
Activity Based Costing/Management		26.2	26.4
Travel Management Center		18.6	18.8
Office of Financial Management	19.8	71.7	72.8
Office of Acquisition and Property Management			
SBA Certifications		0.5	4.8
Small & Disadvantaged Business Utilization		0.5	4.8
Planning and Performance Management	49.4	73.9	75.5
Office of Planning and Performance Mgmt.	49.4	73.9	75.5
Center for Competitive Sourcing Excellence	6.9	9.8	10.0
Office of Competitive Sourcing	6.9	9.8	10.0
Firefighter and Law Enforcement Retirement Team	0.0	0.0	0.0
Employee Assistance Programs	0.0	0.0	0.0
Employee Counseling	10.7	3.6	3.7
CLC - Human Resources		0.7	0.9
OPM Federal Employment Services		3.9	4.0
Office of Personnel	10.7	8.2	8.6
Special Emphasis Program	4.8	4.9	4.9
Recruitment/Outreach	3.3	3.3	
Office of Educational Partnerships	8.1	8.2	4.9
Occupational Safety and Health	29.6	26.1	27.1
Safety & Health Training Initiative	8.2	7.1	7.1
Office of Occupational Health and Safety	37.8	33.1	34.2
Classified Information Facility	4.4	7.4	7.6

Table 13 continued

FY 2006 WORKING CAPITAL FUND CENTRALIZED BILLING MINERALS MANAGEMENT SERVICE (\$ in thousands)			
Activity/Office	FY 2004 Actual	FY 2005 Estimate	FY 2006 Estimate
Emergency Preparedness	12.9	15.6	23.2
Watch Office	19.6	23.1	28.7
Office of Law Enforcement and Security	36.9	46.1	59.5
IT Security	225.9	233.3	348.2
IT Security Certification & Accreditation			125.9
Information Technology Architecture	61.4	89.7	90.3
Capital Planning	59.1	61.8	38.0
Data Resource Management Program	19.3	19.6	19.7
Office of the Chief Information Officer	365.7	404.4	622.1
Web & Internal/External Comm	13.2	13.7	13.9
DOINET - ESN	10.3	616.4	226.3
DOINET - ESN UNDISTRIBUTED			620.1
ARTNET	57.9	59.5	-0.0
Office of the Chief Information Officer	81.4	689.6	860.2
DOI FOIA Tracking & Reporting System	2.5	2.6	9.0
GPEA	24.7	25.1	25.2
Office of the Chief Information Officer	27.2	27.7	34.2
Ethics Training Departmentwide	1.2	1.3	1.3
ALLEX Database		3.6	3.6
Solicitor	1.2	4.8	4.9
WCF Management		4.3	4.5
Contingency Reserve	7.8	7.9	7.9
Departmentwide Activities	7.8	12.3	12.4
CFO Financial Statement Audit		775.5	779.4
Departmentwide Activities		775.5	779.4
E Government Initiatives		362.0	325.0
Departmentwide Activities		362.0	325.0
<b>Subtotal Other OS Activities</b>	805.2	2,749.2	3,144.7

**Table 14: Working Capital Fund Centralized Billing – National Business Center**

FY 2006 WORKING CAPITAL FUND CENTRALIZED BILLING MINERALS MANAGEMENT SERVICE (\$ in thousands)			
Activity/Office	FY 2004 Actual	FY 2005 Estimate	FY 2006 Estimate
<b>National Business Center</b>			
Executive Forums	5.7	7.6	9.3
Departmental Library	78.0	63.5	69.9
ALLEX Database	3.9		
Departmental museum	30.3	38.1	34.6
Learning and Performance Center Management	7.3	10.1	8.9
Washington Learning Center	52.4	36.6	29.0
Denver Learning Center	61.5	83.7	92.7
Albuquerque Learning Center	0.5	0.6	1.7
Anchorage Learning Center	19.7	16.1	13.7
Leadership Institute	34.8	28.3	13.3
On-Line Learning	9.8	12.2	11.2
DOI Recruitment/Outreach			3.3
<u>NBC Human Capital Directorate</u>	<u>304.0</u>	<u>296.6</u>	<u>287.5</u>
Computer Applications and Network Services	13.7	9.8	10.4
Telecommunications services	72.0	88.2	86.0
Voice/data switching	30.3	31.1	21.4
New PBX Telephone System	89.9	34.3	36.9
Hardware/Software Customer Service Center	0.5		
Records management/FOIA	27.2	38.7	38.7
Aviation Management - Information Technology		18.9	0.0
<u>NBC CIO</u>	<u>233.6</u>	<u>221.1</u>	<u>193.5</u>
FPPS - Application Mgmt Office	25.4	16.8	17.0
FPPS - Payroll Operations	132.6	149.6	152.2
<u>FPPS - Payroll Systems</u>	<u>186.6</u>	<u>190.6</u>	<u>192.1</u>
<u>NBC - E-payroll</u>	<u>344.5</u>	<u>357.0</u>	<u>361.3</u>
Interior Complex Management & Svcs	37.5	38.7	36.9
Family Support Room	1.7	0.8	0.7
Space Management Services	9.8	6.3	7.7
Shipping and Receiving		16.0	17.9
Moving Services		10.0	10.8
OWCP Coordination	1.8	0.2	
Drug testing - intra department	0.5	0.5	
Security	88.6	216.9	240.4
Accessible Technology Center	6.7	8.5	7.4
Health Unit	11.2	12.2	9.9
Federal Executive Board	5.9	6.6	5.9
Photographic Services	5.2		
DOI Space Management Initiative			6.0
Blue Pages	4.2	18.3	19.3
Mail Policy	5.2	6.5	7.7
Mail and messenger services	27.6	38.0	40.4
Transportation Services (Household Goods)			0.6
Passport & Visa Services		11.5	11.9

Table 14 continued

FY 2006 WORKING CAPITAL FUND CENTRALIZED BILLING MINERALS MANAGEMENT SERVICE (\$ in thousands)			
Activity/Office	FY 2004 Actual	FY 2005 Estimate	FY 2006 Estimate
Property Accountability Services	11.8	4.0	3.4
Vehicle fleet	1.8	3.6	3.9
NBC - Administrative Operations	219.4	398.6	430.9
Financial Systems (inc Hyperion)		16.5	17.0
IDEAS	81.1	87.0	87.2
NBC - E-payroll	81.1	103.5	104.2
Aviation Management Directorate	336.5	179.2	214.9
Aviation - Mandatory Services	336.5	179.2	214.9
NBC-Appraisal Services			
<b>Subtotal National Business</b>	1,519.0	1,555.9	1,592.3
<b>TOTAL</b>	2,324.2	4,305.1	4,737.1

**Table 15: Working Capital Fund Direct Billing – Other OS Activities**

FY 2006 WORKING CAPITAL FUND DIRECT BILLING MINERALS MANAGEMENT SERVICE (\$ in thousands)			
Activity/Office	FY 2004 Actual	FY 2005 Estimate	FY 2006 Estimate
<b>Other OS Activities</b>			
Departmental Direction Activity Coordination	_____	_____	_____
Departmental Direction			
Management and Coordination Initiatives			
Financial Management Activities		4.8	
Acquisition and Property Initiatives		3.7	3.8
SBA Certifications		4.6	
EEO Training	1.5	9.4	5.3
Learning Mgmt System (LMS)	5.0		
Executive Resources Personnel Mgmt Services	5.0	1.5	1.5
Summer Intern Program	53.9	_____	_____
Management and Coordination	65.4	23.9	10.6
Information Resources Initiatives			
Oracle License & Support Contract	16.3	13.0	13.6
Anti-Virus Software Licenses		20.9	22.3
IT Security - Reimb BLM	2.4	2.3	2.1
Popkin System Architect	3.0	0.1	0.5
Information Resources Initiatives	21.7	36.2	38.5
Office of Acquisition and Property Management			
Central Services	0.0		
Cobell - Live E-mail	36.7		
Cobell - Gap Tape Restoration	289.1		
Cobell - Tape Search Request	6.7	5.2	5.2
Cobell - Security (Audit)	4.0	2.6	2.6
Cobell - Historical Tapes Storage	12.3	30.0	30.0
CFO Financial Statement Audit	471.9	62.1	
Federal FSA Program	47.4	46.5	46.5
Central Services	868.1	146.4	84.3
<b>Subtotal Other OS Activities</b>	<b>955.2</b>	<b>206.5</b>	<b>133.4</b>

**Table 16: Working Capital Fund Direct Billing – National Business Center**

FY 2006 WORKING CAPITAL FUND DIRECT BILLING MINERALS MANAGEMENT SERVICE (\$ in thousands)			
Activity/Office	FY 2004 Actual	FY 2005 Estimate	FY 2006 Estimate
<b>National Business Center</b>			
Strategic Management of Human Capital Directorate			
Career, Balance, & Diversity Forums	8.5	6.6	6.8
Denver Forums	0.0	5.6	
Art, Collaboration & Conservation Projects	0.0		
Govt-wide Acquisition Intern Program IV	83.5	71.5	
Financial Management Intern Program 2		23.9	
Washington Learning Center	0.8		
Denver Learning Center	4.4		
Certificate Programs		1.5	
Online Learning	17.6	7.0	26.2
Govt-wide Acquisition Intern Program V	255.0		
NBC- Human Capital/DOIU	369.8	116.1	33.0
Information Technology Directorate			
Direct Telecom Services	3.1		
Voice Mail	7.2		
Technology Services		19.3	19.3
e-Applications	7.0		
Information Technology	17.3	19.3	19.3
Federal Personnel Payroll Systems & Services Directorate			
FPPS - Application Mgmt Office	4.9	2.5	2.5
FPPS - Payroll Systems	79.8	50.4	52.4
NBC- E-payroll	84.7	52.9	54.9
Administrative Operations Directorate			
Building Alteration Services	5.2	29.1	34.1
Reimbursable Moving services	0.3	0.5	1.0
Flags & Seals		0.5	0.5
Creative Communications	58.3	117.9	121.6
Other agency drug testing program	7.0		
Reimbursable ATC Services		0.5	0.5
Acq Svc Div - Southwest Branch	11.2		
Postage	16.1	10.8	11.6
Southwest Acquisitions Branch Contracts	2,248.9		
Overseas Mail Services		0.2	0.2
Express Delivery	1.1	1.1	1.2
Aviation Management - Acquisitions		27.0	
NBC - Administrative Operations	2,348.1	187.6	170.7
Budget and Finance Directorate			
IDEAS	6.5		
Financial Systems	17.5		
Aviation Management - Finance		28.8	0.0

Table 16 continued

FY 2006 WORKING CAPITAL FUND DIRECT BILLING MINERALS MANAGEMENT SERVICE (\$ in thousands)			
Activity/Office	FY 2004 Actual	FY 2005 Estimate	FY 2006 Estimate
NBC AMD	24.0	28.8	0.0
Aviation Management Directorate	9,375.7	10,929.7	11,520.1
Aviation - Discretionary Activities	9,375.7	10,929.7	11,520.1
Appraisal Services Directorate	—	—	—
NBC-Appraisal Services	—	—	—
NBC Direction	—	—	—
NBC - Management	—	—	—
<b>Subtotal National Business</b>	12,219.6	11,334.4	11,798.0
<b>TOTAL</b>	13,174.8	11,540.9	11,931.4



**Table 17: ROMM Program and Financing Table**

Department of the Interior Minerals Management Service <b>Royalty and Offshore Minerals Management (ROMM) Program and Financing</b> <i>(dollars in millions)</i>				
Treasury Account ID: 14-1917		FY 2004 Actual	FY 2005 Estimate	FY 2006 Estimate
<b>Obligations by program activity</b>				
<b>Direct program</b>				
0001	OCS Lands	80	84	76
0002	Minerals Revenue Management	54	54	53
0003	General Administration	29	29	31
0192	Total direct program	163	167	160
<b>Reimbursable program</b>				
0901	OCS Revenue Receipts	111	110	130
0902	Reimbursable (RIK)	4	13	11
0903	Reimbursable (SPR)	23	15	6
0904	Reimbursable (RSAs)	35	35	35
0999	Total reimbursable program	173	173	182
1000	Total new obligations	336	340	342
<b>Budgetary resources available for obligation</b>				
2140	Unobligated balance, start of year	10	12	10
2200	New budget authority (gross)	335	333	335
2210	Resources available from recoveries	5	5	5
2390	Total budgetary resources available for obligation	350	350	350
2395	Total new obligations	-336	-340	-342
2440	Unobligated balance carried forward, end of year	12	10	8
<b>New budget authority (gross), detail</b>				
<b>Discretionary</b>				
4000	Appropriation	165	169	160
4035	Appropriation permanently reduced	-2	-2	0
4300	Appropriation (total discretionary)	163	167	160
<b>Spending authority from offsetting collections, Discretionary</b>				
6800	Offsetting collections (cash)	136	131	140
6810	Change in uncollected customer payments	1	0	0
6890	Total spending authority from offsetting collections	137	131	140

Table 17 continued

Treasury Account ID: 14-1917		FY 2004 Actual	FY 2005 Estimate	FY 2006 Estimate
<b>Spending authority from offsetting collections, Mandatory</b>				
6900	Offsetting collections (OC) (cash)	28	35	35
6910	Change in uncollected customer payments	7	0	0
6990	Spending Authority from Offsetting coll. total	35	35	35
7000	Total new budget authority (gross)	335	333	335
<b>Change in obligated balances</b>				
7240	Obligated balance, start of year	80	87	95
7310	Total new obligations	336	340	342
7320	Total outlays (gross)	-316	-327	-325
7345	Recoveries of prior year obligations	-5	-5	-5
7400	Change in uncollected customer payments	-8		
7440	Obligated balance, end of year	87	95	107
<b>Outlays (gross), detail</b>				
8690	Outlays from new discretionary authority	258	219	218
8693	Outlays from discretionary balances	58	108	107
8700	Total outlays (gross)	316	327	325
<b>Offsets against gross budget authority and outlays</b>				
8800	Offsetting collections from Federal sources	29	35	35
8840	Offsetting collections from Non-Federal sources	135	131	140
8890	Total, offsetting collections	164	166	175
	Against gross budget authority only			
8895	Change in uncollected customer payments	8	0	0
<b>Net budget authority and outlays</b>				
8900	Budget authority	163	167	160
9000	Outlays	154	161	150

**Table 18: ROMM Object Classification Table**

Department of the Interior Minerals Management Service <b>Royalty and Offshore Minerals Management (ROMM)</b> <b>Object Classification</b> <i>(dollars in millions)</i>				
<b>Treasury Account ID: 14-1917</b>		<b>FY 2004 Actual</b>	<b>FY 2005 Estimate</b>	<b>FY 2006 Estimate</b>
<b>Direct obligations</b>				
1111	Personnel Compensation: full-time permanent	110	110	110
1121	Civilian personnel benefits	26	26	26
1210	Travel and transportation of persons	3	3	3
1231	Rental Payments to GSA	8	8	8
1233	Communications, utilities, and misc. charges	1	1	1
1252	Other services	13	17	10
1260	Supplies and materials	1	1	1
1310	Equipment	1	1	1
1990	Subtotal, direct obligations	163	167	160
<b>Reimbursable obligations</b>				
2252	Other services	173	173	182
1990	Subtotal, reimbursable obligations	173	173	182
9999	Total new obligations	336	340	342

**Table 19: ROMM Account Object Class Information Table**

Department of the Interior Minerals Management Service <b>Royalty and Offshore Minerals Management (ROMM)</b> <b>Account Object Class Information</b> <i>(dollars in millions)</i>								
<b>Treasury Account ID: 14-1917</b>								
Object Class	FY 2005 Estimate Amount		Uncontrollable & Related Changes		Programmatic Changes		FY 2006 Budget Request	
	FTE	AMT	FTE	AMT	FTE	AMT	FTE	AMT
Total appropriation and offsetting collections	*1610	*\$271	0	2	-2	10	*1608	\$283
Total personnel compensation	n/a	\$110	n/a	0	n/a	0	n/a	\$110
Civilian personnel benefits	n/a	\$26	n/a	0	n/a	0	n/a	\$26
Travel and transportation of persons	n/a	\$3	n/a	0	n/a	0	n/a	\$3
Rents	n/a	\$8	n/a	0	n/a	0	n/a	\$8
Communications utilities, and misc. charges	n/a	\$1	n/a	0	n/a	0	n/a	\$1
Other services	n/a	\$121	n/a	2	n/a	10	n/a	\$133
Supplies and materials	n/a	\$1	n/a	0	n/a	0	n/a	\$1
Equipment	n/a	\$1	n/a	0	n/a	2	n/a	\$1
FY 2005 (\$167m Annual Appropriation and \$104m Offsetting Collections, \$271m total ROMM appropriation). FY 2006 (\$160m Annual Appropriation and \$123m Offsetting Collections, \$283m total ROMM appropriation).  *From FY 2005 to FY 2006, there is net decrease of 2 FTE (from 1610 to 1608). FY 2005 FTE total is 1763 (consisting of 1610 ROMM, 22 OSR, and 131 IFF). FY 2006 FTE total is 1761 (consisting of 1608 ROMM, 22 OSR, and 131 IFF). Beginning with FY 2003, the Interior Franchise Fund (IFF) account was transferred to MMS; 83 reimbursable FTE were broken out and reported in account 14-4529, Interior Franchise Fund.								

**Table 20: OSR Program and Financing Table**

Department of the Interior Minerals Management Service <b>Oil Spill Research (OSR) Program and Financing</b> <i>(dollars in millions)</i>		<b>FY 2004 Actual</b>	<b>FY 2005 Estimate</b>	<b>FY 2006 Estimate</b>
<b>Treasury Account ID: 14-8370</b>				
<b>Obligations by program activity</b>				
0001	Direct program activity	7	7	7
1000	Total new obligations	7	7	7
<b>Budgetary resources available for obligation</b>				
2200	New budget authority (gross)	7	7	7
2395	Total new obligations	-7	-7	-7
<b>New budget authority (gross), detail</b>				
<b>Discretionary</b>				
4026	Appropriation (trust fund)	7	7	7
<b>Change in obligated balances</b>				
7240	Obligated balance, start of year	6	7	7
7310	Total new obligations	7	7	7
7320	Total outlays (gross)	-6	-7	-7
7440	Obligated balance, end of year	7	7	7
<b>Outlays (gross), detail</b>				
8690	Outlays from new discretionary authority	3	4	4
8693	Outlays from discretionary balances	3	3	3
8700	Total outlays (gross)	6	7	7
<b>Net budget authority and outlays</b>				
8900	Budget authority	7	7	7
9000	Outlays	6	7	7

**Table 21: OSR Object Classification Table**

Department of the Interior Minerals Management Service <b>Oil Spill Research (OCS)</b> <b>Object Classification</b> <i>(dollars in millions)</i>				
Treasury Account ID: 14-8370		FY 2004 Actual	FY 2005 Estimate	FY 2006 Estimate
<b>Direct obligations</b>				
1111	Full-time permanent	2	2	2
1252	Other services	5	5	5
9999	Total new obligations	7	7	7

**Table 22: OSR Account Object Class Information Table**

Department of the Interior Minerals Management Service <b>Oil Spill Research (OSR)</b> <b>Account Object Class Information</b> <i>(dollars in millions)</i>								
Treasury Account ID: 14-8370								
Object Class	FY 2004 Estimate Amount		Uncontrollable & Related Changes		Programmatic Changes		FY 2005 Budget Request	
	FTE	AMT	FTE	AMT	FTE	AMT	FTE	AMT
Total appropriation	22	\$7	0	0	0	0	22	\$7
Total personnel compensation	n/a	\$2	n/a	0	n/a	0	n/a	\$2
Other services	n/a	\$5	n/a	0	n/a	0	n/a	\$5

**Table 23: MMS Employee Count by Grade**

	<b>FY 2004 Actual</b>	<b>FY 2005 Estimate</b>	<b>FY 2006 Estimate</b>
Executive Level	13	13	13
<b>Subtotal</b>	<b>13</b>	<b>13</b>	<b>13</b>
GS-15	62	62	62
GS-14	205	211	214
GS-13	458	460	465
GS-12	441	448	450
GS-11	134	141	143
GS-10	8	15	17
GS-9	86	89	92
GS-8	70	72	72
GS-7	116	118	120
GS-6	69	71	80
GS-5	59	63	67
GS-4	31	33	38
GS-3	8	11	15
GS-2	7	7	9
GS-1	1	1	3
<b>Subtotal</b>	<b>1,755</b>	<b>1,802</b>	<b>1,847</b>
<b>Total</b>	<b>1,768</b>	<b>1,815</b>	<b>1,860</b>
<i>Note: The numbers in this table represent the actual number of employees by grade level. These numbers differ from FTE calculations, because by definition, FTE numbers represent Full-Time Equivalent employees. FTE calculations are based on hours worked, not the number of employees.</i>			

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## FY 2006 BUDGET REQUEST

### Mineral Leasing Receipts

#### PERMANENT APPROPRIATIONS

The permanent appropriations administered by MMS provide for the sharing of mineral leasing receipts collected from the sale, lease, or development of mineral resources located on onshore Federal lands. The revenues for these payments are derived from bonuses, rentals, and royalties collected from Federal onshore mineral leases and late payment interest. The MMS distributes these funds in accordance with various laws that specify the basis for and timing of payments.

The MMS disburses all monthly mineral-leasing payments to the States, which include late disbursement interest. The Bureau of Land Management (BLM) disburses those payments that are made semi-annually or annually, including the payment made to Alaska for its share of the National Petroleum Reserve-Alaska (NPR) receipts. Included under this heading are the following permanent appropriations:

**Table 24: Permanent Appropriations to States (\$000)**

Appropriation	States Share	FY 2004 Actual	FY 2005 Estimate	FY 2006 Estimate	Change from 2005
Mineral Leasing Associated Payments ( <i>MLAP</i> )	50%	1,162,955	1,817,302	1,788,141	-29,161
National Forest Fund Payments to States ( <i>Forest Fund</i> )	25%	3,976	7,910	7,804	-106
Payments to States from Lands Acquired for Flood Control, Navigation, and Allied Purposes ( <i>Flood Control</i> )	75%	1,364	2,154	2,122	-32
<b>Total</b>	<b>N/A</b>	<b>1,168,295</b>	<b>1,827,366</b>	<b>1,798,067</b>	<b>-29,299</b>

*Note: The amounts shown above do not include late interest payments made by MMS to the states, or estimated receipts for sales in the National Petroleum Reserve – Alaska or the Arctic National Wildlife Refuge (ANWR).*

#### *Distribution Statutes for Permanent Appropriations*

Mineral leasing and associated payments are governed by the Mineral Leasing Act (MLA), 30 U.S.C. 181 *et seq.*, which provides that all States receive 50 percent of the revenues resulting from the leasing of mineral resources on Federal public domain lands within their borders. Additionally, 40 percent of onshore revenues are paid to the Reclamation Fund, which funds western water projects. The remaining 10 percent is paid into the General Funds of the United States Treasury. By law, Alaska receives no payments from the Reclamation Fund, but receives a 90 percent share of receipts from mineral leasing in that state. Mineral leasing revenues are derived from royalties, rents, bonuses, and other revenues, including minimum royalties, late

payment interest, settlement payments, gas storage fees, estimated royalty payments, and recoupments.

Under 16 U.S.C. 499, at the end of each fiscal year States receive a Forest Fund payment equal to 25 percent of all revenue obtained during that year as a result of activities occurring in each of the national forests situated in that State. The law requires a State's payment be based on national forest acreage, and where a national forest occurs in several States, an individual State's payment is proportionate to its area within that particular national forest. This payment is to be used for the benefit of the public schools and public roads of that county or counties in which the national forest resides.

Flood Control payments to States are shared according to the Flood Control Act of 1936 (33 U.S.C. 701 *et seq.*), which provides that 75 percent of revenue collected from leasing on lands acquired for flood control in a particular State be shared with that State. These funds are to be expended as the State legislature may prescribe for the benefit of the public schools and roads in the county from which the revenue was collected or for defraying any of the expenses of county government. These types of expenses include public obligations of levee and drainage districts for flood control and drainage improvements.

### ***Calculation of States' Payments***

Each permanent appropriation has a respective account in the United States Treasury. The FY 2004 actual payments are taken directly from year-end Treasury Statements. The amount on these statements represents the revenue that was paid out of each of the Treasury accounts that correspond to the permanent appropriations. Fiscal year estimates for payments to states are as follows:

- The percent that each source type (oil, gas, coal, etc.) within each land category (public domain, Forest Fund, Flood Control and National Grasslands, which is administered and distributed by the Forest Service) contributes to the total collections is determined based on three-year averages.
- This percent is applied to the revenue estimate for each source type to determine, for each land category, its share of the revenue estimated for that source. This ensures that the source type revenue estimates are distributed to the correct land category and therefore to the proper accounts.
- The appropriate distribution for each land category, as specified in the distribution statutes, is applied to each source type and summed into the various account totals that are presented in Table 24, Permanent Appropriations to States.
- The estimated payments to a particular State are based on the amount of mineral receipts disbursed to that State (which is a percentage of the total mineral receipts disbursed to all States) for the prior year.

Table 25, Mineral Revenue Payments to States, outlines the actual and estimated onshore mineral leasing revenue payments to States for FY 2004, FY 2005, and FY 2006.

Table 25: Mineral Revenue Payments to States (\$000)

State	FY 2004 Actual Payments	FY 2005 Estimated Payments	FY 2006 Estimated Payments
Alabama	607	949	934
Alaska	10,292	16,098	15,840
Arizona	151	236	232
Arkansas	2,361	3,693	3,634
California	22,688	35,487	34,918
Colorado	80,366	125,703	123,687
Florida	24	38	37
Idaho	2,169	3,393	3,338
Illinois	114	178	175
Kansas	1,515	2,370	2,332
Kentucky	90	141	139
Louisiana	1,361	2,129	2,095
Michigan	404	632	622
Minnesota	11	17	17
Mississippi	644	1,007	991
Missouri	711	1,112	1,094
Montana	30,278	47,359	46,599
Nebraska	20	31	31
Nevada	2,646	4,139	4,072
New Mexico	364,796	570,589	561,440
North Dakota	6,154	9,626	9,471
Ohio	350	547	539
Oklahoma	4,754	7,436	7,317
Oregon	11	17	17
Pennsylvania	28	44	43
South Dakota	473	740	728
Texas	1,954	3,056	3,007
Utah	68,736	107,512	105,788
Virginia	21	33	32
Washington	472	738	726
West Virginia	264	413	406
Wyoming	563,828	881,901	867,761
<b>Total</b>	<b>1,168,295</b>	<b>1,827,366</b>	<b>1,798,067</b>
<p><i>Excludes payments made to coastal States under the OCS Lands Act since they are direct, unappropriated transfers. Does not include actual or estimated receipts for sales in the National Petroleum Reserve-Alaska, proposed Arctic National Wildlife Refuge (ANWR) legislation, late interest payments, or Right of Way payments to States.</i></p> <p><i>Columns may not add due to rounding.</i></p> <p><i>Note: FY 2005 and 2006 estimates for payments to States are based on price estimates for oil and natural gas. These price estimates are higher than the estimates MMS has used in the past.</i></p>			

## **MINERAL LEASING RECEIPTS**

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Mineral leasing receipts are derived from royalties, rents, bonuses, and other revenues, including minimum royalties, late payment interest, settlement payments, gas storage fees, estimated royalty payments, and recoupments. The MMS is responsible for the collection of all mineral leasing receipts from all OCS lands, approximately 97 percent of Federal onshore lands, and most Indian lands.

The remaining Federal onshore collections are for acquired national grasslands. These collections, which are shared between the General Fund of the U.S. Treasury and counties, are administered by the Department of Agriculture (USDA) because MMS does not have the authority to disburse funds to counties. All monies collected on Indian lands by MMS are deposited in the Treasury accounts controlled by the Office of Special Trustee (OST). MMS notifies OST of these deposits on a daily basis. Based on information received from MMS and BIA, OST instructs Treasury to make payments to Tribal and Indian allottee accounts.

The disposition of these collections between the General Fund of the U.S. Treasury, other Federal funds, and the States and counties is determined by statute. Legislation also determines how receipts are classified for budgetary purposes. Mineral leasing receipts are classified as offsetting receipts because they arise from business-type transactions with the public versus governmental receipts that arise from the Government's power to tax or fine. Offsetting receipts are further defined as: 1) Proprietary receipts, which offset Department of the Interior budget authority and outlays (most onshore receipts), and 2) Undistributed proprietary receipts, which offset total Federal budget authority and outlays as a bottom-line adjustment (all OCS receipts).

### ***Distribution of Mineral Leasing Receipts***

The distribution of mineral leasing receipts is broken down into two categories: 1) Onshore and 2) Offshore (OCS Lands). In both cases, prior to distribution, the receipts, or payments received are deposited into a holding or suspense account until the accounting system has identified the payments by the following three criteria:

- 1) Source type (oil and gas, coal, other mineral royalties, etc);
- 2) Land category (acquired Forest, public domain, OCS, etc.); and
- 3) Location (State or county to determine applicable share).

This identification process takes approximately one month if payors have filed their reports correctly.

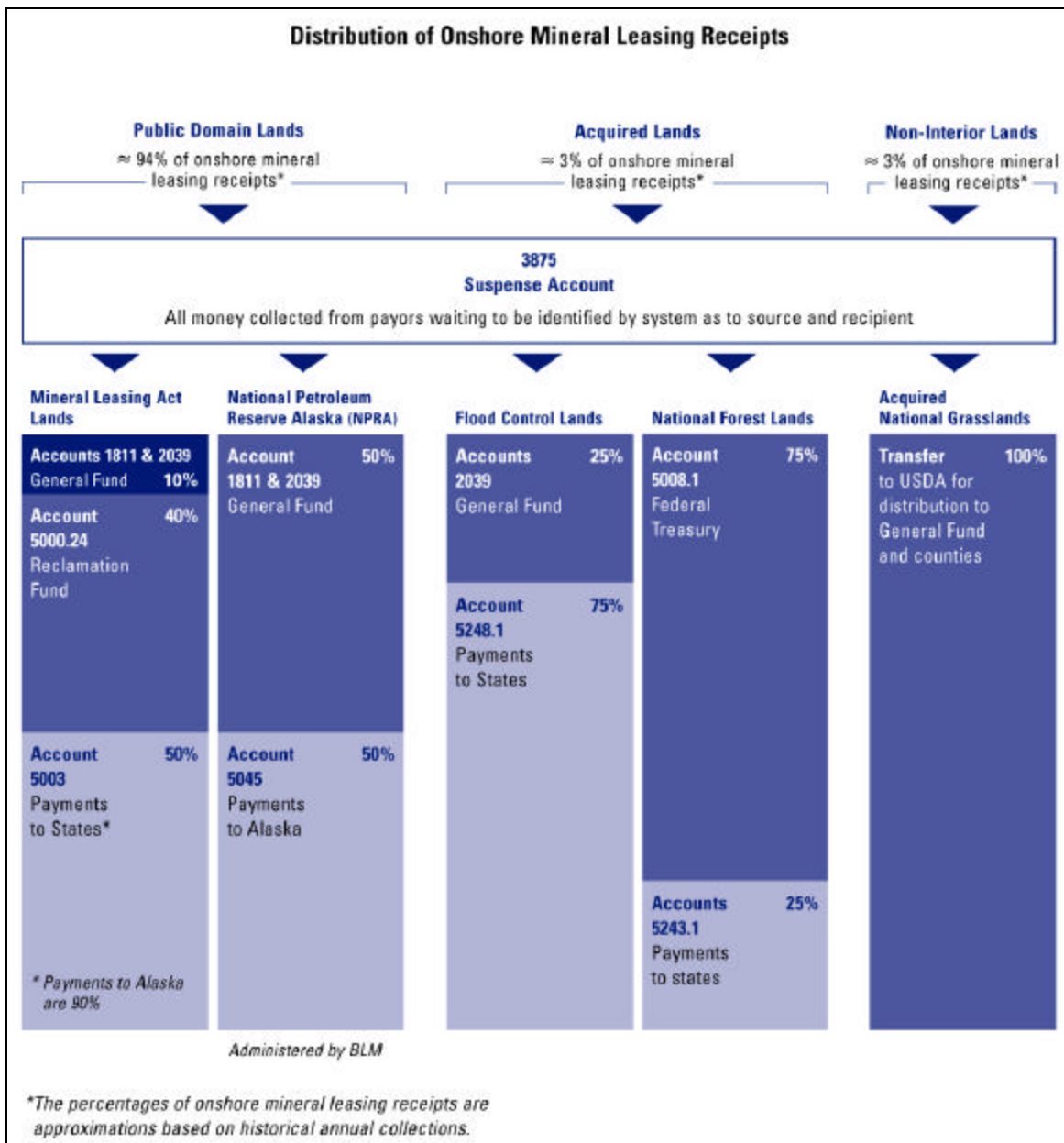
### ***Onshore Mineral Leasing Receipts***

After the payments are identified by the above three criteria, they are redirected immediately into all accounts based on land category and source type (see Figure 9 on page 49 for a visual representation of the distribution of onshore mineral leasing receipts). In addition, detailed State information is necessary to disburse State revenue shares to each State's Treasury.

The collections from public domain lands leased under the Mineral Leasing Act (MLA) authority are shared 50 percent with the States (*Account 5003*), 40 percent with the Reclamation Fund

(Account 5000.24) for western water projects, and 10 percent with the General Fund of the U.S. Treasury. The General Fund share is deposited into two accounts depending on whether the collections are from rents and bonuses (Account 1811) or from royalties (Account 2039). Alaska receives the 50 percent State share and the 40 percent Reclamation Fund share of mineral leasing receipts for Mineral Leasing Act lands.

Collections from public domain lands not leased under MLA authority, such as the National Petroleum Reserve-Alaska lands (NPRA), are transferred to the Bureau of Land Management (BLM) for distribution. BLM makes payment to Alaska for its 50 percent share of the NPRA receipts. Since there is currently no production on the NPRA, the entire General Fund share, 50 percent, is deposited with the rents and bonuses (Account 1811).



**Figure 9: Distribution of Onshore Mineral Leasing Receipts**

The Energy Policy Act of 1992, *P.L. 102-486*, requires the Secretary of the Interior to disburse monthly to States all mineral leasing payments authorized by Section 6 of the Mineral Leasing Act for Acquired Lands. Therefore, MMS distributes the revenue collections from lands acquired for flood control, navigation and allied purposes, giving 25 percent of the total to the General Fund of the U.S. Treasury (either *Account 1811 or 2039*) and 75 percent to the States (*Account 5248.1*). The MMS distributes revenue collections from National Forest Lands, depositing 75 percent in the General Fund of the U.S. Treasury (*Account 5008.1*) and donating 25 percent to the States (*Account 5243.1*).

**Offshore (OCS Lands) Mineral Leasing Receipts**

After distinguishing payments by source type, land category, and location, the receipts derived from OCS lands are deposited into accounts according to revenue source: rent, bonus, or royalty. On page 51, Figure 10 provides a visual representation of the distribution of offshore mineral leasing receipts.

In order to bid on an OCS lease tract offered for sale, a bidder must submit an upfront cash deposit equal to 1/5 of the entire proposed bid. The deposit flows into *Escrow Account 6705* and accrues interest until MMS determines that the proposed bonus is at least equal to the fair market value of the tract. The interest earned on collections held in escrow is deposited into a separate account that is not listed on the receipt tables contained in this document (*Account 1493*).

If the bid is rejected, the 1/5 upfront deposit, plus interest, is returned to the bidder. If accepted, the 1/5 upfront deposit, the remaining 4/5 of the bonus, along with the first year’s rent are deposited into *Account 1820* for OCS rents and bonuses. Future OCS rents, due yearly until production begins, are also deposited into *Account 1820*. The OCS royalties, due from payors at the end of the month following each month of production, are deposited into *Account 2020*.

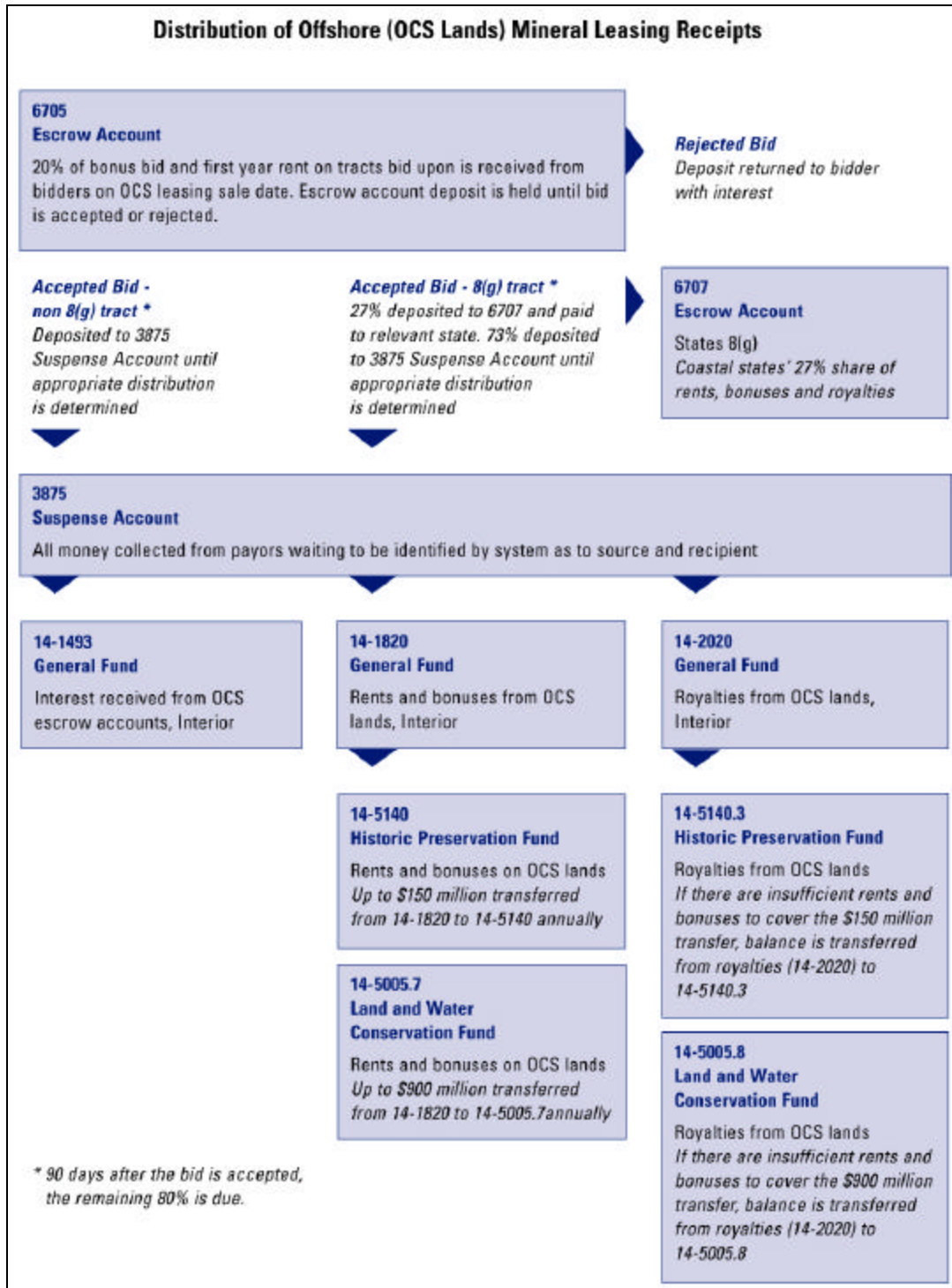
The payments made to coastal States for their 27 percent share of OCS collections within the 8(g) zone, which is the area approximately 3 miles seaward from the State/Federal boundary, flow through *Account 6707*. Table 26 provides information on the payments to coastal States.

**Table 26: Payments to Coastal States under OCSLA Section 8(g) (\$000)**

	<b>FY 2004 Actual Payments</b>	<b>FY 2005 Estimated Payments</b>	<b>FY 2006 Estimated Payments</b>
Alabama	13,708	13,823	13,550
Alaska	7,246	7,307	7,163
California	2,792	2,816	2,760
Florida	1	1	1
Louisiana	38,256	39,778	39,016
Mississippi	519	523	513
Texas	13,254	14,166	13,576
<b>Total</b>	<b>75,776</b>	<b>78,414</b>	<b>76,579</b>

The OCS receipts are the main funding source of the mandated \$900 million required for the Land and Water Conservation Fund (LWCF). Each year, MMS distributes a portion of OCS

receipts to the LWCF (*Accounts 5000.7 and 5000.8*), which is administered by the National Park Service. The MMS also distributes \$150 million annually to the Historic Preservation Fund (*Accounts 5140 and 5140.3*). For both funds, accounting procedures require payments be made from OCS rents and bonuses, and then any further needed payments to be made from OCS royalties.



**Figure 10: Distribution of Offshore (OCS Lands) Mineral Leasing Receipts**

### ***Alaska Escrow Account and the Environmental Improvement Fund***

On June 19, 2000, the U.S. Supreme Court issued a final decree regarding the State/Federal boundary of areas leased for oil and gas exploration in the Beaufort Sea between 1979 and 1991. Prior to resolution of this dispute, sale bonuses collected during this time, and associated rental payments, were deposited into *Account 6704*. The resolution permitted the release of the funds that had been held in the Treasury escrow account.

As required by the Department of the Interior and Related Agencies Appropriations Act, *P.L. 105-83*, as amended, one-half of the principal and one-half of the interest were deposited into the Environmental Improvement and Restoration Fund (EIRF). The Law requires that the corpus of the Fund be invested. Twenty percent of the interest earned by the Fund is permanently appropriated to the Department of Commerce (DOC). Congress can appropriate the remaining 80 percent of the interest earned through annual appropriations for the specific purposes outlined in the law. The remaining one-half principal and one-half interest were deposited into the General Funds of the U.S. Treasury.

### ***Receipts Charts for Onshore and Offshore Mineral Leasing***

Information regarding the estimated onshore and offshore mineral leasing receipts are included in the following charts:

- Mineral Leasing Receipts by Commodity Source;
- Mineral Leasing Receipts by Account;
- Onshore Mineral Receipts;
- Onshore Rents and Bonuses;
- Federal Onshore Royalty Estimates;
- Outer Continental Shelf Mineral Receipts;
- OCS Rents and Bonuses; and
- Federal Offshore Royalty Estimates.



**Table 27: Mineral Leasing Receipts by Commodity Source (\$000)**

	<b>FY 2005 Estimate</b>	<b>FY 2006 Estimate</b>	<b>FY 2007 Estimate</b>	<b>FY 2008 Estimate</b>	<b>FY 2009 Estimate</b>	<b>FY 2010 Estimate</b>	<b>FY 2011 Estimate</b>
<b>Onshore Rents and Bonuses</b>							
Oil and Gas	103,559	106,518	102,573	98,628	93,697	93,697	89,751
Coal	392,200	389,400	312,100	350,700	317,900	196,100	206,000
Geothermal	1,100	1,050	1,000	1,000	1,200	1,000	1,500
All Other	36	36	36	36	36	36	36
<b>Subtotal</b>	<b>496,895</b>	<b>497,004</b>	<b>415,709</b>	<b>450,364</b>	<b>412,833</b>	<b>290,833</b>	<b>297,287</b>
<b>Onshore Royalties</b>							
Oil and Gas	2,559,062	2,482,653	2,502,251	2,542,598	2,595,810	2,649,646	2,704,232
Coal	477,351	495,745	513,240	526,336	554,127	569,522	589,516
Geothermal	9,598	9,310	9,031	8,761	8,498	8,242	7,995
All Other	126,208	125,614	125,054	124,526	124,031	123,566	123,132
<b>Subtotal</b>	<b>3,172,219</b>	<b>3,113,322</b>	<b>3,149,576</b>	<b>3,202,221</b>	<b>3,282,466</b>	<b>3,350,976</b>	<b>3,424,875</b>
<b>Subtotal, Onshore Receipts</b>	<b>3,669,114</b>	<b>3,610,326</b>	<b>3,565,285</b>	<b>3,652,585</b>	<b>3,695,299</b>	<b>3,641,809</b>	<b>3,722,162</b>
<b>Other Receipts</b>							
Royalty-in-Kind fees	21	21	21	21	21	21	21
Sale of publications	168	168	168	168	168	168	168
<b>Subtotal, Other Receipts</b>	<b>189</b>	<b>189</b>	<b>189</b>	<b>189</b>	<b>189</b>	<b>189</b>	<b>189</b>
<b>Total, Onshore &amp; Other Receipts</b>	<b>3,669,303</b>	<b>3,610,515</b>	<b>3,565,474</b>	<b>3,652,774</b>	<b>3,695,488</b>	<b>3,641,998</b>	<b>3,722,351</b>
<b>Outer Continental Shelf Mineral Leasing</b>							
OCS Rents and Bonuses*	646,000	677,000	669,000	683,000	662,000	594,000	594,000
OCS Royalties	5,240,400	6,454,100	6,074,400	6,084,900	6,438,200	6,726,500	6,932,300
<b>Total, OCS Receipts**</b>	<b>5,886,400</b>	<b>7,131,100</b>	<b>6,743,400</b>	<b>6,767,900</b>	<b>7,100,200</b>	<b>7,320,500</b>	<b>7,526,300</b>
<b>TOTAL, MINERAL RECEIPTS</b>	<b>9,555,703</b>	<b>10,741,615</b>	<b>10,308,874</b>	<b>10,420,674</b>	<b>10,795,688</b>	<b>10,962,498</b>	<b>11,248,651</b>

\*OCS Rent and Bonus amounts include reductions for MMS offsetting collections as directed in Interior appropriation bill language.

\*\*Total OCS Receipts includes reductions for SPR and 8(g).

**Table 28: Mineral Leasing Receipts by Account (\$000)\***

	<b>FY 2005 Estimate</b>	<b>FY 2006 Estimate</b>	<b>FY 2007 Estimate</b>	<b>FY 2008 Estimate</b>	<b>FY 2009 Estimate</b>	<b>FY 2010 Estimate</b>	<b>FY 2011 Estimate</b>
<b>Onshore Mineral Leasing</b>							
1811.00 Rents and Bonuses	49,329	49,330	41,214	44,693	40,957	28,757	29,416
2039.00 MLR Royalties	314,849	309,006	312,621	317,866	325,862	332,694	340,056
5000.24 Reclamation Fund	1,453,842	1,430,513	1,412,522	1,447,413	1,464,445	1,442,927	1,474,996
5003.02 Payments to States	1,817,302	1,788,141	1,765,653	1,809,266	1,830,556	1,803,659	1,843,745
5243.10 Forest Fund, states share	7,910	7,804	7,791	7,808	7,839	7,904	7,945
5008.10 Forest Fund, Govt share	23,729	23,412	23,372	23,423	23,516	23,712	23,836
5248.10 Flood Control (States shares)	2,154	2,122	2,113	2,117	2,123	2,156	2,169
<b>Subtotal, Onshore Receipts</b>	<b>3,669,115</b>	<b>3,610,328</b>	<b>3,565,286</b>	<b>3,652,586</b>	<b>3,695,298</b>	<b>3,641,809</b>	<b>3,722,163</b>
2419.10 Royalty-in-kind fees	21	21	21	21	21	21	21
2259.00 Sale of publications	168	168	168	168	168	168	168
<b>Subtotal, Other Receipts</b>	<b>189</b>	<b>189</b>	<b>189</b>	<b>189</b>	<b>189</b>	<b>189</b>	<b>189</b>
<b>Total, Onshore and Other Receipts</b>	<b>3,669,304</b>	<b>3,610,517</b>	<b>3,565,475</b>	<b>3,652,775</b>	<b>3,695,487</b>	<b>3,641,998</b>	<b>3,722,352</b>
<b>Outer Continental Shelf Mineral Leasing</b>							
1820.00 OCS Rents and Bonuses	-	-	-	-	-	-	-
2020.00 OCS Royalties	4,839,400	6,084,100	5,696,400	5,720,900	6,053,200	6,273,500	6,479,300
5005.70 LWCF (OCS R & B)	496,000	527,000	519,000	533,000	512,000	444,000	444,000
5005.80 LWCF (OCS royalties)	401,000	370,000	378,000	364,000	385,000	453,000	453,000
5140.00 Hist. Pres. (OCS R & B)	150,000	150,000	150,000	150,000	150,000	150,000	150,000
<b>Total, OCS Receipts</b>	<b>5,886,400</b>	<b>7,131,100</b>	<b>6,743,400</b>	<b>6,767,900</b>	<b>7,100,200</b>	<b>7,320,500</b>	<b>7,526,300</b>
<b>TOTAL, MINERAL RECEIPTS</b>	<b>9,555,704</b>	<b>10,741,617</b>	<b>10,308,875</b>	<b>10,420,675</b>	<b>10,795,687</b>	<b>10,962,498</b>	<b>11,248,652</b>

*\*Small discrepancies may occur due to rounding.*

**Table 29: Onshore Mineral Receipts (\$000)**

	<b>FY 2005 Estimate</b>	<b>FY 2006 Estimate</b>	<b>Change</b>	<b>Explanation</b>
<b>Rents &amp; Bonuses</b>				
Oil & Gas	103,559	106,518	2,959	Slight increase in rents and bonuses
Coal	392,200	389,400	-2,800	Decreased bonus amounts
Geothermal	1,100	1,050	-50	Slight decrease, but remains relatively level
Oil Shale	15	15	0	Remain level
All Other	21	21	0	Remain level
<b>Subtotal</b>	<b>496,895</b>	<b>497,004</b>	<b>-2,850</b>	
<b>Royalties</b>				
Oil & Gas	2,559,062	2,482,653	-76,409	Oil production and price declines slightly; Gas production increases and price declines
Coal	477,351	495,745	18,394	Coal production increases Coal price declines slightly
Geothermal	9,598	9,310	-288	Slight decrease, but remains relatively level
All Other	126,208	125,614	-594	Slight decrease, but remains relatively level
<b>Subtotal</b>	<b>3,172,219</b>	<b>3,113,322</b>	<b>-58,897</b>	
<b>Total</b>	<b>3,669,114</b>	<b>3,610,326</b>	<b>-61,747</b>	

**Table 30: Onshore Rents and Bonuses (\$000)\***

	<b>FY 2005 Estimate</b>	<b>FY 2006 Estimate</b>	<b>FY 2007 Estimate</b>	<b>FY 2008 Estimate</b>	<b>FY 2009 Estimate</b>	<b>FY 2010 Estimate</b>	<b>FY 2011 Estimate</b>
<b>Oil and Gas</b>							
Rents Lower 48	37,000	38,000	39,000	40,000	40,000	40,000	39,000
Bonuses Lower 48	68,000	70,000	65,000	60,000	55,000	55,000	52,000
<b>Subtotal, Oil and Gas</b>	<b>105,000</b>	<b>108,000</b>	<b>104,000</b>	<b>100,000</b>	<b>95,000</b>	<b>95,000</b>	<b>91,000</b>
<b>Coal</b>							
Rents	1,400	1,400	1,400	1,400	1,400	1,400	1,400
Bonuses	390,800	388,000	310,700	349,300	316,500	194,700	204,600
<b>Subtotal, Coal</b>	<b>392,200</b>	<b>389,400</b>	<b>312,100</b>	<b>350,700</b>	<b>317,900</b>	<b>196,100</b>	<b>206,000</b>
<b>Geothermal</b>							
Rents and Bonuses	1,100	1,050	1,000	1,000	1,200	1,000	1,500
<b>Oil Shale</b>							
Rents and Bonuses	15	15	15	15	15	15	15
<b>Other Minerals</b>							
Rents and Bonuses	21	21	21	21	21	21	21
<b>TOTAL, Rents &amp; Bonuses</b>	<b>498,336</b>	<b>498,486</b>	<b>417,136</b>	<b>451,736</b>	<b>414,136</b>	<b>292,136</b>	<b>298,536</b>
*Amounts may differ slightly from Table 27. Estimates in that table do not reflect amounts collected for Grasslands. Receipt estimates for NPR-A are reported by the Bureau of Land Management							



**Table 32: Outer Continental Shelf Mineral Receipts**

	<b>FY 2005 Estimate</b>	<b>FY 2006 Estimate</b>	<b>Change</b>	<b>Explanation</b>
<b>Rents &amp; Bonuses</b>				
Rents*	96,000	86,000	-10,000	Decrease due to the expiration of leases from a large number of shallow water tracts leased in 2000 and 2001
Bonuses	550,000	591,000	41,000	Increase due to the use of higher prices in preparing estimates and increased rental rates for FY 2006
<b>Subtotal</b>	<b>646,000</b>	<b>677,000</b>	<b>31,000</b>	
<b>Royalties</b>				
Oil**	2,090,200	3,457,900	1,367,700	Major increase due to completion of the SPR fill project
Gas	3,130,100	2,986,200	-143,900	Decrease in production offset by an increase in price estimates
<b>Subtotal</b>	<b>5,220,300</b>	<b>6,444,100</b>	<b>1,223,800</b>	
<b>Total</b>	<b>5,866,300</b>	<b>7,121,100</b>	<b>1,254,800</b>	

*\*Rent totals are net of MMS offsetting collections and can change according to amounts stated in the MMS appropriation language*

*\*\*Amount equals oil estimate less SPR and 8(g) reductions*

**Table 33: OCS Rents and Bonuses (\$000,000)\***

<b>FY 2005 Estimate</b>					
<b>Sale #</b>	<b>FY Sale Date</b>	<b>Sale Area</b>	<b>High Bids</b>	<b>Total 8(g)</b>	<b>Estimate</b>
192	late 04	Western Gulf of Mexico	170	1	170
193	early 05	Chukchi	5	0	5
194	mid 05	Central Gulf of Mexico	370	1	370
195	mid 05	Beaufort	5	0	5
196	late 05	Western Gulf of Mexico	190	1	0
				<b>Bonuses Subtotal</b>	<b>550</b>
				<b>Rents**</b>	<b>96</b>
				<b>FY 2005 TOTAL</b>	<b>646</b>
<b>FY 2006 Estimate</b>					
<b>Sale #</b>	<b>FY Sale Date</b>	<b>Sale Area</b>	<b>High Bids</b>	<b>Total 8(g)</b>	<b>Estimate</b>
196	late 05	Western Gulf of Mexico	190	1	190
197	early 06	Eastern Gulf of Mexico	10	0	10
198	mid 06	Central Gulf of Mexico	390	1	390
199	mid 06	Cook Inlet	1	0	1
200	late 06	Western Gulf of Mexico	200	1	0
				<b>Bonuses Subtotal</b>	<b>591</b>
				<b>Rents</b>	<b>86</b>
				<b>FY 2006 TOTAL</b>	<b>677</b>
<b>FY 2007 Estimate</b>					
<b>Sale #</b>	<b>FY Sale Date</b>	<b>Sale Area</b>	<b>High Bids</b>	<b>Total 8(g)</b>	<b>Estimate</b>
200	late 06	Western Gulf of Mexico	200	1	200
201	mid 07	Central Gulf of Mexico	390	1	390
202	mid 07	Beaufort Sea	5	0	5
203	late 07	Chukchi	2	0	0
204	late 07	Western Gulf of Mexico	210	0	0
				<b>Bonuses Subtotal</b>	<b>595</b>
				<b>Rents</b>	<b>74</b>
				<b>FY 2007 TOTAL</b>	<b>669</b>
<b>FY 2008 Estimate</b>					
<b>Sale #</b>	<b>FY Sale Date</b>	<b>Sale Area</b>	<b>High Bids</b>	<b>Total 8(g)</b>	<b>Estimate</b>
203	late 07	Chukchi	2	0	2
204	late 07	Western Gulf of Mexico	210	1	210
	mid 08	Central Gulf of Mexico	410	1	410
	late 08	Western Gulf of Mexico	240	0	0
				<b>Bonuses Subtotal</b>	<b>622</b>
				<b>Rents</b>	<b>61</b>
				<b>FY 2008 TOTAL</b>	<b>683</b>
* Rent estimates are subject to change based on cost recoveries recouped on a per year basis.					
** Rent totals are net of MMS offsetting collections and can change according to amounts stated in the MMS appropriation language.					

**Table 34: Federal Offshore Royalty Estimates**

	<b>FY 2005 Estimate</b>	<b>FY 2006 Estimate</b>	<b>FY 2007 Estimate</b>	<b>FY 2008 Estimate</b>	<b>FY 2009 Estimate</b>	<b>FY 2010 Estimate</b>	<b>FY 2011 Estimate</b>
<b>Oil (MMBbl)</b>							
Alaska*	3	3	2	2	1	13	16
POCS	28	27	26	25	23	21	19
<i>Total GOM</i>	641	720	745	763	792	808	818
<i>Royalty Free Production**</i>	71	87	100	108	113	113	111
GOM Royalty Production	569	633	645	655	679	695	706
Total Royalty Production	601	663	673	681	703	728	742
Royalty Rate	0.1326	0.1318	0.1311	0.1305	0.1299	0.1292	0.1285
OMB Price/Bbl	44.76	40.45	38.00	37.33	38.11	38.91	39.73
<b>Subtotal Oil Royalties (\$m)</b>	<b>\$3,564.22</b>	<b>\$3,534.87</b>	<b>\$3,354.76</b>	<b>\$3,318.60</b>	<b>\$3,479.91</b>	<b>\$3,660.65</b>	<b>\$3,785.72</b>
<b>Gas (bcf)</b>							
POCS	31	30	29	27	25	23	21
<i>Total GOM</i>	4,161	4,236	4,098	4,222	4,495	4,666	4,801
<i>Royalty Free Production**</i>	739	907	1,045	1,167	1,277	1,380	1,476
GOM Royalty Production	3,422	3,329	3,053	3,055	3,218	3,286	3,325
Total Royalty Production	3,453	3,359	3,082	3,082	3,243	3,309	3,346
Royalty Rate	0.1529	0.1522	0.1515	0.1507	0.1499	0.1492	0.1485
OMB Price/Mcf	5.93	5.84	5.96	6.09	6.22	6.35	6.48
<b>Subtotal Gas Royalties (\$m)</b>	<b>\$3,130.14</b>	<b>\$2,986.24</b>	<b>\$2,781.67</b>	<b>\$2,828.29</b>	<b>\$3,024.31</b>	<b>\$3,134.85</b>	<b>\$3,218.58</b>
<b>Total, Oil &amp; Gas Royalties (\$m)</b>	<b>\$6,694.36</b>	<b>\$6,521.12</b>	<b>\$6,136.43</b>	<b>\$6,146.89</b>	<b>\$6,504.22</b>	<b>\$6,795.50</b>	<b>\$7,004.30</b>
<b>Adjustments</b>							
Strategic Petroleum Reserve	-1,396	0	0	0	0	0	0
State's Share (8G)	-78	-77	-72	-72	-76	-79	-82
Negotiated Settlement	20	10	10	10	10	10	10
<b>Total Adjustments</b>	<b>-1,454</b>	<b>-67</b>	<b>-62</b>	<b>-62</b>	<b>-66</b>	<b>-69</b>	<b>-72</b>
<b>TOTAL OCS ROYALTIES (\$m)</b>	<b>\$5,240.36</b>	<b>\$6,454.12</b>	<b>\$6,074.43</b>	<b>\$6,084.89</b>	<b>\$6,438.22</b>	<b>\$6,726.50</b>	<b>\$6,932.30</b>

\* Alaska production is net of 27 percent that goes to the State for 8(g).

\*\* Royalty Free Production is GOM production which is not subject to royalties because of the deep water royalty relief and deep gas royalty relief. This amount is subtracted from the Total GOM to obtain the GOM Royalty Production.



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## FY 2006 BUDGET REQUEST

### Offshore Minerals Management

**Table 35: Overview of the Offshore Minerals Management Budget Request**

		<b>FY 2004 Actual (Enacted)</b>	<b>FY 2005 Estimate (Enacted)</b>	<b>FY 2006 Budget Changes</b>	<b>FY 2006 Budget Request</b>	<b>Change from FY 2005</b>
<b>Total OCS Lands Activity</b>	<b>(\$000)</b>	<b>139,289</b>	<b>148,278</b>	<b>+63</b>	<b>148,341</b>	<b>+0.04%</b>
	<b>FTE</b>	<b>841</b>	<b>850</b>	<b>-2</b>	<b>848</b>	<b>-0.24%</b>
Leasing & Environmental Subactivity	(\$000)	37,037	37,224	+544	37,768	+1.5%
	FTE	219	219	0	219	0.0%
Resource Evaluation Subactivity	(\$000)	27,081	29,566	-884	28,682	-2.9%
	FTE	221	221	0	221	0.0%
Regulatory Subactivity	(\$000)	49,465	51,516	+250	51,766	+0.5%
	FTE	336	336	-2	334	-0.6%
Information Management Subactivity	(\$000)	25,706	29,972	+153	30,125	+0.5%
	FTE	65	74	0	74	0.0%
Oil Spill Research Appropriation	(\$000)	7,017	7,006	0	7,006	0.0%
	FTE	22	22	0	22	0.0%
<b>OMM Total Resources</b>	<b>(\$000)</b>	<b>146,306</b>	<b>155,284</b>	<b>+63</b>	<b>155,347</b>	<b>+0.04%</b>
	<b>FTE</b>	<b>863</b>	<b>872</b>	<b>-2</b>	<b>870</b>	<b>-0.23%</b>

### **PROGRAM OVERVIEW**

MMS has worked diligently for over 20 years to build a successful offshore program with a legal and regulatory framework that will provide for safe and environmentally sound OCS mineral resource development to the benefit of the American public. The bureau is committed to achieving the proper balance between providing energy for the American people and protecting unique and sensitive coastal and marine environments. As the Nation's designated steward of the mineral resources on the Outer Continental Shelf (OCS), MMS has provided predictable schedules and timely opportunity for review of proposed actions. MMS believes that a sound and fiscally responsible regulatory system will attract capital and expertise to fully develop and produce resources in an environmentally sound and safe manner. Energy production from the OCS plays a major role in the President's National Energy Policy (NEP) and in meeting the Nation's energy needs.

#### ***Protecting and Preserving our Ocean Environment***

MMS is the steward of 1.76 billion acres of the OCS, managing offshore energy and minerals while protecting the human, marine, and coastal environments. The OCS provides 30 percent of the oil produced domestically, 23 percent of the natural gas, substantial volumes of sand used for beach nourishment and wetlands protection, and over \$6 billion per year in revenues to the Treasury.

MMS is an international leader in offshore safety, with a regulatory program that sets standards for the design of facilities and the conduct of operations. As a leader in scientific inquiry in the oceans, MMS is currently conducting research on a variety of topics, including the affect of noise on marine mammals, the nature of deepwater and Arctic currents, and deep water corals and chemosynthetic communities. MMS works in partnership with State and local governments, academia, industry, and other Federal agencies in managing these activities.

MMS adopted a national Rigs-to-Reefs policy that supports and encourages the reuse of oil and gas structures for offshore artificial reef development. Whether it is an operating, oil and gas production platform or a retired platform intentionally placed for conservation and fisheries enhancement, a typical 4-pile platform jacket (the underwater support structure of an offshore platform) provides 2-3 acres of living and feeding habitat for thousands of underwater species. Without these artificial reefs, the natural bottom of the Gulf of Mexico presents an inhospitable environment far from ideal for commercial fishing and recreational fishing and diving.



**Figure 11. MMS activities are supporting the development of artificial reefs.**

MMS collects and provides geologic and environmental information, developed through partnerships with fourteen coastal States, to identify and make available sand deposits in Federal waters suitable for beach nourishment and wetlands protection projects.

Over the past decade, public awareness and support of renewable energy has increased appreciably. Renewable resources, such as wind, waves and sun, occur naturally and abundantly and it is the responsibility of state and Federal legislative groups, and agencies such as the Department of the Interior, to establish guidelines to manage competing demands of infrastructure associated with these sources of energy.

The Department of the Interior works collaboratively with other Federal agencies on renewable energy development. The MMS is a cooperating agency in discussions regarding wind and wave projects in the OCS, providing expertise on marine environmental and engineering issues as well as potential competing uses under the OCS Lands Act.



**Figure 12. Renewable energy development, including power from waves, is a topic of growing interest.**

Since the early 1970s, MMS has supported a comprehensive program of mapping, monitoring and protection for coral reefs of the East and West Flower Garden Banks, a National Marine Sanctuary in the Gulf of Mexico. MMS has used this information to develop lease stipulations for gas and oil exploration, development and production near the Sanctuary that have been completely effective in preventing environmental impacts.

MMS also recently announced the completion of an environmental assessment (EA) evaluating the potential environmental impacts of geological and geophysical activities in the Gulf of Mexico. After analyzing hundreds of documents from around the world, MMS was able to analyze the best available information on the effects of seismic surveys on marine resources and in particular marine mammals, including sperm whales.

The activities analyzed in the EA include seismic surveys, deep-tow side-scan surveys, electromagnetic surveys, geological and geochemical sampling and remote-sensing surveys which are used extensively to support oil and gas exploration in the Gulf.

A new ocean radar study will use high frequency Doppler radar to map the daily and seasonal current changes in Alaskan waters. The four year federal study is expected to produce the most richly detailed oceanographic data ever produced in this offshore region. The study will also provide better oceanographic information for the shipping and fishing industries, the offshore oil and gas industries and for other scientific purposes along Alaska's coasts.

MMS recently issued a new report on subsurface, high speed current jets in the deep water Gulf of Mexico. The report provides new information that will aid the offshore industry in the design of drilling and production systems. Offshore operators design these drilling and production systems to account for forces exerted by ocean currents. However, several deep water petroleum operators have recently reported unusual high-speed, subsurface, intensified currents, known as jets, on the upper continental slopes of the northern Gulf of Mexico. These jets have disrupted, suspended, or delayed drilling operations.

Increasing interest in building liquefied natural gas import facilities and additional security requirements created under the Maritime Transportation Security Act of 2002, are among the factors that prompted the Minerals Management Service and the U.S. Coast Guard to sign a revised Memorandum of Understanding. The MOU details how the two agencies will work together to regulate the oil and gas activities on the OCS to keep pace with an industry facing evolving technologies and new engineering standards and reaffirms a federal commitment to safe and environmentally sound offshore operations.

### ***Meeting the Demand for Natural Gas***

By ensuring access to OCS lands with high potential for containing natural gas resources, the Nation can realize both energy and environmental benefits from developing clean-burning natural gas. In fact, the use of natural gas is expected to provide a bridge to the Nation's future use of cleaner and, eventually, renewable energy sources. Natural gas is increasingly being used nationwide to power electric generating stations and this use is expected to grow significantly over the next 10 to 30 years. In addition, about half of all American homes, approximately 56

million, are heated with natural gas. The National Petroleum Council (NPC) expects the consumption of natural gas in the United States to increase from 22.5 Tcf in 2003 to 24.25 Tcf by 2010 and the Department of Energy (DOE) projects that the gap between supply and demand could increase by 50 percent in the next 20 years.

If the OCS is expected to maintain the same percentage contribution towards future United States gas consumption, the annual gas production from Federal waters will have to increase by as much as 2 Tcf. Unfortunately, one of the significant trends occurring in the Gulf of Mexico (GOM) is the decline in the number of new gas completions, a 28 percent drop from 2001 to 2003. Coinciding with this drop has been acceleration in decline rates. Each year we are seeing gas reservoirs deplete faster.

These recent trends mean the GOM is now struggling to maintain its contribution to domestic natural gas supply. GOM gas production reached a peak of over 5.1 Tcf in 1997. In subsequent years, GOM gas production has remained very close to 5 Tcf. Preliminary data indicates GOM gas production may have fallen in 2002 to 4.73 Tcf and fallen again in 2003. It is noteworthy that although shallow water GOM gas production has declined over 26 percent since 1997, GOM *deepwater* gas production has risen some 229 percent from 1997 to 2002. Whereas GOM oil production has increased since 1990 because of the substantial contribution from deep water (57 percent of 2002 production), GOM gas production has remained relatively flat because deepwater gas production has not reached a comparable level (27 percent of 2002 production). MMS continues to explore options to increase natural gas production from the OCS. MMS is also hopeful about new emphasis by industry to explore at ultra deep depths in the shallow water area. Proposals to drill wells to 25,000 feet or even greater are pending with MMS and could open up additional gas resources.

*“The deepwater success story of the last decade has led to an increase of over 75 percent in the amount of crude oil produced from our offshore waters.”*

- R. M. “Johnnie” Burton, MMS Director

### ***Deepwater: America’s Expanding Frontier***

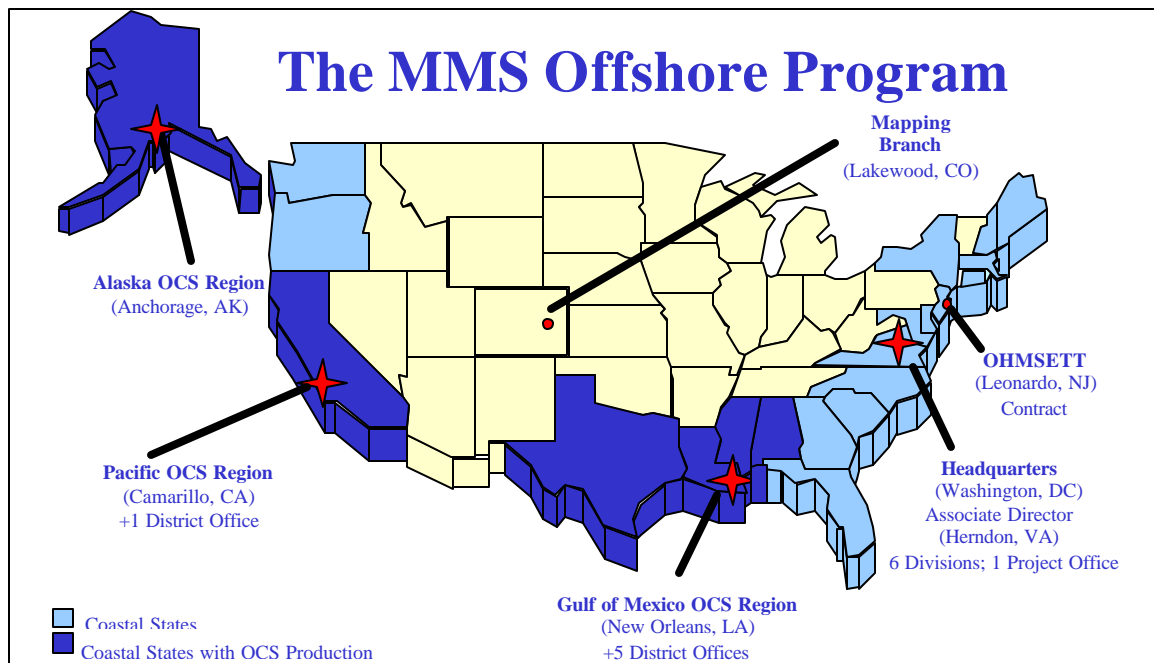
As industry strives to meet America’s energy supply challenge, oil and gas exploration in deep water in the Gulf of Mexico will very likely continue to experience high levels of activity. Much of the future role of the OCS can be addressed by exploring in deep (1,000 feet and deeper) and ultra-deep (5,000 feet and deeper) waters. MMS has made available various economic incentives to stimulate production of oil and gas in deep water. Industry is responding by developing the technology and practices required to tap these resources. The role played by the MMS in this major energy expansion has been critical — from developing financial incentives to ensuring the receipt of fair market value for the sale of OCS leases and the evaluation and approval of new technology. MMS will continue to work with industry and respond to new challenges in drilling, protecting the environment, worker safety and infrastructure to serve deepwater discoveries. MMS recently issued an official estimate of how production may grow over the next years through 2013. A 43% rise in oil production is expected.

## Ensuring the Safety of an Aging Infrastructure

The average age of all current OCS platforms is about 20 years. If not properly maintained, offshore oil and gas facilities and components age at an accelerated rate due to the corrosive salt-water environment. In order to have this infrastructure in safe and useful condition for years to come, it is important to properly protect and maintain wells, platforms, and pipelines through sound engineering standards and rigorous inspection. MMS is working closely with industry to ensure the continued safety of OCS facilities, protecting workers and the environment.

## OMM Operations

OMM manages the nation's OCS energy and non-energy mineral resources in consultation with affected parties to determine if they can be developed in an environmentally sound manner and, if leased, to regulate activities to ensure safety and protect the environment. This is accomplished with an FY 2005 enacted staff level of 872 employees. The OMM program is headquartered in Washington, DC and Herndon, Virginia with regional offices in three locations: New Orleans, Louisiana for the Gulf of Mexico and Atlantic Regions, Camarillo, California for the Pacific Region and Anchorage, Alaska for the Alaska Region.



**Figure 13: Map of OMM Facility Locations**

**Headquarters:** The program headquarters includes the MMS Associate Director for Offshore Minerals Management and six divisions addressing Regulatory Affairs, Leasing, Environmental Programs, Resource Evaluation, Economics, and Information Technology. In addition, the E-Gov Project Management Office oversees OMM's comprehensive re-engineering effort, OCS Connect.

**Alaska:** The Alaska OCS Region administers 66 active leases and oversees OCS mineral development on more than a billion acres of U.S. offshore lands and more than 6,000 miles of coastline. The shoreline includes Native villages, small fishing villages, and large cities. The diversity of ecosystems in the Region is astounding, ranging from temperate rain forests to Arctic deserts.

In this environment, the Alaska OCS Region must find ways to provide oil and gas exploration and development opportunities on the OCS while preserving the environment and culture of people living adjacent to its coast.

Current OCS production is from the Northstar facility in the Beaufort Sea, with a reservoir that crosses the State/federal boundary. The federal share is about 17% of the nominal 70,000 bopd. After a hiatus, companies appear to be interested again in the Alaska offshore, as witnessed by the increased number of leases in the Beaufort Sea. This also includes a renewed interest in the development of the Liberty prospect, with BP Exploration (Alaska), Inc. currently evaluating development strategies and permitting procedures.

MMS is conducting studies in the Beaufort Sea that include monitoring of the Northstar and Liberty development project areas, under-ice currents, oil spill risk from oil production and transportation in the arctic, and monitoring the bowhead whale. Studies in Cook Inlet include preparation of a sea ice atlas, an assessment of seabirds, and an update of oil industry labor factors.

**Gulf of Mexico:** The Gulf of Mexico OCS Region is responsible for managing over 159.4 million OCS acres and administering more than 8,000 active leases, of which about 54% are located in deepwater. More than 900 wells are routinely drilled in the Gulf each year.

OCS leases in the Gulf of Mexico Region produced 562 million barrels (bbl) of crude oil and 4.4 trillion cubic feet (Tcf) of natural gas in 2003. Deepwater oil production was 350 million barrels or roughly 0.96 million barrels per day. Shallow-water deep gas production totaled approximately 530 billion cubic feet.

Deepwater in the Gulf of Mexico continues to be the greatest source of new production on the OCS. In 2004 deepwater project startups included *Coulomb*, *Devil's Tower*, *Front Runner*, *Marco Polo*, *Holstein*, *Magnolia*, *Red Hawk*, and *Llano*. Anticipated production from these facilities will help sustain production increases in deep water, and additions such as *Thunder Horse* and *Mad Dog* will dramatically raise production in 2005 and 2006.

New technologies involved in the projects will continually challenge MMS. For example, industry has developed and installed several new types of spar production facilities, each requiring a structural soundness review by MMS. It is likely that additional new types of approaches will be developed and need review. In addition, companies are continually examining the possibility of using a Floating, Production, Storage and Offloading System (basically a very large tanker with production as well). Companies are already approaching MMS with variations on this facility type—for example a MonoHull Production and Storage Facility.

**Pacific:** The Pacific OCS Region extends from the California-Mexico border to the Washington-Canada border beyond the State seaward boundary, about three miles off America's West Coast. There are 79 active OCS leases located off southern California. The active leases include 43 producing leases and 36 non-producing leases. The inactive status of four other leases located offshore Santa Barbara County is under appeal. Future development of the 36 non-producing leases is uncertain due to ongoing litigation. The 43 producing OCS leases in the Pacific Region produced 30 million barrels of oil and 58 billion cubic feet of gas in 2003.

The Region remains vigilant in its regulation of industry's operations offshore California by working in partnership with local, state and Federal agencies to ensure careful monitoring of operations and compliance with the laws to ensure safe and clean operations.

## **STRATEGIC PLANNING OVERVIEW**

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Over the last 25 years, innovations and improvements in offshore technology have significantly increased reservoir production, enabling industry to recover about 50 percent more oil and 75 percent more natural gas from wells. At the same time, new technology has contributed to minimizing environmental damage. The use of automatic pressure sensors and shutdown valves limits the escape of oil from damaged pipelines. In 2003, a study by the National Academy of Sciences reported that in the last 15 years there were zero platform spills greater than 1,000 barrels. Compared to worldwide tanker spill rates, OCS operations are more than five times safer. In fact annual natural seeps account for 150-175 times more oil in the ocean than OCS oil and gas operations.

To maintain the Federal OCS role as a major supplier of oil and natural gas, while at the same time protecting worker safety and the environment, MMS has instituted a coordinated set of strategies and objectives that are continuously reviewed and revised to respond to current events. In support of the NEP and the Department's Strategic Plan, MMS's Offshore Minerals Management (OMM) Program developed a strategic document that serves as direction for the Program. The "OMM Program Strategies and Tactical Plans" detail the desired outcomes and key milestones for tasks to be accomplished over the next five years for 21 of OMM's high-priority efforts. This living document is continuously revised as strategies are completed and new priorities emerge. OMM will continue to pursue the highest level of results through these strategies, while continuing to satisfy the ongoing requirements of OCS programs.

MMS is continuously striving to achieve cost efficiencies. Current, on-going efforts to lower costs include reducing submission requirements, utilizing electronic business for submission of industry reports, and avoiding overlap with other government agencies. MMS is working with representatives from the petroleum industry, independent information technology contractors, and other affected parties to develop an electronic business plan. Preliminary efforts have been undertaken in a number of areas. For example, production reports and seismic navigation data are being received in digital formats. Drilling permits and other reports, such as well test data, pipeline location data, well logs, etc., are being received electronically as part of OMM pilots.



MMS has a strong commitment to safety and environmental protection. OCS management activities span drastically different physical and sociological environments, and include relationships with an exceptionally diverse group of stakeholders. The offshore industry in the United States ranges from multi-national corporations with worldwide operations, to small independents with operations in only one region or state. The move into deep water and the resulting activity have increased both the level and complexity of monitoring OCS operations. This complexity increases the time needed for OCS permit and plan reviews, and inspections of operations. The OMM regulatory program emphasizes performance results rather than strict conformance to prescriptive regulations. It clarifies and simplifies government requirements, and promotes a greater reliance on industry standards. The MMS is increasing its focus on finding ways to provide strong incentives for good performance while preventing those operators with poor records from participating

The MMS OMM Program contributes to a sustainable future in several ways. Obtaining sufficient supplies of oil and gas at reasonable prices will continue to contribute to a higher standard of living and is crucial to our energy security and economic strength until alternative energy sources become viable. The offshore industry pays billions of dollars in labor, goods, and services to other industries as well as its own. Coastal states have received billions in Federal offshore revenues, providing needed funds for investment in technology, safety, infrastructure, research, development, education, and social programs, which provide significant benefits for the Nation now and in the future.

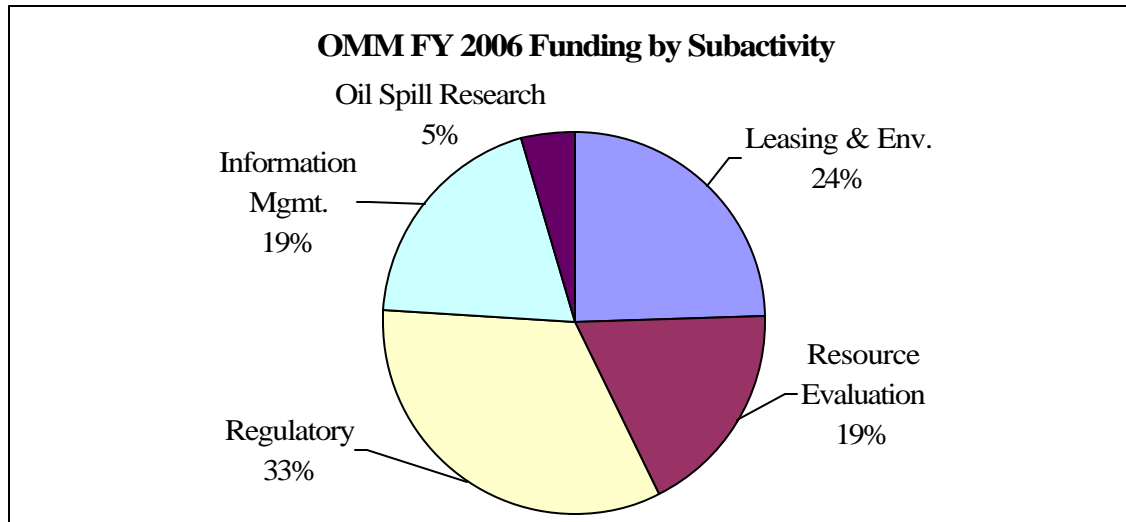
## **BUDGET OVERVIEW**

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Congress appropriates funds to Offshore Minerals Management (OMM) through the Royalty and Offshore Minerals Management (ROMM) account and the Oil Spill Research account (OSR). The ROMM account contains four OMM subactivities that roll up to the OCS Lands Activity. These are Leasing and Environmental (LE); Resource Evaluation (RE); Regulatory (RO); and the Information Management Program (IMP).

- Leasing and Environmental includes 5-Year Oil and Gas Program planning and execution; Assessment of Environmental Impacts; Protecting the Coastal Environment; Protecting the OCS through Compliance with Guiding Statutes, and the Environmental Studies Program.
- Resource Evaluation includes acquisition of Geological and Geophysical Data; development and implementation of the Resource Modeling Program, including Resource Assessment and Estimation, Tract Evaluation, Field Reserves Inventories, and Economic Analysis; and the Marine Minerals Program.
- Regulatory includes regulating OCS operations; review of OCS plans and permit applications; inspections and accident investigations; civil penalties and operator disqualification; operator training programs; annual operator performance reviews; and the TAR.

- Information Management Program includes IT personnel support, hardware, software, training, security activities, maintenance, technical support, TIMS, and OCS Connect.
- Oil Spill Research includes oil spill research, oil spill prevention and response planning activities, and regulation of oil spill financial responsibility.



**Figure 14: OMM FY 2006 Funding by Subactivity**

### ***Resource Shifts***

OMM continually examines its programs and its base budget to identify potential savings and opportunities to meet new, changing, or unexpected needs. The results are reflected in both the alignment of OMM's FTE distribution and the offsets included in current and prior year budget requests.

Historically, OMM has taken action to shift resources as program needs and priorities shifted, and program efficiencies realized. In FY 1985, our enacted FTE level was 1,175. In FY 2005, it is 872. In 20 years, OMM has seen a 25% reduction in the size of its staff. This has occurred through elimination of the Atlantic Regional Office, and periodic reductions in the Alaska and Pacific Regions and Headquarter Offices while redirecting resources to accommodate increasing workload demands in the Gulf of Mexico. This has also resulted in several reorganizations in the Gulf. Recent examples include the following:

In FY 2003,

- Workforce reduction of 48 FTEs and \$1M in the Pacific Region
- Base reduction of \$2.2M in Environmental Studies
- Resources shifted to fund needs in the Gulf of Mexico (\$5M and 21 FTE) and OCS Connect effort to streamline business processes (\$8.742M)

In FY 2004,

- IT Reductions, FTE Streamlining, and Office Closures of \$4.7M

- Resources shifted to fund continuing needs in the Gulf of Mexico (\$1.6M), OCS Connect (\$2.9M), Methane Hydrates (\$300K) and Infrastructure Security (\$350K)

In FY 2005,

- An increase of \$3.5M in offsetting collections was used, in part, to offset needed increases for the OCS Connect project (\$4.3M) and GOMR Interpretive Technologies (\$1.943M).

Planned for FY 2006,

- Proposed closing of the Santa Maria, California District office (\$364K) and redirection of Interpretive Technology funding received in FY 2005 (\$610K) to offset costs of new needs (Helicopter Safety, \$1.605M; MONTCAR model, \$500K; and Geological Interpretive Needs, \$500K)

In FY 2006, OMM will closely monitor its spending to identify resources it may use to help fund the FY 2007-2012 5-year Oil and Gas Leasing Programmatic Environmental Impact Statement and any needs that may materialize should alternative OCS use legislation be passed.

**Maintaining Current Needs**

The amount of the FY 2006 OMM program budget request is essentially unchanged from its FY 2005 program budget; therefore, OMM’s FY 2006 focus is to address current needs and no funding is being requested for new efforts. The following table briefly describes the FY 2006 budget changes:

**Table 36: FY 2006 OMM Program Changes**

<b>Increases</b>		
Helicopters	+\$1,605	Needed to pay for increased fuel costs and larger helicopters to fly longer distances.
Geological Interpretive Needs	+1,000	Needed to replace aging MONTCAR tract evaluation model and geological support needs.
<b>Decreases</b>		
3D Visualization Room	-\$610K	Return of FY 2005 funding for one-time design and acquisition costs of a 3D Visualization Room in the Gulf of Mexico.
CMRET	-\$900K	Elimination of funding for the Center for Marine Resources and Environmental Technology at the University of Mississippi.
MMTC	-\$900K	Elimination of funding for the Marine Minerals Technology Center at the University of Alaska, Fairbanks.

OTRC	-\$600K	Reduction of Funding at the Offshore Technology Resource Center at Texas A&M.
Hurricane Ivan Studies	-\$1,000	Return of FY 2005 funding provided for Hurricane Ivan
Closure of Santa Maria District Office	-\$364	Functions will be transferred to the Camarillo office.

### ***Integrating Budget and Performance***

The President's Management Agenda calls for increasing integration of budget and performance management processes. In support of this initiative, the Office of Management and Budget (OMB) developed the Program Assessment Rating Tool (PART) to assess and improve program performance. A PART review helps identify a program's strengths and weaknesses, by looking at all factors that affect and reflect program performance, including program purpose and design; strategic planning and performance measurement; program management; and program evaluations and results. For purposes of the PART, OMM is divided into three components:

#### **OCS Environmental Studies Program**

- Reviewed in 2002 for the FY 2004 Budget
- Rated "Moderately Effective"

#### **OCS Resource Evaluation and Leasing**

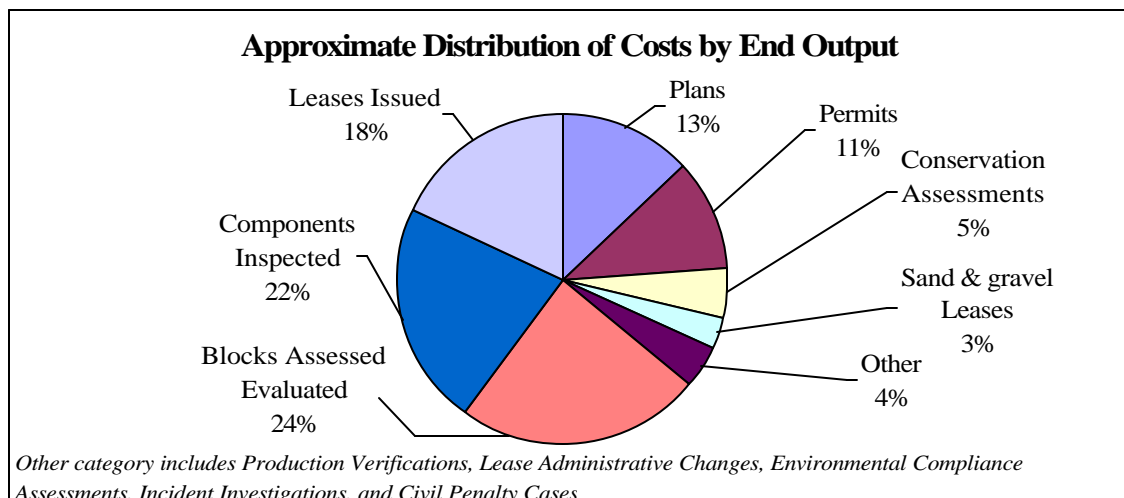
- Reviewed in 2004 for the FY 2006 Budget
- Rated "Moderately Effective"

#### **OCS Regulatory Affairs**

- To be reviewed in 2005 for the FY 2007 Budget

In response to OMB recommendations, OMM is implementing a quantitative performance measurement system for environmental studies and will regularly assess our performance targets. The 2005 review will address all activities funded through the Regulatory and Oil Spill budget subactivities, as well as post-lease environmental activities funded through the Leasing and Environmental budget subactivity.

OMM continues to work toward integrating its budget and performance data and is collecting, reviewing, and analyzing Activity-Based Cost (ABC) data to examine how OMM activities consume resources and produce outputs, whether changes in cost correlate to changes in output, and whether the information confirms perceptions of where program dollars are being invested. The FY 2004 ABC data show program dollars spent in the following categories established in the ABC framework:



**Figure 15: Approximate Distribution of Costs by End Output**

With two years of ABC data, MMS is conducting detailed trend and workload analysis but also is considering whether there are any adjustments needed in the ABC system and its definitions. This information is being analyzed for alignment with current and future management priorities as the bureau continues integrating the budget and performance management processes. It will also be evaluated in conjunction with the ongoing OCS Connect reengineering efforts. ABC data will provide historical cost information to evaluate efficiencies and workload shifts resulting from e-Gov and process changes.

### ***Increase in Offsetting Collections***

For 2006, the Minerals Management Service anticipates additional revenue from a combination of new fees, existing fees, and increased rental rates. This revenue will be used to offset MMS's operating costs and supports the policy of the Federal Government to charge for its services.

New fees will be proposed for services that MMS currently provides at no charge. Fees may include costs associated with the submittal of permitting and plan requests. The MMS believes it can recover approximately \$13.5 million in revenue by charging for these services. This amount would compensate MMS for costs associated with providing these services, including indirect and overhead charges. Implementation of these fees will require rulemaking action. Additionally, upward adjustments in rental rates, unchanged for Gulf of Mexico sales since 1994, and increased revenue from cost recovery fees proposed in 2005 would generate an increase of \$5.5 million.

In total, MMS proposes to collect \$19 million in new cost recovery and other fees for 2006, increasing the total amount of offsetting collections to \$122.7 million, with a corresponding reduction of \$19 million to annual appropriations. Without this funding, MMS would have difficulty carrying out its mission-critical activities.

**FY 2006 BUDGET REQUEST**  
 Offshore Minerals Management  
*Leasing and Environmental Subactivity*

**Table 37: Overview of Leasing and Environmental Request**

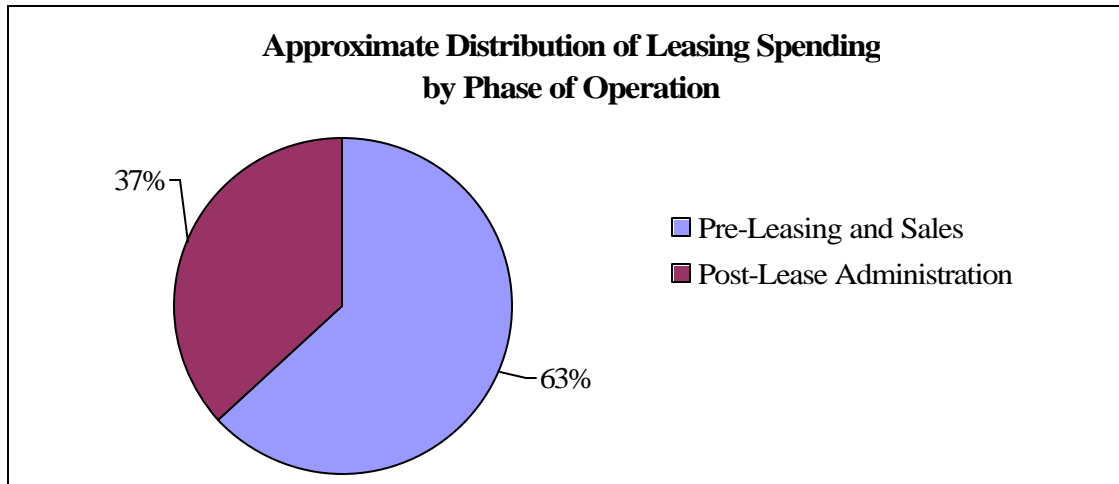
		<b>FY 2004 Actual (Enacted)</b>	<b>FY 2005 Estimate (Enacted)</b>	<b>FY 2006 Budget Request</b>	<b>Change from FY 2005</b>
<b>Leasing &amp; Environmental Subactivity</b>	<b>(\$000)</b>	<b>37,036</b>	<b>37,224</b>	<b>37,768</b>	<b>+1.5%</b>
	<b>FTE</b>	<b>219</b>	<b>219</b>	<b>219</b>	<b>0.0%</b>
<i>Uncontrollables</i>	<b>(\$000)</b>	--	--	544	+544

**PROGRAM OVERVIEW**

One of the cornerstones of President Bush's National Energy Policy is the role the Department of the Interior's Minerals Management Service (MMS) plays in securing ocean energy for the Nation. MMS is a leader in securing the nation's domestic energy supply, managing access to the mineral resources of the Outer Continental Shelf (OCS) to help meet the energy demands and other needs of the nation while balancing such access with the protection of the human, marine, and coastal environments. Currently, MMS administers about 8,000 active mineral leases on over 40 million OCS acres. Production from these leases will generate billions of dollars in revenue for the Federal Treasury and State governments while supporting thousands of jobs. MMS oversees production of about 23 percent of the natural gas and 30 percent of the oil produced domestically. To date, OCS lands have yielded more than 155 trillion cubic feet of natural gas and approximately 15 billion barrels of oil for U.S. consumption.

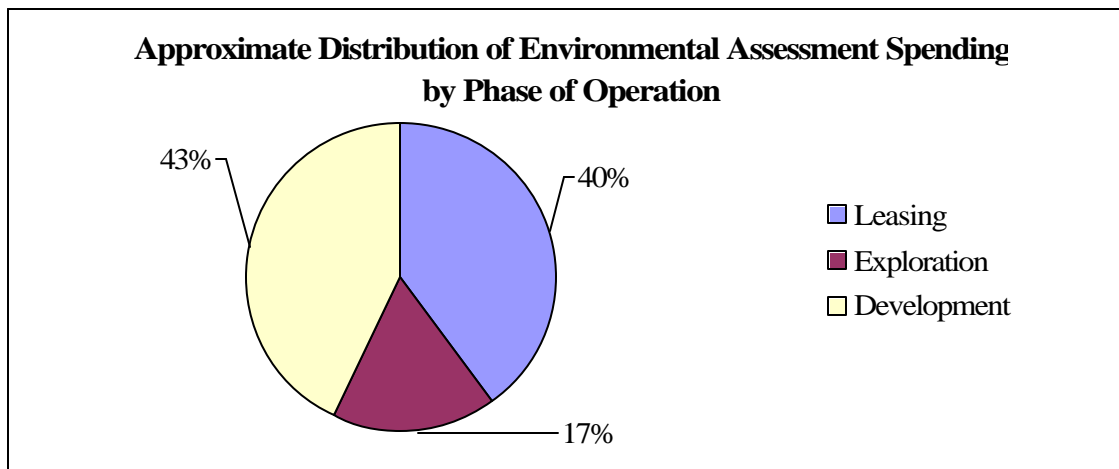
The Leasing and Environmental (LE) sub-activity funds the Leasing and Environmental Assessment Program and the Environmental Studies Program, supporting DOI's End Outcome Goal to "Manage or influence resource use to enhance public benefit, promote responsible use, and ensure optimal value." A key indicator of performance is the ability to hold offshore lease sales as scheduled in the Secretary's 5-Year Program, supporting DOI Strategy 1 to "Effectively manage and provide for efficient access and development."

Leasing activities include planning for the Secretary's 5-Year Program, mapping and surveying OCS boundaries, implementing the lease sale process, and administering leases. Please refer to Figure 16, "Approximate Distribution of Leasing Spending by Phase of Operation."



**Figure 16: Distribution of Leasing Spending**

Environmental Assessment (EA) activities include oversight, policy guidance, and direction for environmental regulations affecting OCS activities; consultation with interested and affected parties; and preparation of environmental impact statements, environmental assessments, and related program-level reports. Please refer to the “Approximate Distribution of Environmental Assessment Spending by Phase of Operation” chart to the left.

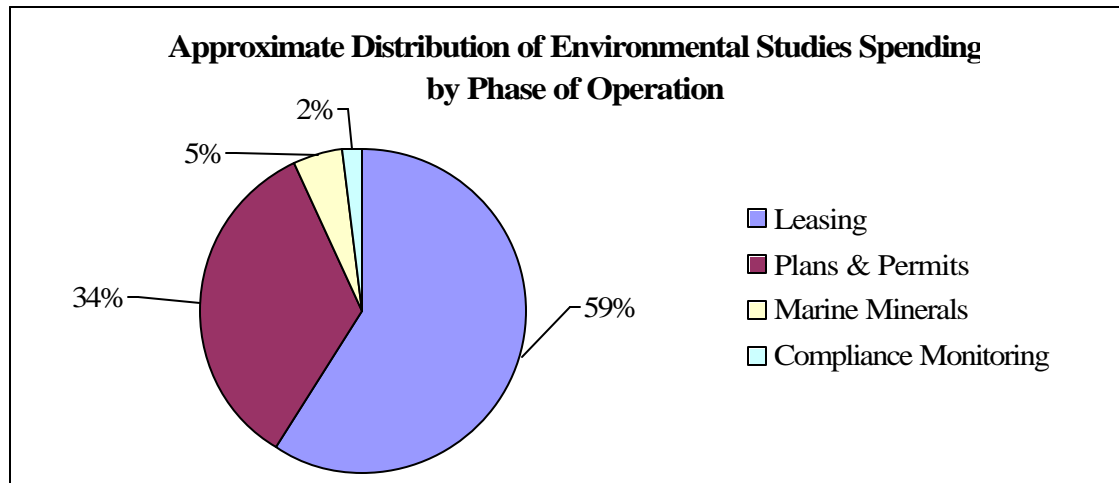


**Figure 17: Distribution of Environmental Assessment Spending**

The Environmental Studies Program (ESP) funds and manages efforts to better understand the OCS environment and the effects of mineral resource exploration and development activities. Please refer to the “Approximate Distribution of Environmental Studies by Phase of Operation” chart to the below.<sup>1</sup>

<sup>1</sup> Figures 16 and 17 above, and Figure 18 on the following page, are based on FY 2004 ABC data. Actual distribution will fluctuate from year to year. For instance, the percentage of “Leasing” funds expended on Pre-Lease Planning and the percentage of “Environmental Assessment” funds dedicated to the Leasing phase will both likely increase during 2005 and 2006, as MMS works to develop the 5-Year Leasing Program for 2007-2012 and the associated Environmental Impact Statement.

Within its Activity-Based Costing (ABC) system, MMS is able to allocate both EA and ESP expenditures to the activities and operations they support. Further, MMS tracks the number of leases issued and the number of lease administrative changes as end outputs, providing the ability to assign the full cost of leasing and lease adjudication activities, as well as proportional shares of program support and general administrative costs. (See the “OCS Lands Activity Overview” for more on the end outputs and the ABC system.)



**Figure 18: Distribution of Environmental Studies Spending**

## LEASING AND ENVIRONMENTAL ASSESSMENT PROGRAM

**Table 38: Overview of the Leasing and Environmental Assessment Program Request**

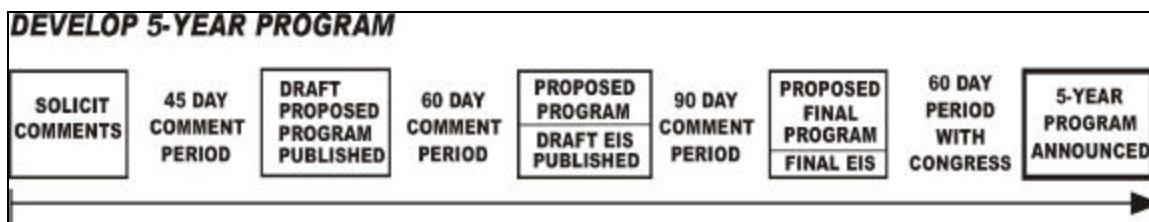
		FY 2004 Actual (Enacted)	FY 2005 Estimate (Enacted)	FY 2006 Budget Request	Change from FY 2005
<b>Leasing &amp; Environmental Assessment Program</b>	(\$000)	20,866	21,053	21,597	+544
	FTE	219	219	219	0
<i>Uncontrollables</i>	(\$000)	--	--	544	+544

### *OCS Oil and Gas Leasing Program*

MMS has played and will continue to play a vital role in providing access to domestic energy resources, supporting the President’s National Energy Policy by continuing the OCS leasing program on predictable schedules. In early 2004, OMM initiated the multi-year process of developing a new 5-Year Oil and Gas Leasing Program that will schedule OCS lease sales for 2007 to 2012. The 5-Year Program is a pivotal element of managing the Nation’s offshore mineral assets. The OCS Lands Act (OCSLA) requires DOI to prepare a long-range program that specifies the size, timing and location of areas to be assessed for Federal offshore natural gas and oil leasing. MMS works in consultation with stakeholders (including federal and state agencies, local communities, federally recognized tribes, private industry, and the general public)



to develop a program that not only offers access to those areas of the OCS with the most promising potential for development of oil and natural gas resources, but does so in an environmentally responsible manner. Under the 2002-2007 Program, OCS oil and gas lease sales are held on an area-wide basis with annual sales in the Central and Western Gulf of Mexico, and less frequent sales held in the Eastern Gulf of Mexico and offshore Alaska.



**Figure 19: Process for Developing New 5-Year Oil and Gas Leasing Program**

MMS consistently conducts lease sales as outlined in the Secretary’s 5-Year Leasing Program. Oil and gas prospects in the United States compete for exploration dollars in a global market, and the overall maturity of oil and gas development here means that smaller hydrocarbon accumulations are available as exploration targets compared to untapped fields in other countries. Recent successes in OCS lease sales in terms of bidding activity and tracts leased are in part a result of MMS efforts to design the sales with terms, conditions, and incentives that foster continued industry interest in exploration for domestic energy resources. For the period 2001-2003, deepwater and deep-shelf incentives in the Gulf of Mexico and royalty relief provisions in the Beaufort Sea are estimated to have contributed to an annual increase of more than a million acres receiving bids.

**Table 39: Proposed Lease Sales – FY 2005-2006**

<b>FY 2005</b>	<b>Sale Date</b>	<b>Sale #</b>	<b>Area</b>
	March 2005	194	Central GOM
		195	Beaufort Sea
		197	Eastern GOM
	August 2005	196	Western GOM
<b>FY 2006</b>	March 2006	198	Central GOM
	May 2006	199	Cook Inlet
	August 2006	200	Western GOM

MMS is undertaking a comprehensive review of core business processes through its eGov initiative, known as OCS Connect. Funded through the Information Management sub-activity, OCS Connect will evaluate existing practices against best practices in comparable Federal, State, Private, and Foreign entities. For processes included in the benchmarking report for “*Manage and Administer the Leasing Program*”, MMS practices were found to be superior in 13 of 14 comparisons to those of other public sector land leasing organizations. When appropriate, re-engineering efforts will emphasize the use of the latest information technology to receive, process, and distribute data. The project will improve the way OMM does business, resulting in better service to all customers – from MMS employees to the public and the regulated community.

### ***Environmental Assessment Program***

As manager of energy and non-energy mineral resources on the OCS, MMS has the responsibility to ensure that exploration, development, and production activities on the OCS are safe and environmentally sound. OCS operations are managed for continued compliance with key federal statutes including, but not limited to, the:

- National Environmental Policy Act
- Coastal Zone Management Act
- Endangered Species Act
- Marine Mammal Protection Act
- Sustainable Fisheries Act
- Clean Air Act
- Clean Water Act
- National Historic Preservation Act

In keeping with the principles espoused by these guiding statutes, MMS provides opportunities for public comment and consults with the National Oceanic and Atmospheric Administration (NOAA), the Fish and Wildlife Service (FWS), the Environmental Protection Agency (EPA), and others to develop a judicious leasing program and to promulgate regulations and permit requirements that protect critical natural and historical resources.

*Certain lease blocks on the OCS have been designated as having a high potential for containing historic shipwrecks based on historical studies conducted under contract for MMS. When a particular wreck has been discovered, the lease blocks designated for its search zone are released from the more rigorous survey requirements imposed by NTL 2002 G-01. The MMS GOMR has continued the policy of releasing blocks from the requirement to conduct archaeological surveys when the wreck that generated their special status has been located and confirmed by MMS archaeologists. As a result of this program, nearly 20 blocks were released from the high-probability status in 2004, at an estimated saving of approximately \$2,000,000 to industry in survey costs.*

OMM assesses potential environmental impacts of proposed actions in accordance with the National Environmental Policy Act (NEPA) and related regulations. The NEPA process is intended to help public officials make decisions based on an understanding of environmental consequences and take actions that protect, restore, and enhance the environment. Public participation is an integral part of preparing an environmental impact statement (EIS) for approval of the 5-Year Leasing Program. OMM solicits external input to help identify relevant issues, alternatives, mitigation measures, and analytical tools.

The final programmatic EIS addresses these public comments in a responsive and responsible fashion. Then, OMM prepares a full EIS or a more focused Environmental Assessment (EA) prior to each lease sale and for other OCS oil and gas activities on a selective basis, including operator's plans of exploration and development, pipeline permit applications, decommissioning permit applications, and similar activity-specific industry activities. Each EA documents potential environmental impacts and identifies mitigation measures that may be required to avoid or minimize adverse effects of a proposal. Many environmental reviews of routine operator's plans or permit applications undergo a streamlined environmental review, in full compliance

with NEPA. These are only for activities that have been demonstrated to not cause a significant environmental impact either individually or cumulatively, and which have been categorically excluded from more detailed reviews. These Categorical Exclusion Reviews (CERs) also identify mitigation measures to avoid or minimize adverse effects of the proposed action.

Additionally, the provisions of the Coastal Zone Management Act (CZMA) protect the coastal environment from the growing demands associated with residential, recreational, commercial, and industrial uses along the Nation’s coast. OCS lease sales, plans, and permits are subject to review by States that have developed Coastal Management Programs (CMP) to manage and balance competing uses that may affect land and water use and natural resources of the coastal zone. MMS works to resolve any differences with the State by implementing lease stipulations and lease-sale activities that are consistent with stakeholder land use objectives.

**ENVIRONMENTAL STUDIES PROGRAM**

**Table 40: Overview of the Environmental Studies Program Request**

		<b>FY 2004 Actual (Enacted)</b>	<b>FY 2005 Estimate (Enacted)</b>	<b>FY 2006 Budget Request</b>	<b>Change from FY 2005</b>
<b>Environmental Studies Program</b>	<b>(\$000) FTE</b>	<b>16,171 0</b>	<b>16,171 0</b>	<b>16,171 0</b>	<b>0 0</b>

The Environmental Studies Program (ESP) is responsible for providing the solid scientific information needed for critical program decisions that must, by law, accommodate the delicate balance between the Nation’s exploration, development, and production of petroleum energy resources and other marine minerals and the protection of the human, marine, and coastal environments. Environmental studies are designed to address specific information needs concerning the environmental and socioeconomic state of a region, both before and after OCS activity. Studies provide the information necessary to develop measures to mitigate adverse impacts on the environment.

The OCS Lands Act requires the Secretary of the Interior to monitor the human, marine, and coastal environments of areas to be leased or developed for offshore oil and gas resources. MMS is pursuing a strategy to enhance the planning, development, and implementation of environmental monitoring efforts – both as a means to evaluate the effectiveness of OCS lease stipulations and other environmental mitigation measures, and for research on what additional monitoring may be needed.

The ESP directly responds to one of the government-wide President’s Management Agenda initiatives: *Research and Development*. This program funds applied research through environmental and socioeconomic studies to predict potential impacts of oil and gas development and develop mitigating measures as well as improving our understanding of the fate, transport and effects of oil when spilled.

*The ESP integrates advice from a wide range of sources when formulating its research plans. The planning process emphasizes communication within MMS as well as Federal, state, and*

local governments, academia, industry, and non-government organizations. Additional program oversight is provided by the OCS Scientific Committee, which advises MMS on the feasibility, appropriateness, and scientific value of the ESP. Study proposals are evaluated for program relevance, programmatic timeliness, and scientific merit. ESP research plans are developed in coordination with the Technology Assessment and Research program and the Oil Spill Research program to provide a multi-faceted bureau response to meet the environmental and safety needs of the offshore program.

*The ESP actively seeks partnerships with stakeholders who are involved with, or affected by, OCS activities.* The MMS has established key research partnerships with state universities through its Coastal Marine Institute initiatives in Louisiana and Alaska, and through cooperative agreements with universities in California, Mississippi and Alabama, where oil and gas activities actively occur. ESP managers also represent the MMS (and thus, the Department of the Interior) in the National Oceanographic Partnership Program, a collaborative community of Federal agencies working to improve knowledge of the ocean environment. Through this interaction, MMS has accomplished important research that has been highly leveraged with funding from other agencies.

*Strategic Initiative.* The MMS Offshore Steering Committee has identified a strategic goal to establish and implement environmental monitoring to evaluate the effectiveness of lease stipulations and environmental mitigation measures. The GOMR has completed a project to develop software for Gulf-wide emission inventory reporting and has initiated a project to update the emission inventory. The GOMR has worked with industry and MMS regulatory staff to ground-truth the inventory via platform inspections and by review of flaring and venting records. Improvements to emission inventory reporting software and MMS flaring and venting reports are collateral benefits of this activity. In addition, GOMR staff regularly receives and reviews field observer reports from explosive structure removal operations (from NOAA-Fisheries observers) and from seismic survey vessels (from trained industry-supported marine mammal observers), which demonstrate industry compliance with MMS requirements for protection of the environment. An annual summary of the seismic survey marine mammal observer reports is prepared and submitted to NOAA-Fisheries, as required by interagency consultations under Section 7 of the Endangered Species Act.

*The GOMR has also developed and implemented a Bi-monthly Environmental Journal to disseminate environmental research findings to the interested public.* The bimonthly journal ***MMS Ocean Science*** chronicles the science and technology used by MMS to manage offshore mineral resources. The journal is written for the general public, news media, and interested stakeholders, giving them a glimpse into the extensive science and technology needed to understand the offshore environment and recover the resources that lay on and beneath the seafloor. Thus far, this journal is sent to approximately 2000 interested parties in paper form and 500 through email notification. The journal is also available on the MMS website and includes articles on educational materials to assist teachers in preparation of lessons about the ocean environment.



**Figure 20. Cover of a recent edition of MMS Ocean Science magazine.**

During the FY 2004 budget process, the Program Assessment Rating Tool (PART) review found the ESP to be very effective in meeting its stated purpose of providing timely and peer-reviewed environmental research to decision makers, assigning an overall rating of “Moderately Effective”. Consistent with that review, the ESP continues to place strong emphasis on increasing public access to scientific information through its website. In response to PART recommendations, MMS is developing the ESP Performance Measures Scoring System to provide the basis for quantitative program performance measurement.

## **FY 2006 PROGRAM PERFORMANCE**

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MMS will be in the second year of preparing the programmatic Environmental Impact Statement (EIS) for the 5-Year OCS Leasing Program 2007-2012. The level of detailed work required in formulating this EIS is substantial, and considerable resources will be focused on this effort. Another focus of the program in 2006 will be analyzing the effects of alternative energy and multiple use project requests from OCS stakeholders. Without a clear legislative mandate and a distinct Federal management regime, these projects will present MMS with increasingly complicated multiple use and primacy issues that will require extensive coordination and consultation efforts. MMS will also continue its work with the United States Coast Guard to coordinate issue identification and resolution arising from submission of new Deepwater Port Operation Plans.

No new funding initiatives are requested for these efforts; however, it may be necessary to redirect resources to these projects following careful monitoring of budget execution and continued examination of base resources.

The Program Performance Summary table for OMM’s Leasing and Environmental Subactivity is presented on the following page.

**Table 41: OMM Program Performance Summary – Leasing and Environmental Subactivity**

Measures	2002 Actual	2003 Actual	2004 Actual	2005 Plan	2006 Plan	Change 2005 to 2006	2008 Target
<b>End Outcome Goal Resource Use: Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value (Energy)</b>							
Number of lease sales held consistent with the Secretary's 5-Year Program* (SP)	3	3	4	4	3	-1	TBD
* 2006 Plan is lower because the 5-Year Program includes only two lease sales in the Eastern Gulf of Mexico planning area, scheduled for FYs 2004 and 2005.							
<b>Strategy 1: Effectively manage and provide incentives for access and development</b>							
Percent of available OCS acres offered for leasing in a 5-Year Program compared to what was planned for leasing (PART)	*Target for the 2002-2007 Program = 58%					N/A	TBD
Comment: This measure tracks the extent to which MMS is offering access to OCS acreage. A high percentage means the goals set in consultation with stakeholders were realistic and attainable. 1997-2002 baseline = 59%. *The target is lower than the baseline because the current program includes "special interest sales" in frontier areas offshore Alaska that are not likely to draw enough industry interest to be offered in a final Notice of Sale.							
Percent of available OCS acres offered for leasing in each year's lease-sales (PART)	99.62%	*78.29%	*57.51%	99%	99%	0	TBD
Comment: This measure tracks the acres offered in a year's OCS lease-sales compared to the total acres in the applicable program areas. 1997-2002 baseline = 87%. *Some years are lower because the current program includes "special interest sales" in frontier areas offshore Alaska that are not likely to draw enough industry interest to be offered in a final Notice of Sale.							
Percent of available OCS oil and gas resources offered in each year's lease-sales (PART)	99.95%	99.71%	88.95%	> 99%	> 99%	0	TBD
Comment: This measure tracks the extent to which MMS is providing access to OCS oil and gas resources. The target means that the percentage of undiscovered resources offered will be greater than the percentage of available OCS acreage offered in a given year. 1997-2002 baseline = 85%.							
Measures	2002 Actual	2003 Actual	2004 Plan	2005 Plan	2006 Plan	Change 2005 to 2006	2008 Target
Change in acres with leasing incentives receiving bids compared to acres receiving bids without incentives in previous sales (PART)	+1.1 million acres	+1.8 million acres	+1.5 million acres	+1.0 million acres	TBD	0	TBD
Comment: This measure tracks the effect of leasing incentives on bidding. MMS expects substantial increases during the two or three years following implementation of a new leasing incentive. 2000 baseline = 3 million acres, applicable to 2001-2004 sales. Targets are dependent upon incentives in effect at the time of sale...							
Percent of acres drilled annually for the first time (PART)	6.7% 1.3%	8.0% 1.5%	7.5% 1.7%	7.5% 1.7%	7.5% 1.7%	0 0	TBD TBD
Comment: Indicates new activity on undrilled leases. Shows that the program is leasing to companies that are actively seeking production to meet the energy needs of the country. First number is 5-year leases, second 8- and 10-year leases. *This measure is reported on a calendar-year basis.							
<b>Primary Outputs Contributing to this Subactivity</b>							
Leases Issued	N/A	904	928	1,000	1,000	maintain	TBD
Lease Administrative Changes	N/A	N/A	8,838	8,400	8,400	maintain	8,400
Plans Approved	N/A	1,386	1,400	1,400	1,400	maintain	1,400
Permit Applications Approved	N/A	11,853	12,281	11,900	11,900	maintain	11,900
Environ.Compliance Assessments	191	213	281*	256	256	maintain	256
* The FY 2004 figure includes joint state-federal monitoring of a significant offshore power system repair project.							

**FY 2006 BUDGET REQUEST**  
Offshore Minerals Management  
*Resource Evaluation Subactivity*

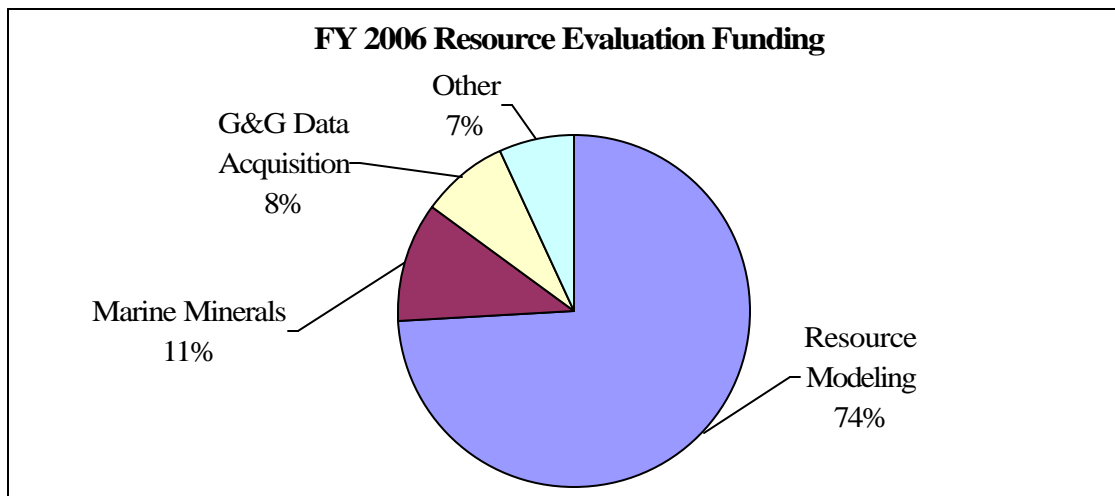
**Table 42: Overview of the Resource Evaluation Request**

		<b>FY 2004 Actual (Enacted)</b>	<b>FY 2005 Estimate (Enacted)</b>	<b>FY 2006 Budget Request</b>	<b>Change from FY 2005</b>
<b>Resource Evaluation Subactivity</b>	<b>(\$000)</b>	<b>27,081</b>	<b>29,566</b>	<b>28,682</b>	<b>-2.9%</b>
	<b>FTE</b>	<b>221</b>	<b>221</b>	<b>221</b>	<b>0.0%</b>
<i>MONTCAR Evaluation Model</i>	(\$000)	0	0	500	+500
	FTE	0	0	0	0
<i>Interpretive Technologies Support Function</i>	(\$000)	0	1,193	1,693	+500
	FTE	0	0	0	0
<i>3-D Visualization Room Funding</i>	(\$000)	0	750	140	-610
	FTE	0	0	0	0
<i>CMRET Decrease</i>	(\$000)	790	900	0	-900
	FTE	0	0	0	0
<i>MMTC Decrease</i>	(\$000)	790	900	0	-900
	FTE	0	0	0	0
<i>Uncontrollables</i>	(\$000)	--	--	526	+526

**PROGRAM OVERVIEW**

Resource Evaluation (RE) activities support all Offshore Minerals Management (OMM) program areas, both energy and non-energy, by conducting critical technical and economic analyses needed to support program decision making. Resource Evaluation (RE) activities identify areas of the OCS that are most promising for oil and gas development through the acquisition and analysis of geological and geophysical (G&G) data, estimates the resources likely to be discovered and produced, and determines the adequacy of high bids received for individual tracts offered for lease. Economic and statistical analyses are performed that incorporate Resource Evaluation program data and information into overall MMS and DOI leasing policies and program decisions, such as the design of financial terms for lease sales and fiscal and administrative incentive programs for encouraging drilling and production on active leases in the presence of market failures. The Marine Minerals program is responsible for all minerals on the OCS other than oil, gas, or sulfur and in particular sand and gravel. International activities provides MMS the opportunity to become involved in international initiatives that promote better integration of safety and environmental concerns into offshore development decision-making.

Principal indicators of performance for RE include the Fair Market Value ratio, which serves as a measure of the effectiveness of OMM tract valuation and bid adequacy procedures, and the timeliness of approving sand and gravel lease requests. New measures have been developed during the Office of Management and Budget's Program Assessment Rating Tool (PART) review to assess the efficiency of MMS bid evaluation and the effect of bid adequacy requirements on future bidding activity.

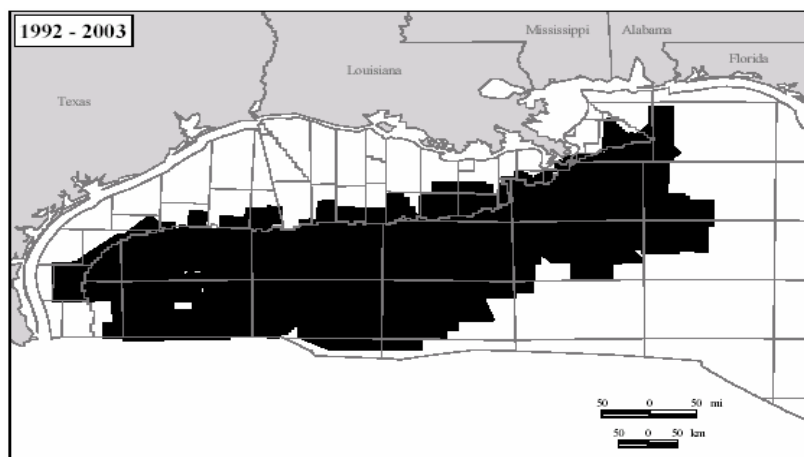


**Figure 21: Breakdown of FY 2006 Resource Evaluation Funding**

Within its Activity-Based Costing system, OMM tracks the number of tracts assessed or evaluated as an end output, providing the ability to assign the full cost of resource evaluation activities, as well as proportional shares of program support and general administrative costs. Similarly, direct and indirect costs of the Sand and Gravel Program are allocated to the number of sand and gravel leases conveyed.

### ***Geological & Geophysical Data Acquisition***

The MMS develops regulations and issues permits to industry for the collection of G&G data related to mineral exploration. These permits include stipulations that help to ensure that exploration and research activities are conducted in an environmentally safe manner and will not interfere with other activities occurring in the area. MMS inspects the data and selectively acquires portions, as needed, to support the Bureau's resource modeling efforts. Interpretations of G&G data are used to prepare updated resource assessments and to support decisions related to numerous operator plans and activities, as well as a variety of studies related to the OCS.



**Figure 22: 3-D Seismic Permit Coverage of the deepwater Gulf of Mexico, 1992-2003**



A sophisticated computer processing technique, called three-dimensional (3-D) depth migration, has revolutionized hydrocarbon exploration. The use of 3-D reflection techniques not only portrays subsurface structure and stratigraphy but also reveals information about fluids within the subsurface. Recent technological advances have made depth migration economically feasible. Since 1992, MMS has acquired 3-D seismic information on about 33,000 OCS blocks.

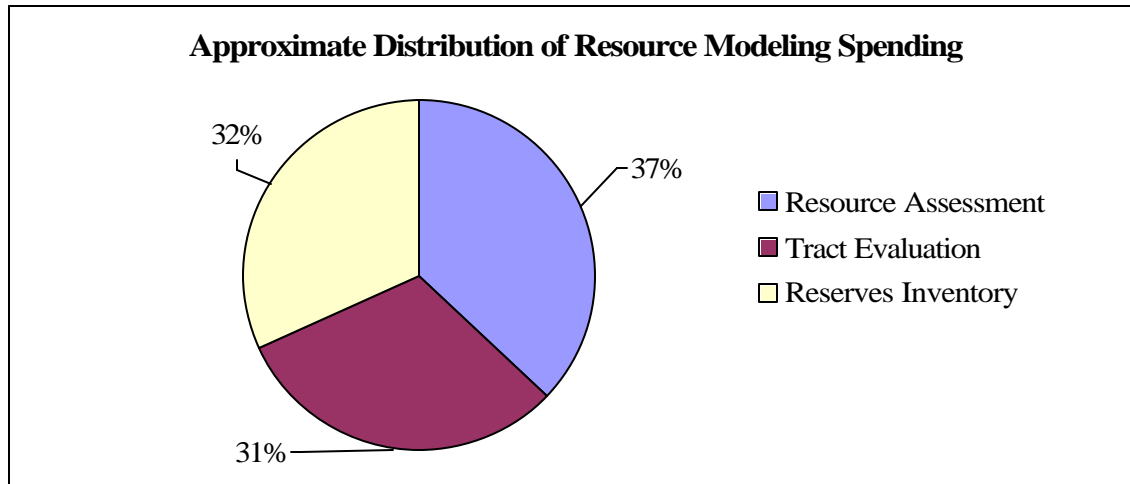
MMS has implemented rigorous, objective procedures to ensure receipt of fair market value (FMV). The success of these efforts is attested to by the program's continued success at achieving its annual FMV Ratio target. Additionally, MMS bid adequacy procedures have consistently resulted in higher returns in subsequent sales for tracts that have had bids rejected on fair value grounds in previous sales. In one prominent example, MMS rejected combined bids of \$11.5 million on two deepwater blocks in the Green Canyon area, Central Gulf of Mexico sale 185, March 2003. The Regional Director's decision was affirmed by an independent Resource Evaluation review team following an appeal by the high bidder. Subsequently, the same blocks were re-offered one year after sale 185 and drew high bids of more than \$66.3 million.

### ***Resource Modeling***

Another component of the RE sub-activity is Resource Modeling, which addresses resource assessment, tract evaluation, field reserves inventories, and various economic and policy analysis needs. Please refer to Figure 23: Approximate Distribution of Spending within Resource Modeling.

**Resource Assessment and Estimation:** MMS assesses the hydrocarbon potential of OCS lands through the use of complex computer models and methodologies that incorporate specific G&G information, mathematical and statistical concepts, risk and probability theories, and a variety of assumptions pertaining to economic and exploration and development scenarios. These resource assessments provide valuable information for policy decisions as leasing activity moves into new frontier areas, such as the deep shelf or deepwater Gulf of Mexico and the Alaska OCS. The RE Program identifies geologic plays on the OCS that offer the highest potential for development of oil and natural gas. Non-energy mineral resources, such as sand and gravel, are also evaluated by regional geologic studies. MMS estimates the amounts of oil and natural gas likely to be discovered and produced as a result of leasing, and generates engineering scenarios of the future industrial activities associated with exploration and development. Resource estimates and exploration and development scenarios provide an important basis for the Bureau's environmental impact statements (EIS's) and other technical studies and policy analysis.

*During the 1997-2002 Program, MMS bid adequacy procedures resulted in a net gain of \$236 million in bonus bids.*



**Figure 23: Distribution of Resource Modeling Spending**

MMS will be completing a new National Assessment of Undiscovered OCS Resources that will be critical in preparing the 5-Year Oil and Gas Leasing Program for 2007-2012. This assessment will utilize the recently revised computer model – Geological Resource Assessment Program (GRASP II), and will include peer review of the model, play definitions, and resultant resource estimates. The Geologic Interpretative Tools (GIT) software and methodologies that form the basis of all MMS geological and geophysical evaluations will be reviewed and revised to assure continued improvement in the quality of MMS’s technical evaluations. Recent discoveries and play concepts will be included, and methane hydrates in the Gulf of Mexico will be assessed – researchers estimate there is more energy content trapped in natural gas hydrates than in all the other fossil fuels combined.

**Tract Evaluation:** The MMS ensures that the Federal Government receives FMV for rights to mineral resources on individual OCS leases. MMS bid adequacy procedures determine whether a high bid can be accepted and a lease issued. The MMS evaluates the high bid received on each tract in relation to estimated hydrocarbon potential and related economic, cost, and engineering factors to determine if the bid is adequate. If the bid does not meet MMS FMV requirements, the bid is rejected and the tract is returned to the inventory for possible leasing in the area’s subsequent lease sale

Acceptance of a bid is based on a two-phase process. Phase 1 is conducted on a tract-by-tract basis and is normally completed within a short time following the opening of bids. This analysis is designed to accept those high bids where competitive market forces can be relied upon to assure receipt of FMV.

High bids not accepted in Phase 1 receive further evaluation in Phase 2. MMS geoscientists, engineers, and economists conduct detailed analyses and develop possible scenarios for oil and gas production from these tracts. RE staff integrate G&G, engineering, cost and economic data in a complex computer model called MONTCAR to derive estimates of tract values. The MONTCAR model provides a means of handling a series of results for such variables as the timing of development and production activities, lease terms and conditions, project costs,

reservoir performance, price forecasts and other subjective factors such as geologic risk. The model performs a discounted cash flow analysis, resulting in a resource economic value that is the mean of the range of values from more than 10,000 trials. Industry bids are primarily compared to MMS estimates of net present value in conjunction with market criteria to determine if they are acceptable. For each program year, the MMS expects competitive factors to sustain a premium ratio of about 1.8 to 1 when comparing industry high bids to the MMS estimate.

**Strategic Initiative:** One of MMS's "21 strategies" calls for a major overhaul or replacement to the MONTCAR model, an integral part of MMS's bid acceptance procedures. This model has been in use since 1973 and, in its current state, is difficult to modify and document. A new model and associated documentation, either based on available commercial software or programmed in a modular form, is required to ensure future success and achieve the highest level of results. Specifications are to be developed and a review of available commercial applications completed in 2006, followed by acquisition, implementation, and full integration into the leasing process by 2008. By keeping abreast of the latest valuation models and supporting technology, MMS will continue to secure fair value for the American taxpayer.

**Field Reserves Inventories:** MMS develops independent estimates of economically recoverable amounts of oil and natural gas in discovered fields by conducting field reserve studies. The estimates are revised periodically to reflect new discoveries and to incorporate development information and annual production statistics. Reserve studies are critical inputs in the review and approval of royalty relief applications and as analogs for bid evaluations. The geologic and engineering information also supports other OCS program activities, Minerals Revenue Management functions, and cooperative efforts with the Department of Energy (DOE) and the Energy Information Administration (EIA).

### *Economic Analysis*

The economic analysis expertise of RE is often called upon to analyze regulatory and legislative proposals affecting OCS leasing, exploration, development, and production activities. Ad hoc studies address specific policies and compilations of data needed to analyze overall OCS program activities. Specific examples include:

- Conducting economic analysis to support policies for lease terms, conditions and bidding systems for individual lease sales and the 5-year program,
- Structuring and updating procedures to ensure receipt of fair market value,
- Designing royalty relief policies and reviewing requests for royalty relief,
- Developing and maintaining economic models/databases in support of sale design, resource evaluation, post-sale operational activities,
- Reviewing rejected bid appeals, and
- Providing economic analysis to other Bureaus and Departments on minerals leasing policies and national energy strategies.

Since 2001, the economics staff has conducted important analyses that resulted in the continuation of incentive programs for deep-water areas of the gulf and new incentives for other areas. In January 2004, DOI published a final regulation (the "Deep Gas Rule") that extends

royalty relief to leases on the OCS issued before 2001 to encourage development of the remaining deep gas potential in the shallow waters of the Gulf of Mexico. This regulatory initiative should accelerate the exploration for and production of natural gas in order to meet the Nation's near and mid-term needs (2004-2009). By bringing more natural gas onto the market, the deep shelf drilling gas incentive will reduce consumer prices and result in estimated savings of \$570 million per year over the life of the incentive, and support as many as 26,000 jobs.

### ***Marine Minerals Program***

The Marine Minerals Program is responsible for managing all minerals on the OCS other than oil, gas, and sulfur. From 1995 to 2003, the program fulfilled every request for resources, conveying rights to nearly 20 million cubic yards of OCS sand for shore protection and coastal restoration projects – protecting billions of dollars of property.



**Figure 24: The picture to the left shows restoration efforts using OCS sand resources on Patrick Air Force Base near Coca Beach, Florida.**

Coordination with other OCS users and regulators is becoming more important as the number of new uses and conflicts grows, with mariculture, wind and wave power, artificial reefs, and fiber optic cables competing for limited space on the OCS. MMS is committed to communicating, consulting, and cooperating with many diverse stakeholders in order to build consensus while balancing national, regional, and local interests. To this end, the MMS has initiated a regional offshore sand management program to develop options and recommendations for an orderly process to manage Federal sand resources in areas of competing uses for sand and for other uses of the sea floor. The Sand Management Working Group concept, and its implementation in Louisiana, has promoted coordination and planning for the use of Federal sand among the various stakeholders and potential users. Potential problems have been identified early in the process, allowing for the collection of appropriate information needed to address these problems in a timely manner. In addition, the MMS has established cooperative agreements with fourteen coastal States to ensure exploration and evaluation of sand deposits, environmental protection, safe operations, and issue resolution for decisions regarding access to OCS marine minerals.

### ***International Activities***

While primarily responsible for managing mineral resources located on the Nation's OCS in an environmentally sound and safe manner, MMS finds itself regulating an industry that has global operations. The offshore oil and gas industry routinely moves equipment, rigs and personnel from one part of the world to another in pursuit of investment opportunities. A company's investment dollars will go where the resources are and where the regulatory regime is favorable. MMS takes an active approach to identify and become involved in international initiatives that promote better integration of safety and environmental concerns into offshore development decision-making. International activities include:

- Providing technical advice to the Department of State;
- Exchanging appropriate scientific information with other offshore Nations which benefit domestic activities; and
- Providing cost reimbursable technical assistance to other Nations in support of U.S. foreign policy.

**FY 2006 FUNDING INITIATIVES**

To sustain the program’s successful performance into FY 2006 and beyond, OMM is proposing an increase of \$1 million in Resource Evaluation enhancements, comprised of two \$500,000 increase initiatives: the *MONTCAR Evaluation Model* initiative and the *Interpretive Technologies Support* initiative. Neither of these requests entails any change in FTE, and the funding requests are offset by a decrease in *3-D Visualization* funding (-\$610,000) within *Interpretive Technologies Support*.

**Table 43: MONTCAR Evaluation Model Initiative**

	<b>2004 Enacted</b>	<b>2005 Enacted</b>	<b>2006 Request</b>	<b>Change 2005 to 2006</b>
Initiative (\$000)	0	0	500	+500
FTE	0	0	0	0

Note: The above amounts do not include FY 2006 uncontrollable increases.

**2005 Program:** The MONTCAR evaluation model is maintained by OMM program headquarters staff and used by OCS regional personnel to develop the fair market value estimate on which MMS’s bid acceptance/rejection decisions are based. MMS bid adequacy procedures have consistently resulted in higher returns in subsequent sales for tracts that have had bids previously rejected as inadequate. Since 1983 the high bids on 500 tracts have been rejected. These tracts initially received a total of 672 bids with high bids of \$550 million. When reoffered and leased these same tracts received a total of 1041 bids with high bids of nearly \$1.4 billion—an increase of more than 50 percent in bidding interest and 150 percent in bonus paid. A fair market value decision is mandated by 43 U.S.C. 1344 (a) (4) and supports DOI Strategy 3, to optimize value through effective lease and permit management. In FY 2003, the latest full year with data available, the model was used to evaluate approximately 600 tracts. It was also used by MMS for policy analysis in preparing the deep water and deep gas royalty relief initiatives. A similar level of activity is expected for FY 2004 and FY 2005.

**Justification of 2006 Program Change (+\$500K, 0 FTE):** The MONTCAR evaluation model has evolved to the point where it would be easier and less costly to develop a new model rather than continuing to modify or attempting to convert the current one. MONTCAR is a proprietary mission-critical program first developed in 1973 and has since undergone many updates and improvements. It has a number of advanced features and capabilities and currently fulfills program needs. However, as the model has evolved, it has become very complex. As a result, it is difficult to modify, requiring comprehensive testing of the entire model even for what seem to be minor changes. Increasingly longer lead times are required to institute necessary changes. The model is written in FORTRAN and is not to modern programming standards, making it difficult to document.

MMS's ability to maintain this mission critical evaluation capability is becoming increasingly more at risk. Due to its proprietary nature and the requirement for rapid changes to incorporate new laws and or regulations, the model is maintained by in-house personnel. The Government staff is aging with the two essential individuals well past retirement eligibility. Challenges in documenting the system serve as obstacles in effective succession planning. Even if contractors were used, most are unwilling to tackle such a complex system written in a soon-obsolete programming language.

The \$500,000 *MONTCAR Evaluation Model* initiative will fund a contracting effort to develop a new evaluation model. During the development process, MMS personnel will work closely with contractors to ensure that MMS needs are met and to develop complete familiarity with the new program. This joint effort will assure that MMS retains the flexibility to maintain and modify the new model within the short timeframes often required, or to contract for more extensive or longer term enhancements. The end result will be easier revisions, better documentation, and a decreased learning curve for new staff or contractors.

Deferring implementation of a new model beyond FY 2006 will result in a continuation of documentation and maintenance problems, slower response times, increased exposure to the risk of introducing errors during model revisions, and continued reliance on an experienced but aging workforce. Failure to expeditiously replace the existing MONTCAR model may ultimately result in delaying lease sales and/or jeopardizing our ability to determine and ensure receipt of fair market value, potentially leading to a significant loss in bonus receipts to the government.

**Table 44: Interpretive Technologies Support & 3-D Visualization Room Funding**

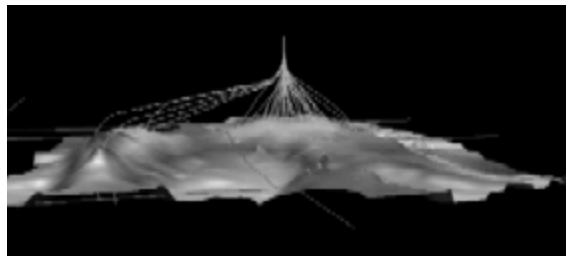
	<b>2004 Enacted</b>	<b>2005 Enacted</b>	<b>2006 Request</b>	<b>Change 2005 to 2006</b>
Interpretive Tech. Support (\$000)	0	1,193	1,693	+500
FTE	0	0	0	0
3-D Visualization Room Funding(\$000)	0	750	140	-610
FTE	0	0	0	0

Note: The above amounts do not include FY 2006 uncontrollable increases.

**2005 Program:** To meet the increasing challenges of exploration and development in frontier areas, industry has developed new technologies. Major technological advancements include 3-D depth migrated geophysical data, which provides imaging of complex structures, and 4-D and 4-C seismic geophysical data, which respectively allow the geoscientist to compare reservoir property changes over time and use different components of the seismic wavelet to analyze the reservoir. The GIT workstation image below shows well paths and producing formations. All critical MMS resource evaluation decisions, including resource assessments, reserve estimations, fair market value determinations, field determinations and new producible lease determinations will increasingly rely on industry data obtained from these cutting-edge technologies.

Geological Interpretive Tools (GIT) software uses these data to image complex structures like the top and base of salt deposits and to identify subtle stratigraphic relationships within the sediments. GIT software was implemented in MMS in December 1993 and has been routinely

used in support of mission goals since 1995. When combined with the data obtained from the aforementioned cutting-edge technologies, GIT allows MMS to maintain technological parity with industry and ensures the accuracy and improved quality of interpretation, which creates better evaluations and estimates.

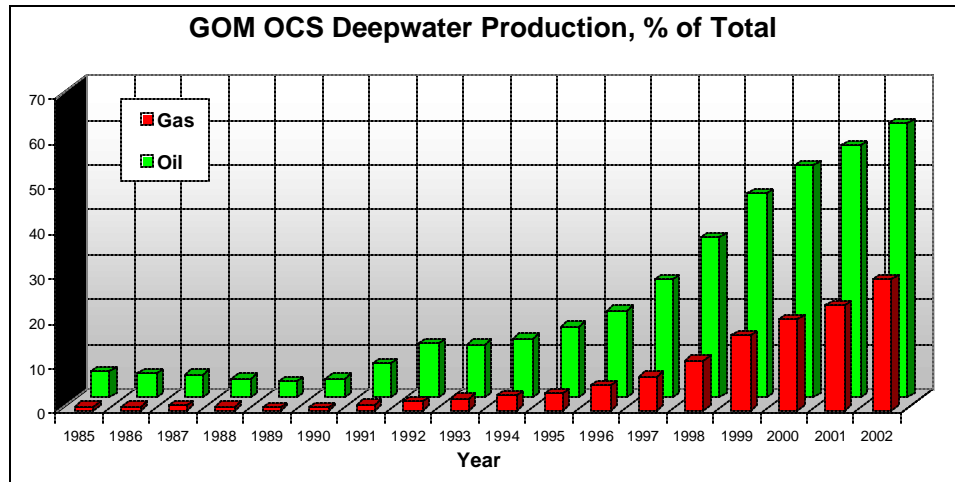


**Figure 25: Example of imaging of salt deposits with Geological Interpretive Tools (GIT) software.**

In 2005, MMS requested an increase of \$1.9 million for Interpretive Technologies. The interpretive technologies proposal included the addition of program technology enhancements, including the 3-D Visualization Room (\$750,000), and support functions, which included Geological Interpretive Tools (GIT) Training (\$200,000), a Digital Well Log Contract (\$543,000), and a Seismic Data Management Contract (\$450,000). The use of advanced interpretive technologies supports DOI Strategy 3, to optimize value through effective lease and permit management.

**Justification of 2006 Program Change (-\$610K, 0 FTE):** MMS's FY 2005 President's Budget contains a \$750,000 request to build a collaborative 3-D visualization room in the Gulf of Mexico Region. The visualization room directly supports the President's National Energy Policy that envisions a comprehensive long-term strategy using innovative technology to produce an integrated energy, environmental, and economic policy. In FY 2005, the entire \$750,000 is needed for the 3-D visualization room; however, starting in FY 2006, MMS will only require \$140,000 per year to maintain the capabilities of the visualization room to a comparable level of technical competency with industry. Therefore, in FY 2006, MMS is able to return \$610,000 from this project's funding.

**Justification of 2006 Program Change (+\$500K, 0 FTE):** Recent trends toward development in ultra-deep water and production of natural gas resources from deep below existing shallow-water facilities are critical components of overall OCS oil and gas production. Near-term needs in the Gulf of Mexico (GOM) region are driven largely by the increasing drilling and development in deep water and increased resource potential for the Deep Gas Play. Industry has made significant discoveries in ultra-deep water and a record number of drilling rigs are currently operating there. In a March 4, 2004 MMS News Release, Director Johnnie Burton announced that, "For the first time, 12 rigs are drilling for oil and gas in 5,000 feet of water or greater in the Gulf. This is a very important milestone which demonstrates how industry continues to focus on new frontiers." The following chart details the increase in deepwater production as a percent of total production in the GOM.



**Figure 26: Gulf of Mexico Outer Continental Shelf Deepwater Production – relative increase as a percentage of total production.**

Production from deep wells on existing leases in the shallow water Gulf is one of the most attractive sources of additional natural gas to help meet the near- and mid-term energy needs of the nation. New data and a better understanding of the deep gas potential due to recent discoveries have led the MMS to increase the resource estimate to up to 55 trillion cubic feet (tcf) of gas for the Deep Gas Play. Revised estimates are based partly on new seismic data acquired and processed using the latest technology to improve imaging at increased sub-surface depths.

*“We believe significant gas resources exist, more than three miles deep, below existing shallow-water platforms in the Gulf of Mexico. This is a technological frontier, but can be accessed from existing infrastructure.”*

- R. M. “Johnnie” Burton MMS Director

Interpretive technologies improve the MMS’s ability to assess and evaluate resources on the OCS. The effective evaluation of OCS resources is critical to assuring that the Treasury and the public receive fair market value for the resources over which MMS holds stewardship and to ensure that resource conservation issues are appropriately addressed in development decisions. Uninformed or inadequately informed decisions on the sale and development of offshore leases can potentially cost the Treasury and the public millions of dollars in lost revenues and decreases in domestic oil and gas production. The interpretive technology enhancements will allow MMS evaluators to maintain their technological competence and ensure the accuracy of our processes for reservoir analysis and tract evaluation.

The *Interpretive Technologies Support* initiative will fund additional geophysical data acquisition (\$270K), an additional data management contractor (\$120K), technical training to maintain credibility and expertise (\$60K), and a cooperative development program for geologists and engineers (\$50K). These components of the initiative are described below.

*G&G Data Acquisition:* The existing G&G budget, which has remained flat at \$2.29 million for a number of years, is inadequate to deal with the increased demands for data in ultra-deep water



and deep shelf areas. Without the funding increase, MMS will be unable to maintain the current quality of our evaluations with respect to industry. Geophysical data is a primary resource for the Gulf Region and is needed to meet program objectives for fair market value, field determinations, conservation of resources and to properly assess the resource potential of these areas. Through a combination of in-house expertise and outside consultants, MMS is enabling its geoscientists to establish and use a database of geochemical data using key wells in the area and interpretation of company reports. To address certain other key issues, it may be necessary to borrow well cuttings and to acquire gas or fluid samples from operators so that outside laboratories can provide analyses. An additional \$270,000 is requested to meet these geophysical data and geologic studies needs.

*Geological Interpretive Data Management Contractor:* In FY 2003, MMS received funding for three data management contract positions to collect, process, distribute, and archive technical data and records regarding wells and geologic/geophysical evaluations derived from industry exploration and production activities. These positions were immediately used to manage the existing eight terabytes of online data. Even with these resources, there remains a backlog of interpretive data. One additional contractor is required to effectively manage the large volumes of interpretive data, and incorporate these data into current geologic evaluation procedures.

*Technical Geologic Training:* There is an increased need for technical geologic training to maintain the credibility and expertise of the MMS staff. Additional funding is needed to allow employees to attend professional conferences to compare latest techniques and theories and to train less-experienced staff members.

*Cooperative Development Program for Geologists and Engineers:* In order to recruit minority students in geology and engineering and ensure capable future employees who can work effectively with advanced technology, the MMS seeks to develop formal programs with colleges and universities. These funds would allow MMS to participate in a multi-agency cooperative with Fort Valley State University in Georgia.

Without the tools provided through this proposed funding, MMS will be compromised in its ability to maintain technological competence, to improve the quality of our analyses and interpretations, and to continue to ensure optimal value for America’s mineral assets.

**Table 45: Reduction in Funding for the Center for Marine Resources and Environmental Technology**

	<b>2004 Enacted</b>	<b>2005 Enacted</b>	<b>2006 Request</b>	<b>Change 2005 to 2006</b>
Initiative (\$000)	790	900	0	-900
FTE	0	0	0	0

Note: The above amounts do not include FY 2006 uncontrollable increases.

The FY 2006 budget request for the Resource Evaluation Subactivity is \$28,682,000 and 221 FTE, a net program decrease of \$884,000 and no FTE from the FY 2005 enacted level.

The Center for Marine Resources and Environmental Technology (CMRET) was reauthorized under the Marine Minerals Resources Research Act of 1996, and placed under oversight of the Department of the Interior. The Minerals Management Service manages the program. The mission of the CMRET at the University of Mississippi is to conduct research on the exploration and extraction of minerals from the seabed of the Gulf of Mexico. The CMRET in Mississippi was funded in the amount of \$0.9 million in FY 2005.

MMS recognizes the importance of the investigations and technological development that this Center pursues, particularly the longer-term research. However, due to higher research priorities for conventional oil and gas exploration and extraction, MMS is proposing to eliminate CMRET funding in FY 2006.

**Table 46: Reduction in Funding for the Marine Minerals Technology Center**

	<b>2004 Enacted</b>	<b>2005 Enacted</b>	<b>2006 Request</b>	<b>Change 2005 to 2006</b>
Initiative (\$000)	790	900	0	-900
FTE	0	0	0	0

Note: The above amounts do not include FY 2006 uncontrollable increases.

The FY 2006 budget request for the Resource Evaluation Subactivity is \$28,682,000 and 221 FTE, a net program decrease of \$884,000 and no FTE from the FY 2005 enacted level.

The Marine Minerals Technology Center (MMTC) was reauthorized under the Marine Minerals Resources Research Act of 1996, and placed under oversight of the Department of the Interior. The Minerals Management Service manages the program. The mission of the MMTC at the University of Alaska-Fairbanks is to conduct research on the exploration and extraction of minerals from the seabed of the continental shelves and deep ocean basins of the arctic region. The MMTC in Alaska was funded in the amount of \$0.9 million in FY 2005.

MMS recognizes the importance of the investigations and technological development that this Center pursues, particularly the longer-term research. However, due to higher research priorities for conventional oil and gas exploration and extraction, MMS is proposing to eliminate funding in FY 2006.

**Table 47: OMM Program Performance Summary – Resource Evaluation Subactivity**

Measures	2002 Actual	2003 Actual	2004 Actual	2005 Plan	2006 Plan	Change 2005-2006	2008 Target
<b>Resource Use (Energy)</b>							
<b>Strategy 3: Optimize value through effective management.</b>							
Maintain the ratio of 1.8 to 1 (+/-0.4) of accepted high bids to MMS' estimated value <b>(NK)</b>	2.4 to 1	1.9 to 1	TBD	1.8 (+/- 0.4) to 1	1.8 (+/- 0.4) to 1	Maintain	1.8 (+/- 0.4) to 1
Percent of high bids accepted or rejected within 60 days <b>(PART)</b>	*57%	*57%	63%	60%	65%	+5%	65%
Comment: This measure tracks timeliness of bid evaluation, impacting both industry access to the OCS and federal receipt of funds. By regulation, 100% will be completed within 120 days. Targets here are for lease-sales with fewer than 600 tracts receiving bids. *1997-2003 baseline = 57%.							
Percentage of tracts with high bids rejected in the previous lease-sale receiving acceptable high bids at the planning area's next lease-sale <b>(PART)</b>	*44%	*44%	57%	50%	50%	Maintain	50%
Comment: This measure tracks the effect of MMS bid adequacy procedures on bidding and serves as a validation of MMS Fair Market Valuation. During the 1997-2002 Program, MMS bid adequacy procedures resulted in a net gain of \$236 MM in bonus bids. *1997-2002 baseline = 44%.							
<b>Resource Use (Non-Energy)</b>							
<b>Strategy 1: Provide access to and incentives for production.</b>							
Issue X % of sand and gravel leases within 30 days of receipt of the formal request with final lease terms <b>(NK)</b>	100% (2 leases)	100% (3 leases)	NA 0 leases	100% (estimated 4 leases)	100% (estimated 4 leases)	Maintain	100%
Comment: Expect 3-4 leases per year to be issued							
Measures	2002 Actual	2003 Actual	2004 Plan	2005 Plan	2006 Plan	Change 2005-2006	2008 Target
<b>Primary Outputs Contributing to this Subactivity</b>							
Block/Tracts Assessed or Evaluated*	8,767	7,731	19,858	38,800	8,000	See Comment	8,800
Sand and Gravel Leases Issued	2	3	**0	4	4	Maintain	4
* This figure is generally approximately 8,000 but fluctuates significantly due to the large number of blocks that may be covered in a single geologic assessment (such as the FY 2004 North Aleutian Basin regional study of over 5,000 blocks). The substantial increase projected for FY 2005 is due to studies related to the National Resource Assessment. **Lease issuance deferred due to changes in borrow site locations and design.							

**FY 2006 BUDGET REQUEST**  
**Offshore Minerals Management**  
*Regulatory Subactivity*

**Table 48: Overview of the Regulatory Request**

		<b>FY 2004 Actual (Enacted)</b>	<b>FY 2005 Estimate (Enacted)</b>	<b>FY 2006 Budget Request</b>	<b>Change from FY 2005</b>
<b>Regulatory Subactivity</b>	<b>(\$000)</b>	<b>49,465</b>	<b>51,516</b>	<b>51,766</b>	<b>0.5%</b>
	<b>FTE</b>	<b>336</b>	<b>336</b>	<b>334</b>	<b>-0.6%</b>
<i>Deepwater Helicopter Safety</i>	(\$000)	12,079	12,573	14,178	+1,605
	FTE	0	0	0	0
<i>Offshore Technology Research Center</i>	(\$000)	400	1,000	400	-600
	FTE	0	0	0	0
<i>Hurricane Ivan Studies</i>	(\$000)	--	1,000	0	-1,000
	FTE	0	0	0	0
<i>Closure of Santa Maria, CA District Office</i>	(\$000)	514	514	150	-364
	FTE	5	5	3	-2
<i>Uncontrollables</i>	(\$000)	--	--	609	+609

**PROGRAM OVERVIEW**

On behalf of the Nation, the MMS regulates over 8,000 leases and 4,000 offshore oil and gas platforms on 40 million acres of the OCS. The OMM program works to ensure that mineral development activities are conducted in a safe and environmentally sound manner, with safety being a prerequisite of all activity on the OCS, now and in the future. The MMS continually seeks operational improvements that will reduce the risks to offshore personnel and to the environment, and constantly re-evaluates procedures and regulations to stay abreast of technological advances that will ensure safe and clean operations.

As steward of the Nation's OCS minerals, MMS provides for the conservation of our valuable mineral resources by avoiding loss, preventing waste, and ensuring the ultimate recovery of mineral resources. Conservation of oil and gas resources is an integral part of the Nation's energy policy and a primary objective for the MMS regulatory program. To promote conservation objectives, MMS uses its regulatory authorities to require certain actions by operators and design financial or other lease term provisions to promote the ultimate recovery of minerals from a lease. The MMS continues to face challenges about how to increase production from existing OCS leases in order to meet the energy demands of our nation. The current royalty relief program can provide important incentives for new leases and pre-1996 leases in the deepwater GOM, all leases in shallow water with deep gas reservoirs, and for "end of life" leases. In addition, MMS is exploring strategies to prolong production from mature fields and to encourage operators to fully develop lease reserves.

### ***Strategic Initiatives***

In addition to the Regulatory base program, which funds the majority of Regulatory functions, MMS's Offshore Steering Committee has developed strategic initiatives that will serve as direction for the Offshore Program through 2008. The *21 Strategies* document describes issues, outlines desired outcomes, and lays out tactical plans. The OMM has established six Regulatory program priorities that will best advance MMS's performance in meeting its multiple statutory and policy responsibilities to promote safe and environmentally sound operations and enhance responsible use and conservation of entrusted national resources. These program priorities include:

- Establish conservation strategies – OMM is working to develop policies, regulations and guidelines that provide clear direction to operators about what conservation actions MMS will require, what analysis will be undertaken when evaluating requests, and which activities will be prohibited, in order to avoid loss, prevent waste, and ensure the ultimate recovery of the Nation's valuable OCS minerals.
- Develop and implement a plan for decommissioning Pacific OCS facilities – OMM is developing a strategy to ensure safe and environmentally sound decommissioning, involving close coordination with State and local governments.
- Develop and implement an aging infrastructure plan – To ensure offshore infrastructure components (wells, platforms, and pipelines) remain in safe and useful condition, OMM will establish an *Aging Infrastructure Plan* to include mechanisms for assessing and maintaining MMS-regulated infrastructure on the OCS.
- Establish a comprehensive and efficient pipeline safety program – OMM will review and update pipeline safety requirements under Subpart J of the regulations, and investigate possible new program initiatives for a comprehensive Pipeline Safety Program that will be compatible with Department of Transportation pipeline regulations and include e-Gov reengineering of applications and permits.
- Develop and implement a new MMS/U.S. Coast Guard (USCG) Memorandum of Understanding (MOU) – OMM will work with the USCG to revise the existing MOU with the goal of eliminating inconsistencies in regulatory enforcement; minimizing duplicative work activities; developing new methodology to help expedite new, and effect revisions to, subject-specific engineering/technical and policy agreements; and improving overall safety of operations on the OCS.
- Provide a leadership role in the International Regulators' community – OMM will expand the scope and impact of its international program and the International Regulators' Forum (IRF) and, through the IRF, develop a common set of international performance measures and an international incident database.

### ***MMS/USCG Memorandum of Understanding to be Implemented***

On September 30, 2004, the MMS and USCG signed a new MOU which is now in the implementation phase. The document details how the two agencies will work together to regulate oil and gas activities on the OCS, keeping pace with an industry facing rapidly evolving technologies and the ongoing adoption of new engineering standards. The two agencies also signed a Memorandum of Agreement (MOA), under a new protocol for the creation of subject-specific technical, engineering, and policy agreements. The MOA represents the first of a number of agreements to be prepared on topics such as deepwater ports, accident investigations, fixed platforms, mobile offshore drilling units, and oil spill response.

### ***MMS Assists USCG and MARAD in processing applications for offshore ports***

Since the Department of Transportation received the first application for a deepwater port in the OCS, MMS has been actively assisting the USCG and the Maritime Administration (MARAD) in the processing of applications for the first offshore ports designed for the importation of liquefied natural gas. Given the requirements set forth in the OCSLA and the Deepwater Ports Act, MMS is working collaboratively with the MARAD and the USCG to establish needed policies and procedures for the application and permitting processes. In assisting in the review and approval of deepwater ports in the OCS, it is the goal of the MMS to maintain the integrity of safety and environmental protection efforts currently in effect in the OCS, while at the same time minimizing impacts to domestic offshore energy programs.

Deepwater port activities in the OCS continue to accelerate. Thus far, MARAD has issued licenses for two deepwater ports, one of which will be in operation by the summer of 2005. Six additional applications are in various stages of review, with pressure to advance and approve the applications being felt through the mandated 356-day review/approval schedule. Additional applications are expected to be submitted in 2005. Throughout the application review process, MMS continues to question and assess the impacts of deepwater ports on offshore safety, legal rights of existing leaseholders, and infrastructure, and is facilitating regular meetings with USCG, MARAD, and DOT staff to establish policies and procedures that will ensure that OCS operations, safety, and environmental protection are not impugned by the installation and operation of deepwater ports.

The Regulatory subactivity funds two program elements that work to assure safe and clean operations on the OCS: 1) the Regulation of Operations program and 2) the Technology Assessment and Research (TAR) program, supporting DOI's End Outcome Goal to "Protect Lives, Resources, and Property" as well as DOI Strategy 2 to "Enhance responsible use management practices." Key indicators of performance include the number of fatalities and serious injuries reported in the OCS workforce.

The Regulation of Operations program oversees all aspects of offshore activities, from exploration and development to production and decommissioning. The TAR program supports research associated with operational safety and pollution prevention, working with academia, private firms, and government agencies to assess safety-related technologies and to perform applied research specific to operations in the OCS environment.

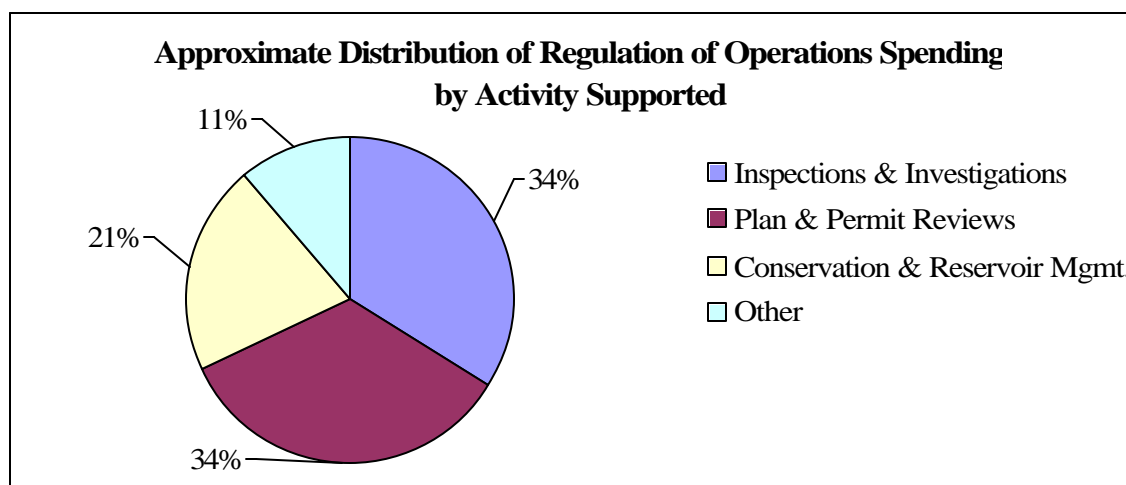
Within its Activity-Based Costing system, OMM tracks a number of outputs (including Accident Investigations Completed, Civil Penalty Cases Approved, and Production Components Inspected) that provide the ability to assign the full cost of regulatory activities, as well as proportional shares of program support and general administrative costs.

**REGULATION OF OPERATIONS PROGRAM**

**Table 49: Overview of the Regulation of Operations Budget Request**

		FY 2004 Actual (Enacted)	FY 2005 Estimate (Enacted)	FY 2006 Budget Request	Change from FY 2005
<b>Regulations of Operations Program</b>	<b>(\$000)</b>	<b>48,580</b>	<b>49,546</b>	<b>50,896</b>	<b>+2.7%</b>
	<b>FTE</b>	<b>336</b>	<b>336</b>	<b>334</b>	<b>-0.6%</b>
<i>Deepwater Helicopter Safety</i>	(\$000)	12,079	12,573	14,178	+1,605
	FTE	0	0	0	0
<i>Hurricane Ivan Studies</i>	(\$000)	--	1,000	0	-1,000
	FTE	0	0	0	0
<i>Closure of Santa Maria, CA District Office</i>	(\$000)	514	514	150	-364
	FTE	5	5	3	-2
<i>Offshore Technology Research Center</i>	(\$000)	0	600	0	-600
	FTE	0	0	0	0
<i>Uncontrollables</i>	(\$000)	--	--	609	+609

The MMS’s comprehensive management program of mineral operations on the OCS ensures that mineral operations on the OCS are conducted in a safe and environmentally sound manner. The foundation of this program is a set of regulations that govern all aspects of offshore mineral activities, from engineering specifications for offshore facilities to training requirements for OCS workers. The MMS continually reviews these regulations to update and revise them, ensuring that they include the most effective requirements for safety and environmental protection on the OCS.



**Figure 27: Distribution of Regulation of Operations Spending**

### ***Review of OCS Plans and Permits***

Reviews of plans and permits help to ensure that all OCS operators comply with regulatory standards and specific lease stipulations. The MMS performs detailed technical and environmental reviews of plans and permits for exploration, development, and production on OCS lands, as well as permits for other activities such as the installation of pipelines. The ongoing effort by MMS to develop performance-based operating regulations is expected to generate an increasing number of operator requests for approval of alternative compliance programs. Prior to making approval decisions on alternative compliance, MMS must assess the alternatives to ensure they provide equal or greater protection than the regulatory requirements they would replace. The MMS will be required to commit a substantial and increasing amount of resources to these assessments in order to evaluate an operator's alternative, verify adherence, and determine its effectiveness. An increase in operational activity translates into a substantial increase in requests for approval of plans, permits and other related operations.

### ***Inspections and Investigations***

The OCS Lands Act amendments mandate that annual inspections be performed on each permanent structure and drilling rig that conducts drilling, completion, or workover operations. Safety is a priority for both MMS staff and for the operations that occur under MMS licenses, and onsite facility inspections and enforcement actions are important components of MMS's safety program. The Bureau conducts thousands of inspections each year to prevent offshore accidents and spills. Under a new regulation, the MMS, as part of the Fixed Platform Self Inspection Program, is now authorized to inspect USCG-regulated safety items on fixed facilities. MMS inspection staff are now conducting approximately 2,000 such inspections on manned and unmanned facilities every six months. Inspections of all oil and gas operations on the OCS are performed annually to examine safety equipment designed to prevent blowouts, fires, spills, and other major accidents. In FY 2003, MMS inspectors completed over 22,000 inspections in the Gulf of Mexico alone.



**Figure 28: In FY 2003, MMS personnel in the Gulf of Mexico Region logged over 5500 helicopter hours.**

In fact, MMS inspects drilling and production facilities on the OCS using both scheduled and unannounced inspections. Annual inspections are conducted on all platforms, but more frequent inspections may be conducted to focus on operators with a poor performance record, follow-up on previous inspection findings, and foster a climate of safe operations. The MMS has developed a sampling program that allows inspectors to conduct an inspection using a random statistical sampling of facility equipment and achieve a 95 percent assurance that the entire facility complies with the regulations. Further, the MMS and other agencies, such as the USCG, investigate accidents that result in loss of life, serious injuries, major fires, damage to facilities, and major spillages in order to identify causes and prevent future similar incidents. Where appropriate, Federal agencies including MMS, pursue civil and criminal penalty actions against



those in violation of Federal regulations, especially those violations that result in injuries, loss of life, and damage to environmental resources. The Bureau also conducts aerial surveillance of critical assets.

To ensure that operators are prepared to respond to an oil spill from their facility, MMS reviews and approves oil spill response plans for all operators seaward of the coastline. In the process of plan review, MMS requires that spill management team members are trained, that the operator has planned for a worst-case discharge scenario, and that a contract is in place which will allow prompt access to oil spill equipment and personnel during a spill. To test an operator's plan, training, and preparedness, MMS conducts over 40 unannounced oil spill drills per year, and gauges their preparedness against guidelines set forth in the National Preparedness Response and Exercise Program.

When incidents do occur, MMS closely monitors and analyzes incident-related data to understand the causes and contributing factors. Examination of long-term trends indicates that the safety and environmental record of the offshore industry has dramatically improved over the last 50 years. Regulations currently require operators to notify MMS of fatalities, serious injuries, fires, explosions, and losses of well control associated with mineral operations on an OCS lease. The MMS uses this information to identify actions that can be taken to prevent recurrence.

The major incident investigation reports are published on MMS Regional websites, and MMS advises operators and lessees of safety concerns, that have been identified in incident analyses and investigations, through the publication of Safety Alerts. In addition to using incident data to identify safety concerns related to OCS operations, these data are also used as a component for evaluating the performance of individual companies and industry as a whole.

In FY 2004, OCS operators reported 3 fatalities and 29 serious injuries. By comparison, the annual average over the previous 5-year period (the performance baseline) was 7 fatalities and 25 serious injuries. The most significant factor in the reduction of fatalities from FY 2003 to FY 2004 has been the decrease in fatal helicopter incidents where the helicopter was on either approach to or taking off from an OCS facility, or where the helicopter made impact with an OCS facility. There were none of these incidents in FY 2004 compared to 5 fatalities resulting from such incidents during FY 2003. This is still an important area of concern for MMS because serious helicopter incidents have continued to occur while helicopters are in-flight. These incidents are not counted in the performance measure, because MMS has no direct or indirect regulatory function when helicopters are in-flight. Nevertheless, the Bureau continues to work with industry and other regulators on this important safety issue.

Data for FY 2004 shows 29 serious injuries reported by OCS operators. By comparison, the annual average over the previous 5-year period (the performance baseline) was 25. Many of the serious injuries involved material-handling equipment, pipe-handling equipment, and lifting operations associated with cranes. The MMS has recently worked with the American Petroleum Institute to modify existing industry standards to include additional requirements for crane equipment and training. The Bureau has also adopted these standards and has included the requirements of these new standards in its inspection program. In addition, MMS is addressing

these and other areas of safety concern by considering regulatory options for requiring operators to incorporate new procedures in their safety and environmental management practices. These procedures relate to five important areas -- hazards analysis, operating procedures, management of change, safety analysis, and mechanical integrity. Incident investigations and data have shown these areas to be important areas to focus on for improved safety. These areas were the subject of a recent MMS/industry workshop, and MMS is preparing Advanced Notices of Proposed Rulemaking to request comments on the best way to address these and other important areas to enhance the safety of OCS operations.

### ***OCS Infrastructure Security***

In FY 2004, the MMS increased its focus on improving OCS security awareness and prevention measures and provided a similar emphasis to response and recovery. Preventing a security incident from occurring is far more cost-effective than simply reducing the costs of post-incident response and recovery. The MMS entered into a 2-year agreement with the Naval Engineering Facilities Center, Port Hueneme, CA, to develop security awareness training for all MMS personnel that routinely go offshore. The Gulf Safety Committee and Pacific stakeholders representing Federal, State and industry interests actively participated in this project, which is designed to improve offshore safety by increasing security awareness, and vigilance. The MMS and the U.S. Coast Guard (USCG) worked closely to refine and update the list of critical OCS oil and gas facilities.

In FY 2005, the Naval Engineering Facilities Center will complete its 2-year effort with MMS to study potential security threats to offshore oil and gas infrastructures and will provide security awareness training to all MMS personnel that routinely go offshore. The Navy will begin the training by mid-summer 2005. Additional training will be provided to selected employees on the new National Response Plan, including anticipated improvement to the National Incident Management System, and other information related to the MMS Oil Spill Program and emergency management.

In FY 2006, MMS will continue to work with the USCG, industry, and other appropriate federal and state agencies to improve offshore security awareness and continue to analyze OCS infrastructure security.

### ***Promoting Pipeline Safety***

The oil and gas pipelines on the OCS have not experienced catastrophic accidents or failures. However, MMS has concerns about the integrity and failure potential of some older offshore pipeline systems and about ocean pollution from third party-related pipeline accidents. Additionally, as industry moves into deeper water and, potentially, into Arctic areas, there is a continued need to focus on the technology needed to design, build, and maintain safe and reliable pipelines suitable to these extreme environments and conditions. The MMS will address these issues through a comprehensive and integrated approach that includes regulatory revision, continued research, government reengineering (to promote efficiency through e-Gov initiatives), and new program development. The long-term goal is to develop and implement a proactive and comprehensive regulatory program to promote the continued integrity of offshore pipelines,

further reduce the potential for pipeline leaks and failures, and further protect life, property, and sensitive environmental resources.

**Hurricane Ivan**

The 2004 hurricane season was an especially active one. Hurricanes Charley, Frances, and Ivan devastated the coastlines of Florida and brought severe weather to the Gulf. Because of the potential impact of hurricanes and tropical storms on oil and gas production facilities, the oil industry and MMS work together to make sure that workers are safe and pollution event risks are minimized. In the aftermath of Hurricane Ivan, few of the 4,000 platforms or the 117 rigs working in the Gulf sustained major damage.

To minimize potential damage from storms, structures are now required to be designed to withstand a 100-year storm event. Nonessential personnel are evacuated early and all others leave before the wind and seas make transport impossible. Producing wells are shut down through the use of valves on platforms and at the well heads. Industry is required to have safety valves both at the surface of the well and subsurface to reduce the potential for an oil spill or gas leak.

Of the 33,000 miles of pipeline, only a few leaks were initially reported, but several pipelines were later found to have significant damage. Although the amount of structural damage was relatively minor, the impacts on production were significant. Even by early October, three weeks after the storm, approximate daily production of 471,000 barrels of oil and 1.7 million cubic feet of natural gas were still shut in.

Despite the fury of Ivan, there were no reports of any injuries, fatalities, or significant pollution associated with offshore facilities—a significant tribute to the programs in place for safeguarding life, property, and the environment.

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

Most offshore oil and gas incidents can be traced to human error or poorly organized operations. The MMS encourages OCS operators to use a companywide Safety and Environmental Management Program (SEMP) plan to organize their activities to minimize risks to workers and the environment. The SEMP is a tool for integrating and managing OCS operations to effectively address such important safety factors as:

- conducting safety and environmental reviews;
- assuring the quality and integrity of critical equipment ;
- establishing safe work practices;
- training workers; and
- responding to emergencies.

The OCS Performance Measures Project serves as a gauge to determine the effectiveness of SEMP implementation on the OCS. The MMS, the U.S. Coast Guard, and representatives of the OCS oil and gas industry developed a suite of consensus formulas for gauging the industry's safety and environmental performance. These formulas use safety and environmental information voluntarily submitted to the MMS by OCS operators to calculate indices which enable each operator to compare their performance with industry benchmarks.

### ***Operator Performance Reviews***

The MMS conducts Annual Performance Reviews (APR) of each operator. The APR process captures compliance and accident information gathered through the OCS Inspection Program and weights that information to arrive at a final Operator Safety Index for each operator. The Bureau meets with those operators performing at the highest levels to solicit ideas for best operating practices. With the operator's concurrence, MMS shares these success stories with others through workshops, conferences, and other safety-related meetings.

### ***Civil Penalties and Operator Disqualification***

The MMS OCS Civil Penalties Program is designed to encourage compliance with OCS statutes and regulations through the pursuit, assessment, and collection of civil penalties and referrals for the consideration of criminal penalties. If an operator exhibits excessively poor, dangerous, or threatening performance, the MMS can assess a civil penalty. Violations that cause or pose a threat of serious, irreparable, or immediate harm to human life, property, or the environment are those types of violations that are reviewed for civil penalty. Since 1995, MMS has collected over \$13 million in such penalties. The Bureau will take steps to correct such behavior and may place an operator on probation. However, should the operator continue to perform poorly, MMS may disqualify a company from operating a facility or all facilities on the OCS. The disqualification process provides a structured process to remove operators that are a threat to the safety of life and the environment.

## **TECHNOLOGY ASSESSMENT AND RESEARCH (TAR)**

**Table 50: Overview of the Technology Assessment and Research Program Request**

		<b>FY 2004 Actual (Enacted)</b>	<b>FY 2005 Estimate (Enacted)</b>	<b>FY 2006 Budget Request</b>	<b>Change from FY 2005</b>
<b>Technology Assessment and Research Program</b>	<b>(\$000) FTE</b>	<b>885 0</b>	<b>1,985 0</b>	<b>885 0</b>	<b>-55% 0%</b>

The TAR program addresses technological issues associated with oil and gas operations, ranging from the drilling of exploratory wells in search of new reserves to the removal of platforms and related production facilities once reserves have been depleted. Although our research efforts may involve any aspect of oil and gas operations, particular attention is given to drilling, workover, production, completions, structures, pipelines, decommissioning, human factors/risk assessment, and measurement operations.

The TAR Program directly responds to one of the government-wide President's Management Agenda initiatives: *Research and Development*. The TAR Program performs applied research in regulatory technologies to ensure safe, pollution-free operations and conducts applied research in the prevention of oil pollution and the improvement of oil spill response and clean-up.



**Figure 29: Na Kika – Gulf of Mexico Region  
Floating Production Facility**

The expansion of industry operations into the deepwater areas of the Gulf of Mexico presents significant technological challenges to industry and MMS. The industry is focused upon the development of new concepts, operational procedures, production facilities, and transportation facilities to meet the physical and economic challenges created by the operating environments of water depths between 3,000 to 10,000 feet. In many cases, custom designs are being developed that employ new materials and unique operating characteristics, all of which need to be independently verified by MMS to ensure safety of operations and protection of the environment. The first commercial development of oil discoveries on the Federal portions of the Beaufort Sea offshore Alaska also present special challenges to the TAR program – particularly the forces that sea ice applies to surface structures (i.e., drilling or production facilities) and pipelines.

Meanwhile, existing platforms and pipelines continue to age, and MMS is increasingly concerned with ensuring the integrity of these older facilities. If not properly maintained, offshore facilities and components will age at an accelerated rate both externally, due to the corrosive salt-water environment, and internally, due to the acidic/caustic nature of some produced well fluids. In order to manage offshore infrastructure in a safe and fully functional condition, it is important to properly protect and maintain wells, platforms, and pipelines through sound engineering standards and rigorous inspection. The MMS sponsors research to correct or reverse problematic aging events and is working closely with industry to ensure the continued safety of OCS facilities, workers, and the environment.

As platforms and associated production facilities reach the end of their useful lives – as is currently happening in the Gulf of Mexico and offshore Southern California – decommissioning and removal are required. The MMS and industry are jointly funding multi-year research projects to assess the optimal means of decommissioning and removing these facilities.

In fact, it is broadly recognized that participation in joint projects is the most effective and efficient means to leverage available funds and disseminate research findings. Therefore, participation in jointly funded projects with industry, other Federal and State agencies, academia, and international regulatory organizations has become an important mechanism for TAR. In FY 2005, the TAR program co-funded fifteen projects with other organizations. Due to the many benefits that MMS has experienced through co-funded research, the TAR program will continue to seek opportunities to leverage research dollars through joint projects for new engineering studies and conservation research.

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**FY 2006 FUNDING REQUESTS**


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The FY 2006 budget request for the Regulatory Subactivity is \$51,766,000 and 334 FTE, a net program increase of \$250,000 and a reduction of 2 FTE from the FY 2005 enacted level.

**Table 51: Deepwater Helicopter Safety Initiative**

	<b>2004 Enacted</b>	<b>2005 Enacted</b>	<b>2006 Request</b>	<b>Change 2005 to 2006</b>
Initiative (\$000)	12,079	12,573	14,178	+1,605
FTE	0	0	0	0

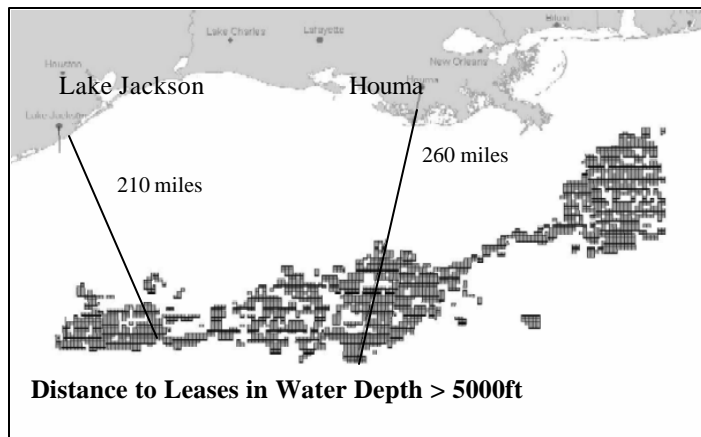
Note: The above amounts do not include FY 2006 uncontrollable increases.

To sustain the inspection program's successful performance into FY 2006 and beyond, MMS is proposing an increase for the Regulatory subactivity, the *Deepwater Helicopter Safety* initiative (+\$1.605 million). This request requires no additional FTE.

**2005 Program:** MMS inspectors visit offshore oil and gas facilities in order to conduct mandatory inspections and ensure compliance with MMS regulations. The Bureau also performs inspections on behalf of the USCG and the Environmental Protection Agency, and coordinates with the Nuclear Regulatory Commission to transport their inspectors so they may review the licensees under their jurisdiction. The FY 2005 President's Budget includes approximately \$12.6 million to fund MMS' helicopter contracts. The GOMR contract leases 14 single-engine helicopters that are suitable to reach the approximately 8,000 leases, 4,000 producing facilities, and 900 drilling sites in the GOMR annually.

In FY 2004, the MMS conducted a GOMR Aviation Program Evaluation. During FY 2005, MMS will address action items and deficiencies identified during the evaluation, including a recommendation to analyze the MMS mission requirements relating to aviation for the overall inspection program, with particular emphasis on deepwater areas. The evaluation included a review of seat occupancy rates to ensure that MMS maximizes the use of leased aircraft.

**Justification of 2006 Program Change (+\$1,605,000, 0 FTE):** An additional \$1,605,000 is needed to ensure that MMS can safely meet its regulatory inspection requirements in FY 2006. The private sector continues to move farther offshore to conduct operations. In the last three years, the private sector has announced seven new major discoveries in the ultra-deep water areas (7,500 feet of water or greater). These discoveries have been followed by the filing of additional plans of exploration in the ultra-deep water areas and will soon require that appraisal, delineation and development wells be drilled in proximity to the discovery, all of which require MMS inspections. MMS believes this trend will continue to accelerate as the industry is employing an all time record number of drilling rigs in these water depths and new leasing activity remains strong. In the 2003 lease sales for the Central and Western Gulf, there were 148 new blocks leased in water depths of 5,000 feet or greater.



**Figure 30: Location of ultra-deep water tracts in the Gulf of Mexico.**

Typically, ultra-deep water areas are 100 to 200 miles offshore (see Figure 30). Single engine helicopters, such as those currently contracted by MMS, have a range of 125 miles from base that allows enough fuel to return to the shoreline with an acceptable safety margin without refueling. Offshore fueling stations have allowed MMS to perform its mandated inspections safely. The current budgetary funding for fuel and helicopters is inadequate to meet the demands brought about by the increasing movement to ultra-deepwater. The more frequent and longer flying distances to these facilities will increase fuel costs and can potentially require larger helicopters to reach isolated locations.

Without additional helicopter funding in FY 2006, MMS will be unable to achieve our inspection goals of conducting an annual inspection for each production facility and monthly inspections for deepwater drilling platforms.

In response to the private sector's trend to develop resources farther offshore and in deeper water, MMS is considering aviation-contracting options for its deepwater inspection strategy. Transportation of inspection personnel to deepwater facilities involves increased flight times, potentially new water survival scenarios, additional personal protective equipment, and other logistical and safety issues. The requested increase will address FY 2006 needs only. Needs beyond FY 2006 will be factored into a new 5-year aviation contract.

The current GOM aviation contract expires at the end of FY 2006. The Bureau has an inter/intra agency agreement with the National Business Center's Aviation Management Directorate (AMD) to provide oversight, coordination, and aviation procurement to support our aviation management program. The MMS begins working with the AMD about one year prior to the end of the current contract in order to finalize the new contract and ensure that the proper aircraft will be available when the new contract takes effect. Due to increasing fuel costs and MMS's continuing need for larger, more powerful helicopters to safely transport inspectors to deepwater installations, MMS fully expects that an increase will be needed in FY 2007 to cover the cost of this new helicopter contract. Throughout this process, MMS and AMD will strive to meet the bureau's mission requirements for aviation in the most cost effective manner.

**Table 52: Closure of Santa Maria, CA District Office**

	<b>2004 Enacted</b>	<b>2005 Enacted</b>	<b>2006 Request</b>	<b>Change 2005 to 2006</b>
Initiative (\$000)	514	514	150	-364
FTE	5	5	3	-2

Note: The above amounts do not include FY 2006 uncontrollable increases.

**2005 Program:** The Santa Maria Office is comprised of five employees – a district supervisor, a drilling engineer, a production engineer, an inspector, and one secretary. The district supervisor provides supervisory and management oversight; the drilling engineer reviews drilling permits and sundry notices, conducts drilling inspections and assists in investigations; the production engineer reviews new production equipment and changes in production systems, assists with production inspections, and manages other production-related issues; and the inspector and engineers conduct regular inspections on all 23 platforms. The secretary provides support services to the Santa Maria staff.

**Justification of 2006 Program Change (-\$364K, -2FTE):** The Santa Maria, California Office will be closed in its entirety. The services and functions now provided by the Santa Maria district office will be conducted from the Camarillo, California office. Attrition in the Santa Maria office is expected to account for a savings of 2 FTEs. Additional savings will be provided by a reduction in helicopter and operating expenses. It is expected that vacancies elsewhere in OMM will provide relocation opportunities for the remaining Santa Maria FTEs. Action will be necessary in FY 2005 to realize savings in FY 2006.

**Table 53: Reduction in Funding for the Offshore Technology Research Center**

	<b>2004 Enacted</b>	<b>2005 Enacted</b>	<b>2006 Request</b>	<b>Change 2005 to 2006</b>
Initiative (\$000)	400	1,000	400	-600
FTE	0	0	0	0

Note: The above amounts do not include FY 2006 uncontrollable increases.

The Offshore Technology Research Center (OTRC) is a research partnership between the Texas A&M University and the University of Texas at Austin, and MMS. Congressional funding for the OTRC has fluctuated from year-to-year since the partnership was first established, and it required, for many years, that MMS redirect its base funds from other program needs to comply with the Congressional mark. The funding history is shown in the Table 54 on the following page.

The MMS recognizes the importance of the investigations and technological development that this Center pursues, particularly the longer-term research. However, due to higher research priorities for conventional oil and gas exploration and extraction, MMS is proposing to eliminate funding in FY 2006.



**Table 54: Funding History for the Offshore Technology Research Center**

Fiscal Year	Congressional Mark	Congressional Funding to MMS	Funding Shortfall
1999	900,000	900,000	0
2000	1,400,000	900,000	-\$500,000
2001	1,400,000	900,000	-\$500,000
2002	1,400,000	900,000	-\$500,000
2003	1,400,000	900,000	-\$500,000
2004	900,000	400,000	-\$500,000
2005	1,000,000	1,000,000	0

**Table 55: Reduction in Funding for Hurricane Ivan Studies**

	2004 Enacted	2005 Enacted	2006 Request	Change 2005 to 2006
Initiative (\$000)	0	1,000	0	-1,000
FTE	0	0	0	0

In September 2004, Hurricane Ivan, a full category-4 storm, moved through the U.S. Gulf of Mexico (GOM) with extreme winds and large waves exceeding or matching the 100-year design criteria of the facilities in its path. Of the 4,000 offshore oil and gas facilities and 33,000 miles of pipelines in Federal waters of the GOM, approximately 150 facilities and 10,000 miles of pipelines were in the direct path of Hurricane Ivan.

The MMS received a one-time increase of \$1,000,000 in FY 2005 to conduct or commission several studies that will assess the actual wind, wave, and current forces that were present in Hurricane Ivan. These studies will analyze and assess the consequential damage to structures and pipelines, determine the effectiveness of current design standards and pollution-prevention systems and develop recommendations for changes to industry standards and MMS regulations, if needed.

**Table 56: OMM Program Performance Summary – Regulatory Subactivity**

Measures	2002 Actual	2003 Actual	2004 Actual	2005 Plan	2006 Plan	Change 2005 - 2006	2008 Target
<b>End Outcome Goal Serving Communities: Protect Lives, Resources and Property</b>							
Number of fatalities among workers in DOI permitted activities (SP)	7 fatalities	11 fatalities	3 fatalities	Reduce from 5-year average (2000-2004)	Reduce from 5-year average (2001-2005)	TBD based on rolling average	Reduce from 5-year average (2003-2007)
Number of serious injuries among workers in DOI permitted activities (SP)	21 serious injuries	23 serious injuries	29 serious injuries	Reduce from 5-year average (2000-2004)	Reduce from 5-year average (2001-2005)	TBD based on rolling average	Reduce from 5-year average (2003-2007)
<b>Primary Outputs Contributing to this Subactivity</b>							
Components Inspected	69,715	65,043	67,608	66,560	66,600	+40	67,800
Plans Approved	N/A	1,386	1,166	1,400	1,400	maintain	1,400
Permit Applications Approved	N/A	11,853	12,281	11,900	11,900	maintain	11,900
Production Verifications	N/A	115,089	96,458	113,200	113,200	maintain	113,200
Conservation Assessments	N/A	28,265*	17,500	21,600	21,600	maintain	21,600
* The higher FY 2003 baseline reflects extra resources dedicated to address backlog of semi-annual well test reports.							

FY 2006 BUDGET REQUEST  
Offshore Minerals Management  
*Information Management Subactivity*

**Table 57: Overview of the Information Management Request**

		FY 2004 Actual (Enacted)	FY 2005 Estimate (Enacted)	FY 2006 Budget Request	Change from FY 2005
<b>Information Management Subactivity</b>	(\$000)	25,706	29,972	30,125	+0.5%
	FTE	65	74	74	0.0%
<i>Uncontrollables</i>	(\$000)	--	--	153	+153

**PROGRAM OVERVIEW**

The Information Management Program (IMP) provides a central foundation for the management of the large volume of information and data used in the scientific, engineering, and management activities of the OMM program. OMM has a sophisticated and valuable Information Technology (IT) infrastructure that supports data management and internal and external communications. Major systems include the Technical Information Management System (TIMS) and OCS Connect. The TIMS, the corporate database for OMM programs, uses relational database technology to bring diverse offshore information into one central system. This enables OMM's regions and headquarters to: share and combine data; standardize processes, forms, reports, and maps; enforce data integrity; promote the electronic submission of data; and reduce costs by eliminating the need for duplicate information storage and retrieval systems. OCS Connect, OMM's e-Gov initiative, is a multi-year endeavor to reform and streamline business processes across OMM functions and phases of offshore operations. The OMM is also responsible for operating and maintaining a significant portion of the MMS network.

***Strategic Initiatives***

MMS's Offshore Steering Committee has developed strategic initiatives that will serve as direction for the Offshore Program through 2008. The *21 Strategies* document describes issues, outlines desired outcomes, and lays out tactical plans that include the implementation of the e-Government plan, obtaining certification and accreditation (C&A) for all IT systems, and implementing an IT security strategy. MMS completed full C&A for all IT systems in May of 2004. The Bureau is fully compliant with the Federal Information Security Management Act (FISMA), IT-related management control reviews have found no material weaknesses, and all systems received certification and accreditation. Security work continues to be a critical focus with the tasks of implementing the FISMA, maintaining C&A, and re-accrediting systems with major changes.

The OMM maintains a complex scientific computing environment that directly supports many programmatic benefits including increased lease revenues, environmental monitoring, and engineering oversight. The rapid pace of technology improvements, particularly within the oil

and gas industry, demands that IT systems be routinely replaced and refreshed. The OMM has successfully maintained a technology management and replacement program for many years.

Each of OMM's major applications, local area networks, the wide area network and Enterprise systems require a high level of security to meet all Federal requirements. For each system, OMM maintains up to date Asset Valuations, System Security Plans, Security Architectures, Rules of Behavior, Continuity of Operation Plans, and Configuration Management plans in support of mandatory system Certification and Accreditation. The OMM provides annual training for general users and expanded training for systems administrators, security managers, and OMM managers. The OMM security program complies with the FISMA, OMB policy and National Institute of Standards and Technology (NIST) guidance, and is responsive to the President's initiatives by preventing unauthorized access to our systems.

The IMP is responsible for maintaining its share in the Bureau-wide IT shared services. A 5-year enterprise-wide budget was approved in October 2001, and has been updated and managed annually since. Currently this portion of the budget supports the Exchange (e-mail) infrastructure, the master domain infrastructure, the Systems Management Server (SMS), enterprise desktop licenses, and other enterprise wide systems.

As the new OCS Connect system becomes a critical part of OMM's business processes, the need to integrate with the remaining TIMS system will add to the system maintenance needs. The IMP funding is also used for contract support in maintaining and supporting TIMS modules during OCS Connect development that will not be transitioned to e-Gov as originally scheduled. The TIMS maintenance continues to be required to correct errors and effect small changes to meet Program needs.

To meet future mission requirements and encourage participation in the domestic OCS oil and gas program, OMM must keep pace with the increasing complexity of oil and gas operations, greater workloads, and the need for more sophisticated technical analyses and data exchange. The goals of the OCS Connect project are to provide a single point of access for OCS data, facilitate the sharing of information, ensure equity in service access through compliance with Section 508 of the Federal Rehabilitation Act of 1973 (as amended), and reduce redundancies by using a standard data model and business rules for online applications. With the re-engineering and streamlining of OMM's business processes, the OCS Connect project will help OMM and industry to realize cost savings from reduced cycle times in receiving and processing information.

OCS Connect directly responds to one of the government-wide President's Management Agenda initiatives: *Expanding Electronic Government*. This project will provide increased access to OCS-related information, more transparent processes, and improved public awareness of OCS activities and the OMM mission. By moving services online, OMM will be more connected to citizens, industry, and other government agencies.

To ensure that the IMP provides the necessary infrastructure and services, an Information Management Committee (IMC), which reports to the Associate Director and includes members from program headquarters and regional offices, regularly examines offshore IT needs,

reprioritizes needs based on new circumstances, and collectively determines the most effective distribution of limited IMP resources.

Headquarters IT staff (located in Washington and New Orleans ) provide single-point management and coordination/standardization of Offshore IT activities, resulting in an efficient centralized operation. Some of the many responsibilities of this staff include:

- Coordination with Interior's and MMS's Chief Information Officers, and adherence to Departmental Enterprise Architecture, Departmental Capital Planning and Investment Control process, and Departmental IT Security;
- Leadership in the design, development, implementation, and support of the Offshore corporate database and application systems;
- Coordination of Offshore information security activities and coordination with MMS and Department-wide security functions;
- Leadership in design, development, integration, implementation, and support of OMM and MMS architecture infrastructure;
- Coordination of Offshore-wide area network activities and Bureau-wide technology integration;
- Acquisition management of all service contracts in Offshore in support of software development, help desk support, Information Technology consulting, Geological Interpretive Tools to assist the geoscientists with the evaluation of Offshore leases and management of operations and environmental concerns on the OCS;
- Leadership in the evaluation and integration of new IT solutions; and
- Supporting and providing transition services for the OCS Connect project.

The IT units in each of the three MMS OCS Regions (Alaska, Gulf of Mexico, and Pacific) provide onsite IT support to program staff in those localities.

Through OCS Connect, work processes across OMM will be greatly simplified and more effective when the flow of information is automated. Efficiencies created through improved business processes will allow OMM staff to spend their time performing more thorough and quality analyses, resulting in a higher level of organizational performance. The OMM will be able to achieve mission goals in a more timely fashion, using fewer resources. In addition, OMM will be able to more adequately measure performance because the reengineering will provide an opportunity to determine the metrics that measure success. Establishing standards and then measuring against them on a regular basis will allow OMM to identify improvement areas, and to quantify benefits gained from improved business operations.

The IMP Subactivity funds information technology (IT) personnel, systems, hardware, software, training, shared services, security activities, maintenance, and technical support, as well as the business process re-engineering and systems integration activities of the OCS Connect project. For both energy and non-energy resources, the IMP supports DOI's End Outcome Goal to "manage or influence resource use to enhance public benefit, promote responsible use, and ensure optimal value." Within the Activity-Based Costing system, MMS generally assigns IM activities to specified DOI Common Activities, recognizing that program-specific IT systems are

developed and maintained to support mission processes. IT security costs are separately identified as program support.

### *OCS Connect*

OMM completed preparations and planning for the OCS Connect project in FY 2003. The Project Management Office (PMO), in conjunction with OMM management, identified and prioritized clusters of business processes to maximize benefits expected from this investment. OMM completed the Business Process Reengineering (BPR) of the first process cluster – “Manage and Administer the Leasing Program” in FY 2004. The OMM has completed the initial step of system integration for that process cluster, and is gathering requirements for the second and third process clusters, “Protect Environmental Resources” and “Analyze and Coordinate G&G Reviews,” respectively. During FY 2005, System Integration (SI) work will be largely completed for the first two process clusters and well underway for the third process cluster. In FY 2006, the system will be implemented for the first three clusters, with the SI work largely completed for the fourth and fifth clusters, “Manage Plan Submittals” and “Manage Permit Requests,” respectively.

Working to find better ways to ensure efficiency, the MMS has piloted a new electronic permitting and reporting system for lessees and operators to submit offshore well data. The new system, called eWell, streamlines processes, reduces data redundancy, and improves the quality, timeliness, completeness, and compliance of information exchange between MMS and industry. Well permit and reporting forms have been restructured and made accessible electronically. Internet-based forms with automated help screens aid operators in completing the forms accurately. The Bureau has ensured security of company proprietary data, and industry has been a willing partner to help improve the design of the system. Operators volunteered to test the system over many months, and through their input, many facets of the application were modified to enhance the ease of operation. The pilot system was deployed in May 2004. As of October 2004, over 150 operators have been trained and 18% of well transactions are now completed electronically. MMS analyses show the eWell permitting and reporting system could reduce processing time for the 20,000 applications each year by as much as 50 percent.

*“Involving citizens in the management of federal resources is an important part of our mission”*  
- R. M. “Johnnie” Burton, MMS Director

To improve citizen access to OCS-related information, the MMS also developed and deployed *Public Connect*. This is a public commenting system that provides secure online access to the regulatory programs of the Offshore Minerals Management program. The new system enables the public to find, view, and submit comments on MMS’s proposed regulations, lease sale notices, environmental reports, and other related documents. The *Public Connect* system automatically associates and stores submitted comments with the appropriate projects and documents, streamlining MMS ability to track and manage public input. Initially deployed to support the OMM program, *Public Connect* will be expanded in 2005 to support other MMS programs.

**FY 2006 PROGRAM PERFORMANCE**

The OCS Connect transformation employs a structured, modular approach, with priorities established by OMM management. In FY 2006, OMM will deploy the system for the first three business clusters while continuing the BPR efforts and SI work in the following areas:

- Manage Plan Submittals;
- Manage Permit Requests;
- Inspect Operations and Enforce Regulations; and
- Monitor Lessee and Operator Activity.

Under OCS Connect, business process re-engineering entails baselining through analysis and documentation of existing processes and data requirements; benchmarking by comparing OMM activities against best practices in federal, state, private and foreign organizations; and blueprinting by identifying potential policy changes and documenting optimal process flows and systems needs.

For FY 2006, OMM proposes no funding or FTE changes for this Subactivity.

**Program Performance Summary**

Note: As a transformation initiative, the OCS Connect project focuses on improvements to key processes through BPR and SI activities. Processes reviewed and improved (and hence the measures applied) through the OCS Connect effort will change from year-to-year as the focus of the project shifts through identified processes and data clusters (groups of processes with similar data requirements).

**Table 58: OMM Program Performance Summary – Information Management Subactivity**

Measures	2002 Actual	2003 Actual	2004 Estimated Baseline	2005 Plan	2006 Plan	Change 2005 to 2006	2008 Target
<b>End Outcome Goal Resource Use: Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value (Energy)</b>							
<b>End Outcome Goal Resource Use: Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value (Non-Energy)</b>							
% of Filings for Record Purposes (No Approval Required) submitted electronically	0%	0%	0%	0%	25%	+25%	75%
Lag time between time analysis is completed and the time final NEPA document is complete for site-specific, non-automated Environmental Assessments (EAs)	UNK	UNK	4.3 days	4.3 days	3.9 days	-10%	2.4 days
# of Information Requests that are required to complete analysis associated with ensuring and documenting NEPA compliance for plans and permits	UNK	UNK	~ 1,325 About 10% of the projected number of plans and permits	1,330 No changes are planned for 2005, so this reflects 10% of the projected number of plans and permits.	1,200	-10%	330
					Targets here assume a “steady state” of 13,300 plans and permits per year from 2005 to 2008.		

Measures	2002 Actual	2003 Actual	2004 Estimated Baseline	2005 Plan	2006 Plan	Change 2005 to 2006	2008 Target
Degree of compliance with paper reduction concerning GPEA, NARA, and GPRA requirements				Determine documents to be included in Electronic Document Mgt System (EDMS)	50% of relevant documents are part of the EDMS, for Cluster 1 (Manage Leasing Program) and Cluster 2 (Protect Environment Resources)	+50%	95% for Clusters 1&2  15% for Cluster 3 (G&G)  25% for Cluster 4 (Plans)  25% for Cluster 5 (Permits)
Time required to process Oil Spill Financial Responsibility (OSFR) filings	UNK	UNK	20-30 minutes	Reduce by 25% from 2004 baseline	Reduce by 50% from 2004 baseline	-25%	Reduce by 95% from 2004 baseline
Extent to which OMM offers "one-stop" for external customers to make comments			Baseline TBD  # of links on the website for external stakeholders to view documents available for comment	Decrease the number of access points required to make comments by 75% from 2004 baseline	Decrease the number of access points required to make comments by 85% from 2004 baseline	-10%	Decrease the number of access points to a single point of access (web portal)



## FY 2006 BUDGET REQUEST Oil Spill Research Appropriation

**Table 59: Overview of the Oil Spill Research Appropriation Request**

		<b>FY 2004 Actual (Enacted)</b>	<b>FY 2005 Estimate (Enacted)</b>	<b>FY 2006 Budget Request</b>	<b>Change from FY 2005</b>
<b>Oil Spill Research Appropriation</b>	<b>(\$000)</b>	<b>7,017</b>	<b>7,006</b>	<b>7,006</b>	<b>0.0%</b>
	<b>FTE</b>	<b>22</b>	<b>22</b>	<b>22</b>	<b>0.0%</b>

### PROGRAM OVERVIEW

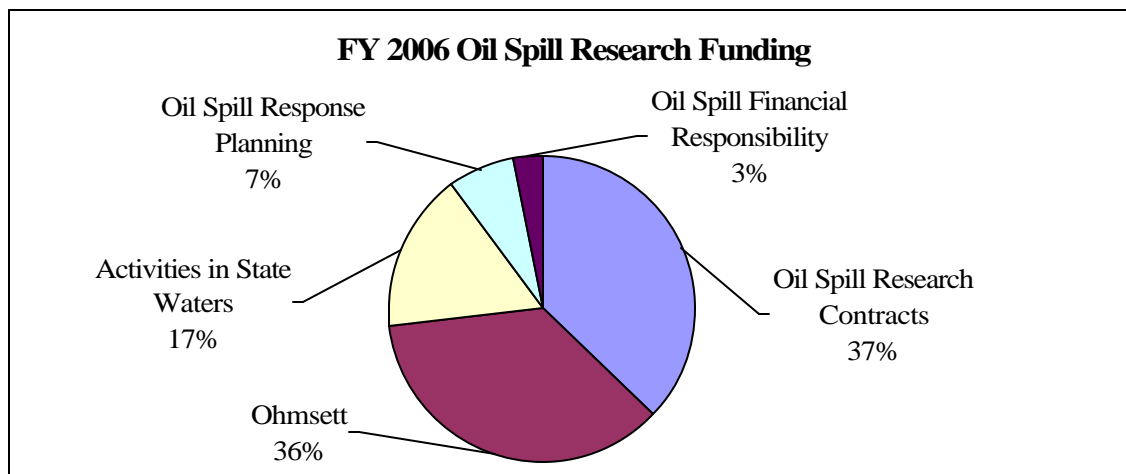
The Oil Spill Research (OSR) appropriation funds oil spill research, oil spill prevention, response planning activities, and regulation of oil spill financial responsibility, supporting DOI's End Outcome Goal to "manage or influence resource use to enhance public benefit, promote responsible use, and ensure optimal value." The program supports the DOI strategy of "enhancing responsible use management practices" by focusing on research, planning, and preparedness activities related to oil and gas exploration. The MMS's goal is to not exceed spillage of 10 barrels of oil for every million barrels produced.

MMS research supports safe and environmentally sound operations and promotes responsible use by improving capabilities to detect, contain, and clean up open ocean oil spills. During the 15-year timeframe from FY 1985 to FY 1999, there were no large platform spills or documented serious environmental impacts from spills related to OCS operations. A 2,000-barrel pipeline spill during Hurricane Andrew in 1992 was the only spill to contact shore. Shore cleanup was performed, and no lasting impacts have been identified. According to a report *Oil in the Sea* from the National Academy of Sciences, far more oil enters the ocean from natural, underwater seeps than from offshore production platforms. Over the past 20 years, less than .001 percent of the oil produced in U.S. state and Federal waters has been spilled.



**Figure 31: Offshore containment boom with oil.**

The Bureau also manages the National Oil Spill Response Test Facility (known as Ohmsett), which is a large, outdoor, above-ground concrete test tank that allows for the full-scale testing and comparative evaluation of oil spill detection, containment and cleanup systems and equipment in a controlled, simulated at-sea environment. Many of today's commercially available oil spill cleanup products have been tested at Ohmsett either as off-the-shelf equipment or as technologies still under development. In North America, a large portion of the existing performance data and information on mechanical response equipment has been obtained at Ohmsett. The Ohmsett facility plays a critical role in developing the most effective response technologies as well as preparing responders with the most realistic training available. Ohmsett is the premier training site for oil spill personnel. Government agencies including the U.S. Coast Guard and U.S. Navy as well as private industry use Ohmsett to train their emergency response personnel with oil in varying wave conditions, using their own cleanup equipment. Ohmsett is the only facility in North America where you can test and train with oil.



**Figure 32: FY 2006 Oil Spill Research Funding**

Funding for the Oil Spill Response Research (OSRR) program and operation of Ohmsett – The National Oil Spill Response Test Facility is appropriated from the Oil Spill Liability Trust Fund (OSLTF). The OSLTF is funded from four primary sources:

- an oil tax (five cents a barrel on domestically produced or imported oil collected from the oil industry; this is suspended when the fund reaches \$1 billion but may be reinstated if the fund falls below this amount);
- interest on fund principal;
- cost recovery from responsible parties (the parties responsible for oil spills are liable for costs and damages – all monies recovered go either back to replenish the fund or to the U.S. Treasury); and
- penalties (to include civil penalties assessed to the responsible parties). As intended by the Oil Pollution Act of 1990, the companies that produce and transport oil are supporting research to improve oil spill response capabilities.

### ***Oil Spill Response Research***

The MMS is the principal federal agency funding offshore oil spill response research. The OSRR program supports research to improve the capabilities for detecting and responding to an oil spill in the marine environment. Information derived from the OSRR program is directly integrated into MMS's offshore operations and is used in making regulatory decisions pertaining to permit and plan approvals, safety and pollution inspections, enforcement actions, and training requirements. The OSRR projects cover a wide spectrum of oil spill response issues, such as remote sensing and detection, mechanical containment and recovery, physical and chemical properties of crude oil, chemical treating and dispersants, in situ burning, and deepwater operations. This program has expanded capabilities to respond to an oil spill in the marine environment.

Conducting an effective spill response research program means that the best available response technologies are identified, developed, and made available to combat spills, if and when they occur. Response technologies identified by the OSRR program focus on preventing spills from offshore operations reaching more sensitive coastal environments. The program is cooperative in nature, bringing together funding and expertise from research partners in government agencies, the oil industry, and the international community through cooperative research arrangements and participation in concurrent research and development projects. Many of these projects are Joint Industry Projects, where MMS partners with other stakeholders to maximize research dollars.

The OSRR program currently focuses on:

- testing and evaluating the technologies required to respond to oil spills in the ice-infested waters of the Alaskan Beaufort Sea;
- evaluating the technologies required to respond to open water spills from deepwater operations offshore California and in the Gulf of Mexico;
- conducting a comprehensive assessment of the operational and environmental factors associated with the use of chemical dispersants to treat oil spills from MMS regulated facilities and pipelines;
- increasing the knowledge base of the physical and chemical properties of crude oil and how these properties change during a spill; and
- improving the ability to burn oil slicks on the water's surface (in situ burning).

*Mitigation of Pollution Associated with Pipelines.* Pipelines are the source of about 97 percent of oil-spill volume associated with OCS oil and gas operations. The MMS is actively pursuing research to ascertain the integrity of the 33,000 miles of oil and gas pipelines on the OCS, and the additional 10,000 miles of pipelines that exist in State waters. A risk analysis and management database has been devised to provide valid assessments of the conditions of aging pipeline systems as well as the probabilities and consequences of leaks. MMS pipeline research is intended to improve leak detection capabilities, improve internal and external inspection practices, improve shutdown systems, and develop a better understanding of the environmental forces active on pipelines. The Bureau is also working with the states to map pipelines in state waters and incorporate them into the Federal database.

Of the 33,000 miles of pipelines in Federal waters of the GOM, approximately 10,000 miles of pipelines were in the direct path of Hurricane Ivan (September 2004). The oil and gas industry has submitted numerous damage reports MMS on pipeline systems that transport oil and gas ashore from offshore facilities. A substantial amount of oil and gas production that was shut-in was because of damage to pipelines. The Bureau will be conducting research on this damage and the change to the mudslide area that resulted.

*Environmental Fates and Effects Projects.* The MMS continues to refine understanding of ocean currents in each of the OCS areas where production takes place. In addition to collection of field observations, data analysis and modeling enhancement studies provide important inputs for estimating the transport and fate of spilled oil. The Bureau continues collaborative efforts with the National Oceanic and Atmospheric Administration Hazardous Materials Response Division on various oil spill related initiatives. The results of these efforts have been used to improve oil spill trajectory analysis and modeling for use in spill contingency planning.

### ***Oil Spill Response and Planning***

The MMS is responsible for planning, preparedness and response-related activities related to oil and gas exploration, development, and production seaward of the coastline. The authority of MMS to administer and oversee requirements for spill planning and preparedness is derived from the Outer Continental Shelf Lands Act, the Oil Pollution Act, the Federal Water Pollution Control Act, and Executive Order 12777.

In response to requirements established by law, MMS published 30 CFR Part 254 – Response Plans for Facilities Located Seaward of the Coastline. The regulation, which was effective June 23, 1997, established requirements for the preparation of Oil Spill Response Plans that would provide information on how an Operator would respond to an oil spill. The regulation also outlined training requirements, alternative response techniques, sensitive resource identification, identification of pre-trained spill management team members, locations of pre-designated incident command posts, and other key elements.

*Under Federal law, all offshore operators are required to have oil spill response plans. Unannounced drills to test these plans are conducted. The MMS also requires companies to show adequate financial responsibility to pay for damages if they occur from a spill.*

For oil spill preparedness and response, MMS's jurisdiction extends seaward of the coastline out 200 miles, covering almost two billion acres in Alaska, the Pacific, the Gulf of Mexico, and along the Atlantic Seaboard. The MMS also has authority over oil spill response planning in State offshore waters, which start at the recognized shoreline of the State, extending to the OCS boundary. In this capacity, MMS reviews and approves Oil Spill Response Plans for oil and gas facilities in State offshore waters, often collaborating with the State response agencies in plan approval.

The MMS has a Memorandum of Understanding (MOU) with the U.S. Coast Guard that includes items on oil spill preparedness and response. The MOU, which was effective December 16,

1998, addresses oil spill financial responsibility, oil spill preparedness and response planning, response inspection requirements, and unannounced drills. Issues associated with authority for the shutting in of offshore facilities and for returning facilities to production status are also addressed, with MMS retaining authority over all actions that would warrant cessation of production pending determination of a spill's source. The decision to return wells to production also remains with the MMS. In cases of imminent hazard, however, the Federal On-Scene Coordinator is empowered to order facilities to shut-in.

Existing mandated oil spill preparedness and response activities will continue throughout the coming fiscal year, including unannounced drills, equipment inspections, review of Oil Spill Response Plans, attendance at tabletop exercises, and providing support to the Federal On-Scene Coordinator during spill events. The major focus of activity during the fiscal year, however, will shift toward implementation of the DOI Emergency Preparedness & Response Strategy – Oil Discharges & Hazardous Substance Releases. The strategy, which was approved by the Director of MMS on August 8, 2002, and which is part of an overall agency initiative, requires that MMS take actions to ensure that policies and programs designed to improve oil spill preparedness and response are prepared, adopted, implemented, and consistent with the National Response System. Compliance with the 16 directives of the Strategy, which range from increased participation in National, Regional, and Area Contingency Planning and Federal On-Scene Coordinator Support to creation of communications protocols, will require active participation of staff at the District, Regional, and Headquarters levels. Through a phased approach, several activities will be assimilated by existing staff, while others, such as training and travel expenses, will require additional dedicated funding in order to increase the level of commitment that is required by the DOI Strategy.

Under Homeland Security Presidential Directive 5, the Secretary of the Department of Homeland Security has been directed to develop a new all-hazard National Response Plan. As envisioned, the plan will “harmonize the operational processes, procedures, and protocols detailed in such documents as the Federal Response Plan, U.S. Government Interagency Domestic Terrorism Concept of Operations Plan, Federal Radiological Emergency Response Plan, Mass Migration Emergency Plan, and National Oil and Hazardous Substances Pollution Contingency Plan” and will be supplemented by a National Incident Management System. Upon adoption, MMS will be required to review existing emergency procedures and response programs to determine the impacts of the new NRP and make changes to programs as required. Additional requirements fostered by adoption of the Incident Command System as the nationally mandated emergency response method will require training of MMS staff to ensure adequate knowledge of the system and proper integration into the ICS structure during spill events or other emergencies on the OCS.

### ***Ohmsett Facility***

Ohmsett is located in Leonardo, New Jersey. The facility provides testing and research capabilities to help the government fulfill its regulatory requirements and meet its goal of clean and safe operations. This unique facility is capable of replicating various conditions at sea. Ohmsett features a fully computerized data collection system, above and below waterline video capability, and complete oil storage and handling system. Ohmsett is the only facility in the

United States where full-scale equipment can be easily tested, without going out into the ocean. Through testing, valuable performance data on equipment are provided to manufacturers and suppliers to develop new, or to improve existing equipment. Industry personnel can be trained in the use of their equipment in a safe, controlled environment (as compared to the open sea). More than 95 percent of all performance data on offshore oil spill response equipment has been gathered at Ohmsett. Performance data can be used by response planners in reviewing and approving facility contingency plans.



**Figure 33: Ohmsett facility in New Jersey.**

With offshore oil and gas operations moving into deeper waters, there are many questions about dealing with an oil spill or blowout in deep water. The best place to test new equipment and ideas on cleaning up oil in deep water is at Ohmsett, where tests can be conducted in a safe environment and can be repeated until product results are achieved. Additionally, testing at Ohmsett is much less expensive than open ocean testing. In many MMS-funded studies, Ohmsett is used to demonstrate successful completion of a current set of tasks before funding is approved for additional tasks.

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

To respond to the challenges of testing and evaluating the equipment required to respond to oil spills in ice infested waters, the Ohmsett facility has been upgraded to offer cold water testing (with or without ice) and training. These upgrades will enable the Ohmsett facility to remain open year round for testing and training. Planned testing activities in FY 2006 include evaluation of airborne remote sensing instrumentation, dispersant effectiveness experiments conducted on heavy OCS crude oils and on realistic emulsions and weathered crude oils, dispersant research in calm seas and in low sea states, evaluation of skimmers for collecting spilled oil, evaluation of polymeric materials to improve skimmer performance, and the evaluation of oil herding surfactants to thicken spilled oil in broken ice.

A base program increase of \$1.0 million was provided in FY 2004 to begin a four-year, \$4.0 million phased replacement of equipment at Ohmsett, and to provide needed funding for increased operational expenses at the facility. In FY 2005 the original, 30-year old electrical control system and twin, 100 HP electric drive motors that are used to tow a movable bridge the length of the tank will be replaced. The mechanical components of the tow cable system that are actually connected to the bridge will also be repaired or replaced. This movable bridge is the attachment point for equipment being tested at Ohmsett. A 50-ton hydraulic crane with an

extendable boom will be purchased and installed on the main bridge for equipment deployment and retrieval in the tank.

In FY 2006 funds will be used to repair, resurface, and repaint the tank; resurface and repaint exposed metal work, design and construct a new containment area, replace and upgrade the storage tank piping and repair/replace the generator motor/drive system for the wave generator.

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

The MMS implements the financial responsibility provisions of OCSLA and OPA, which require companies responsible for certain offshore oil and gas facilities, in both Federal and State waters, to demonstrate their ability to pay the costs of facility oil spill discharge removal and damages. Several methods may be used to demonstrate oil spill financial responsibility (OSFR), including insurance, bonds, self-insurance, and guarantees. The MMS has published a final rule to implement the 1996 amendments to OPA (30 CFR Part 253). Under this rule, the amount of OSFR needed is based on facility location and the volume of the potential worst-case oil spill discharge that could occur. The OSFR amount required ranges from \$10 million in state waters to \$150 million for certain facilities in Federal waters.

Extensive coordination and exchange of lease data with affected states will require a concentrated effort. Procedures still must be addressed with each state concerning such topics as approvals of operator changes, enforcement for non-compliance, and determination of worst-case spill potential by operator.

### ***Activities in State Waters***

The Oil Pollution Act expanded MMS responsibility and authority for oil spill prevention and response for both platforms and pipelines in Federal and state coastal waters. The MMS has executed MOU with the States of Texas, Louisiana, California, and Alaska to allow a single response plan to satisfy state and Federal requirements, to ensure compatible regulations, to conduct joint investigations, drills, and inspections, and to assist in the training of state personnel. MMS resources are dedicated to:

- Reviewing oil spill response plans submitted by more than 160 companies;
- Conducting annual unannounced oil spill response drills (30 CFR 254.42(g));
- Performing annual inspections of oil spill response equipment (30 CFR 254.43 (a) & (b));
- Providing staff assistance to train more than 500 oil spill responders annually for contractors, the Texas General Land Office, the Louisiana Oil Spill Coordinator's Office and other Federal, state, and local agencies; and
- Participating on four Regional Response Teams in the Alaska, Gulf of Mexico and Pacific Regions as part of the National Response Team's National Contingency Plan. The National Response Team includes representatives from 16 Federal agencies and is chaired by the EPA and the USCG.

The latest annual oil spill rate from offshore operations is only 4 barrels of oil spilled per million barrels produced. Of the 588 million barrels of oil produced, oil spillage was estimated to total

only 2,434 barrels. Of this, about 60 percent was attributed to Hurricane Lili. Even during Hurricane Lili, there were only three incidents of oil spill volumes of 50 barrels or greater.

**FY 2006 PROGRAM PERFORMANCE**

The MMS intends to continue its global leadership on environmentally responsible offshore operations, balancing the production of offshore energy with the protection of human, marine, and coastal environments. For FY 2006, MMS proposes no funding or FTE change initiatives for this Subactivity.

**Table 60: OMM Program Performance Summary – Oil Spill Research Appropriation**

Measures	2002 Actual	2003 Actual	2004 Actual	2005 Plan	2006 Plan	Change 2005 to 2006	2008 Target
<b>End Outcome Goal Resource Use: Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value (Energy)</b>							
<b>Strategy 2: Enhance Responsible Use Management Practices</b>							
Achieve an oil spill rate for offshore development of no more than .00001 barrels spilled per barrel produced (SP)	0.00000058	0.00000040	TBD	.0000100	.0000100	Maintain	.0000100
* MMS is unable to provide FY 2004 Oil Spill data for this measure, because of ongoing investigations into damage from Hurricane Ivan.							



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## FY 2006 BUDGET REQUEST

### Minerals Revenue Management

**Table 61: Overview of the Minerals Revenue Management Budget Request**

		<b>FY 2004 Actual (Enacted)</b>	<b>FY 2005 Estimate (Enacted)</b>	<b>FY 2006 Budget Changes*</b>	<b>FY 2006 Budget Request</b>	<b>Change from FY 2005</b>
<b>Minerals Revenue Management</b>	<b>(\$000)</b>	<b>79,732</b>	<b>75,417</b>	<b>+11,912</b>	<b>87,329</b>	<b>+15.8%</b>
	<b>FTE</b>	<b>558</b>	<b>560</b>	<b>0</b>	<b>560</b>	<b>0.0%</b>
Compliance & Asset Management	(\$000)	45,857	41,550	+10,353	51,903	+24.9%
	FTE	377	379	0	379	0.0%
Revenue and Operations	(\$000)	33,875	33,867	+1,559	35,426	+4.6%
	FTE	181	181	0	181	0.0%

*\* Note: The FY 2006 Budget Changes include the movement of \$5.8 million in funding for the Royalty-In-Kind (RIK) program from revenue receipts to ROMM Appropriations and \$4 million in funding for the conversion of the Strategic Petroleum Reserve (SPR) program into the RIK program.*

### PROGRAM OVERVIEW

Every American benefits from mineral resource development on Federal lands, whether it is from the energy and minerals produced from the lands, the revenues generated from the associated natural resources, or the various funds that benefit from those revenues. Through its Minerals Revenue Management program (MRM), MMS collects, accounts for, substantiates the accuracy of, and disburses revenues associated with mineral production from leased Federal and Indian lands.

Revenues collected by MMS are one of the largest sources of non-tax revenue to the Federal Government. In FY 2004, MMS disbursed more than \$8 billion in mineral revenues to states, the Office of the Special Trustee for American Indians (OST) for distribution to Indian tribes and individual owners, other Federal agencies, and U.S. Treasury accounts. In addition, in FY 2004 MMS delivered 38.5 million barrels of in-kind oil to the Department of Energy (DOE) for the Strategic Petroleum Reserve (SPR), valued at an estimated \$1.2 billion.

#### *Core Business Processes*

The MMS is a leader in securing economic value for America by managing the revenues associated with natural resources generated on Federal and Indian lands. Through its Core Business Processes, Compliance and Asset Management, and Financial Management, MRM ensures optimal value for America's mineral resources, benefiting the American people, including states, tribes, and individual Indian mineral owners. The MMS is committed to serving the Nation in the best, most efficient manner possible throughout all of its business activities.

- *Compliance and Asset Management:* The MRM Compliance and Asset Management (CAM) business process ensures that the Nation's Federal and Indian mineral revenues,

whether received through in-kind or in-value royalties, are accurately reported and paid in compliance with laws, regulations, and lease terms. Integral to this process is the asset analysis decision to take royalties-in-kind (RIK) or in-value (RIV), and when RIK is selected, marketing the energy commodity in competitive sales.

- *Revenue and Operations:* The Financial Management business process is funded within MRM's Revenue and Operations Subactivity. The Financial Management process achieves optimal value by ensuring that all revenues, whether derived in-value or in-kind, from Federal and Indian leases are efficiently, effectively, and accurately collected, accounted for, verified, and timely disbursed to recipients.

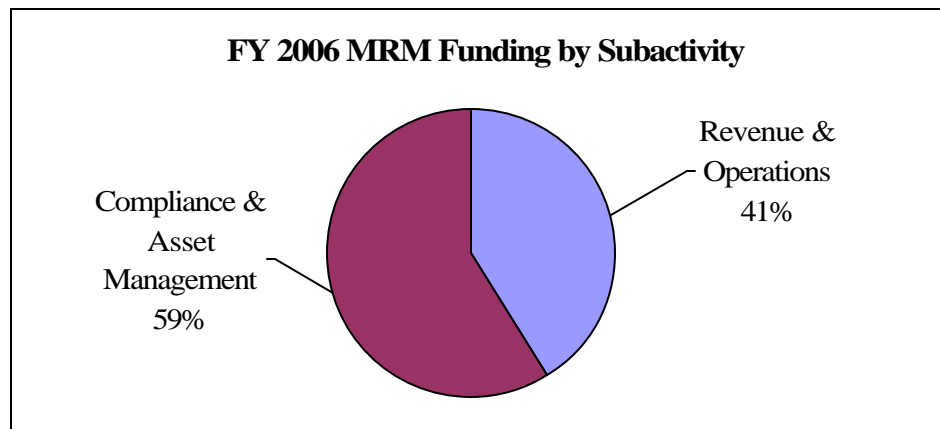


Figure 34: FY 2006 MRM Funding by Subactivity

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## STRATEGIC PLANNING

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In 2004, MRM published action plans focused on two critical components of MRM's operational strategy. During FY 2005, MMS began implementing the Five Year RIK Business Plan for FY 2005-2009 outlining business principles, objectives, and specific action items that will guide and evolve the Federal RIK program operational activities. The Audit Quality Improvement Action Plan is a comprehensive plan to improve MRM's compliance and audit activities and related internal controls. The MMS has implemented 29 of the 39 actions and plans to complete the remaining actions during FY 2005.

The MRM is currently developing a comprehensive enterprise-wide 5-year MRM Strategic Business Plan for 2007-2011, encompassing its Financial, Compliance, and RIK business activities and supported by outcome-based performance goals. Once final, the 5-Year MRM Strategic Business Plan for FY 2007-2011 will ensure that MRM meets future challenges through strategic planning that emphasizes continuous improvement with high integrity and strong internal controls. The Plan will link to both the DOI Strategic Plan and the MMS Operating Plan.

An enterprise-wide MRM Risk Management Initiative, performed during FY 2005, will provide MMS managers with valuable information to make effective and sound business decisions, and will provide guidance for MRM's future strategic direction.

All MRM managers and employees will be engaged in the risk-management and strategic-planning processes. Enterprise-wide strategies, goals, and guidelines will be in place by September 30, 2005. During FY 2006, MRM program offices will develop supporting tactical business plans and establish new performance measurements with accompanying targets and baseline data. When completed, the 5-Year MRM Strategic Business Plan will consider and provide direction related to MRM business processes, risk management, human resources, information technology, regulations, competitive sourcing, succession planning, partnerships, budget, and communications.

### ***Integrating Budget and Performance***

In support of the President's Management Agenda, MRM continues to improve on integrating budget and performance data and is collecting, reviewing, and analyzing Activity-Based Cost (ABC) data to examine how MRM activities consume resources and produce outputs.

#### **MMS: Mission Accomplished Through Dedication and Partnership**



*Three MMS staff members discuss issues related to the successful joint RIK oil program involving Wyoming lease production. This true partnership between the State of Wyoming and MMS involves selling royalty production from both State and Federal leases in the same sales events. Performance measurements consistently indicate that revenue*

*receipts from this program are some 1 to 3 percent greater than those that would have been received from a corresponding royalty-in-value program.*

### ***Program Assessment Rating Tool (PART)***

In 2003, MMS completed a PART for the complete Minerals Revenue Management program. The PART demonstrated that MRM had a clear purpose but lacked in areas of strategic planning and outcome measures to guide the future management and improvement of the program. During FY 2004, in response to the recommendations made during the PART evaluation, MRM has:

- Developed new performance metrics to measure a) the amount of RIK revenues received in excess of estimates of what a comparable royalty-in-value program would yield, based on fair market value benchmarks, and b) compliance as a ratio of actual payments compared to expected payments.
- Developed baseline data and targets for the new measures.
- Implemented all of the Inspector General's 2003 recommendations, including completion of an external quality control peer review on MRM audit activities.
- Prepared a comprehensive Audit Quality Improvement Action Plan and implemented 29 of the 39 actions, with the remaining actions to be completed during FY 2005.

Additionally, in keeping with MRM's focus on continuous improvement, MRM has begun to develop an enterprise-wide MRM Strategic Plan for FY 2006-2010, which will incorporate outcome-based performance goals and targets focused on meeting future challenges.

The MMS is entrusted with an important fiduciary role by and for all Americans. The MMS efficiently and effectively utilizes its budgetary and human resources to collect, account for, and disburse revenues associated with mineral production from leased Federal and Indian lands. Through the continuation of MRM's base programs and implementation of the FY 2006 initiatives, MMS will ensure the effective management of the Federal oil and gas royalty asset stream, optimize returns for the taxpayer, and at the same time, increase efficiencies and reduce administrative costs.

### ***Focus for FY 2006***

Since MMS's formation in 1982, the energy industry has undergone significant changes. Over the years, MMS has successfully adapted to industry changes and become more operationally efficient. In 2004, MMS released the Five Year RIK Business Plan for FY 2005-2009, which is designed to develop and deploy full business capabilities to actively manage the Federal oil and gas royalty asset stream in a manner which optimizes returns for the taxpayer, while at the same time, reducing administrative costs of this management activity. In FY 2006, MMS will continue to develop the strategies and business capabilities in the Five-Year Plan. Along with the RIK Business Plan, MMS has targeted a cumulative RIK incremental net revenue enhancement of \$50 million over 5 years, based on oil and gas volume projections for the 5-year period and on historic RIK margins.

*"The new MMS Five Year Royalty in Kind Business Plan provides the blueprint to successfully increase revenues and decrease administrative costs associated with managing our oil and gas royalty assets. We are applying proven private sector business practices to improve government efficiencies and effectiveness".*

- Interior Secretary, Gale Norton

The MMS places high emphasis on fulfilling its Indian Trust responsibilities. The MMS annually expends more than 20 percent of its resources toward managing revenues from Indian lands, while Indian revenues only account for about 3 percent of the total mineral revenues. In FY 2006, MMS's continuing objective is to provide the highest possible Indian trust service relative to its role in collecting and disbursing royalties from Indian lands to 41 tribes and to an estimated 30,000 individual Indian mineral owners (IIMOs).

In addition to the continuation of MRM's core business processes, Compliance and Asset Management and Financial Management activities, MMS's FY 2006 budget contains three key initiatives for the MRM program.

**Cooperative Audit Agreement with the Hopi Tribe (\$130,000):** The MMS will fund a new cooperative agreement with the Hopi Tribe to perform their own audits. Currently, Ms. Lillian Dennis is representing the Hopi Tribe as its first member to participate in the Intergovernmental Personnel Act (IPA) Fellowship Program. Ms. Dennis is determined to finish the program and upon her completion, the Hopi Tribe intends to begin a cooperative audit agreement in FY 2006. Since its inception, the transition from Indian IPA program to tribal cooperative audit agreement has been an effective method of providing opportunities for Indian self-determination.

**Provide increased Tribal Cooperative Audit Program Oversight (\$500,000, 5 FTE):** To comply with the implications of recent judicial decision in relation to the Department's Indian Trust responsibility (*Shoshone and Arapahoe Indian Tribes of the Wind River Reservation v. the United States*), MMS proposed funding to provide the required additional oversight, which is above the more than 20 percent of MRM resources already expended toward fulfilling Indian Trust responsibilities.

**Records Management Improvement Project (\$1,200,000):** To support the Department's IT strategic goal of implementing electronic records management by FY 2008, MMS is requesting funding to begin planning and introduction of state-of-the-art technology and automated tools to address electronic records preservation and accessioning requirements. This effort will be coordinated closely with OST and Trust Architecture activities to allow MMS to fully integrate with a future DOI records system. Currently, MRM does not have an electronic recordkeeping system.

**FY 2006 BUDGET REQUEST**  
 Minerals Revenue Management  
*Compliance and Asset Management Subactivity*

**Table 62: Overview of the Compliance & Asset Management Budget Request**

		<b>FY 2004 Actual (Enacted)</b>	<b>FY 2005 Estimate (Enacted)</b>	<b>FY 2006 Budget Request</b>	<b>Change from FY 2005</b>
<b>Compliance &amp; Asset Management Subactivity</b>	<b>(\$000) FTE</b>	<b>45,857 377</b>	<b>41,550 379</b>	<b>51,903 379</b>	<b>+10,353 0</b>
<i>Indian Compliance Assurance</i>	(\$000) FTE	-- --	-- --	630 5	+630 +5
<i>Closure of Jefferson, LA, Audit Office</i>	(\$000) FTE	400 5	400 5	0 0	-400 -5
<i>Safeguarding Indian Records Funding</i>	(\$000) FTE	-- --	500 0	0 0	-500 0
<i>CAM Program Funding*</i>	(\$000)	--	--	5,800	+5,800
<i>SPR to RIK Transition</i>	(\$000)	--	--	4,000	+4,000
<i>Uncontrollables</i>	(\$000)	--	--	823	+823
* Note: This program change represents the movement of \$5.8 million in funding for the Royalty-In-Kind (RIK) program from revenue receipts to ROMM Appropriations.					

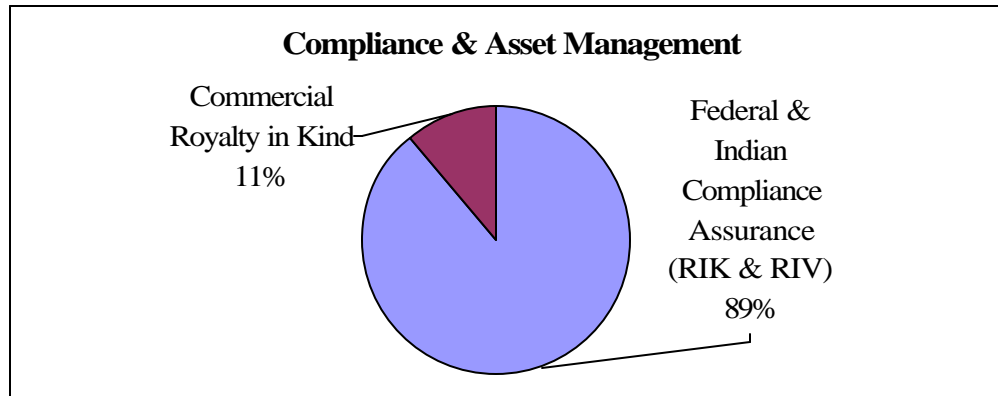
**PROGRAM OVERVIEW**

The Compliance and Asset Management (CAM) Subactivity includes two major components providing significant benefits to the public:

- *Federal and Indian Compliance Assurance* – The MMS compliance assurance activities represent a large and critical part of the operational strategy, ensuring that the Government is realizing fair market value, and that companies are in compliance with applicable laws, regulations, and lease terms.
- *Royalty in Kind (RIK)* – If there is economic advantage to the Government, because of increased revenues, greater administrative efficiency, or security needs of the Nation, MMS will collect royalties in kind. This has included selling the product in the marketplace and disbursing resulting revenues as prescribed by law, or transferring resources to fill the Nation’s Strategic Petroleum Reserve (SPR).

Through the Compliance and Asset Management (CAM) process, MMS’s people and processes within the CAM Subactivity support DOI’s End Outcome Goals to “manage or influence resource use to enhance public benefit, promote responsible use, and ensure optimal value” and to “fulfill Indian trust responsibilities.” The MMS’s strategic goals focus on the agency’s ability to ensure that the Nation receives optimal value for its mineral resources.

The CAM process ensures that the Nation’s Federal and Indian mineral revenues, whether received through in-kind or in-value royalties, are accurately reported and paid in compliance with laws, regulations, and lease terms. Integral to this process is the asset analysis decision to take royalties-in-kind or in-value.



**Figure 35: Compliance and Asset Management Funding**

The MMS promotes realization of optimal value through the asset analysis process. Key to this process is the capability to understand the production and marketing environment so that MMS can make asset management decisions regarding whether to collect the Government's royalty share in kind or in value. If there is an economic advantage to the Government, because of increased revenues, greater administrative efficiency, or security needs of the Nation, MMS will collect royalties in-kind. The MMS administers in-kind royalties so that the resources received are managed in a manner that best benefits the Nation, which previously has included transferring resources to the Department of Energy to fill the SPR or selling the product in the marketplace and then disbursing revenues as prescribed by law.

The MMS serves American Indian tribes and individual Indian mineral owners (IIMO) by ensuring that they receive accurate returns for mineral production on their land. While working to protect American Indian mineral interests, MMS also emphasizes American Indian empowerment.

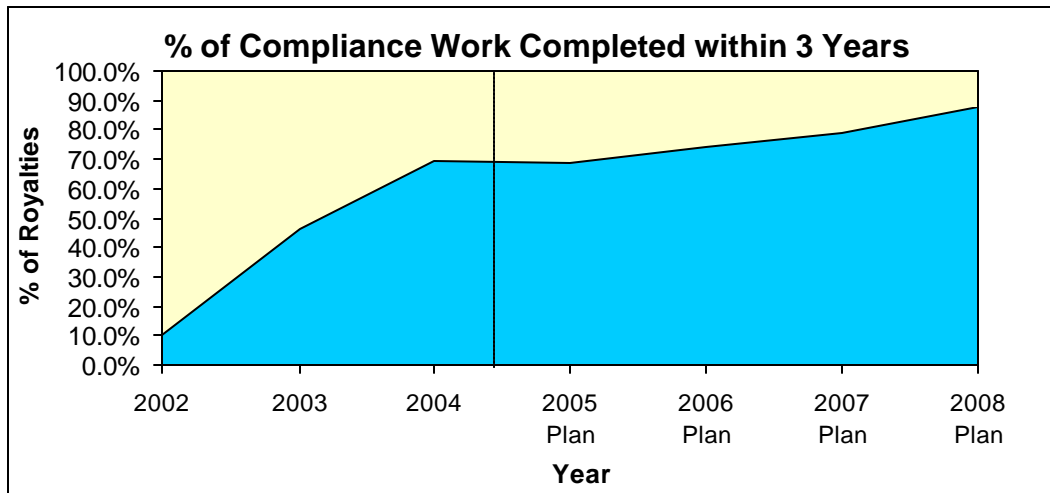
Within the Activity-Based Costing (ABC) system, MMS tracks the number of properties reviewed for compliance, the number of Indian entities served as key outputs, and the volumes of RIK oil and gas sold and/or delivered to DOE for the SPR, and. As MMS gains more experience with ABC, it will provide the ability to assign the full cost of CAM activities, as well as proportional shares of program support and general administrative costs. The MMS began capturing ABC data in FY 2003 to assess the administrative cost impacts of RIK decisions. As noted in the FY 2004 report by the Government Accountability Office (GAO), initial ABC data demonstrates auditing efficiencies in receiving royalties in kind versus in value.

## **COMPLIANCE ASSURANCE**

The MMS compliance assurance activities represent a large and critical part of MMS's operational strategy. Compliance assurance is performed on all royalties due, whether received as royalty-in-value (RIV) or royalty-in-kind (RIK). The MMS's goal is to ensure that the Government is realizing fair market value and that companies are in compliance with applicable laws, regulations, and lease terms. The MMS has established a 3-year compliance cycle focusing on the largest producing properties (both RIK and RIV) with a more detailed strategy for Indian leases.



Historically, MMS targeted to complete compliance work within six years. In 1999, as part of reengineering, MMS began shortening the compliance process by transferring 10.5 percent of all royalties into the shortened 3-year compliance cycle, completing that first 3-year cycle during FY 2002. The MMS has continued to increase royalty coverage within the 3-year compliance cycle, and in FY 2008, MMS plans to complete compliance work within three years for 88 percent of 2005 royalties.



**Figure 36: Percent of Compliance Work Completed within 3 Years**

**Compliance Assurance  
RIK Impact on ABC Costs and Performance**

Performance data show that, as RIK volumes have increased, MMS has been able to ensure higher levels of compliance coverage without increasing onboard staff. This is because RIK properties enable MMS to ensure compliance within much shorter timeframes – 180 days for RIK versus 3 years for RIV – providing greater simplicity and accuracy and earlier certainty for lessees and the Federal Government on selected RIK properties.

As noted in GAO’s 2003 report, this increased certainty has also demonstrated that RIK royalty auditing costs are substantially less than cash (RIV) auditing costs. The MMS has established a team to document the process of using ABC costs to determine and compare RIK versus RIV costs.

Therefore, as MMS has increased offshore RIK volumes, MMS has reduced staff required for offshore RIV compliance assurance, while still achieving 3-year compliance targets. The MMS has redirected the offshore RIV resources within MRM in order to provide more audits of cash payments from Indian leases, providing the potential of higher revenue collections for Indians if the additional audits and compliance reviews identify underpayments.

**FY 2000–2004 CAM – Base Analysis  
Staff Resource Redeployment**

*MMS has redeployed CAM staff, aligned with strategic direction and performance goals, to optimize use of available resources.*

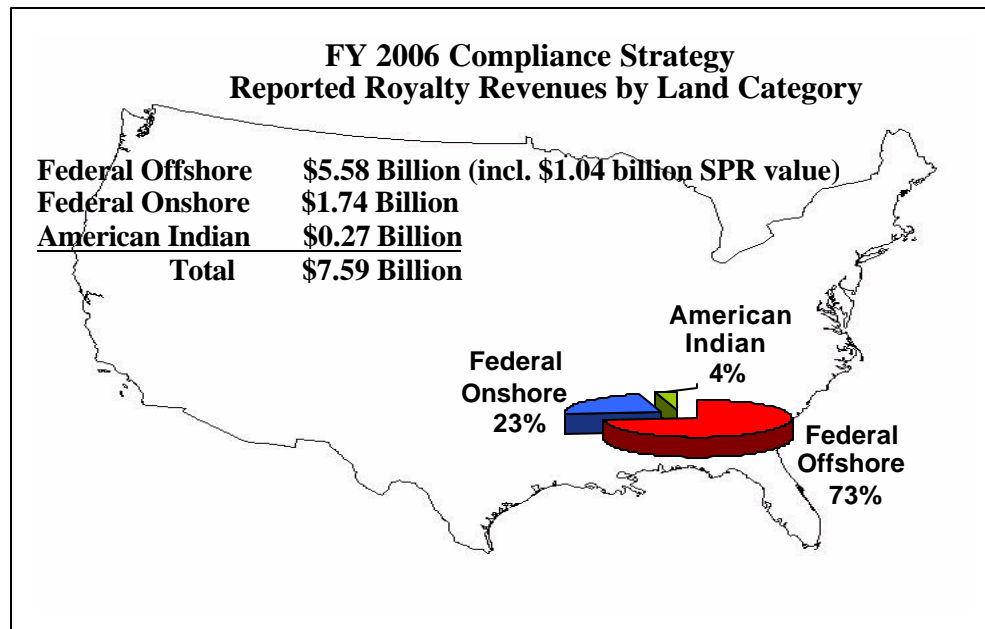
**- 41 FTE** *MMS has reduced Federal in value (RIV) compliance staff levels by 41 FTE, since FY 2000, largely due to audit efficiencies gained through RIK and compliance reengineering.*

**+ 29 FTE** *Since FY 2000, MMS has increased staff levels focused on RIK activities by 29 FTE and has retrained some employees as oil and gas marketers.*

**+ 12 FTE** *Since FY 2002, MMS has focused 12 additional staff FTE resources on Indian compliance and audit activities to provide increased oversight to Indian leases.*

### ***FY 2006 Compliance Strategy***

In FY 2006, MMS plans to complete compliance work within 3 years for 74 percent of the entire 2003 royalty universe, as measured by royalty value. To achieve this, MMS has identified 3-year compliance strategy properties – both RIV for compliance within 3-years of the royalty payments and RIK (180 days as stated above) – including leases producing oil, gas, coal, other solid minerals, and geothermal products. During the compliance planning process, MRM analyzed the royalty universe in order to determine the most effective use of CAM resources.



**Figure 37: Reported Royalty Revenues by Land Category**

The analysis showed that, of the total \$7.59 billion 2003 royalty universe:

- \$5.58 billion, or 73 percent of all reported royalty revenues, were received from Federal offshore leases;
- \$1.74 billion, or 23 percent of all reported royalty revenues, were received from Federal onshore leases; and
- \$271 million, or 4 percent of all reported royalty revenues, were received from American Indian leases.

#### ***Compliance Assurance Accomplishments***

*In 2004, MMS developed an Audit Quality Improvement Plan. Of the 39 Action Items, 29 are completed and 10 are ongoing through May 2005.*

*The new automated Compliance Information System (CIM) was implemented in FY 2004, to track audit and compliance cases and collections.*

*The MMS implemented its revised Audit Manual, effective January 1, 2005, to reflect the revised Generally Accepted Government Auditing Standards issued in June 2003.*

Using this information, MMS developed separate 3-year compliance strategies for onshore and offshore royalties, in order to meet targeted performance levels while ensuring the most efficient use of CAM resources. The FY 2006 compliance strategy properties include 60 percent of all 2003 onshore Federal and Indian royalties and 85 percent of all 2003 offshore royalties.

To complete compliance work for all RIV and RIK properties in the 3-year compliance strategy, MMS performs a Compliance Review and/or an Audit. The MRM compliance reviews are designed to determine if the royalties received are in reasonable compliance with the laws, lease terms and regulations. Compliance has developed two different processes for review of royalties. For royalties paid in-value, reviews apply a series of tests to the volume, royalty rate, value, and allowances to determine if the royalty payment is reasonable on a property basis. For royalties received in-kind, MMS applies a series of tests designed to assure that it has received the proper royalty volume for the contract and that any transportation charges taken by the producer are reasonable. For these reviews, MMS develops underpayment issues at the property or contract level, aggregates issues from several properties or contracts, and then presents findings to companies. The MMS creates efficiencies by working multiple months, resolving issues across properties, and gaining extensive property-based knowledge over time.

Audits are performed by MMS, states, and tribes on selected RIV strategy properties. Audits are not generally required for RIK properties, due to certainty provided by contract. Audits are performed on specifically targeted companies or properties, many times resulting from a compliance review. The MMS also randomly selects companies targeted for audit. Audits can also include gas plants, transportation systems, and issue-based audits. All audits are performed in accordance with the Generally Accepted Government Auditing Standards.

In addition, MMS provides additional compliance assurance for 100 percent of Indian gas leases within 3 years. For these Indian properties, MMS ensures compliance with Indian-specific “major portion” lease terms, requiring payment of the highest price paid or offered at the time of production for the major portion of oil or gas production from the same field. On August 10, 1999, MMS published a final rule changing gas valuation regulations for Indian leases, effective January 2000. One of the changes involved the use of published index prices for valuing gas produced from many American Indian leases. For leases in these index areas, MRM ensures that companies pay royalties based upon the proper index prices.

The MMS compliance activities have yielded significant additional revenues to states, tribes, IIMOs, and the Federal Treasury. Between 1982 and 2002, MMS’s additional collections of royalties and interest, attributable to its compliance activities, totaled over \$2.5 billion. To date, MMS has successfully transitioned 69 percent of its entire royalty universe into the 3-year compliance cycle, providing capability to ensure fair value more quickly to the American public.

### ***Delegated and Cooperative Audit Agreements with States and Tribes***

The MMS has agreements with eleven states and eight tribes. The newest delegated agreement was established in 2004 between MMS and the State of Alaska. In FY 2005, MMS will enter into a new cooperative agreement with the Chippewa Cree Tribe, increasing the total number of tribes to nine. The states and tribes are working partners and an integral aspect of the overall

onshore compliance effort; tribes are now self-empowered to manage audits for 88 percent of all tribal mineral royalties. The states perform nearly all audits on Federal leases within their boundaries and receive 50 percent of any additional collections. Many states gain efficiencies by performing audits on State severance taxes and concurrently on properties that have both Federal and State interest. Federal royalties are a significant portion of many states annual budgets. The Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), as amended, Sections 202 and 205, authorized the Secretary to develop delegated and cooperative agreements with states and tribes to carry out certain inspection, auditing, investigation, or enforcement activities for leases in their jurisdiction. Major focuses in FY 2006 require additional funding for a new tribal cooperative agreement with the Hopi Tribe and additional FTE to provide increased oversight of Indian tribal audits due to a recent court decision.

### ***Revised Valuation Regulations***

Amendments to the Federal Oil Valuation Rule, published in 2004, will reduce litigation, assure more timely compliance, reduce administrative costs to both lessors and lessees, and make Federal leases more attractive for development and leasing. The final rule, effective August 1, 2004, addresses primarily which published market prices are most appropriate to value crude oil not sold at arm's-length and specifies which costs are allowable and not allowable as part of transportation deductions. The Accounting and Auditing Relief for Marginal Properties, effective October 1, 2004, provides reporting relief and other request-based relief on low producing properties. The relief granted reduces administrative costs, promotes production and increases net receipts to the United States and states.

#### ***Published Rulemakings – FY 2004***

*In FY 2004, MMS published several rulemakings to increase certainty for both industry and MMS on royalty value:*

- *Federal Oil Valuation Amendments – Final*
- *Federal Gas Valuation – Proposed*
- *Accounting and Auditing Relief for Marginal Properties – Final*

In addition, MMS published a new proposed Federal Gas rule in the Federal Register on July 23, 2004. The issues in the proposed rule primarily concern calculation of transportation costs (including the allowed rate of return in calculation of actual transportation costs in non-arm's-length transportation arrangements, and further specific itemization of allowable and non-allowable costs), revision or simplification of certain provisions, and changes necessitated by judicial decisions. The MMS is proposing some changes to be consistent with analogous provisions of the Federal crude oil valuation. The public comment period closed on September 21, 2004. The MMS has analyzed all of the comments received, and is planning on publishing a final rule in FY 2005. The changes would offer greater certainty, clarity and consistency on natural gas valuation issues for oil and gas producers. The result would be more accurate royalty reporting, which ultimately helps MMS to assure economic value for America on these important resources.

**Partnering with Constituents to Improve Valuation Regulations**

*In 2007, MMS will celebrate the 25th anniversary of its creation. Over the years, one of the keys to MMS's success has been its valuable partnerships with constituents, who are recognized as leaders in the mineral industry. Many constituents dedicate substantial time, expertise, and talents to enhancing the MMS mission. During FY 2004, MMS presented Corporate Leadership Awards (CORLA) to 30 corporation employees for performing exemplary acts or services that enhanced MMS's ability to meet its mission objectives. Annually, CORLA Award candidates are identified through MMS employee nominations and selections are made by MMS senior managers.*

**Communication and Consultation with American Indians**

The MMS continued an extensive outreach program for IIMOs, resolving over 4,000 inquiries and conducting more than 50 outreach sessions. The MMS also uses innovative outreach methods, such as Navajo radio broadcasts and attending pow-wows, to reach the American Indian constituents. This reflects MMS's goal to fulfill the Secretary of the Interior's trust responsibility to American Indians.

**Intergovernmental Personnel Act Fellowships (IPA)**

The MMS encourages and promotes American Indian management of their mineral revenue assets to the extent that they seek to do so. Through the Intergovernmental Personnel Act (IPA) program, MMS provides hands-on opportunities to give knowledge and experience to tribal members performing royalty management activities. Members of three tribes – Chippewa Cree, Hopi, and Navajo – are currently participating with MMS in IPAs to develop their auditing skills and enhance their knowledge of minerals and royalty management. This will lead to the Chippewa Cree and Hopi Tribes performing their own audits. In addition, it enhances in depth audit expertise for the Navajo Tribe, already under a cooperative agreement with MMS to perform their own audits. To date, MMS has established 10 IPAs, many leading to additional cooperative agreements with tribes.

**FY 2006 Compliance Assurance Initiatives**

**Table 63: Indian Compliance Assurance Initiative**

	<b>2004 Enacted</b>	<b>2005 Enacted</b>	<b>2006 Request</b>	<b>Change 2005 to 2006</b>
Initiative (\$000)	0	0	630	+630
FTE	0	0	5	+5

Note: The above amounts do not include FY 2006 uncontrollable increases.

**2005 Program:** The continuing objective of MMS is to provide the highest possible Indian trust service relative to our role in collecting and disbursing royalties from Indian lands to 41 tribes and to an estimated 30,000 individual Indian mineral owners (IIMOs). The MMS focuses its efforts on the accuracy and timeliness of collections and disbursements of Indian mineral revenues as well as on industry compliance, to ensure that Indian tribes and IIMOs receive all money they are due. The MMS annually expends more than 20 percent of its resources toward

managing revenues from Indian lands, while Indian revenues only account for about 3 percent of the total mineral revenues.

The Indian Compliance Assurance initiative includes two components:

- A cooperative audit agreement with the Hopi Tribe, and
- Increased tribal cooperative audit program oversight.

*Cooperative Audit Agreement with the Hopi Tribe:* In accordance with the Department's initiatives to advance and support Indian self-determination, MMS currently has an Intergovernmental Personnel Act Fellowship (IPA) program that provides opportunities for Indian empowerment. Through an internship process with Tribal members, the Indian IPA Program:

- Develops tribal audit and compliance experience and knowledge,
- Teaches tribal mineral oversight functions,
- Improves understanding and communication among parties, and
- Prepares the tribe to assume a greater role in managing its mineral assets.

Completion of the program, in turn, can lead to a new cooperative audit agreement that provides opportunities for tribes to assume more responsibility in the areas of mineral lease compliance and auditing.

Since its inception, the transition from Indian IPA program to tribal cooperative audit agreement has been an effective method of providing opportunities for Indian self-determination. The MMS has cooperative audit agreements with eight tribes and will increase to nine tribes in FY 2005, with the new agreement with the Chippewa Cree Tribe. Currently, Ms. Lillian Dennis is representing the Hopi Tribe as its first member to participate in the IPA Fellowship Program. Ms. Dennis is determined to finish the program; upon her completion, the Hopi Tribe intends to begin a cooperative audit agreement in FY 2006.

*Provide Increased Tribal Cooperative Audit Program Oversight:* The MMS is a steward of the royalty asset from Indian trust properties and serves as an advocate for the interests of Indian mineral owners, ensuring fulfillment of its Indian trust responsibility. The MMS serves American Indian tribes and IIMOs by ensuring that they receive accurate returns for mineral production on Indian land.

The MMS compliance and asset management process provides system compliance coverage for Indian mineral leases by using asset profiles for each lease, including market conditions, historical production figures, and lease-specific data. Whenever the analysis yields results outside expected parameters, MMS reviews the reasons for aberration with progressively more detailed system analysis. In addition, the MMS compliance process includes comprehensive individual audits to ensure compliance.

While working to protect American Indian mineral interests, MMS also emphasizes American Indian empowerment in accordance with the Department's mission goals. To this end, the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), as amended, allows the Secretary to develop cooperative agreements with tribes that empower them to carry out

compliance work on their own properties. In FY 2005, MMS will fund cooperative audit agreements with nine tribes providing training, guidance, and general oversight to ensure that MMS compliance standards are consistently achieved.

**Justification of 2006 Program Change (+\$630K, 5 FTE):** *Cooperative Audit Agreement with the Hopi Tribe (\$130K, 0 FTE):* In FY 2006, the Hopi Tribe representative will have completed the IPA program and the Tribe has expressed interest in entering into a tribal cooperative audit agreement and assuming responsibility for compliance and audit workloads associated with a large coal operation on its tribal lands. Through the cooperative audit agreement program, tribes now are self-empowered to manage audits for 88 percent of all tribal mineral royalties. Entering into the tribal cooperative agreement with the Hopi Tribe will increase royalties managed by tribes by over \$10 million, increasing total tribal royalties for which tribes manage audits to 92 percent in FY 2006. The MMS is requesting \$130,000 to fully fund a cooperative audit agreement with the Hopi Tribe to achieve the MMS goal of increasing tribal management of audits to 92 percent of all tribal mineral royalties by 2008.

*Provide increased Tribal Cooperative Audit Program Oversight (\$500K, 5 FTE):* Implications of a recent judicial decision in relation to the Department's Indian Trust responsibility (*Shoshone and Arapahoe Indian Tribes of the Wind River Reservation v. the United States*) require MMS to further increase its oversight role over tribes involved in cooperative audit agreements. In relation to tribal cooperative audit agreements, the ruling states: "the court believes that the Cooperative Agreement does not operate to reduce the government's fiduciary responsibility here and that FOGRMA did not intend or require that it do so."

The effect of the ruling is that MMS must increase its oversight of tribal audits to prevent future payment to tribes for breach of trust for failure to provide adequate audits.

To comply with the implications of this judicial decision, MMS requires funding to provide the required additional oversight, which is over and above the current 20 percent or more of MRM resources already expended toward fulfilling our Indian Trust responsibilities. The MMS is requesting \$500,000 and five additional FTE to provide increased contract oversight for the tribal cooperative audit program.

The MMS cannot continue to fund the additional dollars for these programs within its existing operating budget. Without the requested additional funding for the tribal cooperative audit program and its requisite oversight, MMS will expand the level of effort for the tribal cooperative audit program to the levels requested at the expense of fully funding the state-delegated audit program. This approach will allow the Secretary to continue to honor the Department's commitment to fulfill its Indian Trust responsibilities and its commitment to provide opportunities for Indian self-determination, but will adversely affect State and Treasury receipts and MMS's 3-year compliance goal.

**Table 64: Closure of the Jefferson, LA Audit Office**

	<b>2004 Enacted</b>	<b>2005 Enacted</b>	<b>2006 Request</b>	<b>Change 2005 to 2006</b>
Initiative (\$000)	400	400	0	-400
FTE	5	5	0	-5

Note: The above amounts do not include FY 2006 uncontrollable increases.

**2005 Program:** The MMS is decreasing its funding by \$400,000 to reflect the savings resulting from closing its audit office in Jefferson, Louisiana. A great deal of company consolidation has occurred within the oil and gas industry. These consolidations have resulted in the shift of a significant portion of the companies' financial centers into the Houston area, away from other locations within the Gulf. As a result, it is not efficient for MMS to continue to maintain an audit staff in Jefferson, Louisiana. Further, with the company consolidation, the audit workload has been reduced. Thus, there is no need to relocate the existing staff to another MMS location.

**Justification of 2006 Program Change (-\$400K; -5 FTE):** Consistent with MMS's policy of capturing savings whenever and wherever possible, MMS has evaluated the distribution and the location of the audit workload supporting oil and gas production from the Gulf of Mexico. Based upon that evaluation, MMS will be closing the MRM compliance office in Jefferson, Louisiana.

The MRM will begin office closure procedures in early FY 2005. Through the closure of the MRM Jefferson, Louisiana, office, MMS will be able to reduce the overall staffing level in FY 2005. The costs associated with the closure will be borne in FY 2005; thus savings will appear in FY 2006.

**Table 65: Safeguarding Indian Records Funding Initiative**

	<b>2004 Enacted</b>	<b>2005 Enacted</b>	<b>2006 Request</b>	<b>Change 2005 to 2006</b>
Initiative (\$000)	0	500	0	-500
FTE	0	0	0	0

Note: The above amounts do not include FY 2006 uncontrollable increases.

**2005 Program:** Funding was requested to create the capability in the MRM systems to separate Indian/mixed records from Federal-only electronic records upon records accessioning and archiving actions. This funding focused on MRM compliance with NARA requirements for separating records that have different records disposition requirements, where technically and logically feasible. In MRM, Indian Trust records are to have permanent retention, unlike Federal-only records that are proposed to have a 15-year retention period.

**Justification of 2006 Program Change (-500K; 0 FTE):** This was a 1-year initiative to enable a contractor to design, develop, and test appropriate software for separating electronic records in accordance with NARA's media and retention requirements.



## COMMERCIAL ROYALTY-IN-KIND (RIK) PROGRAM

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Through the RIK program, MMS administers in kind royalties so that the resources received are managed in a manner that best benefits the Nation, which has included transferring resources to the Department of Energy to fill the Nation's Strategic Petroleum Reserve (SPR) or selling the received product in the marketplace and then disbursing revenues as prescribed by law.

### ***Royalty-In-Kind: Risk Policy Document***

*A key deliverable in the Five-Year RIK Business Plan for FY 2005-2009 is an RIK Risk Policy document.*

*By the end of FY 2005, MMS will issue an RIK Risk Policy document, identifying current RIK risk management practices, describing industry best practices, recommending enhancements, and identifying residual risk.*

*The MMS will engage commercial risk-management expertise through benchmarking and consultation.*

Through implementation of the commercial RIK program, MMS has incorporated standard energy business practices, management information systems, and proven RIK methodologies into its overall royalty asset management strategy. RIK is a viable asset management option where its application is at least revenue neutral and promotes efficiency and cost effectiveness for both the Government and industry.

### ***Implementation of RIK Five-Year Business Plan***

In 2004, MMS released the Five-Year RIK Business Plan for FY 2005-2009 (Plan). The Plan is designed to develop and deploy full business capabilities to actively manage the Federal oil and gas royalty asset stream in a manner that optimizes returns for the taxpayer while at the same time, reducing administrative costs. Implementing this plan will continue to enhance MMS's ability to assure the taxpayer of proper collection of royalty receipts and continued future use of RIK. It will also ensure MMS's ability to track, analyze, control, and manage the significant portfolio of oil and gas royalties that are taken in kind.

The Plan's focus during the first two years will be on finalizing implementation of performance measures, developing risk policy guidelines, and enhancing organization and human resource skill sets. Recommendations to be implemented in the latter three years of the Plan involve diversifying the conservative business model through enhanced marketing strategies, selected based on acceptable risk-return criteria. The MMS has concluded that diversified marketing and sales strategies would likely result in net positive returns to the Federal Treasury.

The Plan includes actions to strengthen the MMS position and enhance the RIK business model by optimizing transportation and processing returns, expanding customer base, diversifying contracting mechanisms, and transporting RIK volumes to market centers.

The MMS's experience to date has shown that RIK can provide incremental benefits through increased net revenue and reduced administrative expenses. The MMS's experience has also

shown that RIK may not be appropriate for all properties. Therefore, a major MMS focus is to realize the optimal level of RIK volumes that maximizes benefit to the public.

The MMS has targeted a cumulative RIK incremental net revenue enhancement of \$50 million over 5 years, based on oil and gas volume projections for the 5-year period and on historic RIK margins assuming appropriate human resources are provided.<sup>1</sup> RIK incremental net revenue is defined as the amount of RIK revenues received in excess of estimates of what a comparable royalty-in-value program would yield using fair market value benchmarks.

Lukens Energy Group performed an analysis of a wide range of potential marketing strategies, considering the expected revenue enhancement versus the additional required capabilities. Strategies having the highest revenue potential with the lowest additional required capabilities were advanced. The recommended strategies to enhance MMS's position include diversifying sales portfolios, aggregating volumes through pipeline pools, optimizing processing contracts, optimizing production area transportation, and exploring production exchanges.

Final recommendations were based on qualitative fit of the strategies for MMS and the estimated risk-return impact of the alternative strategies. The MMS has concluded that diversified marketing and sales strategies would likely result in net positive returns to the Federal Treasury.

### ***E-Gov and Information Technology***

The MMS implemented new RIK support systems in FY 2003 that are fully integrated with other MRM systems. The three new RIK applications – Gas Management, Liquids Management, and Risk and Performance Management – provide the necessary information management support tools and internal controls to successfully manage a commercial energy commodity portfolio. The integrated compliance and asset management systems support MMS's ability to make asset management decisions regarding whether to take royalty in kind or in value, and ensure that optimal value is received for America's mineral resources.

### ***FY 2006 Commercial RIK Program Initiatives***

**Table 66: SPR to RIK Conversion Initiative**

	<b>2004 Enacted</b>	<b>2005 Enacted</b>	<b>2006 Request</b>	<b>Change 2005 to 2006</b>
Initiative (\$000)	0	0	4,000	+4,000
FTE	0	0	0	0

**2006 Program Change (+4,000K):** With almost 60 percent of the Nation's supply of oil coming from foreign sources, the Strategic Petroleum Reserve provides a critical buffer for potential disruptions in oil supplies. In November 2001, President Bush directed the filling of the SPR to capacity using RIK crude oil. Through a Memorandum of Understanding (MOU), MMS partners with the Department of Energy to deliver oil to the SPR. Through the end of FY 2004, MMS had taken 87.5 million barrels of Gulf of Mexico Federal royalty-in-kind oil and

<sup>1</sup> MMS will implement this measure during FY 2005, in consultation with the Office of Inspector General and the Government Accountability Office.

made deliveries to the Department of Energy for the SPR, nearly three quarters of the approximately 120 million barrels required to fill the SPR. When full in 2005, the SPR will contain approximately 700 million barrels of oil, providing a key link in the Nation’s security network.

The 2005 MMS appropriation language provides authorization to use RIK receipts to offset transportation, processing, and administrative costs associated with filling the SPR. The SPR is expected to reach full capacity by the end of FY 2005. At that point, MMS will shift all viable SPR volumes to the commercial RIK program. Therefore in FY 2006, \$4 million is being added to ROMM Appropriations to offset costs which had been drawn directly from RIK revenue receipts.

**Table 67: CAM Program Funding Initiative**

	<b>2004 Enacted</b>	<b>2005 Enacted</b>	<b>2006 Request</b>	<b>Change 2005 to 2006</b>
Initiative (\$000)	0	0	5,800	+5,800
FTE	0	0	0	0

**2006 Program Change (+5,800K):** The 2005 MMS appropriation language provides authorization to use RIK receipts to offset transportation, processing, and administrative costs associated with filling the RIK program. This program change represents the movement of \$5.8 million in funding for the Royalty-In-Kind program from revenue receipts to ROMM Appropriations.

## PROGRAM PERFORMANCE SUMMARY

**Table 68: CAM Program Performance Summary – Resource Use**

Measures	2002 Actual	2003 Actual	2004 Actual	2005 Plan	2006 Plan	Change 2005 - 2006	2008 Target
<b>Resource Use (Energy) End Outcome Measures</b>							
Provide the Strategic Petroleum Reserve X million barrels of oil by 2005 (BG) <sup>1/</sup>	11 million barrels	38.2 million barrels (cum. 49.2 million barrels)	38.5 million barrels (cum. 87.7 million barrels)	32.3 million barrels (cum. 120 million barrels)	N/A – Fill completed in 2005	N/A – Fill completed in 2005	N/A – Fill completed in 2005
Royalties received for mineral leases are X percent of predicted revenues, based on market indicators, in the production year (SP)	New Measure	New Measure	96.1% of predicted revenues for 75% of 2001 royalty universe	98% of predicted revenues for 2002 royalty universe	98% of predicted revenues for 2003 royalty universe	No change	98% of predicted revenues for 2005 royalty universe
Compliance work is completed within the 3-year compliance cycle for X% of royalties for production year X. (SP) (300)	10.5% of 1999 royalties	46% of 2000 royalties	69.4% of 2001 royalties	69% of 2002 royalties <sup>2/</sup>	74% of 2003 royalties	5%	88% of 2005 royalties
Enhance RIK incremental net revenue by X dollars (NK) (300) <sup>3/</sup>	New Measure	New Measure	New Measure	New Measure	\$10 million	Additional \$10 million	\$10 million
<b>Resource Use (Energy) Strategy 2 Intermediate Measure</b>							
Take in kind XX barrels of oil per day for the Strategic Petroleum Reserve (BG)	60,100 barrels/day average April-Sept 2002	100,000 barrels/day Oct 2002 - Mar 2003; 130,000/day Apr –Sep 03	105,530 barrels/day	100,000 barrels/day	N/A – Fill completed in 2005	N/A – Fill completed in 2005	N/A – Fill completed in 2005
<b>Resource Use (Energy) Strategy 3 Intermediate Measure</b>							
Reduce time to balance RIK transactions to 180 days for X% of facility measurement points. (BG)	New measure (5-Yr RIK Business Plan)	New measure (5-Yr RIK Business Plan)	80.8% within 180 days	81% within 180 days	83% within 180 days	2%	89% within 180 days
Complete compliance work and issue necessary orders for 95% of royalties within the 3-year compliance cycle for production year X (NK)	97.2% of 3-yr cycle royalties received in 1999	99.9% of 3-yr cycle royalties received in 2000	92.9% of 3-yr cycle royalties received in 2001	95% of 3-yr cycle royalties received in 2002	95% of 3-yr cycle royalties received in 2003	No Change	95% of 3-yr cycle royalties received in 2005
<b>Resource Use - Primary MRM Outputs</b>							
RIK Barrels Sold	25.2 million	17.4 million	14.7 million	22 million	62 million <sup>4/</sup>	40 million	62 million
RIK MMBtu's Sold	115.4 million	129.7 million	155 million	200 million	237 million	37 million	365 million
Properties Reviewed for Compliance	699	1,537	4,868	3,996	4,896	900	5,638
<p>1/ SP=DOI Strategic Plan measure; NK=DOI non-key measure; BG=MMS bureau goal; PART=measure supporting OMB PART of the full MRM program in 2003; and 300=measure in MRM Capital Asset Plan, Exhibit 300</p> <p>2/ No increase from FY 2004; funding for MMS, State, and Tribal Audit coverage remained constant.</p> <p>3/ RIK incremental net revenue is defined as the amount of RIK revenues received in excess of estimates of what a comparable royalty in value program would yield, based on fair market value benchmarks. The MMS targets for this goal can be achieved if funding for appropriate human resources is provided. The MMS will implement this measure during FY 2005, in consultation with the Office of Inspector General and the Government Accountability Office.</p> <p>4/ RIK oil volumes currently committed to the SPR program will convert to the RIK commercial program following completion of the SPR Fill Initiative in FY 2005, assuming continuation of favorable economic conditions and receipt of fair market value in the MMS RIK crude oil program.</p>							

**Table 69: CAM Program Performance Summary – Serving Communities**

Measures	2002 Actual	2003 Actual	2004 Actual	2005 Plan	2006 Plan	Change 2005 - 2006	2008 Plan
<b>Serving Communities (Indian Trust Responsibilities) Strategy 1 Intermediate Measure</b>							
Conduct X Indian outreach sessions per year (BG) <sup>1/</sup>	62	69	70	65	65	0	65
<b>Serving Communities (Indian Trust Responsibilities) Strategy 3 Intermediate Measures</b>							
Tribes manage audit activities for X% of tribal mineral royalties (BG) (300)	88%	88%	88%	88%	92%	0	92%
Complete compliance work through the order stage within 2-3 years for all Indian gas properties for index zone/major portion pricing (BG) <sup>2/</sup>	100% of CY 2000	98% of CY 2001	100% of CY 2002; 100% of CY 2001	90% of CY 2003	90% of CY 2004; 100% of CY 2003	no change	90% of CY 2006; 100% of CY 2005
<b>Serving Communities (Indian Trust Responsibilities) Strategy 5 Intermediate Measure</b>							
Establish at least X number of tribal internship per year (BG)	1 (cum. 8)	1 (cum. 9)	1 (cum. 10)	1 (cum. 11)	1 (cum. 12)	1 additional	1 (cum. 14) <sup>3/</sup>
<b>Serving Communities - Primary MRM Outputs</b>							
202 Cooperative Agreements	8	8	8	9	10	0	10
Indian Inquiries Serviced	6,265	6,899	5,736	6,000	6,000	0	6,000
<p>1/ The MMS 2003 and 2004 goals were 57 and 58 respectively. Those goals were realistic, but were exceeded in FY 2003 and FY 2004. The MMS increased its goals by 7 for 2005 and 2006 based on additional funding requested.</p> <p>2/ The MMS ensures compliance with Indian-specific “major portion” lease terms, requiring payment of the highest price paid or offered at the time of production for the major portion of oil or gas production from the same field. On August 10, 1999, MMS published a final rule changing gas valuation regulations for Indian leases. One of the changes involved the use of published index prices for valuing gas produced from many American Indian leases. For leases in these areas, MRM ensures that companies pay royalties based upon the proper index prices.</p> <p>3/ The MMS also expects one additional IPA in FY 2007.</p>							

**FY 2006 BUDGET REQUEST**  
 Minerals Revenue Management  
*Revenue and Operations Subactivity*

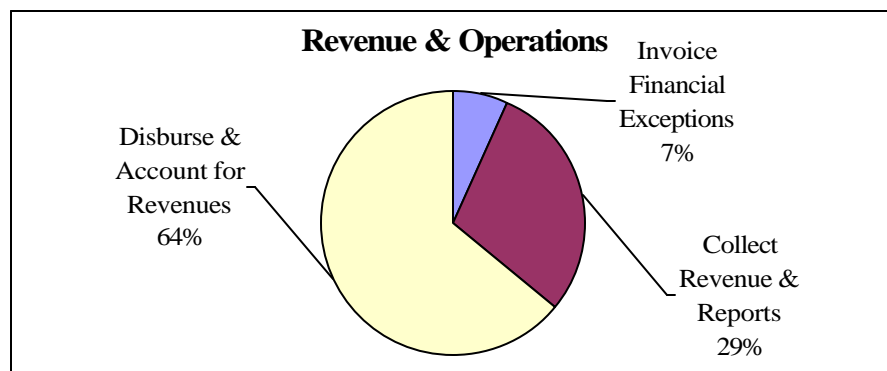
**Table 70: Overview of the Revenue & Operations Budget Request**

		<b>FY 2004 Actual (Enacted)</b>	<b>FY 2005 Estimate (Enacted)</b>	<b>FY 2006 Budget Request</b>	<b>Change from FY 2005</b>
<b>Revenue &amp; Operations Subactivity</b>	<b>(\$000)</b>	<b>33,875</b>	<b>33,867</b>	<b>35,426</b>	<b>+1,559</b>
	<b>FTE</b>	<b>181</b>	<b>181</b>	<b>181</b>	<b>0</b>
<i>Records Management Improvement Project</i>	<b>(\$000)</b>	--	--	1,200	+1,200
	<b>FTE</b>	--	--	0	0
<i>Uncontrollables</i>	<b>(\$000)</b>	--	--	359	+359

**PROGRAM OVERVIEW**

The Revenue and Operations Subactivity includes three major components which provide significant benefits to the American people:

- *Disburse and Account for Revenues* — The MMS ensures that revenues collected annually from Federal and Indian mineral leases are properly disbursed to the appropriate recipients. Quarterly financial statements, fairly representing MMS financial transactions, ensure accurate and timely compliance with OMB and Treasury requirements.
- *Collect Revenue and Reports* — The MMS receives and processes more than 6 million lines of royalty and production report data each year. In addition, MMS researches and resolves erroneous reporting so that associated dollars can be distributed timely to proper recipients
- *Invoice Financial Exceptions* — The MMS automated exception processes detect unmet financial obligations established in the lease, interest due on late payments, and violations of Indian recoupment limitations. Invoices not paid are subjected to a comprehensive debt collection process, ensuring that revenue recipients receive funds timely.



**Figure 38: Revenue and Operations Funding**

Through the MRM Financial Management process, MMS's people and processes within the Revenue and Operations subactivity support DOI's End Outcome Goals to "manage or influence resource use to enhance public benefit, promote responsible use, and ensure optimal value" and to "fulfill Indian trust responsibilities." The MMS strategic goals focus on the ability to ensure that the Nation receives optimal value for its mineral resources.

The MMS achieves optimal value by ensuring that all revenues, whether derived in value or in kind, from Federal and Indian leases are efficiently, effectively and accurately collected, accounted for, verified, and timely disbursed to recipients. The Financial Management process illustrated below ensures the proper receipt and timely processing of Federal and Indian mineral revenues and information to the appropriate recipient.

The Federal Government has been collecting revenues from mineral production on Federal onshore lands since 1920, from American Indian lands since 1925, and from Federal offshore lands since 1953. In 1982, MMS was created, establishing a comprehensive, consolidated system for the collection, accounting, and disbursement of these revenues. Since that time, the MRM program has provided over \$144 billion to Federal, state, and Indian recipients.

Within its Activity-Based Costing system, MMS tracks the number of Federal and Indian disbursements, number of lease and well actions, number of checks and documents processed, number of errors and exceptions processed, number of invoices, and some other key outputs. This provides MMS the ability to assign the full cost of financial management activities, as well as proportional shares of program support and general administrative costs.

## **DISBURSE AND ACCOUNT FOR REVENUES**

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The Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), as amended, requires monthly distribution and disbursement of payments to states and Indians for their share of mineral leasing revenues. To ensure prompt payment of mineral revenue payments to American Indian tribes and individual Indian mineral owners (IIMOs), MMS immediately deposits Indian revenues into accounts administered by the Office of Trust Funds Management (OTFM) where they are invested and subsequently distributed by BIA to American Indian tribes and IIMOs. The MMS also transmits distribution data twice per month to the Office of Trust Funds Management/BIA, which provides faster service to the Indian community.

The MRM is fully committed to its trust responsibilities to American Indians. While Indian revenues comprise only three percent of total mineral receipts, more than 20 percent of the MRM annual operating budget is spent to collect and disburse these revenues and provide special services for Indian royalty recipients. Revenues generated from mineral production on Indian lands meet a wide variety of their needs, and in many cases, provide their daily sustenance.

The distribution and disbursement function within MRM ensures that approximately \$8 billion collected annually from Federal and Indian mineral leases is properly disbursed to the appropriate recipients including the U.S. Treasury, 5 Federal agencies, 38 states, and 41 Indian tribes. These amounts are disbursed in accordance with legislated formulas.

### Who Benefited from MMS Mineral Revenues Disbursements of \$9.3 Billion in FY 2004?

▪ **Recreation — \$899 Million**

MMS transfers nearly \$900 billion annually to the Land and Water Conservation Fund. In recent years, this fund has been used to purchase or acquire through exchange about 4.5 million acres throughout America for recreational use.

▪ **Preservation — \$150 Million**

MMS transfers \$150 million annually to the National Historic Preservation Fund. This fund is administered to help save the historic buildings, neighborhoods, and landscapes that form our communities and enrich our lives.

▪ **Income for Daily Living — \$354 Million**

Monies collected from mineral leases on Indian lands are distributed regularly to Tribal governments or Individual Indian Mineral Owners. These funds provide direct and tangible benefits to thousands within the American Indian community, often as a major source of primary income.

▪ **Critical State Infrastructure — \$1.2 Billion**

Mineral revenues disbursed to states are often a significant element in the state's financial resource picture, providing critical funding for local schools, roads, libraries, public buildings, and general operations as the states deem necessary.

▪ **Water Reclamation — \$924 Million**

Mineral revenue receipts fund a significant portion of the U.S. Bureau of Reclamation's water resource development and maintenance work in the western United States.

▪ **U.S. Treasury Receipts — \$4.6 Billion**

Mineral leasing revenues are one of the Federal Government's greatest sources of non-tax receipts funding various government functions and programs.

▪ **Energy Security — \$1.2 Billion (equivalent value)**

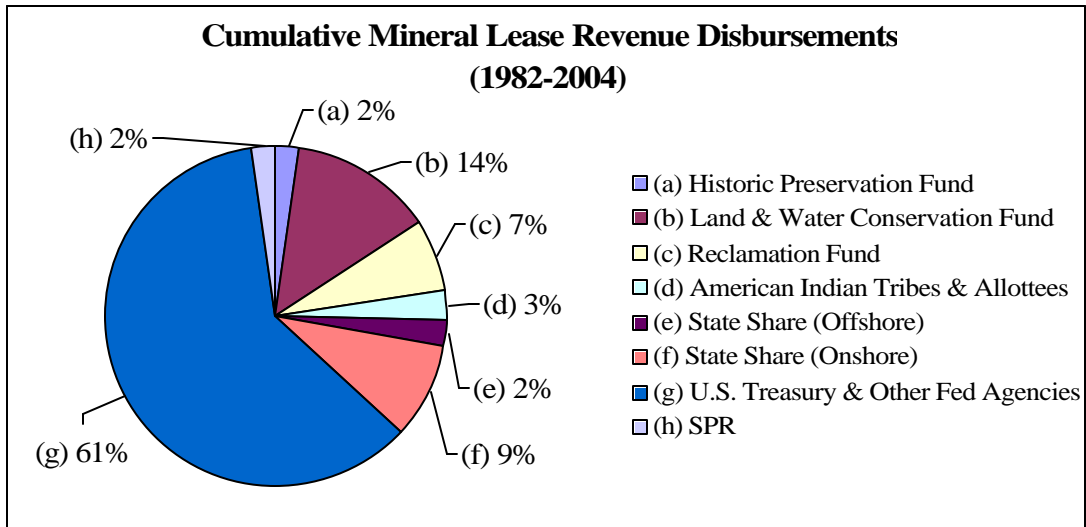
In FY 2004, MMS transferred oil valued at \$1.2 billion to the Department of Energy to fill the Nation's Strategic Petroleum Reserve. This reserve is one of the Nation's primary means of assuring continued oil supply in the event of an unforeseen production or import disruption.

The MMS has disbursed the following mineral leasing revenue amounts since 1982:

- \$89.28 billion to the U.S. Treasury
- \$19.86 billion to the Land and Water Conservation Fund
- \$16.5 billion to 38 states
- \$10.28 billion to the Reclamation Fund
- \$4.09 billion to 41 American Indian tribes and 30,000 IIMOs
- \$3.22 billion equivalent value to the Strategic Petroleum Reserve
- \$3.15 billion to the National Historic Preservation Fund

Approximately 61 percent of all annual collections go to the U.S. Treasury, 23 percent to special purpose funds, 11 percent to states, 3 percent to the American Indian community, and equivalent value of 2 percent to the Strategic Petroleum Reserve.





**Figure 39: Cumulative Mineral Lease Revenue Disbursements**

Special purpose funds, including the Land and Water Conservation Fund (LWCF), the National Historic Preservation Fund, and the Reclamation Fund, have received more than \$33 billion in MMS-collected mineral revenues since 1982. During the past decade, mineral revenues from the Outer Continental Shelf (OCS) have accounted for more than 95 percent of the deposits to the LWCF.

**Timely Revenue Disbursement**

In FY 2004, MMS disbursed more than \$8 billion in mineral revenues to states, Office of the Special Trustee for American Indians (OST), other Federal agencies, and U.S. Treasury accounts. In addition, MMS provided oil to the Strategic Petroleum Reserve (SPR) valued at more than \$1 billion. Revenues directed to the Federal Government are used to fund appropriations for programs Congress approves. Monies that go to the states are used as the states deem necessary, oftentimes for schools, roads, libraries, public buildings, and general operations. Revenues collected from mineral leases on Indian lands work directly to benefit members of the American Indian community.

The MMS disbursed 95.5 percent of its revenues on a timely basis in FY 2004, exceeding its target of 94-percent timely disbursement. This increase resulted from a three-pronged effort of working directly with companies to increase reporting accuracy, increasing the accuracy of the financial system’s payment matching process, and enhancing the edits of the electronic reporting process to reduce the number of rejected report lines. Additionally, MMS transferred 100 percent of American Indian revenues it received to the Office of the Special Trustee for American Indians within 24 hours of identification.

The MMS ensures that funds are disbursed to recipients by the end of the month following the month received, per regulation. During FY 2006, the goal is to ensure timely disbursement of 96 percent of all revenues received and to disburse 99.5 percent of all Indian revenues to OTFM within 24 hours. The Bureau of Indian Affairs (BIA) requires Financial Distribution Report (FDR) information in order to distribute funds to individual Indian mineral owners. To better

serve its American Indian constituents, MMS provides this lease distribution data to BIA twice each month. The MMS goal is to ensure that at least 70 percent of all Indian lease data is distributed to BIA by the first semi-monthly distribution.

### ***Financial Accountability***

The MMS continues its goal of ensuring that it receives an unqualified opinion on its financial activities and mineral revenue custodial accounts in FY 2006. The MMS records financial transactions with an account structure consistent with the U.S. Government Standard General Ledger (USSGL). It uses the USSGL accounts to prepare external reports to OMB and the U.S. Treasury and to prepare financial statements and the Annual Financial Report.

The MMS's state of the art financial system has automated internal controls and accounting processes to reconcile subsidiary and control accounts and to ensure proper recording and reporting of revenues. The Chief Financial Officer's Act requires annual audits of MMS financial statements that include a thorough review of MMS's financial activities and mineral revenue custodial accounts. These audits ensure that MMS financial statements fairly represent the transactions recorded within the MMS financial management system. To ensure accurate and timely compliance with all Federal requirements, MMS has also instituted:

- Quarterly financial statements, and
- Accelerated end-of-year reporting through the elimination of off-line processes.

The MMS has received unqualified audit opinions on its financial activities and mineral revenue custodial accounts in FY 2004 and all prior years.

#### ***Financial Successes***

*In FY 2004, MRM's financial system again received an unqualified opinion.*

*Additionally, MRM:*

- *improved accounts receivable management, enhanced security policies, and implemented system software changes to obtain substantial compliance with applicable standards*
- *completed the processing of over 65% of the backlogged unmatched receivables*
- *reduced royalty error rates to the lowest level in three years*
- *re-implemented the expired/terminated lease process and eliminated the associated backlog*
- *achieved contemporaneous status for offshore production data*
- *overhauled and implemented a new investment policy for the Environment Improvement and Restoration Fund that increased returns 142% from 2003 to 2004*
- *improved reporting and compliance by conducting a broad range of royalty and production training for payors.*

### ***Records Management***

The volume of reporting data MRM collects and maintains to ensure that mineral revenues are reported and disbursed accurately requires MMS to maintain extensive paper and electronic data warehouses to store information on leases, agreements, and production and reporting data. As an indication of the quantity of records MRM maintains, it recently inventoried a total of 13,718 cubic feet of paper records alone. This included records stored in MMS facilities and in state and tribal audit offices, but these records are only a small portion of MRM's total records inventory. The vast information contained in MRM's electronic data warehouse serves as a valuable tool for

BLM, BIA, OMM, and other surface management agencies, providing them with up-to-date information for managing the Nation’s mineral resources. The MMS also enables mineral revenue payors to access its data warehouse online to obtain historical information they have previously reported.

Effective management of records is key to ensuring that America receives fair value for mineral revenues and is instrumental in fulfilling its Indian trust responsibility. These records, and those created daily related to our core business processes, are instrumental to ensuring proper accounting, documentation, financial reporting, and protection of the Indian trust. In response to this identified need, in FY 2004, MRM initiated a multi-year Records Management Improvement Project (RMIP) to inventory records, update retention schedules, and develop and implement records management practices throughout MRM. This project ensures compliance with MMS, DOI, and National Archives and Records Administration (NARA) regulations. In FY 2006, MMS has requested funding that will enhance preservation, access, and storage of paper and electronic records.

***FY 2006 Disburse and Account for Revenues Initiatives***

**Table 71: Records Management Improvement Project Initiative**

	<b>2004 Enacted</b>	<b>2005 Enacted</b>	<b>2006 Request</b>	<b>Change 2005 to 2006</b>
Initiative (\$000)	0	0	1,200	+1,200
FTE	0	0	0	0

**2005 Program:** The MMS records management program has become highly visible due to expanding record volumes, protracted Indian litigation, and growing internal and external needs for timely access to mineral revenue records. Workloads associated with the classification, transfer, retrieval, and disposition of records have placed complex demands on operational processes and personnel. Records management process improvements are needed to meet these critical and expanding operational requirements.

In response to this identified need, in FY 2004, MRM initiated a multi-year Records Management Improvement Project (RMIP) and hired a professional project manager to inventory records, update retention schedules, and develop and implement records management practices throughout MRM to ensure compliance with MMS, DOI, and NARA regulations.

In FY 2005, MRM has:

- completed an inventory of all 13,718 cubic feet of paper records;
- completed transfer of over 1,018 cubic feet of paper records to the Denver and Fort Worth Federal Records Centers (FRC);
- installed high-density records storage system in MRM’s Denver offices to allow greater centralization of paper files until they can be converted to electronic format or accessioned;
- coordinated with the DOI Chief Information Office to ensure that MRM plans are compatible with Enterprise Architecture for Departmental electronic records management; and

- worked with the Office of Trust Records to coordinate transfer of MRM inactive Indian trust records to the American Indian Records Repository in Lenexa, Kansas.

The primary objective is to meet the requirements established by the Assistant Deputy Secretary in an October 27, 2003, Memorandum entitled “Identification and Retention of Indian Fiduciary Trust Records.” The RMIP provides a sound foundation for the requested FY 2006 activities.

**Justification of 2006 Program Change (+1,200K; 0 FTE):** To support the Department’s IT strategic goal of implementing electronic records management by FY 2008, MMS is requesting funding to begin planning for and the introduction of state-of-the-art technology and automated tools to address electronic records preservation and accessioning requirements. This effort will be coordinated closely with OST and Trust Architecture activities to allow MMS to fully integrate with a future DOI records system. This is an additional effort beyond the FY 2005 requested funding for software modifications to allow MMS to separate Federal and Indian electronic records in its systems. Currently, MRM does not have an electronic recordkeeping system for those electronic records that are not part of MRM’s major application systems. Consequently, all electronic records that are not part of MRM’s major application systems databases, including substantial e-mail records, must be printed and saved as paper records. Due to this, MMS expends a considerable cost for personnel time, file storage, and eventual FRC storage.

Benefits of funding this request include:

- improvement in the overall management of MMS records;
- greater security and protection of documents and official records;
- improved access due to electronic search techniques, which increases productivity and reduces the time spent searching for and obtaining documents and records;
- simultaneous read-only use would be available to multiple individuals in multiple locations;
- increased customer service through faster and more comprehensive responses to litigation discovery and FOIA requests; and
- enhanced data access to state and tribal auditors, MMS staff in geographic areas other than the Denver metropolitan area, and potential BLM availability.

If the Records Management Improvement Project is not funded, the project would need to be postponed, or staffing resources would have to be drawn from other areas. Not funding RMIP would negatively affect MMS’s performance capability and ability to achieve the benefits discussed above.

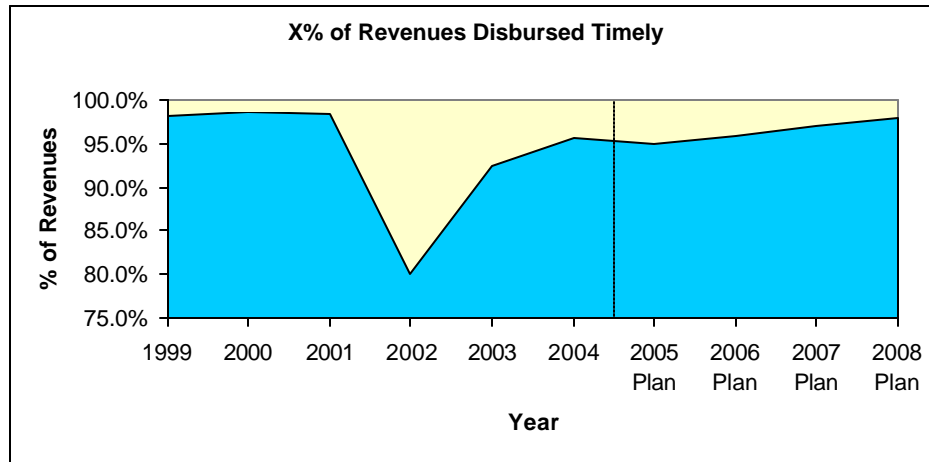
## **COLLECT REVENUE AND REPORTS**

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The MMS collects rental revenues and reporting information on 35,120 nonproducing leases annually and monthly royalty revenue and sales reports on 23,862 producing onshore and offshore Federal leases. Additionally, MMS collects royalty revenue and reporting information for 3,748 producing Indian leases. Although most of the payments MMS receives are transmitted electronically, MMS still receives nearly 50,000 checks per year.

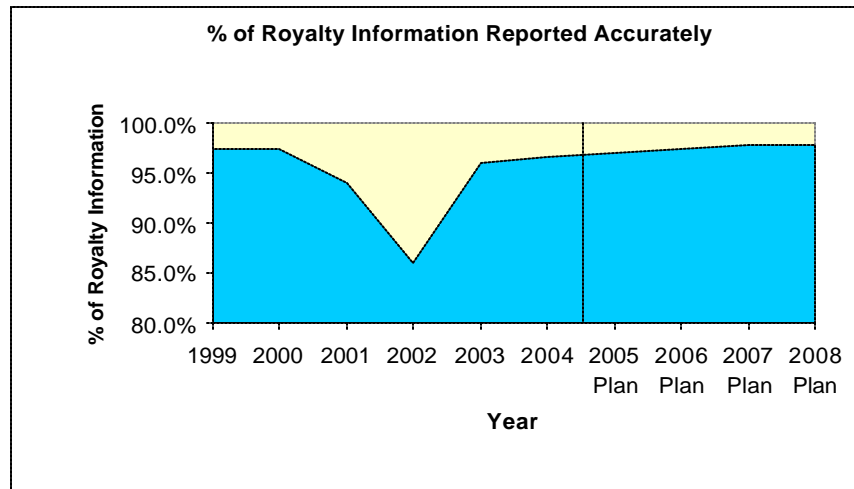
**Company Reporting Accuracy = MMS Revenue Disbursement Timeliness**

The MMS monitors its performance in disbursing funds to recipients by the end of the month following the month received, per regulation.



**Figure 40: Percent of Revenues Disbursed Timely**

Accurate reporting by companies is integral to our success in timely disbursing funds. In FY 2002, after implementation of new systems, company reporting accuracy fell to 86 percent, and MMS disbursement timeliness dropped to 80 percent. Company learning curves with MMS’s new systems caused the drop in company reporting accuracy during FY 2002, and MMS focused its resources on error resolution, in consultation with companies, and provided additional training to companies.



**Figure 41: Percent of Royalty Information Reported Accurately**

Since 2002, both metrics have improved. During FY 2006, MMS is targeting 96.5 percent disbursement timeliness and 97.5 percent reporting accuracy.

Royalty payments are generally due from energy companies on the last day of the month following the month of production. Each month, MMS receives and processes over 34,000 reports containing more than one-half million lines of data from over 3,700 energy companies. In the process, several forms of primary data are collected, electronically or by hard-copy transmission, and maintained by MMS:

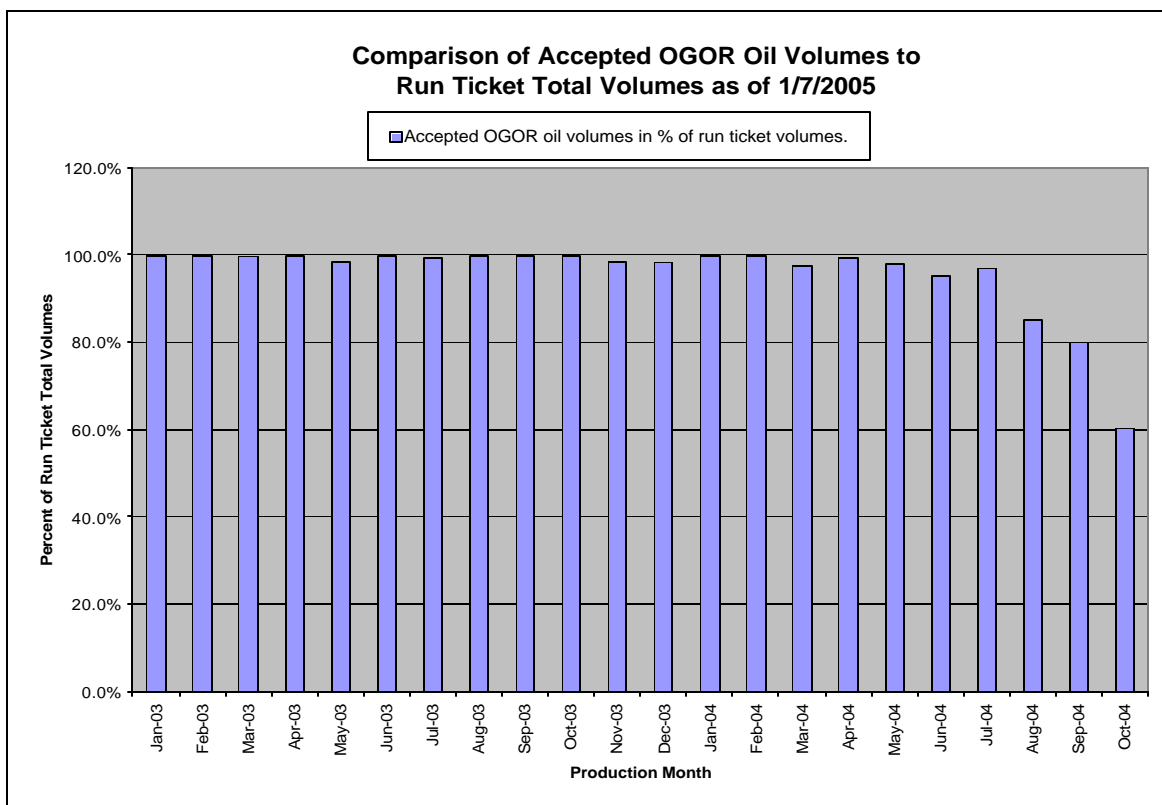
- Property data, including information on mineral leases, mineral producing or revenue-paying companies, and commodity purchasers;

- Mineral revenue and production data, consisting of monthly-required report and payment data related to rents, mineral royalties, mineral production volumes; and
- Market and sales data used in making RIK versus RIV decisions.

To ensure that MRM is collecting the proper revenues on the Federal and Indian royalty share, it performs automated and manual error correction of royalty and production reports, coordinating reporting and payment matters with industry, state governments, Indian tribes, other Federal agencies, and other MMS offices.

**Using Performance to Increase the Availability of Complete and Current Offshore Oil Production Data**

The MMS currently compares offshore production volumes received on the Oil and Gas Operations Report (OGOR) to run ticket volumes entered in OMM's Liquid Verification System (LVS) to determine the completeness of production data. The MMS incurred a significant backlog in the processing of production data when the new system was implemented and subsequently shut down by court order in FY 2002.



**Figure 42: Comparison of Accepted Oil Volumes to Run Ticket Totals**

In November 2003, MRM agreed to service levels whereby offshore production data would be 95 percent complete within six months of being reported by the end of FY 2004. Financial Management targeted this effort and used special processes and reports and refocused resources, including temporarily realigning staff, to meet this goal for offshore production data completeness and timeliness. The goal was achieved in May 2004 – four months ahead of schedule.

Financial Management is now focused on meeting the next goal, whereby offshore production data would consistently be 95 percent complete within three months of being reported by the middle of FY 2005.

The MMS information systems and electronic government infrastructure play a critical role in the collection and disbursement of the Nation's mineral revenues. The mineral revenue financial systems use commercial off-the-shelf (COTS) software that is contractor-owned and operated. In FY 2004, MMS dedicated significant efforts toward data conversion and testing a new release version of the MRM PeopleSoft financial module, its financial system software. The upgrade from version 7.5 to 8.4 was mandatory to maintain software support. In addition, the upgrade provides a new look and feel as well as web-based functionality. Implementation was completed in January 2005.

The transition moved the MRM systems from a client-server architecture to a more efficient Web-enabled financial software package. Through these efforts, MMS continues to ensure that its systems remain secure, interactive, and Web-based. Primary IT systems supporting the financial management process include:

- The Financial Management System, accounting for all Federal and Indian minerals rents, royalties, bonuses, and their distribution/disbursement to the Treasury, states, and Indians. The Financial Management System also issues bills for late or nonpayment of royalties.
- The Data Warehouse provides a repository of historical financial and production information used by internal users, BLM, and other agencies, as well as state and tribal entities that, under contract for MRM, audit leases within their jurisdiction. The Data Warehouse also provides an electronic means for industry to get reports back on the results of their royalty and production reports and for state and tribal revenue officials to get reports on revenues received and disbursed.

## **INVOICE FINANCIAL EXCEPTIONS**

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Each month MRM runs automated exception detection processes to ensure that industry customers follow Federal laws, regulations, and lease terms in their financial reporting to the MRM. These processes include:

- Billing for late payment interest on Federal, Indian, solid mineral, and geothermal leases. Payments are due at the end of the month following the month of production (or one additional month if an estimate is on file). If payments are late, an assessment is made based on the IRS underpayment rate.
- Billing for insufficient estimates on Federal, Indian, solid mineral, and geothermal leases. An estimate allows customers to pay royalties sixty days following the end of the month of production versus thirty days without an estimate. However, if the estimate is not sufficient to cover production for that month, an assessment at the IRS underpayment rate is made for the calendar month or to the payment date, whichever comes first.
- Billing for over-recoupments on Indian leases. Recoupments are limited to 50 percent of monthly revenues for allotted leases and 100 percent of monthly revenues for tribal leases.
- Billing for rental, minimum royalty, deferred bonus, rights-of-way and other financial term exceptions.
- Paying interest for overpayments on Federal leases. Payment is based on the IRS

overpayment rate (1 percent less than the underpayment rate).

- Preparing manual bills for civil penalty, diligent exploration expense, and other miscellaneous collections/billing actions, and
- Paying for over-sufficient estimates on Federal leases, base on the IRS overpayment rate.

In addition, MRM ensures that delinquent invoices are pursued in accordance with the Debt Collection Act.

## PROGRAM PERFORMANCE SUMMARY

**Table 72: Revenue and Operations Program Performance Summary – Resource Use and Serving Communities**

Measures	2002 Actual	2003 Actual	2004 Actual	2005 Plan	2006 Plan	Change 2005 - 2006	2008 Target
<b>End Outcome Goal Resource Use: Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value (Energy)</b>							
X percent of revenues disbursed on a timely basis per regulation (SP) (PART)	80%	92.6%	95.5%	96%	96.5%	.5%	98%
<b>Strategy 3: Optimize Value through Effective Management</b>							
X% royalty information reported accurately the first time (NK) (PART)	86%	96%	96.7%	97%	97.5%	.5%	98%
Obtain unqualified audit opinion on MMS Annual Financial Statement for Custodial Accounts (BG)	Un-qualified	Un-qualified	Un-qualified	Un-qualified	Un-qualified	No Change	Un-qualified
Collect X% of RIK revenues within a 25-day collection period (BG)	New measure	New measure	94.5%	95%	95%	No Change	95%
Provide XX dollars positive time value of money to government by collecting RIK revenues within 25 days rather than 30 days for in value royalties (BG)	New measure	\$660,000	\$890,000	\$910,000	\$1.9 million <sup>1/</sup>	\$990,000 <sup>1/</sup>	\$2.2 million
<b>End Outcome Goal Serving Communities: Fulfill Indian Trust Responsibilities</b>							
<b>Strategy 1: Improve Indian Trust Beneficiary Services</b>							
Transfer X percent of revenue to OST within 24 hours of receipt (SP)	NA	99%	100%	99%	99.5%	0.5%	100%
Provide lease data to BIA for X percent of royalties by first semi-monthly distribution (SP)	New Measure	New Measure	84%	75% <sup>2/</sup>	80%	5%	90%
<b>Primary Outputs Contributing to this Subactivity</b>							
Federal disbursements	12	12	12	12	12	0	12
Errors & exceptions resolved	460,033 <sup>3/</sup>	685,183	786,923	763,300	748,000	-15,300	680,000
Invoices processed	82 <sup>3/</sup>	7,525	4,878	5,500	6,000	500	4,500
Reporter training sessions	8	6	8	8	8	0	8
Lease & well agreement actions	n/a	90,740	113,001	115,200	117,500	2,300	96,000
Checks & documents processed	110,270	95,966	88,385	84,800	83,100	-1,700	86,700
Indian revenue distribution transactions	24	31	24	24	24	0	24
<i>1/ SPR completed and volumes transferred to commercial RIK program.</i>							
<i>2/ In FY 2005, MMS will implement significant new enforcement measures focused on compelling reporters to report and pay correctly the first time. MMS anticipates that company reporting accuracy, and therefore MMS distribution timeliness, may decrease during FY 2005 as an initial result. However, in future years, MMS anticipates improved company reporting, which will increase MMS's timeliness in distributing lease data to BIA.</i>							
<i>3/ New system implementation and Internet shutdown.</i>							



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## FY 2006 BUDGET REQUEST

### General Administration

**Table 73: Overview of the General Administration Budget Request**

		<b>FY 2004 Actual (Enacted)</b>	<b>FY 2005 Estimate (Enacted)</b>	<b>FY 2006 Budget Changes</b>	<b>FY 2006 Budget Request</b>	<b>Change from FY 2005</b>
<b>General Administration</b>	<b>(\$000)</b>	<b>44,489</b>	<b>46,855</b>	<b>+621</b>	<b>47,476</b>	<b>+1.3%</b>
	<b>FTE</b>	<b>200</b>	<b>200</b>	<b>0</b>	<b>200</b>	<b>0.0%</b>
Executive Direction	(\$000)	2,049	2,057	+29	2,086	+1.4%
	FTE	20	20	0	20	0.0%
Policy & Management Improvement	(\$000)	4,111	4,132	+84	4,216	+2.0%
	FTE	33	33	0	33	0.0%
Administrative Operation	(\$000)	16,639	16,964	+61	17,025	+0.4%
	FTE	147	147	0	147	0.0%
General Support Services	(\$000)	21,690	23,702	+447	24,149	+1.9%
	FTE	0	0	0	0	0.0%

*Previous Administrative Operations FTE estimates included 80 FTE that were reimbursed by IFF. These 80 FTE are now displayed within the IFF section of the FY 2006 Budget Justifications.*

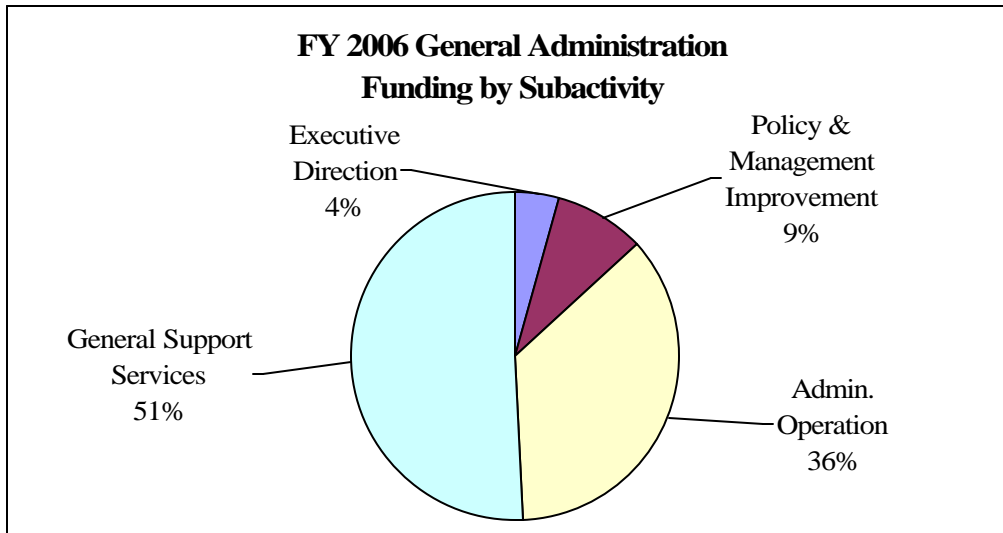
### PROGRAM OVERVIEW

The MMS General Administration Activity consists of four Subactivities:

- **Executive Direction**, which provides bureauwide leadership, direction, management, coordination, communications strategies, and outreach;
- **Policy and Management Improvement**, which coordinates the Bureau's policy management and strategic planning efforts;
- **Administrative Operations**, which includes budget, finance, human resources, procurement, facilities, information management, and equal employment and development services; and
- **General Support Services**, which ensures infrastructure support to the Minerals Management Service to include Offshore Minerals Management and Minerals Revenue Management programs.

Among the key reasons for MMS's current programmatic achievements is the ability of senior management to be keenly responsive regarding the industry and the public served by MMS. This has been achieved through communication outreach via advisory councils, discussions with members of Congress, Congressional Committees and their staff, industrial and environmental stakeholders, and community representatives affected by ongoing and proposed MMS activities, the media, and the public.

These efforts, recent technological developments, fundamental changes in the auditing and accounting philosophies, and MMS's response to enactment of recent legislation have yielded a clear vision of where the MMS of the 21<sup>st</sup> century needs to be headed. Providing leadership, securing resources, developing organization capabilities, building infrastructure and assuring appropriate delivery of services are the responsibility of the General Administration arm of MMS.



**Figure 43: FY 2006 General Administration Funding by Subactivity**

**FY 2006 BUDGET REQUEST**  
 General Administration  
*Executive Direction Subactivity*

**Table 74: Overview of the Executive Direction Budget Request**

		<b>FY 2004 Actual (Enacted)</b>	<b>FY 2005 Estimate (Enacted)</b>	<b>FY 2006 Budget Request</b>	<b>Change from FY 2005</b>
<b>Executive Direction</b>	<b>(\$000)</b>	<b>2,049</b>	<b>2,057</b>	<b>2,086</b>	<b>+1.4%</b>
	<b>FTE</b>	<b>20</b>	<b>20</b>	<b>20</b>	<b>0.0%</b>
<i>Uncontrollables</i>	(\$000)	--	--	29	+29

**PROGRAM OVERVIEW**

The Executive Direction Subactivity comprises the Office of the Director, the Office of Public Affairs and the Office of Congressional Affairs.

*Office of the Director (OD)*

The Office of the Director includes the Director, the Deputy Director and their immediate staff. This office is responsible for managing all of the official documents of the Office of the Director and provides general policy guidance and overall leadership within the MMS organization.

*Office of Public Affairs (OPA)*

The OPA is responsible for MMS's communication strategies and outreach. The goal of OPA is to ensure coordinated communication, consistent messages, and the effective exchange of information with all customers and stakeholders. The OPA coordinates the implementation of an effective and inclusive outreach program to numerous target audiences, including state and local governments, the energy industry, related trade associations, the environmental community, Indian Tribes, individual Indian allottees, energy consumer groups, and the public.

In addition, OPA is establishing and strengthening relationships with new and already-in-place MMS external constituent groups by facilitating dialogue and ongoing communication to ensure informed participation with all stakeholders when MMS is faced with making critical decisions. The development and implementation of outreach plans that ensure maximum dissemination of MMS messages in key program areas such as lease sales, revenue collection and management, environmental monitoring and safety in offshore areas, is an ongoing priority. Finally, OPA is the focal point for MMS print and electronic news media information, speechwriting for the Director and senior management, educational outreach, and providing recommendations regarding the policies and procedures for disseminating the MMS message of *securing ocean energy and economic value for America*.

***Office of Congressional Affairs (OCA)***

The OCA serves as the primary point of contact with Congress, and is responsible for the coordination of all communication and outreach with congressional offices, as well as ensuring a consistent message and the effective exchange of information. The OCA serves as the liaison for MMS on all congressional and legislative matters that affect MMS with Congress, the Department of the Interior, and other Federal executive agencies. The OCA activities include the evaluation of legislative proposals, official communication regarding programs, policies and positions on matters under consideration by Congress, the preparation of testimony for MMS and Assistant Secretary of Land and Minerals Management witnesses, and the coordination of MMS's involvement in congressional meetings and hearings.

**FY 2006 BUDGET REQUEST**  
 General Administration  
*Policy and Management Improvement Subactivity*

**Table 75: Overview of the Policy & Management Improvement Budget Request**

		<b>FY 2004 Actual (Enacted)</b>	<b>FY 2005 Estimate (Enacted)</b>	<b>FY 2006 Budget Request</b>	<b>Change from FY 2005</b>
<b>Policy &amp; Management Improvement</b>	<b>(\$000)</b>	<b>4,111</b>	<b>4,132</b>	<b>4,216</b>	<b>+2.0%</b>
	<b>FTE</b>	<b>33</b>	<b>33</b>	<b>33</b>	<b>0.0%</b>
<i>Uncontrollables</i>	<i>(\$000)</i>	--	--	84	+84

**PROGRAM OVERVIEW**

The Office of Policy and Management Improvement (PMI) provides the Director with an impartial review, analysis and assessment of policies, procedures, and organizational performance. The PMI provides objective views, analysis, recommendations, and comprehensive leadership on high priority and high visibility policy and management issues.

These issues include strategic planning, performance measurement and management, risk management, coordinating MMS initiatives in response to the President's National Energy Policy, analysis of current and emerging policies, and the evaluation of all regulatory and statutory issues. The PMI Office also administers and coordinates internal reviews, coordinates audits performed by the Office of the Inspector General and GAO, and assures implementation of recommendations resulting from external and internal reviews or audits. Other activities managed by PMI include implementing MMS's Activity Based Cost/Management System, which provides cost and performance information for executive decisionmaking; ensuring MMS's compliance with the Departmental regulatory process; coordinating information collection requirements; and assuring program compliance with the requirements of the Federal Advisory Committee Act (FACA), Paperwork Reduction Act (PRA), Small Business Regulatory Enforcement and Fairness Act (SBREFA), Government Performance and Results Act (GPRA), the President's Management Agenda, and citizen-centered customer service initiatives.

The PMI Office also initiates pilots and laboratory projects for the Director and promotes efforts aimed at improving organizational performance and management such as those advanced by the President's Management Agenda (PMA). The PMI has overall responsibility for the coordination of PMA initiatives and other management improvement projects and leads MMS's efforts on Budget and Performance Integration and Electronic Government initiatives. The PMI also has overall responsibility for ensuring that all the PMA initiatives are incorporated into MMS's management culture.

Finally, PMI is responsible for developing fair and impartial decisions on administrative appeals filed under the regulatory program.

## **ORGANIZATIONAL STRUCTURE AND RESPONSIBILITIES**

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The Associate Director of PMI and immediate staff are located in Washington, D.C. Supporting staffs capable of conducting reviews, analyses and Administrative Appeals are located in Denver, Colorado, close to the Minerals Revenue Management (MRM) program, and in Washington, D.C., near the Offshore Minerals Management (OMM) program and Departmental Headquarters offices.

### ***Policy Reviews and Program Analyses***

Evaluations of MMS's existing and proposed policies and programs are conducted through economic and programmatic analyses. The PMI provides policy reviews and analysis on a broad range of matters within MMS. Assignments are typically conducted in support of proposed or existing MRM and OMM program issues and to evaluate or implement new Bureau initiatives.

These efforts are conducted as special studies or technical assistance to the programs. Special studies may involve major analytical efforts, usually long-term in nature, to examine technical issues relevant to the program, analyze policy implications, and provide recommendations to the Director. These efforts may encompass both program-specific subjects and developments elsewhere that may have an impact on the programs. Technical assistance to the programs is accomplished by leading or participating on Bureau task forces or by directly supplementing staff of the office responsible for specific projects.

The PMI reviews legislation, regulations, and other documents for their policy content and provides analysis of proposals from outside MMS that affect Bureau programs. The PMI is responsible for ensuring that programmatic plans and policies are consistent with and integrated into the overall Bureau mission and responsibilities, as well as the Department and Administration policy framework.

The PMI will continue to participate in the development of policy options or performing analyses on such items as:

- Supporting departmental implementation of energy policy;
- Future Bureau policy for offshore oil and gas incentives;
- The sale of royalty oil and gas from Federal leases directly to the open market;
- Ongoing evaluation of alternative valuation methods of gas and oil on Federal lands with related cost benefit analyses;
- Jurisdictional issues for offshore gathering and transportation;
- Final resolution on complex issues under administrative appeal to the Director; and
- Level of services provided to individual Indian mineral landowners.

A current emphasis is MMS's authority to ensure open and non-discriminatory access on the OCS under the Outer Continental Shelf Lands Act (OCSLA). The PMI is leading a cross bureau effort to determine whether new policies and procedures are needed to ensure open and non-discriminatory access to oil and gas pipelines on the OCS. The PMI has obtained public input from a variety of stakeholders through an advanced notice of proposed rulemaking.

### ***Regulatory Direction***

The PMI manages MMS's regulatory program and serves as liaison to the Department's regulatory office. It initiates efforts to improve internal and external regulations and ensures the use of "Plain English" when regulations are necessary.

In this capacity, PMI will continue to play a major role in the Bureau's efforts to coordinate MMS policy and implement the requirements of the following directives:

- The Paperwork Reduction Act of 1995 and related information collection requirements;
- Executive Orders (e.g., 12866) or legislation (e.g., The Regulatory Flexibility Act) directed towards the reduction and improvement of federal regulations;
- Small Business Regulatory Enforcement Fairness Act of 1996;
- Executive Orders or legislation promoting methods of alternate dispute resolution, a more effective administrative appeal process, and improved regulatory drafting procedures;
- The Negotiated Rulemaking Act (Neg-Reg Act) PL 101-648;
- The Unfunded Mandates Reform Act of 1995 directed towards reducing Federal mandates;
- Executive Orders (e.g., 12988) on civil justice reform directed towards not unduly burdening the judicial system;
- Executive Orders (e.g. 13211) directed towards reducing adverse effects on the Nation's energy supply, distribution, or use;
- Administrative Procedures Act; and
- Quality of Information Requirements.

### ***Administrative Appeals***

Sometimes companies or individuals disagree with compliance actions taken by MMS. Most of these disagreements arise when MRM finds that the company did not pay sufficient royalties and orders the company to correct the error. Any party disagreeing with a final order or decision issued by an officer of MRM has a right under Federal regulation 30 CFR Part 290 (2000 Subpart B) to appeal to the MMS Director; or if Indian land is involved, to file an appeal with the Deputy Commissioner of Indian Affairs. The program office (generally MRM) reviews the appeal, and if it is not resolved at that stage, it goes to the Policy and Appeals Division, within PMI, for review and recommended decision.

The PMI Appeals staff is insulated from MRM so they can render an independent review of the issue under appeal. Appeals staff review the facts and arguments presented by both the appellant and the program office, analyze the case against legal and policy precedents, and recommend a decision for signature by the Director, the Associate Director of PMI, or the Deputy Commissioner of Indian Affairs. If the appellant disagrees with the decision of MMS or BIA, they can appeal further to the Interior Board of Land Appeals (IBLA).

The Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (RSFA) requires the Department to render final decisions on administrative appeals involving Federal oil and gas leases within 33 months of the filing of the appeal. Emphasis for the Appeals Division will be on resolving outstanding appeals cases within the first 16 months of the RSFA review period so



that IBLA has adequate time to review lessee's appeals of MMS decisions or use Alternative Dispute Resolution to effectively resolve disputes.

### ***Implementation of the President's Management Agenda and the Secretary's Plan for Citizen-Centered Governance***

On August 25, 2001, OMB released the President's Management Agenda (PMA), an integrated plan to reform the management of the Federal Government. The Agenda sets out specific steps to accomplish reforms through five government-wide initiatives:

- Strategic Management of Human Capital;
- Competitive Sourcing;
- Improving Financial Performance;
- Expanding Electronic Government; and
- Budget and Performance Integration.

The PMI Office is actively engaged in working on these initiatives, bringing an objective focus and consistent direction across MMS, and ensuring that the initiatives are implemented in a mutually reinforcing manner. The PMI serves as the principal in reporting on their status, and ensuring improvement plans are in place. In addition, PMI has the lead with regards to the MMS initiatives on Expanding Electronic Government (E-Gov) and Budget and Performance Integration.

E-Gov is a consistent thread woven through all the PMA initiatives. To ensure that opportunities for E-Gov are actively explored, PMI leads efforts in E-Gov strategic planning, implementing departmental and government wide E-Gov initiatives, and exploring the potential to improve business processes and management of the organization through the application of E-Gov principles.

A key for success in the PMA is the ability to provide complete information to managers about program costs, resources and performance. The PMI office leads MMS's initiative to apply activity-based costing/management (ABC/M) methods to its operations. Since implementing a bureauwide ABC/M system in October 2002, MMS has added the ability to cost program outputs to its system. By FY 2006, MMS hopes to have sufficient reliable data available to perform trend analysis. In FY 2006, MMS will continue to refine its system and methods, working with the Department to ensure consistency and compatibility while avoiding duplication with Departmental ABC implementation efforts.

### ***Planning***

Strategic planning and accountability for results is woven into the culture of MMS. The PMI has overall responsibility for coordinating and guiding the Bureau in developing and implementing all of its strategic and annual implementation plans and ensuring they are linked to the Department's plans. The PMI ensures MMS success in the planning process through monitoring and reporting performance, as well as initiating strategic planning process improvements.

Continuing efforts in the current fiscal year and beyond will focus on:

- Increasing the integration of strategic and operational information in planning and budgeting activities;
- Improving the reporting of verified and validated performance information such that it is useful to managers and decisionmakers;
- Creating stronger linkages between performance and the budget; and
- Ensuring more accountability for program performance through alignment with managers' and employees' performance plans.

### ***Program Evaluation and Review of Internal Management Controls***

The PMI leads an integrated evaluation process, which includes a web-based tracking module, to ensure that results of all evaluations conducted of MMS programs and activities are tracked, analyzed, and the status provided quarterly to executives for use in decisionmaking. The evaluation process includes both internal and external reviews such as GAO and OIG audits, management control reviews, risk assessments, performance assessments, ABC data reviews, administrative reviews, financial management metrics, MBOs, PMA Initiatives, Program Assessment Rating Tool (PART), and other special ad hoc reviews of MMS programs and initiatives. In addition, MMS is taking a bureauwide look at risk assessment, which includes identifying and analyzing potential risks and mitigations to reduce the likelihood that the risk will occur, as a component of the integrated approach to program evaluation.

**FY 2006 BUDGET REQUEST**  
General Administration  
*Administrative Operations Subactivity*

**Table 76: Overview of the Administrative Operations Budget Request**

		<b>FY 2004 Actual (Enacted)</b>	<b>FY 2005 Estimate (Enacted)</b>	<b>FY 2006 Budget Request</b>	<b>Change from FY 2005</b>
<b>Administrative Operations</b>	<b>(\$000)</b>	<b>16,639</b>	<b>16,964</b>	<b>17,025</b>	<b>+0.4%</b>
	<b>FTE</b>	<b>147</b>	<b>147</b>	<b>147</b>	<b>0.0%</b>
<i>Operational Cost Savings</i>	<b>(\$000)</b>	--	--	-400	-400
	<b>FTE</b>	--	--	0	0
<i>Uncontrollables</i>	<b>(\$000)</b>	--	--	461	+461
<i>Previous Administrative Operations FTE estimates included 80 FTE that were reimbursed by IFF. These 80 FTE are now displayed within the IFF section of the FY 2006 Budget Justifications.</i>					

**PROGRAM OVERVIEW**

The Administrative Operations Subactivity consists of the following functions: Administrative Direction and Coordination, Budget, Finance, Equal Employment and Development Opportunity, Human Resources, Procurement and Information Management. All administrative operations are directed and carried out at MMS Headquarters and nationwide through six divisions and two administrative service centers: the Western Administrative Service Center and the Southern Administrative Service Center. This subactivity contributes to all five PMA components: Strategic Management of Human Capital, Competitive Sourcing, Financial Performance, Expanding Electronic Government, and Budget and Performance Integration.

***Administrative Direction and Coordination***

Administrative direction and coordination provides for oversight of all administrative activities within MMS. This oversight ensures compliance with laws relating to administrative activities, provides for the review, interpretation, and implementation of Federal executive branch administrative policies and procedures, and develops appropriate guidance to ensure compliance with DOI, OMB, GSA, and other executive branch administrative policies and regulations.

This function also includes responsibility for the Bureau's management analysis functions, such as management studies and reviews, organizational reviews, delegations of authority and related activities, and special projects. In addition, this function maintains a liaison with Departmental offices in order to provide a coordinated and unified administrative program consistent with the mission and goals of the Department. Other activities include budget formulation and execution for the General Administration Activity, providing management services to the Bureau Aviation Safety Program, and reviewing and monitoring the transportation subsidy program for fiscal responsibility.

Additionally, the administrative direction and coordination function provides a proactive homeland security program to ensure nationwide protection of employees, visitors, resources and

facilities, which includes educating employees and conducting physical security assessments to increase awareness and strengthen security measures. The Bureau's goal is to be prepared and to have appropriate emergency management plans in place for any unplanned event or unforeseen circumstance that might cause significant disruption of mission functions.

**Continuity of Operations Program (COOP):** The MMS will continue with ongoing efforts to ensure that operations continue in the face of emergency conditions of any nature. These efforts include COOP planning, training and exercises, and providing for alternate relocation facilities, alternate interoperable communications, and alternate database/records access. Despite increased emphasis and cost since 9/11, MMS has been supporting this effort from headquarters without receiving additional funding.

**Smart Card Technology:** Consistent with the Government-wide E-Authentication initiative, MMS will continue implementation of state-of-the-art smart card technology at all MMS locations, which will vastly improve identification and information security. A single smart card can be used for building access control, data security, encryption, digital signature, and biometrics, such as fingerprints. In Fiscal Year 2004, MMS requested \$250,000 to boost its efforts in this area; this amount is now included in the base funding for use in subsequent fiscal years.

### ***Budget Division***

The Budget Division provides budget analysis and guidance to ensure that the Bureau receives and maintains proper funding and staff allocations. The Budget Division develops and maintains all budgetary data to support the MMS budget requests to the Department, the Office of Management and Budget (OMB), and Congress, and provides analysis of financial and other resource utilization reports for use by Bureau and program managers. The Budget Division is responsible for preparing the annual fiscal year budget estimates and the annual Budget Justifications that MMS submits to Congress.

The Budget Division also supports the Department's efforts to increase the integration of the budget and the Government Performance and Results Act requirements. To that end, MMS implemented Activity-Based Costing in October 2002 in accordance with the Department's schedule. In addition, the Budget Division works with the Policy and Management Improvement Office and program level performance staff to integrate performance data and information into all aspects of budget formulation and execution.

### ***Finance Division***

The Finance Division is responsible for the planning and effective utilization of financial system resources in support of the varied operating and support programs of the Bureau. The Finance Division serves as the focal point for the implementation of the provisions of the Chief Financial Officer's Act of 1990 including liaison responsibilities for the annual audit of the combined financial statements contained in the Annual Financial Report for the Bureau.

This Division is responsible for the administrative accounting operations of the Bureau. Finance manages the administrative accounting system, audits and schedules bills for payments, collects debts, develops financial data, prepares financial reports, provides advice and guidance on financial matters, and maintains liaison with Departmental offices and other Federal agencies. It is both a PMA item and a long-term goal of MMS to ensure that timely and accurate financial data are readily available to assist MMS management in making sound and justified management decisions. In support of these priorities, MMS has moved aggressively during the past two years to respond to recommendations made by OIG to improve financial performance. These efforts have resulted in MMS receiving an unqualified opinion on the FY 2003 and the FY 2004 Annual Financial Reports.

### ***Equal Employment and Development Opportunity Division (EEDOD)***

The EEDOD develops, directs, monitors, and operates the MMS Equal Employment Opportunity (EEO) program in compliance with the Civil Rights Act of 1964, the Equal Employment Opportunity Act of 1972, Executive Order 11478, departmental directives, and other related statutes and orders. Specifically, the responsibilities of MMS-EEDOD include:

- Maintenance and operation of the discrimination complaint system;
- Implementation of Equal Employment Opportunity and Affirmative Employment Plans;
- Implementation of programs for diversity higher education and related partnerships;
- Administration of the Employee Assistance Program;
- Administration of programs for dispute resolution alternatives;
- Development of training policy and coordination with the Bureau, the Department and other agencies concerning employee development issues and employee training programs;
- Oversight of special initiative programs designed to involve more women, minorities and people with disabilities in the program areas and throughout all levels of management;
- Coordination of responses to Solicitors Office EEO issue requests; and
- Compliance with the Departmental Office for Equal Opportunity and EEO Commission directives.

The EEDOD provides policy, coordination, and direction for MMS developmental programs, such as managing and monitoring the equity of employee development opportunities associated with formal developmental program and cross training assignments. Emphasis is placed on training managers and supervisors in employee development and human resources planning. To ensure that workforce activities are inclusive in that they promote the full utilization and exchange of skills and talents, the Division is working to develop special emphasis activities, implement EEO complaints prevention initiatives, and track and analyze applicant flow data and employment trends.

### ***Human Resources Division***

The Human Resources Division develops and implements policies, procedures, guidelines, and standards relating to general personnel management, recruitment and employment, position management and classification. The Human Resources Division work includes preparing appropriate reports, performing all operational personnel services for Headquarters and client

organizations, and providing assistance and guidance related to personnel matters for all regional and field installations. The work of this division focuses on employee relations and services, including personnel program evaluation, labor/management relations, advising employees about conflict of financial interest and standards of conduct, and administering incentive awards programs, family friendly programs, the Federal Equal Opportunity Recruitment Program, and Senior Executive Service program.

The Human Resources Division also leads all MMS workforce-planning initiatives, which include analyzing the current workforce, identifying future workforce needs and preparing plans for building the workforce needed in the future. The following chart outlines several of MMS’s workforce challenges and the solutions for meeting those challenges.

**Table 77: Workforce Challenges and Solutions**

<b>Mission Challenges</b>	<b>Workforce Challenges</b>	<b>Solution/ Activity</b>	<b>Positive Impact on Program Performance</b>	<b>Impact to Program if not addressed</b>
Changes in the Oil and Gas Industry	Staffing Gaps in Engineering & Geoscientist Occupations	Innovative recruitment to include: <ul style="list-style-type: none"> <li>▪ Recruitment Team activity</li> <li>▪ Targeted advertising</li> <li>▪ Specific Recruitment Web site and employer branding</li> <li>▪ State-of-the-art recruitment brochures for use at career fairs, conferences, etc.</li> <li>▪ Centralized staffing through the MMS DEU</li> <li>▪ Fully automated on-line application processes</li> <li>▪ Job-specific customized applicant assessment tools</li> <li>▪ Innovative use of hiring flexibilities</li> <li>▪ Use of the Federal Career Intern Program and other intern programs</li> <li>▪ Wide use of quality of worklife initiatives</li> <li>▪ Tuition Assistance</li> <li>▪ Outreach/Public Education Activities</li> <li>▪ Use of recruitment and hiring incentives</li> </ul>	Gap will decrease and eventually close.  OMM will be able to meet industry demands and performance goals while preparing for future challenges.	OMM will be impaired, if not crippled, in its ability to meet industry demands and performance goals.
E-Gov Transformations	Major Changes in MMS Business Processes	<ul style="list-style-type: none"> <li>▪ Through the implementation and use of a Learning Management System, assess workforce skill gaps and training needs.</li> <li>▪ Acquire and conduct training on new business processes</li> </ul>	Highly skilled and well trained staff that is capable of meeting business process goals .	Failure of E-Gov transformation efforts and inability to perform new business processes .
Royalty-in-Kind Expansion	Shift from Accountants and Auditors to RIK Business Specialists	<ul style="list-style-type: none"> <li>▪ Through the implementation and use of a Learning Management System, assess workforce skill gaps and training needs</li> <li>▪ Retrain existing staff in RIK business processes</li> <li>▪ As attrition occurs, hire for new skills using customized applicant assessment tools and other strategic recruitment initiatives.</li> </ul>	Successful expansion of RIK.	Inability to make a smooth transition and delays in fully implementing RIK.
Aging Workforce - Particularly Managers and Supervisors	Few Mid-Level Staff in Positions to “Pipeline”	<ul style="list-style-type: none"> <li>▪ Through the implementation and use of a Learning Management System, assess workforce skill gaps and training needs</li> <li>▪ Use of leadership potential competencies in applicant assessment tools</li> </ul>	Manageable impact to operations as senior leaders and experts with institutional	Inability to meet workforce demands and performance goals .

**Table 77: Workforce Challenges and Solutions**

Mission Challenges	Workforce Challenges	Solution/ Activity	Positive Impact on Program Performance	Impact to Program if not addressed
		<ul style="list-style-type: none"> <li>▪ Participation in professional and leadership development programs for mid-level and journeyman level employees in non-supervisory positions</li> <li>▪ Establishment of an MMS Mid-Level Development Program</li> <li>▪ Broad use of rotational assignments, temporary promotions, and details</li> <li>▪ Use of innovative recruitment and staffing initiatives (see above)</li> </ul>	knowledge retire or leave.	

The total cost of these workforce planning activities, if broken out individually, is estimated to be from \$500,000 to \$800,000. The cost for employee salaries and benefits and contractor support is in addition to this figure. The long-term benefits include the ability of MMS to meet its mission and performance goals.

***Procurement Division***

The Procurement Division is responsible for the execution and administration of MMS acquisitions, space and facilities management, property management, safety and health management, transportation and general office services functions.

The Division provides acquisition and financial assistance policy guidance, cost and price analysis, and advice to procurement and program personnel. It conducts acquisition management and other internal control reviews of procurement activities. The Procurement Division administers the purchase and fleet business lines of the MMS charge card program.

The Procurement Operations Branch solicits, awards, and administers contracts, simplified acquisitions, financial assistance awards, and intra- and interagency agreements essential to the mission of MMS. In addition, this division manages the Business and Economic Development Program to maximize opportunities for small, disadvantaged, and women-owned businesses, as well as historically black colleges and universities as both prime contractors and subcontractors.

***Support Services***

Support Services includes facilities management (27 buildings in 26 cities), space management, mail and courier activities, bureauwide physical and document security, the Safety and Health Management Program, day-to-day voice and data communications, printing and publication activity, and property management and issuance of policy on these functions. The property management program maintains accountability records of all system-controlled property in the possession and control of custodial property officers and Bureau contractors and manages the vehicle fleet and the Bureau museum property including an Arts and Artifacts program.

### ***Information Management Division (IM)***

The Information Management (IM) Division develops and maintains an overall Agency architecture within the Chief Information Office, based on discussions with and input from each of the MMS offices. The MMS IT Architecture seamlessly integrates IT systems, data, and architectural components in a networking and communications environment. The objective of the IT Architecture is to support DOI and OMB initiatives while providing customers with a comprehensive energy management program.

The IM Division is engaged in an ongoing effort to establish, maintain, and support an IT investment analysis and decisionmaking environment to ensure that investments in IT are well planned, implemented, and at the same time cost effective. As part of the effort, IM participates in the DOI IT Portfolio Management Coordination Group to develop and enhance capital planning and investment control guidance that adheres to both OMB and GAO guidance.

Through the A-130 Compliance Branch, the IM Division implements the Bureau's IT security program. The Bureau IT Security Manager works closely with the Department's CIO Office and IT Security Managers from the MMS program areas to review and improve security plans, policies, procedures, standards, practices, and controls to reflect technological changes.

The IM Division is responsible for the MMS Knowledge Pipeline intranet technology, which plays a vital role in maximizing the distribution and sharing of corporate knowledge across the Bureau, enables MMS to comply with several legislative mandates, and supports the long-range goal of building a corporately managed information management structure for the benefit of MMS as a whole. The Knowledge Pipeline enables MMS to create a knowledge sharing community within a distributed work force, support collaborative work teams, and provide the right information to make optimal business decisions throughout the Bureau.

In addition to the above responsibilities, the IM Division is also:

- Supporting the development of the Interior Enterprise IT Architecture (IEA), the departmental capital asset management process;
- Supporting MMS migration to government-wide e-Government solution, such as e-training and e-travel;
- Transitioning to Department-wide Enterprise IT infrastructure solutions, including Active Directory Messaging, and Enterprise Services Network (ESN);
- Working to implement a Voice over Internet Protocol (VoIP) solution, using a common IT architecture, to replace outdated voice and data communications equipment;
- Working closely with the Department to improve the FOIA program and provide management assistance and direction for the smooth operation of the FOIA and Privacy programs throughout MMS; and
- Reviewing MMS records management policies, manuals, and directives to come into compliance with the Government Paperwork Reduction Act, Government Paperwork Elimination Act (GPEA), and National Archive and Records Administration (NARA) requirements.



**Field Administrative Service Centers**

The Field Administrative Service Centers provide direct administrative support to various MMS program managers through two locations:

**The Southern Administrative Service Center (SASC):** The SASC, located in New Orleans, Louisiana, provides direct administrative support, direction, and coordination to programs in the Gulf of Mexico OCS Region (GOMR), Headquarters’ Information Technology Division, E-Gov Project Management Office, and a resident Minerals Revenue Management (MRM) Compliance Office. The SASC also provides full support to five outlying District/Sub-district GOMR offices.

**The Western Administrative Service Center (WASC):** The WASC, located in Denver, Colorado, provides direct administrative support, direction, and coordination to the Minerals Revenue Management offices in Denver and its field entities, the Office of Policy and Management Improvement, the Offshore Minerals Management Mapping and Survey Staff in Denver, and the Alaska and Pacific OCS Regions.

**FY 2006 FUNDING INITIATIVE**

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**Table 78: Operational Cost Savings Initiative**

	<b>2004 Enacted</b>	<b>2005 Enacted</b>	<b>2006 Request</b>	<b>Change 2005 to 2006</b>
Initiative (\$000)	0	0	-400	-400
FTE	0	0	0	0

**Justification of 2006 Program Change (-\$400K; 0 FTE)**

The MMS continues to review all administrative activities for cost-saving opportunities. For the Administrative Operations subactivity overall, a goal has been established for FY 2006 to reduce costs by \$400,000. The savings will be realized through information technology system consolidation, better coordination of training efforts, and a general reduction in support services costs.

**FY 2006 BUDGET REQUEST**  
General Administration  
*General Support Services Subactivity*

**Table 79: Overview of the General Support Services Budget Request**

		<b>FY 2004 Actual (Enacted)</b>	<b>FY 2005 Estimate (Enacted)</b>	<b>FY 2006 Budget Request</b>	<b>Change from FY 2005</b>
<b>General Support Services</b>	<b>(\$000)</b>	<b>21,690</b>	<b>23,702</b>	<b>24,149</b>	<b>+1.9%</b>
	<b>FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.0%</b>
<i>Office Space Cost Savings</i>	<b>(\$000)</b>	--	--	-56	-56
	<b>FTE</b>	--	--	0	0
<i>Enterprise Information Technology</i>	<b>(\$000)</b>	--	--	803	+803
	<b>FTE</b>	--	--	0	0
<i>Space Reduction</i>	<b>(\$000)</b>	--	--	-217	-217
	<b>FTE</b>	--	--	0	0
<i>Uncontrollables</i>	<b>(\$000)</b>	--	--	-83	-83

**PROGRAM OVERVIEW**

The General Support Services subactivity includes funding for fixed costs and related support services for the entire Bureau. Fixed costs include expenses such as rental of office space, workers' compensation, unemployment compensation, Federal Telecommunications System (FTS) Service/Commercial Communications, the Department's Working Capital Fund (WCF), annual building maintenance contracts, mail services, and necessary printing costs. The two major program objectives are to provide safe and secure facilities that will contribute to the productivity and efficiency of the employees in achieving goals and objectives, and to provide appropriate services in support of MMS operating programs.

**FY 2006 FUNDING INITIATIVES****Table 80: Office Space Cost Savings Initiative**

	<b>2004 Enacted</b>	<b>2005 Enacted</b>	<b>2006 Request</b>	<b>Change 2005 to 2006</b>
Initiative (\$000)	56	56	0	-56
FTE	0	0	0	0

***Justification of 2006 Program Change (-\$55K; 0 FTE)***

The reduction represents additional costs savings MMS will realize from the closure of OMM's office in Santa Maria, CA. The amount represents the rental costs and support services associated with the office.

**Table 81: Enterprise Information Technology Initiative**

	<b>2004 Enacted</b>	<b>2005 Enacted</b>	<b>2006 Request</b>	<b>Change 2005 to 2006</b>
Initiative (\$000)	0	0	803	+803
FTE	0	0	0	0

**Justification of 2006 Program Change (+\$803K; 0 FTE)**

The 2006 budget includes a net program change of \$803,000 for enterprise information technology investments for IT certification and accreditation of legacy systems; investments in e-government; and implementation of the enterprise services network.

**IT Certification and Accreditation of Legacy Systems:** In 2006, the Department will continue to focus on improving IT security. The 2006 budget includes \$12.8 million DOI-wide for coordinated certification and accreditation (C&A) activities, including \$2.9 million collected through the Department’s working capital fund. The MMS funding in 2006 includes a total of \$220,000, which will be collected through the DOI working capital fund to support centralized activities to enhance efficiencies; reduce overall costs; enhance the quality, consistency, and documentation supporting accreditations; and prioritize remediation activities.

In 2004, Interior strengthened its IT security program by accelerating the timeframes for completing C&A using government-wide standard processes. As of November 15, 2005, Interior had significantly improved its security posture, having certified and accredited 161 of its 165 production systems, or 98 percent. Now that a preponderance of systems are formally managed with regard to security, challenges remain to schedule and remediate weaknesses discovered through C&A, Inspector General, or annual reviews. Furthermore, once established, accreditation status must be maintained through system functional releases and infrastructure modernization. During 2005 and 2006, the Department and its bureaus are completing third party reviews of completed certification and accreditations; remediating identified risks; and establishing the necessary security program infrastructure to allow ongoing maintenance of accreditation status in an efficient and effective manner. These activities include:

- Establish or update C&A package contents including risk assessments, planned controls, and testing of controls;
- Where controls are deficient, institute new or upgraded management, operational, or technical controls;
- With adequate rigor, test controls for effectiveness;
- Establish prioritized inventory of items to resolve (plan of action & milestones - POA&M) and resolve in a prioritized manner such that residual risk is acceptable for Authority to Operate;
- Establish standards, procedures, tools, and training to enable the cost effective maintenance of accreditation packages; and
- Improve security activities involving contracted/outsourced IT operations.

**E-Government and Lines of Business:** Interior is an active participant in many e-government initiatives, providing leadership, funding, and in-kind technical and staffing support. These

initiatives strive to eliminate redundant systems and significantly improve the government's quality of customer service for citizens and businesses. The Department is the managing partner for two e-government projects – Recreation One-Stop and Geospatial One-Stop. Interior is serving as one of the government-wide service providers for the e-Payroll initiative and is a leader in the E-Authentication project.

Department-wide spending for E-Government activities that will benefit [Bureau] (excluding fee for service payments) reflected in the 2006 President's budget follow. In addition, the Department is also implementing e-Travel in an integrated fashion with the Financial and Business Management System. Funds to support e-Travel are included in the FBMS budget under Departmental Management. The 2006 MMS budget includes a reduction of \$37,000 to support these e-Government initiatives.

**Enterprise Services Network:** Interior is deploying the Enterprise Services Network to provide secure, state-of-the-art internet and intranet connections and a fully functional operational center for data communications that will be used by the entire Department. In addition to providing better services for many Interior offices, the system will provide a uniformly secure environment, standardized and efficient 24 hour/7 day operations, and improved technical support. The MMS budget includes \$620,000, which will be redirected from legacy network systems to the ESN project. The Department is working with its bureaus to finalize the amounts that will be redirected, and will provide the subcommittees updates to the amounts in the Spring.

In 2004, Interior began to implement Phase I of ESN, which will be completed in December 2005, with deployment of a modern, integrated network backbone that supports telecommunications within the Department. This includes access to the internet, a Department-wide intranet, and a fully operational technical support center. Phase I also transitions management of the National Park Service's wide area network to managed services and thereby simplifies and modernizes a geographically dispersed and outdated architecture.

The return on investment for this system is high. Up-front investments, including the redirection of bureau telecommunication savings, will, in the long-term, result in reduced costs with elimination of duplicative networks, improved performance of data services with less "down time" for many offices, skilled and knowledgeable staff trained to operate standardized and centralized operations, and better support for e-government initiatives.

Phase I of ESN reduces the Department's current 13 Wide Area Networks to one and 33 internet access points to five. For NPS, Lotus Notes maintenance sites were reduced from 253 to seven.

During 2005, the Department will also plan Phase II to expand secure connections to approximately 150 sites located primarily in large cities and approximately 1,500 hubs at other Interior locations.

ESN will also facilitate efforts to consolidate directory services, web hosting, messaging, data warehousing and other applications and systems.

**Table 82: Space Reduction Initiative**

	<b>2004 Enacted</b>	<b>2005 Enacted</b>	<b>2006 Request</b>	<b>Change 2005 to 2006</b>
Initiative (\$000)	0	0	-217	-217
FTE	0	0	0	0

***Justification of 2006 Program Change (-\$217K; 0 FTE)***

Annually Interior spends \$300 million to lease space from the General Services Administration and others. Because of the long-term commitment contained in most leases, savings from this initiative will accrue to a large degree in future years. The 2006 budget assumes initial savings of \$6.0 million.

Recognizing the potential for improved effectiveness and efficiency in the management of space in the long-term, Interior and its bureaus are undertaking reforms in space management. These reforms, which are part of its Asset Management Plan under E.O. 13327, include a more centrally controlled process to manage space, multi-year planning to consolidate dispersed space and co-locate to promote interagency collaboration, and adoption of more equitable allocations of space that adhere to security and safety and health standards. Long-term benefits are expected to result from Interior's space management reform, which will utilize best practices now in place. Multi-year plans will be used to focus on improved effectiveness and efficiency in supporting bureau missions and guide future lease arrangements and the use of owned space in order to maximize consolidation and co-location. By strategically analyzing and planning space management needs and opportunities, the Department will also be able to consider workforce changes such as telecommuting, information technology solutions, and other factors in making future arrangements for facilities.

MMS will target areas for consolidation and collocation in implementing the reduction.

## FY 2006 BUDGET REQUEST

### Interior Franchise Fund

**Table 83: Overview of the Interior Franchise Fund (IFF) Funding**

(\$000,000)	2004 Actual	2005 Estimate	Change From 2004	2006 Estimate	Change From 2005
Unobligated Balance, start of year*	721	735	+14	745	+10
New budget authority*	1,543	1,697	+154	1,867	+170
Total budgetary resources*	2,264	2,432	+168	2,612	+180
FTE	96	96	0	96	0

\*Offsetting collections from lines 2140, 2200, & 2390 in the IFF P&F table.

### PROGRAM OVERVIEW

In 1994, the *Government Management Reform Act* (P.L. 103-356) authorized creation of six executive agency pilot franchise funds. The Department of the Interior's application was approved in May 1996 by the Director of the Office of Management and Budget. The Interior Franchise Fund (IFF) may provide common administrative services to the Department of the Interior and other Federal agencies.

The objective of the Pilot Franchise Fund Program is to reduce the cost of government to the taxpayer by streamlining the acquisition of commonly required administrative products and services. Common administrative services are those functions all agencies require to perform their missions. The list of administrative services includes, but is not limited to, procurement, financial assistance, personnel, finance, property, and facilities management.

Congress initially granted six pilot franchise funds with authority to operate through Fiscal Year 1999. While one pilot franchise fund became permanent, the remainder receive annual reauthorization. The Consolidated Appropriations Act, 2005 (Public Law 108-447) reauthorizes the IFF through October 1, 2005.

The IFF became a virtual organization under the executive direction of the Deputy Chief Financial Officer for DOI in 1997. The National Business Center (NBC) managed day-to-day IFF operations. By the end of Fiscal Year 2002, MMS's GovWorks accounted for nearly 95 percent of the total IFF revenue. Following a report by the Inspector General, the Department decided to align the IFF under MMS and separate the NBC business lines. The NBC consolidated its entire fee-for-service operations under the Interior Working Capital fund. The MMS assumed responsibility for IFF operations in FY 2003.

The IFF has special authorities not available to all revolving funds. Public Law 104-208 authorizes the IFF to:

- Bill agencies in advance for the cost of providing services;
- Retain 4 percent of the total annual revenue for each fiscal year for capital equipment and improvement in reserve;

- Retain fees until expended; and
- Retain an operating reserve.

In 1996 OMB defined 12 business-like operating principles for the pilot franchise funds. In 2003, the Government Accountability Office (GAO) used these principles to evaluate the IFF. Their August 2003 report to Congress found that the IFF had:

- Taken into account many of the 12 business operating principles;
- Designed their cost accounting processes to set fees to recover the full cost of operations; and
- Progressed toward implementing the five main cost accounting standards.<sup>1</sup>

The GAO noted that GovWorks had seen dramatic growth in revenue and workload since FY1997 and that the IFF had been subject to an audit of its financial statements at the franchise-fund level through fiscal year 2002. In subsequent fiscal years, the IFF was included in the MMS financial audit.

### ***GovWorks Business Line***

GovWorks is a Federal acquisition center providing a variety of procurement, cooperative agreement, and grant agreement services to other Federal agencies on a service-for-fee basis. The MMS began offering acquisition services to the Federal government under the “brand” GovWorks to distinguish its activities from other Federal acquisition providers. The demand for services began modestly, but grew rapidly as agencies found GovWorks to be a reliable acquisition services source. GovWorks awarded contracts worth more than \$1.3 billion in FY 2003, and \$1.5 billion in FY 2004.

GovWorks services include acquisition planning, soliciting proposals and prices, negotiating contracts, awarding and administering contracts through to close out, and paying contract bills. Contract administration is an integral service which ensures the government receives the goods and services contracted on time and meeting the terms and conditions negotiated. Acquisition services are not restricted to limited offerings such as GSA’s FTS program or to providing government-wide acquisition contracts such as the Commerce Department or HHS.

GovWorks has an active Contracting Officer Technical Representative (COTR) certification program to ensure qualified representatives are monitoring contractor performance. The COTR certification program requires 40 hours of training and biannual maintenance training.

### ***GovWorks Operations***

GovWorks operation is self-sustaining. Fees charged client agencies pay all operational costs. Since the inception of GovWorks, revenue from fees charged client agencies has covered operating expenses without direct appropriations from Congress. GovWorks operations are not subsidized by MMS or the Department of the Interior. The following tables (Program and Financing, Statement of Operations, and Balance Sheet) summarize the IFF’s fiscal status:

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<sup>1</sup> The Standards are set forth in SFFAS No. 4.

**Table 84: IFF Program and Financing Table**

Department of the Interior Minerals Management Service <b>Interior Franchise Fund (IFF)</b> <i>Program and Financing</i> (dollars in millions)				
<b>Treasury Account ID: 14-4529</b>		<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
		<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>
<b>Obligations by program activity</b>				
0000	Interior Franchise Fund Activities	1,529	1,687	1,864
1000	Total new obligations	1,529	1,687	1,864
<b>Budgetary resources available for obligation</b>				
2140	Unobligated balance, start of year	721	735	745
2200	New budget authority (gross)	1,543	1,697	1,867
2390	Total budgetary resources available for obligation	2,264	2,432	2,612
2395	Total new obligations	-1,529	-1,687	-1,864
2440	Unobligated balance carried forward, end of year	735	745	748
<b>New budget authority (gross), detail</b>				
6900	Offsetting collections (cash)	1,633	1,697	1,867
6910	Change in uncollected customer payments from Federal sources (unexpired)	-90		
6990	Spending authority from offsetting collections	1,543	1,697	1,867
<b>Change in Obligated balances</b>				
7240	Obligated balance, start of year	441	659	622
7310	Total new obligations	1,529	1,687	1,864
7320	Total outlays (gross)	-1,401	-1,724	-1,927
7400	Change in uncollected customer payments from Federal sources (unexpired)	90		
7440	Obligated balance, end of year	659	622	559
<b>Outlays (gross), detail</b>				
8697	Outlays from new mandatory authority	831	1,358	1,494
8698	Outlays from mandatory balances	570	366	433
8700	Total outlays (gross)	1,401	1,724	1,927
<b>Net budget authority and outlays</b>				
8900	Budget authority	0	0	0
9000	Outlays	-232	27	60



**Table 85: IFF Statement of Operations Table**

Department of the Interior Minerals Management Service <b>Interior Franchise Fund (IFF)</b> <i>Statement of Operations</i> (dollars in millions)				
<b>Treasury Account ID : 14-4529</b>		<b>FY 2004 Actual</b>	<b>FY 2005 Estimate</b>	<b>FY 2006 Estimate</b>
101	Revenue	1,351	1,697	1,867
102	Expenses	-1,333	-1,682	-1,854
105	Net income or loss (-)	18	15	13
199	Total Comprehensive income	18	15	13

**Table 86: IFF Balance Sheet Table**

Department of the Interior Minerals Management Service <b>Interior Franchise Fund (IFF)</b> <i>Balance Sheet</i> (dollars in millions)				
<b>Treasury Account ID: 14-4529</b>		<b>FY 2004 Actual</b>	<b>FY 2005 Estimate</b>	<b>FY 2006 Estimate</b>
<b>Federal Assets</b>				
1101	Fund balances with Treasury	1,394	1,656	1,784
1106	Accounts Receivable: Due From Federal Agencies	7	14	23
1999	Total assets	1,401	1,670	1,807
<b>Federal Liabilities</b>				
2101	Accounts Payable	237	247	271
2105	Deferred Revenue: Due To Federal Agencies	1,137	1,384	1,484
2999	Total Liabilities	1,374	1,631	1,755
4999	Total Liabilities and Net Position	1,401	1,670	1,807

A written obligation of funds and a statement of bona fide need accompany all orders to GovWorks for services. The GAO, after reviewing the IFF’s operating authority, agreed that GovWorks could retain the funds transferred to it until they were expended as long as the ordering agency had a bona fide need during the fiscal year in which the funds were appropriated. GovWorks has controls in place to track and monitor the receipt of orders for services and the transfer of funds. The business, procurement, and accounting systems that support GovWorks link to share transactional information. The Business Information System and MMS’s financial system record all transactions. The customer agency receives a complete financial transaction summary through a password-protected, Web-enabled, reporting system.

Agency project managers have said the financial summary is an invaluable tool for managing their projects.

### ***Relationship of the IFF to MMS's Primary Mission***

The MMS and DOI benefit from GovWorks' operations through the development of high-quality professional acquisition staff with the knowledge and expertise to support MMS and Departmental acquisition needs.

Recently, the Interior Procurement Executive chartered GovWorks to award the integrated DOI Financial and Business Management System (FBMS) an Enterprise Resource Planning (ERP) solution to replace multiple administrative management systems. Using due diligence sessions and a statement of objectives rather than a formal statements of work, GovWorks significantly reduced acquisition lead time and was able to provide offerors with an in-depth picture of Interior's needs before submitting proposals. The FBMS will replace the stove-piped financial, acquisition, financial assistance, procurement, grant, ABC, property, travel, and fleet management systems with a single solution for the Department that will improve cost containment and lower investment costs. In 2004, available franchise fund resources of \$11.0 million were used to support implementation of the Enterprise Services Network (\$5.0 million) and the Financial and Business Management System (\$6.0 million). The justification of these projects is included in the Departmental Management budget justification.

In 2005, an estimated \$11.0 million of franchise fund resources will be used to support FBMS implementation; similarly, in 2006, an estimated \$8.0 million is planned for FBMS. In March of 2005, MMS will be one of three bureaus (including GovWorks) to implement the first phase of the FBMS Financial Assistance deployment. In October and November of 2005, MMS and GovWorks will implement the remaining FBMS functionality.

As a provider of acquisition management services, GovWorks manages the MMS OCS-CONNECT acquisition; bureauwide Voice Over IP (VOIP) telephone, contract and other IT support service contracts. The list of contracts that GovWorks has awarded on behalf of DOI Bureaus demonstrates the direct support to the Department's and MMS's missions. Equally important is the professional acquisition resource that GovWorks is developing. GovWorks has an active professional career development program that will ensure that the Department has a trained acquisition workforce capable of meeting the Department's mission now, as well as in the future.

## **STRATEGIC DIRECTION**

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The rapid growth in FY 2003 highlighted the need for staffing changes, procedural adjustments, and additional structure. Management took action to implement staffing changes to bring the workload more into balance through an aggressive training program and scaling growth of new agency clients over a longer period of time. An aggressive internal review program was undertaken in 2004 and will continue in 2005 to improve operations and compliance. A new franchise fund policy team will be added in 2005 to ensure that policies and procedures are in place to improve operations.

During 2004, a comprehensive two-year Strategic Business Plan to define, focus, and direct actions in accordance with organizational goals was developed. The two-year Strategic Business Plan will guide GovWorks evolution and improve operations. Monthly staff meetings include training on ethics, best practices, acquisition regulation changes and customer relations.

The separation of GovWorks and MMS procurement operations was completed in 2004. GovWorks is now a division under the Associate Director for Administration and Budget.

### ***Accomplishments***

GovWorks has been a performance-based service contracts (PBSC) leader within the Department. Over the last year, it has expanded the use of statements of objectives (SOO) and other innovative procurement methods. The acquisition methods developed and tested by GovWorks' professionals have been shared during training sessions at the annual Interior Acquisition Conference and through outreach training to the Federal acquisition community on proper use of the Federal Supply Schedule Program through a partnership with GSA. GovWorks and the Department are working closely with the Department of Defense (DOD) to ensure that all DOD related acquisitions meet Section 803 competition rules and other polices unique to the DOD.

### ***Planned Activities for FY 2005***

- Implement the FY 2005/2006 Strategic Business Plan to position GovWorks for the future acquisition environment.
- Obtain unqualified audit opinions on IFF financial statements.
- Continue to maintain a competitive fee that will sustain operating expenses without direct appropriations.
- Provide MMS and DOI with quality acquisition support.
- Offset MMS and DOI operating expenses by paying for administrative expenses and supporting DOI FBMS and Enterprise Server Network costs through the IFF capital improvement reserves.
- Continue administration and oversight of FBMS contract implementation.
- Continue to evaluate customer satisfaction and the quality of customer services by asking existing customers what and how the IFF can do better. Lessons learned will be incorporated into future tactical plans.
- Continue to explore leveraging cutting-edge technologies and maximizing future opportunities for the benefit of MMS, DOI and other agencies.
- Continue to provide top quality services.
- Ensure that performance and award procedures comply with all Federal, Departmental, and MMS rules and regulations.
- Support government-wide implementation of the Intragovernmental Transaction Exchange Portal.

***Planned Activities for FY 2006***

- Implement the FY 2005/2006 Strategic Business Plan to position GovWorks for improving the acquisition environment.
- Obtain unqualified audit opinions on IFF financial statements.
- Continue to maintain a competitive fee that will sustain operating expenses without appropriations.
- Continue administration and oversight of FBMS contract for full DOI bureau implementation.
- Continue to evaluate customer satisfaction and the quality of customer services by asking existing customers what and how the IFF can do better. Lessons learned will be incorporated into future tactical plans.
- Continue to explore leveraging cutting-edge technologies and maximizing future opportunities for the benefit of MMS, DOI and other agencies.
- Continue to provide top quality services.
- Ensure performance and award procedures comply with all Federal, Departmental, and MMS rules and regulations.
- Support government-wide implementation of the Intragovernmental Transaction Exchange Portal.
- Support government-wide implementation of the IGT portal for GovWorks customers ordering any products or services.

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**FY 2006 BUDGET REQUEST**  
**MMS Authorizing Statutes**

**Outer Continental Shelf (OCS) Lands**

43 U.S.C. 1331, et seq. The Outer Continental Shelf (OCS) Lands Act of 1953, as amended, extended the jurisdiction of the United States to the OCS and provided for granting of leases to develop offshore energy and minerals.

43 U.S.C. 4321, 4331-4335, 4341-4347 The National Environmental Policy Act of 1969 required that Federal Agencies consider in their decisions the environmental effects of proposed activities and that Agencies prepare environmental impact statements for Federal actions having a significant effect on the environment.

16 U.S.C. 1451, et seq. The Coastal Zone Management Act of 1972, as amended, established goals for ensuring that Federal and industry activity in the coastal zone be consistent with coastal zone plans set by the States.

16 U.S.C. 1531-1543 The Endangered Species Act of 1973 established procedures to ensure interagency cooperation and consultations to protect endangered and threatened species.

42 U.S.C. 7401, et seq. The Clean Air Act, as amended, was applied to all areas of the OCS except the central and western Gulf of Mexico. OCS activities in those non-excepted areas will require pollutant emission permits administered by the EPA or the States.

16 U.S.C. 470-470W6 The National Historic Preservation Act established procedures to ensure protection of significant archaeological resources.

30 U.S.C. 21(a) The Mining and Minerals Policy Act of 1970 set forth the continuing policy of the Federal Government to foster and encourage private enterprise in the orderly and economic development of domestic mineral resources and reserves.

30 U.S.C. 1601 The Policy, Research and Development Act of 1970 set forth the continuing policy et seq. of the Federal Government to foster and encourage private enterprise in the orderly and economic development of domestic mineral resources and reserves.

33 U.S.C. 2701, et seq. The Oil Pollution Act of 1990 established a fund for compensation of damages resulting from oil pollution and

provided for interagency coordination and for the performance of oil spill prevention and response research. It also expanded coverage of Federal requirements for oil spill response planning to include State waters and the transportation of oil. The Act also addressed other related regulatory issues.

43 U.S.C. 1301      The Marine Protection, Research, and Sanctuaries Act of 1972 provided that the Secretary of Commerce must consult with the Secretary of the Interior prior to designating marine sanctuaries. The MMS provides information and comments regarding the mineral resource potential in areas being considered for designation as marine sanctuaries.

16 U.S.C. 1361-1362, 1371-1384, 1401-1407      The Marine Mammal Protection Act of 1972 provides for the protection and welfare of marine mammals.

P.L. 104-58      The Deepwater Royalty Relief Act provides royalty rate relief for offshore drilling in deepwater of the Gulf of Mexico (GOM).

### **Minerals Revenue Management Program**

25 U.S.C. 397, et seq.      The Indian Mineral Leasing Act of 1891, as amended, authorizes mineral leasing on land bought and paid for by American Indians.

25 U.S.C. 396, et seq.      The Indian Minerals Leasing Act of 1909 authorizes oil and gas leases on American Indian allotted lands.

25 U.S.C. 396-396(g), et seq.      The Indian Mineral Leasing Act of 1938 authorizes oil and gas lease on American Indian Tribal lands and provides uniformity with respect to leasing of Tribal lands for mining purposes.

30 U.S.C. 181, et seq.      The Mineral Leasing Act of 1920 (MLA) provides for classification and leasing of coal, oil, oil shale, natural gas, phosphate, potassium, sulfur, and sodium and the payment of bonuses, rents, and royalties on such leases.

43 U.S.C. 1331, et seq.      The Outer Continental Shelf Lands Act of 1953 provides for granting of leases to develop offshore energy and minerals; provides for bonuses, rents, and royalties to be paid in connection with such leases; and calls for sharing certain revenues with coastal states.

30 U.S.C. 1001, et seq.      The Geothermal Stream Act of 1979 authorizes the Secretary to issue leases for the development of geothermal energy and

provides for receipt sharing with the States.

- 30 U.S.C. 181, et seq. The Combined Hydrocarbon Leasing Act of 1981 provides for combined hydrocarbon leases and receipt sharing with the States for such leases within their boundaries.
- 25 U.S.C. 2101, et seq. The Indian Minerals Development Act of 1982 provides that any American Indian Tribe may enter into lease agreements for minerals resources within their boundaries with the approval of the Secretary. Allotted landowners may join Tribal mineral agreements.
- 30 U.S.C. 1701, et seq. The Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA) provides for comprehensive fiscal and production accounting and auditing systems to provide the capability of accurately determining oil and gas royalties, interest, fines, penalties, fees, deposits, and other payments owed and to collect for such amounts in a timely manner.
- 106 Stat. 1374 The Omnibus Budget Reconciliation Act of 1993 required withholding from mineral receipts before their distribution to States to recover a portion of the Federal mineral leasing program costs (Net Receipts Sharing).
- 110 Stat. 1700 The Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (P.L. 104-185) changes the royalty collection program by establishing a 7-year statute of limitations, limits of appeals, requires the government to pay interest on royalty overpayments, changes definitions, and allows for delegation of certain functions.
- P.L. 105-277 Omnibus Act of 1999 General Provisions Department of the Interior Sec. 130 Oil Valuation Rider Sec. 139 - Small Refiner Ratification of Payments.
- PL 102-486 The Energy Policy Act of 1992 requires the Secretary of the Interior to disburse monthly to States all mineral leasing payments authorized by Section 6 of the MLA.
- PL 106-393 The Mineral Revenue Payments Clarification Act of 2000, Title V of the Secure Rural Schools and Community Self-Determination Act of 2000, repealed Net Receipts Sharing whereby States no longer paid for a portion of the Federal cost to administer the Federal Onshore mineral leasing program.



## Permanent Appropriations Distribution

- 16 U.S.C. 499 Provides for forest fund payments to a State of 25 percent of all monies received during any fiscal year from each national forest be paid at the end of that year to the State in which that forest is situated.
- 33 U.S.C. 701, et seq. The Flood Control Act of 1936 provides that 75 percent of flood control revenue collected be shared with the State in which it was collected.

## General Administration

- 31 U.S.C. 65 Budget and Accounting Procedures Act of 1950
- 31 U.S.C. 3901-3906 Prompt Payment Act of 1982
- 31 U.S.C. 3512 Federal Managers Financial Integrity Act of 1982
- 5 U.S.C. 552 Freedom of Information Act of 1966, as amended
- 31 U.S.C. 7501-7507 Single Audit Act of 1984
- 41 U.S.C. 35045 Walsh Healy Public Contracts Act of 1936
- 41 U.S.C. 351-357 Service Contract Act of 1965
- 41 U.S.C. 601-613 Contract Disputes Act of 1978
- 44 U.S.C. 35 Paperwork Reduction Act of 1980
- 44 U.S.C. 2101 Federal Records Act 1950
- 40 U.S.C. 4868 Federal Acquisition Regulation of 1984
- 31 U.S.C. 3501 Privacy Act of 1974
- 31 U.S.C. 3501 Accounting and Collection
- 31 U.S.C. 3711, 3716-19 Claims
- 31 U.S.C. 1501-1557 Appropriation Accounting

5 U.S.C. 1104 <u>et seq.</u>	<u>Delegation of Personnel Management Authority</u>
31 U.S.C. 665-665(a)	<u>Anti-Deficiency Act of 1905, as amended</u>
41 U.S.C. 252	<u>Competition in Contracting Act of 1984</u>
18 U.S.C. 1001	<u>False Claims Act of 1982</u>
18 U.S.C. 287	<u>False Statements Act of 1962</u>
41 U.S.C. 501-509	<u>Federal Grant and Cooperative Agreement Act of 1977</u>
41 U.S.C. 253	<u>Federal Property and Administrative Services Act of 1949</u>
41 U.S.C. 401	<u>Office of Federal Procurement Policy Act of 1974, as amended</u>
15 U.S.C. 631	<u>Small Business Act of 1953, as amended</u>
15 U.S.C. 637	<u>Small Business Act Amendments of 1978</u>
10 U.S.C. 137	<u>Small Business and Federal Competition Enhancement Act of 1984</u>
15 U.S.C. 638	<u>Small Business Innovation Research Program of 1983</u>
10 U.S.C. 2306(f)	<u>Truth in Negotiations Act of 1962 Authorization</u>
Secretarial Order No. 3071	Established the Minerals Management Service in January 1982, under authority provided by Section 2 of Reorganization Plan No. 3 of 1950 (64 Stat. 1262).

**Oil Spill Research**

33 U.S.C. 2701, <u>et seq.</u>	Title VII of the Oil Pollution Act of 1990 authorizes the use of the Oil Spill Liability Trust fund, established by Section 9505 of the Internal Revenue Code of 1986, for oil spill research.
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- 33 U.S.C. 2701, et seq. Title I, Section 1016, of the Oil Pollution Act of 1990 requires a certification process which ensures that each responsible company, with respect to an offshore facility, has established, and maintains, evidence of financial responsibility in the amount of at least \$150,000,000 to meet potential pollution liability.
- 43 U.S.C. 1331, et seq. Section 21(b) of the Outer Continental Shelf Lands Act, as amended, requires the use of the best available and safety technologies (BAST) and assurance that the use of up-to-date technology is incorporated into the regulatory process.
- Executive Order 12777 Signed October 18, 1991, assigned the responsibility to ensure oil spill financial responsibility for OCS facilities to the Secretary of the Interior (Minerals Management Service).