MMS U.S. Department of the Interior
Minerals Management Service

Budget Justifications and Performance Information

Fiscal Year 2007

February 6, 2006

MINERALS MANAGEMENT SERVICE
FY 2007 PERFORMANCE BUDGET REQUEST
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FY 2007 MMS PERFORMANCE BUDGET REQUEST
Director's Preface

The Minerals Management Service (MMS) serves as the steward for America's offshore resources on the Outer Continental Shelf (OCS) and is one of the top revenue collectors for the United States. MMS manages activities that generate 30 percent of America's domestic oil production, 21 percent of America's domestic natural gas production, and now provide, on average, over $8 billion in annual revenues for the Nation, States, and American Indians. The requested funding level for Fiscal Year (FY) 2007 totals $292.3 million, of which only $163.6 million consists of annual appropriations.

With this Budget Request, MMS is requesting funding for core functions associated with managing offshore leasing activities and disbursing mineral revenues. More and more of the offshore leases involve deepwater or deep gas. The effective management of natural resources in these areas requires increasing in-house specialized expertise to address the growing complexity associated with the environmental, scientific, and engineering challenges. In order to contribute to the President's energy security and environmental stewardship goals, MMS must continuously raise the bar on attracting, retaining, and developing human capital while ensuring our highly competent staff has access to the cutting edge tools needed to be effective. While meeting this challenge, MMS continues to invest in future efficiency gains such as e-Gov initiatives.

The Role of MMS: Domestic Energy Production and Revenue Collection

The Federal OCS is a major supplier of oil and natural gas for the domestic market, contributing more to the total U.S. oil and natural gas supply than any single state or country in the world. Over the next five years, OCS production could account for more than 40 percent of U.S. oil production and 23 percent of U.S. natural gas production, mostly due to new discoveries in deepwater and at greater depths beneath the ocean floor. In addition, the Bureau of Land Management is predicting that onshore natural gas production will increase over the next decade. Over the next five years, MMS projects total mineral revenue receipts to exceed $10 billion per year.

Providing Energy for America: Crude oil prices in 2004 almost doubled the 2003 prices; prices rose from about $30 per barrel at the end of 2003 to well above $50 per barrel by the end of 2004. This trend continued through 2005, with prices peaking at almost $70 dollars per barrel and ending the year at over $60 per barrel. The Energy Information Administration suggests that this sharp increase in price is a result of reduced surplus production capacity combined with surging demand both globally and domestically. Against this backdrop, MMS's contributions to the nation's energy needs are becoming more and more critical.

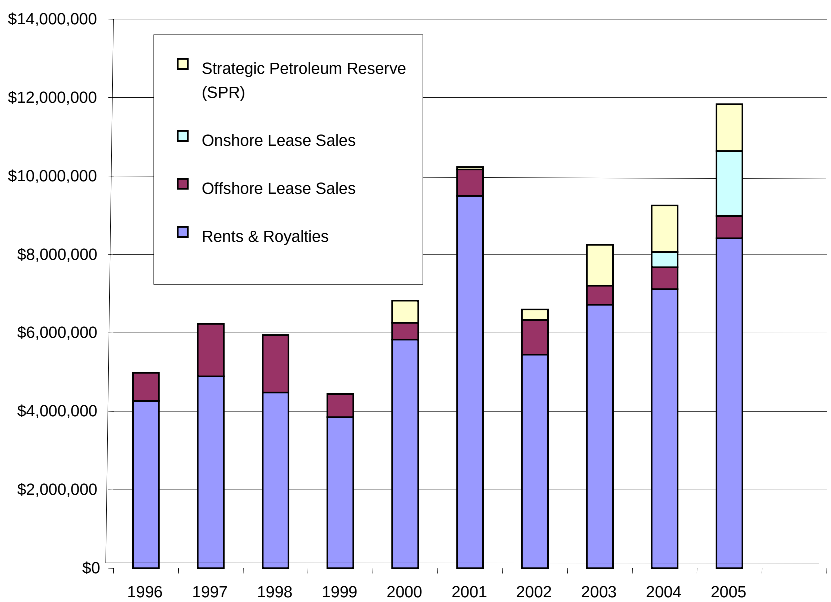
The OCS is a significant resource for responding to the Nation's tight energy supply. The OCS currently provides about 1.6 million barrels of oil and about 11 billion cubic feet of natural gas per day to the domestic market. Annually, OCS leases produce over 600 million barrels of oil and 4.7 trillion cubic feet of natural gas. The OCS will continue to be a critical source of future supplies. It is estimated that the OCS contains more than 60 percent of the Nation's remaining undiscovered oil and as much as half of our country's undiscovered recoverable natural gas.

Expanding America's Frontier in Deepwater: The expanding deepwater frontier brings with it unique challenges, including more complicated environmental assessments, new scientific research, and increasing operational complexities. As a result, MMS continues to expand its capabilities in an effort to guarantee an effective and efficient regulatory role in deepwater.

Increasing Production: Over the next decade, oil production in the Gulf of Mexico is expected to increase by 43 percent and natural gas production by 13 percent. The increase will come from technologically challenging areas – deepwater and greater depths below the ocean floor. In 2004, deepwater production (depths greater than 1,000 feet) accounted for approximately 64 percent of the total Gulf of Mexico oil production.

The rise of oil and natural gas prices has resulted in heightened interest in the resources of the Federal OCS and increased the feasibility of extracting those reserves. With dramatic expansions in OCS activities, MMS's workload in terms of OCS regulatory operations, including revenue collection, processing, and general administration activities, will continue to grow.

Revenues for 1996-2005
(dollars in thousands)



Note: SPR revenues represent value of oil taken in-kind for delivery to SPR rather than actual $'s. Beginning in FY 2005 the Statement of Custodial Activity was revised to present an additional revenue category for onshore lease sale activity. For comparative purposes in the current Statement, FY 2004 was also revised to include this category. This chart reflects those revisions.

Figure 1: Mineral Lease Revenues Collected (1996 to 2005)

Increasing Industry Interest: The energy industry has dramatically increased its investments in oil and gas resources on the OCS, especially in deepwater areas. There have been about 150 discoveries in deepwater over the past 10 years, with about 109 fields now in production. Over the last four years, industry has announced 18 discoveries in water depths greater than 7,000 ft., seven of which came in 2004 alone. To keep pace with an expanding energy industry, MMS must continuously improve and develop its resource evaluation technology, as well as its ability to manage the complex environmental and safety challenges presented at these depths.

Receipts to the Treasury: 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. The leases on Federal lands result in significant revenue for the United States. Each month, MMS processes roughly half a million lines from royalty and production report forms received from over 3,700 energy companies. Since its inception in 1982, MMS has disbursed more than $156 billion in mineral royalties, rents, and bonuses to recipients. As evidenced in Figure 1, over the last ten years, MMS's revenue collections have increased substantially.

Supporting State and Local Initiatives: MMS makes monthly disbursements to states based on royalty collections from energy production on federal lands within their state. During FY 2005, MMS disbursed more than $1.7 billion to 36 different states as their share of federal mineral revenue collections. Federal mineral revenues have been used by states to build new schools, hospitals and community facilities. In many cases, the money pays for teacher salaries, local road improvements, and grants for other important local projects.

Improving the Royalty in Kind Program: The maturation of the Royalty in Kind (RIK) program provides MMS the strategic option to collect revenues through either RIK or the more traditional Royalty in Value (RIV) approach. The option to utilize either RIK or RIV allows for a systematic and deliberate analysis of the Federal royalty portfolio to selectively apply each of these methods to optimize returns and efficiencies for the taxpayer. According to an independent study, in FY 2004 RIK generated an additional $18.1 million in royalties when measured against the Fair Market Value benchmarks. In addition, RIK administrative costs were 26 percent lower than RIV when measured on a per barrel of oil equivalent basis and 36 percent when measured on a per lease basis. MMS analyzes market conditions and the RIK competitive position to determine whether to monetize the royalty value through RIK or RIV.

In 2004, MMS released the Five-Year RIK Business Plan for FY 2005 to FY 2009. This plan provides the strategic focus for MMS to implement conservative business principles that will enhance royalty asset management and maximize returns to the taxpayer. The RIK program has demonstrated that under certain circumstances it can and will continue to reduce administrative costs and optimize royalty revenue.

Working More Efficiently

> *"In order to sustain our economic expansion, we must continue pro-growth policies and enforce even greater spending restraint across the Federal Government. By holding Federal programs to a firm test of accountability and focusing our resources on top priorities, we are taking the steps necessary to achieve our deficit reduction goals."*
>
> \- FY 2006 Budget Message of the President

MMS continues to implement administrative efficiencies. Since 1994, OCS oil production has increased 63 percent and MMS revenue collections have increased 155 percent. The increases in OCS activities have resulted in a greater workload for the stewards of those activities. During the same period, the MMS workforce decreased by 11 percent and the agency's appropriated funding level increased only nominally. The FY 2007 MMS Budget Request provides the resources necessary to meet the increasing demands and expanding responsibilities brought on by constantly changing external factors, such as technological innovation and other advancements in the energy industry, as well as new laws, regulations, and litigation that have an impact on the collection and distribution of mineral revenues.

New Challenges and Opportunities

Energy Policy Act of 2005: On August 8, President George W. Bush signed the Energy Policy Act of 2005 (Act). MMS will implement our new responsibilities and continue helping America meet its energy needs. The Act expands the authority of the Secretary of the Interior conveying to MMS new authorities and responsibilities. The Alternate Energy-Related Uses provision provides the authority to issue leases, easements, and rights of way on the OCS for energy related purposes, and to use existing OCS infrastructure for alternate uses. These purposes include wind, current, wave, and solar energy, as well as support activities for the traditional offshore oil and gas.

The Coastal Impact Assistance provision, Section 384, requires the disbursement of $1 billion of OCS revenues over four years (2007-2010) to "producing" coastal states and localities for approved projects related to the conservation, restoration, or protection of coastal areas, wildlife, and natural resources. The Act provides a variety of authorities over the economic incentives for development of OCS oil, gas, and hydrate resources including marginal properties; deep gas production; gas hydrate production; enhanced oil and gas production through carbon dioxide injection; deep water production; and extends existing royalty incentive authority to Alaska. The Act changes the royalty valuations for geothermal energy and provides for the use of credits.

Both the Interior, Environment, and Related Agencies Appropriations Act of 2006 and the Energy Policy Act of 2005 provide royalty-in-kind (RIK) authority that allows the Secretary of the Interior to use revenue from the sale of oil and gas taken in-kind to pay for costs associated with the RIK program. As the lead Federal agency for offshore traditional and renewable energy projects, we will strive to protect the environment, protect the lives and property of industry workers and our communities, and bring new sources of energy to our Nation while ensuring fair value for America's energy and mineral resources.

Hurricane Recovery: In late August 2005, Hurricane Katrina moved through the Gulf of Mexico (Gulf). As the hurricane approached, MMS implemented its Gulf of Mexico Continuity of Operations Plan (COOP) and moved key personnel to Houston. Following the storm, human life took precedence as helicopters, boats and efforts were diverted to provide humanitarian aid to those persons devastated by Hurricane Katrina. Nevertheless, within hours after Katrina moved through, the COOP team and other MMS employees began the complex process of facilitating restoration of energy production in the Gulf. At the peak of Hurricane Katrina on

August 30, 2005, approximately 95 percent of daily oil production and 88 percent of daily gas production were shut-in.

During late September, Hurricane Rita moved through a highly productive part of the Gulf. One-hundred percent of Gulf oil production and nearly 80 percent of gas production was shut-in. MMS had to re-evacuate its COOP office to Virginia to deal with the emergency. From the initial shut-in on August 26, 2005 through December 29, 2005, the cumulative shut-in oil production was about 20 percent of the yearly production of oil and 15 percent of the yearly production of gas in the Gulf. These two storms have done substantial damage to the offshore infrastructure and the damage to pipelines is still being assessed. However, industry is restoring operations including implementing innovative means for handling the massive disruption of this one-two punch. MMS is coordinating closely to ensure we streamline regulatory processes for bringing production back on line while maintaining the oversight required for safe and environmentally responsible operations.

External Funding Requirements

The FY 2007 MMS Budget Request includes initiatives to address expanding responsibilities relating to the Energy Policy Act of 2005 and other developments. The MMS workload and budgetary resources are also impacted by external funding requirements, such as increasing fixed costs (formerly referred to as uncontrollables), across-the-board reductions, and the rising costs of information technology, which is partially driven by increasing security needs of 21st century business processes.

Rising Information Technology (IT) Costs: The MMS must continue to aggressively develop a robust and complex IT infrastructure in order to carry out mission critical activities that rely heavily on the electronic exchange of information with the energy industry and other stakeholders. By keeping pace with an industry driven by advancements in technology, MMS can create efficiencies in the Bureau's core processes that will ensure decisions are based on credible analysis and the most current and accurate data available.

As MMS's responsibilities expand under the Energy Policy Act of 2005, investment in IT becomes ever more important. MMS risks the prospect of increased unscheduled downtimes, system failures, and the potential loss of critical data if we do not continue to invest in our IT systems. Each of these scenarios greatly reduces workforce productivity and program efficiency, as well as MMS's credibility and working relationship with stakeholders.

Conclusion

The FY 2007 Budget Requests the funding necessary to meet upcoming challenges and expanding responsibilities. The proposal includes $163.6 million in annual appropriations and $128.7 million in offsetting collections for total budgetary resources of $292.3 million. This represents an increase of $14.7 million from the FY 2005 Enacted level and an increase $11.3 million from the FY 2006 Enacted level. Of this increase, $5.3 million are appropriated funds and $6.0 million represents an increase in offsetting collections from the 2005 enacted level. The proposed budget includes resources to address such essential needs as ensuring the operational safety of helicopters as they venture further offshore, addressing MMS's new responsibilities under the Energy Policy Act of 2005, and expanding business capabilities to actively manage mineral records.

MMS is committed to serving our country in the best, most efficient manner possible. MMS programs are vitally important, contributing 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 we move forward in the new century, efficient, safe, and productive management of the Nation's OCS lands and mineral revenue collection efforts will remain MMS's top priority.

Budget At A Glance - A: MMS Activity/Subactivity Funding

(dollars in thousands)

			FY 2007 Initiatives											
	FY 2005 Enacted 1/	FY 2006 Enacted 1/	Energy Policy Act	Facilitate OCS Dev.	2007 OCS Lease Sale	WCF	Indian Val. Rule	RIK Reductn.	Cong. Earmarks	Postpone Tribal Audits	Offset. Collect.	All Other	Fixed Cost Increase	FY 2007 President's Budget
Offshore Minerals Mgmt.														
Leasing & Environment Prgms.	37,224	37,711	5,926	180	1,370				-172			37,906	427	45,210
Resource Evaluation	29,566	29,407	1,274		130				-996			29,709	481	30,117
Regulatory Program	51,516	51,472	437	1,920					-200			51,857	713	54,014
Information Management Prgm.	29,972	30,181							-200			30,224	160	30,024
Total OMM	**148,278**	**148,771**	**7,637**	**2,100**	**1,500**	**0**	**0**	**0**	**-1,568**	**0**	**0**	**149,696**	**1,781**	**159,365**
Minerals Revenue Mgmt.														
Compliance & Asset Mgmt.	41,550	42,723	750				842	-1,124		-170		42,836	863	43,134
Revenue & Operations	33,867	35,159										36,024	269	36,024
Total MRM	**75,417**	**77,882**	**750**	**0**	**0**	**0**	**842**	**-1,124**	**0**	**-170**	**0**	**78,860**	**1,132**	**79,158**
General Administration														
Executive Direction	2,057	2,100							-30			2,563	51	2,533
Policy & Mgmt. Improvemt.	4,132	4,199						-156	-30			4,276	77	4,090
Administrative Operations	16,964	17,044						-407	-250			17,494	450	16,837
General Support Services	23,701	24,125				172		-1,385	-150			24,761	38	23,398
Total GA	**46,854**	**47,468**	**0**	**0**	**0**	**172**	**0**	**-1,948**	**-460**	**0**	**0**	**49,094**	**616**	**46,858**
ROMM	**270,549**	**274,121**	**8,387**	**2,100**	**1,500**	**172**	**842**	**-3,072**	**-2,028**	**-170**	**0**	**277,650**	**3,529**	**285,381**
Offsetting Collections	-103,730	-122,730									-6,000	-122,730		-128,730
Oil Spill Research	7,006	6,903										6,903		6,903
Minerals Management Service	**173,825**	**158,294**	**8,387**	**2,100**	**1,500**	**172**	**842**	**-3,072**	**-2,028**	**-170**	**-6,000**	**161,823**		**163,554**

1/ Net of across the board reductions.

Budget at a Glance – B: Minerals Management Service – FY 2007 Program Changes

	FY 2005 Actual	FY 2006 Enacted*	Fixed Cost Changes	Program Changes ($000)	Program Changes (FTE)	FY 2007 President's Budget
Appropriation: Royalty and Offshore Minerals Management	**166,819**	**151,391**	**+3,529**			
Energy Policy Act of 2005 (includes Gas Hydrates Initiative)				+8,387	+19	
Facilitate OCS Development & Ensure Safety & Environmental Protection				+2,100	+3	
2007 OCS Lease Sales Initiative				+1,500	+5	
Implementation of Indian Oil Valuation Rule				+842	+3	
Increase – Department Working Capital Fund				+172	0	
Royalty-in-Kind (RIK) Indirect Cost Reductions				-3,072	0	
Congressional Earmarks - reduction				-2,028	0	
Postpone Tribal Cooperative Audit Agreements				-170	0	
Additional Fee Collection – FY 2006 Fee Implementation (Increase in Offsetting Collections)				-6,000	0	
TOTAL NET CHANGES: ROMM APPROPRIATION REQUEST			**+3,529**	**+1,731**	**+30**	**156,651**
Appropriation: Oil Spill Research	**7,006**	**6,903**				**6,903**
TOTAL APPROPRIATIONS: MMS	**173,825**	**158,294**	**+3,529**	**+1,731**	**+30**	**163,554**
Offsetting Collections	**103,730**	**122,730**		**+6,000**		**128,730**
TOTAL: MINERALS MANAGEMENT SERVICE	**277,555**	**281,024**	**+3,529**	**+7,731**	**+30**	**292,284**

* Does not include $16 million in supplemental funding for recovery from Hurricanes Katrina and Rita.

FY 2007 PERFORMANCE BUDGET REQUEST

Minerals Management Service

General Statement

Table 1: Summary of MMS-wide Budget Request

($000)	FY 2005 Enacted	FY 2006 Enacted 1/	FY 2007 Request	Change from FY 2006	
				Amount	Percent
Budget Authority					
ROMM Appropriations	166,819	151,391	156,651	+5,260	3.5%
Oil Spill Research Appropriations	7,006	6,903	6,903	0	0.0%
Offsetting Collections	103,730	122,730	128,730	+6,000	4.9%
Total Discretionary Budget Authority	**277,555**	**281,024**	**292,284**	**+11,260**	**4.0%**
Mandatory Budget Authority 2/	1,634,012	2,410,433	2,481,052	+70,619	2.9%
Total Budget Authority	**1,911,567**	**2,691,457**	**2,773,336**	**+81,879**	**3.0%**
Total Direct FTE	1,631	1,634	1,664	+30	1.8%
Total Reimbursable FTE	131	20	20	0	0.0%
Total FTEs	**1,762**	**1,654**	**1,684**	**+30**	**1.8%**

1/ Does not include $16 million in supplemental funding for recovery from Hurricanes Katrina and Rita.

2/ The FY 2006 and FY 2007 estimates for mandatory budget authority (permanent appropriations) include Mineral Leasing and Associated Payments; Leases of Lands Acquired for Flood Control, Navigation and Allied Purposes; National Forest Fund, Payments to States; Geothermal, Payments to Counties; and Coastal Impact Assistance Program funds. Permanent appropriations are discussed in the "Mineral Leasing Receipts" section of this document.

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 energy and 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 energy and mineral resources on 1.76 billion acres of the OCS.

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 $8 billion of mineral revenues collected annually.

FY 2007 PERFORMANCE BUDGET REQUEST

> *"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'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 2007 initiatives and an increase in fixed costs. In addition, base program funding was thoroughly reviewed to ensure funding is directed towards MMS's emerging priorities.

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.

Recent occurrences will impact MMS's activities in both FY 2006 and FY 2007. Tragically, Hurricanes Katrina and Rita caused massive damage to the Gulf Coast region of the United States. MMS's extensive activities in the Gulf have been disrupted; the Gulf of Mexico Regional Office has been temporarily relocated to Houston, Texas. Through supplemental appropriations, MMS funded the relocation, as well as expenses related to emergency regulation and oversight of industry activities, as the Gulf struggles to return to normal operations. Costs relative to Hurricanes Katrina and Rita are not included in this request.

The second occurrence is the recent passage of the Energy Policy Act of 2005, which placed new demands and responsibilities upon MMS. This request includes $8.4 million in funding for MMS for implementation of Energy Policy Act activities, which are described in detail within the program sections.

For FY 2007, MMS is requesting an operating account level of $292.3 million, which includes $128.7 million in offsetting collections obtained from rental charges and cost recovery fees, $156.7 million from ROMM appropriations, and $6.9 million from OSR appropriations. The total appropriations amount (ROMM and OSR) is $163.6 million.

FY 2007 BUDGET HIGHLIGHTS

As MMS moves forward, 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 MMS is faced with new responsibilities from the Energy Policy Act of 2005, an expanding workload from OCS deepwater activities and forthcoming OCS lease sales, as well as, pressures to provide more certainty to the valuation of oil produced on Indian lands. Funding for the FY 2007 initiatives, outlined in the table below, will allow MMS to maintain its superior levels of performance and achieve existing performance measure targets while meeting these new challenges.

Table 2: FY 2007 Proposed Changes from FY 2006 Enacted

	($000)	**FTE**
Energy Policy Act of 2005 (includes Gas Hydrates Initiative)	+8,387	+19
Facilitate OCS Development & Ensure Safety & Environmental Protection	+2,100	+3
2007 OCS Lease Sales Initiative	+1,500	+5
Implementation of Indian Oil Valuation Rule	+842	+3
Increase – Department Working Capital Fund	+172	0
Fixed Costs	+3,529	0
Royalty-in-Kind (RIK) Indirect Cost Reductions	-3,072	0
Removal of Congressional Earmarks	-2,028	0
Postpone Tribal Cooperative Audit Agreements	-170	0
Additional Rental and Fee Collection – Increase in Offsetting Collections	6,000	0
Decrease in Appropriation due to Increase in Offsetting Collections	-6,000	0
TOTAL NET CHANGES	**+11,260**	**+30**

Each of these initiatives is briefly described below, and the page number is referenced where a more complete description may be found.

Energy Policy Act of 2005

With passage of the Energy Policy Act of 2005 (Act), the Department of the Interior faces a wide range of new and expanded responsibilities, with immediate and long-term implications. Solid progress is being accomplished on many of the Act's provisions during FY 2006. The Act places substantial demands on the resources of MMS, affecting existing programs as well as authorizing the establishment of a comprehensive OCS Alternative Energy program, among other new responsibilities.

In FY 2006, MMS applied resources of $9.4 million to begin implementation of the Energy Policy Act. This funding level includes $2 million in FY 2006 redirected base funds; $3.1 million available as a result of the transition to mandatory authority for the Royalty in Kind (RIK) program in FY 2006; and $4.3 million from the FY 2005 RIK transition. Mandatory authority for RIK allows MMS to finance RIK program costs with RIK receipts, thereby freeing up funding previously appropriated for indirect costs associated with the RIK program (for more on RIK, see page 114). The FY 2007 budget request includes funding to continue these efforts and to implement additional sections of the Energy Policy Act. The following table references all FY 2007 requests related to the Act.

Table 3: Energy Policy Act Implementation

Section	*Increase Requested/FTE ($000s)*	*Tab and Subactivity*	*Page #*
Section 317 – Natural Gas – Federal/State LNG Forums	$137 (1 FTE)	OMM Tab – Regulatory Subactivity	72
Section 384 – Coastal Impact Assistance Program	$0 (7 FTE)	OMM Tab – Leasing and Environmental Subactivity, GA Tab – Admin. Operations	48; 143
Section 388 – Alternate Energy-Related Uses on the OCS	$6,500 (10 FTE)	OMM Tab - Leasing and Environmental Subactivity, Resource Evaluation Subactivity, Regulatory Subactivity	46; 61; 71
Section 968 – Gas Hydrates Research	$1,000 (1 FTE)	OMM Tab – Resource Evaluation Subactivity	62
Section 223-224, 228-234, and 349 – Automated Royalty Credits	$750 (0 FTE)	MRM Tab – Revenue and Operations Subactivity	119
Total – Energy Policy Act	**$8,387 (19 FTE)**		

Section 317 – Natural Gas – Federal/State LNG Forums: This funding would provide a staff person to coordinate interagency and public dialogue to identify and develop best practices for addressing the issues and challenges associated with the importation of liquid natural gas (LNG).

Section 384 – Coastal Impact Assistance Program: This provision of the Act shares Federal revenues of $250 million per year, for the fiscal years 2007 through 2010 (a total of $1 billion), with six coastal producing states and their eligible coastal political subdivisions. No dollars are requested, but MMS is requesting authorizing language to allow the use of up to 1 percent of the program funding to properly administer this new, large-scale grants program.

Section 388 – Alternate Energy-Related Uses on the OCS: The most significant workload impact from the Act is contained in Section 388. This provision requires the establishment of a comprehensive program to manage new and innovative projects on the OCS. Among the numerous tasks are coordinating and consulting with states and others, promulgating and implementing regulations, assessing environmental impacts, review and granting permits, and distributing revenues to states. The review and approval of offshore wind power projects is one large aspect of the new responsibilities.

Section 968 – Gas Hydrates Research: With the demand for natural gas expected to increase considerably over the next 10 to 15 years, methane (gas) hydrates, which are present in the OCS in significant quantities, may be a potential source to meet both industrial and domestic needs for natural gas. The MMS is requesting additional funding to participate in the coordinated effort as outlined in the *Department of the Interior 2007 Plan for Gas Hydrates Work.*

Credits (Sections 224, 349, 383): The Act requires that MMS develop the capabilities within the Minerals Royalty Management Support System (MRMSS) to handle royalty credits. The Act creates credits to: handle geothermal in-kind-payment of electricity to states and counties for their share or royalties; reimburse lessees for remediating, reclaiming, and closing orphaned, abandoned or idled wells; and settling the Congressionally-mandated repayment for the West Delta Field. The credit process requires a major system change affecting all components of the current financial system.

In addition to the Energy Policy Act of 2005, MMS requests support for the following initiatives:

Facilitate OCS Development & Ensure Safety & Environmental Protection

The OCS environment is changing. Not only is industry moving farther offshore to conduct operations, but also the rising prices of oil and natural gas are providing additional incentives for industry to invest and increase their activity in the OCS. As the number of leases held by private industry increases, the greater the workload becomes as the demand for MMS services also increases. The number of leases has increased 190 percent since MMS was formed in 1982 and 4,429 leases have been issued in the last five years. Managing the approximately 8,200 leases on the OCS entails the review and processing of thousands of transactions each year – a number that is steadily rising.

Within the *Facilitate OCS Development and Ensure Safety and Environmental Protection Initiative*, MMS is requesting additional resources to address this increasing workload. Most of this request provides the additional funds needed for the 2007-2012 helicopter contract, which would address the increase in flight time required to oversee OCS activities moving further offshore. Human capital needs include a Land Law Examiner needed to review and process lease assignments and transfers; and two engineers to review cutting-edge developments in deepwater technology. The initiative also requests resources to ensure representation of OCS needs in the larger effort under the Administration's Ocean Action Plan to develop an Integrated Ocean Observing System (IOOS).

2007 OCS Lease Sales Initiative

A key MMS performance indicator is the ability to hold offshore lease sales as scheduled in the Secretary's 5-Year Program, which is a pivotal element of managing the Nation's offshore mineral assets. The MMS works in consultation with stakeholders 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. The *OCS Lease Sales* initiative requests additional funding for preparation of required NEPA-related documents that must be completed prior to conducting offshore lease sales.

Implementation of the Indian Oil Valuation Rule

Concerning Indian Trust, the Indian Oil Valuation Rule, scheduled to become final in late 2006, will require additional resources to timely complete the major portion calculation and any other requirements stipulated in the final rule. The Indian Oil Valuation Rule Initiative requests the resources necessary for this implementation.

Increase – Department Working Capital Fund

The Department of the Interior Working Capital Fund (WCF) provides an efficient mechanism for funding shared services across all the bureaus within the Department. A detailed breakout of the WCF funding is provided in the Appendix. Overall, MMS is requesting an additional $172,000 to fund its portion of the services provided by the WCF.

Fixed Costs

MMS requests an increase of $3,529,000 for anticipated increases in fixed costs, including 70 percent of pay and benefits and 100 percent of other costs.

RIK Indirect Cost Reductions

The 2006 Interior Appropriations Act and the Energy Policy Act of 2005 both include permanent authority that allows MMS to fund RIK program costs with RIK receipts. As a result of this new permanent authority, MMS is requesting a decrease in appropriated funds of $3,072,000 related to RIK indirect costs. These costs will be financed with RIK receipts in FY 2007.

Removal of Congressional Earmarks

This request includes reductions for two FY 2006 earmarks: $896,000 for the Center for Marine Resources and Environmental Technology and $1,132,000 for an add-on for fixed costs. Although both of these are important, neither is considered a part of MMS's base budget structure and are superseded by the other priorities for which funding has been requested.

Postpone Tribal Cooperative Audit Agreements

Currently, the MMS has ongoing cooperative agreements with seven tribes, funded annually at about $2.7 million. The MRM anticipated funding agreements with ten tribes in FY 2007; however, three tribes have not yet acquired the audit expertise to run cooperative audit programs. For this reason, MRM plans to delay agreements with these three tribes until at least FY 2009.

Additional Rental and Fee Collection (Increase in Offsetting Collections)

For 2007, the Minerals Management Service anticipates collecting additional revenue due to increased rentals and the full-year implementation of the fees included in the FY 2006 President's Budget. The FY 2006 estimate of $13.5 million was based on the partial year implementation of the proposed cost recovery fees. MMS estimates that it will collect an additional $6 million in increased rentals and cost recovery fees during the full-year implementation that will occur in FY 2007. This will increase the total amount of offsetting collections to $128.7 million for FY 2007. This additional revenue not only supports the Federal cost-recovery policy, but also provides a source of funding for the proposed FY 2007 initiatives.

The MMS has completed the FY 2006 cost recovery analysis for user-submitted plan and permit fees and is finalizing the proposed rule. MMS published a proposed rule in September 2005 and anticipates issuing the final rule in June 2006.

Appropriation Language Changes

The FY 2007 Royalty and Offshore Minerals Management (ROMM) appropriation request includes: 1) a request of $285,381,000 ($156,651,000 from appropriated funds and $128,730,000 from offsetting collections), representing an increase of $11,260,000 above the FY 2006 enacted amount; and 2) a provision to retain up to one percent of the amounts disbursed under the Energy Policy Act of 2005 for costs associated with the administration of the Coastal Impact Assistance Program.

The FY 2007 Oil Spill Research (OSR) appropriation requests $6,903,000, the same as the FY 2006 enacted amount.

PROGRAM OVERVIEW

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.

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, the natural gas that heats our homes, and the benefits obtained through the disbursement of collected mineral revenues, the Nation and its citizens benefit from the efforts of MMS.

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.

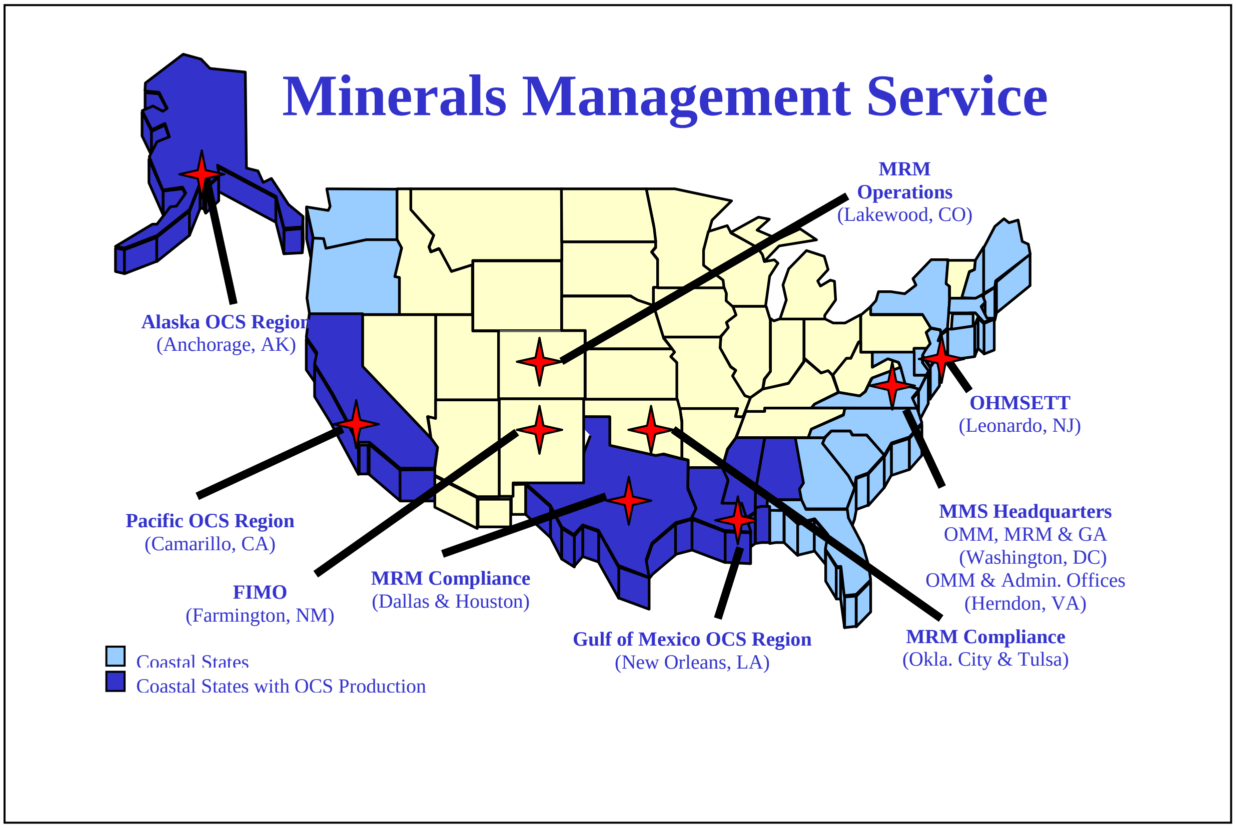


Figure 2: Map of MMS Office Locations

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. For example, in response to a Presidential Order to help ensure the stability and security of America's existing energy supply, 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).

> *"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 Johnnie Burton

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, this amount of oil could fuel 119 million automobiles for nearly six years and the amount of natural gas could 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 2005, MMS distributed $156 billion in revenues from onshore and offshore lands. In FY 2005, disbursements totaled nearly $10 billion (see figure below). The MMS's distribution of mineral revenues to the U.S. Treasury 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.

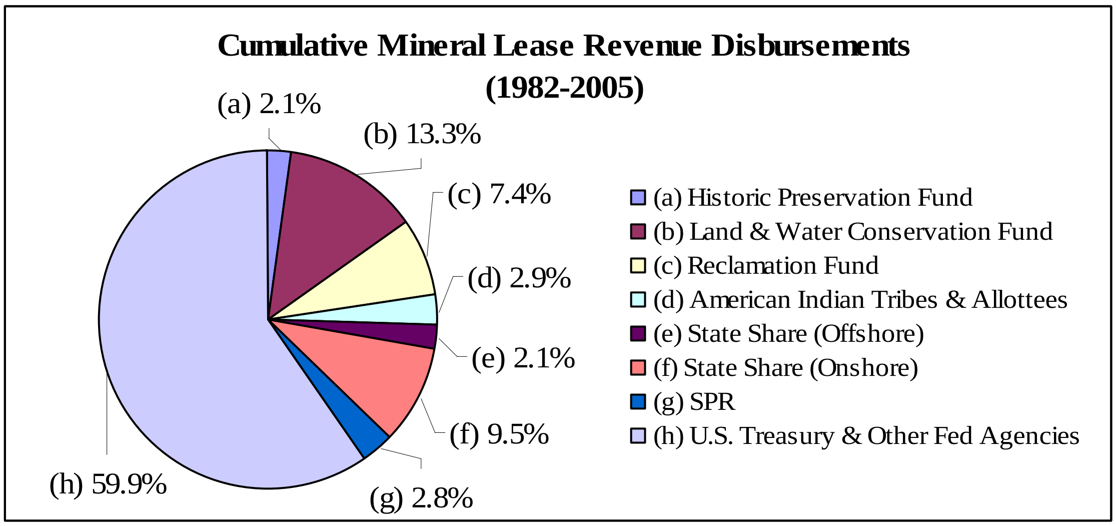


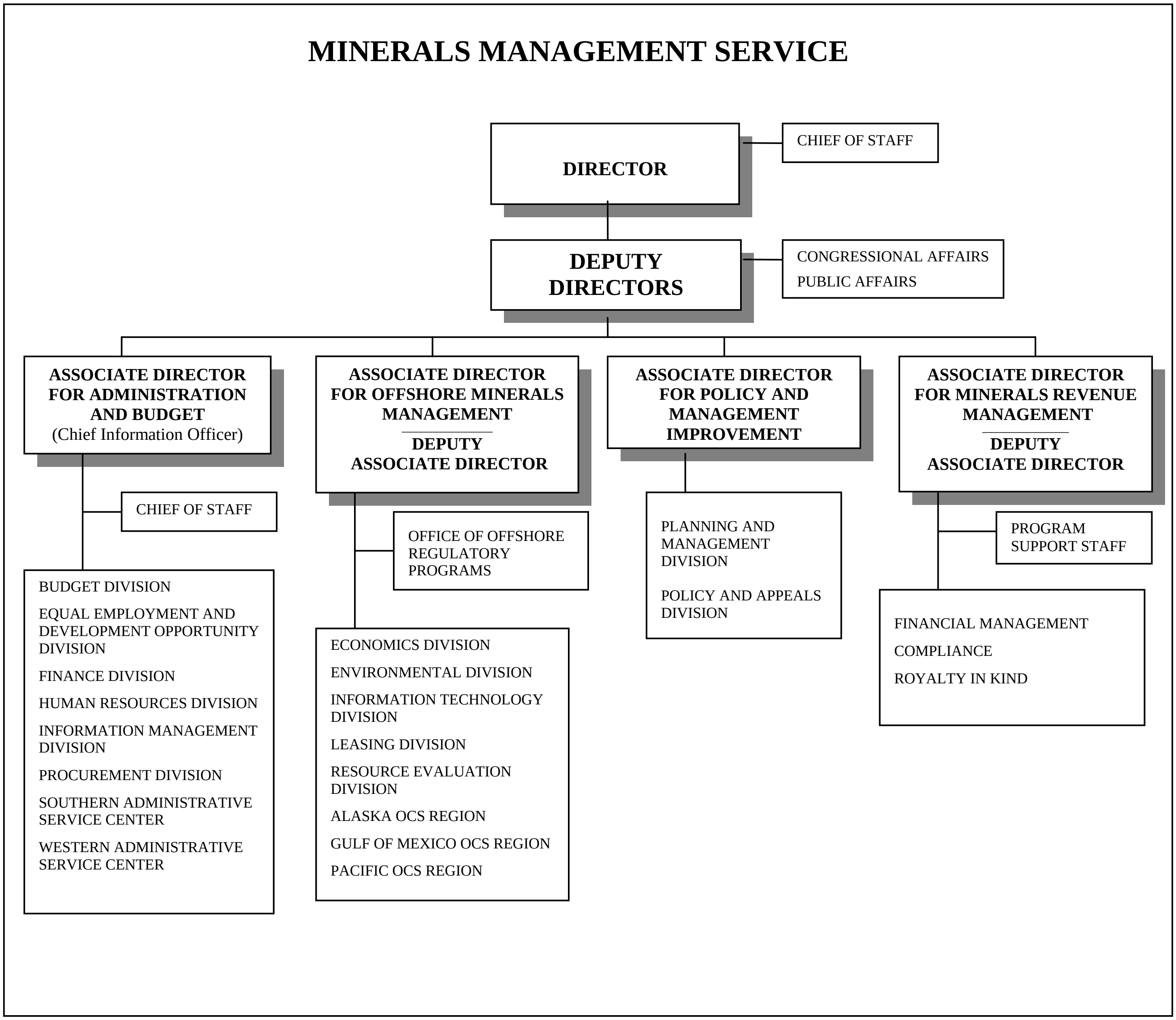
Figure 3: Cumulative Mineral Lease Revenue Disbursements

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, and play a key role in the carrying out of the Secretary's Indian trust responsibilities.

MMS Organization Chart

Please see below for a current chart of the MMS organization.

Figure 4: Minerals Management Service Organization Chart.



FY 2007 PERFORMANCE BUDGET REQUEST

Minerals Management Service

Performance Budget

The Minerals Management Service (MMS) Budget Request supports accomplishment of the Department's Resource Use mission through implementation of strategies to enhance public benefit, promote responsible use, and ensure optimal value of energy and non-energy resources, as well as the Serving Communities mission to protect lives, resources and property and help to fulfill Indian fiduciary trust responsibilities. In support of the Resource Use goals, MMS carries out activities to provide access to energy and mineral resources on the OCS and ensures that beneficiaries receive fair value for OCS, Federal and Indian mineral resources. MMS activities support the Serving Communities goals by accurately collecting, disbursing, and reporting revenues received from oil, gas and other minerals on Indian lands and by maintaining a comprehensive regulatory program to safeguard the offshore workforce.

The proposed budget requests the necessary resources to fund MMS activities that support the accomplishment of the aforementioned Department of the Interior (DOI, or Department) missions and their respective goals.

BUDGETING FOR PERFORMANCE

The MMS strives to ensure that its existing fiscal resources are distributed in a manner that maintains current operations, meets future demands, and achieves Departmental and Bureau-level performance goals. At the beginning of the budget formulation process, each Associate Director meets with their budget, performance, and program staff to analyze the program's base funding and current human resources to determine the most effective distribution of resources and anticipate future needs that may be beyond current resources. Funding requests, as well as performance and cost data, for additional resources are presented to the MMS Executive Committee (EC), which is comprised of the Bureau's senior leadership, for review and decision. This robust budget formulation process ensures that performance, budget, and program staff work closely with management to determine the best allocation of resources.

Budget and Performance Analysis

MMS has a history of analyzing base funding to determine how best to apply limited resources. With each annual budget cycle, MMS closely analyzes all of the base funding received in the prior year for opportunities to cut expenses and/or to shift resources to higher priority needs. These analyses have resulted in reductions and even closures of offices, program redesigns, increases in fee collection, changes in operation to improve revenues and cut expenses, and funding of programs from alternative sources. 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 Outer Continental Shelf (OCS) and changing factors that affect the collection and distribution of mineral revenues.

A brief review of one program area, Offshore Minerals Management (OMM), illustrates the ongoing workforce and operational analysis 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 2006, it was 870. In twenty years, OMM has seen a 26 percent reduction in the size of its staff. This has occurred through elimination of the Atlantic Regional Office, periodic reductions in the Alaska and Pacific Regions and Headquarters Offices, and redirecting resources to accommodate increasing workload demands in the Gulf of Mexico. Recent examples from the OMM program area include:

- In FY 2004, OMM underwent IT reductions, FTE streamlining, and office closures that saved $4.7 million. These resource shifts provided the funding needs for ongoing activities in the Gulf of Mexico, OCS Connect, methane hydrates and infrastructure security.

- In FY 2005, an increase of $3.5 million in offsetting fees was used, in part, to fund needed increases for the OCS Connect project and GOMR interpretive technologies.

- In FY 2006, the proposed closing of the Santa Maria, California office and redirection of interpretive technology funding was used to offset a portion of the costs of new funding needs for helicopter safety, the MONTCAR model, and geological interpretive needs.

To aid in budget formulation and execution, the MMS Budget staff produces quarterly *Status of Funds* reports, which are analyzed at a Bureau and program level for 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 to evaluate current and future funding requirements. For example, the EC conducts a mid-year review of funds expended and makes needed adjustments to ensure the achievement of performance goals and the accomplishment of MMS priorities.

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 ensure that program managers and MMS leadership receive effective and informative data that can be utilized to make resource allocation decisions. The refinement also focuses on determining that the cost and performance information for Bureau products and services supports unit cost and performance trending for enhanced budget and performance integration.

The MMS performance staff reports on and provides recommendations quarterly to the EC based on a consolidated review of the Bureau’s accomplishments. Management information reviewed by the committee includes ABC data, performance metrics, Program Assessment Rating Tool (PART) measures, as well as the results of internal and external audits and evaluations that influence the business of MMS.

Budget and Performance Integration

In FY 2006, MMS was at the forefront of budget and performance integration within the Department of the Interior when it issued its FY 2006 Performance Budget Proposal, which integrated the annual performance plan required by GPRA and the Bureau's budget request. The performance budget is now a DOI-wide requirement. In MMS, this document is used as a management guidance document because it contains performance measures and strategies that are clear and useful to managers at all levels of the organization. The performance budget presents outcome and PART performance measures that tie directly to the Department's goals, sets annual and long-term targets, and contains 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.

Strategic Planning in MMS: The MMS has a robust and comprehensive planning process. Agency activities are linked to the Department's Strategic Plan and careful planning ensures that these goals and strategies are cascaded throughout the organization at both the activity and subactivity levels.

Operating plans, program strategies, and tactical plans are developed as strategic directives for the programs, tools to hold managers accountable for not only satisfying mandates and base program work, but for achieving the highest level of results. These documents are updated periodically 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 first, 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's operational activities. In FY 2005 MMS completed implementation of the 39 action items in the Audit Quality Improvement Action Plan. The plan was developed to improve MMS's compliance and audit activities and related internal controls. An independent peer review audit completed by Thompson, Cobb, Bazilio & Associates in FY 2005, found the "Federal Audit Function of MMS meet the requirements of the quality control standards established by the Comptroller General of the United States."

Program Assessment Rating Tool (PART): As of FY 2006, all of MMS programs have undergone a PART evaluation. MMS was divided into the following program components by budget year for PART: Environmental Studies (2004), Minerals Revenue Management (2005), Resource Evaluation and Leasing (2006), and Regulatory Affairs and Compliance (2007). The PART process has resulted in findings that support MMS fiscal and legislative priorities. For example, the findings from the 2004 review of the OCS Resource Evaluation and Leasing program recognized the "exceeding proficiency" of the MMS leasing program and supported legislation, now enacted in the Energy Policy Act of 2005, granting the bureau additional authority over alternative energy projects on OCS lands and alternative use of OCS facilities. Additionally, the review supported MMS's position on the importance of maintaining the capability to assess and evaluate the resource potential of the OCS, resulting in $1.5 million in related initiatives in the FY 2006 President's Budget.

To date 100 percent of the Offshore Programs have been rated moderately effective or better versus 37 percent government-wide. In FY 2005 it was noted by OMB that the Regulatory and Compliance program is "well managed and effectively balances the need for access to mineral resources with the environmental protection goals." Through the PART process, MMS has developed efficiencies to:

- maximize ultimate recovery of OCS mineral resources. For the period 2002-2004, conservation management efforts were completed at a full cost of approximately $10.9 million and are estimated to have recovered 56.9 million barrels of oil (or equivalent volumes of natural gas) -- an average rate of return of 5.2 barrels per dollar.

- assure industry compliance with laws and regulations covering OCS operations. MMS increased the number of compliance inspections conducted by 10.6 percent, with an increase in the Regulatory budget of 1.6 percent from 2002 to 2004.

In FY 2005 MMS closed two recommendations for Resource Evaluation and Leasing Program PART. MMS anticipates closing out four recommendations in FY 2006.

Activity-Based Costing (ABC): With the close of FY 2005, MMS has gained three years of experience with ABC as well as an initial three years of ABC data. In FY 2006, MMS will begin to use cost and performance information to determine unit cost and performance trending for management analysis and decision-making. In FY 2005 MMS completed an analysis comparing royalty in kind and royalty in value administrative costs using ABC data. Also cost information is used to support reengineering and E-government efforts. MMS is pursuing rulemaking for the collection of fees to recover approximately $13 million in costs in FY 2006 associated with the submittal of industry plans and permit requests. The fees will offset MMS costs associated with plan and permit reviews and processing, including indirect and overhead charges. Data from MMS's ABC/M system have served as the preliminary basis for setting cost recovery fees.

The MMS continues to refine the ABC Management (ABC/M) model to ensure the quality and appropriateness of data collected and consistency and compatibility with Department ABC efforts. In developing the FY 2006 and FY 2007 budgets, ABC cost data was considered by management when establishing the agency's performance targets.

Data Verification and Validation Processes: The MMS has implemented data verification and validation processes based upon guidance issued by the Department and OMB. There is an identified official for each measure who is responsible for ensuring the accuracy of data quarterly. An FY 2004 review focused on the Strategic Plan, PART, and key bureau measures, applying internal control practices to verify the reliability of data collection, and developing definitional dictionaries. This has resulted in weaknesses being identified and addressed in measure definitions and in data collection methods. In FY 2005 MMS conducted a follow up review on the status of report findings and recommendations. Overall, the review found the program offices have made satisfactory progress in correcting the findings and implementing the recommendations identified in the 2004 report.

The bureau's data validation and verification methods are sufficiently credible and support the general accuracy and reliability of the performance information that MMS collects, records, and reports.

MANAGEMENT EXCELLENCE GOALS

In accordance with the President's Management Agenda (PMA) 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; and while MMS has been able to achieve many improvements, there will always be opportunities for further growth. By working smarter MMS is able to efficiently and effectively support accomplishment of the Resource Use and Serving Communities mission goals.

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 roadmap 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 anticipated workload demands. To keep the plan current and to capture new workforce challenges and the strategies for addressing them, the Workforce Plan is updated quarterly. The quarterly updates allow the MMS to keep the alignment of human resources in concert with the changing and expanding focus of the bureau's programs, performance goals, and mission objectives.

The key workforce planning challenges now facing the MMS include succession management for leadership positions, linking competencies to hiring, employee development, performance management, and capturing current and accurate data on competency gaps throughout the bureau. In addition to basic human resources costs, such as salaries, benefits, awards, and training, MMS has integrated human capital initiative costs into the FY 2007 Budget Request, such as tools for meeting management challenges related to leadership succession, the implementation of an employee development branch within the Human Resources Division, and the purchase and implementation of a learning management system. The MMS programs have unique workforce planning challenges in addition to the overarching bureau-wide challenges, and have identified and integrated human capital initiatives into their budget requests.

The MMS *Workforce Plan* is used in conjunction with the DOI Strategic 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 MMS's total commercially available FTE positions. The agency converted 70 FTE directly to contract and held further studies for the remaining 84.5 FTE, where MMS in-house staff was determined to be more cost-effective. In FY 2005, MMS evaluated 53 FTE and performed a management review of 20.5 FTE, a total that is 13.5 FTE more than originally planned. From FY 2006 to FY 2008, MMS plans to evaluate 409.5 FTE and review 115.5 FTE.

To date, cost comparison studies show that MMS will avoid $6.5 million in costs by retaining work in-house versus contracting for services over a five-year period. In addition, MMS has achieved an actual cost savings of $1.2 million over five years by realigning its workforce through developing organizations that are more efficient. In FY 2007 MMS will continue to shift resources to more mission critical functions.

Financial Performance

In FY 2004 and FY 2005, numerous workshops and training/testing sessions have been conducted as a part of the process to convert all bureaus within the Department to one financial management system. The MMS has begun implementation of the Financial and Business Management System (FBMS), which will continue in FY 2006 and FY 2007. 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. In addition, the new financial management system should create a better link between budget formulation and execution each fiscal year and allow MMS to maintain its excellence in financial performance.

Inherently, 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 services and operate more effectively. Anticipated benefits include:

- The 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 and management reports;

- 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 Electronic Government (E-Gov) 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 the organization in becoming more efficient and effective through the application of appropriate technology.

Since the Department issued its E-Government Strategic Plan, MMS has developed two Bureau-level plans that complement the Department's plan, a Bureau IT Strategic Plan, and a Bureau E-Government Strategic Plan. 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. At present, the MMS is involved in the following E-Gov initiatives:

- **E-Travel:** This E-Gov project provides a government-wide web-based service to consolidate travel functions, provide improved services to government employees, and minimize costs.
- **E-Training:** The E-Training provides functionality for a learning management system and a simplified process to locate training opportunities, with one-stop access to e-products and services.
- **E-Grants**: MMS was one of the first Department bureaus to launch this project. e-Grants.gov streamlines the application, administrative, and reporting procedures for Federal financial assistance, allowing applicants to electronically apply for, and report on the use of funds from Federal financial assistance programs.
- **E-Acquisition**: This project is part of the Department's Financial and Business Management System (FBMS), which will integrate the finance, acquisition, financial assistance and other administrative stovepipe systems into one system. MMS should be completely converted to FBMS by the end of FY 2007.
- **E-Documents/E-Records:** Through the implementation of new MMS business processes, a foundational Electronic Document Management System (EDMS) has been selected to electronically manage, control, locate, and retrieve electronic information.
- **E-Rulemaking:** The e-Rulemaking project is a federal interagency project which will provide citizens an opportunity to comment on proposed regulations using the Internet and have access to supporting public comments, background agency documents and rules that are already in place. This will be done through the Regulations.gov website.
- **HSPD-12:** For the federal e-Authentication initiative, with respect to Homeland Security Presidential Directive-12 (HSPD-12) requirements, MMS has begun upgrading physical access control systems. Installation of a Personal Identity Verification Credential (PIV) capable physical access control system is expected to be completed at all MMS facilities

at the conclusion of FY 2006. The MMS will be issuing each employee and contractor a Smart Card for physical access no later than October 27, 2007.

In addition, MMS has an active IT Security program, and its 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 and evolution. A major accomplishment in IT security was the Certification and Accreditation of all MMS systems.

Asset Management

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) was 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. In addition, space utilization surveys will be conducted to ensure efficient utilization.

The MMS leases all of its buildings from the General Services Administration (GSA). The GSA is responsible for condition assessments on these buildings. However, MMS maintains an accurate and complete inventory of all leased space and fleet assets.

In FY 2005, MMS developed a comprehensive Fleet Management Plan to improve critical mission support, achieve fleet management goals and support 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 and has already downsized the fleet to meet the Department's goals.

Research and Development (R&D)

The Department is using the Administration's Research and Development (R&D) investment criteria to assess the value of its R&D programs. Please see Appendix F for a discussion of the Department's and Bureaus efforts in the use of Research and Development Criteria.

ACHIEVING DOI MISSION GOALS

As previously mentioned, the MMS contributes 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.

In FY 2005 MMS met or exceeded eight of the nine Strategic Plan performance targets. Final reporting is not available for the Oil Spill measure. Reporting on this measure lags by several months due to the extensive data verification procedures.

Resource Use Mission Goal

Two of MMS's primary missions are to provide responsible access to offshore oil and gas resources while ensuring the resources are developed in a safe and environmentally responsible manner; and, ensuring the American people receive fair value for their resources throughout the asset management process.

MMS activities contribute to accomplishment of 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 4: MMS Funding and the DOI Resource Use Mission Goal

($000)	**2005 Enacted**	**2006 Enacted**	**2007 Request**	**Change From 2006**
Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value (energy)	252,742	253,616	264,600	10,984
Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value (non-energy)	3,135	3,100	3,098	-2
Total	**255,877**	**256,716**	**267,698**	**10,982**

For FY 2007, MMS requests an additional $10.9 million for resources needed to ensure that mineral operations on the OCS continue to be conducted in a safe and environmentally sound manner; and, for implementation of the Energy Policy Act of 2005 which includes a new Departmental initiative for Gas (Methane) Hydrates.

The DOI Resource Use Strategic goal challenges MMS to "manage resources to promote responsible use and sustain a dynamic economy." The MMS's primary mission links directly to the Resource Use goal area through the following strategies.

Five of MMS Strategic Plan measures highlight actual and planned program accomplishments in the Resource Use mission area.

Measure	2005 Planned	2005 Actual	2006 Planned	2007 Planned
Number of lease sales held consistent with the Secretary's Five Year Program	4	4	2	2
Royalties received for mineral leases are x percent of predicted revenues, based on market indicators, in the production year	98%	98%	98%	98%
Compliance work is completed within the 3-year compliance cycle for x percent of royalties for production year x	69%	71%	72%	79%
Percent of revenues disbursed on a timely basis per statute	96%	98%	96.5%	97%
Achieve and oil spill rate for offshore of development of no more than X barrels spilled per million barrels produced	10	8.5 preliminary	5	5

Implement the Energy Policy Act of 2005 provisions: With the passage of the Energy Policy Act of 2005, MMS received new authority to regulate alternative energy production in the Outer Continental Shelf (OCS). During FY 2006, MMS will work to promulgate necessary rules to establish a comprehensive OCS Alternative Energy program. A total of $8.4 in funding is requested in the FY 2007 budget request for Energy Policy Act of 2005 implementation, to consult with states, promulgate and implement regulations, assess environmental impacts, review and grant permits, and distribute revenues to states.

Provide Appropriate Access to the OCS: A key strategy for FY 2006 and FY 2007 is to continue the development of the next 5-year schedule (FY 2007 to FY 2012) and support Environmental Impact Statements. Four lease sales were conducted in FY 2005 in the Gulf of Mexico and one in the Beaufort Sea Offshore Alaska.

- **Central Gulf of Mexico Sale 194** was held as scheduled March 16, 2005. The sale attracted 651 bids on 428 tracts, with high bids totaling $354.0 million. MMS rejected 19 high bids totaling $11.9 million as insufficient for fair market value. A total of 403 tracts were leased for an amount of $342.0 million.
- **Eastern Gulf of Mexico Sale 197** was held as scheduled March 16, 2005. A total of 10 leases were issued with bonus bids totaling $6.5 million.
- **Beaufort Sea Sale 195** was held as scheduled March 30, 2005. A total of 117 leases were issued bringing bonus bids totaling $46.6 million. Issuance of these leases nearly tripled the Alaska Region's active lease inventory.
- **Western Gulf of Mexico Sale 196** was held as scheduled August 17, 2005. The sale attracted 422 bids from 56 companies on 346 tracts, totaling $285.2 million.

In FY 2006 two lease sales are scheduled in the Gulf of Mexico -- one in the Central Gulf (March 2006) and a second in the Western Gulf (August 2006). MMS will also continue to implement existing royalty relief programs, while assessing options for ultra-deepwater zones, marginal properties, and end-of-life oil and gas leases. In 2007, MMS anticipates two sales, including one in the Western GOM, and one to be determined.

Ensure Fair Return on America's Resources: In FY 2005, MMS disbursed approximately $9.9 billion in mineral revenues to states, the Office of the Special Trustee for American Indians (OST), other Federal agencies, and U.S. Treasury accounts. The timely disbursement of funds is a key performance measure of the agency. In FY 2005, MMS worked to optimize the automated payment matching processes to ensure the timely disbursements of mineral revenues. Other efforts included:

- The continuation of compliance activities for cash royalties received to ensure fair value;
- Studying the economic effects of royalty incentives and developing recommendations for future deepwater royalty relief;
- Reviewing the terms of OCS oil and gas leases and administrative fees to determine if existing rates are appropriate; and
- Continuing the implementation of the Royalty in Kind 5-Year Business Plan for FY 2004 – 2008.

In the past, MMS has used revenue dollars as the measurement basis for the 3-Year Compliance measure. This has enabled MRM to achieve high levels of compliance coverage in terms of dollars. During FY2006, MMS is conducting a comprehensive Compliance Business Planning process which will include a risk-based, strategic approach to targeting compliance work in the future. In the interim, MMS realizes it must focus more attention on onshore properties. Therefore, while we begin shifting resources to onshore properties and redefining the compliance measure the FY 2006 target is revised from 74 percent to 72 percent, a slight increase over FY 2005 actual performance of 71 percent.

Serving Communities Mission Goal

The MMS strategies under the Serving Communities goal are twofold; they include:

- Ensuring the safe development of offshore mineral resources, protecting lives, resources, and property through the development of policies and regulations that address safety issues while applying the use of best available technology and processes; and
- Ensuring American Indian tribes and individual Indian mineral owners receive fair value for mineral production on their land.

The MMS is responsible for ensuring the safe development of offshore mineral and energy resources by protecting lives, resources, and property through the development of policies and regulations. Safety is considered an integral part of the overall management of the OCS rather than a distinct activity. The MMS is also a steward of the royalty assets for Indian trust properties and ensuring fulfillment of its Indian trust responsibilities. The MMS serves as an advocate for the interests of Indian mineral owners and 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 the Nation's Indian trust responsibilities.

Table 5: MMS Funding and the DOI Serving Communities Mission Goal

($000)	2005 Enacted	2006 Enacted	2007 Request	Change From 2006
Protect Lives, Resources and Property [1]	n/a	n/a	n/a	n/a
Fulfill Indian Fiduciary Trust Responsibilities	21,679	24,308	24,586	278
Total	**21,679**	**24,308**	**24,586**	**278**
1/ MMS only reports on performance measures for this end outcome. Funding is included in the Resource Use Mission Goal.				

The FY 2007 proposed funding will enable MMS to maintain base operations and the current level of performance as well as secure the necessary resources to provide critical Financial Management support for collecting, accounting, and assuring compliance for Federal and Indian mineral revenues. In addition, some slight performance increases are anticipated from FY 2005 to 2006 as a result of management efforts to streamline operations and leverage existing resources where possible.

The Serving Communities mission goal activities include providing timely revenue and lease data to OST and the Bureau of Indian Affairs, continuing to promote cooperative agreements that allow tribal partners to assume responsibility for mineral lease audits on their lands, and working with other bureaus and stakeholders to implement improved business processes in the area of Trust management.

Four of the MMS Strategic Plan measures highlight program accomplishments in the Serving Communities mission area.

Measures	2005 Planned	2005 Actual	2006 Planned	2007 Planned
Number of fatalities among workers in DOI permitted activities	6	5	5	5
Number of serious injuries among workers in DOI permitted activities	25	23	24	24
Transfer X percent of revenue to OST within 24 hours of receipt	99%	100%	99.5%	99.5%
Provide lease distribution data to BIA for X percent of royalties by first semi-monthly distribution	75%	92%	80%	85%

The MMS mission serves communities through implementation of strategies that:

Promote Environmentally Sound and Safe Practices: MMS carries out a comprehensive program to ensure that mineral and alternative energy operations on the OCS are conducted in a safe and environmentally sound manner. Current strategies include:

- Working with Federal partners towards the establishment of a Pipeline Safety Program to maintain and build safe reliable pipelines; and

- Continuing development of a comprehensive approach to the inspection of OCS facilities.

The PART evaluation of the OCS Regulatory and Compliance program in FY 2005, found the program purpose to be well defined and have appropriate measures to demonstrate results. The 'true' target for fatalities and serious injuries is "0." MMS seeks to minimize incidences on the OCS by promoting a safe work environment in partnership with Industry. Beginning in FY 2006 the target for fatalities and injuries is reduced to 5 and 24 respectively based upon the OCS Regulatory and Compliance PART review.

Provide accurate and timely revenue and lease data to the Office of the Special Trustee for American Indian (OST) and the Bureau of Indian Affairs (BIA). For FY 2007 the goal remains to transfer 99.5 percent of Indian revenues to OST within 24 hours of identification. OST in turn deposits the funds into interest-bearing accounts on behalf of Trust beneficiaries. Over the years MMS has invested in opportunities to work smarter enabling the bureau to achieve the target. Also, MMS has worked to improve the timeliness of sending lease distribution data to BIA. The MMS exceeded its FY 2005 goal of 75 percent, providing 92 percent of American Indian lease distribution data to BIA by the first semi-monthly distribution. For FY 2007 the target is 85 percent, long-term target is 90 percent by FY 2008.

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Table 6: Performance Measure: Resource Use Energy

Measure	Type	2003 Actual	2004 Actual	2005 Final Plan	2005 Actual	2006 Enacted	2007 Plan	Change from 2006 Revised to 2007	Long-term Target (2008) 2006 Pres Bud	Long-term Target (2008) Revised	Explanations of Changes: for change from 2006 to 2007 and 2006 and 2008 target revisions
End Outcome Goal Resource Use: Manage or influence resource use to enhance public benefit, promote responsible use, and ensure optimal value – energy.											
End Outcome Measures											
Number of lease sales held consistent with the Secretary's Five Year Program (SP)	C/F	3	4	4	4	2	2	0	TBD		This measure counts the 17 lease sales scheduled under the 2002-2007 OCS Oil and Gas Leasing Program, which ends June 2007. The 5-Year Program for 2007-2012 is under development through the extensive consultation process prescribed by the OCS Lands Act.
Royalties received for mineral leases are X percent of predicted revenues, based on market indicators, in the production year (SP)	A	New Measure	96.1% of predicted revenues for 75% of 2001 royalty universe N-$5,149,059,662 D-$5,358,055,455	98% of predicted revenues for 2002 royalty universe	98% of predicted revenues for 75% of 2002 royalty universe N-$5,061,525,648 D-$5,149,059,662	98% of predicted revenues for 2003 royalty universe	98% of predicted revenues for 2004 royalty universe	N/C	98% of predicted revenues for 2005 royalty universe		Current methodology for computing this measure includes Offshore oil and gas and Indian gas.
Compliance work is completed within the 3-year compliance cycle for x percent of royalties for production year x (SP)	A	46% of 2000 royalties	69.4% of 2001 royalties N-$4,763,252,959 D-$6,865,419,851	69% of 2002 royalties	71% of 2002 royalties N-$4,289,136,180 D-$6,000,668,404	72% of 2003 royalties	79% of 2004 royalties	+5%	88% of 2005 royalties		FY 2006 target reduced from 74% to 72%. During FY 2006, MRM will conduct a comprehensive Compliance Business Planning process which will include a risk-based, strategic approach to targeting compliance work. For now, the FY 2007 target remains 79% as previously published, however once this analysis is completed, new measures will be proposed for FY 2007 and beyond.
Percent of revenues disbursed on a timely basis per statute (SP)(PART)	A	92.6%	95.5% N-$1,344,102,572 D-$1,407,075,930	96.0%	98% N-$1,977,628,833 D-$2,011,473,613	96.5%	97%	+0.5	98.0%		
Intermediate Outcome Strategy 1: Effectively manage and provide for efficient access and development											
Intermediate Outcome Measures and Bureau and PART Outcome Measures											
Percent of acres drilled for 1st time - 5 Year Leases (PART)	C/F	8.0%	8.4%	7.5%	7.1%	7.5%	7.5%	N/C	7.5%		Results for 2005 reflect lower than projected activity due to industry curtailment of operations immediately prior to and following Hurricanes Katrina, Rita and Wilma
Percent of acres drilled for 1st time - 8/10 Year Leases (PART)	C/F	1.5%	1.2%	1.7%	1.1%	1.7%	1.7%	N/C	1.7%		
Change in acres with leasing incentives receiving bids compared to acres receiving bids without incentives in previous sales. (PART)	C/F	+1.8 million	+1.5 million	+1.0 million	+1.5 million	TBD	TBD	TBD	TBD		This measure tracks the effect of MMS leasing incentives on bidding activity at OCS lease sales. Though bidding activity is the result of many considerations, a substantial increase in offshore acreage receiving bids is seen as a positive indicator. Targets and baselines are dependent upon incentives in effect at the time of the lease sale.
Intermediate Outcome Strategy 1: Effectively manage and provide for efficient access and development											
Hold X% of offshore sales on time as scheduled in the 5-Year Program (BUR)	C/F	100%	100%	100%	100%	100%	100%	N/C	100%		
Process X% of exploration plans in less than 30 days (BUR)	C/F	100%	100%	100%	>99%	70%	100%	+30%	100%		FY 2005 and FY 2006 reflect the closure of the MMS Gulf of Mexico Region and some associated District offices for as much as 62 days immediately prior to and following Hurricanes Katrina, Rita, and Wilma; as well as, anticipated changes to industry plans in the face of the combined effects of these hurricanes. The FY 2006 target for Pipeline ROW cannot be meaningfully set, as industry continues assessment of damage to 183 pipelines and other OCS infrastructure. Industry inspections are to be completed by May 2006.
Process X% of development plans in less than 120 days (BUR)	C/F	100%	100%	100%	100%	95%	100%	+5%	100%		
Process X% of right-of-way pipeline applications within 140 days (BUR)	C/F	100%	100%	100%	98% preliminary	TBD	100%	N/C	100%		

Table 6: Performance Measure: Resource Use Energy continued

Measure	Type	2003 Actual	2004 Actual	2005 Final Plan	2005 Actual	2006 Enacted	2007 Plan	Change from 2006 Revised to 2007	Long-term Target (2008) 2006 Pres Bud	Long-term Target (2008) Revised	Explanations of Changes: for change from 2006 to 2007 <u>and</u> 2006 and 2008 target revisions
Percent of available OCS acres offered for leasing in a 5 Year Program compared to what was planned for leasing. (PART)	C/F	OCS Leasing Program 2002-2007: Target = 75%						N/A	TBD		This measure counts the acreage offered through lease sales scheduled under the 2002-2007 OCS Oil and Gas Leasing Program, which ends June 2007. One sale is scheduled for 2007; however, a total 2007 target cannot be determined until the 2007-2012 Program is finalized. The 5-Year Program for 2007-2012 is under development through the extensive consultation process prescribed by the OCS Lands Act.
Percent of available OCS acres offered in each year's lease sales (PART)	C/F	>78%	>57%	99%	>99%	99%	TBD	TBD	TBD		This measure counts the acreage offered under each year's lease sales during the 2002-2007 OCS Oil and Gas Leasing Program, which ends June 2007. The measure includes acreage for Special Sales in frontier OCS areas which are not expected to garner much interest. Therefore, the target fluctuates significantly from year to year. The 5-Year Program for 2007-2012 is under development through the extensive consultation process prescribed by the OCS Lands Act.
Percent of available OCS oil and gas resources offered in each year's lease-sales (PART)	C/F	>99%	>88%	99%	>99%	99%	TBD	TBD	TBD		This measure assesses the oil and gas resources offered under each year's lease sales during the 2002-2007 OCS Oil and Gas Leasing Program, which ends June 2007. The goal is to exceed the actual percent of available acres offered, thereby demonstrating that the MMS is offering the most promising resource areas available. The 5-Year Program for 2007-2012 is under development through the extensive consultation process prescribed by the OCS Lands Act.
Intermediate Outcome Strategy 2: Enhance Responsible Use Management Practices											
Intermediate Outcome Measures and Bureau and PART Outcome Measures											
Achieve an oil spill rate for offshore development of no more than X barrels spilled per million barrels produced (SP/PART)	C/F	4.1	8.2	10	8.5 preliminary	5	5	NC	5		Final results data for this measure lags by several months due to extensive verification procedures. Recent results are subject to significant revision as hurricane damage assessments are completed.
Less than X% of total gas produced is approved to be flared offshore (BUR)	C/F	0.7	0.8	0.8	0.8 preliminary	1.1	0.8	-0.3	0.8		Increased FY 2006 target due to lower production levels and relatively high-volume flaring requests associated with the resumption of production following Hurricanes Katrina, Rita, and Wilma.
X% of OCS facilities covered by safety and environmental management plans (BUR)	C/F	66	56	75	TBD	75	75	NC	80		Results data for calendar year 2005 are not expected until June 2006. SEMP is a discretionary program using data submitted by industry on a voluntary basis.
Maintain an annual composite operator performance index of 0.2 or less (BUR/PART)	C/F	0.16	0.17	0.20	.17 preliminary	0.20	0.20	NC	0.20		

Table 6: Performance Measure: Resource Use Energy continued

Measure	Type	2003 Actual	2004 Actual	2005 Final Plan	2005 Actual	2006 Enacted	2007 Plan	Change from 2006 Revised to 2007	Long-term Target (2008) 2006 Pres Bud	Long-term Target (2008) Revised	Explanations of Changes: for change from 2006 to 2007 <u>and</u> 2006 and 2008 target revisions
Achieve an annual composite accident severity ratio of X or less (PART)	C/F	0.08	0.08	0.08	0.08	0.08	0.07	-0.01	0.06		This new measure is a component of the existing operator performance index. Decreasing the result can be achieved by a reduction in either the number or severity of OCS pollution and safety-related incidents.
PART Efficiency and Other Output Measures											
Process X% of offshore environmental assessments for development plans within 8 months (BUR)	C/F	100%	100%	100%	100%	100%	100%	NC	100%		
Total Number of Compliance Inspections Completed	A	23,218	24,938	25,000	22,637 preliminary	23,000	25,000	+2,000	25,000		FY 2005 results and FY 2006 targets reflect the closure of the MMS Gulf of Mexico Region and some associated District offices for as much as 62 days immediately prior to and following Hurricanes Katrina, Rita, and Wilma. Targets
Inspect X safety and pollution prevention components per year (BUR)	C/F	65,043	67,608	66,560	59,240 preliminary	60,000	66,560	+6560	66,560		
Conduct full Coast Guard inspections on X% of manned offshore facilities annually (BUR)	C/F	10%	10%	10%	10% preliminary	10%	10%	NC	10%		
Audit X% of operator training programs annually (BUR)	A	18%	18%	18%	16% preliminary	18%	18%	NC	18%		
Reserves recovered per dollar funded in conservation management	A	6.5	6.8	TBD	TBD	TBD	TBD	TBD	TBD		This new measure captures how many barrels of oil (or equivalent volumes of natural gas) reserves are estimated to be made available for each dollar MMS invests in conservation management activities. Data collection and analysis are ongoing to establish a baseline and future targets.
Intermediate Outcome Strategy 3: Optimize value through effective lease and permit management											
Intermediate Outcome Measures and Bureau and PART Outcome Measures											
Maintain the ratio of 1.8 to 1 (+/-0.4) of accepted high bids to MMS' estimated value (BUR)	C/F	1.9 to 1	2.1 to 1	1.8 to 1 (+/- 0.4)	TBD	1.8 to 1 (+/- 0.4)	1.8 to 1 (+/- 0.4)	NC	1.8 to 1 (+/- 0.4)		Delayed by the closure of the MMS Gulf of Mexico Region office for 62 days immediately prior to and following Hurricane Katrina, final bid statistics for the 17-Aug-2005 sale were published on 5-Jan-2006. Further analysis is ongoing to determine the Fair Market Value ratio for the four 2005 lease sales.
Percent of tracts with high bids rejected in the previous lease-sale receiving acceptable high bids at the planning area's next lease-sale (PART).	C/F	41%	57%	50%	83%	50%	50%	NC	50%		MMS bid adequacy procedures resulted in a net gain of $16.1 million in the 2005 lease sales for 15 of 18 tracts with previously rejected bids. 25 high bids received in 2005 were rejected as insufficient for fair market value; associated tracts may be re-offered in future lease sales.
Enhance net return to the government by X dollars through RIK revenue uplift and cost avoidance (NK)	A	NA	$19.7 million	$12.4 million	TBD	$13.4 million	$13.5 million	N/C	$13.7 million		This is a new measure and supersedes 3 previous measures: RIK incremental net revenue, RIK incremental interest earned, RIK cost avoidance (annual only). Actual '05 results available in April 2006.
X% royalty information reported accurately the first time (BUR)(PART)	A	96.0%	96.7% N-2,574,824 D-2,662,516	97.0%	96.9% N-3,025,422 D-3,121,396	97.5%	98.0%	+.5%	98.0%		

Table 6: Performance Measure: Resource Use Energy continued

Measure	Type	2003 Actual	2004 Actual	2005 Final Plan	2005 Actual	2006 Enacted	2007 Plan	Change from 2006 Revised to 2007	Long-term Target (2008) 2006 Pres Bud	Long-term Target (2008) Revised	Explanations of Changes: for change from 2006 to 2007 and 2006 and 2008 target revisions
Intermediate Outcome Measures and Bureau and PART Outcome Measures											
Reduce time to balance RIK transactions to 180 days for X% of facility measurement points (BUR)	A	New measure	80.8% within 180 days N-2,979 D-3,685	81% within 180 days	85.3% within 180 days N-3,963 D-4,646	83% within 180 days	87% within 180 days	+4%	89% within 180 days		
Provide X dollars positive time value of money to government by collecting RIK revenues within 25 days rather than 30 days for in value royalties (BUR)	A	$660,000	$890,000	$910,000	$1.5 million	$1.9 million	$2.0 million	+100,000	$2.2 million		Increase in FY 2005 is due to significant price increases for oil and gas. FY 2006 increase is due to SPR volumes being transferred to commercial RIK.
Percent of high bids accepted or rejected within 60 days (PART)	C/F	1997-2003 Baseline = 57%	63%	60%	78%	65%	65%	NC	65%		Targets are for lease-sales with fewer than 600 tracts receiving bids in the Gulf of Mexico Region or 90 tracts in the Alaska Region. The FY 2005 result is adjusted to accommodate the closure of the MMS Gulf of Mexico Region Office immediately prior to and following Hurricane Katrina. Absent such adjustment, the result would be 36%.
Intermediate Outcome Strategy 4: Improve information base, information management, and technical assistance											
Intermediate Outcome Measures and Bureau and PART Outcome Measures											
Conduct Technology Assessment and Research studies on X% of high-priority topics (BUR)	C/F	75%	70%	70%	75%	70%	70%	NC	60%		
Achieve a utilization rate of X% at OHMSETT, the national oil spill response test facility (BUR)	C/F	77%	84%	75%	75%	75%	75%	NC	83%		MMS is in the midst of a 4-year (2004-2007) renovation at the OHMSETT facility.
ABC Primary Outputs											
Blocks/Tracts Assessed or Evaluated	C/F	7,731	19,858	38,800	48,925	8,000	8,000	NC	8,000		The number of OCS blocks/tracts assessed or evaluated is typically about 8,000 but this fluctuates significantly due to the large number of blocks that may be covered in a single geologic assessment. The substantial increase projected for FY 2005 is due to studies related to the National Resource Assessment.
Components Inspected	C/F	65,043	67,608	66,560	59,240 preliminary	60,000	66,560	+6.650	66,560		The FY 2005 results and FY 2006 targets reflect the closure of the MMS Gulf of Mexico Region and some associated District offices for as much as 62 days immediately prior to and following Hurricanes Katrina, Rita, and Wilma. Targets for FY 2007 and beyond for the measure of components inspected are amended marginally (by less than 2%) to align with the closely related PART measure for compliance inspections.

Table 6: Performance Measure: Resource Use Energy continued

Measure	Type	2003 Actual	2004 Actual	2005 Final Plan	2005 Actual	2006 Enacted	2007 Plan	Change from 2006 Revised to 2007	Long-term Target (2008) 2006 Pres Bud	Long-term Target (2008) Revised	Explanations of Changes: for change from 2006 to 2007 and 2006 and 2008 target revisions
Leases Issued	C/F	904	928	1,000	873	1,000	TBD	TBD	TBD		This measure counts the number of new leases issued under the 2002-2007 OCS Oil and Gas Leasing Program, which ends June 2007. One sale is scheduled for 2007; however, a total 2007 target cannot be determined until the 2007-2012 Program is finalized. The 5-Year Program for 2007-2012 is under development through the extensive consultation process prescribed by the OCS Lands Act.
Conservation Assessments Completed	C/F	28,265	17,500	21,600	16,165 preliminary	21,600	21,600	NC	21,600		The higher FY 2003 baseline reflects extra resources dedicated to address a backlog of semi annual well test reports.
Production Verifications	C/F	115,089	96,458	113,200	77,556 preliminary	113,200	113,200	NC	113,200		
Lease Administrative Changes	C/F	N/A	8,838	9,298	8,020 preliminary	9,805	10,064	+259	TBD		
Environmental Compliance Assessmen	A	213	281	250	112 preliminary	265	275	+10	275		
RIK Barrels of Oil Equivalent (BOE) Sold	A	17.4 million	41.5 million	56.5 million	56.6 million	103 million	112 million	+9 million	125 million		In the last quarter of FY 2005, SPR oil was transferred to commercial RIK and quantity of gas taken in kind was increased. This will continue through FY '06 and beyond.
Properties Reviewed for Compliance	A	1,537	4,868	3,996	4,852	4,896	5,200	+304	5,638		
Federal disbursements	A	12	12	12	12	12	12	NC	12		
Errors & exceptions resolved	A	685,183	786,923	763,300	2,978,743	748,000	2,860,000	-53,000	680,000	2,800,000	Errors & Exceptions Resolved is comprised of 3 components the largest of which is "Production rejected lines corrected". During FY 2005, MRM changed its counting methodology for this component to more accurately reflect rejected data on the Oil and Gas Operation Report (OGOR). The current estimate for FY 2006 is 2,920,000.
Invoices processed	A	7,525	4,878	5,500	6,210	6,000	4,525	-1,475	4,500		Continuous process improvements, efficiency enhancements, and efforts in educating companies are anticipated to reduce invoices processed.
Lease & well agreement actions completed	A	90,740	113,001	115,200	104,564	117,500	119,850	+2,350	119,850		The drilling of new wells continues to increase because of current market conditions and continuing development of coal bed methane. Therefore, we project a continuing increase in the number of lease and agreement actions.
Checks & documents processed	A	95,966	88,385	84,800	85,715	83,100	87,800	-1,100	86,700		Smaller oil and gas companies continue to be taken over by larger companies that already report and pay electronically. Existing companies are also converting to electronic reports and payments as they become aware of the inherent efficiencies.

Table 6: Performance Measures: Resource Use Non-Energy

Measure	Type	2003 Actual	2004 Actual	2005 Final Plan	2005 Actual	2006 Enacted	2007 Plan	Change from 2006 Revised to 2007	Long-term Target (2008) 2006 Pres Bud	Long-term Target (2008) Revised	Explanations of Changes: for changes from 2006 to 2007 and 2006 and 2008 target revisions
End Outcome Goal Resource Use: Manage or influence resource use to enhance public benefit, promote responsible use, and ensure optimal value – Non-energy.											
Intermediate Outcome Strategy 1: Effectively manage and provide for efficient access and development											
Issue X% of sand and gravel leases within 30 days of receipt of the formal request with final lease terms (BUR)	C/F	100	N/A	100	100	100	100	NC	100		
ABC Primary Output											
Sand and Gravel Leases Issued	C/F	2	0	4	3	4	4	NC	4		

Table 6: Performance Measures: Serving Communities

Measure	Type	2003 Actual	2004 Actual	2005 Final Plan	2005 Actual	2006 Enacted	2007 Plan	Change from 2006 Revised to 2007	Long-term Target (2008) 2006 Pres Bud	Long-term Target (2008) Revised	Explanations of Changes: for change from 2006 to 2007 <u>and</u> 2006 and 2008 target revisions
End Outcome Goal Serving Communities: Protect lives, resources and property											
End Outcome Measures											
Reduce number of fatalities among workers in DOI permitted or contracted activities (SP/PART)	C/F	11	3	6	6	5	Reduce from the adjusted 5-year (2002-2006) average	TBD	Reduce from the adjusted 5-year (2003-2007) average		The true target is “0”. A rolling 5-year average, with the highest annual figure discounted, is used as the expected value for performance analysis. Begininig in FY 2006 the targets are reduced as a result of the Regulatory and Compliance PART review.
Reduce number of serious injuries among workers in DOI permitted or contracted activities (SP/PART)	C/F	23	29	25	23	24	Reduce from the adjusted 5-year (2002-2006) average	TBD	Reduce from the adjusted 5-year (2003-2007) average		
End Outcome Goal Serving Communities: Fulfill Indian fiduciary trust responsibilities											
Intermediate Outcome Strategy 1: Improve Indian fiduciary trust beneficiary services											
Intermediate Outcome Measures and Bureau and PART Outcome Measures											
Conduct X Indian outreach sessions per year (BUR)	A	69	70	65	84	65	65	NC	65		The number of sessions in FY 2005 includes several workshops focused on discussion of the Indian Oil Valuation Rule.
Intermediate Outcome Strategy 3: Improve Indian trust ownership and other information											
Transfer X percent of revenue to OST within 24 hours of receipt. (SP)	A	99.0%	100% N-$92,429,823 D-$92,430,241	99.0%	100% N-$113,362,953 D-$113,362,953	99.5%	99.5%	NC	100.0%		
Provide lease distribution data to BIA for X percent of royalties by first semi-monthly disbursement (SP) (PART)	A	New Measure	84% N-$64,898,120 D-$77,272,637	75.0%	92% N-$95,751,650 D-$103,235,083	80.0%	85%	+5%	90.0%		In FY 2005, there were several months when there was a longer time between month-end receipt of company payments and the variable date established monthly by MRM's systems contractor for providing the first semi-monthly lease distribution data. In addition, companies' reported data quality was high during several months. Together, these factors contributed significantly to MRM's exceeding the target for this measure. It is not known whether these factors will combine in the future to provide similar results.
Tribes manage audit activities for X% of Tribal mineral royalties (BUR) (PART) (300)	A	88%	88% N-$216,257,246 D-$245,673,780	88%	88% N-$216,257,246 D-$245,673,780	89%	89%	NC	89%		The MRM reduced the number of 202 cooperative agreements in FY 2006 by one Tribe because the Tribe did not have the audit expertise to run a cooperative audit program. However, MRM updated the base year used to compute the tribal mineral royalties for this measure which in effect adjusted the target upwards to 89 percent.

Table 6: Performance Measures: Serving Communities continued

Measure	Type	2003 Actual	2004 Actual	2005 Final Plan	2005 Actual	2006 Enacted	2007 Plan	Change from 2006 Revised to 2007	Long-term Target (2008) 2006 Pres Bud	Long-term Target (2008) Revised	Explanations of Changes: for change from 2006 to 2007 and 2006 and 2008 target revisions
Complete compliance work through the order stage within 2-3 years for all Indian gas properties for index zone/major portion pricing (BUR)	A	98% of CY 2001	100% of CY 2001; N&D-2,259 100% of CY 2002 N&D-2,216	90% of CY 2003	99.5% of CY 2003 N-2,235 D-2,246	100% of CY 2003; 90% of CY 2004;	100% of CY 2004; 90% of CY 2005;	NC	100% of CY 2005; 90% of CY 2006;		
ABC Primary Outputs											
202 Cooperative Agreements	A	8	8	9	8	7	7	NC	9	7	Although MRM anticipated ongoing successful cooperative agreements with three Tribes, these tribes have not yet acquired the audit expertise to run cooperative audit programs. For this reason, MRM plans to delay the cooperative agreements until at least FY 2009.
Indian Inquiries Serviced	A	6,899	5,736	6,000	5,247	6,000	6,000	NC	6,000		
Indian Revenue Distribution Transactions	A	31	24	24	24	24	24	NC	24		

FY 2007 PERFORMANCE BUDGET REQUEST

Offshore Minerals Management

Statement of Program Performance

Table 7: Summary of the Offshore Minerals Management Budget Request

		FY 2005 Enacted	FY 2006 Enacted	Fixed Costs & Related Changes	Program Changes	FY 2007 Request	Change from FY 2006
Offshore Minerals Management	**($000)**	**148,278**	**148,771**	**1,781**	**8,813**	**159,365**	**+10,594**
	FTE	**850**	**853**	**0**	**18**	**871**	**+18**
Leasing and Environmental	($000)	37,224	37,711	427	7,072	45,210	+7,499
	FTE	219	224	0	16	240	+16
Resource Evaluation	($000)	29,566	29,407	481	229	30,117	+710
	FTE	221	221	0	0	221	0
Regulatory	($000)	51,516	51,472	713	1,829	54,014	+2,542
	FTE	336	334	0	2	336	+2
Information Management	($000)	29,972	30,181	160	-317	30,024	-157
	FTE	74	74	0	0	74	0

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 than any single state or country in the world. Offshore Minerals Management (OMM), a key program area within MMS, has ensured that the OCS remains a solid contributor to the nation's energy needs through careful regulation, conservation of resources and incentives to develop deepwater and deep shelf gas.

BUDGET OVERVIEW

Congress appropriates funds to the OMM program through the Royalty and Offshore Minerals Management (ROMM) appropriation and the Oil Spill Research (OSR) appropriation. Within the ROMM appropriation, OMM has four 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) which are outlined below.

- The *Leasing and Environmental Subactivity* 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.

- The *Resource Evaluation Subactivity* 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.

- The *Regulatory Subactivity* 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 Technology Assessment and Research Program.

- The *Information Management Program Subactivity* funds IT personnel support, hardware, software, training, security activities, maintenance, technical support, TIMS, and OCS Connect.

- The *Oil Spill Research Appropriation*, which OMM administers, funds oil spill research, oil spill prevention and response planning activities, and regulation of oil spill financial responsibility.

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 prior year budget requests. Historically, OMM has taken action to shift resources as program needs and priorities shifted, and program efficiencies were realized. Since 1985, OMM's enacted FTE level has dropped from 1,175 to 866, a 26 percent reduction. This has occurred, in part, through elimination of the Atlantic Regional Office, periodic reductions in the Alaska and Pacific Regions and Headquarter Offices, and redirection of resources to accommodate increasing workload demands and reorganizations in the Gulf of Mexico. Recent examples include the following:

In FY 2003,
- Workforce reduction of 48 FTEs and $1 million in the Pacific Region
- Base reduction of $2.2 million in Environmental Studies
- Resources shifted to fund needs in the Gulf of Mexico ($5 million and 21 FTE) and OCS Connect effort to streamline business processes ($8.7 million)

In 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)

In FY 2005,
- An increase of $3.5 million in offsetting collections from offshore activities was used, in part, to offset needed increases in appropriated dollars for the OCS Connect project ($4.3 million) and GOMR Interpretive Technologies ($1.9 million).

In FY 2006,
- Closing of the Santa Maria, CA District office ($364,000) and redirection of Interpretive Technology funding received in FY 2005 ($610,000) to offset costs of new needs

(Helicopter Safety, $1.605 million; MONTCAR model, $500,000; and Geological Interpretive Needs, $500,000)
- An offset of $19 million in offsetting collections from offshore activities, including cost recovery fees and increased rental rates, is being used to replace appropriated dollars to fund bureau operating costs.
- The Energy Policy Act of 2005 brings significant responsibilities to the Secretary of the Interior and the Minerals Management Service.
- Redirection of $477,000 from the Sand and Gravel cooperative studies funding to higher priority oil and gas program needs.

In FY 2007,
- Offsetting collections from offshore activities will enable an additional $6 million in appropriated funds to be redirected to other needs.

FY 2007 Performance Budget

In FY 2007, OMM is requesting $9.5 million in initiative funding for the following needs. An additional $1.8 million is being requested for fixed costs, for a total of $11.3 million:

Increases ($000s)		
Facilitate OCS Development and Ensure Safety and Environmental Protection	+2,100	Will provide funds for a new 5-year helicopter contract, increased workload needs, and IOOS Data Integration.
Energy Policy Act of 2005	+7,637	Will provide funds to accomplish Energy Policy Act requirements.
OCS Lease Sales	+1,500	Will provide funds for preparation of NEPA documents necessary for OCS lease sales in the Gulf of Mexico and Alaska.
Decreases ($000s)		
CMRET	-896	Elimination of the Congressional earmark for the Center for Marine Resources and Environmental Technology at the University of Mississippi.
OPA Realignment	-856	MMS internal realignment of funds. No overall impact on MMS budget.

Performance Overview

OMM activities support accomplishment of the Resource Use mission goal to manage resources to promote responsible use and sustain a dynamic economy. Key performance indicators of the program's success include lease sales held and mitigation of oil spills. In 2005, leasing incentives led to an increase of more than 1.5 million acres receiving bids compared to acres receiving bids without incentives in previous sales; this increase exceeded the performance target by 50 percent. Additionally, MMS bid adequacy procedures resulted in a net gain of $16.1 million in 2005 lease sales for 15 of 18 tracts with previously rejected bids.

By promoting safe and environmentally responsible operations on the OCS, OMM supports accomplishment of the Serving Communities mission goal. Reduction in fatalities and serious injuries are key indicators of success in facilitating a safe work environment.

Program Assessment Rating Tool (PART)

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 PART review 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

- Reviewed in 2002 and rated "Moderately Effective"
- MMS studies program are "very effective in providing timely and peer reviewed environmental research to decision makers."

OCS Resource Evaluation and Leasing

- Reviewed in 2004 and rated "Moderately Effective"
- MMS "manages access to mineral resources with exceeding proficiency" and "offers environmentally sound access to the most promising resource areas of the OCS".

OCS Regulatory and Compliance

- Reviewed in 2005 and rated "Effective" – the highest rating
- The 2005 assessment reported that the program "...is well managed and effectively balances the need for access to mineral resources with environmental protection goals. MMS uses both regulatory and non-regulatory means to minimize risk to the public and the environment and to avoid uncompensated resource loss."

Table 8 outlines the key performance measures for OMM's PART programs. These measures and other program information illustrate that MMS is very proficient at providing opportunity for America's energy industry to explore for and develop domestic energy resources in a safe and clean manner. In 2005, MMS:

- Offered access to more than 99 percent of the acreage and resources available for leasing consideration under the Secretary's 5-Year OCS Oil and Gas Leasing Program;
- Offered a suite of leasing incentives that contributed to industry bidding for 50 percent more acreage in targeted zones over the 2000 baseline;
- Netted $16 million in increased high bids for tracts that had previously had bids rejected as insufficient for fair market value;
- Evaluated industry bids in a timely manner;
- Completed 90 percent of planned compliance inspections before Hurricane Katrina disrupted operations along the Gulf of Mexico; and
- Met all five of the key outcome goals for safety and environmental protection.

MMS is committed to sustaining its current high level of performance in the future, providing opportunity for American industry while continuing to assure protection of the marine environment and the safety of the offshore labor force.

OMM End Outputs

The OMM continues to work toward integrating its budget and performance data. As part of these efforts, OMM 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. FY 2003-2005 ABC data for OMM is shown in Figure 8, which illustrates program dollars spent in end output categories established in the ABC framework:

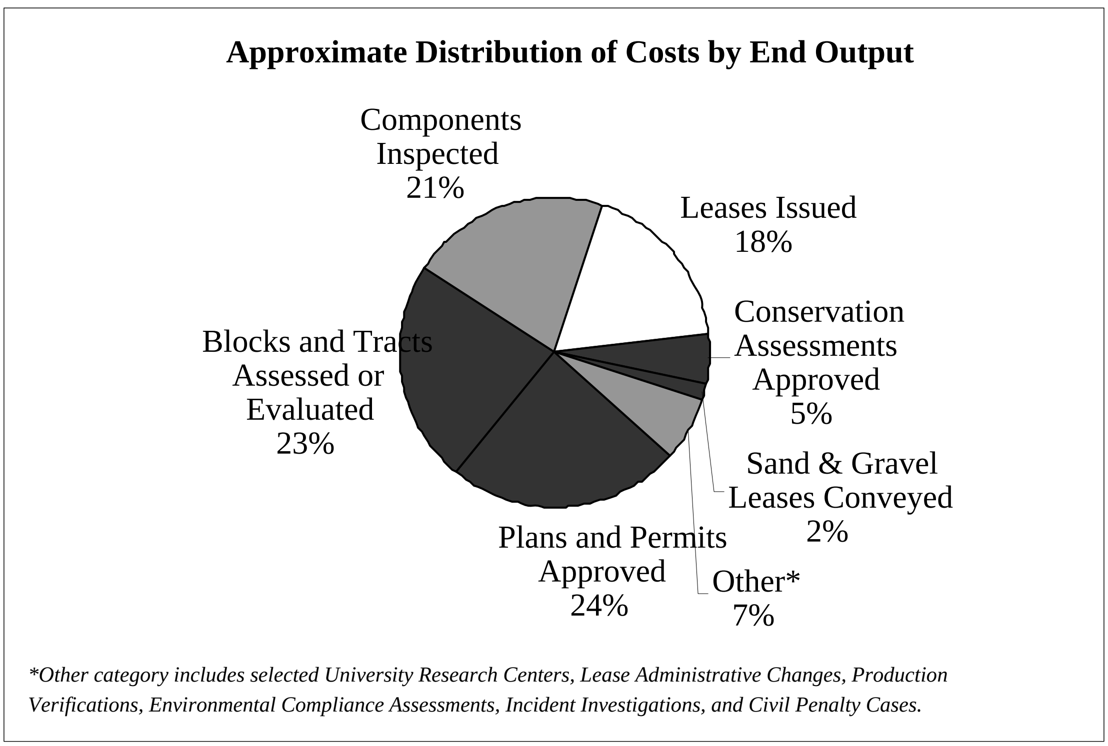

Figure 5: Approximate Distribution of Costs by End Output

PROGRAM OVERVIEW

The 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 a staff level of 866 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 OCS Regions (this office was temporarily relocated to Houston, Texas due to damage from Hurricane Katrina); Camarillo, California, for the Pacific OCS Region; and Anchorage, Alaska, for the Alaska OCS Region.

The strategies and activities carried out by OMM contribute to the accomplishment of two DOI mission goals, Resource Use and Serving Communities. The OMM oversees resource production on the OCS to ensure minimal environmental impacts and safe operations in mineral extraction activities. Leasing, inspections, plans and permits, and assessment activities account for the majority of the work that contributes to resource management on the OCS. For this reason, Resource Use objectives represent activity costs that contribute to Serving Community goals.

Demands, Trends and Resources

The most significant MMS events in 2005 were hurricanes Katrina and Rita and the impact they had on the people of Gulf coast and the oil and gas infrastructure both onshore and offshore. Each hurricane sustained Category 3-4 strength when passing through the Gulf of Mexico production facilities. Of the 4,000 Gulf OCS facilities, more than 3,000 were subjected to hurricane force winds and one hundred and twelve mostly older facilities were destroyed. The hurricanes caused a significant increase in workload from industry for review and approval of repairs to damaged pipelines and platforms.

Despite being subjected to these severe conditions which tested the outside limits of facility engineering, there were no casualties or significant environmental incidents associated with offshore oil and gas facilities. All facility shut-in precautions and subsurface well shut-off valves worked as designed. Spills from ruptured pipelines and other containers were limited and validated the MMS environmental and safety regulatory requirements.

The offshore industry has achieved a commendable safety record that continued during the most dire conditions. MMS seeks to sustain that record by assessing the risks and challenges associated with the complex drilling and production technology and the challenging oceanographic, meteorological, and geologic conditions. For FY 2005, OMM met Strategic Plan goals to minimize incidences of deaths and serious injuries on the OCS.

Gulf of Mexico production of both oil and gas was severely impacted by the 2005 hurricanes. The value of OCS contributions to the nation’s energy needs has become more evident to the nation as a whole. The damaged onshore transportation and refining infrastructure has contributed to the difficulty ramping-up production on the OCS. MMS is continuing to work with industry to restore production as quickly as possible and will continue to focus on a safe and clean OCS.

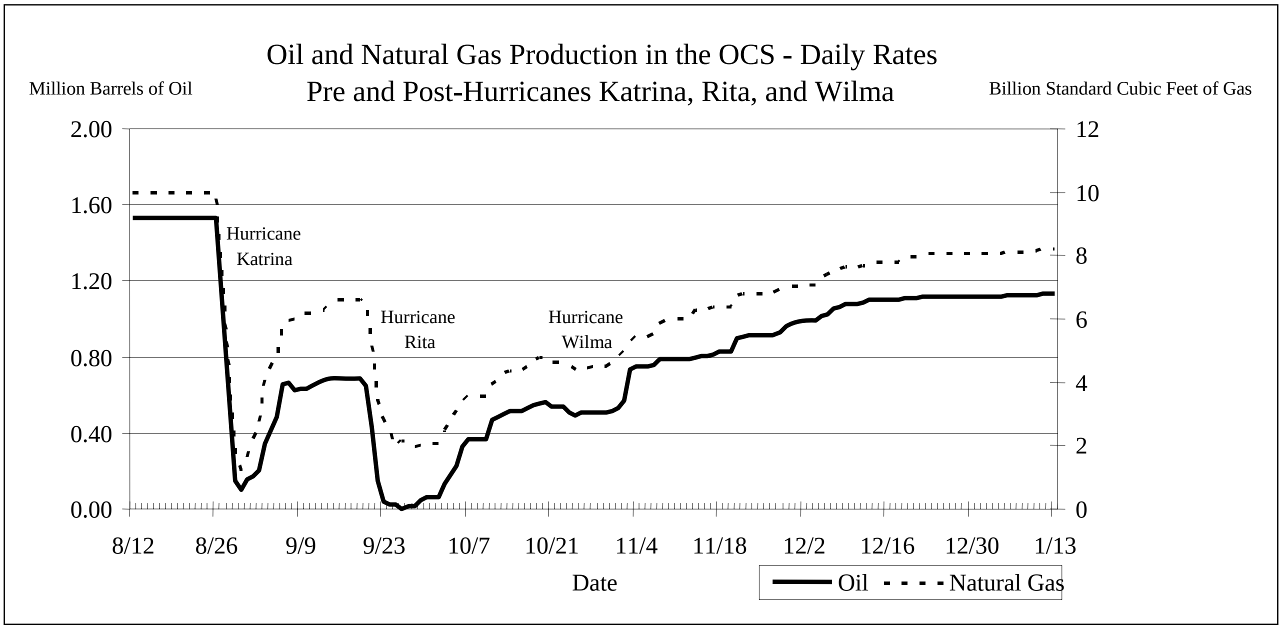

Figure 6: Oil and Natural Gas Production in the OCS – Daily Rates

As established oil- and gas-producing areas mature, America's energy industry is pushing into higher-risk frontiers (both in the Gulf of Mexico and in Alaska waters) in its search for hydrocarbon resources. This advance is critical to meeting the Nation's energy needs through production of domestic resources; but it also poses new risks in terms of the high reservoir pressures and temperatures faced during deep drilling operations, the cross-currents that affect deepwater operations, and the logistical challenges of operating in the Arctic environment.

Clearly, the most significant trend on the OCS is the surge in interest for the deepwater areas of the Gulf. In 2004, deepwater (1,000 feet or greater) oil accounted for 17 percent of U.S. domestic production. Deepwater gas now accounts for 6 percent of U.S. domestic production. There have been about 150 discoveries in deepwater over the past 10 years, with about 109 fields now in production. Of particular excitement to industry and MMS is the activity in ultra-deepwater (more than 5,000 feet water depth). Over the past 3 years there have been 24 significant discoveries in ultra-deepwater.

The deepwater frontiers demand that MMS keep abreast of new developments in deepwater exploration and development technology. The MMS must also understand the deepwater environmental concerns such as chemosynthetic communities. To do so, MMS monitors the latest research and technological developments by participating in industry workgroups, developing appropriate regulations and addressing alternative compliance issues as part of the review and approval process for offshore plans and permits.

In addition to deepwater, there is tremendous potential for deep and ultra-deep drilling for natural gas in the traditionally explored shallow water areas of the Gulf of Mexico shelf. Some of the ultra-deep gas prospects currently being targeted may contain as much as 4 trillion cubic feet of natural gas.

The National Energy Policy directives to provide royalty incentives for deepwater and deep gas are in great part responsible for activity in these high-cost frontier provinces. The MMS has established a suite of economic incentives to promote discovery of new sources of energy and to stimulate environmentally preferred natural gas production both in the Gulf and for offshore Alaska. The March 2005 Beaufort Sea sale attracted the most interest from industry and received the highest bids of any since 1988. Without royalty relief incentives (which are suspended during periods of high prices) industry would be less willing to risk these ventures. Since 2003, on average approximately 1 million additional acres per year have received bids compared to acres receiving bids without incentives in previous sales. Though bidding activity is the result of many considerations, a substantial increase in offshore acreage with incentives receiving bids is seen as a positive indicator.

In the last two years crude oil prices have doubled. Prices rose from about $30 per barrel at the end of 2003 to $70 per barrel in August 2005 before dropping back to the mid $50s at the end of 2005. The Energy Information Agency (EIA) suggests that this sharp increase in price is a result of reduced surplus production capacity combined with surging demand both globally and domestically, exacerbated by the damage and disruption caused by Hurricanes Katrina and Rita.

Higher prices and incentives make OCS tracts worth acquiring, exploring, developing and producing. Higher prices make the development of smaller reservoirs more economical and can make it worthwhile to acquire and explore a larger number of OCS leases. As the number of leases held by private industry increases, the greater the workload becomes for MMS as the demand for its services also increases.

The MMS now administers over 8,200 leases and oversees about 4,000 offshore facilities; this represents a 180 percent increase in leases since MMS was formed in 1982. The increasing workload for lease adjudication and suspension requests is increasing the backlog of these actions.

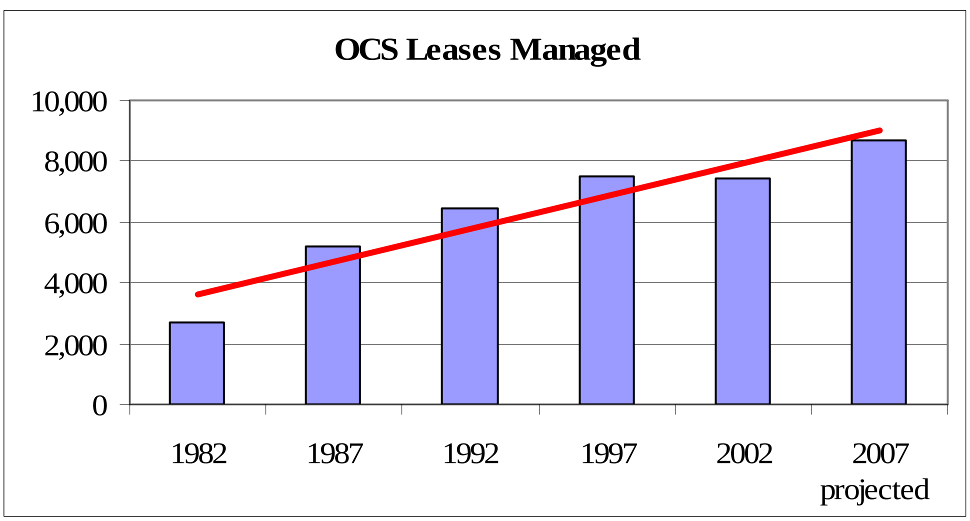

Figure 6: Number of Leases Managed

The program's drilling and production inspection activities have increased over 60 percent since 1999. The Offshore Program is facing an increasing workload at least through 2008 as industry rushes to explore deep water leases set to expire over the next couple years.

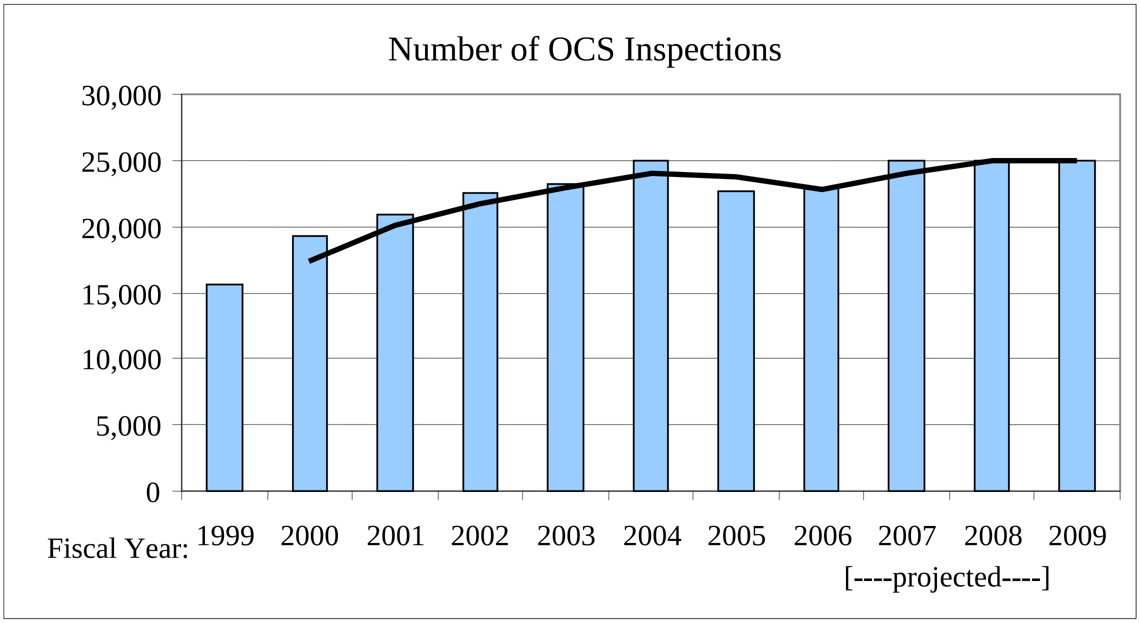

Figure 7: Number of OCS Inspections

The MMS increased the number of inspections conducted by an average of 10 percent per year from 1999 to 2004, and anticipates sustaining this new level of inspection activity for the near future; however, the severe hurricanes in 2005 (Katrina, Rita, and Wilma) significantly affect the total output for fiscal years 2005 and 2006. Although the number of inspections is not expected to increase beyond 2004 levels, the cost per inspection is rising. The hourly rate for the next competitively bid 5-year helicopter contract (2007-2011) is expected to increase 8 percent each year with a 10 percent jump in 2007. Higher fuel prices and longer flight durations for distant facilities further increase the cost of transporting inspectors to offshore facilities.

MMS is working to manage the competing demands of infrastructure associated with renewable energy, deepwater ports, other alternative uses and the demands of exploration, development, production and transportation of hydrocarbon resources. The MMS expects continued increases in activities associated with existing OCS resource management program responsibilities as MMS identifies and addresses competing uses. Deepwater ports require MMS to assess the pressure LNG importation will place on continued capital investment in gas exploration, production, and development in the OCS as well as the potential displacement of OCS gas from existing limited capacity pipelines. MMS is increasing our coordination and consultation efforts to ensure that the DOI/MMS mineral resource domain is appropriately developed, MMS-granted energy and non-energy rights are protected, and that OCS-related activities continue to be conducted in a safe and environmentally sound manner.

The Energy Policy Act of 2005

The Department of the Interior faces a wide range of new and expanded responsibilities, with immediate and long-term implications, upon enactment of the Energy Policy Act of 2005 (Act). Provisions of the Act place significant demands on the resources of the Minerals Management Service, affecting existing programs as well as authorizing the establishment of a comprehensive OCS Renewable Energy and Alternative Use program. The MMS's FY 2007 budget request includes $8.4 million for implementation of sections of the Act; of that amount, $7.6 million is in OMM programs and projects.

> "A coherent and predictable federal management process for offshore renewable resources that weighs the benefits to the nation's energy future against the potential adverse effects on other ocean users, marine life, and the ocean's natural processes, should be fully integrated into the broader management regime."
>
> *An Ocean Blueprint for the 21st Century*
> *2004 Report of the U.S. Commission on Ocean Policy*

The most significant workload impact from the Act is contained in Section 388, Alternative Energy. MMS will assume permitting authority for offshore renewable energy projects. With at least seven projects already under Federal review, the impact on the Bureau will be immediate. The number of projects does not reflect the full scope of the effort that will be required. For example, a single offshore wind farm can entail installation of as many as 300 turbines. Also, renewable energies are expected to be a fast growing industry, and little is known at this time about engineering standards, environmental impacts, etc.

There are tremendous efficiencies to be gained from melding this new program into the expertise of the existing offshore energy program (leveraging research, overhead, etc.). Yet, there are manpower and information needs that cannot be absorbed within base resources as current resources are critical for overseeing the effective implementation of the existing OCS oil and gas program. These needs include overseeing the safety of an offshore labor presence estimated to be near 40,000; assuring safe and clean operation of 4,000 production platforms and 33,000 miles of pipeline by more than 100 operating companies; and monitoring production activities that account for about 30 percent of domestic oil, 21 percent of domestic natural gas, and $5 billion in annual revenue.

Table 8: Offshore Minerals Management Performance Overview

Measure	FY 2005 Plan	FY 2005 Actual	Change from FY 2005 Plan	FY 2006 Enacted	FY 2006 Change from FY 2005	FY 2007 Request	FY 2007 Change from FY 2006
OCS Resource Evaluation and Leasing Program							
Percent of available OCS acres offered for leasing in a 5-Year Program compared to what was planned for leasing	This long-term measure applies to the 2002-2007 Leasing Program, for which the target is 75%.						
Percent of available OCS acres offered for leasing in each year's lease sales	99	>99	N/C	99	N/C	* TBD	* TBD
Percent of available OCS oil and gas resources offered for leasing in each year's lease sales	99	>99	N/C	99	N/C	* TBD	* TBD
Change in acres with leasing incentives receiving bids compared to acres receiving bids without incentives in previous sales	+1 million acres	+1.5 million acres	+0.5 million acres	Targets are dependent upon the incentives in effect at the time of the lease sale.			
Percent of tracts with high bids rejected in the previous lease sale receiving acceptable high bids at the planning area's next lease sale	50	83	+33	50	-33	50	N/C
Percent of high bids accepted or rejected within 60 days	60	78	+18	65	-13	65	N/C
Percent of acres drilled for the first time (5-year leases)	7.5	7.1	-0.4	7.5	+0.4	7.5	N/C
Percent of acres drilled for the first time (8- and 10-year leases)	1.7	1.1	-0.6	1.7	+0.6	1.7	N/C

** Plans for 2007-2012 are under development in accordance with Section 18 of the Outer Continental Shelf Lands Act.*

Table 8: Offshore Minerals Management Performance Overview continued

Measure	FY 2005 Plan	FY 2005 Actual	Change from FY 2005 Plan	FY 2006 Enacted	FY 2006 Change from FY 2005	FY 2007 Request	FY 2007 Change from FY 2006
OCS Regulatory and Compliance Program							
Number of fatalities among workers in DOI-permitted facilities **	6	6	N/C	5	-1	Reduce	TBD
Number of serious injuries among workers in DOI-permitted facilities **	25	23	-2	24	1	Reduce	TBD
Achieve an oil spill rate for offshore development of no more than X barrels spilled per million barrels produced **	10	8.5 preliminary	-1.5	5	-3.5	5	N/C
Maintain an Annual Composite Operator Performance Index of X or less **	0.20	0.17 preliminary	-0.03	0.20	+0.04	0.20	N/C
Achieve an Annual Composite Accident Severity Ratio of X or less **	0.08	0.08	N/C	0.08	N/C	0.07	-0.01
Total # of Compliance Inspections Completed	25,000	22,637 preliminary	-2,363	23,000	+363	25,000	+2,000
Reserves Recovered (BOE) per Dollar of Funding for Conservation Management	New Measure - Baseline and Targets TBD For the period 2002-2004, MMS conservation management activities were completed						

*** The actual target for safety and environmental protection outcome measures is "0". For the measures of fatalities and serious injuries, a 5-year rolling average, with the highest annual figure discounted, is used to determine expected values.*

FY 2007 PERFORMANCE BUDGET REQUEST
Offshore Minerals Management
Leasing and Environmental Subactivity

Table 9: Leasing and Environmental Subactivity Summary

		FY 2005 Enacted	**FY 2006 Enacted**	**Fixed Costs & Related Changes**	**Program Changes**	**FY 2007 Request**	**Change from FY 2006**
Leasing and Environmental Assessment Program (L&EA)	($000)	21,053	21,540	427	3,348	25,315	+3,775
	FTE	219	224	0	16	240	+16
Environmental Studies Program (ESP)	($000)	16,171	16,171	0	3,724	19,895	+3,724
	FTE	0	0	0	0	0	0
Leasing and Environmental Subactivity	**($000)**	**37,224**	**37,711**	**427**	**7,072**	**45,210**	**+7,499**
	FTE	**219**	**224**	**0**	**16**	**240**	**+16**

SUMMARY OF FY 2007 PROGRAM CHANGES

Request Component	**Amount**	**FTE**
Program Changes		
• Energy Policy Act of 2005 – Alternate Energy – Related Uses on the OCS	+$5,926,000	+8
• Energy Policy Act of 2005 – Coastal Impact Assistance Program	0	+5
• OCS Lease Sales	+$1,370,000	+4
• Facilitate OCS Development & Ensure Safety & Environmental Protection	+$180,000	+1
• OPA Realignment*	-$232,000	-2
• Removal of Congressional Earmark**	-$172,000	0
Total, Program Changes	**-$7,072,000**	**+16**

JUSTIFICATION OF FY 2007 PROGRAM CHANGES

The FY 2007 budget request for the Leasing and Environmental Subactivity is $45.2 million and 240 FTE, a net program increase of $7.5 million (including $427,000 in fixed costs) and an increase of 16 FTE from the FY 2006 enacted.

> "While the current contribution of renewable and alternative energy resources to America's total electricity supply is relatively small – only 9 percent – the renewable and alternative energy sectors are among the fastest growing in the United States."
>
> *-2001 Report of the National Energy Policy Development Group*

* The OPA Realignment is an internal, technical adjustment of funds within MMS that does not affect the overall MMS budget. Justification for this program change is provided in the Executive Direction Subactivity.

** In FY 2006, Congress provided a one-time increase of $1.132 million for fixed cost funding. This unrequested Congressional earmark is shown as a reduction in MMS's FY 2007 budget request.

Energy Policy Act of 2005 – Alternate Energy – Related Uses on the OCS (Section 388)

Table 10: Energy Policy Act of 2005 – Alternative Energy - Related Uses on the OCS (Section 388)

	2005 Enacted	2006 Enacted	2007 Request	Change from FY 2006
Initiative ($000)	0	0	5,926	+5,926
FTE	0	0	8	+8
Section 388 in L&EA	*0*	*0*	*2,252*	*+ 2,252*
	0	*0*	*6*	*6*
Section 388 in ESP	*0*	*0*	*3,674*	*+3,674*
	0	*0*	*2*	*+2*

This initiative is one component of a larger $8.387 million Energy Policy Act funding requirement.

Section 388 of the Energy Policy Act of 2005 requires the establishment of a comprehensive program to manage new and innovative projects on the OCS. Like the oil and gas program, the OCS Renewable Energy and Alternative Use program requires extensive consultation with other federal agencies, coastal states, industry, and other interested parties; programmatic and site-specific environmental analyses; development and promulgation of appropriate regulations to ensure environmental protection; design and implementation of appropriate leasing procedures and fee/rental/royalty regimes; technical review of industry submittals and engineering assessment of proposed technologies; and compliance mechanisms to enforce regulatory requirements and lease stipulations. The requested resources would be used to establish all of the necessary systems, processes and other elements of such a program:

- Coordinating and consulting with affected states and others;
- Promulgating and implementing regulations;
- Siting issues, managing multiple-use issues and potential conflicts;
- Assessing environmental impacts;
- Conducting scientific research (environmental, resource assessment, technology);
- Coordinating an OCS mapping initiative to support decision making
- Granting leases, easements, and rights-of-way and assuring receipt of fair market value for rights conveyed (terms and conditions);
- Assuring conservation of natural resources;
- Granting of permits;
- Fair value and creation/maintenance of competition considerations (lease or permit terms).
- Maintaining safety; and
- Distributing revenues to states.

In September 2006, MMS assumed management of the Cape Wind project. It is estimated that at least 5 staff from the U.S. Army Corps of Engineers have been actively working on this project, with contracting support. The DEIS lists an additional 60 technical specialists from 16 different consulting groups and academia that helped in data collection and preparation of the EIS.

Cape Wind Project (130 wind turbines, Nantucket Sound--~28 sq miles):

- Application Date: November 2001
- USACE Notice of Intent to prepare EIS--Jan 2002
- USACE Public Scoping meetings--March 2002 (3 locations, 474-page transcripts)
- DEIS issued--Nov 9, 2004 (4 volumes, 3809 pages)
- USACE Public Hearings (Dec 2004) (4 locations 1,223-page transcripts)
- Public Comment Closed--Feb 24, 2005 (4,993 comments, 10,029 pages)

Also during FY 2006, MMS will begin review of the Long Island Power Authority (LIPA) project proposed offshore the State of New York. With these projects comes the need to fulfill Federal statutory requirements (e.g., NEPA, ESA, CZMA) and to prepare a record of decision that will support required approvals by USACE, MMS, and other agencies. MMS is working with other Federal and state agencies to identify specific agency functions and compliance needs.

Program Performance: The Energy Policy Act of 2005 brings significant responsibilities to the Secretary of the Interior and the Minerals Management Service. MMS is tasked with developing new programs and making adjustments to existing programs to accommodate new responsibilities. Part of the work MMS will be doing to meet these requirements involves the development of new performance measures for the Alternative Energy Uses program. It has not yet been determined how funding for this initiative will impact future performance measures and their targets.

The proposed FY 2007 investment is designed to ensure MMS is able to fulfill its responsibilities in:

- Development of renewable energy and alternative use programs;
- Review and possible approvals of renewable energy and alternative use applications; and
- Design and implementation of energy incentive programs to induce exploration of oil and gas resources in deepwater, from deep depths, and from enhanced recovery.

Justification of 2007 Program Change/L&EA (+$2,252,000; 6 FTE): In FY 2007 MMS will continue with the FY 2006 strategic program development efforts; assessment of environmental data gaps and information needs; promulgation of regulations; development of leasing terms, conditions, stipulations, and mitigation; design of leasing and adjudication, and fair market value processes; and inspection and monitoring approaches.

Six FTE are required in the Leasing and Environmental Assessment program element to accomplish this work:

- Three FTE and $30,000 are required to develop program framework and regulations. This will include stakeholder coordination and design of terms and conditions and the promulgation of regulations for both alternative energy and alternative uses programs. It is expected that initially most activity will be primarily focused on the northeast part of the nation, as those projects are more mature and thus more likely to result in activity. Several key policy issues include multiple-use issues and potential conflicts; designing stakeholder consultations and planning processes; and managing government information requirements, proprietary concerns, and data release.

- Two FTE are required to develop methodologies for supporting NEPA analysis, assessing environmental impacts, and monitoring environmental compliance. The 2007 budget request includes $1.4 million for contract work that will allow OMM to respond expeditiously to projects already underway (consultation, environmental assessment, and regional environmental evaluations).

- One FTE is required to develop and implement the Coordinated Mapping Initiative required by Section 388(b). This FTE will coordinate with other agencies, import data, and perform the complex mathematical calculations necessary to develop the comprehensive offshore marine cadastre.

Justification of 2007 Program Change/ESP (+$3,674,000; 2 FTE): The new authority to regulate alternative energy uses of the OCS significantly increases the scope of information needs that MMS must now consider when compared to the oil and gas focus of past years. The 2007 budget request includes funding for 2 FTEs to manage these new needs and $3.4 million for studies, with the following considerations:

- The geographic range represented for the new activities covers all coastal areas;
- Many energy projects are expected on the east coast, where the MMS Environmental Studies Program has not operated for many years and some existing information is out of date and entirely new scientific techniques or discoveries demand new data collection and analysis to be credible; and
- Funding will address immediate information needs through studies, evaluations, analyses, assessments, modeling, monitoring, literature reviews, and workshops.

Energy Policy Act of 2005 – Coastal Impact Assistance Program (Section 384)

The Energy Policy Act authorizes disbursement of $250 million from OCS oil and gas revenues for each of the fiscal years 2007 through 2010 to producing States (Alabama, Alaska, California, Louisiana, Mississippi, and Texas) and Coastal Political Subdivisions (e.g., counties, parishes, or boroughs) for approved coastal restoration and conservation purposes. Funds will be awarded as grants for approved coastal impact assistance plans for the following purposes:

- Conservation, protection or restoration of coastal areas, including wetlands;
- Mitigation of damage to fish, wildlife or natural resources;
- Planning assistance and administrative costs;
- Implementation of a marine, coastal or comprehensive conservation management plan; and
- Mitigation of the impact of OCS activities through funding of onshore infrastructure projects and public service needs.

Table 11: Energy Policy Act of 2005 – Coastal Impact Assistance Program (Section 384)

	2005 Enacted	2006 Enacted	2007 Request	Change from FY 2006
Initiative ($000)	0	0	0	0
FTE	0	0	5	+5

2006 Program Performance (3 FTE): As a result of passage of the Energy Policy Act of 2005, the OCS economics staff was given the responsibility for designing the software system needed to allocate $250 million per year, for the years 2007 through 2010, to six coastal producing states and their approximately 100 eligible coastal political subdivisions. The allocation formulas, mandated by the legislation, are complex and involve many diverse types of data from numerous sources. They also require development of an algorithm to compute the minimal distances from each of the thousands of OCS leases to each state and each coastal political subdivision. The economics staff is also responsible for the design of the fiscal terms for leases, licenses and rights-of-way associated with the Alternate Energy-Related Use provision of the act.

MMS has reviewed the provisions of the Energy Policy Act and is currently developing program guidelines based on statutory criteria, best practices from similar formula-based grant programs, and input from the recipient States. Part of the work MMS will be doing to meet these requirements involves the development of new performance measures for the Coastal Impact Assistance Program.

Justification of 2007 Program Change (5 FTE): In FY 2007, MMS will continue program development begun in FY 2006. This includes development of an allocation model necessary to calculate the shares of revenue to be distributed annually to each recipient State and Coastal Political Subdivision in accordance with a complex formula based on OCS revenues, proximity to producing leases, coastal population, and other factors. Also in FY 2007, MMS will review State Coastal Impact Assistance Program plans, disburse funds to recipients, and monitor projects to assure funds are used for the purposes outlined in the Energy Policy Act.

In lieu of a program change to the annual ROMM appropriation, MMS is proposing legislation to authorize the Secretary to retain up to 1 percent of Coastal Impact Assistance Program funds, to remain available until expended.

These funds would cover MMS's costs of administering the new program including 8 FTE to support the programmatic grant management functions and 2 FTE to support the fiscal and procurement grant management functions. The CIAP budget reflects a conservative estimate of the technical staff required to review state plans and amendments, manage fund allocation and disbursement, and monitor program performance. The CIAP budget covers grant management and monitoring functions which will extend beyond the FY 2007-2010 disbursement period.

OCS Lease Sales

The OCS Lands Act requires the Secretary of the Interior to prepare and maintain an oil and gas leasing program that indicates the size, timing and location of leasing activity determined to best meet national energy needs for the 5-year period following its approval. Final decisions on what will be included in new 5-Year Program, covering 2007-2012, are expected in the first quarter of calendar year 2006. The request (shown below) is part of an initiative that spans more than one subactivity/program element. The full scope of the initiative consists of $1.5 million and five FTE. In addition to the $1.4 million, funds for $130,000 and one FTE are requested in the Resource Evaluation Subactivity, to interpret seismic data for determination of fair market value and bid adequacy.

Table 12: OCS Lease Sales

	2005 Enacted	2006 Enacted	2007 Request	Change from FY 2006
Initiative ($000)	0	0	1,370	+1,370
FTE	0	0	4	+4

2006 Program Performance: The 5-year program enables the Federal government, affected states, the oil and gas industry, and other interested parties to plan for steps proposed to lead to OCS oil and gas lease sales. Execution of these critical actions is managed to ensure MMS meets its GPRA goals for offering access to domestic energy resources, while meeting ambitious PART targets in an environmentally responsible manner. In preparing the program for 2007-2012, the MMS has worked in consultation with constituents to develop a program that is environmentally responsible and offers a judicious approach to OCS leasing. In anticipation of final decisions regarding the next five-year program, MMS has proceeded with planning for established OCS lease sales, as appropriate, pending final decisions, including outreach/scoping and focusing staff resources on concurrent EIS preparation.

Justification of 2007 Program Change (+$1,370,000; 4 FTE): The new 2007-2012 5-year program will require additional funds for required NEPA work and information collection needs associated with the individual lease sales, as well as provide funding for the programmatic EIS required for the five-year program. The four new FTE are needed for increased information collection, analysis, and interpretation requirements to support the 5-Year Program.

- The Western GOM sale is the first sale in the new 2007-2012 oil and gas leasing program. Typically, the scoping work and environmental documents needed to meet NEPA requirements would be prepared in a multi-sale Environmental Impact Statement (EIS) that would include several similar regions in the same process. However, in order to hold the 2007 Western GOM sale on time, this work will need to be conducted separately. If the sale is not held on time, revenue to the Treasury and energy production to the country would be delayed.

- A second lease sale, location to be determined when the 5-Year Program is completed, is also planned for 2007, with the associated environmental reviews.

- Some sales will require closer coordination with affected states on complex program requirements and mandated timeframes. The additional coordination and analysis associated with these sales will require supplementing MMS's current scientific and technical expertise with select contract support. This will significantly increase MMS's ability for successful and timely completion of the necessary NEPA documents to support the 5-Year Program. The timely completion of legally defensible EISs is critical to fulfilling regulatory mandates and to holding OCS lease sales on schedule.

- OMM has been aggressive in implementing efficiencies and streamlining its workforce. OMM requests the additional funds to perform the EIS review and analysis either in-house or by contract to avoid diversion of resources from other areas of the oil and gas program.

Funding is requested for this initiative to avoid the following:

- Any delay in the scheduled 2007 Western Gulf of Mexico Lease Sale and the second lease sale to be held in 2007;
- A negative impact on the new leasing program, delaying the potential number of sales and the search for domestic energy resources;
- The failure to provide the NEPA supports to review and support exploration, delineation, and development requests; and
- Reduced domestic energy production and revenue to the U.S. Treasury.

The impact that the funding will have on the ability to hold offshore lease sales as scheduled in the Secretary's 5-Year Program, a key MMS performance indicator, will remain unknown until the new 5-year Program is released, at which time MMS will evaluate the performance measure and develop new targets.

Facilitate OCS Development & Ensure Safety & Environmental Protection Initiative

The most significant trend on the OCS is the surge in interest for the deepwater areas of the Gulf. There have been about 150 discoveries in deepwater over the past 10 years, with about 109 fields now in production. Of particular excitement to industry and MMS is the activity in ultra-deepwater (more than 5,000 feet water depth). Over the past 3 years, there have been 24 significant discoveries in ultra-deepwater. The deepwater frontiers demand that MMS keep abreast of innovative developments in deepwater technology and understand the deepwater environmental concerns such as chemosynthetic communities.

The below request is part of a larger initiative to Facilitate OCS Development & Ensure Safety and Environmental Protection that spans more than one subactivity/program element. The full scope of the initiative consists of $2,100,000 and three FTE. In addition to the below request, funds of $1,920,000 and two FTE are requested in the Regulatory Subactivity, Regulation of Operations program element, to monitor the latest research and technological developments, and for a helicopter rate increase.

Facilitate OCS Development & Ensure Safety & Environmental Protection Initiative: Facilitate OCS Development

Table 13: Facilitate OCS Development & Ensure Safety & Environmental Protection Initiative: Facilitate OCS Development

	2005 Enacted	2006 Enacted	2007 Request	Change from FY 2006
Facilitate OCS Development (L&EA)	0	0	130	+130
FTE	0	0	1	+1

2006 Program Performance: As steward of OCS mineral resources, MMS currently manages over 8,200 leases covering approximately 47 million acres underlying federal offshore lands. Managing these leases entails the review and processing of thousands of transactions each year to ensure proper documentation of lessee and operator responsibilities and ongoing technical review of OCS operations to ensure responsible development.

Justification of 2007 Program Change (+$130,000; 1 FTE): The MMS is increasingly seeing the number of OCS land record actions expand. In the first half of 2005, transfers of record title actions increased 66 percent over the same period in 2004. It is expected that transaction volumes will continue to rise through 2009 as an increasing number of leases approach their termination dates, and the more than 100 operator companies negotiate deals to drill wells. To maintain turnaround time to industry for the submittal of nearly 10,000 documents per year, an increase of one FTE (Land Law Examiner) is required.

The 2007 budget request will prevent a backlog in processing transfers of record title actions for oil and gas leases, and also prevent any backlog in processing related documents such as company qualification files, changes in operators, and updates to bonding and oil spill financial responsibility coverage. In addition, the funding would allow timely data cleanup and migration of records to OCS Connect. This will improve the ability of both MMS and industry to work online and share complete and correct data.

This information is also critical to the approval actions of other MMS program offices, i.e. geological and geophysical permits, exploration and development plans, platform and production facility installation, and pipeline rights-of-way. To reflect the importance of timely review, the bureau tracks key actions in its GPRA suite of performance measures.

The 2005 PART review of the OCS Regulatory and Compliance program recognizes that MMS "acts through regulatory and non-regulatory means to minimize risks to the public and the environment and to avoid uncompensated resource loss." Though a relatively small portion of the MMS budget overall, the lease adjudication function is critical to our ability to ensure responsible use management practices on the OCS. As discussed above, this information is also critical to other parts of the organization.

Facilitate OCS Development & Ensure Safety & Environmental Protection Initiative: Integrated Ocean Observing System

> "Recommendation 24-3. Ocean.US, working with the National Oceanic and Atmospheric Administration (NOAA) and the Minerals Management Service (MMS), should include the offshore oil and gas industry as an integral partner in the design, implementation, and the operation of the Integrated Ocean Observing System (IOOS), especially in areas where offshore oil and gas activities occur."
>
> *An Ocean Blueprint for the 21st Century, 2004 Report of the U.S. Commission on Ocean Policy*

Table 14: Facilitate OCS Development & Ensure Safety & Environmental Protection Initiative: Integrated Ocean Observing System

	2005 Enacted	2006 Enacted	2007 Request	Change from FY 2006
Integrated Ocean Observing System (ESP)	0	0	50	+50
FTE	0	0	0	0

2006 Program Performance: The U.S. Commission on Ocean Policy recommended the development of an Integrated Ocean Observing System (IOOS). In its response to this recommendation, the Administration, in its *U.S. Ocean Action Plan*, stated its support for the development of IOOS. MMS was identified as a key component as demonstrated by its November 2004 Notice to Lessees (NTL) establishing an ocean current monitoring and data-sharing program in the Gulf of Mexico. Under this program, deepwater oil and gas platform operators will collect ocean current data from deepwater drilling and production sites, and publish it on the Internet. Initial calculations suggest that more than forty operating sites will collect data on a daily basis. In addition, and in consultation with the Alaska Ocean Observing System, MMS has funded a pilot high frequency radar system in the Beaufort Sea to assess its ability to measure surface ocean currents in the Arctic.

Justification of 2007 Program Change (+$50,000; 0 FTE): Accurate, timely environmental data is critical to safe and environmentally sound OCS operations. MMS is virtually the only federal agency with ongoing, continuous regulatory and stewardship activities on the OCS. While MMS is a charter member of the "Ocean.US" Executive Committee, established by the National Ocean Partnership Program in response to a Congressional request for a plan to achieve a truly integrated ocean observing system, the research community has primarily driven the development of IOOS. However, the MMS NTL is a clear example of an OCS operational need for the system. This initiative will allow MMS to lead a coordinated effort to formulate a strategy, develop an implementation plan, and initiate a pilot project, ensuring that OCS relevant information needs and stakeholder needs are better integrated into the IOOS.

The 2007 budget request includes funding for:

Task 1 - FY 2007: A joint MMS-NOAA hosted workshop to: a) outline the current, national IOOS efforts; and b) identify, through direct stakeholder input, relevant OCS IOOS information needs in the Gulf of Mexico. Key workshop participants would include the OCS industries, NOAA, Ocean.US, and other federal and non-federal stakeholders. The latter will include representatives of the Gulf of Mexico Alliance and the local regional IOOS association, the Gulf Coastal and Ocean Observation System. The total workshop cost is estimated to be $100,000, with NOAA contributing $50,000 toward the effort.

The requested funding will enable MMS to be actively engaged in the development of the Integrated Ocean Observing System (IOOS). This is important because:

- MMS is the only Federal agency with ongoing, continuous regulatory and stewardship activities in the deepwater Gulf;
- Without active involvement early in the development of the IOOS, OCS activities may not be sufficiently addressed; and
- The opportunity to develop a partnership strategy early in the process to ensure efficient, cost-effective implementation will be lost.

As cited in the *U.S. Ocean Action Plan*, the Integrated Ocean Observing System (IOOS) is a substantial U.S. contribution to the international Global Earth Observation System of Systems (GEOSS). According to President Bush, such an integrated observation system will "benefit people around the world" by linking observation technologies that "will allow us to make more informed decisions affecting our environment and economies".

Significantly, the U.S. Commission on Ocean Policy Preliminary Report strongly recommends that IOOS be created and emphasizes the need for extensive coordination and support. Their Final Report specifically recommends the development of an MMS- Industry-NOAA partnership as part of the IOOS.

Continuing the initiative in out years would include:

Task 2 - FY 2008 and 2009: Preparation of a strategy and implementation plan based on Task 1. Plan to include performance measures and be peer-reviewed by NOAA, Ocean.US, representative OCS industries, and the Gulf of Mexico Alliance. This task will also include the requirement for the design of possible pilot projects.

Task 3 - FY 2010: Pilot project initiated including field measurements, data quality assurance/quality control, data management, and data integration with the current IOOS infrastructure coordinated by NOAA.

PROGRAM OVERVIEW

One of the cornerstones of the 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. It manages 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 8,200 active mineral leases on approximately 47 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 21 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 approximately15 billion barrels of oil for U.S. consumption.

Performance Overview

The Leasing and Environmental (LE) subactivity 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." In FY 2005 four successful sales were held, three in the Gulf of Mexico and one in Alaska. The goal in FY 2006 is to conduct two lease sales (see table below).

Table 15: OCS Lease Sales, FY 2005-2006		
	Sale Date	**Area**
FY 2005 Actual	March 2005	Central GOM
	March 2005	Eastern GOM
	March 2005	Beaufort Sea
	August 2005	Western GOM
FY 2006 Planned	March 2006	Central GOM
	August 2006	Western GOM

The 5-Year Program for 2007-2012 is under development through an extensive consultation process prescribed by the OCS Lands Act. MMS anticipates two sales in FY 2007, one in the western Gulf of Mexico, and a second sale to be determined. The total number of lease sales will be determined when the new 5-Year Program is finalized in the spring of 2007. By providing responsible access to the energy resources in the Gulf, MMS continues to support the President's National Energy Policy.

Leasing activities include planning for the Secretary's 5-Year Program, mapping and surveying OCS boundaries, implementing the lease sale process, and administering leases. These activities enable the bureau to meet its performance goals for the number of lease sales held, the timeliness of these sales, and the acreage offered through these sales.

Effective management of the energy resources on the OCS for efficient access and development is supported by the Environmental Assessment and Environmental Studies activities. The work provides information necessary to ensure operations are conducted in and environmentally sound manner and decisions are supported by good science.

- 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.

- 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.

The FY 2005 and 2006 goal is 99 percent of available OCS oil and gas resources will be offered for leasing in each year's lease. This measure counts the acreage offered under each year's lease sales during the 2002-2007 OCS Oil and Gas Leasing Program, which ends June 2007. The Environmental Assessment and Studies activities contribute to the success of each year's lease sales.

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.

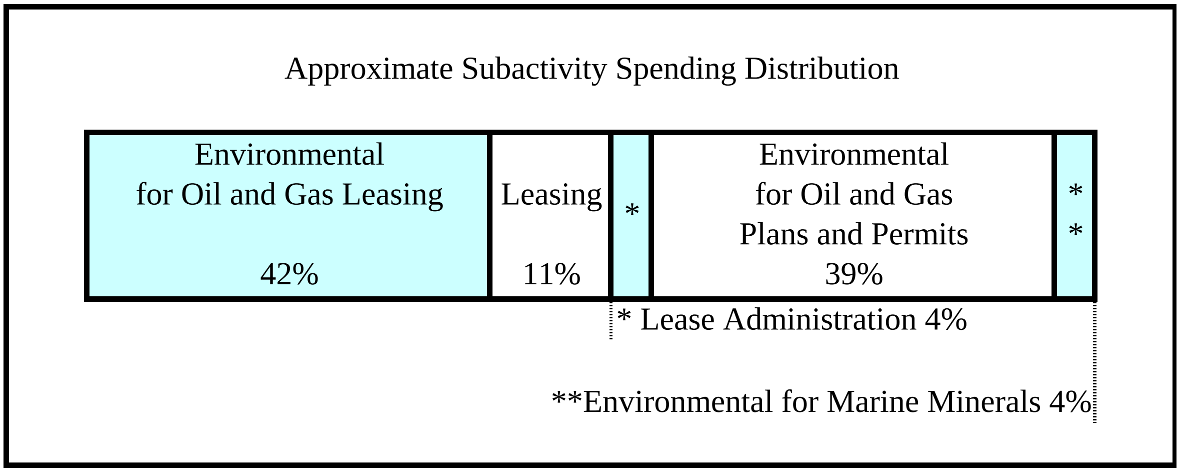

Figure 9: Leasing and Environmental Spending Profile

LEASING AND ENVIRONMENTAL ASSESSMENT PROGRAM PERFORMANCE

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 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 initial step to ask for public comments was published in the Federal Register on August 24, 2005. 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.

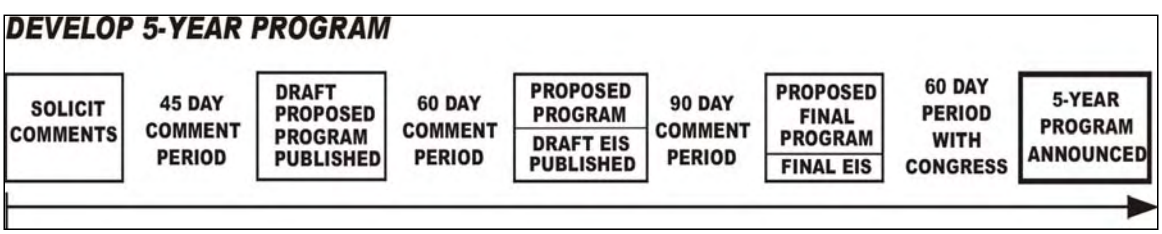

Figure 10: Process for Developing New 5-Year Oil and Gas Leasing Program

The 45 day comment period for the Request for Comments closed on October 11, 2005. MMS received over 11,000 comments from stakeholders across the nation. Public participation is an integral part of preparing an environmental impact statement (EIS) for approval of the 5-Year

Leasing Program. The draft EIS will be issued along with the Proposed Program later this summer. 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.

As monitored in DOI and MMS GPRA measures, the bureau 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, reported in the program's PART measures and ABC outputs in terms of bidding activity and leases issued, 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 FY 2005 an additional 1.5 million acres received bids as a result of leasing incentives. On average since FY 2003 an additional 1 million acres has received bids in each year's sale. PART data for the OCS Resource Evaluation and Leasing program indicate that, for the period 2001-2005, 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 about a million acres receiving bids.

MMS is undertaking a comprehensive review of core business processes through its e-Gov 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 and alternate energy-related uses 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 balanced leasing program and to promulgate regulations and permit requirements that protect critical natural and historical resources.

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 related 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 PERFORMANCE

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 protection of the human, marine, and coastal environments and the Nation's exploration, development, and production of petroleum energy resources and other marine minerals and energy-related alternate uses. 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.

> "MMS's Environmental Studies Program (ESP) is a major source of information about the impacts of OCS oil and gas activities on the human, marine, and coastal environments."
>
> *An Ocean Blueprint for the 21st Century*
> *2004 Report of the U.S. Commission on Ocean Policy*

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 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.

***External Contributions**:* 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, chartered under the auspices of the Federal Advisory Committee Act, 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, interdisciplinary bureau response to meet the environmental and safety needs of the offshore program.

Partnerships with Stakeholders: 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. The MMS is also extensively engaged in the new and evolving Ocean Governance Structure outlined in the President's U.S. Ocean Action Plan. Here our experience in integrating state-of-the-art science into resource management decisions and our expertise in applying the principles of adaptive management should prove invaluable.

Strategic Initiatives: 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. In response to this 2005 strategic initiative, MMS has deployed a new webpage to provide the public with information about ongoing efforts in environmental monitoring to evaluate effectiveness of lease stipulations and environmental mitigation measures. The website has been designed to accommodate future monitoring activities associated with the development of methane hydrates and renewable energy sources on the OCS.

In addition, the Gulf of Mexico OCS Region (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. The 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 science and technology journal to disseminate environmental research findings, on both the environmental and technical fronts, 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 2,000 interested parties in paper form and 500 through email notification. The journal is also available on the MMS website and educational materials to assist teachers in preparation of lessons about the ocean environment.

During the FY 2004 budget process, the Program Assessment Rating Tool (PART) review found the ESP meets 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 developed and deployed the ESP Performance Assessment Tool to provide the basis for quantitative program performance measurement.

FY 2007 PERFORMANCE BUDGET REQUEST
Offshore Minerals Management
Resource Evaluation Program

Table 16: Resource Evaluation Subactivity Summary

		FY 2005 Enacted	FY 2006 Enacted	Fixed Costs & Related Changes	Program Changes	FY 2007 Request	Change from FY 2006
Resource Evaluation Subactivity	**($000)**	**29,566**	**29,407**	**481**	**229**	**30,117**	**+710**
	FTE	**221**	**221**	**0**	**0**	**221**	**0**

SUMMARY OF FY 2007 PROGRAM CHANGES

Request Component	Amount	FTE
Program Changes		
• Energy Policy Act of 2005 - Alternate Energy – Related Uses on the OCS	+$274,000	0
• Energy Policy Act of 2005 - Methane Hydrates Research	+$1,000,000	+1
• OCS Lease Sales	+ $130,000	+1
• Center for Marine Resources & Environmental Technology	-$896,000	0
• OPA Realignment *	-$179,000	-2
• Removal of Congressional Earmarks **	-$100,000	0
Total Program Changes	**+$229,000**	**0**

JUSTIFICATION OF FY 2007 PROGRAM CHANGES

Energy Policy Act of 2005: Alternate Energy – Related Uses on the OCS (Section 388)

The Energy Policy Act Section 388 requires establishment of a comprehensive program to manage new and innovative projects on the OCS. This initiative is one component of a larger $8.387 million Energy Policy Act funding requirement. Please refer to the Alternate Energy-Related Uses narrative description under the Leasing and Environmental Programs Subactivity.

Table 17a: Energy Policy Act of 2005: Alternate Energy – Related Uses on the OCS (Section 388)

	2005 Enacted	2006 Enacted	2007 Request	Change from FY 2006
Initiative ($000)	0	0	274	+274
FTE	*0*	*0*	*0*	*0*

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* The OPA Realignment is an internal, technical adjustment of funds within MMS that does not affect the overall MMS budget. Justification for this program change is provided in the Executive Direction Subactivity.

** In FY 2006, Congress provided a one-time increase of $1.132 million for fixed cost funding. This unrequested Congressional earmark is shown as a reduction in MMS's FY 2007 budget request.

2006 Program Performance: The Energy Policy Act brings significant responsibilities to the Secretary of the Interior and the Minerals Management Service. Please refer to the Alternate Energy-Related Uses narrative description under the Leasing and Environmental Programs Subactivity.

Justification of 2007 Program Change (+$274,000): Funding is requested in the Resource Evaluation subactivity to implement the requirements of the Energy Policy Act of 2005, specifically to ensure fair market value for rights conveyed (terms and conditions). MMS will conduct resource assessments and evaluations, analyze competitive considerations and net benefits, and assure conservation of resources.

Energy Policy Act of 2005 - Methane Hydrates Research

The Energy Policy Act of 2005 (Section 968) includes provisions for an inter-bureau research program among DOE and other federal agencies, including DOI (MMS, USGS, and BLM). The coordinated effort is outlined in the *Department of the Interior 2007 Plan for Gas Hydrates Work.* Further, Section 353 authorizes royalty incentives for encouraging hydrate development and requires a report to be submitted to Congress regarding the need for additional incentives or technology support. MMS will lead this specific effort. This initiative is one component of a larger $8.387 million Energy Policy Act funding requirement.

The work MMS will be doing towards methane hydrates research does not have a direct impact on any of OMM's existing performance measures and their associated targets.

Table 17b: Energy Policy Act of 2005 - Methane Hydrates Research (Section 968)

	2005 Enacted	2006 Enacted	2007 Request	Change from FY 2006
Initiative ($000)	500	500	1,500	+1,000
FTE	0	0	1	+1

2006 Program Performance: The MMS is responsible for assuring safe operations, managing the development of energy resources from the OCS, and assuring that the Government receives FMV for OCS lands that are leased. The MMS, in conjunction with USGS and academia, is performing an OCS-wide regional assessment of the potential quantity of recoverable methane gas hydrates that may exist on the OCS. MMS is also developing for the Gulf of Mexico, a detailed tract-specific assessment methodology that would be used as the basis to determine FMV once commercial production of this resource is practical. The methodology being developed by MMS employs probabilistic techniques to assess technically and eventually economically recoverable quantities of methane hydrate resources. This stochastic methodology relies heavily on MMS' extensive holdings of commercial 3D seismic data in the Gulf of Mexico. The methodology is being extended for use in the other areas of the OCS where only older 2D seismic data currently exist in the areas of interest. The MMS is focused on the goal of assessing, evaluating, and regulating industry hydrate exploration and development on the OCS. Our activities will complement USGS efforts to assess potential quantities of in-place hydrates on a worldwide basis and DOE technology development activities focusing on resource identification, characterization, and production.

Justification of 2007 Program Change (+$1,000,000; 1 FTE): Despite our increased level of effort in recent years, our understanding of gas hydrates is very limited and the technology to detect the existence of gas hydrates and monitor the dissociation and production characteristics of these resources does not currently exist outside of the lab environment. When the private sector is ready with the technology for offshore hydrate production we must be ready with the proper policies and evaluation techniques. The determination of operator eligibility for the type of incentive authorized within the Energy Bill will require advanced understanding of the geologic and engineering factors controlling the occurrence and mechanics of producing gas hydrate accumulations. In addition to programmatic funding, the 2007 budget request would fund one FTE in MMS to address knowledge gaps, potential conservation issues, and to perform royalty relief eligibility determinations.

Our priorities are to (1) improve our understanding of the various aspects of methane hydrate occurrence in the natural environment, (2) improve our detection abilities via various geophysical techniques, including remote sensing, and (3) improve our understanding of potential production techniques and the behavior of hydrates during production, including reservoir performance and fluid behavior.

This initiative supports the President's National Energy Policy for promoting "dependable, affordable and environmentally sound production and distribution of energy for the future" and the DOI Strategic Plan Goal "Resource Use – Provide Access for Responsible Use and Optimal Value (Energy)" by utilizing Strategy 2, "Enhance responsible use management practices." It also supports MMS mission and long-term goals focusing on conservation of resources and achieving a fair return to the public.

OCS Lease Sales

The OCS Lands Act requires the Secretary of the Interior to prepare and maintain an oil and gas leasing program that indicates the size, timing, and location of leasing activity determined to best meet national energy needs for the 5-year period following its approval. Final decisions on what will be included in the new five year program, covering 2007-2012, are expected in the first quarter of calendar year 2006. Once the new 5 year program is finalized, MMS will be able to evaluate the performance measure and develop new targets.

The request shown below is part of a larger initiative that spans more than one subactivity. The full scope of the initiative consists of $1.5 million and five FTE. In addition to $130,000 request, $1.370 million and four FTE are requested in the Leasing and Environmental Assessment Subactivity to support the 2007-2012 5-year program.

Table 18: OCS Lease Sales

	2005 Enacted	2006 Enacted	2007 Request	Change from FY 2006
Initiative ($000)	0	0	130	+130
FTE	0	0	1	+1

2006 Program Performance: The 5-Year Program enables the federal government, affected states, the oil and gas industry, and other interested parties to plan for steps proposed to lead to OCS oil and gas lease sales. In preparing the program for 2007-2012, the MMS has worked in consultation with constituents to develop a program that is environmentally responsible and offers a judicious approach to OCS leasing. In anticipation of final decisions regarding the next five-year program, MMS has proceeded with planning for established OCS lease sales as appropriate pending final decisions, including outreach/scoping and focusing staff resources on concurrent EIS preparation.

Justification of 2007 Program Change (+$130,000; 1 FTE): The new 2007-2012 five-year program will require additional funds for required NEPA work and information collection needs associated with the individual lease sales, as well as provide funding for the programmatic EIS required for the five-year program. One FTE is needed to interpret seismic data for determination of fair market value and bid adequacy, supporting key GPRA and PART performance goals.

Center for Marine Resources and Environmental Technology

Table 19: Center for Marine Resources and Environmental Technology

	2005 Enacted	2006 Enacted	2007 Request	Change from FY 2006
Initiative ($000)	900	896	0	-896
FTE	0	0	0	0

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 MMS 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 seabeds of the Gulf of Mexico. The CMRET in Mississippi was funded in the amount of $896,000 in FY 2006.

MMS recognizes the importance of the investigations and technological development that this center pursues, particularly the longer-term research. However, as part of a larger Departmental effort, MMS is proposing a separate initiative for Gas (Methane) Hydrates for $1.0 million and requests removal of the CMRET funding in FY 2007**.**

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. RE activities identify areas of the OCS that are most promising for oil and gas development (including methane hydrates) through the acquisition and analysis of geological and geophysical (G&G) data, estimates the potential quantities of undiscovered technically recoverable resources that may exist and the volume of reserves likely to be produced, forecasts future industry activity levels, and determines the adequacy of high bids received for individual tracts offered for lease. Economic and statistical analyses are performed that incorporate RE 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 including oil, gas, and 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.

FY 2005 Performance Accomplishments

Principal indicators of performance for RE include the Fair Market Value (FMV) 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. 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. In FY 2005, 83 percent of the tracts with high bids rejected in the previous lease sale received acceptable high bids in the planning area's next lease sale. MMS bid adequacy procedures resulted in a net gain of $16.1 million in the 2005 lease sales for 15 of 18 tracts with previously rejected bids.

The evaluation of a high 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. 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. PART data indicate that, over the 4-year period from 2002 to 2005, 59 percent of tracts with bids rejected through these procedures did receive acceptable high bids when re-offered in a subsequent sale, for net gain of $127.6 million. The success of these efforts is also attested to by the program's continued success at achieving its annual GPRA FMV Ratio target. For each program year, the MMS expects competitive factors to sustain a premium ratio of about 1.8 to 1 (+/- 0.4) when comparing industry high bids to the MMS estimate. The number of tracts evaluated is tracked on a quarterly basis in the bureau's ABC system.

Bid Procedures Lead to Higher Returns

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. Over the last twenty years, MMS has rejected total high bids of $549.2 million in the Gulf of Mexico. Subsequently, the same blocks were re-offered and drew high bids of $1,385.1 million, for a total net gain of $835.9 million.

FY 2006 Planned Program Performance

In FY 2006 the goal is 50 percent of tracts receiving high bids rejected in a previous lease sale will receive acceptable bids in the next lease sale. This level of performance is between the FY 2003 actual of 41 percent, and the FY 2004 actual of 57 percent.

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.

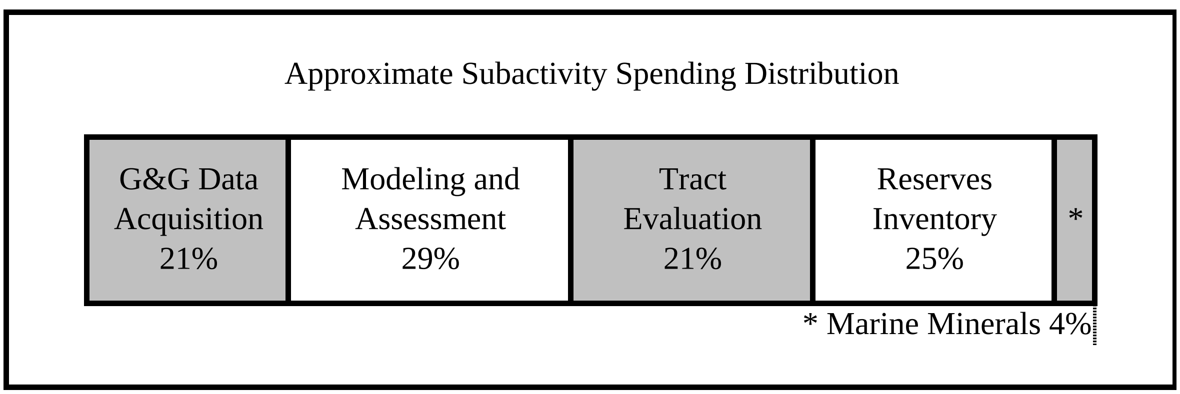

Figure 11: Resource Evaluation Spending Profile

Geological & Geophysical Data Acquisition: The MMS develops regulations governing the collection on the OCS of G&G data related to mineral exploration. Permits are issued to industry for the acquisition of data that include stipulations that 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 collected by industry and others and selectively acquires portions, as needed, to support the Bureau's resource modeling and evaluation efforts. Interpretations of G&G data are used to prepare updated resource assessments, to determine the adequacy of bids submitted for leases, and to support decisions related to numerous operator plans and activities, as well as a variety of studies related to the OCS.

The use of three-dimensional (3-D) seismic data has become standard in the Gulf of Mexico for exploration as well as development activities. The use of 3-D reflection techniques not only portrays subsurface structure and stratigraphy but also reveals information about fluids within the subsurface. A sophisticated computer processing technique, called pre-stack depth migration has recently revolutionized hydrocarbon exploration In the Gulf of Mexico. This reprocessing technique allows geoscientists to properly image salt bodies and the sediment strata beneath the salt, opening these areas to lower risk exploration. MMS has more than 1.5 million line-miles of two-dimensional seismic information covering all portions of the OCS. Since 1993, MMS has acquired primarily in the Gulf of Mexico about 360,000 square-miles of 3-D seismic information.

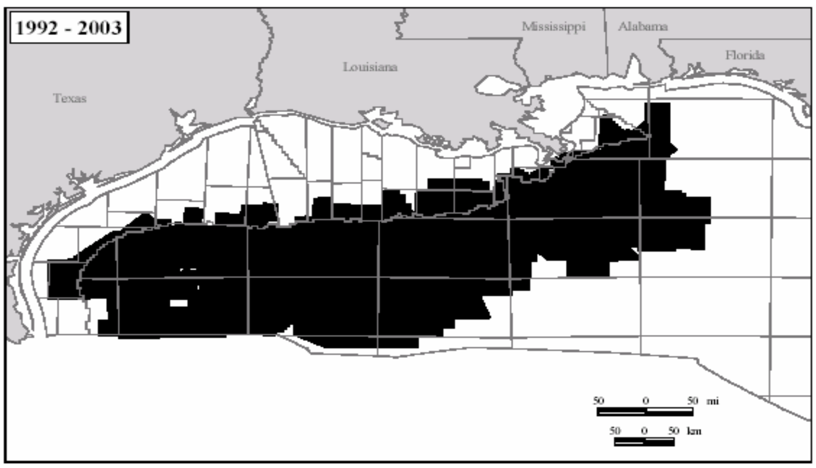

Figure 12: 3-D Seismic Permit Coverage of the deepwater Gulf of Mexico, 1992-2003

Resource Modeling: Another component of the RE subactivity is Resource Modeling, which addresses resource assessment, tract evaluation, field reserves inventories, and various economic and policy analysis needs. Since the mid 1980s, MMS has conducted assessments of the hydrocarbon resources throughout the OCS for the purpose of developing knowledge concerning the potential occurrence of mineral resources and their characteristics, i.e., location, type, accumulation sizes, and potential for commercial recovery. Information acquired through MMS resource assessment activities has been instrumental in the development of the 5-Year OCS Oil and Gas Leasing Program (the determination of what planning areas to offer, and creation of exploration and development scenarios); oil spill analyses; the formulation and analysis of numerous legislative proposals and policy alternatives; and NEPA analyses. Further, the oil and gas industry often uses the MMS reports and data in their own assessments.

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, stochastic mathematical and statistical concepts, risk analysis, geoscientific models, and a variety of assumptions pertaining to economic, 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 number of OCS blocks assessed is tracked on a quarterly basis in the bureau's ABC system. Comparing the PART measures for acreage and resources offered illustrates that the RE program identifies, and the leasing program offers access to, 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 through regional geologic studies. The MMS also estimates the amounts of oil and natural gas likely to be discovered and produced as a result of leasing, and generates potential scenarios of the future industrial activities associated with exploration, development, and production. 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.

The MMS is planning OCS assessments that will be critical in preparing the 5-Year Oil and Gas Leasing Program for 2007-2012. These assessments will utilize the recently revised computer model – Geological Resource Assessment Program (GRASP II), and included peer review of the model and play definitions. Peer review of the resultant resource estimates is also planned. Recent discoveries and play concepts will be incorporated in the assessment. Methane hydrates in the Gulf of Mexico and other OCS area are currently being assessed – researchers estimate that there is more energy content trapped within in-place natural gas hydrates than in all the other fossil fuels combined. How much of this potential resource is technically recoverable is a question that the MMS assessments will address. The Geologic Interpretative Tools (GIT) software and methodologies that form the basis of all MMS G&G evaluations are reviewed and revised on a regular basis to assure continued improvement in the quality of MMS's technical evaluations.

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 to resource assessments, the review and approval of royalty relief applications and as analogs for FMV determinations. The geologic and engineering information also support 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 within the RE Program 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, and post-sale operational activities,
- Designing policies and conducting analysis for implementation of fiduciary requirements of the Energy Policy Act of 2005 as it relates to the Coastal Impact Assistance and Alternate Energy-Related Use provisions.
- Reviewing company appeals of rejected high bids, and
- Providing economic analysis to other Bureaus, Departments, and Congress 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 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. In early May 2005, DOI published a related rule which extends deep gas relief to over 100 additional leases lying partly on the 200 meter depth boundary. These regulatory initiatives should accelerate the exploration for and production of natural gas in order to meet the Nation's near and mid-term needs (2005-2009). 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.

Beginning in FY2006, as a result of passage of the Energy Policy Act of 2005, the economics staff was given the responsibility for designing the software system needed to allocate $250 million per year, for the years 2007 through 2010, to six coastal producing States and their approximately 100 eligible coastal political subdivisions. The allocation formulas, mandated by the legislation, are complex and involve many diverse types of data from numerous sources. They also require development of an algorithm to compute the minimal distances from each of the thousands of OCS leases to each state and each coastal political subdivision. The economics staff is also responsible for the design of the fiscal terms for leases, licenses and rights-of-way associated with the Alternate Energy-Related Use provision of the act.

Marine Minerals Program*:* The Marine Minerals Program is responsible for managing all minerals on the OCS other than oil, gas, and sulfur. Key performance indicators monitored in the ABC and GPRA systems include the number of sand and gravel agreements and cubic yards conveyed, as well as the timeliness with which MMS processes these agreements. Since 1995, the program has fulfilled every request for resources, conveying rights to nearly 23 million cubic yards of OCS sand for shore protection and coastal restoration projects – protecting billions of dollars of property.

Figure 13: 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 new uses and conflicts grow. With mariculture, wind and wave power, artificial reefs, and fiber optic cables competing for space on the OCS, it is becoming more difficult to support the growing demand for sand resources. 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. All of the work done through the cooperative program has been cost-shared with the individual states. The State-Cooperative Sand Program has been highly successful; the sand deposits identified and evaluated by the program having been used for 3 beach nourishment projects in Maryland, 4 projects in Virginia, and 4 in Florida.

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;
- Benefiting domestic activities through exchange of appropriate scientific information with other nations that have offshore programs; and
- Providing cost reimbursable technical assistance to other Nations in support of U.S. foreign policy.

FY 2007 PERFORMANCE BUDGET REQUEST
Offshore Minerals Management
Regulatory Program

Table 20: Regulatory Subactivity Summary

		FY 2005 Enacted	FY 2006 Enacted	Fixed Costs & Related Changes	Program Changes	FY 2007 Request	Change from FY 2006
Leasing and Environmental Assessment Program (L&EA)	($000)	49,546	50,587	713	1,829	53,129	+2,542
	FTE	336	334	0	2	336	+2
Environmental Studies Program (ESP)	($000)	1,970	885	0	0	885	0
	FTE	0	0	0	0	0	0
Regulatory Subactivity	**($000)**	**51,516**	**51,472**	**713**	**1,829**	**54,014**	**+2,542**
	FTE	**336**	**334**	**0**	**2**	**336**	**+2**

SUMMARY OF FY 2007 PROGRAM CHANGES

Request Component	Amount	FTE
• Energy Policy Act of 2005 - Alternate Energy - Related Uses on the OCS	+$300,000	+2
• Energy Policy Act of 2005 - Federal/State LNG Forums	+137,000	+1
• Facilitate Deepwater Exploration and OCS Development	+$260,000	+2
• Helicopter Contract Increase	+$1,660,000	0
• OPA Realignment *	-$328,000	-3
• Reduction for Congressional Earmark **	-$200,000	0
Total, Program Changes	**$1,829,000**	**+2**

JUSTIFICATION OF FY 2007 PROGRAM CHANGES

Energy Policy Act of 2005 - Alternate Energy - Related Uses on the OCS (Section 388)

This initiative is one component of a larger $8.4 million Energy Policy Act funding requirement. Please refer to the Alternative Energy-Related Uses narrative description under the Leasing and Environmental Programs Subactivity.

* The OPA Realignment is an internal, technical adjustment of funds within MMS that does not affect the overall MMS budget. Justification for this program change is provided in the Executive Direction Subactivity.

** In FY 2006, Congress provided a one-time increase of $1.132 million for fixed cost funding. This unrequested Congressional earmark is shown as a reduction in MMS's FY 2007 budget request.

Table 21: Energy Policy Act of 2005 – Alternate Energy – Related Uses on the OCS (Section 388)

	2005 Enacted	2006 Enacted	2007 Request	Change from FY 2006
Initiative ($000)	0	0	300	+300
FTE	*0*	*0*	*2*	*2*

2006 Program Performance: Please refer to the Alternative Energy-Related Uses narrative description under the Leasing and Environmental Programs Subactivity.

Justification of 2007 Program Change (+$300,000; 2 FTE): In FY 2007 MMS will continue with the FY 2006 implementation efforts. Two FTE and $26,000 are required in the Regulation of Operations program for developing policy and regulations and for compliance activities. These activities include determining standards, plan and permit review, rights of use, monitoring safety, and technical and engineering reviews.

Energy Policy Act of 2005: Natural Gas - Federal/State LNG Forums (Section 317)

Section 317 of the Energy Policy Act fosters interagency and public dialogue to identify and develop best practices for addressing the issues and challenges associated with LNG importation. In keeping with the cooperative conservation, the MMS Offshore Program devotes 3 to 4 FTE to LNG-related issues as a cooperating agency for U.S. Coast Guard environmental analyses and licensing by the Maritime Administration. As deepwater ports come online and LNG importation increases, the need for interagency coordination and Federal/State consultation will increase.

Table 22: Energy Policy Act of 2005 - Federal/State LNG Forums (Section 317)

	2005 Enacted	2006 Enacted	2007 Request	Change from FY 2006
Initiative ($000)	0	0	137	+137
FTE	0	0	1	1

2006 Program Performance: The MMS has reviewed the provisions of the Energy Policy Act of 2005 and is currently working with the Department to identify potential sources of funding needed in FY 2006 to begin implementation. This initiative is one component of a larger $8.4 million Energy Policy Act funding requirement.

Justification of 2007 Program Change (+$137,000; 1 FTE): One additional FTE is needed to participate in Federal-State LNG forums, and to manage MMS' LNG project responsibilities including the determination of fair market value rentals, serving as a cooperating agency for environmental analysis, and reviewing requests for rights-of-use and easement.

The technical analysis and review of offshore LNG terminals requires the coordination of several agencies looking at many different issues. LNG operations require offshore facilities to offload the LNG tankers, production facilities for converting LNG to gas, equipment for measuring gas volumes (metering facilities) and compression facilities for pipeline transportation. The construction of new LNG terminals will involve the installation of new pipelines, increased loads to existing pipelines, and installation of or modification of existing offshore facilities and safety systems. The MMS currently provides technical advice and guidance on platform, safety system, and pipeline issues to the USCG in the LNG approval process. Continued participation by MMS personnel in the approval process is vital in insuring timely approvals and the safe operation of future LNG terminals.

Failure to fund this initiative will impair MMS ability to participate fully and may result in unnecessary conflicts regarding siting of LNG facilities and the siting of oil and gas facilities such as siting an LNG that creates navigational challenges due to oil and gas activities. In addition, MMS expertise regarding environmental considerations for offshore facilities supports the environmental assessments for these LNG facilities.

The LNG forums will not have a direct impact on any of OMM's existing performance measures and their associated targets.

Facilitate Deepwater Exploration & OCS Development

This request is part of a larger, comprehensive initiative to Facilitate OCS Development & Ensure Safety and Environmental Protection that spans more than one subactivity/program element. The full scope of the initiative consists of $2,100,000 and three FTE. In addition to the below request, funds of $130,000 and one FTE are requested in the Leasing and Environmental Assessment program element to process an increased number of OCS land record actions. Funds of $50,000 and no additional FTE are requested in the Environmental Studies Program to contribute to the Integrated Ocean Observing System.

Table 23: Facilitate Deepwater Exploration & OCS Development

	2005 Enacted	2006 Enacted	2007 Request	Change from FY 2006
Initiative ($000)	0	0	260	+260
FTE	0	0	2	+2

2006 Program Performance: The MMS has encouraged exploration for offshore oil and gas resources in deep water zones and industry is responding by developing the new technology and practices required to tap into these resources. Enabled by constantly evolving technologies, operators in the Gulf of Mexico have already accomplished exploration and production activities in world record water depths. The constantly evolving technologies designed to handle the harsh conditions of the deepwater environment is often one of a kind and without any precedent.

Justification of 2007 Program Change (+$260,000; 2 FTE): Engineers, GOMR
In order to continue the safe and environmentally sound operations of the oil and gas industry in the deep water areas and therefore support continued success against key performance goals, the 2007 budget request includes funding for two FTEs. Last year, 27 conceptual and 38 preliminary Deepwater Operational Plans were reviewed and approved. These engineering positions will also actively participate in industry workgroups to develop appropriate industry standards for the design and operation of deepwater drilling, production, and work-over systems.

MMS is currently involved in more than 50 standards efforts. These positions would also be involved in technology evaluation teams to monitor the development and implementation of new technology as well as the evaluation of new technology startups in the field.

Failure to fund at the proposed level at this time would:

- Result in delays in approving new technology requests, which ultimately delays potential oil and gas production.
- Severely limit MMS's participation in working with industry to develop standards and recommended practices for new technology. Lack of participation in these efforts may result in standards which are not acceptable to the MMS and would not be recognized as a best practice for industry.
- Delay the development of new regulations to ensure the safety and environmental protection of operations of deepwater projects.
- Force MMS to minimize its regulatory oversight of deepwater operations, which may adversely impact the overall safety of these operations

Helicopter Contract Increase

Table 24: Helicopter Contract Increase

	2005 Enacted	2006 Enacted	2007 Request	Change from FY 2006
Initiative ($000)	0	0	1,660	+1,660
FTE	0	0	0	0

2006 Program Performance: The MMS has a comprehensive program to ensure that mineral operations on the Outer Continental Shelf (OCS) are conducted in a safe and environmentally sound manner. As required by the OCS Lands Act and implementing regulations, the Offshore Program conducts thousands of inspections each year to ensure the protection of the marine, coastal, and human environments.

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 GOMR aviation contract leases 14 single-engine helicopters that are suitable to reach the approximately 8,200 active leases, 4,000 producing facilities, and 900 drilling sites in the GOMR annually.

To ensure continued success in safety and environmental protection outcomes, MMS has increased the number of compliance inspections by approximately 10% per year from 1999 to 2004. In conjunction with the PART review of the *OCS Regulatory and Compliance* program, MMS is working to establish a performance measure to track continued performance of some 23,000 compliance inspections nationwide in 2006, rising to 25,000 per year beginning in 2007.

Justification of 2007 Program Change (+$1,660,000): The current Gulf of Mexico aviation contract expires at the end of FY 2006. Increased funding of $1,460,000 is needed for flight and availability charges, and an additional $200,000 is required for increased fuel costs.
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 the 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. Throughout this process, MMS and AMD will strive to meet the bureau's mission requirements for aviation in the most cost effective manner. The requested increase is needed in FY 2007 to cover the cost of the new five-year contract. Two budgetary requirements are affected by this contract:

- **Flight and Availability Charges (+$1,460,000):** This reflects an increase in availability charges and hourly flight charges for the new 5-year cycle based on estimates provided by the current helicopter contractor. These charges are expected to be in the 10-percent range. These costs, within the first year (FY 2007) of the new contract, are estimated to be $1,460,000. Outlying years (FY 2008- FY 2011) are expected to increase at about 8 percent per annum.

- **Fuel Adjustment Charges Increase (+$200,000)**. As MMS has seen over the past year, helicopter fuel prices can rise rapidly with the market price. These rapid rises in fuel costs were not expected under the current contract, and they can easily erode the helicopter flight operation budget. These charges are difficult to forecast, but should be budgeted for a 10-percent increase over current historical high prices. In FY 2002, the base fuel price in the current 5-year contract was 94 cents per gallon. The most recent price reached $1.68 per gallon. This represents an increase of over 25 percent each year over the last three years. Given this rate of increase, budgeting for $2.50-$2.60 per gallon by the start of the FY 2007 helicopter contract is appropriate. These increases in fuel charges by FY 2007 could result in an increased fuel cost of approximately $200,000.

Funding is needed to ensure MMS is able to address an expanding OCS workload, maintain superior levels of performance, and achieve existing performance targets for completing compliance inspections, reducing offshore fatalities and serious injuries, and achieving low oil spill rates. If the requested funding is not provided:

- The helicopter contract solicitation and award would have to be modified to reduce the number of helicopters or the flight hours. In either case, the impact will result in fewer inspections being conducted by MMS inspection staff. The inspection staff would be grounded and the impact would be that inspections would not be conducted in accordance with the OCS Lands Act mandate.
- Agreements with the USCG would have to be revisited to reduce or eliminate the USCG inspections conducted by MMS inspection staff.
- Agreements with the EPA and NRC would have to be reexamined to reduce the number of inspections or logistical support provided.

- Abolishing these inter-agency agreements would result in those agencies losing their oversight effectiveness. Overall cost effectiveness of the Government would be reduced by these agencies contracting helicopter services on their own and incurring even higher day rate costs for helicopter availability and flight hours.
- The number of offshore site visits by regional engineering staff to evaluate new technology may have to be eliminated or reduced to allow mandated inspections to continue.
- Oversight of aging infrastructure, one of the Offshore Program's 21 strategies, through onsite inspections would be impacted.
- MMS would be at risk of failing to meet established GPRA and PART standards of completing 25,000 inspections and inspecting 66,600 safety and pollution prevention components in FY 2007 and outlying years due to the reduction in flight hours available.

Full funding for the MMS Regulatory program will enable continuing oversight of a complex industry as it expands into increasingly challenging environments to help meet the energy needs of the nation.

PROGRAM OVERVIEW

On behalf of the Nation, the MMS regulates over 8,200 leases and about 4,000 offshore oil and gas platforms on approximately 47 million acres of the OCS. The MMS Offshore Program works to assure that energy and 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 continually evaluates procedures and regulations to stay abreast of technological advances that will ensure safe and clean operations and conserve the Nation's natural resources.

The Regulatory sub-activity funds two program elements that work to assure safe and clean operations on the OCS: 1) the Regulation of Operations and 2) Technology Assessment and Research (TAR). The Regulation of Operations program oversees all aspects of offshore activities, from exploration and development to production and decommissioning. Key activities include the review of industry plans and permit requests; completion of compliance inspections and incident investigations; monitoring of operator safety and environmental performance; management of reservoirs to maximize ultimate recovery of mineral resources; and verification of oil and gas production levels to help ensure the public receives a fair return. 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**.**

FY 2005 Performance Accomplishments

The full range of regulatory activities are critical elements of MMS' overall success and contributed to the achievement of the top rating of "Effective" in the 2005 PART review of the *OCS Regulatory and Compliance* program. The assessment concludes that:

> "The program is well managed and effectively balances the need for access to mineral resources with environmental protection goals. MMS uses both regulatory and non-regulatory means to minimize risk to the public and the environment and to avoid uncompensated resource loss."

The Offshore Program's regulatory activities support DOI's strategic goals of protecting lives, resources, and property; and enhancing responsible use management practices in the energy sector. Key GPRA and PART outcome indicators include the number of fatalities and serious injuries reported in the OCS workforce, as well as the spillage rate of oil produced in federal waters (see Oil Spill Research budget sub-activity). In 2005, MMS met targets for each of these key measures. In FY 2005 there were six fatalities and twenty-three serious injuries in mineral production activities regulated by MMS. For FY 2006 and 2007 MMS has established a more ambitious target to further reduce the number of fatalities and injuries from the FY 2005 targets of six and twenty-five to five and twenty-four. Long-term trends for each of these indicators reflect a commendable record of success; but continuing vigilance is required to sustain this level of performance.

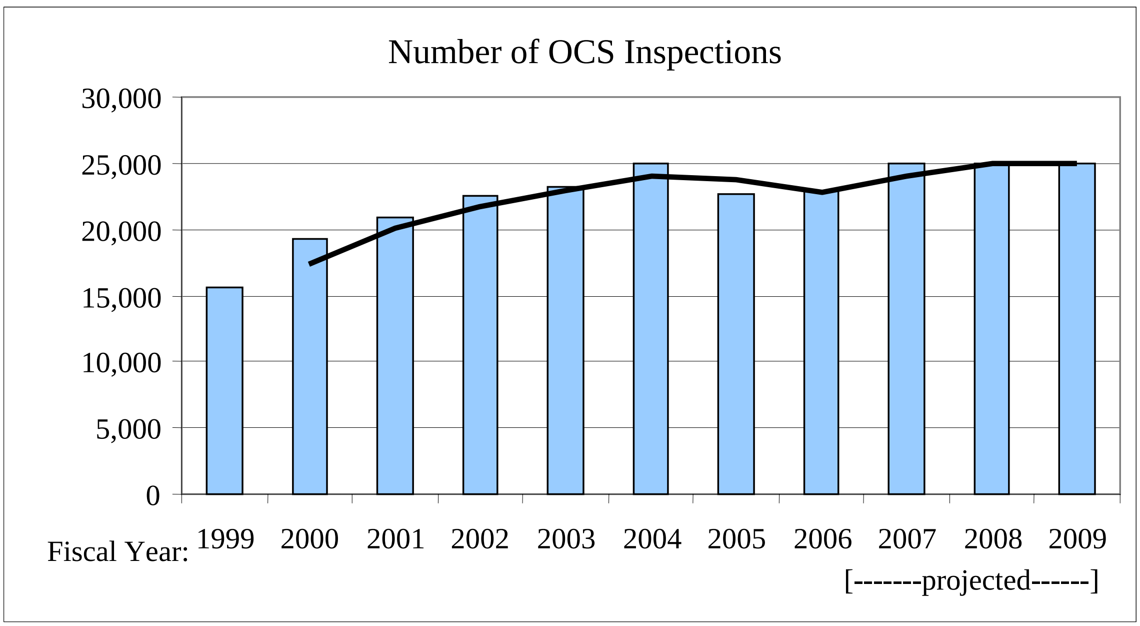

Figure 14: Number of OCS Inspections

Despite the extensive damage and disruption of the record-breaking 2005 hurricane season, it is important to note the success in preventing loss of life offshore – the top priority shared by MMS and the regulated community. Hurricane Katrina traversed the Gulf of Mexico OCS in late August 2005 as a Category 5 storm. Industry evacuated 615 platforms and 90 drilling rigs; and MMS instituted its Continuity of Operations Plan, moving key personnel from New Orleans to Houston. About 600 MMS employees and their families were displaced from their homes as Katrina wrought havoc in southern Louisiana; however, critical MMS operations in the Region continued. Hurricane Rita followed in September 2005 as a Category 4 storm while offshore, and evacuation levels rose to a peak of 758 platforms and 101 drilling rigs. There have been no reports of fatal incidents, no accounts of OCS oil spills that reached the shoreline, and no large volumes of oil discovered in federal waters to be collected or cleaned up.

To help assure the continuation of safe and clean offshore operations, MMS increased the number of inspections conducted by an average of 10 percent per year from 1999 to 2004, and anticipates sustaining this new level of activity for the near future; however, the severe hurricanes of August, September, and October of 2005 (Katrina, Rita, and Wilma) significantly affect the total output for fiscal years 2005 and 2006. This activity will be tracked in the bureau's ABC system and reported as a PART performance measure.

MMS is committed to meeting Outer Continental Shelf Lands Act (OCSLA) and other mandates in a cost-effective manner. With rising complexity of offshore technologies, the review of plans and permit requests consumes considerable fiscal resources. MMS is pursuing expanded cost recovery initiatives to help offset the cost of activities that confer benefit to individual lessees and operators. For FY 2007, fees collected could total as much as $16.5 million.

For the period 2002-2004, MMS conservation management efforts were completed at a full cost of approximately $10.9 million and are estimated to have recovered 56.9 million barrels of oil (or equivalent volumes of natural gas).

In addition to safety and pollution prevention, the OCSLA charges the Secretary of the Interior with the authority to require that OCS operators avoid loss, prevent waste, and ensure the ultimate recovery of mineral resources. To promote these conservation objectives, MMS uses its regulatory authorities to require certain actions by operators to accelerate or increase production while protecting the ultimate recovery of minerals from a lease and has developed a new PART measure to reflect the rate of return for key conservation management activities.

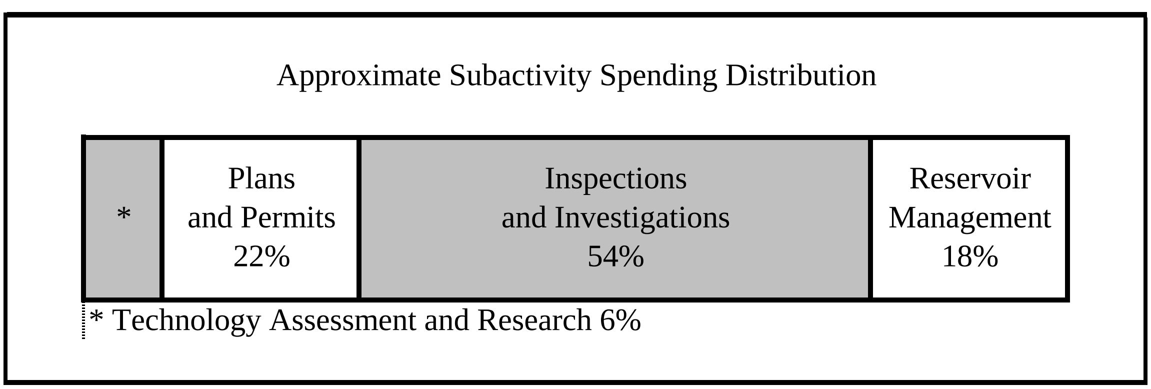

Figure 15: Regulatory Spending Profile

FY 2006 Regulatory Strategy

MMS's Offshore Steering Committee maintains action plans for strategic initiatives that serve as direction for the Offshore Program over the next five years. The *21 Strategies* document describes issues, outlines desired outcomes, and identifies key tasks to be accomplished. Several of these initiatives address Regulatory program priorities that will best advance MMS's performance in meeting its multiple statutory and policy responsibilities. These include:

- *Review MMS Programs to Assure Safe and Environmentally Sound Operations in the Ultra-Deep Waters of the OCS.* Industry's push into ultra-deep water (greater than 5,000 feet deep) in search of oil and gas means new, constantly evolving technologies. MMS will evaluate the adequacy of funding, standards, and environmental and technological information base for reviews of industry plans in ultra-deep water, and propose solutions to fill any information or other gaps.

- *Identify and Implement Lessons Learned from Post-Hurricane Studies and Assessments.* MMS is studying the impact of hurricanes on the oil and gas infrastructure. Studies will analyze and assess consequential damage to structures and pipelines; determine the effectiveness of current design standards, metocean criteria, pollution prevention systems, and MODU mooring standards; and develop recommendations for changes to industry standards and MMS regulations, if needed.

- *Develop and Implement an Aging Infrastructure Plan.* To ensure offshore infrastructure components (wells, platforms, and pipelines) remain in safe and useful condition, MMS will establish mechanisms for assessing and maintaining DOI-regulated infrastructure on the OCS.

- *Establish a Comprehensive and Efficient Pipeline Safety Program*. MMS manages over 33,000 miles of undersea pipelines. The oil and gas pipelines on the OCS have not experienced catastrophic accidents or failures; however, MMS has concerns about the integrity 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 and management practices needed to design, build, and maintain safe and reliable pipelines suitable to these extreme environments and conditions. MMS will review and update pipeline safety requirements under Subpart J of the regulations, continue to promote safety research, encourage cooperation between government agencies that share jurisdiction, and investigate possible new program initiatives toward the establishment of a comprehensive Pipeline Safety Program with the long-term goal of developing and implementing a proactive and comprehensive regulatory program that promotes the continued integrity of offshore pipelines; further reduces the potential for pipeline leaks and failures; and further protects sensitive environmental resources.

- *Implement the MMS/U.S. Coast Guard MOU.* MMS is working closely with the Coast Guard to implement the MMS/USCG Memorandum of Understanding and to develop further, specific technical agreements with the ultimate goals of eliminating inconsistencies in regulatory enforcement, coordinating agency reviews for deepwater port applications, minimizing duplicative work activities, and improving overall safety of operations on the OCS. While final actions may be subject to rulemaking procedures or further analyses, priority topics to be addressed include deepwater ports, accident investigations, civil penalties, oil spill preparedness, and offshore security.

- *Improve Operator Safety and Environmental Performance*. MMS will work with industry to reduce the number and severity of accidents on the OCS and to correct the performance of operators whose safety and environmental record have risen above targeted limits. MMS will consider regulatory options for requiring operators to incorporate new procedures in their safety and environmental management practices to meet the shared goal of enhancing the safety of OCS operations.

REGULATION OF OPERATIONS PROGRAM PERFORMANCE

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.

FY 2005 Performance Accomplishments

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 proposed alternative, verify adherence to approved plans, and determine effectiveness of technologies and procedures employed.

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 has established ambitious GPRA, PART, and ABC targets for the conduct of thousands of inspections of OCS facilities and operations, including coverage of tens of thousands of safety and pollution prevention components each year to prevent offshore accidents and spills, and to ensure a safe working environment. 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 2005, MMS inspectors completed over 21,000 inspections in the Gulf of Mexico alone.

Figure 16: Helicopter in Flight Over Gulf of Mexico: In FY 2005, MMS personnel in the Gulf of Mexico Region logged over 5,400 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 resulting in a 95 percent probability that the entire facility complies with the regulations, with the goal of preventing accidents on the OCS.

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. 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. In FY 2005, the MMS investigated 57 incidents to determine causes and analyze regulatory performance. Though ABC data indicate that these investigations account for less than 3 percent of Regulatory spending, they provide important information for MMS and industry. The major incident investigation reports are published on MMS Regional websites, and MMS advises operators and lessees of identified safety concerns through the publication of Safety Alerts. Final incident data are used as a consideration for evaluating the performance of individual companies and the industry as a whole. Where appropriate, federal agencies, including MMS, pursue civil and criminal penalty actions against those in violation of federal regulations, especially when such violations result in injuries, loss of life, or damage to environmental resources.

Safety and Environmental Management: 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 performance oriented approach 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.

Performance data indicate that more than half of OCS facilities are covered under this voluntary program, with some indications that the safety and environmental performance outcomes of SEMP participants are better than industry performance as a whole. As part of ongoing review of regulations and standards, and in response to the 2005 PART assessment, MMS is examining additional data and exploring regulatory options for safety and environmental management systems.

FY 2006 Performance Strategy

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 Performance Index, as well as composite indices that are used as PART performance indicators for the OCS Regulatory and Compliance program. 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. Additionally, MMS focuses compliance efforts on those operators whose performance exceeds targeted thresholds.

For the period from 1990 to 2004, MMS collected over $13 million in just over 500 civil penalty cases.

Civil Penalties and Operator Disqualification: MMS, where appropriate will pursue civil and criminal penalty actions against those in violation of federal regulations, especially when such violations result in injuries, loss of life, or damage to environmental resources. If an operator exhibits excessively poor, dangerous, or threatening performance, the MMS can assess a civil penalty. The MMS OCS Civil Penalties Program encourages compliance with OCS statutes and regulations through the pursuit, assessment, and collection of civil penalties (and referrals for the consideration of criminal penalties where warranted). Violations that cause or pose a threat of serious, irreparable, or immediate harm to human life, property, or the environment are reviewed for potential civil penalty. The cost of administering the Civil Penalties Program is monitored in the bureau's ABC system. Though less than 2 percent of Regulatory spending, the Civil Penalties Program is an important tool for enforcing compliance on the OCS. However, should the operator continue to perform poorly, MMS may place an operator on probation disqualify a company from operating a specific facility, or all facilities on the OCS. The disqualification process provides a structured means to remove operators that pose a threat to the safety of life and the OCS environment.

Conservation Management: As steward of the Nation's OCS mineral resources, MMS must provide for their conservation by avoiding loss, preventing waste, and ensuring their ultimate recovery. 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, MMS monitors development and production activities on the OCS and uses its regulatory authority to require certain actions by operators to maximize the ultimate recovery of OCS minerals once access has been granted. Information gained from these activities also supports other MMS requirements, such as resources assessment.

TECHNOLOGY ASSESSMENT & RESEARCH (TAR) PROGRAM PERFORMANCE

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 MMS 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 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 (see Oil Spill Research budget sub-activity).

Figure 17: Na Kika, Floating Production Facility in the Gulf of Mexico Region

FY 2005 Performance Accomplishments

In fact, participation in joint projects is one of 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.

FY 2006 Performance Strategy

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 identify and correct specific problems associated with aging 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.

FY 2007 PERFORMANCE BUDGET REQUEST
Offshore Minerals Management
Information Management Program

Table 25: Information Management Subactivity Summary

		FY 2005 Enacted	FY 2006 Enacted	Fixed Costs & Related Changes	Program Changes	FY 2007 Request	Change from FY 2006
Information Management Subactivity	($000)	29,972	30,181	160	-317	30,024	-157
	FTE	74	74	0	0	74	0

SUMMARY OF FY 2007 PROGRAM CHANGES

Request Component	Amount	FTE
Program Changes		
• OPA Realignment[*]	-$117,000	0
• Removal of Congressional Earmark[**]	-$200,000	0
Total, Program Changes	**-$317,000**	**0**

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. The OMM has a sophisticated and valuable Information Technology (IT) infrastructure that supports data management and internal and external communications. Principal systems include the Technical Information Management System (TIMS) and OCS Connect. The TIMS is the corporate database for OMM programs and 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. The 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.

[*] The OPA Realignment is an internal, technical adjustment of funds within MMS that does not affect the overall MMS budget. Justification for this program change is provided in the Executive Direction Subactivity.
[**] In FY 2006, Congress provided a one-time increase of $1.132 million for fixed cost funding. This unrequested Congressional earmark is shown as a reduction in MMS’s FY 2007 budget request.

Approximate Subactivity Spending Distribution

Support for Resource Evaluation	Support for Leasing and Environment	Support for Regulatory
39%	25%	36%

Figure 18: Information Management Spending Profile

Strategic Initiatives

The 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 strategic and tactical plans that include the transition of OCS Connect into the OMM operating environment. Past initiatives focused on obtaining certification and accreditation (C&A) for all IT systems, and implementing an IT security strategy. The MMS completed full C&A for all IT systems in May of 2004. The Bureau is compliant with the Federal Information Security Management Act (FISMA), IT-related management control reviews have found no material weaknesses, and all systems received and maintain certification and accreditation. Security work continues to be a critical focus with the tasks of implementing 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. Increased security scrutiny, internal and external to OMM and MMS, results in tighter and improved security as well as increased costs.

The IMP is responsible for maintaining its share of the Bureau-wide IT shared services. 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.

The 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

The 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. During FY 2004 and FY 2005, OMM completed the Business Process Reengineering (BPR) of its first four process clusters – "Manage and Administer the Leasing Program," "Protect Environmental Resources," "Analyze and Coordinate Geological and Geophysical Reviews," and "Manage Plan Submittals." During FY 2005, OMM completed the Systems Requirements Specifications (SRS) and began system development work for the first three process clusters identified above, and began gathering requirements for the fourth and fifth process clusters, "Manage Plan Submittals" and "Manage Permit Requests," respectively.

Unfortunately, at the end of FY 2005, Hurricanes Katrina and Rita caused significant impacts to MMS's ability to implement the project plan for OCS Connect. The project resources were temporarily relocated to Houston, Texas in an effort to continue work and keep to the project plan. Unfortunately, about 25 percent of the prime contractor's employees resigned from the project. Efforts to replace those resources were not as fruitful as needed to maintain the project schedule. Prospective new hires were unwilling to join the contractor's team because of the planned return of the project to New Orleans. Thus, MMS has chosen to modify the project plan to complete the work that it can with the resources available.

During FY 2006, MMS and the prime contractor will focus on completing the system design and development work for the first three process clusters. The MMS and the prime contractor will also focus on completing the requirements and system design for the fourth and fifth process clusters. Work on the second process cluster will be suspended, as the return on the Government's investment for this particular process cluster is less than the return for the fourth and fifth process clusters. In essence, MMS is reordering the work to accelerate implementation of those parts of the system that will allow MMS to move thousands of regulatory approval actions online. This will eliminate the vast amount of paperwork that is currently submitted by industry and allows MMS to approve operations faster.

Under this revised plan, the system will be implemented for the first process cluster in the first half of FY 2007 and the systems will be implemented for the third process cluster in late FY 2007. The exact schedule for implementing the fourth and fifth process clusters and resuming work on the second and sixth through eighth process clusters is being established. A significant consideration in establishing that schedule is the resource availability that is expected to exist in New Orleans, as the project office is scheduled to return to that city in April 2006.

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 eWell pilot system was deployed in May 2004. By early 2005, over 200 operators had been trained. As of January 2006, approximately 90 percent of requests for offshore permits were submitted via eWell. The MMS analysis shows the eWell permitting and reporting system could reduce processing time for the 20,000 applications each year by as much as 50 percent.

Additionally, the MMS is revising the requirements under MMS Form-132, "Hurricane and Tropical Storm Evacuation and Production Curtailment Statistics Gulf of Mexico OCS Regions (BOMR)," and incorporating them into the eWell system. This should provide the operators with easier access to report their evacuations, lost production figures, and damage incidents following a storm.

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 OMM, *Public Connect* was expanded in FY 2005 to support other MMS programs. For FY 2007, MMS plans to align with the Federal Docket Management System (FDMS, also known as E-Rulemaking) for the posting and receiving of comments on rulemaking actions.

SUBACTIVITY SUMMARY

MMS is highly dependent upon its advanced information technology (IT) investment in order to meet its mission objectives. OMM's IT infrastructure must enable data management and internal and external communications in order to support the full breadth of OMM activities and associated information and program management needs.

The FY 2007 budget request for the Information Management Program Subactivity is $30 million and 74 FTE, a net program decrease of $157,000 (OPA realignment/fixed costs) and no change in FTE from the FY 2006 enacted.

FY 2007 PERFORMANCE BUDGET REQUEST
Oil Spill Research Appropriation

Table 26: Oil Spill Research Appropriation Summary

		FY 2005 Enacted	FY 2006 Enacted	Fixed Costs & Related Changes	Program Changes	FY 2007 Request	Change from FY 2006
Oil Spill Research	**($000)**	**7,006**	**6,903**	**0**	**0**	**6,903**	**0**
	FTE	**22**	**22**	**0**	**0**	**22**	**0**

For FY 2007, MMS proposes no funding or FTE changes for this appropriation.

PROGRAM OVERVIEW

The Oil Spill Research (OSR) appropriation funds oil spill response research, oil spill prevention and response planning, and regulation of oil spill financial responsibility to support the DOI strategy of enhancing responsible use management practices in the energy sector. Through OSR, MMS funds studies to support safe and environmentally sound offshore operations and to promote responsible use by improving capabilities to detect, contain, and clean up open ocean oil spills.

The bureau also manages Ohmsett - The National Oil Spill Response Test Facility, which is a large, outdoor test tank that allows for the full-scale testing and comparative evaluation of spill-related technologies and practices in a controlled, simulated at-sea environment. MMS works with other federal regulators, affected states, operators, and industry groups to plan for oil spill contingencies and to respond effectively in the case of actual spills. The Oil Spill Financial Responsibility program insulates the public from fiscal risk by ensuring that each offshore operator maintains the ability to pay for damages resulting from worst-case oil spill scenarios.

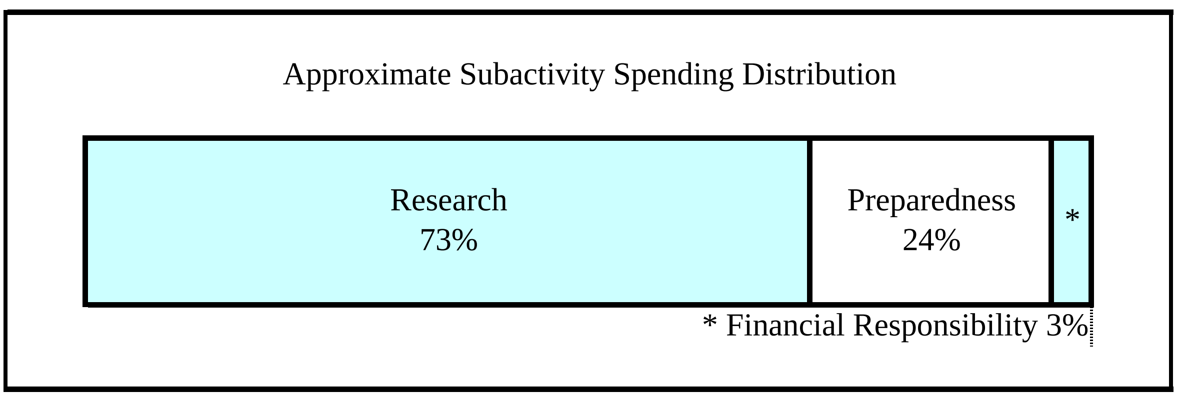

Figure 19: Oil Spill Research Spending Profile

Funding for OSR activities is appropriated from the Oil Spill Liability Trust Fund (OSLTF). The OSLTF was initially funded through a tax of five cents per barrel of oil, collected from industry. Subsequent funding for the OSLTF is derived from:

- Interest on fund principal;
- Reinstatement of the tax when the OSLTF balance drops below $2 billion;
- 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.

PROGRAM PERFORMANCE

The OSR activities are critical elements of MMS' overall success and contribute to the achievement of the top rating of "Effective" in OMB's PART review of the *OCS Regulatory and Compliance* program.

The National Academy of Sciences reported in its *Oil in the Sea: Inputs, Fates, and Effects*, that far more oil enters the ocean from natural, underwater seeps than from offshore exploration and production activities. The report states that "only 1 percent of the oil discharges in North American waters is related to the extraction of petroleum". The MMS's goal has been to not exceed spillage of 10 barrels of oil for every million barrels produced – just 0.001 percent. Recent (estimated) results have been impressive, especially considering the major hurricanes that have affected the offshore industry in recent years. Though these estimates are subject to ongoing industry assessments and MMS verification procedures, MMS is reducing the target by half. Beginning in 2006, the new goal is to reduce spillage to not more than 5 barrels spilled per million barrels produced in federal waters.

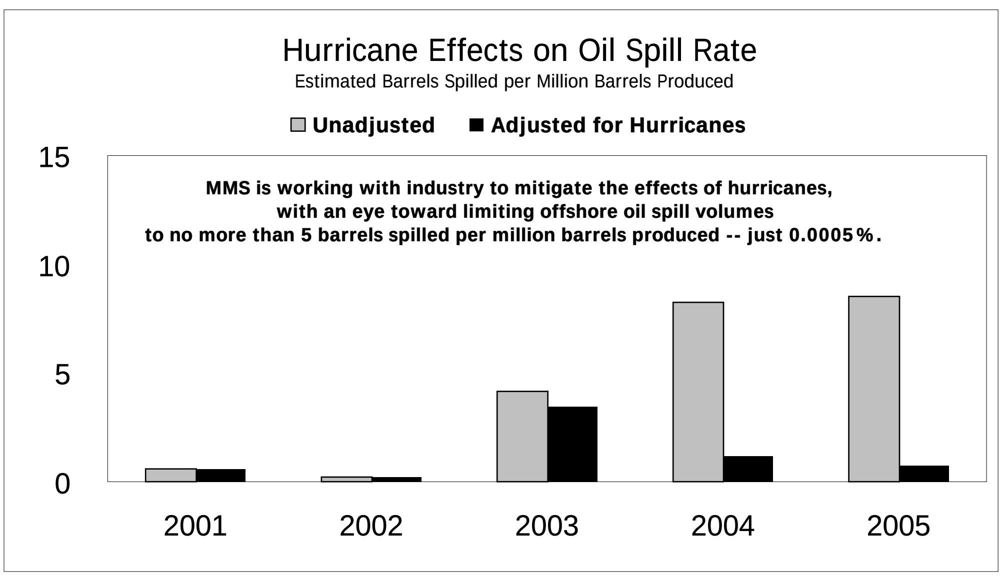

Figure 20: Hurricane Effects on Oil Spill Rate

PROGRAM COMPONENTS

Oil Spill Response Research (OSRR): The MMS is the principal federal agency funding offshore oil spill response research. Managed in conjunction with the bureau's Technology Assessment and Research Program (see OMM - Regulatory budget section), the OSRR program supports research to improve the capabilities for detecting and responding to oil spills in the marine environment. Information derived from the OSRR program is directly integrated into MMS's operations and is used in making regulatory decisions pertaining to permit and plan approvals, safety and pollution prevention 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. Since its inception, this program has expanded capabilities to respond to an oil spill in the marine environment.

Conducting an effective OSRR 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.

Areas of oil spill response research that MMS is currently focusing on include:

1. *Remote Sensing and Surveillance of Spilled Oil*. The MMS is actively working to improve the operational capability of existing remote sensing equipment and techniques to respond to oil spills in the marine environment. In doing so, MMS is working cooperatively with state and Federal agencies, private industry and foreign countries to develop new operational remote sensing capabilities. Upcoming research includes sensors to detect, locate and map oil spill trapped in, under and among ice, submerged or neutrally buoyant oils, and the thickness of an oil spill.

2. Oil Spill Chemical Treating Agents. There are severe limitations in using conventional booms and skimmers to contain and remove spilled oil in broken ice conditions. The current knowledge of the physical and chemical properties of chemical herding agents to shrink and thicken spilled oil is very limited. The MMS is working cooperatively with U.S. Federal agencies and private industry to evaluate the use of chemical herding agents regarding their ability to thicken oil slicks among broken ice floes so that the oil can be ignited and burned effectively. Future research includes laboratory, small-scale, meso-scale and full-scale experiments to validate the chemical herding action in ice.

3. Oil Spill Chemical Dispersants. The use of chemical dispersants as an oil spill countermeasure in the United States has long been controversial. Chemical dispersants are designed to break up surface oil slicks, and disperse the oil as fine droplets into the water column so that natural mixing action will dilute the subsurface oil concentration. There are concerns that chemical dispersants may not be effective in certain situations (cold water, with heavy or emulsified oils, in calm/low sea state conditions). Although dispersants are becoming more widely accepted, testing and research on aspects of dispersant effectiveness and effects are required to provide regulators and responders with the necessary information to make science based decisions. To address these issues, MMS is conducting a multi-year research program consisting of four elements: protocol development, large-scale tank testing, training, and information synthesis and dissemination.

Ohmsett - The National Oil Spill Response Test Facility: Ohmsett (an acronym for Oil and Hazardous Materials Environmental Test Tank) is the world's largest tow/wave tank designed to test and evaluate full scale equipment to detect, contain and cleanup oil spills. It is the only facility where oil spill response testing, training, and research can be conducted with a variety of crude oils and refined products in varying wave conditions. Ohmsett is located at Naval Weapons Station Earle in Leonardo, NJ about one hour drive south of New York City. The heart of Ohmsett is a large outdoor, above ground concrete test tank that is 667 feet long, 65 feet wide, 11 feet deep and filled with 2.6 million gallons of crystal clear saltwater. Ohmsett plays a critical role in developing the most effective response technologies as well as preparing responders with the most realistic training available. The facility provides testing and research capabilities to help the government fulfill its regulatory requirements and meet its goal of clean and safe operations.

Many of today's commercially available oil spill cleanup products have been tested at Ohmsett and a considerable body of performance data and information on mechanical response equipment has been obtained there. This information can be used by response planners in reviewing and approving facility contingency plans. Ohmsett is also the premier training site for oil spill response personnel. Government agencies including the U.S. Coast Guard and U.S. Navy as well as private industry and oil spill response organizations train their emergency response personnel in real oil with their own full-scale equipment. Testing activities planned for 2006 include evaluation of airborne remote sensing instrumentation, dispersant effectiveness experiments conducted on Alaskan OCS crude oils in cold water, evaluation of skimmers for collecting spilled oil, and the evaluation of oil herding surfactants to thicken spilled oil in broken ice. Information on Ohmsett including the 2006 test schedule can be found at www.ohmsett.com.

FY 2007 will mark the last year in a four-year, phased replacement of equipment at Ohmsett. By the time the project is completed, it will have entailed:

- Replacement of electric drive motors that are used to tow a movable bridge the length (just over 200 meters) of the tank and repair or replacement of mechanical components of the tow cable system;
- Installation of a 1,500 lb capacity hydraulic crane with a 40 foot reach for equipment deployment and retrieval in the tank;
- Resurfacing of the tank and exposed metal work;
- Design and construction of a new containment area;
- Replacement and upgrade of the storage tank piping;
- Repair or replacement of the wave generator motor and drive system;

- Installation of an electrical substation to operate testing equipment;
- Replacement of the existing chemistry laboratory trailer with a permanent, renovated building and new analytical equipment;
- Rebuilding of the oil-water separator and processing system;
- Acquisition of pumps and related items for draining the test tank;
- Renovation of the equipment storage building; and
- Replacement of major electrical and communication cables.

Figure 21: Ohmsett Facility in New Jersey

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. Oil spill preparedness and response activities include unannounced drills, equipment inspections, review of Oil Spill Response Plans, participation in tabletop exercises, and providing support to the Federal On-Scene Coordinator during spill events.

The bureau has established requirements for the preparation of Oil Spill Response Plans that provide information on how an operator would respond to an oil spill. MMS regulations also outline 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. MMS often collaborates with state response agencies to review and approve Oil Spill Response Plans for oil and gas facilities in state offshore waters.

The MMS has a Memorandum of Understanding (MOU) with the U.S. Coast Guard that includes items on oil spill preparedness and response, such as planning, inspection requirements, and unannounced drills. Issues associated with authority for the shut-in of offshore facilities and for returning facilities to production status are also addressed; MMS retains authority over all actions that would warrant cessation of production pending determination of a spill's source and the subsequent decision to resume production. In cases of imminent hazard, the Federal On-Scene Coordinator is also empowered to order facilities to shut-in.

For the MMS, a major focus of activity is implementation of the DOI Emergency Preparedness & Response Strategy – Oil Discharges & Hazardous Substance Releases. The strategy is part of an overall agency initiative to 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. Developed under the leadership of the Department of Homeland Security, the National Response System implements a comprehensive all-hazards approach to enhance the ability of the United States to manage incidents. The associated National Response Plan incorporates best practices and procedures from incident management disciplines—homeland security, emergency management, law enforcement, firefighting, public works, public health, responder and recovery worker health and safety, emergency medical services, and the private sector—and integrates them into a unified structure that forms the basis of how the federal government coordinates with state, local, and tribal governments and the private sector during incidents. It establishes protocols to help:

- Save lives and protect the safety of the public, emergency responders, and recovery workers;
- Protect and restore critical infrastructure and key resources;
- Protect property and mitigate damages and impacts to industry, communities, and the environment; and
- Facilitate recovery of the environment and resumption of production.

Oil Spill Financial Responsibility: The MMS implements the financial responsibility provisions of the Outer Continental Shelf Lands Act and the Oil Pollution Act, 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. Under MMS rules, the amount of OSFR needed is based on facility location and the volume of the potential worst-case oil spill discharge. 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 is required to address with each affected state 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 agreements 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;
- Performing annual inspections of oil spill response equipment;

- 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 in Regional Response Teams with representatives from 16 federal agencies in the Alaska, Gulf of Mexico, and Pacific Regions as part of the National Response Team's National Contingency Plan.

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.

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FY 2007 PERFORMANCE BUDGET REQUEST
Minerals Revenue Management

Table 27: Summary of the Minerals Revenue Management Budget Request

		FY 2005 Enacted	FY 2006 Enacted	Fixed Costs & Related Changes	Program Changes	FY 2007 Request	Change from FY 2006
Minerals Revenue Management	**($000)**	**75,417**	**77,882**	**1,132**	**144**	**79,158**	**+1,276**
	FTE	**558**	**560**	**0**	**2**	**562**	**+2**
Compliance and Asset Management	($000)	41,550	42,723	863	-452	43,134	+411
	FTE	377	379	0	3	382	+3
Revenue and Operations	($000)	33,867	35,159	269	596	36,024	+865
	FTE	181	181	0	-1	180	-1

* The FY 2006 Interior Appropriations Act and the Energy Policy Act of 2005 provide permanent authority to fund Royalty In Kind (RIK) transportation, salaries, and other administrative costs directly related to the RIK program from RIK royalty receipts.

The MMS is entrusted with an important fiduciary role by and for all Americans. Through its Minerals Revenue Management Program (MRM), MMS efficiently and effectively utilizes its financial and human resources to collect, account for, substantiate, and disburse revenues associated with mineral production from leased Federal and Indian lands. Every American benefits from the revenues generated from mineral resources, either directly through payments to Tribes and individual Indian mineral owners (IIMOs), or indirectly through contributions to the Historic Preservation Fund, the Land and Water Conservation Fund, the Reclamation Fund, States and the U.S. Treasury.

BUDGET OVERVIEW

Since MMS's formation in 1982, the energy industry has undergone significant changes, and MMS has demonstrated its ability to successfully adapt to these industry changes while becoming more operationally efficient. The Energy Policy Act of 2005 is significantly changing the MMS operating environment. The greatest immediate impact for MRM comes from new royalty collection statutes that require major modifications to the MRM support system (MRMSS). The Act also requires regulatory changes, which impose significant new workloads. Additionally in FY 2007, new Indian oil valuation regulations will be finalized and implemented.

To the maximum extent possible, MMS is integrating these new responsibilities into our operations, while continuing to execute existing programs. To support the new requirements, the FY 2007 President's Budget includes a request for additional funding for the following two key MRM initiatives:

> **Implementation of the Energy Policy Act of 2005 ($750,000):** In order to implement the Energy Policy Act, MMS will be required to develop automated system capabilities to process royalty credits. The credit process requires a major system change affecting all

components of the current financial system. The FY 2007 funding provides for the completion of work started and paid for in FY 2006.

Implementation of Indian Oil Valuation Rule ($842,000; 3 FTE): The Indian Oil Rule is scheduled to become final in late 2006. This rule adds more certainty to the valuation of oil produced from Indian lands, eliminates reliance on oil posted prices, and addresses the unique terms of Indian (tribal and allotted) leases for our Indian constituents, industry, and MMS. Implementing this rule will require additional FTE and compliance system modifications in order to timely complete the major portion calculation and any other requirements stipulated in the final rule.

As a result of MMS's analysis of base resources, the President's Budget includes the following funding reductions for FY 2007 within MRM:

Postpone Tribal Cooperative Audit Agreements (-$170,000): The MMS will delay agreements with three Tribes until at least FY 2009. Although MMS had planned for these agreements, the tribes have not yet acquired the audit expertise to run cooperative audit programs. The MMS will continue to provide compliance coverage for these tribes' leases until the tribes acquire the needed expertise.

RIK Indirect Cost Reduction (-$1,124,000): The 2006 Interior, Environment and Related Agencies Appropriations Act and the Energy Policy Act of 2005 both include permanent authority that allows MMS to fund RIK program costs with RIK receipts. As a result of this new permanent authority, MMS is requesting a decrease in CAM appropriated funds of $1.124 million related to RIK indirect costs. The FY 2007 costs will be financed with RIK receipts.

PROGRAM OVERVIEW

Revenues collected by MMS are one of the largest sources of non-tax revenue to the Federal Government. In FY 2005, MMS disbursed nearly $10 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 2005 MMS delivered 26 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.

Through the continuation of MRM's base programs and implementation of the FY 2007 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.

Who Benefited from MMS Mineral Revenues
Disbursements of $9.9 Billion in FY 2005?

- ***Recreation — $900 Million***
MMS transfers nearly $900 million 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 — $420 Million***
Monies collected from mineral leases on Indian lands are distributed regularly to Tribal governments or Individual Indian Mineral Owners (IIMOs). 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 — $1.7 Billion***
Mineral revenues disbursed to States are often a significant element in a 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 — $1.3 Billion***
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 — $5.5 Billion***
Mineral leasing revenues are one of the Federal Government's greatest sources of non-tax receipts funding various government functions and programs.

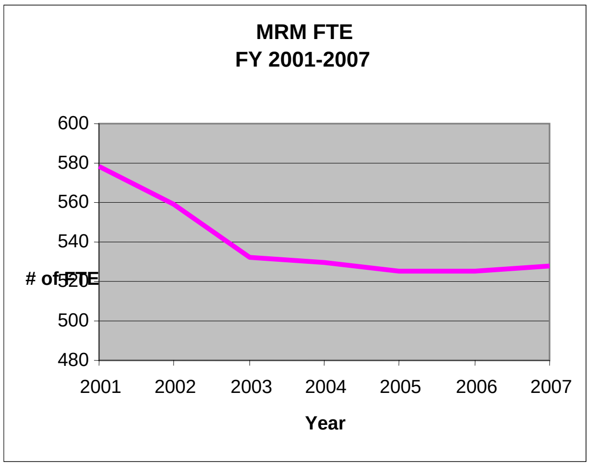
The MMS is a leader in securing economic value for America by managing the revenues associated with natural resources generated on Federal and Indian lands. Through its core business processes, Compliance and Asset Management (CAM) and Financial Management (FM), MRM ensures optimal value for America's mineral resources, benefiting the American people, States, Indian Tribes, and IIMOs.

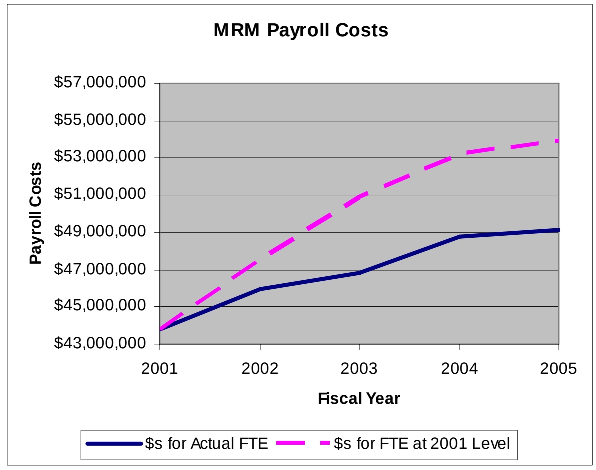
- *Compliance and Asset Management:* The MRM Compliance and Asset Management (CAM) business process ensures that the Nation's Federal and Indian mineral revenues, whether received in-kind or in-value, are accurately reported and paid in compliance with laws, regulations, and lease terms. Integral to this process is the economic analysis decision to take royalties in-kind (RIK) or in-value (RIV), and when RIK is selected, marketing the energy commodity through MMS's RIK program.

- *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.

The MMS is committed to serving the Nation in the best, most efficient manner possible throughout all of its business activities. In addition, MMS places high emphasis on fulfilling its Indian Trust responsibilities when performing all MRM business processes. In FY 2007, MMS's continuing objective is to provide the highest possible Indian trust services relative to its role in collecting and disbursing royalties from Indian lands to 35 Tribes and to an estimated 30,000 IIMOs.

MRM Efficiencies Realized:
$14.7 Million in MRM Payroll Cost Avoidance





Since FY 2001, MRM has implemented new, more cost-effective compliance strategies and processes as part of its program-wide reengineering. Additionally, MRM has expanded the use of RIK to process mineral royalties. Efficiencies gained through these efforts have allowed MRM to reduce 51 FTE between FY 2001 and 2005, resulting in a cumulative payroll cost avoidance of $14.7 million.

As a result, although cost of living adjustments and personnel benefit costs continue to increase, FY 2005 payroll costs are $4.8 million lower than if MRM FTE levels had remained at the FY 2001 levels.

STRATEGIC PLANNING

In FY 2004, MRM published action plans that focused on two critical components of MRM's operational strategy.

- *Five Year RIK Business Plan for FY 2005-2009* - During FY 2005 and 2006, MMS implemented the initial phases of this Plan, which outlines business principles, objectives, and specific actions that will enhance RIK's capabilities providing the core competencies to optimize the royalty revenue stream for future years.
- *Audit Quality Improvement Plan* - During FY 2005, MMS completed implementation of 39 actions in this Plan, which was a comprehensive plan to improve MRM's compliance and audit activities and related internal controls.

In FY 2005, MRM initiated a program-wide risk management initiative. Changes in OMB Circular A-123 require that agencies define the control environment for programs and business activities and perform risk assessments to identify the most significant areas within those environments to place or enhance internal control. As part of this initiative, MRM evaluated its processes against the control elements and risk principles of the Council on Sponsoring Organizations of the Treadway Committee, a recognized, leading authority in the internal control and risk management field. The implementation of program-wide risk management will greatly enhance the effectiveness of MRM internal reviews, drive new and refined policies and procedures, and support our overall long-term strategic planning effort.

Building on these past accomplishments, MMS has completed the executive planning for a new multi-year MRM strategic business improvement process. This executive planning initiative culminated with issuance of a program-wide MRM Strategic Business Plan in December 2005. This Plan provides a strategic approach for continuous program improvement through development and implementation of future operational business plans aligned with five MRM strategic mission areas: Compliance, Financial Management, Indian Trust, Resource and Information Management, and Asset Management.

By FY 2007, MMS will have performed operational evaluations, determined future requirements, and prepared future business designs for most operational aspects of the MRM. All MRM managers and employees will be engaged in the development of the mission area business plans. The mission area business plans will be designed to deliver best value services with high quality and integrity. When completed, they will provide operational strategies and improvement actions to be implemented for the period 2007 through 2012. This future strategic direction will specifically address MRM policies, business processes, risk management, human resources, information technology, regulations, competitive sourcing, succession planning, partnerships, budget and communications.

Integrating Budget and Performance

The work of MRM supports the DOI Strategic Plan goal to “manage or influence resource use to enhance public benefit, promote responsible use, and ensure optimal value.” MRM also supports accomplishment of DOI’s “fulfill Indian trust responsibilities” goal by ensuring the accurate collection, reporting and disbursement of royalties to Indian Tribes and IIMOs, from mineral leasing and extraction activities on their lands. 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 analyze resource use and outputs with the objective of identifying opportunities for future improvements to operations.

The MRM reports performance results quarterly, in a timely and consistent manner, and MRM managers review quarterly ABC/performance data to make decisions on resource allocation and to enhance short-term and long-term strategic planning. For example, MRM successfully used ABC data to project RIK budget costs for future fiscal years, account for RIK administrative costs, and compare costs between the in kind (RIK) and in value (RIV) approach. The RIK/RIV comparative cost efficiencies, and the result of the enhanced RIK revenue metric, combine to enable MMS to manage by focusing on enhancing net return to the government.

Program Assessment Rating Tool (PART)

In FY 2003, MMS completed a PART review with the Office of Management and Budget (OMB) for the entire 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. The MMS has implemented all action items resulting from the FY 2003 PART, by:

- Developing new performance metrics to measure
    - a) RIK revenue uplift: the RIK revenue increment above the fair market value benchmarks that measures the expected revenue that would have been received if collected under RIV, and
    - b) Compliance effectiveness: the ratio of actual payments compared to expected payments;
- Developing baseline data and targets for these new measures;
- Implementing all of the Inspector General's 2003 recommendations, including completion of an external quality control peer review in FY 2004 on MRM audit activities;
- Preparing a comprehensive Audit Quality Improvement Action Plan and implementing all 39 actions, to improve MRM's compliance and audit activities and related internal controls; and
- Completing an external peer review in FY 2005 of MRM audit activities, resulting in an Unqualified Opinion with no reportable conditions.

In FY 2006, MMS will complete a Re-PART of MRM with OMB.

Table 28: Minerals Revenue Management Performance Overview

Measure	FY 2005 Plan	FY 2005 Actual	Change from FY 2005 Plan	FY 2006 Enacted	FY 2006 Change from FY 2005	FY 2007 Request	FY 2007 Change from FY 2006
Resource Use - Energy							
Royalties received for mineral leases are X percent of predicted revenues, based on market indicators, in the production year (SP)	98% of predicted revenues for 2002 royalty universe	98% of predicted revenues for 75% of 2002 royalty universe	N/C	98% of predicted revenues for 2003 royalty universe	N/C	98% of predicted revenues for 2004 royalty universe	N/C
Compliance work is completed within the 3-year compliance cycle for x percent of royalties for production year x (SP)	69% of 2002 royalties	71% of 2002 royalties	+2%	72% of 2003 royalties	+1%	79% of 2004 royalties	+5%
Percent of revenues disbursed on a timely basis per statute (SP)(PART)	96.0%	98%	+2%	96.5%	-1.5%	97%	+0.5
Enhance net return to the government by X dollars through RIK revenue uplift and cost avoidance (NK)	$12.4 million	TBD	TBD	$13.4 million	TBD	$13.5 million	N/C
X% royalty information reported accurately the first time (BUR)(PART)	97.0%	96.9%	-.1%	97.5%	+.6%	98.0%	+.5%
Reduce time to balance RIK transactions to 180 days for X% of facility measurement points (BUR)	81% within 180 days	85.3% within 180 days	+4.3%	83% within 180 days	-2.3%	87% within 180 days	+4%
Provide X dollars positive time value of money to government by collecting RIK revenues within 25 days rather than 30 days for in value royalties (BUR)	$910,000	$1.5 million	+590,000	$1.9 million	+400,000	$2.0 million	+100,000

Table 28: Minerals Revenue Management Performance Overview continued

Measure	FY 2005 Plan	FY 2005 Actual	Change from FY 2005 Plan	FY 2006 Enacted	FY 2006 Change from FY 2005	FY 2007 Request	FY 2007 Change from FY 2006
Serving Communities - Indian Trust							
Conduct X Indian outreach sessions per year (BUR)	65	84	+19	65	-19	65	NC
Transfer X percent of revenue to OST within 24 hours of receipt. (SP)	99.0%	100%	+1%	99.5%	-.5%	99.5%	NC
Provide lease distribution data to BIA for X percent of royalties by first semi-monthly disbursement (SP) (PART)	75.0%	92%	+17%	80.0%	-12%	85%	+5%
Tribes manage audit activities for X% of Tribal mineral royalties (BUR) (PART) (300)	88%	88%	NC	89%	+1%	89%	NC
Complete compliance work through the order stage within 2-3 years for all Indian gas properties for index zone/major portion pricing (BUR)	90% of CY 2003	99.5% of CY 2003	+9.5%	90% of CY 2004	NC	90% of CY 2005	NC

FY 2007 PERFORMANCE BUDGET REQUEST

Minerals Revenue Management

Compliance and Asset Management Subactivity

Table 29: Compliance and Asset Management Subactivity Summary

		FY 2005 Enacted	FY 2006 Enacted	Fixed Costs & Related Changes	Program Changes	FY 2007 Request	Change from FY 2006
Compliance and Asset Management Subactivity	**($000)**	**41,550**	**42,723**	**863**	**-452**	**43,134**	**+411**
	FTE	**377**	**379**	**0**	**3**	**382**	**+3**

SUMMARY OF FY 2007 PROGRAM CHANGES

Request Component	**Amount**	**FTE**
Program Changes		
• Implementation of Indian Oil Valuation Rule	+$842,000	+3
• Postpone Tribal Cooperative Agreement	-$170,000	0
• RIK Indirect Cost Reduction	-$1,124,000	0
Total, Program Changes	**-$452,000**	**+3**

JUSTIFICATION OF FY 2007 PROGRAM CHANGES

Implementation of the Indian Oil Valuation Rule

The MMS focuses its Indian trust 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 monies they are due.

Table 30: Implementation of the Indian Oil Valuation Rule

	2005 Enacted	2006 Enacted	2007 Request	Change 2006 to 2007
Initiative ($000)	0	0	842	+842
FTE	0	0	3	+3

2006 Program Performance: The MMS plans to publish a proposed Indian Oil Valuation Rule in February 2006. The intent of this amended rulemaking is to add more certainty to the valuation of oil produced from Indian lands, eliminate reliance on oil posted prices, and address the unique terms of Indian (tribal and allotted) leases—specifically, the major portion provision. Most Indian leases include a major portion provision, stating that value for royalty purposes may, at the discretion of the Secretary, be calculated on the basis of the highest price paid or offered at the time of production for the major portion of oil produced from the same field. The aforementioned rulemaking will provide the guidance to implement the major portion process for oil.

Justification of 2007 Program Change (+$842,000; 3 FTE): In order to timely complete the major portion calculation and any other requirements, as stipulated in this rulemaking, system enhancements and additional resources are required. The requested funding is necessary to implement amended regulations governing the valuation for royalty purposes of oil produced from Indian leases. Specifically, the rule will require compliance system modifications to calculate prices and/or compliance with major portion provisions. In addition, MMS will require 3 additional FTE to ensure compliance with the regulation. The funding for this trust responsibility is integral to ensuring compliance on Indian leases. However, funding will not have a direct impact on any of MRM's existing performance measures and their associated targets.

Postpone Tribal Cooperative Audit Agreements

MMS encourages and promotes American Indian management of their mineral revenue assets through the Intergovernmental Personnel Act (IPA) program. The IPA program provides hands-on opportunities to give knowledge and experience to tribal members performing royalty management activities.

Table 31: Postpone Tribal Cooperative Audit Agreements

	2005 Enacted	2006 Enacted	2007 Request	Change 2005 to 2006
Initiative ($000)	--	--	-170	-170
FTE	--	--	0	0

2006 Program Performance: During FY 2006, members of two tribes are participating with MMS in IPAs to develop and enhance their knowledge of minerals and royalty management. MMS is also considering a possible IPA agreement with one other tribe. The goal is for tribes to gain experience in minerals accounting, auditing, and compliance techniques and return to their respective governments with a better understanding of MMS processes. Currently, in FY 2006, the MMS has agreements with seven tribes, funded annually at about $2.7 million, as working partners and an integral aspect of the overall onshore compliance efforts.

Justification of 2007 Program Change (-$170,000): The MRM anticipated funding agreements with ten Tribes in FY 2007; however, three tribes have not yet acquired the audit expertise to run cooperative audit programs. For this reason, MRM plans to delay agreements with these tribes until at least FY 2009. The MMS will continue to provide compliance coverage for these tribes' leases and will also continue the IPAs. The total amount available for other tribes currently operating cooperative audit programs will not be affected.

RIK Indirect Cost Reduction

The 2006 Interior, Environment and Related Agencies Appropriation Act and the Energy Policy Act of 2005 both include permanent authority that allows MMS to fund Royalty in Kind (RIK) program costs with RIK receipts. An Independent Accountant's Report evaluated all direct and indirect costs of the RIK program and concluded that $3.1 million of indirect administrative costs has been budgeted with appropriated dollars for FY 2007. As a result, MMS is requesting a total decrease in appropriated funds of $3.072 million related to RIK indirect costs; the total reduction for Compliance and Asset Management is $1.124 million, the remaining $1.948 million is reduced from the General Administration Subactivities.

Table 32: RIK Indirect Cost Reduction

	2005 Enacted	2006 Enacted	2007 Request	Change 2006 to 2007
Initiative ($000)	1,124	1,124	0	-1,124
FTE	0	0	0	0

Funding for the RIK program is now provided through receipts from that program, and is no longer supported with appropriated dollars. Therefore, the indirect costs are more appropriately financed through RIK receipts. The previously appropriated funds that had been provided to this subactivity for executive and administrative support activities related to the RIK program will be financed from RIK receipts. The MMS is requesting a reduction of $1.124 million for the CAM subactivity.

PROGRAM OVERVIEW

Through MRM, MMS 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 management and analysis decision to take royalties in-kind (RIK) or in-value (RIV), and when RIK is selected, marketing the energy commodity in competitive sales. In addition, MMS serves as 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 our Indian trust responsibility.

The MRM's Compliance and Asset Management (CAM) process includes two major components:

- *Compliance Assurance,* funded through appropriations in the CAM Subactivity. The MMS Federal and Indian 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, whether royalties are received in-kind or in-value.

- *Commercial Royalty in Kind (RIK) Program,* funded with RIK receipts. The MMS collects royalties in-kind if there is economic advantage to the Government. These advantages may include: revenue enhancement, reduced administrative costs, conflict avoidance, and earlier receipt of royalty revenues. The product is sold in the marketplace and resulting revenues are disbursed as prescribed by law. Alternatively, resources can be transferred to fill the Nation's Strategic Petroleum Reserve (SPR).

Through the CAM process, MMS's people and processes 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 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. The MMS employs an asset management approach, with selective use of RIK and RIV in tandem, based on systematic, deliberate analysis of the Federal oil and gas royalty portfolio, with consideration given to administrative costs and revenue impacts to the Treasury.

In addition to managing energy resources, the MMS serves American Indian Tribes and individual Indian mineral owners (IIMO) by ensuring that they receive accurate returns for mineral production on Indian trust land. While working to protect American Indian mineral interests, MMS also emphasizes American Indian empowerment.

COMPLIANCE ASSURANCE PROGRAM PERFORMANCE

The MMS Federal and Indian compliance activities have yielded significant additional revenues to States, Tribes, IIMOs, and the Federal Treasury. Between 1982 and 2005, MMS's additional collections of royalties and interest attributable to its compliance activities totaled over $2.6 billion. The MMS compliance assurance activities represent a large and critical part of MMS's operational strategy. Compliance assurance is performed on all types of royalties due, whether received as royalties in-value (RIV) or 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.

To complete compliance work for both RIV and RIK properties in the 3-year compliance strategy, MMS performs compliance reviews and audits. The MRM compliance reviews are designed to determine if the royalties received are in reasonable compliance with the laws, lease terms and regulations. The MMS has developed two different compliance review processes:

- For royalties paid in-value, compliance 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 compliance 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.

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

FY 2005 Performance Accomplishments

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 2005, MMS completed compliance work within 3 years for 71 percent of the FY 2002 royalties.

In addition, in FY 2005, the MMS continued an extensive outreach program for IIMOs, resolving over 5,000 inquiries and conducting more than 60 outreach sessions annually. As part of its outreach, MMS uses innovative outreach methods, such as Navajo radio broadcasts and attending pow-wows, to reach the American Indian constituents.

FY 2006 Compliance Strategy

In the past, MRM has used revenue dollars as the measurement basis for contemporaneous compliance coverage. This enabled MRM to achieve high levels of 'contemporaneous' compliance coverage in terms of dollars. In the FY 2006 compliance planning process, MRM analyzed the royalty universe in order to determine the most effective use of CAM resources in completing compliance for the 2003 production year. The analysis results are presented in the figure below.

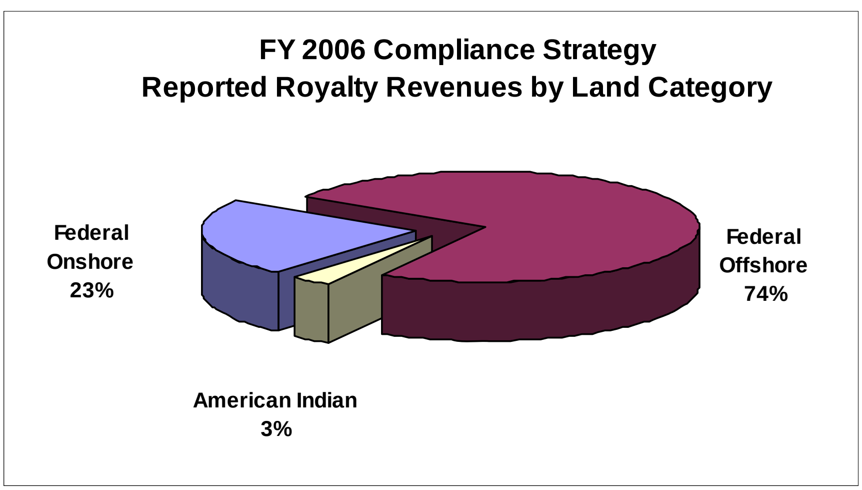
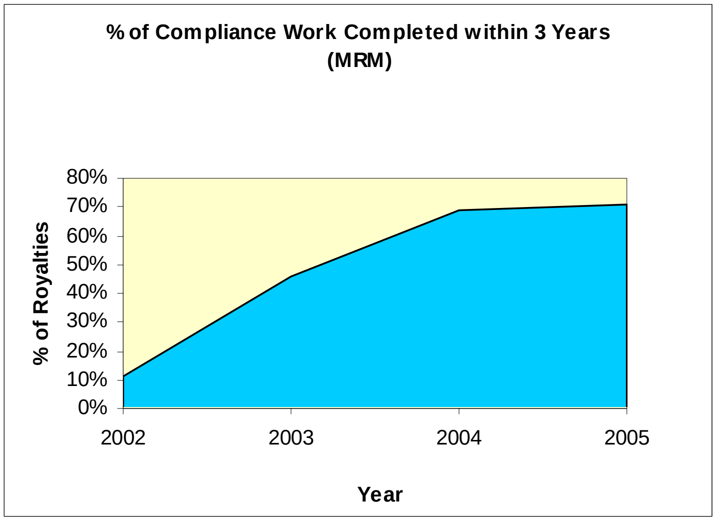


Figure 22: Reported Royalty Revenues by Land Category

Realized Efficiency Gains FY 2001-2005

Moving select volumes to RIK and reengineering the compliance process allowed MRM to realize substantial efficiency gains in the CAM Subactivity



MMS transitioned to a 3-year compliance cycle (previously 6 years), and increased the percentage of compliance completed within 3 years from 10 percent to 71 percent.

Efficiency gains also provided MMS capability to redeploy 44 CAM FTE to ensure increased Indian oversight and expanded RIK.

At the same time, MMS reduced 21 staff in the CAM subactivity through attrition.

- 65 FTE	*65 FTE reduction in MRM Offshore and Onshore Federal Compliance and Audit FTE between FY 2001-2005* *(from 250 FTE to 185 FTE)*
Redeployments	
+ 28 FTE	*28 of the FTE were redeployed to staff up the Royalty in Kind Office, as RIK volumes continued to expand* *(from 20 FTE to 48 FTE)*
+ 16 FTE	*14 of the FTE were redeployed to staff up Indian Compliance and Audit activities, to provide increased oversight, as required by a recent court decision. Also, 2 FTE were added (per FY 2005 budget appropriation) to expand Indian Outreach.* *(from 57 FTE to 73 FTE)*
Reductions = 21 FTE	*21 FTE reduced through attrition*

The MMS is revisiting compliance planning and targeting strategy. As a natural outcome of the royalty-focused compliance strategy, MMS had focused its efforts on the highest dollar properties first. However, as the percentage goals increase each year, more and more properties must be reviewed to achieve small increases in percentage of dollar coverage.

During FY 2006, MMS is conducting a comprehensive Compliance Business Planning process which will include a risk-based, strategic approach to targeting compliance performance. Once this analysis is completed, new performance targets will be set for this measure for FY 2007 and beyond.

Additional Focus on Indian Trust Compliance

The MMS provides 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 in January of 2000. One of the changes involved the use of published index prices for valuing gas produced from many of the American Indian leases. For leases in these index areas, MRM ensures that companies pay royalties based upon the proper index prices. In FY 2006, MMS plans to publish a proposal for a similar Indian Oil Valuation Rule, with implementation planned for FY 2007.

Delegated and Cooperative Audit Agreements with States and Tribes

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. Currently, the MMS has agreements with 11 States and 7 Tribes. The States and Tribes are working partners and an integral aspect of the overall onshore compliance efforts. Tribes are now self-empowered to manage audits for 89 percent of all tribal mineral royalties and the States perform audits on Federal leases within their boundaries. MMS conducts compliance reviews and audits to provide compliance coverage over properties not covered by the States and Tribes.

In FY 2005, MMS allocated approximately $9.1 million to the States and Tribes in the 202/205 program; in FY 2006, that amount remained essentially level. For FY 2007 and beyond, the MMS is exploring how best to allocate available budget resources for the Section 205 State Delegated Agreement Program and Section 202 Tribal Cooperative Audit Program. MRM has analyzed cost, workload, and risk data to apply “best business case” criteria to the funding of this program. The mineral revenues at risk and number of producing leases will be used to target “best business case” funding allocations among States and Tribes. Other factors, such as program effectiveness and anticipated increases and decreases in revenue activity, will also be considered.

Communication and Consultation with American Indians

In addition to the Section 202 Tribal Cooperative Audit Program, MMS also conducts Indian outreach sessions. The MMS uses several 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. The outreach is designed to resolve their royalty-related problems and to let them know how to contact MMS. These meetings enable MMS to listen to their concerns and suggestions for royalty accounting improvements, answer questions, identify and resolve mineral-related problems in partnership with BIA, BLM, and the Office of Special Trustee. The MMS's goal is to enhance trust responsibility and foster a positive working relationship with the Indian community. During FY 2005, MMS held 84 outreach sessions with American Indian constituents and resolved 5,247 royalty-related inquiries. The MMS plans to continue these efforts in FY 2006 and beyond.

Revised Valuation Regulations

The MMS plans to publish a proposed Geothermal Valuation rule during FY 2006. The Energy Policy Act of 2005 changes the methodology to value geothermal resources, used for both direct use and electrical generation purposes. The geothermal industry has been actively promoting a simplification of the royalty calculation methodology. At the request of MMS, the Royalty Policy Committee (RPC), a Secretarial advisory committee comprised of representatives from States, industry, and the public, conducted a study of this area. The RPC submitted a report to the Department with recommendations similar to and compatible with the Act.

In addition, MMS is proposing to amend its regulations governing the valuation of oil produced from Indian leases for royalty purposes. In March 2005, MMS held three public workshops to gather comments and conduct preliminary consultation concerning the valuation of crude oil produced from American Indian mineral leases. MMS anticipates publishing a proposed Indian Oil Valuation Rule in February 2006, with the final rulemaking targeted to be published by late 2006. During FY 2007, MMS will require additional budget resources to implement this rulemaking.

COMMERCIAL ROYALTY IN KIND (RIK) PROGRAM PERFORMANCE

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) and selling the received product in the marketplace and then disbursing revenues as prescribed by law.

The 2006 Interior, Environment and Related Agencies Appropriation Act and the Energy Policy Act of 2005 both include permanent authority, allowing MMS to fund RIK program costs with RIK receipts.

In 2004, MMS adopted its Five Year Royalty in Kind Business Plan that outlines business principles, goals, objectives, and specific

Royalty in Kind Generates Solid, Measurable Results

The MMS collects royalties in-kind if there is economic advantage to the Government. These advantages may include: revenue enhancement, reduced administrative costs, conflict avoidance, and earlier receipt of royalty revenues.

During FY 2005, MMS began implementing the Five Year RIK Business Plan for FY 2005-2009, which targets a cumulative RIK incremental net revenue enhancement of $50 million over 5 years.

In FY 2004, sales of royalty oil and gas through MMS's RIK program enhanced net return to the government by more than $18.1 million, above estimates of what would have been received if the government had taken the oil and gas royalties in value, or as cash payments. This included revenue gains of $17.2 million in natural gas and oil sales, about $900,000 through incremental interest earned on revenues received earlier than under the royalty in-value program, and estimated reduction in administrative costs relative to RIV of $1.6 million.

Estimates through the 3rd quarter of FY 2005 resulted in $16 million for the same measure. Final RIK incremental revenue data for FY 2005 will be available in April 2006.

strategies to guide and evolve the Federal RIK program from FY 2005 through FY 2009. Implementing this plan will continue to enhance MMS's ability to assure the taxpayer of proper collection of royalty receipts. It also ensures MMS's ability to track, analyze, control, and manage the significant portfolio of oil and gas royalties that are taken in kind.

The MMS has targeted a cumulative RIK incremental net revenue enhancement of $50 million over five years, based on oil and gas volume projections for the 5-year period and on historic RIK margins. The RIK incremental net revenue is defined as: the amount of RIK revenues received in excess of estimates of what a comparable royalty in-value (RIV) program would yield, using fair market value (FMV) benchmarks.

Using ABC Data for Cost Analysis

In FY 2005, MMS used FY 2004 ABC data to develop methodology and procedures to capture the costs for RIK and compare them with RIV costs. These procedures form the basis for monitoring RIK cost performance during future years.

FY 2004 Offshore RIK/RIV Comparative Cost Results

- ***RIK unit cost per Barrels of Oil Equivalent (BOE) is 26 percent less than the RIV unit cost per BOE***
  - *RIK = 5.6 cents per offshore BOE (for 85.1 million in-kind BOE)*
  - *RIV = 7.5 cents per offshore BOE (for 137.4 million in-value BOE)*
- ***RIK unit cost per lease/agreement is 36 percent less than the RIV unit cost per lease/agreement***
  - *RIK = $9,834 per lease/agreement (for 482 in-kind lease/agreements)*
  - *RIV = $15,264 per lease/agreement (for 675 in-value lease/agreements)*
- ***RIK resulted in a cost avoidance of $1.6 million***
  - *In FY 2004, if MMS had been receiving royalties in-value for the 85.1 million offshore RIK BOE, MMS costs for those barrels would have been an additional $1.6 million.*

RIK Cost Effectiveness Measure

This cost calculation methodology will also be used to monitor RIK cost effectiveness. The RIK Plan targeted a 10 percent (per BOE) reduction of RIK administrative expenses during the last 3 years of the Five-Year RIK Business Plan, FY 2007 to FY 2009. The MMS plans to set the baseline for this measure during FY 2006.

The strategic use of both the RIK and RIV options defines the royalty asset management strategy that is employed by MMS. The RIK program not only creates opportunities to realize additional royalty revenues relative to RIV, but the program also has established that RIK is a more cost-effective business process than RIV. Market conditions and RIK's competitive position at specific locations have resulted in greater revenues for the taxpayer than from the RIV calculated revenues. As such, the option to utilize either RIK or RIV allows for a systematic and deliberate analysis of the federal royalty portfolio to selectively apply each of these methods to optimize returns and efficiencies for the taxpayer.

FY 2005 - Completed Strategic Petroleum Reserve Fill Initiative

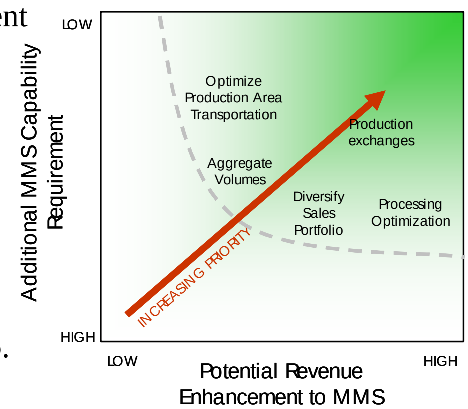
The Strategic Petroleum Reserve (SPR) is the world's largest supply of emergency crude oil; the federally owned oil stocks are stored in huge underground salt caverns along the coastline of the Gulf of Mexico. The MMS and the Department of Energy (DOE) began a fill initiative in April 2002, in response to a 2001 Presidential directive. During 2005, MMS completed delivery of in-kind oil to fill the SPR to 700 million barrels, as directed.

The exchange contracts between MMS and the DOE involved aggregation of crude oil royalties taken "in-kind" (in the form of oil), rather than in value (cash), from offshore Federal lease operators in the Gulf of Mexico. That oil is delivered to DOE at onshore market centers, where DOE enters into additional exchanges for crude oil of suitable properties delivered to SPR sites in Texas and Louisiana. Completing the initiative to fill the SPR helps the Nation meet its commitment to maintain emergency oil stocks and support national objectives for energy security.

However, Section 301 of the Energy Policy Act instructed the Secretary of Energy to fill the SPR to a capacity of 1 billion barrels of oil. As the implementation of this directive proceeds, MMS may be called upon to assist in these efforts.

FY 2006 - Diversifying the RIK Business Model

The approved RIK Five-Year plan includes the enhancement of specific marketing, analytical and supporting functions. Enhancing these functions allows the RIK program to evaluate various marketing alternatives and continuously monitor historical and forward-looking market intelligence pertaining to the alternatives. Expertise is required in marketing, quantitative analysis, commercial contracting, and commercial legal advice, in order to assess the risks and rewards associated with each marketing strategy and its potential impact on the portfolio.



FY 2007 - RIK Expansion and Risk Management

During FY 2007, the primary focus toward enhancing net revenue and diversifying market strategies will be on natural gas RIK expansion.[1] Growth of RIK gas volumes is projected at an optimal level consistent with expectations of being equal or exceeding appropriate FMV benchmarks. Currently, the natural gas RIK business unit comprises 30 percent of Gulf of Mexico (GOM) natural gas royalties; MMS expects this percentage to rise to 80 percent in the foreseeable future.

[1] During FY 2006, RIK oil volumes committed to SPR will convert to the Commercial RIK Program, assuming continuation of favorable economic conditions and receipt of fair market value in the MMS RIK crude oil program. The crude oil RIK business unit comprises 80 percent of GOM crude oil royalties.

The MMS issued the "Royalty in Kind Risk Management Policy" in FY 2005, incorporating industry best practices and including the flexibility necessary to optimize RIK performance objectives. The policy provides appropriate limits and active mitigation strategies for FMV, credit, operative, and oversight risks. Additionally, the policy addresses operational parameters with respect to sales and marketing, separation of functions within the RIK organizational structure, approval levels for classes or types of transactions, and reporting requirements.

The MMS has adopted a conservative business model, based on sound and widely-used commercial practices, in itself a risk mitigation mechanism. All RIK decisions, including expansion of RIK volumes, will be made in accordance with this policy.

FY 2007 - Further Automating RIK Performance Metrics

In FY 2007, the Business Plan calls for MMS to enhance management information systems to automate the RIK performance metrics included in the 5-Year RIK Business Plan, specifically:

- *Revenue Collection Time (RCT):* The reduction in collection time for royalties from 30 days to 25 days relative to RIV improves the interest-earned related to value for the Treasury and other recipients. The metric to measure this benefit will quantify the dollars gained through the time value of money. This measure requires a custom report to capture the elapsed time between sale and cash receipt. This information is valuable when used in combination with interest rate and dollars received to calculate some of the monetary benefits (time value of money) of the RIK approach. The time value of money benefit is estimated at $900,000 during FY 2004 and as Commercial RIK volumes increase, $2.2 million by FY 2008.

- *Transaction Cycle Time (TCT):* One of the major benefits in the RIK program is the significant reduction in the transaction cycle time from the RIV compliance process (about 180 days for RIK vs. 3 years for RIV). The metric to measure this benefit is the percentage of facility measurement points for which the time to balance RIK transactions is 180 days or less. This is a measure of the time between sales and final settlement, including imbalance reconciliation. This can translate into a reduction in administrative expense, in addition to providing the Government earlier assurance that fair value has been received. Monitoring TCT is important to ensure that processes are efficient and cost beneficial. In FY 2004, MMS estimated that about 80 percent of RIK transactions were balanced/reconciled within 180 days, and even though RIK volumes will be continuously increasing, MMS has set a target of 89 percent by FY 2008.

SUBACTIVITY SUMMARY

The MMS manages a substantial Federal monetary asset on behalf of the American taxpayer. Revenues from mineral leasing on public lands have averaged over $8 billion annually. As such, MMS is entrusted with performing an important fiduciary role for the Nation.

The MMS exists in a dynamic environment, and its activities continuously evolve in response to industry changes. The MMS will make every effort to ensure that it continues to provide an unequaled government organization, measured by both performance and strict adherence to our fiduciary responsibilities. The full funding of the CAM FY 2007 subactivity, as requested, will ensure that MMS is able to perform its Federal and Indian compliance activities effectively.

FY 2007 PERFORMANCE BUDGET REQUEST
Minerals Revenue Management
Revenue and Operations Subactivity

Table 33: Revenue and Operations Subactivity Summary

		FY 2005 Enacted	FY 2006 Enacted	Fixed Costs & Related Changes	Program Changes	FY 2007 Request	Change from FY 2006
Revenue and Operations Subactivity	**($000)**	**33,867**	**35,159**	**269**	**596**	**36,024**	**+865**
	FTE	**181**	**181**	**0**	**-1**	**180**	**-1**

SUMMARY OF FY 2007 PROGRAM CHANGES

Request Component	Amount	FTE
Program Changes		
• Energy Policy Act of 2005 – Automated Royalty Credits	+$750,000	0
• OPA Realignment*	-$154,000	-1
Total, Program Changes	**-$596,000**	**-1**

JUSTIFICATION OF FY 2007 PROGRAM CHANGES

The Energy Policy Act of 2005, signed by the President on August 8, 2005, requires significant changes to MMS systems, regulations, processes, and procedures. The MMS is requesting bureau-wide funding of approximately $8.387 million to implement the Energy Policy Act. The funding request of $750,000 under the Revenue and Operations subactivity is for the royalty credit requirements included in the Energy Policy Act.

Energy Policy Act of 2005 – Automated Royalty Credits

Table 34: Energy Policy Act of 2005 – Automated Royalty Credits

	2005 Enacted	2006 Enacted	2007 Request	Change 2006 to 2007
Initiative ($000)	0	[2,000]	750	+750
FTE	0	0	0	0

2006 Program Performance: Early in FY 2006, MMS began initial development work related to implementation of the provisions of the Energy Policy Act. In FY 2006, MRM is concurrently working towards implementation of the Act in the following areas:

* The OPA Realignment is an internal, technical adjustment of funds within MMS that does not affect the overall MMS budget. Justification for this program change is provided in the Executive Direction Subactivity.

- Development of an automated capability within the MRMSS to handle royalty credits - Royalty credits are mentioned in Sections 224 (Geothermal), 349 (Orphan Wells), and 383 (West Delta);
- Significant modifications to the MRMSS to facilitate county level geothermal disbursements and disbursement to new Treasury accounts;
- System changes to establish new mineral production codes;
- Rulemaking activities for Geothermal valuation, advanced royalties under coal leases, and credits (West Delta, Naval Petroleum Reserve, and orphaned and abandoned wells); and
- Drafting lessee reporting requirements related to West Delta.

In FY 2006, in coordination with DOI, MMS redirected funds of approximately $3.1 million to cover primarily MRM systems related, first-year development and implementation costs. This funding was available because the enactment of mandatory authority for the RIK program allows MMS to fund indirect costs of the program, formerly paid from direct appropriations, with RIK receipts. Full implementation of the Energy Policy Act system changes within MRM is expected to span a two-year period. Approximately $2 million of this amount was allocated to begin development of the Automated Royalty Credits capability. To implement the geothermal credits system changes, MMS also received $500,000 in geothermal receipts through a reimbursable agreement with BLM, as provided by the Act.

Justification of 2007 Program Change (+$750,000): The MMS is requesting bureau-wide funding of $8.387 million to implement the Energy Policy Act. The funding request under the Revenue and Operations subactivity is for the second year implementation costs of the royalty credit requirements. The credit process requires a major system change affecting all components of the current financial system. These enhancements will provide MMS the ability to:

- handle a broad range of credit proposals, now and in the future;
- ensure full System Certification and Accreditation (C&A); and
- comply with OMB A-123, MMS internal controls, the Federal Financial Management Improvement Act, and CFO requirements.

Upon completion, the fully automated royalty credit capability of MRMSS will process the credits mentioned in the energy bill plus other credits that may be proposed in the future. Achieving an appropriate return on the initial FY 2006 investment requires funding the FY 2007 $750,000 request. The funding for this initiative will not have a direct impact on any of MRM's existing performance measures and their associated targets.

PROGRAM OVERVIEW

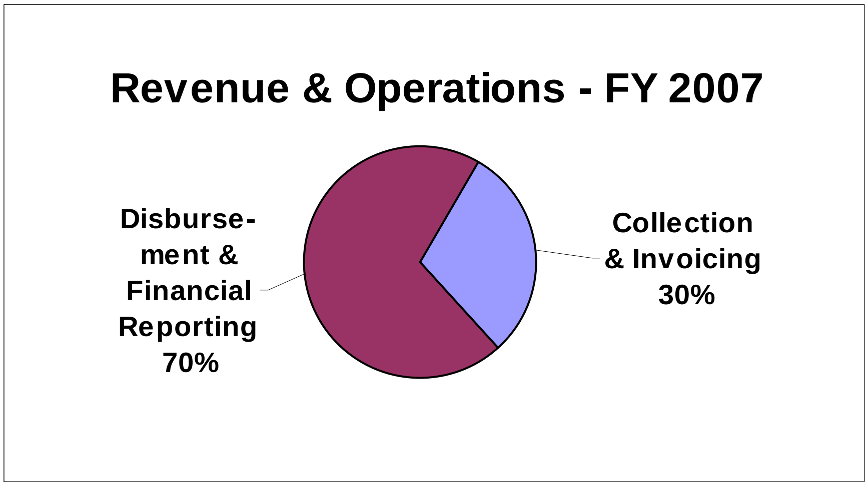
The Federal Government has been collecting revenues from mineral production on Federal onshore lands since 1920, from American Indian lands since 1925, and from Federal offshore lands since 1953. In 1982, MMS was created, establishing a comprehensive, consolidated system for the collection, accounting, and disbursement of these revenues. Since that time, the MRM program has provided over $156 billion to Federal, state, and Indian recipients.

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, substantiated, and timely disbursed to recipients. The Financial Management process, illustrated in the Revenue and Operations subactivity narrative, ensures the proper receipt and timely processing of Federal and Indian mineral revenues and information.

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

- *Disbursement and Financial Reporting* – 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.
- *Collection and Invoicing* – 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 . Using automated exception processes, MMS also detects 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.

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.



Within the Activity-Based Costing (ABC) 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 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. Using ABC data, 70 percent of the revenue and operations funding supports disbursement and financial reporting activities. The remaining 30 percent of the funding supports collection and invoicing activities.

DISBURSEMENT AND FINANCIAL REPORTING PROGRAM PERFORMANCE

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. Historically, the distribution and disbursement function within MRM has ensured that, on average, 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.

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

- $93.7 billion to the U.S. Treasury
- $20.8 billion to the Land and Water Conservation Fund
- $18.2 billion to 38 states
- $11.6 billion to the Reclamation Fund
- $4.6 billion to 41 American Indian Tribes and 30,000 IIMOs
- $4.4 billion equivalent value to the Strategic Petroleum Reserve
- $3.3 billion to the National Historic Preservation Fund

Approximately 60 percent of all annual collections go to the U.S. Treasury, 23 percent to special purpose funds, 12 percent to states, 3 percent to the American Indian community, and equivalent value of 2 percent to the Strategic Petroleum Reserve.

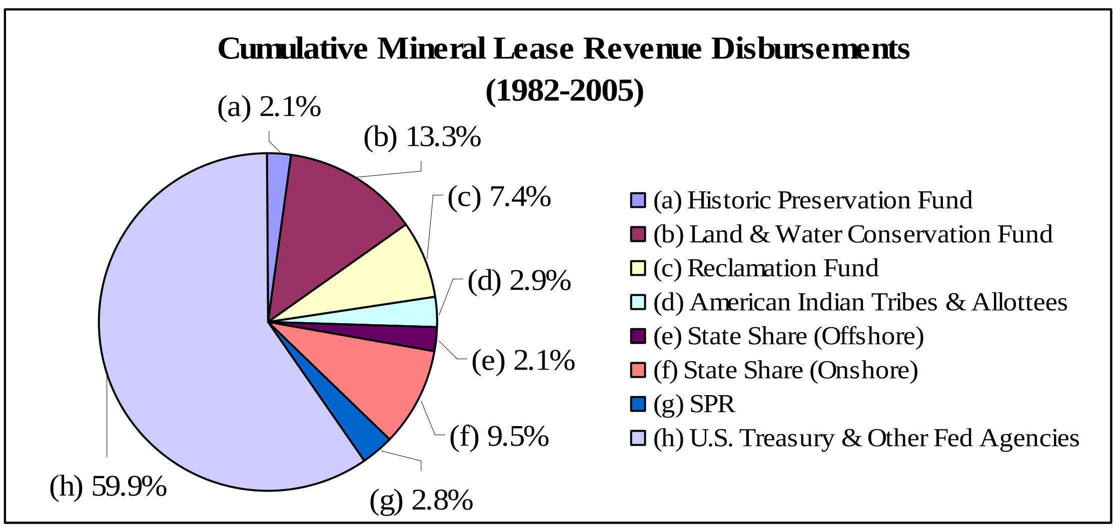


Figure 23: Cumulative Mineral Lease Revenue Disbursements (1982-2005)

Special purpose funds, including the Land and Water Conservation Fund (LWCF), the National Historic Preservation Fund, and the Reclamation Fund, have received more than $35 billion in

MMS-collected mineral revenues since 1982. During the past decade, mineral revenues from the OCS have accounted for more than 95 percent of the deposits to the LWCF.

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 statute. Accurate reporting by companies is integral to our success in timely disbursing funds.

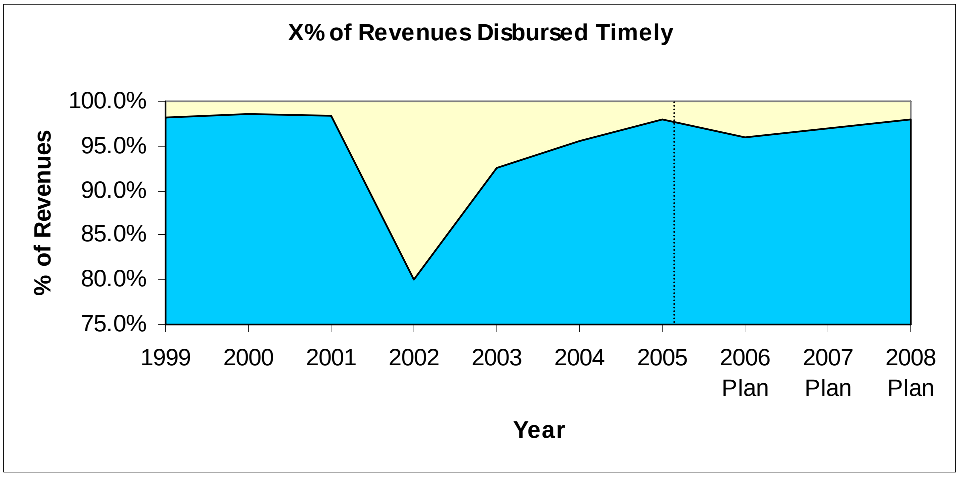


Figure 24a: Percent of Revenues Disbursed Timely

In FY 2002, after implementation of new systems, company reporting accuracy fell to 86 percent, and MMS disbursement timeliness dropped to 80 percent. Since that time, both metrics have improved due to MMS focusing its resources on error resolution, in consultation with companies, and providing additional training to companies. During FY 2007, MMS is targeting 97 percent disbursement timeliness and 98 percent reporting accuracy.

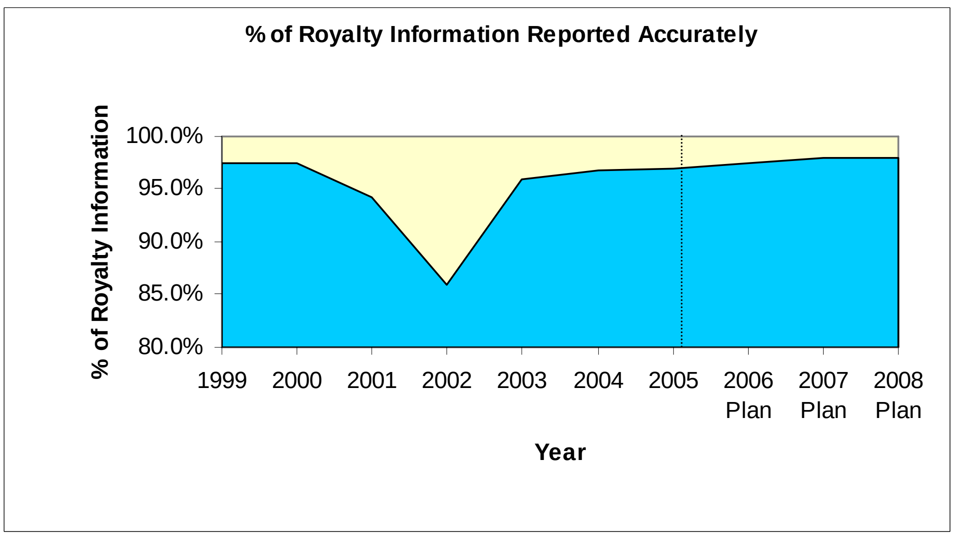


Figure 24b: Percent of Royalty Information Reported Accurately

Program Performance: Past Accomplishments & Future Goals

Timely Revenue Disbursement: In FY 2005, MMS disbursed nearly $10 billion in mineral revenues to states, the 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 an estimated $1.2 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 ensures that funds are disbursed to recipients by the end of the month following the month received, per statute. In FY 2005, MMS disbursed 98 percent of its revenues on a timely basis, per statute, exceeding its target of 96 percent. 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. The targets for FY 2006 and 2007 are 96.5 percent and 97 percent, respectively, for this measure.

Additionally, in FY 2005 MMS transferred 100 percent of American Indian revenues it received to the OST within 24 hours of identification. 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 OST where they are invested and subsequently distributed by the Bureau of Indian Affairs (BIA) to American Indian Tribes and IIMOs. The target is 99.5 percent for FY 2006 and 2007.

The 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. In FY 2005, MMS provided lease distribution data to BIA for 92 percent of royalties by the first semi-monthly distribution. Due to company reporting accuracy, which achieved a rate of 96.9 percent during FY 2005, MMS was able to exceed its target of 75 percent. The targets for FY 2006 and 2007 are 80 percent and 85 percent, respectively, for this measure.

Financial Accountability: 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 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. In FY 2005, MMS met the new DOI financial reporting deadlines to upload financial data to DOI monthly instead of quarterly.

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 instituted quarterly financial statements and has accelerated the end-of-year reporting through the elimination of off-line processes.

As with all prior years, the MMS received unqualified audit opinions on its financial activities and mineral revenue custodial accounts in FY 2005. In addition, in coordination with OST, MMS completed a risk assessment of our Indian processes to identify and test controls, which are designed to mitigate risk. As a result, the MMS developed a financial management action plan and completed implementation of all corrective actions in FY 2005. For FY 2006 and beyond, our goal is continued unqualified audit opinions.

Energy Policy Act Implementation: Early in FY 2006, MMS began initial development work related to implementation of the provisions of the Energy Policy Act. In FY 2006, MRM is concurrently working towards implementation of several areas in the Act. The royalty credit requirements, associated with our Financial Management processes, will require a major system change affecting all components of the current financial system. In FY 2006, MMS redirected previously appropriated funds of approximately $3.1 million to cover primarily MRM systems-related first-year development and implementation costs. Approximately $2 million of this amount was allocated to begin development of the Automated Royalty Credits capability. Full implementation within MRM is expected to span a two-year period.

Information Technology: Information systems and electronic government infrastructure play a critical role in MMS's collection and disbursement of the Nation's mineral revenues. The MRMSS uses commercial off-the-shelf (COTS) software that has been modified for MRM requirements and is contractor-owned and operated. In January 2005, MMS implemented a new release version of the MRM PeopleSoft financial module, its financial system software. This upgrade provided an efficient web-based functionality and moved the MRMSS 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. While the Web-based paradigm creates efficiencies and conforms to industry best practice, this approach creates a complete dependency on access to the internet.

Primary IT systems supporting the financial management process include the financial management system and the data warehouse.

- The Financial Management System accounts for all Federal and Indian minerals rents, royalties, bonuses, and their distribution/disbursement to the Treasury, states, and Indians. The system also issues bills for late or nonpayment of royalties.

- The Data Warehouse provides a repository of historical financial and production information for 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 warehouse also provides an electronic means for industry to get information 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.

In accordance with Federal Acquisition Regulations, MMS has begun preparation to competitively recompete the Operations and Support (O&S) contract for the MRMSS in FY 2007. This contractor-owned and contractor-operated system is currently operated and maintained under a contract with Accenture. The O&S contract also includes hardware hosting and operations by an Application Service Provider (ASP). The current O&S contract, which costs approximately $16 million annually, was a full-competition contract awarded to Accenture in 1999. Already extended for an additional year to allow for critical MRMSS upgrades and stabilization, this contract must be re-competed in FY 2007 to have a new contract in place in FY 2008.

The MRMSS is critical to the ability of MRM to account for and timely disburse mineral revenues to Treasury, States and Indians. Therefore, in planning for this recompetition, MMS will ensure that any transition occurs seamlessly and with minimal disruption of MRM operations.

COLLECTION AND INVOICING PROGRAM PERFORMANCE

The MMS collects annual rental revenues and reporting information on more than 35,000 non-producing leases and monthly royalty revenue and sales reports on more than 23,000 producing onshore and offshore Federal leases. Additionally, MMS collects royalty revenue and reporting information for more than 3,700 producing Indian leases. Although most of the payments MMS receives are transmitted electronically, MMS still receives nearly 50,000 checks per year.

Generally, royalty payments are due from energy companies on the last day of the month following the month of production. Unfortunately, the devastation caused by Hurricanes Katrina and Rita resulted in some oil and gas operators losing the use of their offices and associated records. To accommodate these companies, on September 29, 2005, the MMS published regulations extending the due dates for monthly royalty payments and reports for royalty payers and operators whose operations were disrupted by one or both of the hurricanes.

Each month, MMS receives and processes over 34,000 reports containing more than half a 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 managing the RIK program.

Additionally, MMS maintains non-revenue data related to leases and agreements, including the supporting legal information essential to execute royalty processing functions. When new leases or agreements are established, or when changes occur on a lease, MRM receives information from the Bureau of Land Management (BLM) or from MMS's Offshore Minerals Management (OMM) and must update MRM's automated reference data files attributable to Federal and Indian mineral leases and agreements to ensure that company reports process smoothly and to verify accurate payment.

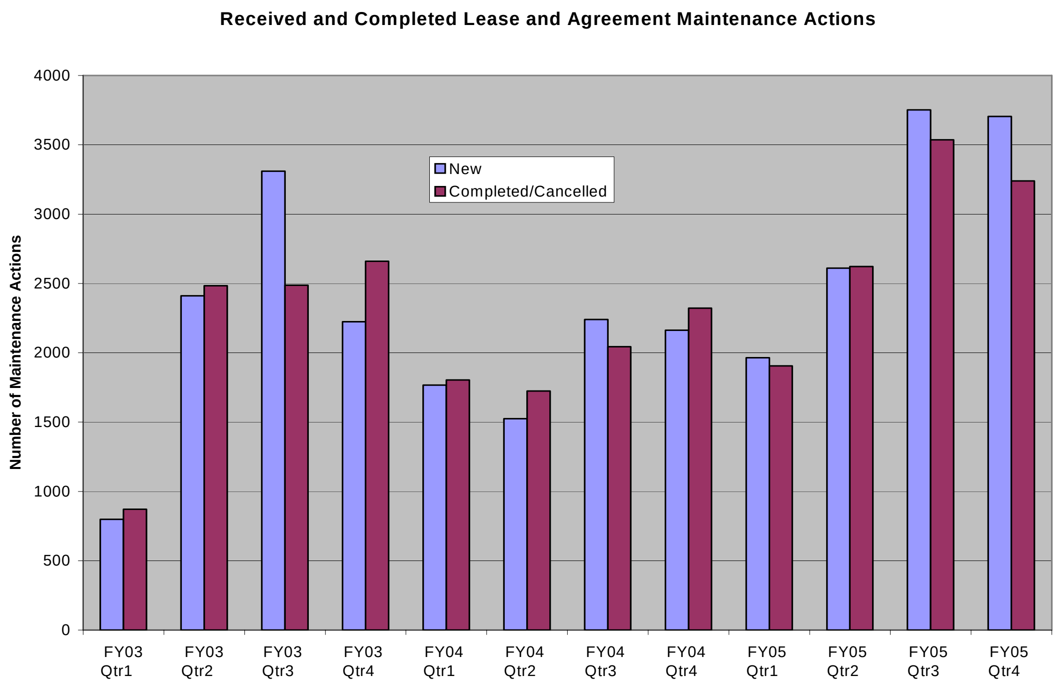
To ensure that the proper revenues on the Federal and Indian royalty share are collected, MRM performs automated and manual error correction of royalty and production reports, coordinating reporting and payment matters with industry, state governments, Indian Tribes, other Federal agencies, and other MMS offices.

Using Performance and ABC Data
While Increasing Process Efficiencies and
Lease and Agreement Maintenance Activities

Performance and cost data supported key management decisions that were instrumental in increasing the number of completed lease and agreement maintenance actions. The timely completion of lease and agreement maintenance actions is required to ensure the timely and accurate distribution of funds and the ability of MRM to provide accurate data to our external customers.

During FY 2005, MRM increased the number of completed maintenance actions by 40 percent - from 9,766 completed actions in FY2004 to 13,634 completed actions in FY2005.

This was a significant accomplishment during a year when the number of lease and agreement maintenance items received by MRM increased by 75 percent. This increase in lease and agreement maintenance actions was the result of a number of BLM decisions related to coal bed methane leases that required adjustments to lease terms. There has also been an overall increase in leasing and production activity.



In addition to significant increases in productivity, MRM costs to complete a maintenance action were reduced by 28%; from $98 per unit in FY2004 to $70 per unit in FY2005.

Key to this success was ongoing outreach and communication with other federal agencies and improved training and mentoring of employees – both new and seasoned – to increase efficiencies and share best practices. Additionally, based on management analysis of reporting and productivity data, MRM managers capitalized on the training of new interns, which provided the capacity to redirect staff toward reducing backlogs.

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 MRM. The automated exception detection processes pay customers interest for overpayments and over-sufficient estimates on Federal leases. Payments are based on the IRS overpayment rate. These processes also bill customers 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. If payments are late, an assessment is made based on the IRS underpayment rate.
- 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.
- 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.
- Rental, minimum royalty, deferred bonus, rights-of-way and other financial term exceptions.

Receiving proper payments also includes ensuring that delinquent invoices are pursued in accordance with the Debt Collection Act. This is achieved through calls and letters to customers, demands to payors, notices to lessees/operating rights owners, demands to surety, referrals to the Justice Department for litigation or to the U.S. Treasury for collection, and if required, write-off of debt.

Program Performance: Past Accomplishments & Future Goals

Company reporting accuracy is key to ensuring that MMS achieves timely disbursement (see Figure 23). In FY 2005, Companies reported 97 percent of royalties accurately, thus, requiring MMS intervention to resolve royalty errors on only 3 percent of all royalties reported and paid. In FY 2006 and 2007, the target is 97.5 percent and 98 percent, respectively, for this measure.

SUBACTIVITY SUMMARY

In summation, the MMS manages a substantial Federal monetary asset on behalf of the American taxpayer. Revenues from mineral leasing on public lands have recently averaged over $8 billion annually. As such, MMS is entrusted with performing an important fiduciary role for the Nation.

The MMS exists in a dynamic environment, and its activities continuously evolve in response to industry changes. The MMS will make every effort to ensure that it continues to provide an unequaled government service to the American people, measured by both performance and strict adherence to our fiduciary responsibilities. The full funding of the Revenue and Operations request will provide the resources necessary for MMS to continue to ensure the proper receipt and timely processing of Federal and Indian mineral revenues and information.

FY 2007 PERFORMANCE BUDGET REQUEST
General Administration

Table 35: General Administration Activity Summary

		FY 2005 Enacted	FY 2006 Enacted	Fixed Costs & Related Changes	Program Changes	FY 2007 Request	Change from FY 2006
General Administration	**($000)**	**46,854**	**47,468**	**616**	**-1,226**	**46,858**	**-610**
	FTE	**201**	**219**	**0**	**10**	**229**	**+10**
Executive Direction	($000)	2,057	2,100	51	382	2,533	+433
	FTE	20	20	0	8	28	+8
Policy and Management Improvement	($000)	4,132	4,199	77	-186	4,090	-109
	FTE	33	33	0	0	33	0
Administrative Operations	($000)	16,964	17,044	450	-657	16,837	-207
	FTE	148	166	0	2	168	+2
General Support Services	($000)	23,701	24,125	38	-765	23,398	-727
	FTE	0	0	0	0	0	0

SUMMARY OF FY 2007 PROGRAM CHANGES

Request Component	Amount	FTE
Program Changes		
• OPA Realignment*	+$1,010,000	+8
• Department Working Capital Fund	+$172,000	+0
• RIK Indirect Cost Reduction	-$1,948,000	+0
• Removal of Congressional Earmarks**	-$460,000	+0
• Coastal Impact Assistance Program	+$0	+2
Total, Program Changes	**-$1,226,000**	**+10**

JUSTIFICATION OF FY 2007 PROGRAM CHANGES

As part of the President's Budget, the General Administration subactivities contain the following initiatives for FY 2007:

Department Working Capital Fund (+$172,000)
The FY 2007 budget includes a request to increase MMS's funding of DOI's working capital fund by $172,000. This initiative is discussed in the General Support Services Subactivity.

RIK Indirect Cost Reduction (-$1,948,000)
The 2006 Interior Appropriations Act and the Energy Policy Act of 2005 both include permanent authority that allows MMS to fund Royalty in Kind (RIK) program costs with RIK receipts. As

* The OPA Realignment is an internal, technical adjustment of funds within MMS that does not affect the overall MMS budget. Justification for this program change is provided in the Executive Direction Subactivity.
** In FY 2006, Congress provided a one-time increase of $1.132 million for fixed cost funding. This unrequested Congressional earmark is shown as a reduction in MMS's FY 2007 budget request.

a result of this new permanent authority, MMS is requesting a total decrease in appropriated funds of $3.072 million related to RIK indirect costs; the total reduction for General Administration is $1.948 million spread across all of the subactivities. A full discussion of the RIK program and associated funding issues may be found in the MRM tab under the Compliance and Asset Management Subactivity.

Coastal Impact Assistance Program ($0; 2 FTE)
This provision of the Energy Policy Act shares Federal revenues of $250 million per year, for fiscal years 2007 through 2010, with six coastal producing states and their eligible coastal political subdivisions. No dollars are requested, but MMS is requesting appropriations language to allow the use of up to one percent of the program funding to properly administer this new, large-scale grants program. Two FTE are being requested in this subactivity to administer this program.

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, administrative appeals and strategic planning efforts;
- **Administrative Operations**, which includes budget, finance, human resources, procurement, facilities, information management, and equal employment services; and
- **General Support Services**, which ensures infrastructure support to the Minerals Management Service including support for the 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 respond to and address the varied stakeholder concerns including the public, industry and special interest groups. This has been achieved through communication outreach via advisory councils; discussions with members of Congress, Congressional Committees and their staffs; and meetings with industrial and environmental stakeholders, community representatives, the media and the public.

The General Administration function provides the administrative, management and policy support, and services that the entire MMS organization needs to carry out its primary mission of resource and revenue management. In support of the two major programs, Minerals Revenue Management and Offshore Minerals Management, the administrative arm of MMS provides leadership and direction in overall management of the organization, planning and performance, budget, finance, human resources, information technology, and other services that support the DOI Resource Use and Serving Communities goal areas. Centralization of these administrative functions leverages resources and contributes to efficient, effective operations across the MMS organization.

These efforts, recent technological developments, fundamental changes in auditing and accounting philosophies, and MMS's response to enactment of recent legislation such as the

Energy Policy Act of 2005 have yielded a clear vision of where the MMS of the 21st century needs to be headed. Providing leadership, securing resources, developing organization capabilities, building infrastructure, and assuring appropriate delivery of services are the corner stones of MMS's overall success.

For FY 2007, an increase of $3.529 million for fixed costs is requested, which covers 70 percent of pay and benefits and 100 percent of other costs. The remaining increase in fixed costs will be absorbed in MMS's base budget. If the $3.529 million in requested fixed cost increases for FY 2007 are not funded, MMS's mission critical programs may begin to suffer since unfunded fixed costs must be absorbed and existing resources have to be redirected from programmatic needs to pay for fixed costs. In FY 2006, Congress provided a one-time increase of $1.132 million for fixed cost funding. This unrequested Congressional earmark is shown as a reduction in MMS's FY 2007 budget request. These combined fixed cost changes are reflected in the fixed costs line items in each of MMS's subactivity narratives.

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FY 2007 PERFORMANCE BUDGET REQUEST
General Administration
Executive Direction

Table 36: Executive Direction Subactivity Summary

		FY 2005 Enacted	FY 2006 Enacted	Fixed Costs & Related Changes	Program Changes	FY 2007 Request	Change from FY 2006
Executive Direction Subactivity	**($000)**	**2,057**	**2,100**	**51**	**382**	**2,533**	**+433**
	FTE	**20**	**20**	**0**	**8**	**28**	**+8**

SUMMARY OF FY 2007 PROGRAM CHANGES

Request Component	Amount	FTE
Program Changes		
• OPA Realignment*	+$1,010,000	+8
• RIK Indirect Cost Reduction (see page 129)	-$598,000	+0
• Removal of Congressional Earmarks**	-$30,000	+0
Total, Program Changes	**+$382,000**	**+8**

JUSTIFICATION OF FY 2007 PROGRAM CHANGES

Office of Public Affairs Realignment

Recently, MMS completed a technical realignment of OPA. An independent communications audit identified several key recommendations including the need to align all public affairs functions, including those in program offices, under a central Office of Public Affairs. Based on these recommendations, MMS consolidated all the public affairs positions under the direction and supervision of the Chief of OPA. This realignment ensures consistency among the individuals supporting the MMS public and media outreach objectives, aligns OPA with the Department's strategic needs, reduces redundancy, and increases the effectiveness of MMS's public affairs program.

For the realignment, the current funding for eight public affairs employees embedded in the program offices has been reallocated from the program funding to the OPA budget. The resource realignment is shown in the comprehensive table above as a funding reduction to the appropriate OMM and MRM subactivities and a corresponding increase in funding for Executive Direction, the subactivity that includes OPA.

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* The OPA Realignment is an internal, technical adjustment of funds within MMS that does not affect the overall MMS budget. Justification for this program change is provided in the Executive Direction Subactivity.

** In FY 2006, Congress provided a one-time increase of $1.132 million for fixed cost funding. This unrequested Congressional earmark is shown as a reduction in MMS's FY 2007 budget request.

Table 37: Office of Public Affairs (OPA) Realignment

	2007 Request	Change from FY 2006
Personnel Transferring From:		
OMM/Leasing & Environmental	-232 -2	-232 -2
OMM/Resource Evaluation	-179 -2	-179 -2
OMM/Regulatory	-328 -3	-328 -3
OMM/Information Management	-117 n/a	-117 n/a
MRM/Revenue & Operations	-154 -1	-154 -1
Personnel Transferring To:		
GA/Executive Direction	1,010 8	+1,010 +8

Note: This table reflects realigned dollars and FTE only. The net change in dollars and FTE is zero.

2006 Planned Program Performance: The Office of Public Affairs is establishing and strengthening relationships with new and existing MMS external constituent groups by facilitating dialogue and ongoing communication to ensure informed stakeholder participation. 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. 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*.

The Office of Congressional Affairs 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.

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 Directors and their immediate staff. This office is responsible for providing general policy guidance and overall leadership within the MMS organization, as well as managing all of the official documents of the Office of the Director.

Office of Public Affairs (OPA)

The OPA is responsible for MMS's communication strategies and outreach. The goal of OPA is to inform the public, 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 the aftermath of hurricanes Katrina and Rita, OPA provided daily updates on oil and natural gas production numbers and key events affecting the restoration of production.

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.

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FY 2007 PERFORMANCE BUDGET REQUEST
General Administration
Policy and Management Improvement Subactivity

Table 38: Policy and Management Improvement Subactivity Summary

		FY 2005 Enacted	FY 2006 Enacted	Fixed Costs & Related Changes	Program Changes	FY 2007 Request	Change from FY 2006
Policy and Management Improvement Subactivity	($000)	4,132	4,199	77	-186	4,090	-109
	FTE	33	33	0	0	33	0

SUMMARY OF FY 2007 PROGRAM CHANGES

Request Component	Amount	FTE
Program Changes		
• RIK Indirect Cost Reduction (see page 129)	-$156,000	+0
• Removal of Congressional Earmarks*	-$30,000	+0
Total, Program Changes	**-$186,000**	**+0**

PROGRAM PERFORMANCE

2007 Program Performance: In FY 2007, The Office of Policy and Management Improvement (PMI) will continue to lead or participate in the development and analysis of policy options on key MMS program issues such as:

- Implementing the Energy Policy Act of 2005;
- Future Bureau policy for offshore oil and gas incentives; and
- Valuation of Indian oil and gas resources.

As part of its responsibilities, MMS will be undertaking at least seven regulatory actions as required by the Energy Policy Act and PMI will coordinate to ensure that they reflect the agencies policies and meet all administrative requirements. In addition, PMI will be involved in developing the policies, procedures and practices for the two newly created programs: Alternate Energy uses on the OCS and Coastal Impact Assistance. The PMI also has the lead for coordinating communication with the Department, such as tracking Energy Policy Act tasks and milestones in the Secretary’s Task Tracking System, participating in the Energy Coordination Council Liaison Group to provide updated information to the Department and reporting on MMS’s progress in meeting the various requirements of the Act.

In FY 2007, PMI will continue to diligently decide appeals and issue fair, accurate, and timely decisions on administrative appeals. PMI will also focus on improving the regulatory process

* In FY 2006, Congress provided a one-time increase of $1.132 million for fixed cost funding. This unrequested Congressional earmark is shown as a reduction in MMS’s FY 2007 budget request.

and ensuring that regulatory actions are effective and timely. PMI will ensure that MMS has the processes and procedures in place to comply with the OMB Quality of Information Guidelines.

By the end of FY 2007, MMS expects to have a fully integrated ABC process, linked performance metrics, strategic goals and costs. This will enhance MMS's ability to meet the PMA Budget and Performance Integration expectations as well as the ability to provide more complete and comprehensive information to MMS managers, the Department, OMB and Congress.

In FY 2006 and FY 2007, PMI will continue to champion the PMA and the Secretary's Plan for Citizen Centered Governance and pursue opportunities to leverage resources and participate in broader, Departmental and Government-wide improvement initiatives. PMI will focus on continued leadership in developing the processes and guidance to ensure MMS compliance with revised OMB A-123 guidance, institutionalizing corporate risk management in decision making, and ensuring that MMS has a robust program evaluation process. Additionally, continued focus will be placed on working collaboratively with OMB through the PART process to ensure that MMS programs are effectively managing and measuring their impact.

2006 Planned Program Performance: To meet Federal Oil and Gas Royalty Simplification and Fairness Act timeframes, appeals staff attempt to resolve outstanding appeals cases within 16 months. Presently, approximately 150 appeals are in process representing over $200 million in potential claims. While this represents a significant reduction in the number of appeals on the docket from a decade ago, the remaining cases are often more complex and involve more difficult issues requiring more staff time. PMI contributes to meeting MMS strategic goals for compliance by expeditiously resolving these cases.

PROGRAM OVERVIEW

PMI serves as the principle office to provide the Director with independent review and analysis of programmatic and management issues. Additionally, PMI leads, coordinates and monitors many cross program initiatives, assuring a consistent, MMS-wide implementation that directly supports Congressional, Presidential and Departmental directives, laws, mandates and guidance including the:

- Administrative Procedures Act (APA),
- Paperwork Reduction Act (PRA),
- Information Quality Act (IQA),
- Government Performance and Results Act (GPRA),
- Government Management Reform Act,
- President's Management Agenda (PMA),
- Federal Managers Financial Integrity Act,
- Citizen-centered customer service initiatives, and
- Implementation of OMB A-123 Management's Responsibility for Internal Control.

PMI fulfills the Director's responsibilities in several critical areas including the resolution of administrative appeals, strategic and performance planning, policy and program evaluation and regulatory responsibilities. As an office independent of MMS' operational programs (MRM and OMM), PMI is vested with the responsibility to render decisions on appeals of MRM orders. PMI is also responsible for ensuring that programmatic plans and policies are consistent with and integrated into the overall Bureau mission and responsibilities, as well as with Department and Administration policy frameworks. In addition, PMI administers and coordinates internal reviews, and oversees and assures implementation of recommendations made by oversight groups such as the Government Accountability Office and the Office of Inspector General. Evaluations of MMS's existing and proposed policies and programs are conducted through economic and programmatic analyses. PMI efforts directly support two key DOI strategic goals; assuring fair value is received for resources and ensuring accountability of government assets.

The Associate Director of PMI, the two Division Chiefs and the majority of PMI's 33 FTE are located in Washington, D.C. The remaining staff members are co-located with MMS' program operations in Denver, Colorado and Herndon, VA.

POLICY, APPEALS AND REGULATION PROGRAMS

Policy Analysis

At the request of the Director and in support of Secretarial initiatives, PMI provides policy reviews and analysis on a broad range of complex and controversial matters. In addition, PMI reviews legislation, regulations, and other documents for their policy content and provides analysis of proposals from outside MMS that affect Bureau programs. Throughout its history, PMI has taken the lead in exploring and analyzing policy options for MMS Directors to enable them to marshal MMS resources and align them with Secretarial and Presidential objectives. PMI is the organization within MMS to resolve complaints received regarding access to pipelines. The final rule establishing the process and procedures to resolve complaints is expected to be published in FY 2006.

Implementation of the Energy Policy Act of 2005

Along with all of MMS, PMI is heavily engaged in the many facets of implementing the Energy Policy Act of 2005 and is facing an expanded workload. These new requirements and responsibilities impact the PMI workload as well as systems and processes for planning, rules and Activity Based Costing.

The PMI office is the central coordination point at MMS for implementing the Energy Policy Act of 2005 and is responsible for planning, tracking and coordinating all aspects of MMS's implementation. The PMI contributions toward implementation include analysis of current and emerging policies, the evaluation of all regulatory and statutory issues, strategic and annual planning, performance management, risk management, and coordination of related MMS initiatives.

Administrative Appeals

MRM frequently determines that a company did not pay sufficient royalties or other monies and then orders that company to pay additional monies. Federal regulation, 30 CFR Part 290, Subpart B, establishes the right to appeal these orders, to the MMS Director and companies exercise this right by filing an appeal with MRM.

After an appeal is filed, PMI's appeals staff performs an independent review of the issue under appeal and the Associate Director for PMI, on the Director's behalf, renders MMS' final decision for federal leases and recommends final decision to the Director of Bureau of Indian Affairs for Indian leases.

Regulatory Direction

PMI manages MMS's regulatory program and serves as liaison to the Department's regulatory office, the Federal Register and the Office of Management and Budget. PMI manages and organizes the rulemaking process to enable the Director to assure that rules are consistent with policy and legislation and meet all administrative requirements. PMI, working with the MMS Executive Committee, prioritizes all rulemakings, tracks status, and assures that OMB, Departmental and Congressional requirements are met. Key in this process is PMI's close coordination and cooperation with the Solicitor's Office, Departmental staff and OMB to assure resources are focused on priority rules that support Presidential and Secretarial objectives and Congressional direction. PMI prepares all required periodic reports on rulemaking to the Department, OMB and Congressional offices and is the MMS office responsible for required Information Collection Request (ICR) actions. PMI also performs detailed analysis of each proposed rule to assure the regulation or revision is necessary, determine if alternatives to regulation could be implemented, and assess and evaluate costs and benefits to assure regulations result in more efficient and effective governmental processes.

Quality of Information Requirements

PMI is the MMS lead for complying with the Information Quality Act. OMB issued government-wide guidelines that "provide policy and procedural guidance to Federal agencies for ensuring and maximizing the quality, objectivity, utility, and integrity of information (including statistical information) disseminated by Federal agencies." MMS has developed administrative mechanisms to allow affected persons to seek (and obtain where appropriate) correction of information disseminated by MMS that may be in error or otherwise not comply with OMB, DOI or MMS Information Quality Guidelines. MMS is implementing a system of peer review (for influential scientific information) that complies with the directives of the Final Information Quality Bulletin for Peer Review (the Bulletin) that OMB issued on December 16, 2004.

PLANNING AND PERFORMANCE PROGRAMS

Strategic Planning and Performance Management

PMI is the organization responsible for strategic planning and ensuring a culture of accountability for results at MMS. PMI coordinates and guides the Bureau in developing and implementing strategic and annual implementation plans, developing performance metrics, and ensuring that metrics are comprehensive and consistent with MMS policy.

Appeals decisions support compliance goals by:

- Enabling compliance timeframes to be compressed by providing clear guidance to auditors and other compliance staff on regulatory and legal interpretation, thereby increasing compliance efficiency; and
- Assuring a fair value for oil and gas resources is received by rendering impartial decision and analyses that assure companies pay no more nor no less than the regulations require.

A key for success in the President's Management Agenda (PMA) is the ability to provide complete performance, cost and resource information to managers. The office leads efforts to strengthen bureau decision-making and improve results through corporate-level analysis and review of ABC costs of program outputs, performance and financial management metrics, and the results of internal and external assessments. PMI leads MMS's initiative to apply activity-based costing/management (ABC/M) methods to its operations.

Program Evaluation and Review of Internal Management Controls

PMI leads an integrated evaluation process to ensure that MMS programs operate as designed and that recommendations resulting from internal and external reviews are adequately addressed. All evaluations of MMS programs and activities are tracked, analyzed, and the status is provided quarterly to management. The evaluations include 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, PMA Initiatives, Program Assessment Rating Tool (PART), and other special ad hoc reviews of MMS programs and initiatives. PMI also conducts independent evaluations of MMS's program operations.

PMI leads efforts in improving the availability of information to managers for decision-making. PMI has taken an innovative approach to compiling and distributing information for internal use in the "MMS Management Quarterly." The document provides information derived from analysis of performance, ABC/M, and other management data in a way that is useful and useable to MMS managers.

PMI is also leading MMS efforts to develop a corporate risk management process to identify high-risk areas, provide an objective basis for risk impact and allocate resources to address high-level risks. This risk assessment approach forms the basis for an integrated approach to program evaluation and will continue to make risk assessment and management a part of MMS's culture.

Implementation of the President's Management Agenda and the Secretary's Plan for Citizen-Centered Governance

The President's Management Agenda and the Secretary's Plan for Citizen Centered Governance provide significant opportunities for cross MMS program implementation of service and management improvements. As a result, PMI 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. PMI led the development of the MMS 5-Year Electronic Government Strategic Plan in 2005 and leads MMS' e-Gov workgroup to identify and expand opportunities to leverage existing e-Gov efforts or develop common E-Gov solutions.

FY 2007 PERFORMANCE BUDGET REQUEST
General Administration
Administrative Operations Subactivity

Table 39: Administrative Operations Subactivity Summary

		FY 2005 Enacted	FY 2006 Enacted	Fixed Costs & Related Changes	Program Changes	FY 2007 Request	Change from FY 2006
Administrative Operations Subactivity	($000)	16,964	17,044	450	-657	16,837	-207
	FTE	148	166	0	2	168	+2

SUMMARY OF FY 2007 PROGRAM CHANGES

Request Component	Amount	FTE
Program Changes		
• RIK Indirect Cost Reduction (see page 129)	-$407,000	+0
• Removal of Congressional Earmarks*	-$250,000	+0
• Coastal Impact Assistance Program	$0	+2
Total, Program Changes	**-$657,000**	**+2**

JUSTIFICATION OF FY 2007 PROGRAM CHANGES

Coastal Impact Assistance Program

Section 384 of the Energy Policy Act of 2005 requires MMS to establish a Coastal Impact Assistance Program (CIAP). Funding for this program, which is fully described in the OMM Leasing and Environmental Subactivity, is requested via appropriations language that would allow MMS to use up to one-percent of the receipts funding the program for administration of the program, including personnel costs. Thus no appropriated dollars are requested for the CIAP in MMS's budget request.

A total of ten FTE is requested for administration for this large-scale grants program, eight of whom would be located in OMM. Two of the FTE would be located in the Administrative Operations Subactivity. The two positions are for a Fiscal Grant Administrator and an Audit Liaison, both to be located in the Finance Division in Herndon, Virginia. Please refer to the OMM Leasing and Environmental Subactivity narrative for a complete description of the CIAP request.

PROGRAM OVERVIEW

The Administrative Operations Subactivity consists of the following functions: Administrative Direction and Coordination, Budget, Finance, Equal Employment Opportunity, Human Resources, Procurement, and Information Management. All administrative operations are

* In FY 2006, Congress provided a one-time increase of $1.132 million for fixed cost funding. This unrequested Congressional earmark is shown as a reduction in MMS's FY 2007 budget request.

directed and carried out at the 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 of the President's Management Agenda 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. COOP planning was called into action when Hurricane Katrina struck the Gulf Coast and the MMS Regional Office in New Orleans had to be temporarily relocated to Houston, Texas. These efforts include COOP planning, training and exercises, and providing for alternate relocation facilities, alternate interoperable communications, and alternate database/records access.

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.

Financial and Business Management System (FBMS): FBMS, once implemented, will provide a Department-wide solution that will standardize and integrate financial and business management processes while meeting all applicable current and future security and privacy requirements. These processes include Budget Formulation, Core Financials, Acquisition, Personal Property and Fleet Management, Travel, Financial Assistance, Real Property and Enterprise Management Information. MMS is charged with being one of the first bureaus to implement FBMS at the Department of the Interior. In FY 2007, designated bureau and functional leads from each process area identified above will be responsible for data conversion, interface development, training schedule and end-user training development, risk assessments, scope control, status reporting and testing.

Budget Division

The Budget Division provides budget analysis and guidance for the formulation, Congressional and execution phases of the budget cycle. During the *budget formulation cycle*, the Budget Division develops and maintains all budgetary data to support MMS's budget requests to the Department with submission of the Budget Proposal, to the Office of Management & Budget with submission of the Budget Estimates and to the Congress with submission of the Budget Justifications. During the *Congressional phase*, the Budget Division prepares capability and effect statements, provides answers to House and Senate questions and drafts testimonies and oral statements for Congressional hearings. Throughout the *Execution phase*, the Budget Division tracks spending against line item budgets, analyzes budgetary and expense data and provides regular updates to MMS executives on the status of funds. The Budget Division works closely with the Policy & Management Improvement Division 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 2004 and the FY 2005 Annual Financial Reports.

Equal Employment Opportunity Division (EEOD)

The EEOD develops, 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-EEOD include:

- Providing advice and guidance to managers, supervisors, and employees;
- 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;
- Monitoring, evaluating and adjudicating civil rights compliance, enforcement functions covering EEO, and federally funded/assisted education and training programs with State and local governments. (Titles VI & IX to include Sections 504 & 508 of the Rehabilitation Act);
- 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 EEOD ensures 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, track and analyze applicant flow data and employee trends, implement EEO complaints prevention initiatives, and administer external civil rights as it relates to Title VI and Title IX of the Education Amendments of 1972, the Age Discrimination Act of 1975, Title II of the Americans with Disabilities Act, sections 504 and 508 of the Rehabilitation Act and Executive orders 13160 and 13166.

Human Resources Division

The Human Resources (HR) Division develops and implements policies, procedures, guidelines, and standards relating to general personnel management, recruitment and employment, position management and classification, and employee development. The HR 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. In addition, the Division is responsible for the development of training policy and oversight of a bureau-wide Learning Management System that will serve as a valuable workforce planning and management tool. The HR Division will also coordinate all Departmental mandated employee development initiatives for implementation in MMS.

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 long-term benefits of workforce-planning initiatives 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. 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 also administers the purchase line of the MMS charge card program and manages the agency's competitive sourcing 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. The work of the Support Services division was critical to hurricane recovery efforts, especially with regards to MMS's facilities in the Gulf of Mexico region.

Information Management Division

The Information Management Division (IMD) supports the Chief Information Officer (CIO) in his duties and responsibilities for ensuring the efficient and effective planning, management and acquisition of information technology and information resources within MMS and ensuring compliance with all DOI and Federal information resources management policies and guidelines.

The IMD is engaged in an ongoing effort to establish, maintain, and support an IT investment analysis and decision-making environment to ensure that all bureau IT investments are well planned, implemented, cost effective, and aligned to the MMS and DOI enterprise architecture. As part of this effort IMD is implementing the IT project management program, which establishes policies and guidance for the effective management of IT projects. This includes Managing the Bureau capital asset planning program by performing IT investment portfolio analysis; managing the review and submission to OMB of MMS's Business Cases (Exhibit

300s); developing the Bureau Exhibit 53 (IT portfolio); and maintaining liaisons with the DOI regarding MMS information technology investments.

The IMD also implements and supports the Bureau's IT security program. The Bureau IT Security Manager works collaboratively with the MMS program areas IT Security Managers as well as with the DOI's Office of the CIO to review and improve security plans, policies, procedures, and standards to reflect technological changes. The IT security efforts also include participating in risk assessments and management reviews of the Bureau's systems and networks, identifying security issues, and recommending mitigation.

Through an effective Enterprise Architecture program, IMD guides bureau program and project managers in selecting, acquiring and managing the best possible IT solutions to support their current and future business needs. As such, IMD is developing and implementing the MMS IT Strategic Plan linking customer needs and mission goals to performance. This also includes supporting the alignment of MMS systems, sub-systems, and components with the Interior Enterprise Architecture (IEA).

Other primary responsibilities and ongoing activities for the IMD include:

- Supporting Bureau IT efforts directed towards the President's Management Agenda e-Gov activities;
- Leading certification and accreditation activities for systems in accordance with OMB Circular A-130;
- Identifying tools to ensure security and quality of service within the MMSNet using Voice over IP;
- Transitioning to the Department's Exchange mail platform, the Department's Active Directory forest and the Department's Enterprise Services Network (ESN) in order to ensure a centralized fully meshed Wide Area Network
- Facilitating the efficient and effective processing of Freedom of Information Act (FOIA) requests by working closely with the Department managers and the MMS FOIA programs;
- Coordinating records management policies, guidance, procedures, and major records management initiatives;
- Managing the MMS Privacy Program, which exists to maintain and protect the personal information belonging to individuals; and
- Ensuring compliance with the Government Paper and Elimination Act (GPEA) which helps program offices comply with the E-Gov initiative to provide electronic business transactions when practicable.

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 Region (GOMR), Headquarters' Information Technology Division, OCS Connect Project Management Office, and a resident MRM Compliance Office. The SASC also provides full support to five outlying District GOMR offices. The work of SASC has been critical to hurricane recovery efforts.

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.

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FY 2007 PERFORMANCE BUDGET REQUEST
General Administration
General Support Services Subactivity

Table 40: General Support Services Subactivity Summary

		FY 2005 Enacted	FY 2006 Enacted	Fixed Costs & Related Changes	Program Changes	FY 2007 Request	Change from FY 2006
General Support Services Subactivity	($000)	23,701	24,125	38	-765	23,398	-727
	FTE	0	0	0	0	0	0

SUMMARY OF FY 2007 PROGRAM CHANGES

Request Component	Amount	FTE
Program Changes		
• Department Working Capital Fund	+$172,000	+0
• RIK Indirect Cost Reduction (see page 129)	-$787,000	+0
• Removal of Congressional Earmarks*	-$150,000	+0
Total, Program Changes	**-$765,000**	**+0**

JUSTIFICATION OF FY 2007 PROGRAM CHANGES

Department Working Capital Fund

As part of the funding for the Department of Interior's Working Capital Fund (WCF), MMS is requesting an increase of $172,000. The increase is for projects funded through the Working Capital Fund including consolidation of diverse, separate messaging systems onto one enterprise system; a contracted effort to eliminate, over three years, the Department's backlog of nearly 2,000 appeals to Freedom of Information Act requests; the creation of an enterprise system that will improve the effective use of geographic information; and the Enterprise Services Network that became operational in 2005 and provides access to the Internet, a Department-wide intranet, and a technical support center.

PROGRAM OVERVIEW

The General Support Services subactivity includes funding for shared activities and related support services for the entire Bureau. These include expenses such as:

- Rental of office space,
- Workers' compensation,
- Unemployment compensation,
- Federal Telecommunications System (FTS) Service/Commercial Communications,

* In FY 2006, Congress provided a one-time increase of $1.132 million for fixed cost funding. This unrequested Congressional earmark is shown as a reduction in MMS's FY 2007 budget request.

- The Department’s Working Capital Fund (WCF),
- Annual building maintenance contracts,
- Mail services, and
- 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 2007 PERFORMANCE 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 (NPRA) receipts. In addition, the BLM provides the NPRA mineral receipt estimates.

Table 41: Permanent Appropriations ($000)

Appropriation	States Share	FY 2005 Actual	FY 2006 Estimate	FY 2007 Estimate	Change from 2006
Mineral Leasing Associated Payments *(MLAP)*	50%	1,621,486	2,396,765	2,221,009	-175,756
National Forest Fund Payments to States *(Forest Fund)*	25%	7,914	7,914	7,279	-635
Payments to States from Lands Acquired for Flood Control, Navigation, and Allied Purposes *(Flood Control)*	75%	4,612	3,061	2,764	-297
Subtotal, Payments to States	**--**	**1,634,012**	**2,407,740**	**2,231,052**	**-176,688**
Geothermal, Payments to Counties	N/A	0	2,693	0	-2,693
Coastal Impact Assistance Program	N/A	0	0	250,000	+250,000
Total, Permanent Appropriations	**--**	**1,634,012**	**2,410,433**	**2,481,052**	**+70,619**
Note: The amounts shown above do not include late interest payments made by MMS to the states, or estimated receipts made by BLM 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 fifty 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 ten percent is paid into the General Funds of the U.S. 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, States receive a Forest Fund payment equal to twenty-five percent of all revenue 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 seventy-five 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.

The Energy Policy Act of 2005 (P.L. 109-58) amended section twenty of the Geothermal Steam Act of 1970 (30 U.S.C. 1019 et seq.). The amendment provides that for the revenues collected from geothermal leasing twenty-five percent are to be paid to the County in which the leased lands or geothermal resources are located. In addition, from FY 2006 through FY 2010, twenty-five percent of geothermal revenues are to be deposited into a special fund for use in implementing the Geothermal Steam Act. These revenues are transferred to BLM. The President's Budget proposes to eliminate the provisions in the Energy Policy Act that provide revenues to counties and the implementation fund. These provisions are inconsistent with the normal 50/50 revenue sharing arrangements under the Mineral Leasing Act and set an undesirable precedent for future expansion of revenue sharing with local governments.

The Energy Policy Act of 2005 (P.L. 109-58) amends section thirty-one of the Outer Continental Shelf (OCS) Act (43 U.S.C. 1356 et seq.) to require that $250,000,000 of OCS revenues be paid annually to six coastal oil and gas producing states and their coastal political subdivisions. Funds are awarded as grants for approved coastal impact assistance plans for the following purposes:

- Conservation, protection or restoration of coastal areas, including wetlands;
- Mitigation of damage to fish, wildlife or natural resources;
- Planning assistance and administrative costs;
- Implementation of a marine, coastal or comprehensive conservation management plan; and
- Mitigation of the impact of OCS activities through funding of onshore infrastructure projects and public service needs.

Table 42: Mineral Revenue Payments to States ($000)

State	FY 2005 Actual Payments	FY 2006 Estimated Payments	FY 2007 Estimated Payments
Alabama	1,019	1,505	1,394
Alaska	11,256	16,614	15,395
Arizona	84	45	42
Arkansas	7,058	10,417	9,653
California	19,040	27,881	25,835
Colorado	106,720	157,333	145,788
Florida	286	422	391
Idaho	1,681	2,457	2,277
Illinois	145	214	199
Kansas	1,968	2,904	2,691
Kentucky	79	116	107
Louisiana	1,569	2,316	2,146
Michigan	489	721	668
Minnesota	10	15	14
Mississippi	868	1,281	1,187
Missouri	554	817	758
Montana	35,576	52,485	48,634
Nebraska	21	31	29
Nevada	7,832	11,464	10,623
New Mexico	444,673	655,658	607,543
North Dakota	13,547	19,995	18,527
Ohio	369	545	505
Oklahoma	4,229	6,242	5,784
Oregon	21	19	18
Pennsylvania	33	48	45
South Dakota	607	896	831
Texas	5,416	7,994	7,408
Utah	87,461	128,761	119,312
Virginia	322	476	441
Washington	268	395	366
West Virginia	829	1,224	1,134
Wyoming	878,732	1,296,443	1,201,304
Total	**1,633,634**	**2,407,740**	**2,231,052**

Excludes payments made to coastal States under the OCS Lands Act since they are direct, unappropriated transfers; these amounts are presented in Table 50.

Does not include actual or estimated receipts for sales in the National Petroleum Reserve-Alaska, proposed Artic National Wildlife Refuge (ANWR) legislation, late interest payments, or payments to counties under the new Geothermal Steam Act authority.

Columns may not add due to rounding.

The distribution formula is based on the amount of qualified OCS revenues generated off each producing state as a part of total OCS revenues. Thirty-five percent of each state's allocable share is to be distributed to coastal political subdivisions based on population, coastline and distance to applicable OCS leases. These annual payments from *Account 5572* are to be made starting in FY 2007 with the last payment to be made in FY 2010.

Calculation of States' Payments

Each permanent appropriation has a respective account in the United States Treasury. The FY 2005 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 based on revenue estimate for each source type (oil, gas, coal, etc.), the appropriate distribution for each land category, as specified in the distribution statutes, and 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 42, Mineral Revenue Payments to States, outlines the actual and estimated onshore mineral leasing revenue payments to States for FY 2005, FY 2006, and FY 2007.

MINERAL LEASING RECEIPTS

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 ninety-seven 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 Bureau of Land Management (BLM) and by the Department of Agriculture (USDA). 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 broad categories, onshore and offshore 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:

- Source type (oil and gas, coal, other mineral royalties, etc);
- Land category (acquired Forest, public domain, OCS, etc.); and
- 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 25 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 fifty percent with the States (*Account 5003*), forty percent with the Reclamation Fund (*Account 5000.24*) for western water projects, and ten 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 fifty percent State share and the forty 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 made by BLM. BLM makes payment to Alaska for its fifty percent share of the NPRA receipts. Since there is currently no production on the NPRA, the entire General Fund share, fifty percent, is deposited with the rents and bonuses (*Account 1811*).

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 twenty-five percent of the total to the General Fund of the U.S. Treasury (either *Account 1811 or 2039*) and seventy-five percent to the States (*Account 5248.1*). The MMS distributes revenue collections from National Forest Lands, depositing seventy-five percent in the General Fund of the U.S. Treasury (*Account 5008.1*) and donating twenty-five percent to the States (*Account 5243.1*).

The Energy Policy Act of 2005 (P.L. 109-58) amended section twenty of the Geothermal Steam Act of 1970 (30 U.S.C. 1019 et seq.). The amendment provides that for the revenues collected from geothermal leasing twenty-five percent are to be paid to the County (*Account 5574*) in which the leased lands or geothermal resources are located. In addition, during the first five fiscal years following enactment of the Energy Policy Act, the remaining twenty-five percent revenue amounts are deposited into a separate Treasury account (*Account 5575*) for use in the implementation of the Geothermal Steam Act of 1970 and the Energy Policy Act of 2005.

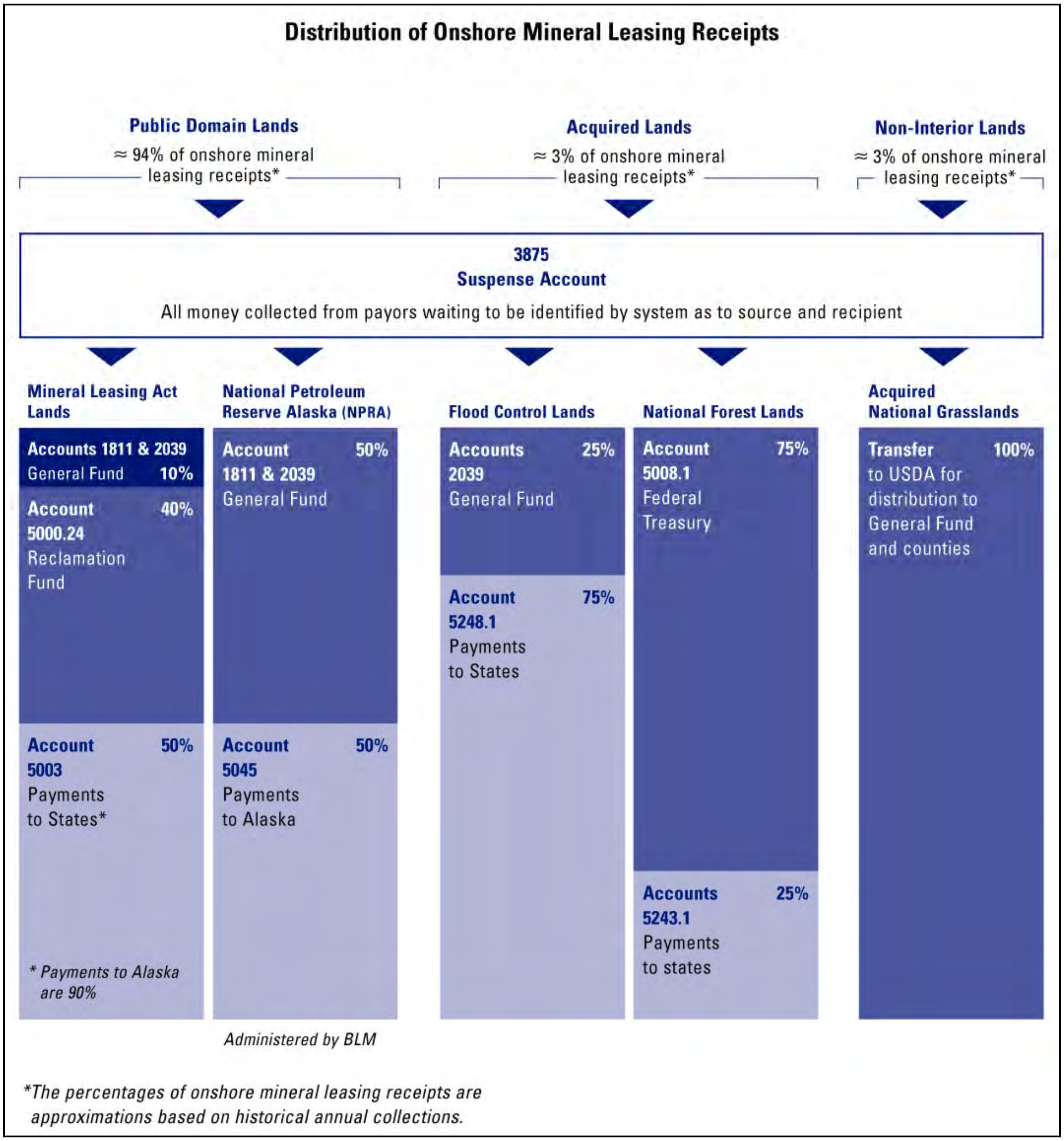

Figure 25: Distribution of Onshore Mineral Leasing Receipts

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 Figure 26 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 one-fifth 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 one-fifth upfront deposit, plus interest, is returned to the bidder. If accepted, the one-fifth upfront deposit, the remaining four-fifths 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 twenty-seven percent share of OCS collections within the 8(g) zone, which is the area approximately three miles seaward from the State/Federal boundary, flow through *Account 6707*. Table 50 provides information on the 8g payments to coastal States.

Table 43: Payments to Coastal States under OCSLA Section 8(g) ($000)

	FY 2005 Actual Payments	**FY 2006 Estimated Payments**	**FY 2007 Estimated Payments**
Alabama	14,620	18,205	18,957
Alaska	18,872	23,499	24,470
California	4,488	5,588	5,819
Florida	1	1	1
Louisiana	30,901	39,677	41,267
Mississippi	1025	1,276	1,329
Texas	10,418	13,772	13,983
Total	**80,325**	**102,019**	**105,826**

The OCS receipts are the main funding source of the mandated $900 million required for the Land and Water Conservation Fund (LWCF). Each year, a portion of OCS receipts are distributed to the LWCF (*Accounts 5000.7 and 5000.8*), which is administered by the National Park Service. Also, $150 million is deposited annually into 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.

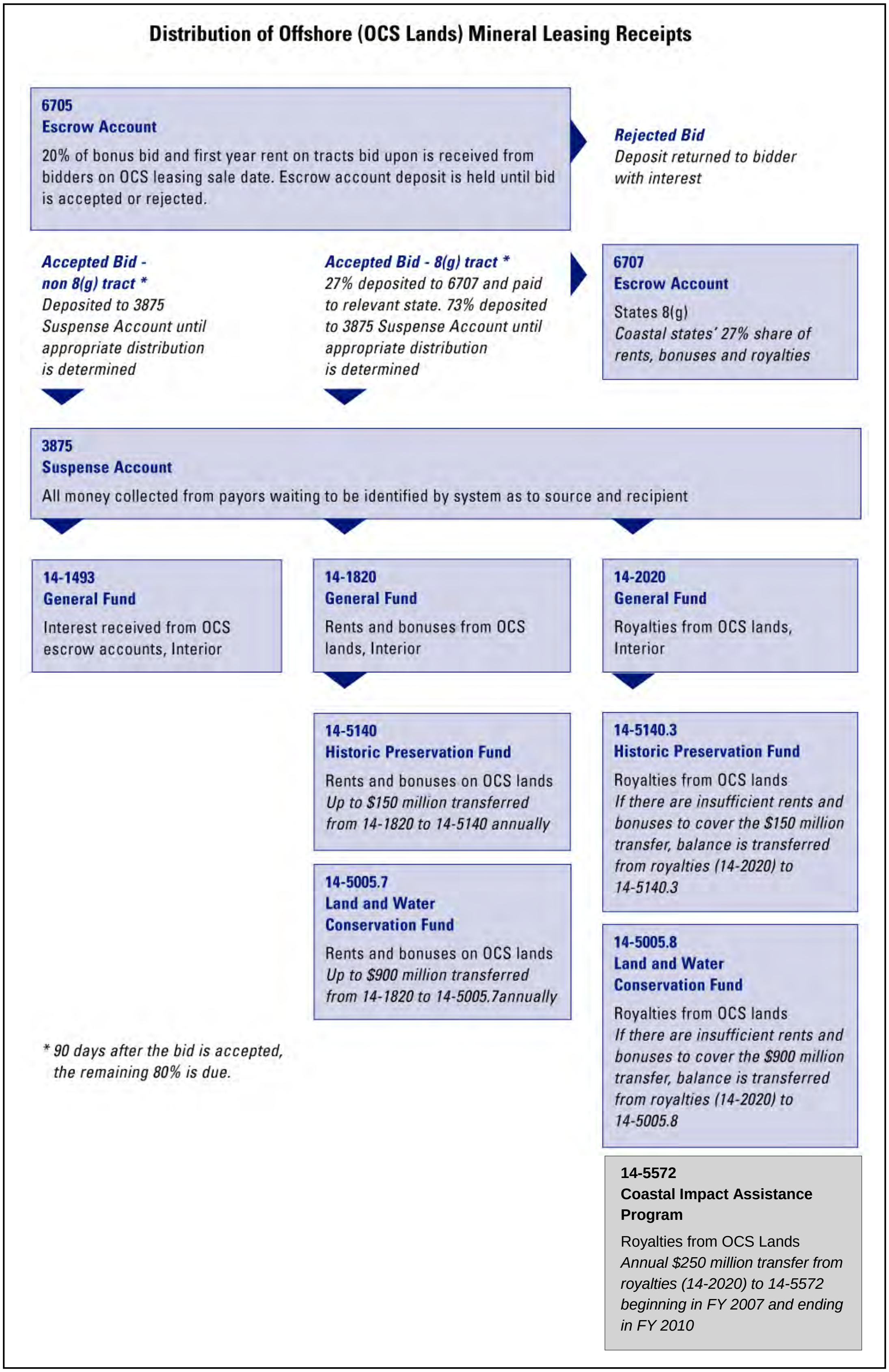

Figure 26: Distribution of Offshore (OCS Lands) Mineral Leasing Receipts

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 eighty 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 is 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 44: Mineral Leasing Receipts by Commodity Source *(in thousands of dollars)*

	FY 2006 Estimate	FY 2007 Estimate	FY 2008 Estimate	FY 2009 Estimate	FY 2010 Estimate	FY 2011 Estimate
Onshore Mineral Leasing						
Onshore Rents and Bonuses						
Oil and Gas	150,663	135,905	132,009	127,076	125,303	123,530
Coal	428,300	419,100	419,400	363,700	389,600	418,100
Geothermal	1,400	1,250	1,300	1,500	1,700	1,900
Oil Shale	15	15	200,035	100,045	45	45
All Other	21	21	21	21	21	21
Subtotal, Rents and Bonuses	**580,399**	**556,291**	**752,765**	**592,342**	**516,669**	**543,596**
Onshore Royalties						
Oil and Gas	3,639,609	3,282,501	2,989,197	2,779,477	2,627,559	2,624,096
Coal	542,731	570,322	591,915	615,908	637,501	656,795
Geothermal	9,310	8,443	8,940	10,926	11,423	11,423
All Other (including oil shale)	58,723	57,819	56,940	56,089	55,264	54,462
Subtotal, Royalties	**4,250,373**	**3,919,085**	**3,646,992**	**3,462,400**	**3,331,747**	**3,346,776**
Total, Onshore Receipts	**4,830,772**	**4,475,376**	**4,399,757**	**4,054,742**	**3,848,416**	**3,890,372**
Other Receipts						
Royalty-in-Kind fees	20	20	20	20	20	20
Sale of publications	110	110	110	110	110	110
Total, Other Receipts	**130**	**130**	**130**	**130**	**130**	**130**
Outer Continental Shelf (OCS)						
OCS Rents and Bonuses	706,540	698,910	825,400	807,520	595,820	756,210
OCS Royalties	8,411,500	8,842,500	8,459,000	8,348,200	8,232,600	8,046,300
Total, OCS Receipts	**9,118,040**	**9,541,410**	**9,284,400**	**9,155,720**	**8,828,420**	**8,802,510**
TOTAL, MINERAL RECEIPTS	**13,948,942**	**14,016,916**	**13,684,287**	**13,210,592**	**12,676,966**	**12,693,012**

Onshore receipts for oil and natural gas include a reduction for Acquired Natural Grasslands. OCS receipts include reductions for MMS's Offsetting Collections and the 8(g) Payments to States.

Note: Small discrepancies may occur due to rounding.

Table 45: Mineral Leasing Receipts by Account *(in thousands of dollars)*

		FY 2006 Estimate	FY 2007 Estimate	FY 2008 Estimate	FY 2009 Estimate	FY 2010 Estimate	FY 2011 Estimate
Onshore Mineral Leasing Receipts							
1811.00	Rents and Bonuses	53,194	55,110	74,766	58,781	51,211	53,900
2039.00	MLR Royalties	422,058	390,013	362,939	344,575	331,584	333,093
5000.24	Reclamation Fund	1,896,928	1,776,807	1,747,407	1,610,220	1,528,112	1,544,925
5003.02	Payments to States	2,396,765	2,221,009	2,184,259	2,012,775	1,910,141	1,931,156
5243.10	Forest Fund, states share	7,914	7,279	6,805	6,446	6,192	6,153
5008.10	Forest Fund, government share	23,742	21,838	20,416	19,339	18,576	18,458
5248.10	Flood Control (States shares)	3,061	2,764	2,561	2,403	2,298	2,285
5573.10	Rent from mineral leases (Permit Processing Fund)	20,218	-	-	-	-	-
5574.10	Geothermal Lease Revenues, county share	2,693	-	-	-	-	-
5575.10	Geothermal Lease Revenues, DOI share	2,693	-	-	-	-	-
5576.10	Leases from Naval Petroleum Reserve #2	1,505	555	604	203	302	402
Subtotal, Onshore Receipts		**4,830,771**	**4,475,375**	**4,399,757**	**4,054,742**	**3,848,416**	**3,890,372**
Other Receipts							
2419.10	Royalty-in-kind fees	20	20	20	20	20	20
2259.00	Sale of publications	110	110	110	110	110	110
Subtotal, Other Receipts		**130**	**130**	**130**	**130**	**130**	**130**
Outer Continental Shelf (OCS Receipts)							
1820.00	OCS Rents and Bonuses	-	-	-	-	-	-
2020.00	OCS Royalties	8,221,040	8,244,410	7,987,400	7,858,720	7,531,420	7,755,510
5005.70	Land & Water Conservation Fund (OCS R & B)	706,540	548,910	675,400	657,520	445,820	606,210
5005.80	Land & Water Conservation Fund (OCS royalties)	190,460	348,090	221,600	239,480	451,180	290,790
5140.00	Historic Preservation Fund (OCS R & B)	-	150,000	150,000	150,000	150,000	150,000
5572.10	OCS Revenues, Coastal Impact Assistance	-	250,000	250,000	250,000	250,000	-
Subtotal, OCS Receipts		**9,118,040**	**9,541,410**	**9,284,400**	**9,155,720**	**8,828,420**	**8,802,510**
TOTAL, MINERAL RECEIPTS		**13,948,941**	**14,016,915**	**13,684,287**	**13,210,592**	**12,676,966**	**12,693,012**

Accounts 5573, 5575, and 5576 are administered by the Bureau of Land Management; however, MMS provides the estimates for these accounts as part of the overall mineral revenue estimates.

Note: Small discrepancies may occur due to rounding.

Table 46: Onshore Mineral Receipts, FY 2006 - FY 2007 *(in thousands of dollars)*

	FY 2006 Estimate	FY 2007 Estimate	Change	Explanation
Rents & Bonuses				
Oil & Gas	150,663	135,905	-14,758	Decrease in bonuses, rents remain constant
Coal	428,300	419,100	-9,200	Decrease in bonuses, rents remain constant
Geothermal	1,400	1,250	-150	Decrease in bonuses, rents remain constant
All Other (including oil shale)	36	36	0	Assumption of consistent rents & bonuses
Subtotal, Rents & Bonuses	**580,399**	**556,291**	**-24,108**	
Royalties				
Oil & Gas	3,639,609	3,282,501	-357,108	Decrease in oil production, increase in gas production, & decrease in both price estimates
Coal	542,731	570,322	+27,591	Increase in production
Geothermal	9,310	8,443	-867	Increase in production, overall decrease due to royalty deduction for current production
All Other (including oil shale)	58,723	57,819	-904	Assumption of annual decline in total royalties
Subtotal, Royalties	**4,250,373**	**3,919,085**	**-331,288**	
Total Onshore Mineral Receipts	**4,830,772**	**4,475,376**	**-355,396**	

Note: Small discrepancies may occur due to rounding.

Table 47: Onshore Rents and Bonuses *(in thousands of dollars)*

	FY 2006 Estimate	FY 2007 Estimate	FY 2008 Estimate	FY 2009 Estimate	FY 2010 Estimate	FY 2011 Estimate
Oil and Gas						
Rents Lower 48	39,000	40,000	41,000	41,000	41,000	40,000
Bonuses Lower 48	90,000	85,000	80,000	75,000	73,000	72,000
Subtotal, Oil and Gas	**129,000**	**125,000**	**121,000**	**116,000**	**114,000**	**112,000**
Coal						
Rents	1,400	1,400	1,400	1,400	1,400	1,400
Bonuses	426,900	417,700	418,000	362,300	388,200	416,700
Subtotal, Coal	**428,300**	**419,100**	**419,400**	**363,700**	**389,600**	**418,100**
Geothermal						
Rents and Bonuses	1,400	1,250	1,300	1,500	1,700	1,900
Oil Shale						
Rents and Bonuses	15	15	200,035	100,045	45	45
Other Minerals						
Rents and Bonuses	21	21	21	21	21	21
TOTAL, Rents & Bonuses	**558,736**	**545,386**	**741,756**	**581,266**	**505,366**	**532,066**

Amounts differ from the "Mineral Leasing Receipts by Source" table. The oil and gas estimates in this table do not reflect Naval Petroleum Reserve and Negotiated Settlement estimates.

Note: Small discrepancies may occur due to rounding.

Table 48: Federal Onshore Royalty Estimates *(in millions of dollars)*

	FY 2006 Estimate	FY 2007 Estimate	FY 2008 Estimate	FY 2009 Estimate	FY 2010 Estimate	FY 2011 Estimate
Oil						
Oil Volume (MMBbl)	93.39	89.65	86.07	82.62	79.32	76.15
OMB Price/Bbl (in whole $s)	$54.34	$54.02	$52.77	$51.58	$50.93	$50.61
Royalty Rate	0.095	0.095	0.095	0.095	0.095	0.095
Subtotal Oil Royalties	**$482.107**	**$460.075**	**$431.482**	**$404.846**	**$383.778**	**$366.125**
Gas						
Natural Gas Volume (bcf)	2.887	2.902	2.916	2.931	2.946	2.960
OMB Price/Mcf (in whole $s)	$9.13	$8.08	$7.25	$6.67	$6.25	$6.26
Royalty Rate	0.116	0.116	0.116	0.116	0.116	0.116
Subtotal Natural Gas Royalties	$3,049.656	$2,712.952	$2,446.014	$2,261.908	$2,130.326	$2,143.875
CO2 Royalties	$17.433	$16.910	$16.403	$15.910	$15.433	$14.970
Gas Plant Products	$111.844	$112.404	$112.966	$113.531	$114.098	$114.669
Subtotal Gas Royalties	**$3,178.933**	**$2,842.266**	**$2,575.383**	**$2,391.349**	**$2,259.857**	**$2,273.514**
Total, Oil & Gas Royalties	**$3,661.041**	**$3,302.341**	**$3,006.865**	**$2,796.196**	**$2,643.635**	**$2,639.639**
Coal Royalties	$542.731	$570.322	$591.915	$615.908	$637.501	$656.795
Geothermal Royalties	$9.310	$8.443	$8.940	$10.926	$11.423	$11.423
All Other Royalties	$58.723	$57.819	$56.940	$56.089	$55.264	$54.462
TOTAL ONSHORE ROYALTIES	**$4,271.805**	**$3,938.925**	**$3,664.660**	**$3,479.119**	**$3,347.823**	**$3,362.319**

Amounts differ from the "Mineral Leasing Receipts by Source" table. The oil and gas estimates in the "Mineral Leasing Receipts by Source" table include a reduction for Acquired National Grasslands.

Note: Small discrepancies may occur due to rounding.

Table 49: OCS Mineral Receipts, FY 2006 - FY 2007 *(dollars in thousands)*

	FY 2006 Estimates	FY 2007 Estimates	Change	Explanation
Rents & Bonuses				
Rents	75,540	67,910	-7,630	Decrease in net receipts due to an increase in MMS offsetting collections
Bonuses	631,000	631,000	0	Assumption of consistent bonuses
Subtotal, Rents & Bonuses	**706,540**	**698,910**	**-7,630**	
Royalties				
Oil	4,394,400	5,168,300	+773,900	Major increase due to recovery from the impacts of Hurricanes Katrina, Rita, and Wilma
Gas	4,017,200	3,674,200	-343,000	Decrease in price estimates
Subtotal, Royalties	**8,411,600**	**8,842,500**	**+430,900**	
Total OCS Mineral Receipts	**9,118,140**	**9,541,410**	**+423,270**	

Rent totals are net of MMS offsetting collections and can change according to amounts stated in the MMS appropriation language. Oil royalty estimates include 8(g) and negotiated settlement reductions.

Note: Small discrepancies may occur due to rounding.

Table 50: OCS Rents and Bonuses *(in millions of dollars)*

Sale Number	Sale Date (FY)	Sale Area	High Bids	% in FY	Total 8(g)	Receipt Estimate
FY 2006 Estimate						
196	late 05	Western Gulf of Mexico	271	100%	1	271
198	mid 06	Central Gulf of Mexico	360	100%	1	360
200	late 06	Western Gulf of Mexico	200	0%	1	0
			Bonuses Subtotal			**631**
			Rents			**76**
			FY 2006 TOTAL			**707**
FY 2007 Estimate						
200	late 06	Western Gulf of Mexico	200	100%	1	200
201	mid 07	Central Gulf of Mexico	410	100%	1	410
202	mid 07	Beaufort Sea	20	100%	0	20
199	mid 06	Cook Inlet	1	100%	0	1
204	late 07	Western Gulf of Mexico	240	0%	0	0
203	late 07	Chukchi	20	0%	0	0
			Bonuses Subtotal			**631**
			Rents			**68**
			FY 2007 TOTAL			**699**
FY 2008 Estimate						
203	late 07	Chukchi	20	100%	0	20
204	late 07	Western Gulf of Mexico	240	100%	1	240
	mid 08	Central Gulf of Mexico	500	100%	1	500
	late 08	Western Gulf of Mexico	330	0%	0	0
			Bonuses Subtotal			**760**
			Rents			**65**
			FY 2008 TOTAL			**825**
FY 2009 Estimate						
	late 08	Western Gulf of Mexico	330	100%	0	330
	mid 09	Central Gulf of Mexico	400	100%	0	400
	late 09	Western Gulf of Mexico	200	0%	0	0
			Bonuses Subtotal			**730**
			Rents			**78**
			FY 2009 TOTAL			**808**
FY 2010 Estimate						
	late 09	Western Gulf of Mexico	200	100%	0	200
	mid 10	Central Gulf of Mexico	310	100%	0	310
	late 10	Western Gulf of Mexico	140	0%	0	0
			Bonuses Subtotal			**510**
			Rents			**86**
			FY 2010 TOTAL			**596**
FY 2011 Estimate						
	late 10	Western Gulf of Mexico	140	100%	0	140
	mid 11	Central Gulf of Mexico	350	100%	0	350
	late 11	Western Gulf of Mexico	180	100%	0	180
			Bonuses Subtotal			**670**
			Rents			**86**
			FY 2011 TOTAL			**756**

Rent estimates are subject to change based on cost recoveries recouped on an annual basis. Rent totals are net of MMS offsetting collections and are subject to change based on DOI Appropriations language.

Note: Small discrepancies may occur due to rounding.

Table 51: Federal Offshore Royalty Estimates (in millions of dollars)

	FY 2006[1] Estimate	FY 2007 Estimate	FY 2008 Estimate	FY 2009 Estimate	FY 2010 Estimate	FY 2011 Estimate
Oil (Million Barrels)						
Alaska[2]	2	2	2	1	13	16
POCS	27	26	25	23	21	19
Total GOM	625	745	763	792	808	818
Royalty Free Production[3]	30	31	30	37	58	112
GOM Royalty Production	596	714	733	755	750	706
Total Royalty Production	625	742	759	779	783	741
Royalty Rate	0.1318	0.1311	0.1305	0.1299	0.1292	0.1285
OMB Price/Bbl (in whole $s)	$54.34	$54.02	$52.77	$51.58	$50.93	$50.61
Subtotal Oil Royalties	**$4,479.40**	**$5,258.30**	**$5,230.70**	**$5,221.00**	**$5,153.40**	**$4,817.70**
Gas (Billion Cubic Feet)						
POCS	30	29	27	25	23	21
Total GOM	3,729	4,098	4,222	4,495	4,666	4,801
Royalty Free Production[3]	869	1,124	1,212	1,304	1,292	1,255
GOM Royalty Production	2,861	2,974	3,009	3,191	3,374	3,546
Total Royalty Production	2,891	3,002	3,036	3,216	3,396	3,567
Royalty Rate	0.1522	0.1515	0.1507	0.1499	0.1492	0.1485
OMB Price/Mcf (in whole $s)	$9.13	$8.08	$7.25	$6.67	$6.25	$6.26
Subtotal Gas Royalties	**$4,017.20**	**$3,674.20**	**$3,317.30**	**$3,216.20**	**$3,167.20**	**$3,314.60**
Total Oil and Gas Royalties	**$8,496.60**	**$8,932.50**	**$8,548.00**	**$8,437.20**	**$8,320.60**	**$8,132.30**
Adjustments						
8(g) Payments to States	-100	-105	-101	-99	-98	-96
Settlements	15	15	12	10	10	10
Total Adjustments	**-85**	**-90**	**-89**	**-89**	**-88**	**-86**
NET TOTAL OCS ROYALTIES	**$8,411.60**	**$8,842.50**	**$8,459.00**	**$8,348.20**	**$8,232.60**	**$8,046.30**

[1] Due to the lingering effects of hurricanes Katrina, Rita, & Wilma, FY 2006 GOM oil production is reduced by 95.1 MMbbl and GOM gas production is reduced by 507 Bcf.

[2] Alaska production is net of 27 percent that goes to the State for 8(g) payments.

[3] Royalty Free Production is GOM production which is not subject to royalties because of the deep water royalty relief and deep gas royalty

Note: Small discrepancies may occur due to rounding.

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FY 2007 PERFORMANCE BUDGET REQUEST
Appendices

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Appendix A: Appropriations Language

Royalty and Offshore Minerals Management

For expenses necessary for minerals leasing and environmental studies, regulation of industry operations, and collection of royalties, as authorized by law; for enforcing laws and regulations applicable to oil, gas, and other minerals leases, permits, licenses and operating contracts; and for matching grants or cooperative agreements; including the purchase of not to exceed eight passenger motor vehicles for replacement only, $156,651,000, of which $79,158,000 shall be available for royalty management activities; and an amount not to exceed $128,730,000, 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 $128,730,000 in addition to receipts are not realized from the sources of receipts stated above, the amount needed to reach $128,730,000 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, 2008: 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 in fiscal year 2006 and thereafter, the 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, and to recover MMS transportation costs, salaries, and other administrative costs directly related to the royalty-in-kind program: 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 program is equal to or greater than royalty income recognized under a comparable royalty-in-value program]: Provided further, That for the costs of administration of the Coastal Impact Assistance Program authorized by section 31 of the Outer Continental Shelf Lands Act (43 U.S.C. 1456a), as amended, MMS in fiscal years 2007 through 2010 may retain up to one percent of the amounts which are disbursed under section 31 (b)(1), such retained amounts to remain available until expended.

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, *$6,903,000*, which shall be derived from the Oil Spill Liability Trust Fund, to remain available until expended.

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Appendix B: Royalty and Offshore Minerals Management (ROMM) Summary of Requirements Table

Offshore Minerals Management (OMM)	FY 2005 Actual (Enacted)		FY 2006 Estimate (Enacted)		Fixed Costs and Related Changes		Programmatic Changes		Appropriations to Collections		FY 2007 Budget Request		Inc(+) Dec(-) From 2006	
	FTE	($000)	FTE	($000)	FTE	($000)	FTE	($000)	FTE	($000)	FTE	($000)	FTE	($000)
Leasing & Environmental														
Appropriation	219	16,889	224	15,505	0	427	16	7,072	0	-1,000	240	22,004	16	6,499
Offsetting Collections	0	20,335	0	22,206	0	0	0	0	0	1,000	0	23,206	0	1,000
Subtotal	219	37,224	224	37,711	0	427	16	7,072	0	0	240	45,210	16	7,499
Resource Evaluation														
Appropriation	221	20,663	221	18,381	0	481	0	229	0	-1,000	221	18,091	0	-290
Offsetting Collections	0	8,903	0	11,026	0	0	0	0	0	1,000	0	12,026	0	1,000
Subtotal	221	29,566	221	29,407	0	481	0	229	0	0	221	30,117	0	710
Regulatory														
Appropriation	336	37,073	334	33,023	0	713	2	1,829	0	-2,000	336	33,565	2	542
Offsetting Collections	0	14,443	0	18,449	0	0	0	0	0	2,000	0	20,449	0	2,000
Subtotal	336	51,516	334	51,472	0	713	2	1,829	0	0	336	54,014	2	2,542
Information Management														
Appropriation	74	12,423	74	9,632	0	160	0	-317	0	0	74	9,475	0	-157
Offsetting Collections	0	17,549	0	20,549	0	0	0	0	0	0	0	20,549	0	0
Subtotal	74	29,972	74	30,181	0	160	0	-317	0	0	74	30,024	0	-157
Total OMM														
Appropriation	850	87,048	853	76,541	0	1,781	18	8,813	0	-4,000	871	83,135	18	6,594
Offsetting Collections	0	61,230	0	72,230	0	0	0	0	0	4,000	0	76,230	0	4,000
Total	**850**	**148,278**	**853**	**148,771**	**0**	**1,781**	**18**	**8,813**	**0**	**0**	**871**	**159,365**	**18**	**10,594**

Appendix B: Royalty and Offshore Minerals Management (ROMM) Summary of Requirements Table (continuation)

Minerals Revenue Management (MRM)	FY 2005 Actual (Enacted)		FY 2006 Estimate (Enacted)		Fixed Costs and Related Changes		Programmatic Changes		Appropriations to Collections		FY 2007 Budget Request		Inc(+) Dec(-) From 2006	
	FTE	**($000)**	**FTE**	**($000)**	**FTE**	**($000)**	**FTE**	**($000)**	**FTE**	**($000)**	**FTE**	**($000)**	**FTE**	**($000)**
Compliance & Asset Mgmt														
Appropriation	377	28,315	379	25,488	0	863	3	-452	0	0	382	25,899	3	411
Offsetting Collections	0	13,235	0	17,235	0	0	0	0	0	0	0	17,235	0	0
Subtotal	377	41,550	379	42,723	0	863	3	-452	0	0	382	43,134	3	411
Revenue & Operations														
Appropriation	181	20,602	181	17,894	0	269	-1	596	0	-2,000	180	16,759	-1	-1,135
Offsetting Collections	0	13,265	0	17,265	0	0	0	0	0	2,000	0	19,265	0	2,000
Subtotal	181	33,867	181	35,159	0	269	-1	596	0	0	180	36,024	-1	865
Total MRM														
Appropriation	558	48,917	560	43,382	0	1,132	2	144	0	-2,000	562	42,658	2	-724
Offsetting Collections	0	26,500	0	34,500	0	0	0	0	0	2,000	0	36,500	0	2,000
Total	**558**	**75,417**	**560**	**77,882**	**0**	**1,132**	**2**	**144**	**0**	**0**	**562**	**79,158**	**2**	**1,276**

Appendix B: Royalty and Offshore Minerals Management (ROMM) Summary of Requirements Table (continuation)

General Administration (GA)	FY 2005 Actual (Enacted)		FY 2006 Estimate (Enacted)		Fixed Costs and Related Changes		Programmatic Changes		Appropriations to Collections		FY 2007 Budget Request		Inc(+) Dec(-) From 2006	
	FTE	($000)	FTE	($000)	FTE	($000)	FTE	($000)	FTE	($000)	FTE	($000)	FTE	($000)
Executive Direction														
Appropriation	20	1,057	20	1,100	0	51	8	382	0	0	28	1,533	8	433
Offsetting Collections	0	1,000	0	1,000	0	0	0	0	0	0	0	1,000	0	0
Subtotal	20	2,057	20	2,100	0	51	8	382	0	0	28	2,533	8	433
Policy & Mgmt Improv														
Appropriation	33	3,132	33	3,199	0	77	0	-186	0	0	33	3,090	0	-109
Offsetting Collections	0	1,000	0	1,000	0	0	0	0	0	0	0	1,000	0	0
Subtotal	33	4,132	33	4,199	0	77	0	-186	0	0	33	4,090	0	-109
Admin Operations														
Appropriation	148	15,409	166	15,489	0	450	2	-657	0	0	168	15,282	2	-207
Offsetting Collections	0	1,555	0	1,555	0	0	0	0	0	0	0	1,555	0	0
Subtotal	148	16,964	166	17,044	0	450	2	-657	0	0	168	16,837	2	-207
Gen Support Services														
Appropriation	0	11,256	0	11,680	0	38	0	-765	0	0	0	10,953	0	-727
Offsetting Collections	0	12,445	0	12,445	0	0	0	0	0	0	0	12,445	0	0
Subtotal	0	23,701	0	24,125	0	38	0	-765	0	0	0	23,398	0	-727
Total General Administration														
Appropriation	201	30,854	219	31,468	0	616	10	-1,226	0	0	229	30,858	10	-610
Offsetting Collections	0	16,000	0	16,000	0	0	0	0	0	0	0	16,000	0	0
Total	**201**	**46,854**	**219**	**47,468**	**0**	**616**	**10**	**-1,226**	**0**	**0**	**229**	**46,858**	**10**	**-610**

Total ROMM	FTE	($000)	FTE	($000)	FTE	($000)	FTE	($000)	FTE	($000)	FTE	($000)	FTE	($000)
Appropriation	1,609	166,819	1,632	151,391	0	3,529	30	7,731	0	-6,000	1,662	156,651	30	5,260
Offsetting Collections	0	103,730	0	122,730	0	0	0	0	0	6,000	0	128,730	0	6,000
Total	**1,609**	**270,549**	**1,632**	**274,121**	**0**	**3,529**	**30**	**7,731**	**0**	**0**	**1,662**	**285,381**	**30**	**11,260**

Appendix B: Oil Spill Research (OSR) Summary of Requirements Table

Oil Spill Research	FY 2005 Actual (Enacted)		FY 2006 Estimate (Enacted)		Fixed Costs and Related Changes		Programmatic Changes		Appropriations to Collections		FY 2007 Budget Request		Inc(+) Dec(-) From 2006	
	FTE	**($000)**	**FTE**	**($000)**	**FTE**	**($000)**	**FTE**	**($000)**	**FTE**	**($000)**	**FTE**	**($000)**	**FTE**	**($000)**
Appropriation	22	7,006	22	6,903	0	0	0	0	0	0	22	6,903	0	0
Offsetting Collections	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	**22**	**7,006**	**22**	**6,903**	**0**	**0**	**0**	**0**	**0**	**0**	**22**	**6,903**	**0**	**0**

Appendix B: Summary of Requirements Table - Total MMS Funding

Total MMS	FY 2005 Actual (Enacted)		FY 2006 Estimate (Enacted)		Fixed Costs and Related Changes		Programmatic Changes		Appropriations to Collections		FY 2007 Budget Request		Inc(+) Dec(-) From 2006	
	FTE	**($000)**	**FTE**	**($000)**	**FTE**	**($000)**	**FTE**	**($000)**	**FTE**	**($000)**	**FTE**	**($000)**	**FTE**	**($000)**
ROMM Appropriation	1,609	166,819	1,632	151,391	0	3,529	30	7,731	0	-6,000	1,662	156,651	30	5,260
OSR Appropriation	22	7,006	22	6,903	0	0	0	0	0	0	22	6,903	0	0
Interior Franchise Fund 1/	131	n/a												
Total Appropriated	**1,762**	**173,825**	**1,654**	**158,294**	**0**	**3,529**	**30**	**7,731**	**0**	**-6,000**	**1,684**	**163,554**	**30**	**5,260**
Offsetting Collections	0	103,730	0	122,730	0	0	0	0	0	6,000	0	128,730	0	6,000
Total MMS Funding	**1,762**	**277,555**	**1,654**	**281,024**	**0**	**3,529**	**30**	**7,731**	**0**	**0**	**1,684**	**292,284**	**30**	**11,260**

1/ Transferred IFF and 111 FTE to Departmental Management at the end of Fiscal Year 2005.

Appendix C: Fixed Costs and Related Changes ($000s)

Additional Operational Costs from 2006 and 2007 January Pay Raises:

	2006 Budget Change	2006 Revised Change	2007 Change
2006 Pay Raise, 3 Qtrs. in 2006 Budget	+2,111	+2,080	n/a
Amount of Pay Raise Absorbed	[$0]	[765]	n/a

			2007 Change
2006 Pay Raise, 1 Qtr. in 2007 Budget			+837
Amount of Pay Raise Absorbed			[359]

			2007 Change
2007 Pay Raise			+1,930
Amount of Pay Raise Absorbed			[827]

These adjustments are for an additional amount needed in 2007 to fund the remaining 3-month portion of the estimated cost of the, on average, 3.1 percent pay increases effective in January 2006 and the additional costs of funding for an estimated 2.2 percent January 2007 pay increase for GS-series employees and the associated pay rate changes made in other pay series.

	2006 Budget Change	2006 Revised Change	2007 Change
Employer Share of Federal Health Benefit Plans	+945	+932	+724
Amount Absorbed		[613]	[310]

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, the average increase for the past few years.

Other Fixed Cost Changes:

	2006 Bill	2006 Revised	2007 Change
Workers Compensation Payments	+648	+639	+498
Amount Absorbed		[9]	

These adjustments are for actual charges through 2005, in the costs of compensating injured employees and dependents of employees who suffer accidental deaths while on duty. Costs for 2006 will reimburse the Department of Labor, Federal Employees Compensation Fund, pursuant to U.S.C. 8147(b) as amended by Public Law 94-273.

	2006 Bill	2006 Revised	2007 Change
Unemployment Compensation Paymts.	+25	+25	-9
Amount Absorbed		[0]	

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.

	2006 Bill	2006 Revised	2007 Change
Working Capital Fund	+4,715	+4,722	-615
Amount Absorbed		[47]	

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 Budget Justification for Department Management.

	2006 Bill	2006 Revised	2007 Change
Rental Payments to GSA and Others	+239	+236	+164
Amount Absorbed		[3]	

The adjustment is for changes in the cost payable to General Services Administration 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 there is no alternative but to vacate the currently occupied space, are also included.

Total, Fixed Costs and Related Changes – Budgeted in FY 2007 +3,529

Total, Fixed Costs and Related Changes – Absorbed in FY 2007 [1,496]

For FY 2007, an increase of $3,529,000 for fixed costs is requested, which covers 70 percent of pay and benefits and 100 percent of other costs. The remaining increase in fixed costs will be absorbed in MMS's base budget. If the $3,529,000 in requested fixed cost increases for FY 2007 is not funded, MMS's mission critical programs may begin to suffer since unfunded fixed costs must be absorbed and existing resources have to be redirected from programmatic needs to pay for fixed costs. In FY 2006, Congress provided a one-time increase of $1,132,000 for fixed cost funding. This unrequested Congressional earmark is shown as a reduction in MMS's FY 2007 budget request. These combined fixed cost changes are reflected in the fixed costs line items in each of MMS's subactivity narratives.

Explanation of Department Working Capital Fund Changes

The 2007 budget includes programmatic increases for projects and programs that are funded through the Working Capital Fund. Funds are budgeted in the bureaus and offices and collected into the Fund to support enterprise approaches that result in improved effectiveness and efficiency. These projects were approved through the Department's investment review process and by the Working Capital Fund Consortium and are justified in the Departmental Management budget submission.

Overall, MMS's requested funding for the Working Capital Fund is a decrease of $668,000 from FY 2006. Within this number, however, are increases totaling $172,000 which represent MMS's portion of the Department-wide budget for these projects, including:

- Messaging: Department-wide an increase of $2.1 million is budgeted for the enterprise messaging system. This project will consolidate operations from independently operated bureau and office programs and result in the elimination of hundreds of servers and three messaging applications. This will result in streamlined operations and improved security.

- FOIA Appeals: The request will fund a contracted effort to eliminate, over three years, the Department's backlog of nearly 2,000 appeals to Freedom of Information Act requests. The Department does not have the ability to be responsive to these requests for information and, if not addressed, these actions could result in additional costs to the Department. The budget includes $500,000 to begin this effort.

- Geographic Information Management: The Department is standardizing the applications used for geospatial information with the creation of an enterprise system that will improve the effective use of geographic information. The budget request includes an increase of $596,000 over the 2006 budget of $319,600.

- Enterprise Services Network: In 2005, Phase I of ESN will be implemented. The 2007 budget continues funding to operate ESN, providing access to the Internet, a Department-wide intranet, and technical support center. The 2007 budget includes $20.6 million for ESN, a net increase of $600,000 over 2006. This reflects a reduction of $4.3 million to BIA and increased funding for other bureaus totaling $4.3 million, consistent with an allocation algorithm that is based on service levels.

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Appendix D: MAX Tables

Minerals Management Service
Royalty and Offshore Minerals Management (ROMM)
Appropriation & Reimbursable
Program and Financing
(dollars in millions)

Treasury Account ID: 14-1917		FY 2005 Actual	FY 2006 Estimate	FY 2007 Estimate
Obligations by program activity				
Direct program				
0001	OCS Lands	87	85	83
0002	Minerals Revenue Management	49	43	43
0003	General Administration	31	39	31
0004	Transferred from other account for Hurricane	3	0	0
0192	Total direct program	170	167	157
Reimbursable program				
0901	OCS Revenue Receipts	104	129	135
0902	Reimbursable (RIK)	18	34	39
0903	Reimbursable (SPR)	10	0	0
0904	Reimbursable (RSAs)	4	4	4
0905	IFF Revolving Fund Pass Thru	49	0	0
0999	Total reimbursable program	185	167	178
1000	Total new obligations	355	334	335
Budgetary resources available for obligation				
2140	Unobligated balance, start of year	12	15	14
2200	New budget authority (gross)	353	328	329
2210	Resources available from recoveries	5	5	5
2390	Total budgetary resources available for obligation	370	348	348
2395	Total new obligations	-355	-334	-335
2440	Unobligated balance carried forward, end of year	15	14	13
New budget authority (gross), detail				
Discretionary				
4000	Appropriation	169	154	157
4000	Katrina hurricane supplemental	0	16	0
4035	Appropriation permanently reduced	-2	-3	0
4200	Transferred from other accounts (14-2301)	3	0	0
4300	Appropriation (total discretionary)	170	167	157
Net budget authority and outlays				
8900	Budget authority	170	167	157
9000	Outlays	166	168	153

Beginning with FY 2006, the Interior Franchise Fund (IFF) account was transferred from MMS to NBC.
FY 2006 ($151m Annual Appropriation and $123m Offsetting Collections, $274m total ROMM).
FY 2007 ($157m Annual Appropriation and $128m Offsetting Collections, $285m total ROMM).

Minerals Management Service
Royalty and Offshore Minerals Management (ROMM)
Appropriation Only
Account Object Class Information Table
(dollars in millions)

Treasury Account ID: 14-1917	FY 2006 Estimate		Uncontrollable & Related Changes		Programmatic Changes		FY 2007 Budget Request	
Object Class	**FTE**	**AMT**	**FTE**	**AMT**	**FTE**	**AMT**	**FTE**	**AMT**
Total Appropriation And Offsetting Collections	*1632	*$274	38	3	-8	8	*1662	$285
Total personnel compensation	--	$117	--	1	--	1	--	$119
Civilian personnel benefits	--	$28	--	1	--	0	--	$29
Travel and transportation of persons	--	$3	--	0	--	0	--	$3
Rents	--	$11	--	0	--	0	--	$11
Communications utilities, and misc. charges	--	$1	--	0	--	0	--	$1
Other services	--	$109	--	1	--	7	--	$117
Supplies and materials	--	$2	--	0	--	0	--	$2
Equipment	--	$3	--	0	--	0	--	$3

FY 2006 ($151m Annual Appropriation and $123m Offsetting Collections, $274m total ROMM).
FY 2007 ($157m Annual Appropriation and $128m Offsetting Collections, $285m total ROMM).

Minerals Management Service
Royalty and Offshore Minerals Management (ROMM)
Appropriation & Reimbursable
Object Classification
(dollars in millions)

Treasury Account ID: 14-1917		FY 2005 Actual	FY 2006 Estimate	FY 2007 Estimate
Direct obligations (Annual ROMM Appropriation)				
1111	Personnel Compensation: Full-time permanent	115	117	119
1121	Civilian personnel benefits	28	28	29
1210	Travel and transportation of persons	3	3	3
1231	Rental Payments to GSA	10	0	0
1233	Communications, utilities, and misc. charges	1	1	1
1252	Other services	8	11	0
1260	Supplies and materials	2	2	2
1310	Equipment	3	3	3
1990	Subtotal, direct obligations	170	167	157
Reimbursable obligations (OCS Revenue Receipts/Offsetting Collections, RIK, SPR, RSAs)				
2231	Rental payments to GSA	0	11	11
2252	Other services	185	156	167
1990	Subtotal, reimbursable obligations	185	167	178
9999	Total new obligations	355	334	335

Minerals Management Service Oil Spill Research (OSR) Appropriation Program and Financing Table *(dollars in millions)*				
Treasury Account ID: 14-8370		**FY 2005 Actual**	**FY 2006 Estimate**	**FY 2007 Estimate**
Obligations by Program activity				
0001	Direct program activity	7	7	7
1000	Total new obligations	7	7	7
Budgetary resources available for obligation				
2200	New budget authority (gross)	7	7	7
2395	Total new obligations	-7	-7	-7
New budget authority (gross), detail Discretionary				
4026	Appropriation (trust fund)	7	7	7
Net budget authority and outlays				
8900	Budget authority	7	7	7
9000	Outlays	7	7	7

Minerals Management Service Oil Spill Research (OSR) Appropriation Account Object Class Information Table *(dollars in millions)*								
Treasury Account ID: 14-8370	**FY 2006 Estimate**		**Uncontrollable & Related Changes**		**Programmatic Changes**		**FY 2007 Budget Request**	
Object Class	**FTE**	**AMT**	**FTE**	**AMT**	**FTE**	**AMT**	**FTE**	**AMT**
Total Appropriation	22	$7	0	0	0	0	22	$7
Total personnel compensation	--	$2	--	0	--	0	--	$2
Other services	--	$5	--	0	--	0	--	$5

Minerals Management Service Oil Spill Research (OCS) Appropriation Object Classification Table *(dollars in millions)*				
Treasury Account ID: 14-8370		**FY 2005 Actual**	**FY 2006 Estimate**	**FY 2007 Estimate**
Direct obligations				
1111	Full-time permanent	2	2	2
1252	Other services	5	5	5
9999	Total new obligations	7	7	7

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Appendix E: Employee Count by Grade

	FY 2005 Actual	FY 2006 Estimate	FY 2007 Estimate
Executive Level	15	15	15
Subtotal	**15**	**15**	**15**
GS-15	66	65	65
GS-14	230	217	217
GS-13	475	441	446
GS-12	421	405	405
GS-11	144	137	142
GS-10	11	11	13
GS-9	83	81	83
GS-8	73	72	72
GS-7	114	102	108
GS-6	69	64	64
GS-5	53	50	50
GS-4	24	9	9
GS-3	10	11	11
GS-2	6	4	4
GS-1	1	1	1
Subtotal	**1,780**	**1,670**	**1,690**
Total	**1,795**	**1,685**	**1,705**

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.

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Appendix F: Research and Development Criteria

FY 2007 PRESIDENT'S BUDGET REQUEST
Minerals Management Service

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, which evaluate the relevance, quality, and performance for all R&D programs, are used to rigorously justify new programs and to reevaluate existing programs for modification, redirection, termination, and in keeping with national priorities and needs.

The MMS R&D portfolio requested for FY 2007 totals over $31 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 ESP funding request for FY 2007 reflects an increase for activities relating to implementation of the Energy Policy Act of 2005.

- 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.

- The R&D funding in the OSR program is focused on the 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.

In FY 2007, MMS is requesting funding to support research needs driven by national energy needs, specifically, alternative energy use of the OCS.

<u>Alternative Energy Uses of the OCS –</u> With the recent passage of the Energy Policy Act of 2005, MMS has been tasked with new and expanded responsibilities to manage alternative energy uses of the OCS, including wind and wave energy. MMS will need to develop an understanding of each particular natural resource that may be exploited, and methodologies will need to be developed to support NEPA analysis and performing resource assessments and evaluations. In addition, new research will need to be initiated to ensure that any new processes or technologies are safe and environmentally sound.

All MMS research is considered applied research in that it is specifically conducted to collect information needed to support the Outer Continental Shelf (OCS) oil and gas program. In order to ensure relevance, MMS integrates advice from a wide range of sources when formulating its research plans. It also actively seeks partnerships with stakeholders who are involved with, or affected by, OCS activities. The performance of MMS' research efforts were reviewed in its FY 2004 OMB Environmental Studies Program (ESP) Performance Assessment Rating Tool

(PART). OMB found that the program is "very effective in providing timely and peer-reviewed environmental research to decision makers," and achieved a score of "Moderately Effective", meeting one of OMB's criteria for achieving green on its scorecard. Quality of results is being addressed through development and testing of PART to provide a systematic means for monitoring the extent to which ESP projects fulfill the Bureau's needs.

MMS Research and Development Funding (FY 2005-FY 2007)

	FY 2005 Enacted	FY 2006 Enacted	FY 2007 Request
OMM Leasing & Environmental Subactivity			
Leasing & Environmental Assessment	**3,483**	**3,661**	**4,253**
The Leasing & Environmental Assessment Program includes funding for staff associated with the Environmental Studies Program.			
Environmental Studies Program (ESP)	**15,946**	**16,171**	**19,621**
The ESP gathers and synthesizes the environmental and social and economic science information necessary to support environmentally sound decision-making concerning the offshore oil and gas and marine minerals program.			
OMM Regulatory Subactivity			
Regulation of Operations	**1,068**	**974**	**990**
The Regulation of Operations Program includes funding for the staff associated with the TA&R Program as well as base funding for the Offshore Technology Research Center (OTRC) located at Texas A&M University in College Station, TX. OTRC research is focused on operational safety and engineering.			
Technology, Assessment & Research (TA&R)	**1,970**	**885**	**885**
The TA&R Program supports research associated with operational safety, engineering research and pollution prevention. In FY 2005, Congress appropriated an additional one-time increase of $500K to fund Hurricane Ivan studies as well as a one-time increase of $600K to support the OTRC Program.			
OMM Resource Evaluation Subactivity			
Marine Minerals Technology Center (MMTC)	**887**	**0**	**0**
The MMTC is located at the University of Alaska at Fairbanks. While funding is appropriated to the Resource Evaluation Program, the funds to support this program are not considered part of OMM base funding but have been added to our appropriation by Congress for the past several years. The cost of staff associated with this program is included. In FY 2005, Congress provided $900K for the MMTC.			
Center for Marine Research & Environmental Technology (CMRET)	**887**	**896**	**0**
The CMRET is located at the University of Mississippi at Oxford. While funding is appropriated to the Resource Evaluation Program, the funds to support this program are not considered part of OMM base funding but have been added to our appropriation by Congress for the past several years; in FY 2005 and FY 2006 $900K was provided for CMRET. The cost of staff associated with this program is included.			
OMM Oil Spill Research Appropriation			
Oil Spill Research	**5,713**	**5,724**	**5,772**
MMS is the principal U.S. Government bureau funding offshore oil spill response technology research. This research addresses outstanding gaps in information and technology concerning the cleanup of oil spills.			

Appendix G: Section 405

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.

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.

Further narrative discussion on these four subactivities and their programmatic increases and decreases for FY 2007 can be found under the General Administration tab of the Budget Justifications. Additional information about MMS's contributions to the Department's Working Capital Fund can be found in Appendix H.

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Appendix H: Working Capital Fund Direct Billing

FY 2007 WORKING CAPITAL FUND
DIRECT BILLING
MINERALS MANAGEMENT SERVICE
($ in thousands)

Actvity/Office	FY 2005 Actual	FY 2006 Estimate	FY 2007 Estimate
Other OS Activities			
Office of Assistant Secretary - PMB			
Financial Management Activities	4.8		
Finance Budget Conf OC MD	8.7	4.4	4.4
Office of Financial Management	13.4	4.4	4.4
Office of Acquisition and Property Management			
OSDBU SBA Certifications	4.6		
Office of Small & Disadvantaged Business Utilization	4.6		
Office of Wildland Fire Coordination			
Planning and Performance Management			
Departmental Medals	3.1	3.1	3.1
Human Resources Policy	3.1	3.1	3.1
EEO Training	1.5	1.8	1.5
Civil Rights	1.5	1.8	1.5
ESN		205.7	397.5
Office of Information Resources Management		205.7	397.5
Oracle License & Support Contract	16.3		
Microsoft Enterprise Licenses	359.3	359.3	359.4
Anti-Virus Software Licenses	21.2	21.4	21.4
Popkin System Architect Licenses	3.0	1.7	1.7
Karta GoLearn Licenses		26.7	26.7
Enterprise Architecture Services		244.6	
Office of the Chief Information Officer	399.9	653.7	409.2
Office of the Chief Information Officer			
Office of the Chief Information Officer			
Cobell - Restoration		20.1	20.0
Cobell - Live E-mail	82.9	69.4	69.5
Search Request [non-zantaz]		6.6	4.0
Cobell - Security (Audit)		2.2	4.0
Cobell - Historical Tape Storage	76.0	100.5	100.5
Cobell - 3 Yr Live Capture Email		6.4	6.4
Zantaz Audit Center Licenses	1.4		
Zantaz Exchange Servers	13.9	20.1	20.1
Cobell - Professional Services		4.8	4.8
Office of the Chief Information Officer	174.2	230.1	229.3
Office of the Chief Information Officer			
FY 2005 KPMG Audit	160.1	155.5	
FY 2006 KPMG Audit		250.3	25.0
FY 2007 KPMG Audit			250.3
CFO Financial Statement Audit	160.1	405.8	275.3
Cooperative Conservation Conference	3.0		
Federal FSA Program	12.5	60.5	36.9
FBMS Change Order Funding	40.0		

FY 2007 WORKING CAPITAL FUND
DIRECT BILLING
MINERALS MANAGEMENT SERVICE
($ in thousands)

Actvity/Office	FY 2005 Actual	FY 2006 Estimate	FY 2007 Estimate
DOI wide Initiaitves	55.5	60.5	36.9
Office of Program Analysis - International Affairs			
Solicitor's Conference	-1.1		
Office of Solicitor	-1.1	.	.
Indirect costs - admin services	1.2	35.6	35.6
OS Budget Office	1.2	35.6	35.6
Subtotal Other OS Activities	812.5	1,600.7	1,392.8

FY 2007 WORKING CAPITAL FUND
DIRECT BILLING
MINERALS MANAGEMENT SERVICE
($ in thousands)

Actvity/Office	FY 2005 Actual	FY 2006 Estimate	FY 2007 Estimate
National Business Center			
Strategic Management of Human Capital Directorate			
Aviation Management - Human Capital	6.2		
Career, Balance, & Diversity Forums	6.6	4.2	
Denver Forums	5.6		
Govt-wide Acquisition Intern Program IV	71.5		
Financial Management Intern Program 2	23.9		
Certificate Programs	1.5		
Online Learning	7.0	26.2	26.2
NBC - Human Capital/DOIU	122.3	30.3	26.2
Information Technology Directorate			
Technology Services	19.3	19.3	19.3
NBC-CIO	19.3	19.3	19.3
ederal Personnel Payroll Systems & Services Directorate			
FPPS - Application Mgmt Office	2.5	4.5	4.6
FPPS - Payroll Systems	50.4	54.5	56.5
NBC- E-payroll	52.9	59.0	61.1
Administrative Operations Directorate			
Aviation Management - Acquisitions	27.0		
Flags & Seals	0.5	0.5	0.3
Building Alteration Services	29.1	34.1	35.1
Reimbursable Moving services	0.5	1.0	0.7
Creative Communications	117.9	121.6	105.3
Reimbursable ATC Services	0.5	0.5	0.5
Express Delivery	1.1	1.2	1.3
Overseas Mail Services	0.2	0.2	0.2
Postage	10.8	11.6	10.3
NBC - Administrative Operations	187.6	170.7	153.6
Budget and Finance Directorate			
IDEAS		9.0	9.2
Aviation Management - Finance	28.8	0.0	
NBC AMD	28.8	9.0	9.2
Aviation - Discretionary Activities	10,929.7	243.5	251.6
Aviation Management Directorate	10,929.7	243.5	251.6
NBC-Appraisal Services			
NBC Direction			
Solutions Coordination Office (LOB Funded)			
NBC - Management			
Subtotal National Business	11,340.6	531.8	521.1
TOTAL	12,153.1	2,132.5	1,913.9

Appendix H: Working Capital Fund Centralized Billing

FY 2007 WORKING CAPITAL FUND
CENTRALIZED BILLING
MINERALS MANAGEMENT SERVICE
($ in thousands)

Actvity/Office	FY 2005 Actual	FY 2006 Estimate	FY 2007 Estimate
Other OS Activities			
Invasive Species Program	29.7	31.8	32.7
Invasive Species DOI Coordinator	4.9	5.2	5.4
Secretary's Immediate Office	34.6	36.9	38.1
Alaska Field Office	10.3	10.9	11.1
Secretary's Immediate Office	10.3	10.9	11.1
Alaska Resources Library and Information Services	68.9	73.1	73.1
Secretary's Immediate Office	68.9	73.1	73.1
Secretary's Immediate Office			
Secretary's Immediate Office			
Document Management Unit	34.1	34.6	3.7
Office of the Executive Secretariat	34.1	34.6	3.7
Departmental News and Information	40.1	42.6	51.2
Departmental Newsletter	12.9	14.1	8.2
Hispanic Media Outreach	20.3	22.9	24.3
Office of Communications	73.2	79.6	83.7
Fish, Wildlife, and Parks			
Financial Management Training	26.9	27.4	30.2
Travel Management Center	18.6	11.8	12.0
Office of Financial Management	45.5	39.2	42.2
Activity Based Costing/Management	26.2	26.3	26.3
Office of Financial Management	26.2	26.3	26.3
Quarters Program and Interior Collections Mgmt Sys	0.0	0.0	0.0
Interior Collections Management System (ICMS)			3.0
DOI Space Management Initiative		6.0	6.3
Property and Acquisition Management	0.0	6.0	9.3
Planning and Performance Management	73.9	75.1	78.0
Office of Planning and Performance Management	73.9	75.1	78.0
Center for Competitive Sourcing Excellence	9.8	9.9	13.0
Office of Competitive Sourcing	9.8	9.9	13.0
Firefighter and Law Enforcement Retirement Team	0.0		
DOI wide OWCP Coordination			1.6
Employee Assistance Programs	0.0		
Employee Counseling	3.6	3.7	3.7
CLC - Human Resources	0.7	0.9	0.9
OPM Federal Employment Services	3.9	3.9	3.9
Office of Human Resources	8.2	8.5	10.1
Special Emphasis Program	4.9	4.9	4.9
Recruitment/Outreach	3.3		
Office of Civil Rights	8.2	4.9	4.9
Occupational Health and Safety	26.1	27.0	27.7
Health and Safety Training Initiative	7.1	7.1	7.1

FY 2007 WORKING CAPITAL FUND
CENTRALIZED BILLING
MINERALS MANAGEMENT SERVICE
($ in thousands)

Actvity/Office	FY 2005 Actual	FY 2006 Estimate	FY 2007 Estimate
Office of Occupational Health and Safety	33.1	34.1	34.8
Classified Information Facility	7.4	7.5	11.2
Emergency Preparedness	15.6	20.4	21.3
Law Enforcement Coordination and Training		7.8	8.0
Watch Office	23.1	23.4	24.5
Office of Law Enforcement and Security	46.1	59.2	65.0
IT Security	233.3	233.8	68.7
IT Security Certification & Accreditation		125.3	125.3
Information Technology Architecture	89.7	89.9	124.6
Capital Planning	61.8	37.8	45.8
Enterprise Resource Management			8.8
Data Resource Management Program	19.6	19.6	5.8
Office of the Chief Information Officer	404.4	506.5	379.0
DOI-wide Telecommunications Initiatives			
Messaging			442.9
OS-HSPD12 (e-Authentication)		111.6	32.9
Enterprise Services Network (ESN)	616.4	225.2	350.1
ESN - Program Change		617.1	
ARTNET	59.5	-0.0	
Active Directory		29.5	29.5
Office of the Chief Information Officer	675.9	983.4	855.4
Web & Internal/External Comm	13.7	13.8	14.8
GPEA	25.1	25.1	47.8
DOI FOIA Tracking & Reporting System	2.6	8.9	29.0
Office of the Chief Information Officer	41.4	47.8	91.5
Solicitor - Ethics Training/ALLEX Database/FOIA Appeals	1.3	1.3	1.3
ALLEX Database	3.6	3.6	3.6
FOIA Appeals			35.2
Solicitor	4.8	4.9	40.1
CFO Financial Statement Audit	775.5	775.7	819.5
Departmentwide Activities	775.5	775.7	819.5
E Government Initiatives	362.0	323.5	323.5
Office of Planning and Performance Mgmt.	362.0	323.5	323.5
Appraisal Services			
Appraisal Services			
WCF Management	4.3		
DOI Geographic Info Mgmt EGIM		4.8	13.7
SBA Certifications	0.5	4.8	6.5
Contingency Reserve	7.9	7.9	7.9
Departmentwide Activities	12.8	17.4	28.1
Subtotal Other OS Activities	2,749.2	3,157.5	3,030.4

FY 2007 WORKING CAPITAL FUND CENTRALIZED BILLING MINERALS MANAGEMENT SERVICE ($ in thousands) Actvity/Office	FY 2005 Actual	FY 2006 Estimate	FY 2007 Estimate
National Business Center			
Cultural Resources & Events Management	7.6	9.3	11.8
Partnership Schools & Commemorative Programs		3.3	3.7
Departmental museum	38.1	34.4	37.3
Departmental Library	63.5	69.5	69.6
Learning and Performance Center Management	10.1	8.8	9.1
SESCDP & Other Leadership Programs	28.3	13.2	14.1
Washington Learning & Performance Center	36.6	28.9	26.3
Albuquerque Learning & Performance Center	0.6	1.7	1.8
Anchorage Learning & Performance Center	16.1	13.7	12.6
Denver Learning & Performance Center	83.7	92.3	68.1
On-Line Learning	12.2	11.1	11.7
NBC- Human Capital/DOIU	296.6	286.2	266.1
Computer Applications and Network Services	9.8	10.3	10.5
Telecommunications services	88.2	85.6	86.9
Voice/data switching	31.1	21.3	21.7
New PBX Telephone System	34.3	36.7	31.0
Records management/FOIA	38.7	38.6	39.7
Aviation Management - Information Technology	18.9	0.0	
NBC IT Security Improvement Plan			21.6
NBC- IT	221.1	192.5	211.4
FPPS - Application Mgmt Office	16.8	25.7	26.1
FPPS - Payroll Operations	149.6	148.1	151.0
FPPS - Payroll Systems	190.6	171.4	173.5
NBC- E-payroll	357.0	345.2	350.5
Property Accountability Services	4.0	3.4	4.1
Vehicle fleet	3.6	3.9	3.9
Interior Complex Management & Svcs	38.7	36.7	37.9
Family Support Room	0.8	0.7	1.3
Moving Services	10.0	10.7	8.0
Shipping and Receiving	16.0	17.8	18.7
Space Management Services	6.3	7.7	10.1
Drug testing - intra department	0.5		
Security	216.9	239.2	252.7
Accessible Technology Center	8.5	7.4	8.1
Federal Executive Board	6.6	5.9	6.5
Health Unit	12.2	9.8	12.4
Transportation Services (Household Goods)		0.6	
Passport & Visa Services	11.5	11.9	19.5
OWCP Coordination	0.2		
Blue Pages	18.3	19.2	20.1
Mail Policy	6.5	7.7	8.3
Mail and messenger services	38.0	40.2	42.8
Special Events Services			2.4
NBC - Administrative Operations	398.6	422.9	457.1

FY 2007 WORKING CAPITAL FUND
CENTRALIZED BILLING
MINERALS MANAGEMENT SERVICE
($ in thousands)

Actvity/Office	FY 2005 Actual	FY 2006 Estimate	FY 2007 Estimate
Financial Systems (inc Hyperion)	16.5	16.9	17.4
IDEAS	87.0	86.8	86.6
NBC - CFO	103.5	103.7	104.0
Aviation Management Directorate	179.2	213.9	235.3
Aviation - Mandatory Services	179.2	213.9	235.3
Subtotal National Business	1,555.9	1,564.4	1,624.5
TOTAL	4,305.1	4,721.9	4,654.8

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Appendix I: MMS Authorizing Statutes

Outer Continental Shelf (OCS) Lands Program

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.
P.L. 109-58	The Energy Policy Act of 2005 amended the OCS Lands Act to give authority to the Department of the Interior to coordinate the development of an alternative energy program on the OCS and also to coordinate the energy and non-energy related uses in areas of the OCS where traditional oil and natural gas development already occur.
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.
P.L. 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.
P.L. 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.
P.L. 108-447	The Consolidated Appropriations Act of 2005 provided that late disbursement interest owed to States be made from current receipts from bonuses, royalties, interest collected from lessees and designees, and rentals of the public lands and outer continental shelf which are not payable to a State or the Reclamation Fund.
P.L. 109-54	The Department of the Interior, Environment and Related Agencies Appropriations Act of 2006 provided 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 to pay for transportation to wholesale market centers or upstream pooling points, to process or otherwise dispose of royalty production taken in kind, and to recover MMS transportation costs, salaries, and other administrative costs directly related to the royalty-in-kind 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 et seq.	Delegation of Personnel Management Authority
31 U.S.C. 665-665(a)	Anti-Deficiency Act of 1905, as amended
41 U.S.C. 252	Competition in Contracting Act of 1984
18 U.S.C. 1001	False Claims Act of 1982
18 U.S.C. 287	False Statements Act of 1962
41 U.S.C. 501-509	Federal Grant and Cooperative Agreement Act of 1977
41 U.S.C. 253	Federal Property and Administrative Services Act of 1949

41 U.S.C. 401	Office of Federal Procurement Policy Act of 1974, as amended
15 U.S.C. 631	Small Business Act of 1953, as amended
15 U.S.C. 637	Small Business Act Amendments of 1978
10 U.S.C. 137	Small Business and Federal Competition Enhancement Act of 1984
15 U.S.C. 638	Small Business Innovation Research Program of 1983
10 U.S.C. 2306(f)	Truth in Negotiations Act of 1962 Authorization
Secretarial Order No. 3071	Established the Minerals Management Service in January 1982, under authority provided by Section 2 of Reorganization Plan No. 3 of 1950 (64 Stat. 1262).

Oil Spill Research

33 U.S.C. 2701, et seq.	Title VII of the Oil Pollution Act of 1990 authorizes the use of the Oil Spill Liability Trust fund, established by Section 9505 of the Internal Revenue Code of 1986, for oil spill research.
33 U.S.C. 2701, et seq.	Title I, Section 1016, of the Oil Pollution Act of 1990 requires a certification process which ensures that each responsible company, with respect to an offshore facility, has established, and maintains, evidence of financial responsibility in the amount of at least $150,000,000 to meet potential pollution liability.
43 U.S.C. 1331, et seq.	Section 21(b) of the Outer Continental Shelf 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).

Appendix J: Statistics for House Interior Subcommittee Reports

MINERALS MANAGEMENT SERVICE

The Minerals Management Service (MMS) is responsible for collecting, distributing, accounting for and auditing revenues from mineral leases on Federal and Indian lands. In fiscal year 2005, MMS collected and distributed $9.9 billion from active Federal and Indian leases and transferred an additional $1.2 billion worth of mineral resources to the Department of Energy for placement in the Strategic Petroleum Reserve. The MMS also manages the offshore energy and mineral resources on the Nation's outer continental shelf (OCS). To date, the OCS program has been focused primarily on oil and gas leasing. With the passage of the Oil Pollution Act of 1990, MMS assumed increased responsibility for oil spill research, including the promotion of increased oil spill response capabilities, and for oil spill financial responsibility certifications of offshore platforms and pipelines.

Over the past several years, MMS has been exploring the possible development of other marine mineral resources, especially sand and gravel. Under the Energy Policy Act of 2005, MMS has new responsibilities over Federal offshore renewable energy and related-uses of America’s offshore public lands.

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