BUDGET JUSTIFICATIONS

The United States
Department of the Interior

and Performance Information
Fiscal Year 2008

MINERALS MANAGEMENT SERVICE

NOTICE: These budget justifications are prepared for the Interior, Environment and Related Agencies Appropriations Subcommittees. Approval for release of the justifications prior to their printing in the public record of the Subcommittee hearings may be obtained through the Office of Budget of the Department of the Interior.

MINERALS MANAGEMENT SERVICE
2008 PERFORMANCE BUDGET JUSTIFICATIONS

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Explanatory Notes: At completion of this 2008 budget justification, a 2007 appropriation had not yet been enacted and substantial uncertainty existed regarding the ultimate level that would be appropriated for 2007. Unless otherwise noted, 2007 information is reported as follows in this budget justification:

"2007 CR" Column in Tables.

Budget Authority: In Table 1 on page 1 of the General Statement, separate columns are shown for the 2007 President's request and the 2007 Continuing Resolution (CR). The CR amounts equal the annual rate provided under the authority of the third fiscal year 2007 Continuing Resolution, P.L. 109-383 effective through February 15, 2007. **For MMS, this CR is equivalent to the 2006 Enacted levels.**

For the introductory tables for each Activity (OMM - Table 15; MRM – Table 32, and GA – Table 39), the 2007 column is labeled "2007 CR" and shows amounts by Subactivity at the 2007 President's Request level, with adjusting rows towards the bottom of the tables to adjust for the CR amounts, which are shown in the "Total" line.

In the Summary of Requirements comprehensive table, the 2007 CR column shows Subactivity and Activity totals from the 2007 President's request, with CR-adjusting "non-add" amounts shown below the totals for each Activity, and CR-adjusted totals shown for the ROMM appropriation. The Oil Spill Research appropriation is the same amount in both the 2007 President's Request and in the CR (no impact).

All Subactivity tables are shown with the 2007 President's Request. Initiatives and reductions proposed in the 2008 request are described in comparison to the amounts requested in the 2007 President's Request.

Full Time Equivalents (FTE): The FTE shown in the 2006 Enacted column have been adjusted to reflect 2006 usage at all levels of the budget structure. Both 2007 columns in Table 1 reflect the FTE amount in the 2007 President's Request.

The FTE shown in the Summary of Requirements comprehensive table, and matched in the tables introducing the Activities and the Subactivities, reflect the 2007 President's Request level. CR-adjusting entries are shown on the Summary of Requirements table and on the Activity tables. The CR FTE level is equivalent to the 2006 usage level, and is 30 FTE less than was requested in the 2007 President's Request.

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Minerals Management Service
1982-2007

2008 MMS PERFORMANCE BUDGET ESTIMATES
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. The MMS manages activities that generate 30 percent of America's domestic oil production, 21 percent of America's domestic natural gas production, and provide, on average, over $7 billion in annual revenues for the Nation, States, and American Indians.

The 2008 MMS budget request is $297.2 million in current appropriations and offsetting receipts, an increase of $16.2 million above the 2007 continuing resolution level.[1] The request for direct appropriations is $161.5 million, an increase of $3.2 million above 2007. Offsetting receipts are estimated to be $135.7 million in 2008, an increase of $13.0 million over 2007.

The MMS faces major new responsibilities in the implementation of the 2007-2012 Outer Continental Shelf (OCS) Oil and Gas Leasing Plan, and continuing program development under the Energy Policy Act of 2005. In addition, the Bureau must account for fixed cost increases and additional resources necessary for new programmatic and information systems requirements, such as system enhancements for the Minerals Revenue Management Support System (MRMSS). The proposed MMS budget holds the line on spending, refocuses existing resources to make the organization more efficient, and provides for important new initiatives.

The 2008 request provides for $8.9 million in new initiatives and $5.9 million in fixed cost increases. Offsetting reductions in base funding total $9.9 million, reflecting the completion of certain systems work and other anticipated savings.

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. The staff will continue to strive for excellence and work for the responsible development of America's energy supplies.

[1] Additional funding authority, not included in this figure, is requested for two programs. The Royalty-in-Kind Program utilizes receipts, and the new Coastal Impact Assistance Program utilizes a small percentage of the Program funds. Each is described under its respective section of the budget.

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2008 PERFORMANCE BUDGET REQUEST

Minerals Management Service

General Statement

Table 1: Summary of MMS Budget Request

Budget Authority ($000)	**2006 Enacted 1/**	**2007 President's Request**	**2007 Continuing Resolution 2/**	**2008 President's Request**	**2008 Change from 2007 CR**
ROMM Appropriation	151,391	156,651	151,391	155,048	+3,657
Oil Spill Research Appropriation	6,903	6,903	6,903	6,403	-500
Offsetting Collections	122,730	128,730	122,730	135,730	+13,000
Total Discretionary Budget Authority	**281,024**	**292,284**	**281,024**	**297,181**	**+16,157**
Payments to States 3/	2,123,991	1,884,253	1,884,253	2,004,140	+119,887
Geothermal, Payments to Counties 4/	3,912	0	3,438	0	-3,438
Coastal Impact Assistance Program	0	250,000	250,000	250,000	0
Total Mandatory Budget Authority	**2,127,903**	**2,134,253**	**2,137,691**	**2,254,140**	**+116,449**
Total Budget Authority	**2,408,927**	**2,426,537**	**2,418,715**	**2,551,321**	**+132,606**
Total Direct FTE 5/	1,621	1,671	1,671	1,668	-3
Total Reimbursable FTE	20	0	0	0	0
Total FTEs	**1,641**	**1,671**	**1,671**	**1,668**	**-3**

1/ Does not include $31.1 million in supplemental funding for recovery from Hurricanes Katrina and Rita.
2/ At completion of this 2008 budget justification, a 2007 appropriation had not yet been enacted, and a year-long continuing resolution (CR) was anticipated. Appropriation dollars shown in this column reflect P.L. 109-383 continuing resolution effective through February 15, 2007, which for MMS is equal to the 2006 Enacted budget. Please refer to the Table of Contents introduction and to Page 2 of this section for a more complete explanation of the CR calculations.
3/ Includes Mineral Leasing and Associated Payments; Leases of Lands Acquired for Flood Control, Navigation and Allied Purposes; and National Forest Fund, Payments to States.
4/ Geothermal: The 2007 and 2008 President's Budgets propose to eliminate the provisions in the Energy Policy Act of 2005 that provide revenues to counties and the implementation fund.
5/ FTE for 2007 have not been adjusted for the continuing resolution, and reflect the number shown in the FY 2007 President's Request. The 2008 FTE reflect a change of -20 from 2007, along with a +17 for CIAP implementation, for a net figure of -3.

SUMMARY OF MMS BUDGET REQUEST

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 the OCS and onshore Federal and Indian lands. Within MMS, the Offshore Minerals Management (OMM) program is responsible for OCS activities, which range from administering the OCS oil and gas leasing program and regulating operations, to permitting renewable energy projects, 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 (MRM) program collects, accounts for, and disburses revenues from mineral leases on the OCS and onshore 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 $7 billion of mineral revenues collected annually.

MMS Mission Statement

MMS's mission is to manage the ocean energy and 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 receives funding for operations from three sources: the Royalty and Offshore Minerals Management (ROMM) appropriation, the Oil Spill Research (OSR) appropriation, and offsetting collections. In addition, MMS operates the Royalty-in-Kind (RIK) Program and the new Coastal Impact Assistance Program (CIAP) with funding provided from within these programs.

For 2008, MMS is requesting an operating account level of $297.2 million, which includes $135.7 million in offsetting collections obtained from rental charges and cost recovery fees, $155.1 million from ROMM appropriations, and $6.4 million from OSR appropriations. The total appropriations amount (ROMM and OSR) is $161.5 million.

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 well-being 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 increasing workload from OCS deepwater activities, and implementation of the OCS 2007-2012 Five-Year Oil and Gas Leasing Program. In addition, we are striving to gain ever increasing certainty to the valuation of oil and gas produced on Federal and Indian lands. Funding for the 2008 initiatives, outlined in Table 2, will allow MMS to maintain its superior levels of performance while meeting these new challenges.

Table 2 on the following page illustrates the proposed budgetary changes from the 2007 Continuing Resolution (P.L. 109-383, effective through February 15, 2007) and the 2007 President's Request to the 2008 request of $161.5 million; each of these initiatives is described completely under the respective activity and subactivity.

Table 2: Analysis of Budgetary Changes

Office	Project/Program	Reductions	Initiatives	FTE	Balance
	FY 2007 Continuing Resolution*				**158,294**
	Adjustment for Continuing Resolution				5,260
	2007 President's Request				**163,554**
OMM	OCS 5-Year Leasing Program Implementation		4,000	6	
OMM	Ultra-Deepwater Safety, Resource Potential		1,300	5	
OMM	GOMR Hurricane Damage Recovery		820	4	
OMM	EPAct Implementation - Methane Hydrates	(1,000)		(1)	
	- Alternative Energy Cost Sharing	(3,000)		0	
OMM	Refocusing Resources	(2,000)		(18)	
OMM	Reduction to Environmental Studies	(1,000)		0	
OMM	Reduction to OCS Connect	(1,394)		0	
OSR	Reduction to OHMSETT Operating Account	(500)		0	
	Net Offshore Minerals Management	***(8,894)***	***6,120***	***(4)***	***(2,774)***
MRM	Adjustment Line Monitoring Initiative		940	4	
MRM	Interactive Payment Reconciliation & Billing		1,450	0	
MRM	Reductions to Energy Policy Act Implementation	(750)		0	
MRM	Eliminate IT Dial-In Service	(250)		0	
	Net Minerals Revenue Management	***(1,000)***	***2,390***	***4***	***1,390***
A&B	FBMS Implementation		395		395
	Transfer of operations - GovWorks and IFF			(20)	
MMS	Fixed Cost Increase		5,886	0	5,886
MMS	Coastal Impact Assistance Program (mandatory)			17	
MMS	Increase in Offsetting Collections from President's Request				(7,000)
	2008 Appropriations Request	**(9,894)**	**14,791**	**(3)**	**161,451**

* At the completion of this 2008 budget justification, a 2007 appropriation had not yet been enacted, and a year-long continuing resolution (CR) was anticipated. Appropriation dollars shown as 2007 Continuing Resolution reflect P.L. 109-383, CR effective through February 15, 2007, which for MMS is equal to the 2006 Enacted budget.

Fiscal Year 2007 Continuing Resolution

At completion of this 2008 budget justification, a 2007 appropriation had not yet been enacted and substantial uncertainty existed regarding the ultimate level that would be appropriated for 2007. At the Bureau-level and Account-level, on many tables, adjustments to the 2007 column are shown such that these amounts equal the annual rate provided under the authority of the third fiscal year 2007 Continuing Resolution, P.L. 109-383, effective through February 15, 2007. At lower levels of the budget structure (Subactivity and initiative), line items are presented at the 2007 President's budget level.

The following are brief descriptions of the items in Table 2.

<u>Offshore Minerals Management Budgetary Changes</u>:

- **Outer Continental Shelf 5-Year Oil & Gas Leasing Program Implementation (+$4,000,000, +6 FTE):** The draft program (covering 2007-2012) has the potential to open up new offshore areas for leasing and development, plus expand activities in current planning areas. Funding is requested to fulfill MMS's environmental and oversight responsibilities regarding this major component of the nation's overall energy strategy, particularly for needs in the North Aleutian.

- **Ultra-Deepwater (+$1,300,000, +5 FTE):** Activity has expanded at a tremendous rate at water depths of 5,000-10,000 feet, and MMS requires expertise and resources in order to provide oversight of the increasing offshore development. Ultra-deepwater involves cutting-edge technology and highly specialized skills, and MMS must keep pace to ensure the U.S. Government receives fair-market value, and that new technologies maintain safety and environmental protection.

- **Gulf of Mexico Region Hurricane Damage Recovery (+$820,000, +4 FTE):** Specialized staff are needed to address well abandonment and pollution prevention. MMS seeks the capability not only to address important outstanding issues from the devastation of recent hurricanes, but also to ensure the Gulf and other areas are prepared for future events.

- **Energy Policy Act (EPAct) Implementation – Methane Hydrates Research (-$1,000,000, -1 FTE):** The MMS is redirecting this funding to higher priorities in 2008.

- **Energy Policy Act Implementation – Alternative Energy Cost Sharing (-$3,000,000):** The MMS has requested funding for 2007 to fulfill requirements under Section 388 (Alternative Energy – Related Uses on the OCS) of the Energy Policy Act of 2005. For the 2008 request, MMS is proposing that parties submitting applications for non-competitive renewable energy projects fund the cost of independent environmental analyses, which would allow for a $3,000,000 savings in appropriated funds for this activity.

- **Refocusing Resources (-$2,000,000, -18 FTE):** As part of the normal process of managing our programs, MMS seeks opportunities for savings by reassessing current program activities and identifying new efficiencies. In 2008, the OMM program anticipates achieving savings from reducing staffing levels in existing mission areas by further examining priorities and focusing resources on mission critical functions and deliverables.

- **Reduction to Environmental Studies (-$1,000,000):** As ongoing research is completed, funds will be redirected to the most critical new study needs associated with implementing the OCS 5-Year Leasing Program.

- **Reduction to OCS Connect (-$1,394,000):** In accordance with the OCS Connect implementation plan, this requested reduction reflects the transition from development and planning to implementation and maintenance.

- **Reduction to Ohmsett Operating Account (-$500,000):** Ohmsett is an acronym for the Oil and Hazardous Materials Simulated Environmental Test Tank, located in northern New Jersey. Funding has allowed for recent upgrading and refurbishing of this important National Oil Spill Response Test Facility, and a decrease in the annual appropriation is requested to return to regular operation and maintenance funding. Please note that the Ohmsett funding is from the Oil Spill Research (OSR) appropriation, separate from the ROMM appropriation. Ohmsett is managed by the OMM Program.

- **Coastal Impact Assistance Program (CIAP, +17 FTE):** CIAP is a new grants program authorized by the Energy Policy Act of 2005, to be funded from oil and gas revenues. Grants will be made to coastal producing states and political subdivisions, primarily for coastal restoration and conservation purposes. Refer to the separate tab for CIAP in this book for a detailed description of the program. CIAP is considered mandatory funding and is separate from MMS's discretionary appropriations (ROMM and OSR). The MMS is requesting to use up to 3% of the program funds for administration.

<u>Minerals Revenue Management Budgetary Changes</u>:

- **Adjustment Line Monitoring Initiative (+$940,000, +4FTE):** The requested systems improvements and staff to perform this function are required to ensure company adjustments are made only within allowable time frames. It is anticipated this capacity will provide a much larger return to the U.S. Treasury than the initiative will cost, and will enhance compliance efforts.

- **Interactive Payment Reconciliation and Billing (+$1,450,000):** These systems improvements will automate MMS's interface with its customer base on numerous activities, and enhance online reporting and verification capabilities, as well as enforcement efforts. The funding will address an area of concern in the Bureau's financial audit, as well as provide a strong return on investment.

- **Reductions to Energy Policy Act Implementation (-$750,000):** Systems upgrades to meet new requirements in the Energy Policy Act will be completed in 2007, and these funds can be redirected to other priorities.

- **Eliminate IT Dial-In Service (-$250,000):** Technological advances will allow MMS to eliminate dial-in service.

Other Budgetary Changes:

- **Implementation of the Financial and Business Management System (FBMS) (+$395,000):** Funds are requested for implementation of the new FBMS information technology system.

- **Fixed Cost Increase (+$5,886,000):** This represents the anticipated 2008 fixed cost increase needed to keep pace with personnel-related costs and other fixed costs such as rent.
- **Increase in Offsetting Collections (+$7,000,000):** With increased rental income, MMS requests an increase in the use of these receipts to help fund the Bureau's programs.

Gulf of Mexico Energy Security Act of 2006

On December 20, 2006, the President signed into law the Gulf of Mexico Energy Security Act of 2006 (GOMESA)[6]. The Act significantly enhances OCS oil and gas leasing activities in the Gulf of Mexico (GOM) by making new resources available for leasing:

- Requires leasing in 8.3 million acres in the GOM, including 5.8 million acres that were previously held under Congressional moratoria and Presidential withdrawal;
- Prohibits new oil and gas leasing in the Eastern Planning Area other than in the area included in the 8.3 million acres above; also prohibits leasing in a portion of the Central Planning Area within 100 miles of the Florida coastline, until 2022;
- Shares certain leasing revenues with Gulf producing states and with other states through grants from the Land and Water Conservation Fund; and,
- Allows companies to exchange certain existing leases in moratoria areas for bonus and royalty credits to be used on other GOM leases.

Specifically, GOMESA repealed the Congressional moratorium for the area in the Central Planning Area known as the "181 South Area." It also directed MMS to begin leasing in a portion of the original Sale 181 area in the Eastern Planning Area that was not formally restricted from leasing but was not included in the MMS Draft 2007-2012 Oil and Gas Leasing Program.[7]

GOMESA also put in place a new moratorium on leasing activities through June 30, 2022, in most of the new Eastern Planning Area (excluding a portion of the Sale 181 area that is more than 125 miles from the Florida coast) and in a portion of the Central Planning Area that, in general, is within 100 miles of the coastline of Florida. There are two small areas in the new Eastern Gulf Planning Area west of the Military Mission Line and one small area in the new

[6] GOMESA was enacted as Division C, Title I of Public Law 109-432, an act to amend the Internal Revenue Code of 1986 to extend expiring provisions, and for other purposes.
[7] These two areas contain technically recoverable resources estimated at 637 million barrels of oil and 2.8 trillion cubic feet of natural gas. Anticipated production numbers, which tend to be lower, are still to be determined.

Central Gulf Planning Area north of the Sale 181 Area that remain subject to the Presidential Withdrawal through 2012, but are not subject to the new 2022 moratorium under GOMESA.

Figure 1 illustrates the provisions of GOMESA and the areas now available for leasing under the Act. GOMESA requires MMS to lease 546,000 acres in the Eastern GOM Planning Area not included in the Proposed 5-Year Leasing Program, necessitating supplemental environmental review. The Central GOM portion of the 181 Area was reviewed in a draft Environmental Impact Statement (EIS) published in November 2006, and will be available for lease in Sale 205 scheduled for early fall 2007. The second additional sale area, the 181 South Area, consists of approximately 5.8 million acres in the Central GOM Planning Area, and will also receive an appropriate environmental review before any leasing occurs.[8]

GOMESA requires sharing of certain revenues generated from leases entered into on or after the date of enactment (defined by GOMESA as "qualified OCS revenues") according to the following general formula:

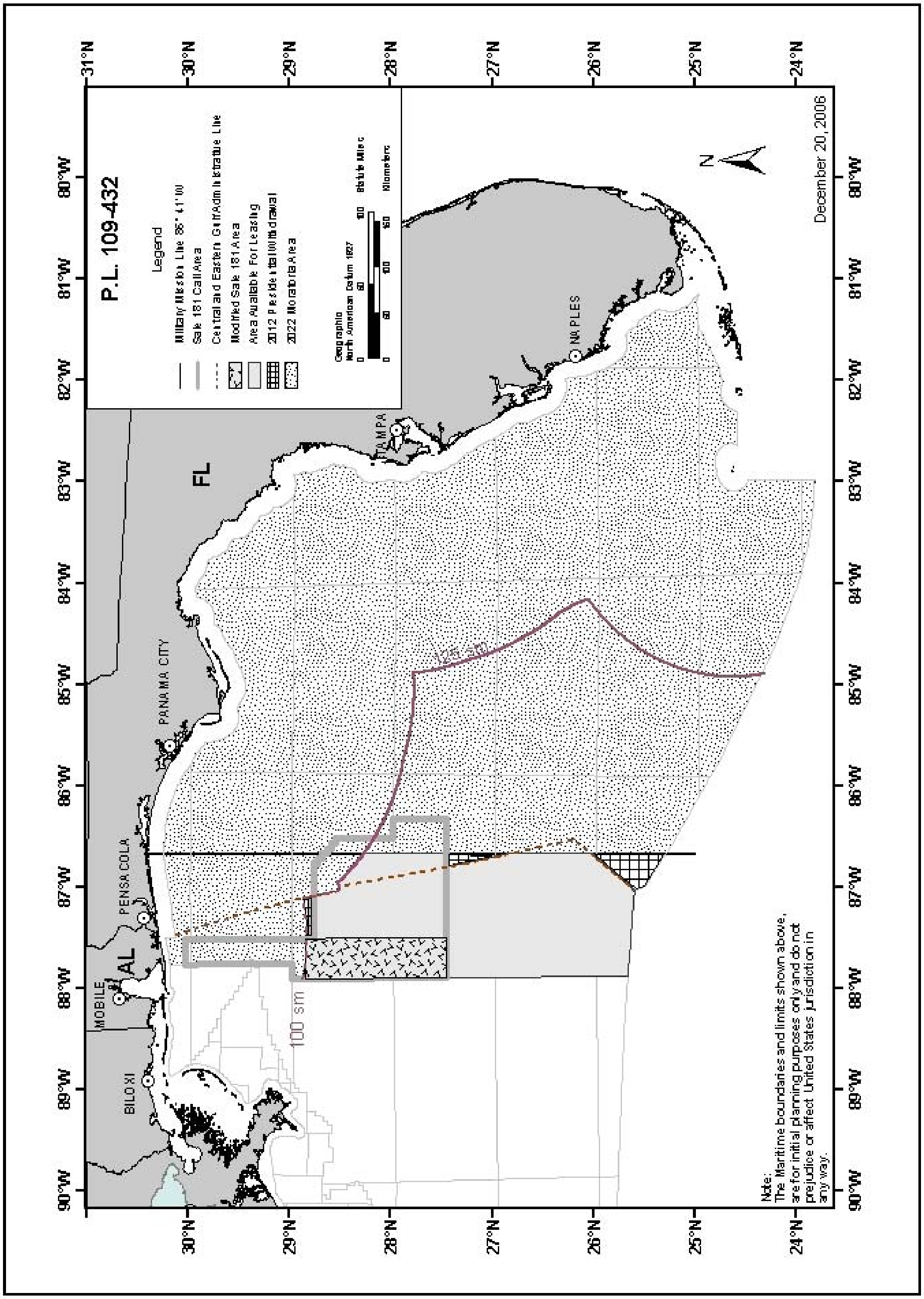
- 50 percent to the General Fund of the U.S. Treasury;
- 37.5 percent to GOM producing states (based on proximity of leases to individual states) and coastal political subdivisions; and
- 12.5 percent to the Land and Water Conservation Fund for coastal restoration projects.

Beginning immediately, GOMESA would share with Gulf coast states 37.5 percent of all revenues (bonus bids, rents, and royalties) from the new areas made available for leasing under the Act (i.e., the 181 South Area and the portion of the original Sale 181 Area in the Eastern Planning Area and beyond 125 miles from Florida). An additional 12.5 percent of revenues from these areas would be provided to state programs through the Land and Water Conservation Fund (LWCF).

In addition, beginning in 2017, GOMESA would share revenue from any new leases signed after enactment in the current program areas of the Gulf. The revenue would be shared in the same percentages (37.5 percent to the Gulf states and 12.5 percent to LWCF) as for the new areas. However, GOMESA placed a cap of $500 million per year (through 2055) on the revenue that could be shared from leases in the current program areas; revenues in excess of this cap would be deposited in the Treasury.

[8] On January 9, 2007, President Bush modified the Presidential withdrawal memorandum to allow leasing in the 181 South Area.

Figure 1. Areas Available for Leasing in Gulf of Mexico



Deepwater OCS Production Royalty Rates

Deepwater OCS development has increased significantly in recent years as the technologies for accessing oil and gas deposits in deeper and deeper waters have progressed and become commonplace within the industry. In the meantime, oil and gas prices have risen dramatically, making OCS operations increasingly profitable. In order to ensure that American taxpayers are fairly compensated for the sale of Federal OCS minerals, MMS recently announced that it will raise royalty rates from 12.5 percent to 16.67 percent for all new deepwater GOM leases beginning in 2007. MMS estimates that the increased royalty rate of 16.67 percent for new deepwater offshore GOM leases will increase OCS royalty revenues by $4.5 billion over the next twenty years, and by substantially more after that. The rate increase is incorporated into the revenue and offsetting collections projections in the 2008 MMS budget.

Based on current leasing plans, the next lease sale to which such a rate will apply is scheduled for August 2007, and will be announced in the Proposed Notice of Sale in April 2007. Frontier areas, such as the Alaska OCS will not be subject to the increased royalty rate.

Net Receipts Sharing

In order to partially cover the costs of administering the Federal mineral leasing program, the 2008 President's Budget proposes amending section 35 of the Minerals Leasing Act (MLA) to implement a form of "Net Receipts Sharing" (NRS), whereby two percent will be deducted from the states' share of receipts from Federal leasing activities under the MLA. The two percent accounts for the states' portion of the administrative costs incurred by Federal agencies, and would be deposited into miscellaneous receipts (U.S. Treasury).

Deep Gas and Deep Water Incentives

The 2008 budget proposes to repeal Section 344 of the Energy Policy Act of 2005, which extended existing deep gas incentives in two ways. First, it mandated an increase in the royalty suspension volumes from 25 to 35 billion cubic feet of natural gas in a third drilling depth category (greater than 20,000 feet subsea). Second, it directed that incentives for all three drilling depth categories also be applied to leases in 200-400 meters of water. The 2008 budget also proposes to repeal Section 345 of the Energy Policy Act, which provided additional mandatory royalty relief for certain deep water oil and gas production. Additional royalty relief for oil and gas exploration is unwarranted in today's price environment. A legislative proposal will be transmitted to Congress to propose repeal.

PROGRAM OVERVIEW

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 rely on the efforts of MMS.

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 a fair return 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 analysis completed for the proposed 2007-2012 OCS Oil and Gas Leasing Program indicated that implementing the new program would result in the anticipated production of an additional 10 billion barrels of oil and 45 trillion cubic feet of gas, with $170 billion in net benefits for the nation over a forty year time span. With the enactment of GOMESA, these numbers will probably change. Those changes will be reflected in the Final Plan.

Providing Economic Value

Between 1982 and 2006, MMS distributed $164.9 billion in revenues from onshore and offshore lands (for the 2006 distribution amounts, see the MRM Overview). 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.

States also benefit directly from Federal mineral revenue sharing arrangements, a source of discretionary revenue that many state governments use 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 carrying out of the Secretary's Indian trust responsibilities.

PRESIDENT'S MANAGEMENT AGENDA

The MMS continues 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, other Federal agencies and industry. Management reform is, and will continue to be, an integral part of MMS business operations; and while MMS has been able to achieve many improvements, there will always be opportunities for more. By working smarter, MMS is able to efficiently and effectively support accomplishment of its Resource Use strategic plan mission goals. The following provides a brief summary of MMS status in implementing the PMA components.

Budget and Performance Integration

The MMS remains committed to the integration of budget and performance data for improved resource decisionmaking. This is the first MMS budget to include the full cost (direct and indirect costs) for select measures presented in the Goal Performance Table. The Bureau continues to refine this data and to build upon and strengthen the linkage between cost and performance data.

In preparing the 2008 budget request, MMS management analyzed base funding for opportunities to cut expenses or shift resources to higher priority needs. Each Associate Director met with his or her managers, budget, performance, and program staff to determine resources needed to achieve planned performance. The highest priority needs were identified and this information was submitted to the Executive Committee (EC) for review. Following EC review, managers were required to reassess base funds to determine additional offsets for proposed increases. After further discussion, the highest priority initiatives were selected to go forward in the budget request. This robust budget formulation process ensures that performance, budget, and program staff work closely with management to determine the best allocation of resources.

The MMS strives to maintain current levels of performance by: improving operational efficiencies; capturing efficiency gains by eliminating or delaying the backfilling of positions; focusing resources on accomplishment of core mission work; leveraging resources to fund new workload demands; and reallocating funds to accomplish planned performance goals. Also, MMS will continue implementation of the RIK Business plan. The Bureau has seen a reduction in audit and litigation costs over revenues owed to the government as a result of RIK. The MMS will continue to pursue productivity and quality improvements for carrying out the mission while reducing the cost.

MMS Costing Performance Measures Background: In 2003, the Bureau implemented activity based costing (ABC). The MMS bureau work elements (i.e., activities) are mapped to the Department ABC activities. The DOI activities map to the end outcome goals and intermediate strategies in the Strategic Plan. The Bureau's resources align with the Bureau work elements, so costs can be traced from the resource to the DOI activities, strategic plan intermediate strategies, and end outcome goals.

The MMS fully costs end outputs and can provide managers with output and workload data, and costs for their organization. As appropriate, Bureau ABC data is considered with other information when making resource decisions.

With three years of data, the Bureau has begun to use ABC cost information in high level analyses to support resource allocation decisions. For instance, in 2005, two studies were conducted using 2004 data derived from the Bureau ABC system. The data was used to support methodologies for calculating revenues that could be generated through cost recovery and to cover RIK administrative costs. The MMS continues to work to refine the Bureau ABC model to meet MMS management needs for accurate, timely data for operational decisionmaking.

Cost Alignment with Performance: The MMS's mission primarily supports the Strategic Plan Resource Use, energy end outcome goal "manage or influence resource use to enhance public benefit, responsible development, and economic value" under the Department plan.

Analysis of Current Performance Structure: In 2005, MMS conducted an analysis of the Bureau performance structure to determine the hierarchical and inter-relationships between cost and performance.

The MMS continues to work to refine how best to meet the Office of Management and Budget (OMB) and DOI requirements to fully cost its performance. The MMS is providing full cost for what were identified as key performance indicators (KPIs). The KPIs were selected from the existing pool of strategic plan, PART, and Bureau measures. These are broad based measures, representing core functions of the Bureau mission.

The Bureau's 43 end output measures are aligned with each KPI, and these measures capture the full cost of achieving the target level of performance. This provides MMS management with a strategic analysis of program operations.

This is the first budget developed under the new performance structure. Incorporation of the new performance structure in the Strategic Plan will improve MMS's ability to align performance data with DOI work activities. The MMS will refine the costing methodology and approach for projecting future costs of KPIs and end output measures. It is anticipated the cost data will be derived primarily from the Bureau ABC system.

Improve Report Capabilities: The MMS continues to improve report capabilities to provide decision makers with timely, accurate cost and performance information.

During 2007, the Bureau will continue work to refine the Bureau ABC model in the new software and improve reporting. The goals, by 2008, are to improve the capacity to provide managers with consolidated reports so they can readily see key trends, and to provide greater transparency on how resources are being allocated across the organization.

The cost information provided in the Bureau performance tables represents the full cost of the KPIs and associated end output measures. The data used to determine actual and projected cost is derived from the Bureau ABC data.

Use of Program Assessment Rating Tool (PART) Information within MMS: MMS managers are continuing to use PART information to determine resource allocations and to identify possible cost savings. The MMS has utilized the PART process to develop performance and efficiency measures for its various programs.

Risk Management: A continuous goal in budget and performance planning is to incorporate consideration of risk factors. During 2006, MMS has focused on ensuring that we meet requirements of the revised OMB Circular A-123 by proactively (1) developing and implementing appropriate, cost-effective internal controls for results-oriented management, (2) assessing the adequacy of internal controls in our programs and operations, (3) separately assessing and documenting internal controls, (4) identifying needed improvements, (5) taking corresponding corrective action, and (6) reporting annually on all aspects of internal control through management assurance statements. Key risks identified during this process will be considered as MMS analyzes base budget resources and determines the best way to direct the base resources to mitigate risk.

Strategic Management of Human Capital

The MMS continues to implement the strategies outlined in our *Workforce Plan.* 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. The Workforce Plan is updated quarterly to keep the plan current, and to capture new workforce challenges and the strategies for addressing them. 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 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.

The key workforce planning challenges 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 2008 program budget requests, 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.

Competitive Sourcing

The MMS competitive sourcing program continues to serve as an effective tool for managers. In 2006 MMS studied 93 FTE and reviewed an additional 58 FTE. The incumbent Federal workforce won all competitions as a result of the establishment of more efficient organizational configurations. The Federal Activities Inventory Reform (FAIR) Act inventory has also been a useful mechanism that provides an opportunity for the MMS to examine the functions its employees perform. Under the FAIR Act inventory process, MMS describes its functions in terms of commercial viability. This provides management an additional benchmark when it considers the structures and practices of the organization.

In 2007 and 2008, MMS expects to review or study more than 500 FTE, a number that represents more than one-fourth of the workforce. The Bureau held a lessons-learned seminar attended by the principals of all our recent studies. To improve the quality and consistency of the Bureau’s efforts, participants shared valuable information to make future studies more effective and efficient. The MMS has been conducting increasingly effective competitive sourcing studies for the past several years.

Improving Financial Performance

From 2004 through 2006, MMS and contractors conducted numerous workshops and training/testing sessions as a part of the process to convert all bureaus within the Department to one financial management system. The MMS converted to the Financial and Business Management System (FBMS) for financial transactions, beginning in 2007. Once completed, the final 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.

FBMS will be implemented in phases throughout the Department. As one of the initial bureaus to go-live with the core financial system (SAP), MMS must ready itself for the multiple demands of a new complex systems implementation.

For the initial deployment, MMS personnel worked with the DOI project management office and the system integrator, IBM, to convert existing MMS data and test systems and to adjust its business processes for modified procedures. Interfaces have been developed between the limited FBMS system and legacy systems that worked with the prior system, the Advanced Budget and Accounting Control and Information System (ABACIS). All deployments require MMS experts to work with project teams to ensure MMS business needs are addressed; Bureau experts also work on teams to further standardize business processes across the DOI. Each deployment requires employees to be trained and tested in new system procedures.

Expanding Electronic Government (E-Gov)

In the 2008 budget request, MMS contributes $92,300 to support the President's E-Government initiatives. This amount is paid into the Department's Working Capital Fund Account, and costs are distributed based upon relative benefits received by each bureau. The Departmental Management budget justification includes amounts for each initiative and describes the benefits received from each E-Government activity. The vast majority of the Bureau-specific E-Government efforts, such as MMS's OCS Connect, are included within the Bureau's request.

Since the Department issued its E-Gov Strategic Plan, MMS has developed two Bureau-level plans that complement the Department's plan, a Bureau IT Strategic Plan, and a Bureau E-Gov Strategic Plan. The MMS has developed an E-Gov 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. A few of the E-Gov initiatives MMS is involved with include the following:

- **OCS Connect:** The OCS Connect project is a phased, multi-year, E-Gov transformation of MMS's Offshore Minerals Management program. The blueprint for the OCS Connect project was developed in response to the increasing complexity of oil and gas operations, greater workloads, and the need for more sophisticated technical analyses and secure data exchange. Industry and public priorities were critical drivers for OMM's E-Gov initiative. The OCS Connect project will change the manner in which OMM delivers its mission. By moving to online service delivery, our organization will be more "connected" to our stakeholders.
- **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. An Electronic Resources Management System (ERMS) component of this initiative was begun as a pilot program in 2006. A Bureau-wide sub-team is developing a flexible retention schedule to integrate into the ERMS. This schedule should be completed during 2008.
- **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 provide access to 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 Homeland Security Presidential Directive-12 (HSPD-12) requirements, MMS has begun upgrading physical access control systems. Installation of a Personal Identity Verification (PIV) Credential capable physical access control system was begun at selected MMS facilities during 2006, with the remainder to be determined on both need and a timetable. In compliance with HSPD-12, MMS expects to issue employees and contractors a PIV Credential no later than October 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.

The Bureau 2008 budget request supports the Departmental Information Management Programs of Records Management, Privacy, Freedom of Information, Web Management, Electronic and Information Technology Accessibility, and Information Quality to comply with the Privacy Act, Freedom of Information Act, Executive Order 13392, FISMA, the E-Government Act of 2002 Sections 515 and 207, the Rehabilitation Act Section 508, and the Federal Records Act.

Capital Asset Justifications for the Bureau's major IT investments can be viewed at http://www.doi.gov/ocio/cp/index.html. Departmental Exhibit 300s (including MMS IT Investment Overviews) may be viewed at http://www.doi.gov/foia/freq.html.

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 refer to the appendix for a discussion of the Department's and Bureau's efforts in the use of Research and Development Criteria.

Energy Management

As all of MMS office space is owned or leased by the General Services Administration (GSA), GSA has direct control of our facilities. However, MMS facilities personnel work in partnership with GSA and the building management companies to improve energy efficiency. The MMS has issued educational materials to all our employees regarding "Energy Conservation Guidelines." We will continue our collaborative energy management practices and expand our energy education program through the use of informational materials.

Asset Management (Fleet Management)

The MMS has no capital assets other than its small vehicle fleet.

In 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. The fleet has been downsized and right-sized by acquiring and maintaining the minimum number and size of vehicles that will accomplish the mission, which included disposing of underutilized vehicles. Whenever possible, we purchase alternative fuel vehicles. MMS will strive to reduce our vehicle fuel consumption by curtailing non-essential travel and encouraging employees to carpool or use the shuttle or public transportation whenever possible. The Bureau has issued educational materials to all employees regarding “Fuel Conservation Guidelines” for vehicles.

Environmental Management

The GSA leases all the office space for the MMS. Therefore, we do not have any facilities that are appropriate for environmental audits and are not required to have an Environmental Management System (EMS) in place. The GSA requires an EMS be used by the lessor. The Bureau supports the requirements that GSA imposes on the lessor and works with GSA and building management to ensure their requirements are carried out.

The MMS supports environmentally friendly procurement practices. On February 27, 2006, we issued Acquisition Management Memorandum No. 2006-001, establishing MMS’s Affirmative Procurement Program (APP). The APP formalizes MMS’s goal to increase purchases of recycled-content products and environmentally preferable products and services to the extent feasible, consistent with price, performance, availability, and safety considerations. In addition to requiring consideration of environmental factors in acquisition processes, this policy requires acquisition personnel, including MMS business-line charge card holders, to attend green procurement training, preferably through the Office of Personnel Management’s Gov Online Learning Center (GOLearn.gov). The MMS Support Services Office considers Leadership in Environmental and Energy Design (LEEDs) planning when purchasing furniture and carpet.

The MMS utilizes the DOI/UNICOR MOU to dispose of unserviceable IT equipment. The MOU provides the MMS an environmentally safe and regulatory compliant alternative to landfill disposal through the recycling or surplus of unserviceable electronic equipment. All offices have active recycling programs for paper and aluminum and some include plastic and glass. Also, toner cartridge recycling programs and cell phone donation programs are in place.

The MMS fully supports the Department’s efforts to promote environmentally friendly practices including those governing recycling and waste prevention. The MMS has made good progress by working to enhance environmental performance through effective real and personal property management. Moreover, the MMS will continue its collaborative efforts by working with our public and private partners to achieve greater results.

PERFORMANCE SUMMARY

The MMS's mission is to manage the ocean energy and mineral resources on the Outer Continental Shelf and Federal and Indian mineral revenues to enhance both public and trust benefits, promote responsible use, and realize fair value. Within the Department's strategic framework, MMS supports accomplishment of the Resource Use mission area.

- **Resource Use (energy) –** improve resource management to assure responsible use and sustain a dynamic economy. Intermediate outcomes include:
  - Effectively manage and provide for efficient access and development;
  - Enhance responsible use management practices; and
  - Ensure appropriate value through effective lease and permit management.

Table 4: 2008 Budget Request by Interior Mission Goal *				
Minerals Management Service ($000's)	**2006 Enacted**	**2007 President's Request**	**2008 President's Request**	**2008 Change From 2007**
Resource Use - Energy	255,975	264,600	297,181	+32,581
Resource Use – Non-Energy	3,101	3,098	**---**	**---**
Serving Communities	21,948	24,586	**---**	**---**
Total	**281,024**	**292,284**	**297,181**	**+4,897**
Offsetting collections	-122,730	-128,730	-135,730	-7,000
Total Appropriation Request	**158,294**	**163,554**	**161,451**	**-2,103**
* Under the DOI Strategic Plan FY 2007-FY2012 MMS reports all activities and costs under the Resource Use (energy) mission area. In previous submissions MMS reported FY 2006 and FY 2007 information for the Resource Use (energy and non-energy) and Serving Communities mission areas.				

Resource Use Mission Area (Energy)

The 2008 Resource Use goal area request of $297.2 million provides the resources needed to conduct leasing, resource evaluation, regulatory, and asset management activities. This request directly supports the MMS corporate goals shown in the previous diagram. Annually MMS conducts approximately 25,000 compliance inspections to ensure safe and clean operations on the OCS. This work has been instrumental in maintaining a high level of compliance among operators. MMS Offshore activities provide direct support for the President's mandate to increase domestic energy production by managing assets to meet the energy needs of the nation. Revenue management activities ensure proper collection, accounting, reporting, and timely disbursement of royalties. Through use of royalty-in-kind, MMS has increased the amount of revenues collected.

Table 5: MMS Funding and the DOI Resource Use Mission Goal				
($000)	**2006 Enacted**	**2007 President's Request**	**2008 President's Request ***	**2008 Request Change From 2007**
Manage or Influence Resource Use to Enhance Public Benefit, Responsible Development, and Economic Value (energy) **	255,975	264,600	297,181	+32,581
Enhance Public Benefit, Promote Responsible Use, and Ensure Appropriate Value (non-energy)	3,101	3,098	---	---
Total	**259,076**	**267,698**	**297,181**	**+29,483**
* Under the DOI Strategic Plan FY 2007-FY2012 MMS reports all activities and costs under the Resource Use (energy) mission area. In previous submissions MMS reported FY 2006 and FY 2007 information for the Resource Use (energy and non-energy) and Serving Communities mission areas.				
** Under the former DOI Strategic Plan, this strategy was titled as "Enhance Public Benefit, Promote Responsible Use, and Ensure Appropriate Value (energy)."				

The following measures highlight MMS planned performance accomplishments in the Resource Use mission area with the resources requested.

Table 6: Planned Performance Accomplishments – Resource Use (Energy)

Measure	**2007 Planned**	**2008 Planned**
Number of offshore lease sales held consistent with the Secretary's 2007-2012 Five-Year Program	2	5
Percent of Federal and Indian revenues disbursed on a timely basis per statute	97%	98%
Percent of available offshore oil and gas resources offered for leasing compared to what was planned in the Secretary's Five-Year Plan	29% [2]	TBD [1]
Amount (in barrels) of offshore oil spilled per million barrels produced	5	5
Composite accident severity ratio	0.07	0.06
Percent of late disbursements	3%	2%
Percent of Federal and Indian royalties compliance work completed within the 3-year compliance cycle	65% of CY 2004 royalties [3]	TBD [3]
Net return (in dollars) to the government through Royalties in Kind (RIK) (estimated)	$51.8M (cum)	$59.6 M (cum)

[1] Final FY 2008 target is dependent on the adoption of the Final 2007-2012 5-Year Program.
[2] Final FY 2007 target is dependent on the adoption of the Final 2007-2012 5-Year Program.
[3] In FY 2007, MMS is reducing its target from 72% to 65%, in order to redirect resources to develop and pilot the new methodology to assess compliance risks. Refer to the MRM-CAM tab, Compliance Assurance Program Performance section, Compliance Strategy – Office of the Inspector General's Report subsection. Also refer to the first measure on Table 38 in the MRM Compliance and Asset Management tab. Revised compliance coverage measurement, based on new risk strategy, and targets for FY 2008 forward, will be available by the end of FY 2007.

The MMS will continue to implement the following key strategies in 2008:

Provide for access to energy and mineral resources: Conduct lease sales scheduled in the new OCS 5-Year Leasing Program (2007 to 2012); the number of lease sales is dependent on adoption of the final Program. Continue implementation of the Alternative Energy program.

Ensure appropriate value for America's resources: In 2006, MMS disbursed about $12 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 distribution and disbursement function ensures that revenues are properly disbursed to the appropriate recipients. The MMS achieved 94.5 percent timely disbursements in 2006. In 2007 the MMS target performance is to achieve 97 percent timely disbursements; the 2008 target is 98 percent.

Effectively manage and provide for efficient access and development: As previously noted, the final 2007 target is dependent on the adoption of the Final 2007-2012 OCS 5-Year Leasing Program. As a result of settlement of litigation brought by the State of Louisiana, MMS postponed Sale 201, scheduled for March 2007 in the Central Gulf of Mexico (CGOM). MMS is proposing to offer this area for leasing consideration in Sale 205, along with the CGOM portions of the old Sale 181 Area, in the 2007-2012 OCS 5-Year Leasing Program. All CGOM sale tracts will be offered in later sales. Additionally, the 2007 "Special" Chukchi Sea Sale will not be held. The next Chukchi Sea Sale is proposed to be held in FY 2008. Two CGOM sales may be offered in FY 2008.[9]

Enhance responsible use management practices: The MMS will continue to carry out a comprehensive program to ensure that mineral and alternative energy operations on the OCS are conducted in a safe and environmentally sound manner. In 2007 the MMS target performance is to achieve an annual accident severity ratio of 0.07 or less; the 2008 target is 0.06 or less. This key indicator of responsible resource extraction activities monitors operator safety and environmental performance.

The MMS remains committed to safety and environmental protection as top priorities. In both 2007 and 2008, the MMS performance targets are to achieve an oil spill rate of no more than 5 barrels spilled per million produced.

Appropriate value through effective lease and permit management: In 2007 the MMS target performance is to achieve late disbursements of three percent or less; the 2008 target is two percent.

In 2006, MMS achieved its highest-ever level of contemporaneous compliance coverage by confirming reasonable compliance on 72.5 percent of all CY 2003 royalties. In the 2007 President's Budget, MMS indicated we would be analyzing risk and resource data to determine the correct targets for 2007 and 2008. The analysis, using in-target resources and considering

[9] Refer to the OMM-Leasing and Environmental tab, page 67, for a discussion of the 2007-2012 OCS 5-Year Oil and Gas Leasing Program schedule.

risks, resulted in targets of 65 percent of all CY 2004 royalties for 2007.[10] However, as a result of the December 6, 2006 Office of the Inspector General report, MMS will be developing a new risk strategy and performance targets that reflect the number of companies and or leases covered, not total revenue. In addition, as RIK gas volumes expand, MMS expects offshore compliance workloads to decrease, freeing up resources to be redirected toward highest risk, small-dollar onshore Federal properties.

The MMS performance target for the net return (in dollars) to the government through RIK for 2007 is $51.8 million (cumulative); the 2008 target is $59.6 million (cumulative).

Performance and Cost Impact of Key Budgetary Changes

The MMS Initiatives in the 2008 budget have the following overarching themes:

- Funding for maintaining important national energy supplies;
- Funding for conservation and environmental efforts;
- Ensuring that taxpayers receive appropriate value for the sale of OCS resources;
- Cost savings to the government by using automated tools to contemporaneously identify potential problems in revenue adjustments made by the companies; and
- Cost savings to MMS by paying less late disbursement interest to states.

In addition, the five proposed program initiatives (three in OMM and two in MRM) further MMS's activities to provide major economic and energy benefits to the country.

The MMS plays an important role in President Bush's National Energy Policy by securing ocean energy for the Nation. MMS's 5-Year OCS Leasing Program, Ultra-Deepwater, and Gulf of Mexico Region (GOMR) Hurricane Damage recovery initiatives enable MMS to continue its role in providing access to important national energy supplies. The Proposed 5-Year OCS Leasing Program considers increasing the areas available for leasing consideration, including the North Aleutian Basin, the mid-Atlantic and an expanded area in the Central Gulf of Mexico, an increase of 17.542 million acres. The Ultra-Deepwater initiative supports engineering and operational safety studies to evaluate industry plans and permits to assess the risks associated with drilling and facility development. It is key to the review and approval of plans for further growth of deepwater and ultra deep subsurface production. The GOMR Hurricane Damage Recovery initiative focuses resources on addressing damaged wells that could cause future pollution problems, which can also impact future production. All three of these initiatives support the development of energy.

The three initiatives already discussed also support MMS's role in providing safe and environmentally sound access to these domestic energy resources. Investment in the 5-Year OCS Leasing Program supports needed environmental analysis, environmental studies, resource

[10] In FY 2007, MMS is reducing its target from 72.5% to 65%, in order to redirect resources to develop and pilot the new methodology to assess compliance risks. Refer to the MRM-CAM tab, Compliance Assurance Program Performance section, Compliance Strategy – Office of the Inspector General's Report subsection. Also refer to the first measure on Table 38 in the MRM Compliance and Asset Management tab. Revised compliance coverage measurement, based on new risk strategy, and targets for FY 2008 forward, will be available by the end of FY 2007.

assessment, and leasing consultation involved with the leasing program. The Ultra-Deepwater initiative supports studies to assess the integrity of deepwater production facilities. The GOMR Hurricane Damage Recovery initiative dedicates resources to work toward proper well abandonment and pollution prevention from wells damaged during 2005's hurricanes, thus preventing future pollution. The above initiatives support MMS's efforts to protect the environment while ensuring environmentally sound access to our nation's energy resources.

Finally, MMS ensures the country receives fair value for its mineral resources, and collects, accounts for, substantiates, and disburses more than $8 billion annually. The MMS's Interactive Payment Reconciliation and Billing initiative is intended to eliminate areas of concern in MMS's Chief Financial Officer (CFO) audit and the payment of late disbursement interest to states. The initiative will greatly facilitate the timely issuance of late payment interest invoices and resolution of accounts receivables, thus resulting in reduced interest liabilities to states, and a cost savings to the U.S. Treasury. The Adjustment Line Monitoring initiative will help to ensure that the government receives all the revenues owed by companies. The requested funding would ensure that improper adjustments are identified in a timely manner and that the government receives and maintains the proper mineral revenue payments.

Key budgetary changes tables follow for three of the initiatives in the FY 2008 request – Table 7: OCS 5-Year Leasing Program; Table 8: Ultra-Deepwater; and Table 9: Interactive Payment Reconciliation and Billing. Please keep in mind:

- Performance at proposed budget levels for outyears assumes continued funding at the 2008 request level and that there will be no inflation. No inflation means that costs of staff, goods, services, etc. are expected to be the same in the outyears as they are in 2008. This does not mean that cost per unit is expected to stay the same. Please refer to the comments and footnotes on the tables.
- Baseline performance is the performance to be achieved without the budgetary change.
- The cost information (total and unit) is presented at the request level (i.e., with the budgetary change).

Table 7: Key Budgetary Changes: OCS 5-Year Leasing Program, (+$4,000,000 / +6FTE)

	2004 Actual	2005 Actual	2006 Enacted	2007 President's Budget	2007 Plan	2008 Plan	2009 Estimate	2010 Estimate	2011 Estimate [2/]	2012 Estimate
Number of offshore lease sales held consistent with the Secretary's Five Year Program (SP)										
Performance at Proposed Budget Level	4	4	2	2	2	5	TBD	TBD	TBD	TBD
Performance Change						+3		+1 (North Aleutian)		+1 (North Aleutian)
Total actual/projected cost ($M) [3/]	30.5	32.7	33.1	34.7	34.7	37.7	37.7	37.7	37.7	37.7

This measure counts lease sales conducted under the OCS Oil and Gas Leasing Program. The 2002-2007 Program ends in June 2007; the 2007-2012 Proposed Program is under development through the extensive consultation process prescribed by the OCS Lands Act. The President's Budget supports the Proposed Program for 2007-2012 (published in August 2006) by providing environmental information to conduct lease sales in five expanded OCS program areas (Central GOM, Chukchi Sea, Beaufort Sea, Cook Inlet, North Aleutian Basin). Expansion of OCS acreage available for leasing consideration, a significant amount of which has not been offered/evaluated for decades, requires an investment in environmental studies, environmental analysis, resource assessment, and leasing consultation. Funding provided in 2008 will support future lease sales, primarily in the North Aleutian Basin.

Note: The 2007 plan is the performance level based upon a projection of 2007 likely enacted made during the first quarter of 2007. The 2008 plan and out-year targets build on the 2007 Plan. To the extent Congress enacts a 2007 appropriation that is different from the 2007 projection, the 2008 and out-year targets may require revision.

Table 8: Key Budgetary Changes - Ultra-Deepwater (+$1,300,000/ +5 FTE)

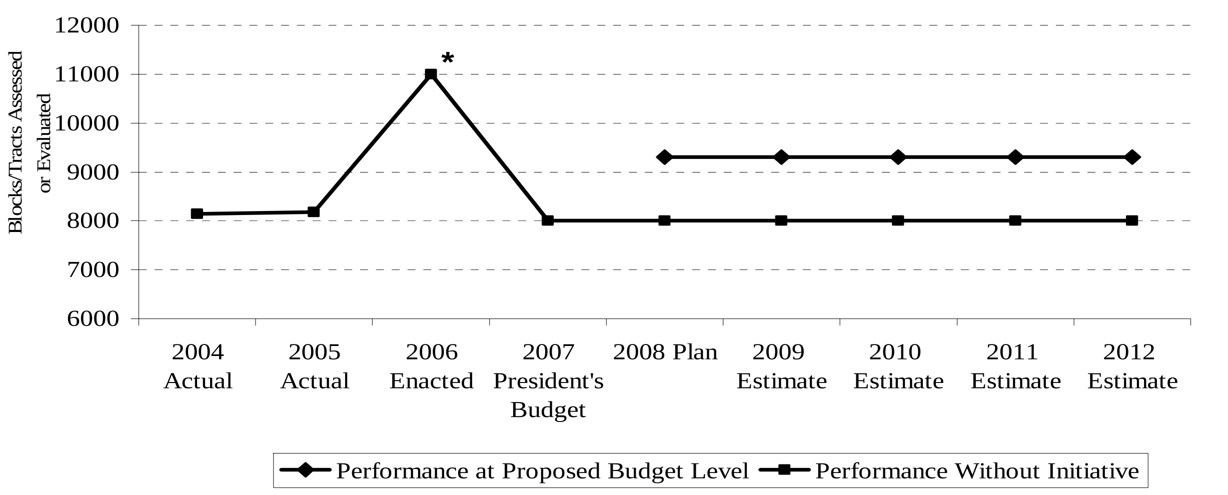
	2004 Actual	2005 Actual	2006 Enacted	2007 President's Budget	2007 Plan	2008 Plan	2009 Estimate	2010 Estimate	2011 Estimate	2012 Estimate
Blocks/Tracts Assessed or Evaluated (ABC)										
Performance at Proposed Budget Level						9,300	9,300	9,300	9,300	9,300
Performance w/o Initiative	8,140	8,177	10996 [1/]	8,000	8,000	8,000	8,000	8,000	8,000	8,000
Performance Change	N/C	N/C	N/C	N/C	N/C	+16%	+16%	+16%	+16%	+16%
Total actual/projected cost ($M)	43.3	46.6	47.4	47.9	47.9	48.3	48.3	48.3	48.3	48.3
Total actual/projected cost without initiative ($M)	43.3	46.6	47.7	47.9	47.9	46.6	46.6	46.6	46.6	46.6
Actual/projected cost per unit (whole dollars)	2,195	950	5,925	5,990	5,990	5,150	5,150	5,150	5,150	5,150

In the base period under the current 5-year Program (2002-2007), MMS experienced an average of 8,000 OCS tracts evaluated per year. Based on the proposed 2007-2012 program, MMS expects 9,300 tracts per year. It is anticipated that the proposed 5-year program, with its 5-expanded program areas while surveying for interest in one additional planning area, will result in far more, labor-intensive, block/tract evaluation units. The number of OCS blocks/tracts evaluated (and thus, the unit cost thereof) fluctuates significantly from year to year due to the "size" of sales.

[1/] *Of the 10,996 blocks/tracts evaluated in FY 2006, 3,003 were Atlantic tracts. New geologic information was evaluated for the Proposed 2007-2012 5-Year Oil and Gas Leasing Program. This evaluation in the Atlantic was a special occurrence.*

Note: The 2007 plan is the performance level based upon a projection of 2007 likely enacted made during the first quarter of 2007. The 2008 plan and out-year targets build on the 2007 Plan. To the extent Congress enacts a 2007 appropriation that is different from the 2007 projection, the 2008 and out-year targets may require revision.

Figure 2: Key Budgetary Changes: Ultra-Deepwater



* Of the 10,996 blocks/tracts evaluated in FY 2006, 3,003 were Atlantic tracts (which is a special occurrence).

Table 9: Key Budgetary Changes- Interactive Payment Reconciliation and Billing, (+$1,450,000)

	2004 Actual	2005 Actual	2006 Enacted	2007 President's Budget	2007 Plan	2008 Plan	2009 Estimate	2010 Estimate	2011 Estimate	2012 Estimate
Reduce accounts receivable over 120 days by X%										
Performance at Proposed Budget Level [1]	N/A	N/A	Sept. 30, 2006 Baseline: $231.6M	N/A	-10% -$23.2M	-20% (cum) -$46.3M	-30% (cum) -$69.5M	-40% (cum) -$92.7M	-60% (cum) -$139.0M	-80% (cum) -$185.3M
Performance w/o Initiative	N/A	N/A	N/A	N/A	-10%	-20% (cum)	-30% (cum)	-35% (cum)	-40% (cum)	-45% (cum)
Performance Change	N/A	N/A	N/A	N/A	0%	0%	0%	-5% (cum)	-20% (cum)	-35% (cum)
Total actual/projected cost at Budget Level ($000)	41,885	42,282	43,703	44,458	44,458	45,628 [2]	45,628 [2]	44,178 [2]	44,178 [2]	44,178 [2]
Total actual/projected cost without initiative ($000)	41,885	42,282	43,703	44,458	44,458	44,178	44,178	44,178 [2]	44,178 [2]	44,178 [2]
Actual/projected cost per % Change ($)	N/A	N/A	N/A							

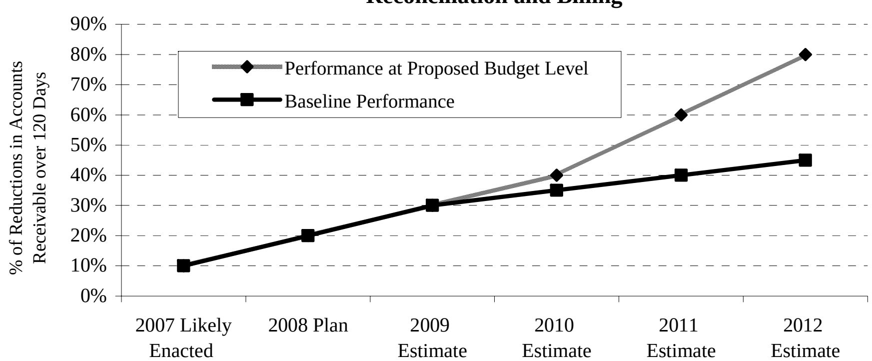
Note: During 2007-2009, MRM will utilize manual processes to reduce receivables. During 2010, after system enhancements have been implemented, we anticipate a learning curve for Industry. We are anticipating greater benefits will be recognized during 2011 and 2012.

[1] *Targets are stated cumulatively FY 2007-2012.*

[2] *Costs for 2008 and 2009 reflect the fact that this is a two year initiative. Costs for 2009 thru 2012 are not adjusted for inflation.*

Note: The 2007 plan is the performance level based upon a projection of 2007 likely enacted made during the first quarter of 2007. The 2008 plan and out-year targets build on the 2007 Plan. To the extent Congress enacts a 2007 appropriation that is different from the 2007 projection, the 2008 and out-year targets may require revision.

Figure 3: Key Budgetary Changes - Interactive Payment Reconciliation and Billing



Data Verification and Validation

The MMS has implemented data verification and validation (V&V) processes based upon guidance issued by the Department and OMB. In 2006, MMS published a Data V&V procedures guide. The procedures are based upon the Department Data V&V matrix issued in January 2003. There is an identified official for each measure who is responsible for ensuring the accuracy of data.

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. Responsibility for performance reporting is included in senior managers' annual performance plans and cascaded down through the organization.

Figure 5: MMS Organizational Chart

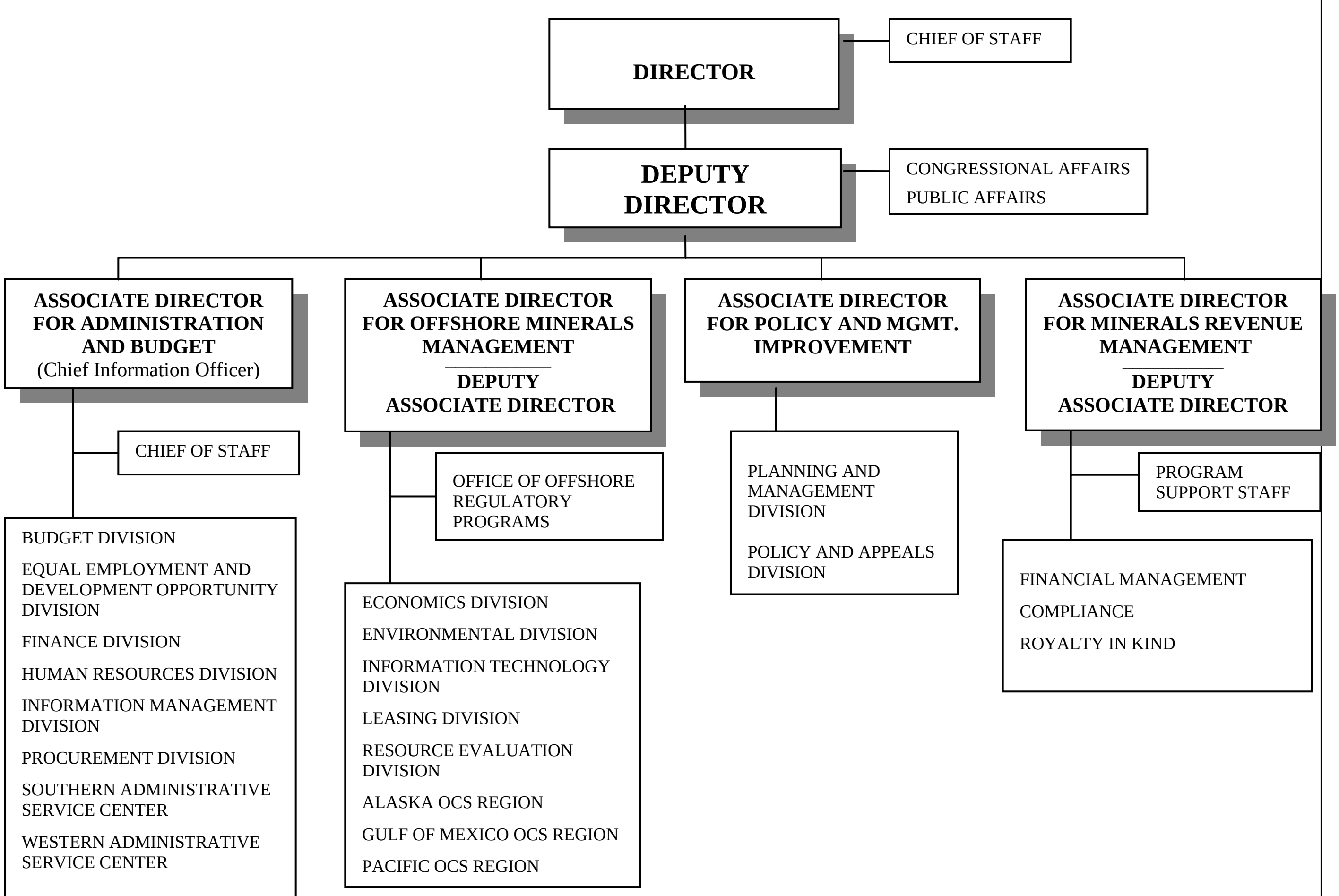


Table 10: Goal Performance Table - Resource Use (energy)

Target Codes: SP - Key Strategic Plan measures; NK - Non-Key measures; TBD - Targets have not yet been developed; PART - PART measures; UNK - Prior year data unavailable; BUR - Bureau specific measure; ABC - Bureau ABC Output; NA - Long-term targets are inappropriate to determine at this time

Type Codes: C - Cumulative Measures; A - Annual Measures; F - Future Measures

Notes: 1/ FY 2007, FY 2008, and FY 2012 baselines and targets have been adjusted to meet final goals and measures in the FY 2007-2012 Strategic Plan. **2/** The 2007 plan is the performance level based upon a projection of 2007 likely enacted made during the first quarter of 2007. The 2008 plan and 2012 long-term targets build on the 2007 Plan. To the extent Congress enacts a 2007 appropriation that is different from the 2007 projection, the 2008 plan and 2012 targets may require revision.

End Outcome Goal 1.1 Resource Use (energy): Manage or influence resource use to enhance public benefit, responsible development, and economic value.

End Outcome Measure/Intermediate or PART Measure/PART Efficiency or Other Outcome Measure	Type	2004 Actual	2005 Actual	2006 Plan	2006 Actual	2007 President's Budget	2007 Plan	2008 Plan	Change from 2007 Plan to 2008	Long-term Target 2012
GPRA End Outcome Measures										
Number of offshore lease sales held consistent with the Secretary's 2007-2012 5-Year Program (SP)	C/F	4	4	2	2	4*	2	5	+3	TBD
Contributing Programs	OMM-Leasing and Environment, Resource Evaluation									
Comments (see also next page)	*This measure counts lease sales conducted under the OCS Oil and Gas Leasing Program. The 2002-2007 Program ends in June 2007; the 2007-2012 Program is under development through the extensive consultation process prescribed by the OCS Lands Act. The 2008 President's Budget supports the Proposed Program for 2007-2012 (published in August 2006) by providing environmental information to conduct lease sales in five expanded OCS program areas (Central GOM, Chukchi Sea, Beaufort Sea, Cook Inlet, North Aleutian Basin). Expansion of OCS acreage available for leasing consideration, a significant amount of which has not been offered or evaluated for decades, requires an investment in environmental studies, environmental analysis, resource assessment, and leasing consultation. Funding provided in 2008 will primarily support future lease sales in the North Aleutian Basin.*									

Table 10: Goal Performance Table - Resource Use (energy) (continued)

End Outcome Goal 1.1 Resource Use (energy): Manage or influence resource use to enhance public benefit, responsible development, and economic value.										
End Outcome Measure/Intermediate or PART Measure/PART Efficiency or Other Outcome Measure	**Type**	**2004 Actual**	**2005 Actual**	**2006 Plan**	**2006 Actual**	**2007 President's Budget**	**2007 Plan**	**2008 Plan**	**Change from 2007 Plan to 2008**	**Long-term Target 2012**
Comments, contin.	** Two sales are currently scheduled for FY 2007 (Beaufort Sea and Western GOM). As a result of settlement of litigation brought by the State of Louisiana, MMS postponed Central Gulf of Mexico (CGOM) Sale 201, scheduled for March 2007. Five sales are currently scheduled for FY 2008 including (2) Central GOM, Western GOM, Chukchi Sea and Eastern GOM (The Gulf of Mexico Energy Security Act of 2006 makes new OCS acreage available, including a small portion of the Gulf of Mexico Eastern Planning Area). Final FY 2007-2012 targets are dependent on the adoption of the Final 2007-2012 5-Year Program. The MMS is continuing consultation with the State of Louisiana and other stakeholders to define the Final 5-Year Program. The Final Program may provide a different schedule than the Proposed Program. **Although the Proposed Program includes a Mid-Atlantic sale in 2011, the budget request does not provide for investment in the Mid-Atlantic Planning Area, which is currently subject to statutory moratoria and Presidential withdrawal from leasing.*									
Percent of Federal and Indian revenues disbursed on a timely basis per statute (SP/PART)	A	95.5% ($1.344B / $1.407B)	98% ($1.978B / $2.011B)	96.5%	94.5% ($2.505B / $2.650B)	97%	97%	98%	1%	99%
Contributing Programs	MRM-Revenue and Operations									
Comments	*FY 2006 result, although below target, is within DOI's +/- 5% range for "target met." In FY 2006, MRM focused on reducing accounts receivable and unapplied payments. This resulted in the processing of several older payments, which lowered our timely disbursements result to 95%, compared to 98% in FY 2005. MRM has completed this work. Timely disbursements should increase during FY 2007.*									

Table 10: Goal Performance Table - Resource Use (energy) (continued)

End Outcome Measure/Intermediate or PART Measure/PART Efficiency or Other Outcome Measure	Type	2004 Actual	2005 Actual	2006 Plan	2006 Actual	2007 President's Budget	2007 Plan	2008 Plan	Change from 2007 Plan to 2008	Long-term Target 2012
Intermediate Outcome Strategy 1: Effectively manage and provide for efficient access and development										
GPRA Intermediate Outcome Measures, and Bureau and PART Outcome Measures										
Percent of available offshore oil and gas <u>resources</u> offered for leasing compared to what was planned in the Secretary's Five-Year Plan (SP)	C/F	2002-2007 Leasing Program Target: >75%						2007-2012 Leasing Program Target: TBD		
Contributing Programs	OMM-Leasing and Environment, Resource Evaluation									
Percent of available OCS <u>acres</u> offered for leasing in a 5 Year Program compared to what was planned for leasing (PART)	C/F	2002-2007 Leasing Program Target: 75%						2007-2012 Leasing Program Target: TBD		
Contributing Programs	OMM-Leasing and Environment, Resource Evaluation									
Comments	*The results for the 2002-2007 Program cannot be fully determined until the final notice of sale is issued for the last sale in that program (Spring 2007). If all the sales scheduled in the 5-Year Program for a specific year were held, meaning no major deferrals of acreage, the available resources offered would be 100%. However, the current, and proposed, 5-year programs include "special sales," a process designed for the remote areas of Alaska that contain prospects for oil and gas, but are currently considered to have high risk, high costs, and lower industry interest. The process takes advantage of new technology, changing costs and prices, and other factors affecting interest by making such areas available. If industry does not express an interest in the Call for Information, presale work does not continue. The 2007-2012 Program is under development through the extensive consultation process prescribed by the OCS Lands Act and is slated to take effect July 1, 2007. Target will be developed as the Program is finalized (Spring 2007).*									

Table 10: Goal Performance Table - Resource Use (energy) (continued)

End Outcome Measure/Intermediate or PART Measure/PART Efficiency or Other Outcome Measure	Type	2004 Actual	2005 Actual	2006 Plan	2006 Actual	2007 President's Budget	2007 Plan	2008 Plan	Change from 2007 Plan to 2008	Long-term Target 2012
Percent of available OCS acres offered in each year's lease sales (PART)	C/F	>57%	>99%	99%	94%	TBD	32%	TBD	--	TBD
Contributing Programs	OMM-Leasing and Environmental and Resource Evaluation									
Percent of available OCS oil and gas resources offered in each year's lease-sales (PART)	C/F	>88%	>99%	>99%	99%	TBD	29%	TBD	--	TBD
Contributing Program	OMM-Leasing and Environment, Resource Evaluation									
Comments	*These measures count the acreage and resources offered through lease sales scheduled under the Secretary's 5-Year OCS Oil and Gas Leasing Program. The 2007 targets assume that the Beaufort Sea and Western GOM sales will be held and the Central GOM and Chukchi sales in the 2002-2007 5-Year Program will not be held on schedule. The 2007 Central GOM sale was postponed as part of the Sale 200 litigation settlement with the State of Louisiana. The 2007 Chukchi sale is not being held because additional presale environmental analysis is required to allow the offering of the area identified as being of interest. The Chukchi and Central GOM acreage will be offered in the next 2007-2012 5-Year Program. Acreage and resource targets will be developed as the 2007-2012 Program is finalized (Spring 2007).*									
Change in acres with leasing incentives receiving bids compared to acres receiving bids without incentives in previous sales (PART)	C/F	+1.5 million	+1.5 million	+1.0 million	+1.2 million	TBD	TBD	TBD	TBD	TBD
Contributing Program	OMM-Leasing and Environment and Resource Evaluation									
Comments	*This measure tracks the effect of MMS leasing royalty incentives (subject to price thresholds) 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.*									
Percent of leases drilled for 1st time - 5 Year Leases (PART) (calendar year)	C/F	8.4% (129/1,531)	7.1% (132/1,858)	7.5%	5.9% (119/2,023)	7.5%	6.0%	6.1%	No Change	6.1%
Contributing Program	OMM-Regulatory									

Table 10: Goal Performance Table - Resource Use (energy) (continued)

End Outcome Measure/Intermediate or PART Measure/PART Efficiency or Other Outcome Measure	Type	2004 Actual	2005 Actual	2006 Plan	2006 Actual	2007 President's Budget	2007 Plan	2008 Plan	Change from 2007 Plan to 2008	Long-term Target 2012
Percent of leases drilled for 1st time - 8/10 Year Leases (PART)(calendar year)	C/F	1.2% (43/3,531)	1.1% (42/3,918)	1.7%	1.1% (43/3,774)	1.7%	1.3%	1.4%	No Change	1.5%
Contributing Program	OMM-Regulatory									
Comments	*Results for 2005 and 2006 reflect lower than projected activity due to industry curtailment of operations immediately prior to and following Hurricanes Katrina, Rita, and Wilma. OCS operators are continuing to dedicate resources to re-establish production and repair/replace the damaged infrastructure during 2006. Some drilling rigs and ships previously used to drill exploratory wells are dedicated to developmental and appraisal drilling due to damages sustained by the drilling platforms and a backlog of recent deepwater discoveries. There are currently 7 new ultra-deepwater rigs under construction and 2 additional ultra-deepwater rig upgrades with contracts to work in the Gulf of Mexico. These additional rigs are expected to be added to the GOM rig fleet between 2008 and 2010. Additionally, many shallow water jack-up drilling rigs have left the Gulf of Mexico for international work as the number of leases held by industry remains steady or is increasing. The jack-up rigs leaving the GOM usually get 3 to 5 year contracts overseas compared with well-to-well contracts in the GOM.*									
Intermediate Outcome Strategy 2: Enhance responsible use management practices										
GPRA Intermediate Outcome Measures, and Bureau and PART Outcome Measures										
Composite accident severity ratio (SP/PART)	C/F	0.08	0.03	0.08	0.05	0.07	0.07	0.06	-0.01	0.05
Contributing Programs	OMM-Regulatory									
Comments	*True targets are zero; figures presented here are used as expected values for performance analysis. MMS remains committed to safety and environmental protection as top priorities.*									
Maintain an annual composite operator performance index of X or less (PART/BUR)	C/F	0.17	0.11	0.20	0.15	0.20	0.20	0.20	No Change	0.20
Contributing Programs	OMM-Regulatory									
Reduce number of fatalities among workers in DOI permitted or contracted activities (PART)	C/F	3	6	2001-2005 Avg = 7 2006 Target = 6	9	REDUCE	2002-2006 Avg = 7 2007 Target = 6	REDUCE	REDUCE	REDUCE
Contributing Programs	OMM-Regulatory									

Table 10: Goal Performance Table - Resource Use (energy) (continued)

End Outcome Measure/Intermediate or PART Measure/PART Efficiency or Other Outcome Measure	Type	2004 Actual	2005 Actual	2006 Plan	2006 Actual	2007 President's Budget	2007 Plan	2008 Plan	Change from 2007 Plan to 2008	Long-term Target 2012
Reduce number of serious injuries among workers in DOI permitted or contracted activities (PART)	C/F	29	23	2001-2005 Avg = 24 2006 Target=23	29	REDUCE	2002-2006 Avg = 24 2007 Target=23	REDUCE	REDUCE	REDUCE
Contributing Program	OMM-Regulatory									
Comments	*The MMS target is to continually reduce the number of deaths and serious injuries. A rolling 5-year average is used to calculate an expected value for the result. We set our target by reducing from the expected value. The 2006 result was likely due to the unusual offshore activity level during FY 2006. During FY 2006 the offshore industry in the Gulf of Mexico has been engaged in recovering from the record damage caused by Hurricanes Katrina and Rita. The number of repair operations and man-hours has been well above that of recent years. Additionally, several of the fatalities and serious injures are regulated by the USCG, but counted in MMS results because the incident occurred on or near an OCS facility.*									
Amount (in barrels) of offshore oil spilled per million barrels produced (SP/PART)	C/F	7.9 (4,768/ 600.5 million)	31.2 (17,404/ 557.4 million)	5	.9 (416/476 million)	5	5	5	No Change	5
Contributing Programs	OMM-Regulatory									
Comments	*Recent results are subject to revisions as hurricane damage assessments are completed and additional oil is recovered. MMS remains committed to safety and environmental protection as top priorities. 2004 results excluding Hurricane (Ivan) spills are .2 per million barrels produced. 2005 results excluding Hurricane (Katrina & Rita) spills are also .2 per million barrels produced. The 2005 result was impacted by the hurricanes with both an increase in numerator (spillage) and reduced denominator (shut-in production).*									
Less than X% of total gas produced is approved to be flared offshore (BUR)	C/F	.25% (10,509,681/ 4,157,266,134 MCF)	.28% (9,699,600/ 3,472,841,890 MCF)	1.1	data available early 2007	0.8	0.8	0.8	No Change	0.8
Contributing Program	OMM-Regulatory									
Comments	*Increased 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.*									

Table 10: Goal Performance Table - Resource Use (energy) (continued)

Intermediate Outcome Strategy 2: Enhance responsible use management practices										
End Outcome Measure/Intermediate or PART Measure/PART Efficiency or Other Outcome Measure	**Type**	**2004 Actual**	**2005 Actual**	**2006 Plan**	**2006 Actual**	**2007 President's Budget**	**2007 Plan**	**2008 Plan**	**Change from 2007 Plan to 2008**	**Long-term Target 2012**
GPRA Intermediate Outcome Measures, and Bureau and PART Outcome Measures										
Process X% of exploration plans in less than 30 days (BUR)	C/F	100% (350/350)	99% (367/371)	70%	75% (259/345)	100%	100%	100%	No Change	100%
Contributing Programs	OMM-Regulatory									
Process X% of offshore environmental assessments for development plans within 8 months (BUR)	C/F	100% (1/1)	100% (8/8)	100%	100% (9/9)	100%	100%	100%	No Change	100%
Contributing Programs	OMM-Leasing and Environment									
Process X% of development plans in less than 120 days (BUR)	C/F	100% (314/314)	100% (258/258)	95%	94% (293/313)	100%	100%	100%	No Change	100%
Contributing Programs	OMM-Regulatory									
Process X% of right-of-way pipeline applications within 140 days (BUR)	C/F	98% (133/136)	93% (144/155)	70%	97% (133/137)	100%	90%	90%	No Change	90%
Contributing Programs	OMM-Regulatory									
Comments	*The 2005 results and 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. Katrina and Rita damaged 457 pipelines and 101 larger diameter pipelines (10 inches or greater). The target for future years is lower than the 2004 and 2005 actual values due to a significant increase in workload for pipeline modification permits and other damage reporting in FY 2006. Pipeline damage assessments are still ongoing.*									

Table 10: Goal Performance Table - Resource Use (energy) (continued)

End Outcome Measure/Intermediate or PART Measure/PART Efficiency or Other Outcome Measure	Type	2004 Actual	2005 Actual	2006 Plan	2006 Actual	2007 President's Budget	2007 Plan	2008 Plan	Change from 2007 Plan to 2008	Long-term Target 2012
Conduct Technology Assessment and Research studies on X% of high-priority topics (BUR)	C/F	70% (16/23)	75% (16/20)	70%	70% (17/22)	70%	70%	90%	+20	70%
Contributing Programs	OMM-Regulatory									
Comments	*Proposed funding level offsets anticipated decreasing performance by providing increased funding for critical information needs related to ultra-deepwater operations. The anticipated performance increase to 90% for 2008 is contingent upon receiving the additional funding in the safety research budget. At the same time, the costs and complexity of the projects will be escalating which will cause a decrease in years beyond 2008. See Deepwater initiative.*									
Achieve a utilization rate of X% at OHMSETT, the national oil spill response test facility (BUR)	C/F	84%	75%	75%	80%	75%	75%	83%	+8%	83%
Contributing Programs	OMM-Oil Spill Research									
Comments	*2008 President's Budget reflects a return of funding following completion of a $1,000,000/year 4-year major renovation that ends in 2007. The anticipated performance increase to 83% for 2008 is contingent upon continuing to receive $500,000 in Ohmsett renovation funding for maintenance.*									
Total Number of Compliance Inspections Completed (PART/ABC-DOI)	A	24,938	23,115	23,000	19,961	25,000	22,300	22,000	- 300	22,300
Contributing Programs	OMM-Regulatory									

Table 10: Goal Performance Table - Resource Use (energy) (continued)

End Outcome Measure/Intermediate or PART Measure/PART Efficiency or Other Outcome Measure	Type	2004 Actual	2005 Actual	2006 Plan	2006 Actual	2007 President's Budget	2007 Plan	2008 Plan	Change from 2007 Plan to 2008	Long-term Target 2012
Inspect X safety and pollution prevention components per year (BUR/ABC-MMS)	A	67,608	64,025	60,000	56,454	66,560	60,500	60,000	- 500	60,500
Contributing Programs	OMM-Regulatory									
Comments	*2005 and 2006 results 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 have been adjusted to reflect the Gulf of Mexico loss of more than 4000 components and 125 facilities due to Hurricanes Ivan, Katrina and Rita. A significant number of smaller facilities have not returned to production and are not operating. Historically, the GOM facilities/components have been flat. The MMS is also conducting more component sampling and performance based inspections which focus on higher risk facilities and reduce the component and inspection count. The MMS expects this trend to continue into the near future.*									
Intermediate Outcome Strategy 3: Appropriate value through effective lease and permit management										
Conduct full Coast Guard inspections on X% of manned offshore facilities annually (BUR)	A	16% (173/1,110)	15% (164/1,109)	10%	13% (154/1124)	10%	10%	10%	No Change	10%
Contributing Programs	OMM- Regulatory									
Comments	*Inspection of U.S. Coast Guard regulated items is a function that was provided for by regulation but one for which MMS is not reimbursed. Assumption of limited responsibilities by MMS was pursued following a report by the Inspector General that the U.S. Coast Guard was not conducting inspections of safety items on fixed facilities, as required by law. At this time, MMS inspectors conduct a limited FPSIP (fixed platform self inspection program) inspection on every platform that they visit and have a target of conducting full FPSIP inspections on 10 percent of manned facilities. Increasing the number of full FPSIP inspections by MMS inspectors would detract from performing inspections of equipment and operations under MMS jurisdiction.*									

Table 10: Goal Performance Table - Resource Use (energy) (continued)

End Outcome Measure/Intermediate or PART Measure/PART Efficiency or Other Outcome Measure	Type	2004 Actual	2005 Actual	2006 Plan	2006 Actual	2007 President's Budget	2007 Plan	2008 Plan	Change from 2007 Plan to 2008	Long-term Target 2012
Structure Permits Pending (ABC-MMS)	A	75	108	N/A	204	N/A	200	150	-50	90
Contributing Programs	OMM- Regulatory									
Comments	*The baseline for the number of structure permits pending (2004) is 75. As a result of the hurricanes, but just as significantly the impact of the aging infrastructure in the GOM and the complexity of structure modification permits received, the backlog has doubled. Many of the structures are beyond their original design life and require significant engineering analysis and coordination with industry to ensure the structure remains sound. Frequently operations cannot proceed until the permits are approved.*									
Percent of high bids accepted or rejected within 60 days (PART)	C/F	63% (572/906)	78% (612/786)	65%	68% (530/785)	65%	65%	65%	No Change	65%
Contributing Programs	OMM-Resource Evaluation									
Comments	*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 for 62 days immediately prior to and following Hurricanes Katrina and Rita. Absent such adjustment, the result would be 36% (283/786). The reason the outyear targets are lower than the 2005 actual value is a result of increased workload in the deepwater area where currently leased tracts, with 10 year lease terms, will be relinquished, then made available, as follows: 478 in 2007, 783 in 2008, and 437 in 2009. It is anticipated that greater than 45% of these tracts will be bid on; this plus other available acreage will likely place 2007-2009 sales over and above the baseline 600 tracts receiving bids.*									

Table 10: Goal Performance Table - Resource Use (energy) (continued)

End Outcome Measure/Intermediate or PART Measure/PART Efficiency or Other Outcome Measure	Type	2004 Actual	2005 Actual	2006 Plan	2006 Actual	2007 President's Budget	2007 Plan	2008 Plan	Change from 2007 Plan to 2008	Long-term Target 2012
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	57% (12/21)	83% (15/18)	50%	39% (9/23)	50%	50%	50%	No Change	50%
Contributing Programs	OMM-Resource Evaluation									
Comments	*The 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. Twenty-five high bids received in 2005 were rejected as insufficient for fair market value; associated tracts may be re-offered in future lease sales. Although actuals exceeded the target in 2004 and 2005, with higher prices, we do not appear to be receiving the same interest in previously rejected tracts that was evident in the past. In recent sales, there has not been much interest in some of the lower-valued, rejected tracts on re-offering.*									
Maintain the ratio of 1.8 to 1 (+/- 0.4) of accepted high bids to MMS' estimated value (BUR)	C/F	2.1 to 1	1.9 to 1	1.8 to 1 (+/- 0.4)	2.1 to 1	1.8 to 1 (+/- 0.4)	1.8 to 1 (+/- 0.4)	1.8 to 1 (+/- 0.4)	No Change	1.8 to 1 (+/- 0.4)
Contributing Programs	OMM-Resource Evaluation									
Comments	*Measure includes only accepted high bids (not all high bids). Government value based on the dollar measure of the MMS estimate of a tract's expected net present value, given that the tract is leased in a current lease sale.*									
Reserves recovered per dollar of funding for the conservation management component of the program (PART)	A	6.8	3.5	5.2	20.4	5.2	5.2	5.2	No Change	5.2
Contributing Programs	OMM-Regulatory									
Comments	*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. Through the review of Conservation Information Documents, MMS analyzes reservoirs that an operator has proposed to bypass. The MMS has made operators commit to develop zones that the operator had proposed to bypass. The price of oil has increased significanly in 2006. This made reservoirs that may have previously been uneconomic, economic to produce.*									

Table 10: Goal Performance Table - Resource Use (energy) (continued)

End Outcome Measure/Intermediate or PART Measure/PART Efficiency or Other Outcome Measure	Type	2004 Actual	2005 Actual	2006 Plan	2006 Actual	2007 President's Budget	2007 Plan	2008 Plan	Change from 2007 Plan to 2008	Long-term Target 2012
Blocks/Tracts Evaluated (ABC)	A	8,140	8,177	8,000	10,996	8,000	8,000	9,300	+1,300	9,300
Contributing Programs	OMM-Resource Evaluation									
Comments	*In the base period under the current 5-year Program (2002-2007), MMS experienced an average of 8,000 OCS tracts evaluated per year. Based on the proposed 2007-2012 program, MMS expects 9,300 tracts per year. It is anticipated that the proposed 5-year program, with its 5-expanded program areas while surveying for interest in one additional planning area, will result in far more, labor-intensive, block/tract evaluation units. The number of OCS blocks/tracts evaluated (and thus, the unit cost thereof) fluctuates significantly from year to year due to the "size" of sales.* *Of the 10,996 blocks/tracts evaluated in FY 2006, 3,003 were Atlantic tracts. New geologic information was evaluated for the Proposed 2007-2012 5-Year Oil and Gas Leasing Program. This evaluation in the Atlantic was a special occurrence.*									
Program: Minerals Revenue Management										
Net return (in dollars) to the government through royalties-in-kind (RIK) (SP/PART)	C	$19.7M	$36M (cum)	$43.9M (cum)	See note [1/] in Comments	$51.8M (cum)	$51.8M (cum)	$59.6M (cum)	$7.8M	TBD [2/]
Contributing Programs	MRM-Compliance and Asset Management									
Comments	*1/ FY 2006 results not available until April 2007 at which time results for the period October 1, 2005 through September 20, 2006 will be reported.* *2/ MRM's goal is $67.5M by FY 2009. 2004 result was the baseline. Annual targets are based on cumulative progress made 2005 and forward in reaching the $67.5 million 5-year target. Due to market volatility and its potential impact on revenue uplift, future gains – or losses – will be variable. Targets for FY 2010 forward will be addressed during MRM's Business Planning initiative, and will be available by the end of FY 2008.*									
Percent of late disbursements (SP)	C	4.5% ($0.063B / $1.407B)	2% ($0.033B / $2.011B)	3.5%	5.5% [3/] ($0.145B / $2.650B)	3%	3%	2%	- 1%	1%
Contributing Programs	MRM-Revenue and Operations									
Comments	*3/ Please see comments to "Percent of Federal and Indian revenues disbursed on a timely basis per statute" measure above.*									

Table 10: Goal Performance Table - Resource Use (energy) (continued)

End Outcome Measure/Intermediate or PART Measure/PART Efficiency or Other Outcome Measure	**Type**	**2004 Actual**	**2005 Actual**	**2006 Plan**	**2006 Actual**	**2007 President's Budget**	**2007 Plan**	**2008 Plan**	**Change from 2007 Plan to 2008**	**Long-term Target 2012**
Percent of Federal and Indian royalties compliance work completed within the 3-year compliance cycle (SP/PART)	A	69.4% of CY 2001 royalties ($4.763B / $6.865B)	71% of CY 2002 royalties ($4.289B / $6.000B)	72% of CY 2003 royalties ($5.784B / $8.034B)	72.5% of CY 2003 royalties ($5.827B / $8.035B)	79% of CY 2004 royalties $7.116B / $9.007B)	65% of CY 2004 royalties ($5.855B / $9.007B)	TBD [4/]	TBD	TBD [4/]
Contributing Programs	MRM-Compliance and Asset Management									
Comments	*4/ While it is important to continue the focus on the three-year compliance cycle, royalty dollars should not be the only focus of this measure. The MMS is examining a more dynamic, risk-based approach to measure compliance coverage to include companies and properties. In FY 2007, MMS is reducing its target to 65% in order to redirect resources to develop and pilot the new methodology to assess compliance risks. Please see the MRM-CAM subactivity, Compliance Assurance Program Performance Section, Compliance Strategy-Office of Inspector General Report subsection. Revised compliance coverage measurement, based on new risk strategy, and targets for FY 2008 forward, will be available by the end of FY 2007.*									
X% royalty information reported accurately the first time (PART/BUR)	A	96.7% (2.575M lines / 2.663M lines)	96.9% (3.025M lines / 3.121M lines)	97.5%	97.4% (3.084M lines/ 3.167M lines)	98%	98%	98%	No Change	TBD
Contributing Programs	MRM-Revenue and Operations									
Reduce accounts receivable over 120 days by X% (BUR)	C	N/A	N/A	N/A	Sept. 30, 2006 Baseline $231.6M	N/A	-10% -$23.2M	-20% (cum) -$46.3M	-10% -$23.1M	-80% (cum) -$185.3M
Contributing Programs	MRM-Revenue and Operations									
Comments	*2006 is the baseline year. During 2007-2009,MMS will utilize manual processes to reduce receivables. During 2010, after system enhancements have been implemented, we anticipate a learning curve for Industry. The MMS is anticipating greater benefits will be recognized during 2011 and 2012. More current accounts receivable balances will provide for more timely disbursement of revenues to states, which in turn will reduce late disbursement interest (LDI) costs. The earlier MMS can reconcile accounts receivable and disburse funds, the less interest MMS will have to pay.*									

Table 10: Goal Performance Table - Resource Use (energy) (continued)

End Outcome Measure/Intermediate or PART Measure/PART Efficiency or Other Outcome Measure	Type	2004 Actual	2005 Actual	2006 Plan	2006 Actual	2007 President's Budget	2007 Plan	2008 Plan	Change from 2007 Plan to 2008	Long-term Target 2012
Reduce late disbursement interest costs to taxpayers by X% over 5 years (BUR)	C	N/A	N/A	Baseline Year	Baseline $1.851M	n/p	-20% -$0.370M	-40% (Cum) -$0.740M	-20% -$0.370M	-90% (Cum) -$1.666M
Contributing Programs	MRM-Revenue and Operations									
Comments	*This is a new measure being developed to support a focus on process and systems improvement to increase MMS's overall efficiency and decrease taxpayer dollars spent. In 2006, due to LDI increases in recent years, MMS set a new performance measure targeting reductions in interest paid. The Interactive Payment Reconciliation and Billing initiative would greatly enhance MMS's ability to meet this goal by facilitating quick problem and payment matching resolution, improving communication and coordination between MMS and industry reporters, and shifting greater responsibility for proper reporter accounting to industry reporters. 2006 is the baseline year. More current accounts receivable balances will provide for more timely disbursement of revenues to states, which in turn will reduce LDI costs. The earlier MMS can reconcile accounts receivable and disburse funds, the less interest MMS will have to pay.*									
Reduce time to balance RIK transactions to 180 days for x% of facility measurement points (BUR)	A	80.8% within 180 days (2,979 pts / 3,685 pts)	85.3% within 180 days (3,963 pts / 4,646 pts)	83% within 180 days	84.8% within 180 days (3,808 pts / 4,492 pts)	87% within 180 days	87% within 180 days	89% within 180 days	2%	TBD
Contributing Programs	MRM-Compliance and Asset Management									
Comments	*"Pts" are facility measurement points. Targets for RIK measures for FY 2010 forward will be addressed during MRM's Business Planning initiative, and will be available by the end of FY 2008.*									
Transfer X percent of revenue to OST within 24 hours of receipt (BUR)	A	100% ($92.4M/ $92.4M)	100% ($113.4M/ $113.4M)	99.5%	100% ($157.1M/ $157.1M)	99.5%	99.5%	100%	0.5%	TBD
Contributing Programs	MRM-Revenue and Operations									

Table 10: Goal Performance Table - Resource Use (energy) (continued)

End Outcome Measure/Intermediate or PART Measure/PART Efficiency or Other Outcome Measure	**Type**	**2004 Actual**	**2005 Actual**	**2006 Plan**	**2006 Actual**	**2007 President's Budget**	**2007 Plan**	**2008 Plan**	**Change from 2007 Plan to 2008**	**Long-term Target 2012**
Provide lease distribution data to BIA for X percent of royalties by first semi-monthly disbursement (PART)	A	84% ($64.9M / $77.3M)	92% ($95.8M / $103.2M)	90%	94.7% ($130.0M / $137.3M)	95%	95%	96%	1%	TBD
Contributing Programs	MRM-Revenue and Operations									
Comments	*Targets for 2006, 2007 and 2008 have been increased since submission of the 2007 Greenbook. MRM changed targets in light of past performance and expected future resource allocation.*									
Ensure substantial compliance for X% of Indian gas properties within 3 years for Indian-specific major portion/index pricing terms (BUR)	A	100% of CY 2001; (2,259 properties / 2,259 properties)	100% of CY 2002; (2,216 properties / 2,216 properties)	100% of CY 2003; (2,246 properties/ 2,246 properties)	100% of CY 2003; (2,246 properties / 2,246 properties)	100% of CY 2004; (2,284 properties/ 2,284 properties)	100% of CY 2004; (2,284 properties/ 2,284 properties)	100% of CY 2005	No Change	100% of CY 2009
Contributing Programs	MRM-Compliance and Asset Management									
Reduce RIK administrative costs per BOE by x% over the last 3 years of the RIK Business Plan (FY 2007-2009) (BUR)	C	N/A	N/A	Baseline	See note 5/ in Comments	n/p	-2%	-5% (Cum)	-3%	TBD
Contributing Programs	MRM-Compliance and Asset Management									
Comments	*5/ FY 2006 results not available until April 2007 at which time results for the period October 1, 2005 through September 20, 2006 will be reported. Targets for RIK measures for FY 2010 forward will be addressed during MRM's Business Planning initiative, and will be available by the end of FY 2008.*									

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Table 11: Budget At A Glance - MMS Activity/Subactivity Funding

(dollars in thousands) Bracketed continuing resolution numbers indicate "non-add" and do not add into the totals shown immediately below the bracketed numbers.

	2006 Enacted 1/	2007 President's Request 2/	2008 Initiatives and Reductions: OCS 5-Yr Program	Deepwater Safety	Hurricane Recovery	Reduce Env Studies	Redeploy Resources 3/	Reduce EPAct Imp	Line Mon itoring	Electronic Billing	Reduce OCS Conn	Fixed Cost Increase	Approps to Off. Collect	FY 2008 Request
Offshore Minerals Mgmt.														
Leasing & Environment Prgms.	37,711	45,210	3,863			-1,000	-560	-3,000				688		45,201
Resource Evaluation	29,407	30,117	137	411			-640	-1,000				774		29,799
Regulatory Program	51,472	54,014		889	820		-800					1,146		56,069
Information Management Prgm.	30,181	30,024									-1,394	257		28,887
---Continuing Resolution Adj.		[-10,594]												
Total OMM	**148,771**	**159,365**	**4,000**	**1,300**	**820**	**-1,000**	**-2,000**	**-4,000**	**0**	**0**	**-1,394**	**2,865**		**159,956**
Minerals Revenue Mgmt.														
Compliance & Asset Mgmt.	42,723	43,134							940			1,390		45,464
Revenue & Operations	35,159	36,024					-250	-750		1,450		433		36,907
---Continuing Resolution Adj.		[-1,276]												
Total MRM	**77,882**	**79,158**	**0**	**0**	**0**	**0**	**-250**	**-750**	**940**	**1,450**	**0**	**1,823**		**82,371**
General Administration														
Executive Direction	2,100	2,533										82		2,615
Policy & Mgmt. Improvemt.	4,199	4,090										125		4,215
Administrative Operations	17,044	16,837										723		17,560
General Support Services	24,125	23,398					395					268		24,061
---Continuing Resolution Adj.		[+610]												
Total GA	**47,468**	**46,858**	**0**	**0**	**0**	**0**	**395**	**0**	**0**	**0**	**0**	**1,198**		**48,451**
---Continuing Resolution Adj.		[-11,260]												
ROMM	**274,121**	**285,381**	**4,000**	**1,300**	**820**	**-1,000**	**-1,855**	**-4,750**	**940**	**1,450**	**-1,394**	**5,886**		**290,778**
---Continuing Resolution Adj.		[6,000]												
Offsetting Collections	-122,730	-128,730											-7,000	-135,730
Oil Spill Research	6,903	6,903					-500							6,403
---Continuing Resolution Adj.		[-5,260]												
Minerals Mgmt. Service	**158,294**	**163,554**	**4,000**	**1,300**	**820**	**-1,000**	**-2,355**	**-4,750**	**940**	**1,450**	**-1,394**	**5,886**		**161,451**

1/ Net of across the board reductions.
2/ This column reflects the 2007 President's Request amounts. In fact, MMS is operating under a continuing resolution (CR). The CR amounts (non-add adjustments shown in brackets) equal the annual rate provided under the authority of the third fiscal year 2007 Continuing Resolution, P.L. 109-383 effective through February 15, 2007. For MMS, this CR is equivalent to the 2006 Enacted
3/ The following budget changes are included in this column: OMM's Refocusing Resources initiative (-$2.0 million); MRM's elimination of IT Dial-in Service (-$250,000); and +$395,000 in General Administration for FBMS implementation.

Table 12: Summary of Requirements Table - Royalty and Offshore Minerals Management (ROMM)

Bracketed continuing resolution numbers indicate "non-add" and do not add into the totals shown immediately below the bracketed numbers.

Offshore Minerals Management (OMM)	**2006 Actual (Enacted)**		**2007 Continuing Resolution**		**Fixed Costs and Related Changes**		**Programmatic Changes**		**Appropriations to Collections**		**2008 President's Request**		**Inc(+) Dec(-) From 2007**	
	FTE	**($000)**	**FTE**	**($000)**	**FTE**	**($000)**	**FTE**	**($000)**	**FTE**	**($000)**	**FTE**	**($000)**	**FTE**	**($000)**
Leasing & Environmental														
Appropriation	224	15,505	240	22,004	0	688	0	-697	0	-4,400	240	17,595	0	-4,409
Offsetting Collections	0	22,206	0	23,206	0	0	0	0	0	4,400	0	27,606	0	4,400
Subtotal	224	37,711	240	45,210	0	688	0	-697	0	0	240	45,201	0	-9
Resource Evaluation														
Appropriation	221	18,381	221	18,091	0	774	-2	-1,092	0	0	219	17,773	-2	-318
Offsetting Collections	0	11,026	0	12,026	0	0	0	0	0	0	0	12,026	0	0
Subtotal	221	29,407	221	30,117	0	774	-2	-1,092	0	0	219	29,799	-2	-318
Regulatory														
Appropriation	334	33,023	336	33,565	0	1,146	-2	909	0	-600	334	35,020	-2	1,455
Offsetting Collections	0	18,449	0	20,449	0	0	0	0	0	600	0	21,049	0	600
Subtotal	334	51,472	336	54,014	0	1,146	-2	909	0	0	334	56,069	-2	2,055
Information Management														
Appropriation	74	9,632	74	9,475	0	257	0	-1,394	0	0	74	8,338	0	-1,137
Offsetting Collections	0	20,549	0	20,549	0	0	0	0	0	0	0	20,549	0	0
Subtotal	74	30,181	74	30,024	0	257	0	-1,394	0	0	74	28,887	0	-1,137
Total OMM														
2007 CR Adjustment - Initiative Funding			[-18]	[-6,594]									[+18]	[+6,594]
2007 CR Adjustment - Offsetting Collections			[0]	[-4,000]									[0]	[+4,000]
Appropriation	853	76,541	871	83,135	0	2,865	-4	-2,274	0	-5,000	867	78,726	-4	-4,409
Offsetting Collections	0	72,230	0	76,230	0	0	0	0	0	5,000	0	81,230	0	5,000
2007 CR Adjustment - Total OMM			[-18]	[-10,594]									[+18]	[+10,594]
Total	**853**	**148,771**	**871**	**159,365**	**0**	**2,865**	**-4**	**-2,274**	**0**	**0**	**867**	**159,956**	**-4**	**591**

Table 12: Summary of Requirements Table - ROMM (continued)

Bracketed continuing resolution numbers indicate "non-add" and do not add into the totals shown immediately below the bracketed numbers.

Minerals Revenue Management (MRM)	2006 Actual (Enacted)		2007 Continuing Resolution		Fixed Costs and Related Changes		Programmatic Changes		Appropriations to Collections		2008 President's Request		Inc(+) Dec(-) From 2007	
	FTE	**($000)**	**FTE**	**($000)**	**FTE**	**($000)**	**FTE**	**($000)**	**FTE**	**($000)**	**FTE**	**($000)**	**FTE**	**($000)**
Compliance & Asset Mgmt														
Appropriation	379	25,488	382	25,899	0	1,390	4	940	0	-2,000	386	26,229	4	330
Offsetting Collections	0	17,235	0	17,235	0	0	0	0	0	2,000	0	19,235	0	2,000
Subtotal	379	42,723	382	43,134	0	1,390	4	940	0	0	386	45,464	4	2,330
Revenue & Operations														
Appropriation	181	17,894	180	16,759	0	433	0	450	0	0	180	17,642	0	883
Offsetting Collections	0	17,265	0	19,265	0	0	0	0	0	0	0	19,265	0	0
Subtotal	181	35,159	180	36,024	0	433	0	450	0	0	180	36,907	0	883
Total MRM														
2007 CR Adjustment - Initiative Funding			[-2]	[+724]									[+2]	[-724]
2007 CR Adjustment - Offsetting Collections			[0]	[-2,000]									[0]	[+2,000]
Appropriation	560	43,382	562	42,658	0	1,823	4	1,390	0	-2,000	566	43,871	4	1,213
Offsetting Collections	0	34,500	0	36,500	0	0	0	0	0	2,000	0	38,500	0	2,000
2007 CR Adjustment - Total MRM			[-2]	[-1,276]									[+2]	[+1,276]
Total	**560**	**77,882**	**562**	**79,158**	**0**	**1,823**	**4**	**1,390**	**0**	**0**	**566**	**82,371**	**4**	**3,213**

Table 12: Summary of Requirements Table - ROMM (continued)

Bracketed continuing resolution numbers indicate "non-add" and do not add into the totals shown immediately below the bracketed numbers.

General Administration (GA)	2006 Actual (Enacted)		2007 Continuing Resolution		Fixed Costs and Related Changes		Programmatic Changes		Appropriations to Collections		2008 President's Request		Inc(+) Dec(-) From 2007	
	FTE	($000)	FTE	($000)	FTE	($000)	FTE *	($000)	FTE	($000)	FTE	($000)	FTE	($000)
Executive Direction														
Appropriation	19	1,100	27	1,533	0	82	0	0	0	0	27	1,615	0	82
Offsetting Collections	0	1,000	0	1,000	0	0	0	0	0	0	0	1,000	0	0
Subtotal	19	2,100	27	2,533	0	82	0	0	0	0	27	2,615	0	82
Policy & Mgmt Improvement														
Appropriation	33	3,199	33	3,090	0	125	0	0	0	0	33	3,215	0	125
Offsetting Collections	0	1,000	0	1,000	0	0	0	0	0	0	0	1,000	0	0
Subtotal	33	4,199	33	4,090	0	125	0	0	0	0	33	4,215	0	125
Admin Operations														
Appropriation	158	15,489	160	15,282	0	723	-20	0	0	0	140	16,005	-20	723
Offsetting Collections	0	1,555	0	1,555	0	0	0	0	0	0	0	1,555	0	0
Subtotal	158	17,044	160	16,837	0	723	-20	0	0	0	140	17,560	-20	723
Gen Support Services														
Appropriation	0	11,680	0	10,953	0	268	0	395	0	0	0	11,616	0	663
Offsetting Collections	0	12,445	0	12,445	0	0	0	0	0	0	0	12,445	0	0
Subtotal	0	24,125	0	23,398	0	268	0	395	0	0	0	24,061	0	663
Total General Administration														
2007 CR Adjustment - Initiative Funding			[-10]	[+610]									[+10]	[-610]
2007 CR Adjustment - Offsetting Collections			[0]	[0]									[0]	[0]
Appropriation	210	31,468	220	30,858	0	1,198	-20	395	0	0	200	32,451	-20	1,593
Offsetting Collections	0	16,000	0	16,000	0	0	0	0	0	0	0	16,000	0	0
2007 CR Adjustment - Total Gen.Admin.			[-10]	[+610]									[+10]	[-610]
Total	**210**	**47,468**	**220**	**46,858**	**0**	**1,198**	**-20**	**395**	**0**	**0**	**200**	**48,451**	**-20**	**1,593**
2007 CR Adjustment - Initiative Funding			**-30**	**-5,260**									**30**	**5,260**
2007 CR Adjustment - Offsetting Collections			**0**	**-6,000**									**0**	**6,000**
Total ROMM (CR Adjusted)	**FTE**	**($000)**	**FTE**	**($000)**	**FTE**	**($000)**	**FTE**	**($000)**	**FTE**	**($000)**	**FTE**	**($000)**	**FTE**	**($000)**
Appropriation	1,623	151,391	1,623	151,391	0	5,886	-20	-489	0	-7,000	1,633	155,048	10	3,657
Offsetting Collections	0	122,730	0	122,730	0	0	0	0	0	7,000	0	135,730	0	13,000
Total	**1,623**	**274,121**	**1,623**	**274,121**	**0**	**5,886**	**-20**	**-489**	**0**	**0**	**1,633**	**290,778**	**10**	**16,657**

Table 13: Summary of Requirements Table - Oil Spill Research (OSR)

Oil Spill Research	2006 Actual (Enacted)		2007 Continuing Resolution		Fixed Costs and Related Changes		Programmatic Changes		Appropriations to Collections		2008 President's Request		Inc(+) Dec(-) From 2007	
	FTE	($000)	FTE	($000)	FTE	($000)	FTE *	($000)	FTE	($000)	FTE	($000)	FTE	($000)
Appropriation	18	6,903	18	6,903	0	0	0	-500	0	0	18	6,403	0	-500
Offsetting Collections	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	**18**	**6,903**	**18**	**6,903**	**0**	**0**	**0**	**-500**	**0**	**0**	**18**	**6,403**	**0**	**-500**

Table 14: Summary of Requirements Table - Total MMS Funding

Total MMS (CR Adjusted)	2006 Actual (Enacted)		2007 Continuing Resolution		Changes Relative to 2007 Continuing Resolution: Fixed Costs and Related Changes		Changes Relative to 2007 Continuing Resolution: Programmatic Changes		Changes Relative to 2007 Continuing Resolution: Appropriations to Collections		2008 President's Request		Inc(+) Dec(-) From 2007	
	FTE	($000)	FTE	($000)	FTE	($000)	FTE *	($000)	FTE	($000)	FTE	($000)	FTE	($000)
ROMM Appropriation	1,623	151,391	1,623	151,391	0	9,415	10	7,242	0	-13,000	1,633	155,048	10	3,657
OSR Appropriation	18	6,903	18	6,903	0	0	0	-500	0	0	18	6,403	0	-500
Total Appropriated	1,641	158,294	1,641	158,294	0	9,415	10	6,742	0	-13,000	1,651	161,451	10	3,157
Offsetting Collections	0	122,730	0	122,730	0	0	0	0	0	13,000	0	135,730	0	13,000
Total MMS Funding	**1,641**	**281,024**	**1,641**	**281,024**	**0**	**9,415**	**10**	**6,742**	**0**	**0**	**1,651**	**297,181**	**10**	**16,157**

* For 2006, FTE reductions in Executive Direction, Administrative Operations, and Oil Spill Research reflect an end-of-year correction for lapsed positions (a total of -13 FTE from that shown in the President's Request). For 2008, Administrative Operations FTE reductions are the result of the ongoing transfer of the GovWorks operations from MMS to Departmental Management.

* This table does not include 17 FTE requested in the 2008 President's Request in the Coastal Impact Assistance Program (CIAP), a mandatory account.

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2008 PERFORMANCE BUDGET REQUEST
Offshore Minerals Management

Table 15: OMM Summary of Budget Request

OCS Lands Act Activities		2006 Enacted	2007 CR [1/]	2008 Fixed Costs & Related Changes	2008 Program Changes	2008 Budget Request	Change from 2007 CR
Leasing and Environmental	($000)	37,711	45,210	688	-697	45,201	-9
	FTE	224	240	0	0	240	0
Resource Evaluation	($000)	29,407	30,117	774	-1,092	29,799	-318
	FTE	221	221	0	-2	219	-2
Regulatory	($000)	51,472	54,014	1,146	909	56,069	2,055
	FTE	334	336	0	-2	334	-2
Information Management	($000)	30,181	30,024	257	-1,394	28,887	-1,137
	FTE	74	74	0	0	74	0
Subtotal	**($000)**	**148,771**	**159,365**	**2,865**	**-2,274**	**159,956**	**591**
	FTE	**853**	**871**	**0**	**-4**	**867**	**-4**
Impact of CR	($000)		-10,594	1,781	8,813		10,594
	FTE		-18	0	18		18
Total	**($000)**		**148,771**	**4,646**	**6,539**	**159,956**	**11,185**
	FTE		**853**	**0**	**14**	**867**	**14**
Other Major Resources							
Oil Spill Research Appropriation	($000)	6,903	6,903	0	-500	6,403	-500
	FTE	18	18	0	0	18	0

1/ At completion of this 2008 budget justification, a 2007 appropriation had not yet been enacted, and a year-long continuing resolution (CR) was anticipated. This column reflects numbers from the 2007 President's Request, with an adjusting entry towards the bottom of the table to provide the CR total (P.L. 109-383, effective through February 15, 2007) for OMM, which is equal to the 2006 Enacted number.

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. The 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 facilitation of new oil and gas development, careful regulation, and conservation of resources. Additionally, enactment of the 2005 Energy Policy Act granted MMS—primarily OMM—with authority over renewable use and alternative energy sources offshore such as wind, wave, ocean current, solar, and a variety of other new and emerging technologies.

Impact of the 2007 Continuing Resolution (-$10,594,000; -18 FTE)

At completion of this 2008 budget justification, a 2007 appropriation had not been enacted and substantial uncertainty existed regarding the ultimate level that would be appropriated for 2007. At the Bureau-level and Account-level, adjustments are shown such that these amounts equal the annual rate provided under the authority of the third fiscal year 2007 Continuing Resolution, P.L. 109-383, effective through February 15, 2007, which for MMS is equal to the 2006 Enacted. At lower levels of the budget structure (subactivity and initiative), line items are presented at the 2007 President's Request level.

The 2008 budget restores the priorities of the 2007 President's budget by funding 2007 programmed fixed cost increases, eliminating unrequested 2006 congressional earmarks, and implementing the program enhancement and program reduction initiatives included in the 2007 President's budget.

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; Resource Evaluation; Regulatory; and the Information Management Program which are outlined below.

- The *Leasing and Environmental Subactivity* includes OCS 5-Year Leasing Program implementation, planning and execution; assessment of environmental impacts; protecting the coastal environment; protecting the OCS through compliance with guiding statutes; the Environmental Studies Program, and the Alternative Energy/Alternative Use 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, shared services, hardware, software, training, security activities, maintenance, technical support, TIMS, and OCS Connect.

OMM also manages two other activities, Coastal Impact Assistance Program and Oil Spill Research.

- *The Coastal Impact Assistance Program (CIAP)* The Energy Policy Act of 2005 authorized disbursement of $250.0 million from OCS oil and gas revenues in each of the fiscal years 2007 through 2010 to producing states (Alabama, Alaska, California, Louisiana, Mississippi, and Texas) and coastal political subdivisions (counties, parishes, or boroughs) for approved coastal restoration and conservation purposes.
- The *Oil Spill Research (OSR) appropriation* funds oil spill research, oil spill prevention and response planning activities, 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.

Resource Shifts

The 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, including the OSR appropriation, has dropped by 306, 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 (GOM). Recent examples include the following:

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 GOM ($5 million and 21 FTE) and OCS Connect efforts to streamline business processes ($8.7 million)

2004

- IT reductions, FTE streamlining, and office closures of $4.7 million
- Resources shifted to fund continuing needs in the GOM ($1.6 million), OCS Connect ($2.9 million), methane hydrates ($300,000), and infrastructure security ($350,000)

2005

- Increase of $3.5 million in offsetting collections from offshore activities used, in part, to offset needed increases in appropriated dollars for the OCS Connect project ($4.3 million) and GOM Region interpretive technologies ($1.9 million)

2006

- Closing of the Santa Maria, CA District office ($364,000) and redirection of interpretive-technology funding received in 2005 ($610,000) to offset some of the costs of new needs (helicopter safety, $1,605,000; MONTCAR model, $500,000; and geological interpretive needs, $500,000)
- Offset of $19 million in offsetting collections from offshore activities, including cost recovery fees and increased rental rates, used to replace appropriated dollars to fund bureau-wide operating costs

- Redirection of $477,000 from the sand and gravel cooperative studies funding to higher priority oil and gas program needs

2007-2008

- Use of additional offsetting collections from offshore activities will enable additional appropriated funds to be redirected to other needs within MMS

2008 Budget Request

In 2008, OMM's net program increase (including OSR) is $11.2 million and 14 FTE above the 2007 Continuing Resolution (P.L. 109-383, effective through February 15, 2007).

In comparison to the 2007 President's Budget Request, in 2008 OMM's net program is a decrease (including OSR) of $2.8 million and a reduction of four FTE (see Table 16 below). The 2008 request includes increases of $6.1 million for new, priority program funding requirements, which are offset by an $8.9 million redirection of base funding.

Table 16: OMM Program Performance Estimates Compared to the 2007 President's Budget Request

Request Component	Subactivity	Amount	FTE
OCS 5-Year Leasing Program	**Total**	**+4,000,000**	**+6**
	Leasing & Environmental	+3,863,000	+5
	Resource Evaluation	+137,000	+1
Ultra-Deepwater	**Total**	**+1,300,000**	**+5**
	Resource Evaluation	+411,000	+3
	Regulatory	+889,000	+2
GOMR Hurricane Recovery	Regulatory	**+820,000**	**+4**
EPAct Implementation – Alternative Energy Cost Sharing	Leasing & Environmental	**-3,000,000**	**0**
EPAct Implementation – Methane Hydrate Research	Resource Evaluation	**-1,000,000**	**-1**
Refocusing Resources*	**Total**	**-2,000,000**	**-18**
	Leasing & Environmental	-560,000	-5
	Resource Evaluation	-640,000	-5
	Regulatory	-800,000	-8
Environmental Studies	Leasing & Environmental	**-1,000,000**	**0**
OCS Connect	Information Management	**-1,394,000**	**0**
Ohmsett Operating Account	Oil Spill Appropriation	**-500,000**	**0**
Total Program Changes		**-2,774,000**	**-4**
* Final FTE Reduction Numbers and Funding Levels may shift between subactivities			

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. 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 the Resource Use DOI mission goal. 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.

Demands, Trends and Resources

OCS 5-Year Leasing Program: The OCS Lands Act (OCSLA) requires the Secretary of the Interior to prepare and maintain an oil and gas leasing program that indicates the size, timing and location of leasing activity determined to best meet national energy needs for the 5-year period following its approval.

The 5-Year OCS Oil and Gas Leasing Program for 2007-2012 ("Proposed Program") is under development through an extensive consultation process prescribed by the OCSLA. The comment period for the Draft Proposed Program opened on February 10, 2006, and closed on April 11, 2006. On August 25, 2006, a second draft, the Proposed Program, and the associated Draft Environmental Impact Statement (DEIS) were released to the public. The comment periods for these two documents closed on November 24th and November 22nd, respectively. The Proposed Program includes 21 sales in seven of the 26 OCS planning areas - two areas in the Gulf of Mexico, one area in the Mid-Atlantic, and four areas off Alaska.

The remaining schedule is as follows:
- April 2007 Proposed Final Program and Final EIS (60 day waiting period)
- June 2007 Final Program Approval
- July 1, 2007 Current program ends, new program begins

The Proposed Program reconfigures the GOM planning areas and proposes lease sales in areas now falling within the Central Planning Area, excluding all areas within 100 miles of the Florida coast previously included in the Eastern Gulf Planning Area. The Proposed Program includes sales in the North Aleutian Basin, Alaska; Central Gulf of Mexico; and Mid-Atlantic. In December 2006, Congress passed the Gulf of Mexico Energy Security Act (GOMESA), which requires that MMS hold lease sales in one additional area not considered as part of the Proposed Plan.

The MMS realizes that not all areas may ultimately see significant leasing activity. This request, for example, assumes no funding for needs associated with potential leasing activity in the Mid-Atlantic Planning Area, which remains under Congressional moratorium and Presidential withdrawal. Therefore, the requested funding level primarily addresses needs in the North Aleutian Basin, and represents a conservative and modest request that will allow investment in environmental studies, environmental analysis, resource assessment, and leasing consultation, some in areas where no concerted oil and gas related data has been gathered in over 25 years.

Deepwater and Ultra-Deepwater: As established oil and gas-producing areas mature, America's energy industry is pushing into higher-risk frontiers (both in the GOM and in Alaskan 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 18 percent of U.S. domestic production. Deepwater gas now accounts for seven percent of U.S. domestic production. There have been about 150 discoveries in deepwater over the past 10 years, with about 114 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 three years there have been 20 significant discoveries in ultra-deepwater. Four of these significant ultra-deepwater discoveries were announced in the GOM in 2006. At the end of 2006, there were about 2,184 active leases in this water depth interval, and in the five-year period 2002-2006, there were a total of 215 wells drilled in these water depths, of which 149 were exploratory wells. This activity and the discoveries of oil and gas continue to translate into development projects. Ten development projects began production in the ultra-deepwater area during 2004-2006.

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, MMS must conduct research and studies to provide the information necessary to develop guidelines and technology evaluations for many different types of technology proposals. The 2008 budget requests additional base funding critically needed to conduct research and studies in the following technological and conservation areas:

- High Pressure (HP)/High Temperature (HT) equipment reliability
- Evaluation of High Integrity Pressure Protection Systems (HIPPS)
- Fatigue life of risers and floating structures
- Improvement of the fatigue modeling process to set a replacement standard

- Improved resource recovery technologies including the electric booster pump and subsea gas lift

In the last three years, crude oil prices have doubled. Prices rose from about $30 per barrel in January 2004 to $60 per barrel in September 2005. Generally, prices remained above $60 per barrel throughout the spring and summer of 2006 before falling to $53 per barrel in October 2006. 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 demand for MMS's services, and our workload, also increases. In addition, MMS expects to see a large increase in the volume of unitization requests in coming years. Many of these requests will be related to the increase in activities in the deepwater GOM. During the three-year period 2008 through 2010, the primary terms of approximately 2,300 active leases will expire, of which approximately 1,000 are leases located in greater than 1,000 feet of water. In 2008 alone, 517 leases in greater than 1,000 feet of water will expire. While a percentage of these leases will expire or be extended by leaseholding operations, many operators will pursue unitization instead, and MMS is requesting an additional staff position in 2008 to manage the expected surge in these unitization requests. Please refer to the Regulatory Subactivity Section for more details.

Hurricane Activity: The most significant MMS events in 2005 were hurricanes Katrina and Rita and the impact they had on the people of the Gulf coast and the oil and gas infrastructure both onshore and offshore. Each hurricane sustained Category 3-4 strength when passing through the GOM production facilities. Of the 4,000 Gulf OCS facilities, more than 3,000 were subjected to hurricane force winds and 113 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 that continues into 2008.

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 dire conditions. The 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.

The GOM 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. Nearly 30 percent of America's domestic oil and 21 percent of domestic natural gas were produced from the OCS prior to Hurricanes Katrina and Rita. From a near-complete shut-in of OCS petroleum production in October 2005 until June 19, 2006, MMS has overseen resumption of production to approximately 88 percent of oil and 91 percent of gas, of pre-Katrina levels. However, damaged transportation continues to hamper restoration of production on the OCS.

The 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. However, this has posed a tremendous challenge to MMS as almost 900 wells were damaged in Hurricanes Katrina, Rita, and Ivan and the effects of dealing with the impact of these storms as well as future storms of this magnitude will require long-term resources. To date, only a handful of these wells have been permanently abandoned. Although this pace is partially attributable to scarcity of equipment needed to conduct the work, it is also attributed to the lengthy work procedures required by this effort.

In 2008, MMS is requesting four workover engineers and two structural engineers to address proper well abandonment and pollution prevention from the hundreds of wells damaged in the three hurricanes, and to properly oversee the structural modifications and repairs to numerous platforms affected by the hurricanes. Existing staff cannot handle additional workload of this magnitude, and some performance targets already reflect the impacts of the GOM Regional Office and some district offices being closed for up to 62 days as a result of these storms.

Table 17: Wells Needing to be Abandoned (Estimated)

District Office	Hurricane Ivan	Hurricane Katrina	Hurricane Rita	Total
New Orleans	95	329	0	424
Houma	0	74	47	121
Lafayette	0	0	154	154
Lake Charles	0	0	162	162
Total	95	403	363	861

PERFORMANCE OVERVIEW

The OMM Budget reflects the new DOI Strategic Plan. Its activities support accomplishment of the Resource Use mission goal to Manage or Influence Resource Use to Enhance Public Benefit, Responsible Development and Economic Value (Fossil Fuels and Renewables). Key performance indicators of the program's success include holding OCS lease sales on schedule, ensuring safety of operations, and minimizing oil spills.

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 Administration 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" in comparison to similar programs in other departments government-wide.
- MMS studies programs 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." One limiting factor in the program's overall effectiveness rating was its underlying legislative mandate. As stated in the PART: "The nonenergy mineral and oil and gas lease sales are free of major flaws. However, pursuant to the OCSLA, MMS can only offer access to sand, gravel, salt, sulphur, oil, and gas. Currently, no clear authority exists for the Federal government to comprehensively review, permit, and provide appropriate regulatory oversight for renewable energy projects such as wind, wave, and solar—as well as projects of a more traditional nature such as facilities to handle liquefied natural gas and compressed natural gas. Instead, current authorities appear to be either non-existent or limited in scope. The MMS has the capacity to manage these resources, but their mandate is too narrow." The MMS has since received expanded OCS regulatory and leasing authority to include renewable energy projects though the Energy Policy Act of 2005. Currently MMS is evaluating two OCS wind applications.
- The 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. The MMS uses both regulatory and non-regulatory means to minimize risk to the public and the environment and to avoid uncompensated resource loss."

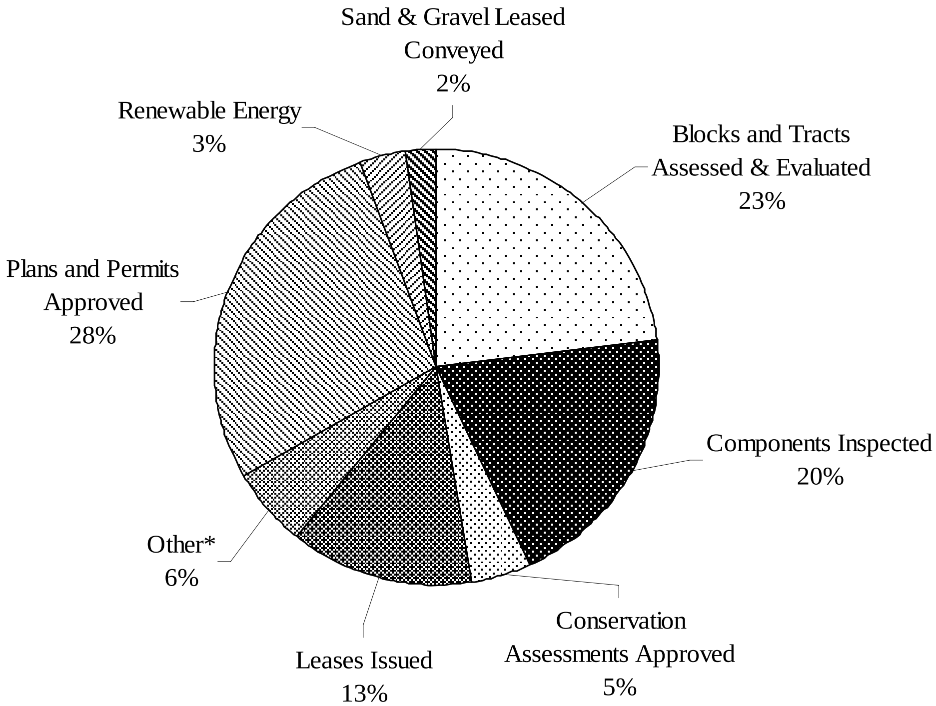
As a result of the three completed PARTs, OMM had a total of 10 actions in the combined Program Improvement Plans. Three of those items were addressed in prior years, and the following three action items were closed this year:

- Establish a program for managing access to the OCS for renewable energy projects as authorized in the 2005 Energy Policy Act (OCS Resource Evaluation and Leasing).
- Explore regulatory options to improve safety and environmental management systems (OCS Regulatory and Compliance).
- Focus regulatory efforts on operators that have a history of problems and violations (OCS Regulatory and Compliance).

Two of the open actions cannot be closed until implementation of the final 5-year program for 2007-2012 (July 2007). OMM has taken steps to implement the recommendation to "expand program evaluation through regular independent reviews." The agency is also in the process of developing regulations to formalize its new Alternative/Renewable Energy program.

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. OMM ABC data is shown in the figure below, which illustrates program dollars spent in end output categories established in the ABC framework:



** Includes: Lease Administrative Changes, Production Verifications, Environmental Compliance Assessments, Incident Investigations, Civil Penalty Cases, CIAP.*

Figure 6: Approximate Distribution of 2006 Costs by End Output

2008 PERFORMANCE BUDGET REQUEST
Offshore Minerals Management
Leasing and Environmental Subactivity

Table 18: OMM Leasing and Environmental Subactivity Budget Summary

		2006 Enacted	2007 President's Request	2008 Fixed Costs & Related Changes	2008 Program Changes	2008 Budget Request	Change from 2007
Leasing and Environmental Assessment Program	($000)	21,540	25,315	688	3	26,006	691
	FTE	224	240	0	0	240	0
Environmental Studies Program	($000)	16,171	19,895	0	-700	19,195	-700
	FTE	0	0	0	0	0	0
Leasing and Environmental Subactivity	**($000)**	**37,711**	**45,210**	**688**	**-697**	**45,201**	**-9**
	FTE	**224**	**240**	**0**	**0**	**240**	**0**

SUMMARY OF 2008 PROGRAM CHANGES

Request Component	Amount	FTE
• OCS 5-Year Leasing Program	+$3,863,000	+5
• EPAct Implementation – Alternative Energy Cost Sharing	-$3,000,000	0
• Refocusing Resources*	-$560,000	-5
• Environmental Studies	-$1,000,000	0
Total, Program Changes	**-$697,000**	**-0**

* Final FTE Reduction Numbers and Funding Levels may shift between subactivities

JUSTIFICATION OF 2008 PROGRAM CHANGES

The 2008 budget request for the Leasing and Environmental Subactivity is $45,201,000 and 240 FTE, a net program decrease of $697,000 from the 2007 President's Budget Request.

OCS 5-Year Leasing Program (+$3,863,000/ +5 FTE)

The Proposed 2007-2012 Outer Continental Shelf (OCS) 5-Year Leasing Program ("Proposed Program") includes 21 sales in seven of the 26 OCS planning areas. The MMS estimates that the total undiscovered technically recoverable resources are 67.9 billion barrels of oil and 340.4 trillion cubic feet of natural gas from all planning areas where sales are under consideration in the Proposed Program, though only a portion of some of the planning areas are included in the proposal. Included in the Proposed Program are areas not recently considered and expanded areas in current planning areas. These include:

- A previously undeveloped area in the North Aleutian Basin off the coast of Alaska.
- An expanded Central Gulf of Mexico (GOM) planning area that includes a portion of the "Sale 181" area that is offshore Louisiana, as well as a deepwater area to the south.
- A new area in the Mid-Atlantic off the coastline of Virginia.

Collectively, the anticipated potential energy and net benefits (the benefits to society associated with OSC oil and natural gas production commensurate with the accompanying costs) for the nation from these three areas alone (assuming lease sales take place) are 1.4 million barrels of oil (bbl), 10.5 trillion cubic feet of gas (Tcf), and $10.07 billion:

The Proposed Program reconfigures the GOM planning areas and proposes lease sales in areas now falling within the Central Planning Area, excluding all areas within 100 miles of the Florida coast previously included in the Eastern Gulf Planning Area. The Proposed Program includes sales in the North Aleutian Basin, Alaska; Central Gulf of Mexico; and Mid-Atlantic coast. In December 2006, Congress passed the Gulf of Mexico Energy Security Act (GOMESA), which requires that MMS hold lease sales in areas not considered as part of the Proposed Plan.

The MMS realizes that not all areas may ultimately see significant leasing activity. This request, for example, assumes no funding for needs associated with potential leasing activity in the Mid-Atlantic Planning Area, which remains under Congressional moratorium and Presidential withdrawal. Therefore, the requested funding level primarily addresses needs in the North Aleutian Basin, and represents a conservative and modest request that will allow investment in environmental studies, environmental analysis, resource assessment, and leasing consultation, some in areas where no concerted oil and gas related data has been gathered in over 25 years.

Specific components of the request include:

- $2.5 million for environmental studies and required National Environmental Policy Act (NEPA) analysis in areas where data either does not exist or is very old (as much as 25 years). The data is a mandatory precursor to support both pre-sale and post-sale activities. The studies need to take place immediately in order to be completed for the sale dates in FY 2010 and 2012. Please refer to the Proposed Program for 2007-2012 Lease Sale Schedule in the Performance Overview section for additional information.
- $685,000 for workforce needs associated with the new and expanded leasing areas. Examples of potential discipline-specific expertise include physical oceanographers, marine ecologists, socioeconomic specialists, cartographers, and lease adjudication specialists. The final areas included in the Proposed Program will influence what types of disciplines are required.
- $678,000 is needed for additional Leasing and Environmental Program support. The Proposed Program will require:
    - Public hearings, scoping meetings, and government to government meetings, many in parts of Alaska where travel is very expensive.
    - Contractor assistance and support to supplement OMM expertise for analyses such as air quality, water quality, and wetlands.

- Contractor support for editing, desktop publishing, printing, and distributing draft and final environmental impact statements.
- Redrawing existing administrative boundaries in the Gulf, which will require preparation of legal descriptions of these areas both as a planning area and as individual tracts for lease, and modifying MMS's Technical Information Management System (TIMS) and OCS Connect System.

One FTE ($137,000) is also requested for the 2007-2012 OCS 5-Year Leasing Program in the Resource Evaluation Subactivity.

Impact on Performance

While MMS has a vast amount of environmental information on the GOM and adjacent coastal areas (much of it from recent studies), what little environmental information it has on the North Aleutian Basin and the Mid-Atlantic is from studies conducted decades ago. Without new studies in these frontier areas, any effort to proceed with the proposed sales would be vulnerable to challenge. The anticipated production of the two sales proposed for the North Aleutian Basin is 1.09 Billion Barrels of Oil Equivalent (BBOE), or 200 million barrels of oil (bbl) and 5 trillion cubic feet of gas (Tcf). The net benefits to the nation from this production are estimated at $7.7 billion. The success of the proposed sales should lead to future sales and more production in the outyears. The anticipated production and net benefits for the proposed Mid-Atlantic sale are 0.114 BBOE, or 56 million bbl, 0.327 Tcf, and $340 million. However, funding for Mid-Atlantic needs is not requested at this time because the area remains under statutory moratoria and Presidential withdrawal from leasing.

Table 19: Program Performance Change Table – OCS 5-Year Leasing Plan Implementation, +$4,000,000; +6 FTE

Measure	**2004 Actual**	**2005 Actual**	**2006 Actual**	**2007 President's Budget**	**2007 CR**[1/]	**2008 Base Budget (2007 PB + Fixed Costs)**	**2008 Plan**	**Program Change Accruing in 2008**	**Program Change Accruing in Outyears**
						A	**B=A+C**	**C**	**D**
Number of lease sales held consistent with the Secretary's 5-Year Program (SP)	4	4	2	4*	2	5	5	--	+2 (2 North Aleutian Sales)
Total Projected Cost ($M)	30.5	32.7	33.1	34.7	34.7	35.7	37.7	2.0	0.0
Comments	*Funding provided in 2008 will support future lease sales. This measure counts lease sales conducted under the OCS Oil and Gas Leasing Program. The 2002-2007 Program ends in June 2007; the 2007-2012 Proposed Program is under development through the extensive consultation process prescribed by the OCS Lands Act. The President's Budget supports the Proposed Program for 2007-2012 (published in August 2006) by providing environmental information to conduct lease sales in five expanded OCS program areas (Central GOM, Chukchi Sea, Beaufort Sea, Cook Inlet, North Aleutian Basin). Expansion of OCS acreage available for leasing consideration, a significant amount of which has not been offered/evaluated for decades, requires an investment in environmental studies, environmental analysis, resource assessment, and leasing consultation. Request does not include investment required to conduct leasing in the Mid-Atlantic planning area, which is currently subject to statutory moratorium. It does include the North Aleutian Basin. * See additional comment on Table 23, page 71.*								

[1/] The performance and cost data in the 2007 CR column is presented at the 2007 President's budget level, which is based upon a projection of 2007 likely enacted made during the first quarter of 2007. The 2008 plan builds on the 2007 plan. To the extent Congress enacts a 2007 appropriation that is different from the 2007 projection, the 2008 plan may require revision.

Note: Projected costs may not equal program change as these are full costs, which may include funds from other sources and (or) use averages.

Column A: The level of performance and costs expected in 2008 at the 2007 President's budget level plus funded fixed costs. Reflects the impact of prior year funding changes, management efficiencies, absorption of prior year fixed costs, and trend impacts, but does not reflect the proposed program change.

Column D: Outyear performance beyond 2008 addresses lagging performance — those changes occurring as a result of the program change (not total budget) requested in 2008. It does not include the impact of receiving the program change again in a subsequent outyear.

Energy Policy Act of 2005 – Alternative Energy Cost Sharing (-$3,000,000)

In 2007, MMS requested $7.6 million to implement the Energy Policy Act, as follows:

- $1.8 million for additional workforce needs;
- $3.4 million for environmental studies;
- $1.4 million for environmental analyses;
- $1 million for methane hydrates research; and
- $56,000 for program support needs.

The MMS is proposing to reduce 2007 EPAct funding by $3 million by sharing environmental analysis costs. The MMS is proposing that parties submitting applications for non-competitive renewable energy projects fund the cost of independent environmental studies and analyses. If only one party responds to the call for interest, MMS can seek payment for the preliminary environmental work needed to determine if the lease can be offered, and subsequent environmental work, if the lease is granted. By contrast, in a competitive lease sale, MMS does not have the authority to require interested bidders to pay for the environmental work needed to offer the lease sale.

This reduction in appropriated funds offsets the request for key MMS priorities, such as the OCS 5-Year Leasing Program. Combined with a $1 million reduction in Environmental Studies, it will completely offset the costs of funding the needs presented by inclusion of new and expanded areas in the 2007-2012 OCS 5-Year Leasing Program.

Refocusing Resources (-$2,000,000/-18 FTE)

The MMS also continues to implement strategies outlined in its workforce plan, used in conjunction with the Department's Strategic Plan. OMM will use the results of a planned functional analysis, begun in 2006 and to be completed in 2007, to determine if and where opportunities are available to improve productivity by redirecting and reducing staffing levels, and refocusing resources away from lower priority activities, while maintaining or improving service quality.

A total of 25 positions are expected to be either eliminated or realigned in three OMM Subactivities:

- Leasing and Environmental (-$560,000/-5 FTE)
- Resource Evaluation (-$640,000/-5 FTE)
- Regulatory (-$800,000/-8 FTE)

In the past, OMM has taken a number of measures to institute efficiencies and focus resources on mission critical functions and deliverables. During 2005 and 2006, OMM temporarily reduced its non-labor operating allocations to program offices by $2.3 million and $4.5 million, respectively, and restricted hiring. These savings have allowed OMM to fund increases in service costs and redirect funding to higher priorities. The 2008 budget assumes $2.0 million in anticipated savings related to the functional analysis that will be completed in 2007.

Table 20: Program Performance Change Table – Refocusing Resources, -$2,000,000; -25 FTE

Measure	2004 Actual	2005 Actual	2006 Actual	2007 President's Budget	2007 CR[1]	2008 Base Budget (2007 PB + Fixed Costs)	2008 Plan	Program Change Accruing in 2008	Program Change Accruing in Outyears
						A	**B=A+C**	**C**	**D**
Total Projected Cost ($M)	14.4	15.5	15.6	15.7	15.7	16.2	15.7	--	0.0
Percent of high bids accepted or rejected within 60 days (PART)	63% (572/ 906)	78% (612/ 786)	68% (530/ 785)	65%	65%	65%	65%	No Change	No change
Comments	*Targets are for lease sales with fewer than 600 tracts receiving bids in the GOMR or 90 tracts in the Alaska Region. The FY 2005 result is adjusted to accommodate the closure of the MMS GOMR office for 62 days immediately prior to and following Hurricane Katrina. Absent such adjustment, the result would be 36% (283/786). The reason the outyear targets are lower than the 2005 actual value is a result of increased workload in the deepwater area where currently leased tracts, with 10 year lease terms, will be relinquished, then made available, as follows: 478 in 2007, 783 in 2008, and 437 in 2009. It is anticipated that greater than 45% of these tracts will be bid on; this plus other available acreage will likely place 2007-2009 sales over and above the baseline 600 tracts receiving bids.*								
Process X% of exploration plans in less than 30 days (BUR)	100% (350/ 350)	99% (367/ 371)	75% (259/ 345)	100%	100%	100%	100%	No Change	No Change
Process X% of offshore environmental assessments for development plans within 8 months (BUR)	100% (1/1)	100% (8/8)	100% (9/9)	100%	100%	100%	100%	No Change	No Change
Process X% of development plans in less than 120 days (BUR)	100% (314/314)	100% (258/ 258)	94% (293/ 313)	100%	100%	100%	100%	No Change	No Change

Table 20: Program Performance Change Table – Refocusing Resources, -$2,000,000; -25 FTE (continued)

Measure	2004 Actual	2005 Actual	2006 Actual	2007 President's Budget	2007 CR[1]	2008 Base Budget (2007 PB + Fixed Costs)	2008 Plan	Program Change Accruing in 2008	Program Change Accruing in Outyears
Process X% of right-of-way pipeline applications within 140 days (BUR)	98% (133/136)	93% (144/155)	97% (133/137)	100%	90%	90%	90%	No Change	No Change
Comments	*The 2005 results and 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. Katrina and Rita damaged 457 pipelines and 101 larger diameter pipelines (10 inches or greater). The target for future years is lower than the 2004 and 2005 actual values due to a significant increase in workload for pipeline modification permits and other damage reporting in FY 2006. Pipeline damage assessments are still ongoing.*								

[1] The performance and cost data in the 2007 CR column is presented at the 2007 President's budget level, which is based upon a projection of 2007 likely enacted made during the first quarter of 2007. The 2008 plan builds on the 2007 plan. To the extent Congress enacts a 2007 appropriation that is different from the 2007 projection, the 2008 plan may require revision.

Note: Projected costs may not equal program change as these are full costs, which may include funds from other sources and (or) use averages.

Column B: The level of performance and costs expected in 2008 at the 2007 likely enacted level plus funded fixed costs. Reflects the impact of prior year funding changes, management efficiencies, absorption of prior year fixed costs, and trend impacts, but does not reflect the proposed program change.

Column D: Outyear performance beyond 2008 addresses lagging performance — those changes occurring as a result of the program change (not total budget) requested in 2008. It does not include the impact of receiving the program change again in a subsequent outyear.

Environmental Studies ($-1,000,000)

Environmental Studies Program (ESP) funding is used to gather and collect data needed to support OCS pre-sale and post-sale lease activities. Current funding will enable the program to meet its ongoing multi-year research contract commitments. However, as ongoing research is completed, funds will be redirected to higher priorities. This reduction, combined with the savings of $3 million realized by implementing Alternative Energy Cost Sharing, completely offsets the funding needs of the Proposed OCS Leasing Program 2007-2012.

PROGRAM OVERVIEW

The MMS plays a key role in national energy policy by securing ocean energy for the nation. The MMS is a leader in securing the nation's domestic energy supply. It manages access to the mineral resources of the 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, through February 1, 2007, MMS administers about 8,200 active mineral leases on approximately 43 million OCS acres. Production from these leases generates billions of dollars in revenue for the Federal Treasury and state governments while supporting thousands of jobs. The MMS oversees production of about 21 percent of the natural gas and 30 percent of the oil produced domestically. Through September 2006, OCS lands have yielded more than 223 trillion cubic feet of natural gas and approximately 41 billion barrels of oil.

2008 Program Performance Estimates

Program Changes		
• OCS 5-Year Leasing Program	+$3,863,000	+5
• EPAct Implementation – Alternative Energy Cost Sharing	-$3,000,000	0
• Refocusing Resources*	-$560,000	-5
• Environmental Studies	-$1,000,000	0
Total, Program Changes	**-$697,000**	**0**

* Final FTE Reduction Numbers and Funding Levels may shift between subactivities

We estimate 2008 program performance changes at the request level as follows:

- 2008 investment in environmental studies, environmental analysis, resource assessment, and leasing consultation will provide for two North Aleutian Sales in the outyears. The impact of not funding this initiative in 2008 will be the inability to hold the North Aleutian sales in future years. The MMS estimates that, over 40 years, 200 million barrels of oil (bbl) and 5 trillion cubic feet of gas (Tcf) would be produced as a result of the two sales proposed for the North Aleutian Basin. The net benefits to the nation from this production are estimated at $7.7 billion, over 40 years. The success of the proposed sales should lead to future sales and more production in the outyears. The anticipated production and net benefits for the proposed Mid-Atlantic leasing activities is 56 million bbl, 0.327 Tcf, and $340 million. However, funding for Mid-Atlantic leasing activities is not included in this request due to the current statutory moratoria and Presidential withdrawal of that region.

PERFORMANCE OVERVIEW

The Leasing and Environmental Subactivity funds the Leasing and Environmental Assessment Program and the ESP, 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 5-year oil and gas leasing program, supporting DOI Strategy 1 to "Effectively manage and provide for efficient access and development."

Current 2002-2007 OCS Oil and Gas Leasing Program

In 2005, four successful sales were held, three in the Gulf of Mexico and one in Alaska. This success was repeated in 2006, with near record oil and gas prices leading to robust bidding in the March 2006 Central GOM sale, where MMS accepted $581,820,861 in high bids on 392 tracts. The August 2006 Western GOM sale garnered $340,935,514 in high bids from 62 companies. The total of all bids was $462,760,912, a 38 percent increase over last year's Western Gulf sale. The one remaining sale in the current 5-year program is the April 2007 Beaufort Sea sale.

Two sales from the current program have been rescheduled. Central Gulf of Mexico (CGOM) Sale 201 was scheduled for March 2007; however, MMS has postponed the sale pursuant to settlement of litigation brought by the State of Louisiana. Chukchi Sale 193 was scheduled for the fall of 2005 and has been rescheduled because additional presale environmental analysis is required for the area identified as of interest.

Table 21: OCS Lease Sales, 2005-2007
Final Sales of the 2002-2007 5-Year Program

	Sale Date	Area	Sale Number
2005	March 2005	Central GOM	194
	March 2005	Eastern GOM	197
	March 2005	Beaufort Sea	195
	August 2005	Western GOM	196
2006	March 2006	Central GOM	198
	August 2006	Western GOM	200
2007	April 2007	Beaufort Sea	202

Proposed 2007-2012 OCS Oil and Gas Leasing Program

The Proposed Program for 2007-2012 is under development through an extensive consultation process prescribed by the OCS Lands Act (OCSLA). The comment period for the Draft Program Proposal opened on February 10, 2006, and closed on April 11, 2006. On August 25, 2006, a second draft, the Proposed Program and the associated Draft Environmental Impact Statement (DEIS) were released to the public. The comment period for these two documents closed on November 24th and November 22nd, respectively.

The remaining schedule is as follows:

- April 2007 Proposed Final Program and Final EIS (60 day waiting period)
- June 2007 Final Program Approval
- July 1, 2007 Current program ends, New Program begins

The Proposed Program includes 21 sales in seven of the 26 OCS planning areas - two areas in the Gulf of Mexico, one area in the Mid-Atlantic Planning Area, and four areas off Alaska. The sales currently proposed are shown in the table below. The total number of scheduled lease sales will be determined when the new Proposed Program is finalized in the spring of 2007. The MMS estimates the total undiscovered technically recoverable resources (UTRR) are 67.9 billion barrels of oil and 340.4 trillion cubic feet of natural gas from all planning areas where sales are under consideration in the 2007-2012 Proposed Program, though only a portion of some of the planning areas are included in the proposal.

Table 22: Proposed Program for 2007- 2012 Lease Sale Schedule

CalendarYear[1/]	**Area**	**Sale No.**
2007	Western Gulf of Mexico	204
	Central Gulf of Mexico	205
	Chukchi Sea	193
2008	Central Gulf of Mexico	206
	Eastern Gulf of Mexico[2/]	224
	Western Gulf of Mexico	207
2009	Central Gulf of Mexico	208
	Beaufort Sea	209
	Western Gulf of Mexico	210
	Cook Inlet[3/]	211
2010	Chukchi Sea	212
	Central Gulf of Mexico	213
	North Aleutian Basin	214
	Western Gulf of Mexico	215
2011	Central Gulf of Mexico	216
	Beaufort Sea	217

CalendarYear[1/]	**Area**	**Sale No.**
	Western Gulf of Mexico	218
	Cook Inlet[3/]	219
	Mid-Atlantic[3/] [4/]	220
2012	Chukchi Sea	221
	Central Gulf of Mexico	222
2012	North Aleutian Basin	223

[1/] Sales are listed by calendar year. Sale dates may occur in a calendar year different than the fiscal year (Ex: A sale occurring in December 2007 would fall in calendar year 2007 but fiscal year 2008). Sale schedule will be finalized in spring 2007.

[2/] On December 20, 2006, the President signed the Gulf of Mexico Energy Security Act of 2006 (GOMESA). Under that GOMESA, MMS is mandated to hold a lease sale in the 181 Area of the Eastern Gulf, more than 125 miles from Florida and west of the military mission line. The law mandates the sale notwithstanding its omission from any 5-year program under section 18 of the OCS Lands Act. The sale is listed on the table, but is not part of the Proposed 5-Year Program under section 18.

[3/] Special Interest Sales – Proposed sales will move forward only after consideration of comments received in response to annual calls for information. If the responses do not support consideration of a sale, the sale will be postponed and request for nominations and comments will be issued again in each subsequent year of the schedule, until a sale is held or the schedule expires.

[4/]Lease sales will only be held if the President chooses to modify the withdrawal and Congress discontinues the annual appropriations moratorium in the Mid-Atlantic.

Leasing Activities: Leasing activities include planning for the 5-year oil and gas leasing 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 (EA) and Environmental Studies activities. The work provides information necessary to ensure operations are conducted in an environmentally sound manner and decisions are supported by good science.

- 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 ESP funds and manages efforts to better understand the OCS environment and the effects of mineral resource exploration and development activities.

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.

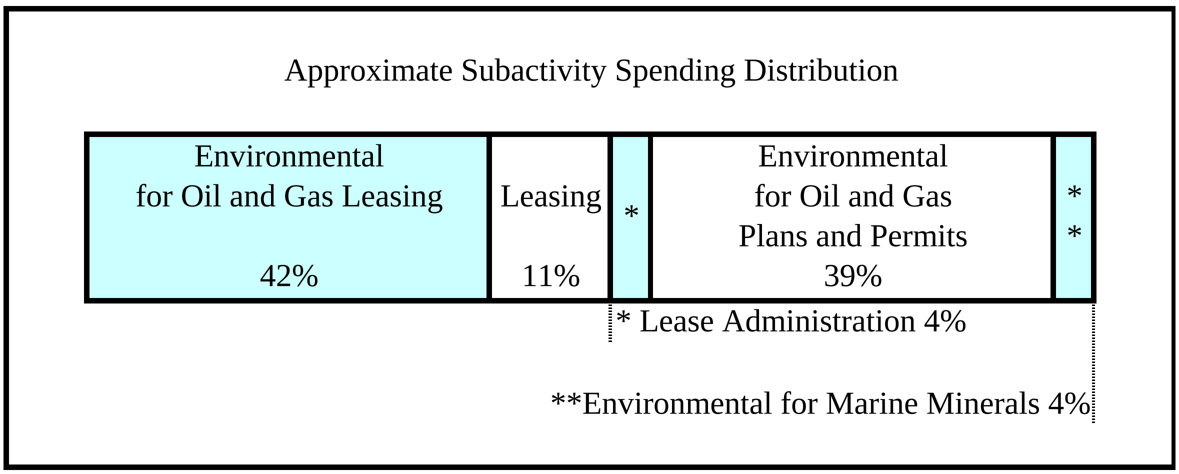


Figure 6: Leasing and Environmental Spending Profile

Table 23: Performance Overview - Leasing and Environmental

End Outcome Goal 1.1 Resource Use (energy): Manage or influence resource use to enhance public benefit, responsible development, and economic value.									
Measure	**2004 Actual**	**2005 Actual**	**2006 Plan**	**2006 Actual**	**2007 President's Budget**	**2007 Plan**	**2008 Plan**	**Change from 2007 Plan to 2008**	**Long-term Target 2012**
GPRA End Outcome Measures									
Number of offshore lease sales held consistent with the Secretary's 2007-2012 5-Year Program (SP)	4	4	2	2	4*	2	5	+3	TBD
Total Actual/Projected Cost ($M)	30.5	32.7	33.1	33.1	34.7	34.7	37.7	3.0	
Comments	*This measure counts lease sales conducted under the OCS Oil and Gas Leasing Program. The 2002-2007 Program ends in June 2007; the 2007-2012 Proposed Program is under development through the extensive consultation process prescribed by the OCS Lands Act. The President's Budget supports the Proposed Program for 2007-2012 (published in August 2006) by providing environmental information to conduct lease sales in five expanded OCS program areas (Central GOM, Chukchi Sea, Beaufort Sea, Cook Inlet, North Aleutian Basin). Expansion of OCS acreage available for leasing consideration, a significant amount of which has not been offered/evaluated for decades, requires an investment in environmental studies, environmental analysis, resource assessment, and leasing consultation. Funding provided in 2008 will support future lease sales in the North Aleutian Basin.* ** Two sales are currently scheduled for FY 2007 (Beaufort Sea and Western GOM). As a result of settlement of litigation brought by the State of Louisiana, MMS postponed Central Gulf of Mexico (CGOM) Sale 201, scheduled for March 2007. Five sales are currently scheduled for FY 2008 including (2) Central GOM, Western GOM, Chukchi Sea and Eastern GOM area (The Gulf of Mexico Energy Security Act of 2006 (GOMESA) makes new OCS acreage available, including a small portion of the Gulf of Mexico Eastern Planning Area). Final FY 2007-2012 targets are dependent on the adoption of the Final 2007-2012 5-Year Program. The MMS is continuing consultation with the State of Louisiana and other stakeholders to define the Final 5-Year Program. The Final Program may provide a different schedule than the Proposed Program.* ***Although the Proposed Program includes a Mid-Atlantic sale in 2011, the President's Budget does not provide for investment in the Mid-Atlantic planning area, which is currently subject to statutory moratoria and Presidential withdrawal from leasing.*								

Table 23: Performance Overview - Leasing and Environmental, continuted

Measure	2004 Actual	2005 Actual	2006 Plan	2006 Actual	2007 President's Budget	2007 Plan	2008 Plan	Change from 2007 Plan to 2008	Long-term Target 2012
Intermediate Outcome Strategy 1: Effectively manage and provide for efficient access and development									
GPRA Intermediate Outcome Measures, and Bureau and PART Outcome Measures									
Percent of available OCS acres offered in each year's lease sales (PART)	>57%	>99%	99%	94%	TBD	32%	TBD	--	TBD
Total Actual/Projected Cost ($M)	30.5	32.7	33.1	33.1	34.7	34.7	37.7	3.0	
Percent of available OCS oil and gas resources offered in each year's lease-sales (PART)	>88%	>99%	>99%	99%	TBD	29%	TBD	--	TBD
Total Actual/Projected Cost ($M)	30.5	32.7	33.1	33.1	34.7	34.7	37.7	3.0	
Comments	*These measures count the acreage and resources offered through lease sales scheduled under the Secretary's 5-Year OCS Oil and Gas Leasing Program. The 2007 targets assume that the Beaufort Sea and Western GOM sales will be held and the Central GOM and Chukchi sales in the 2002-2007 5-year program will not be held on schedule. The 2007 Central GOM sale was canceled as part of the Sale 200 litigation settlement with the State of Louisiana. The 2007 Chukchi sale is not being held because additional presale environmental analysis is required to allow the offering of the area identified as being of interest. The Chukchi and Central GOM acreage will be offered in the 2007-2012 5-year program. Acreage and resource targets will be developed as the 2007-2012 program is finalized (Spring 2007).*								
Intermediate Outcome Strategy 2: Enhance responsible use management practices									
GPRA Intermediate Outcome Measures, and Bureau and PART Outcome Measures									
Process X% of offshore environmental assessments for development plans within 8 months (BUR)	100% (1/1)	100% (8/8)	100%	100% (9/9)	100%	100%	100%	No Change	100%
Total Actual/Projected Cost ($M)	1	1.1		1.1	1.1	1.1	1.1	0	

Note: The 2007 plan is the performance level based upon a projection of 2007 likely enacted made during the first quarter of 2007. The 2008 plan and 2012 long-term targets build on the 2007 plan. To the extent that Congress enacts a 2007 appropriation that is different from the 2007 projection, the 2008 plan and 2012 targets may require revision.

LEASING AND ENVIRONMENTAL ASSESSMENT PROGRAM PERFORMANCE

OCS 5-Year Leasing Program: The MMS has played and will continue to play a vital role in providing access to domestic energy resources and 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 OCS 5-Year 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 draft proposed program was published in February 2006 and comments closed on April 11, 2006.

The 5-Year Program is a pivotal element of managing the nation's offshore mineral assets. The OCSLA requires DOI to prepare a long-range program that specifies the size, timing and location of areas to be considered for Federal offshore natural gas and oil leasing. The 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 GOM, and less frequent sales held in the Eastern GOM and offshore Alaska.

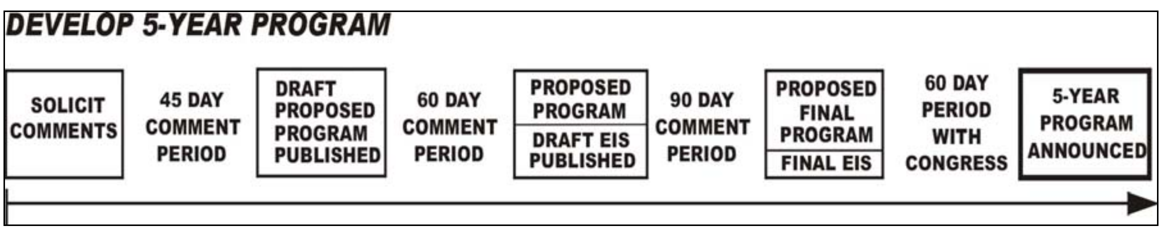


Figure 7: Process for Developing New 5-Year OCS Leasing Program

The Proposed Program for 2007-2012 and Draft EIS were publicized August 25, 2006, followed by a 90-day comment period.

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 (NEPA)
- Coastal Zone Management Act (CZMA)
- Endangered Species Act (ESA)
- Marine Mammal Protection Act (MMPA)
- Sustainable Fisheries Act (SFA)
- Clean Air Act (CAA)
- Clean Water Act (CWA)
- National Historic Preservation Act (NHPA)

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.

The OMM assesses potential environmental impacts of proposed actions in accordance with the 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. The OMM solicits external input to help identify relevant issues, alternatives, mitigation measures, and analytical tools.

NEPA and related regulations are followed at each stage in the leasing process, starting with the preparation of the final programmatic environmental impact statement (EIS) for approval of the OCS 5-Year Leasing Program. The final programmatic EIS for the 5-Year Plan addresses public comments in a responsive and responsible fashion. Then, OMM prepares a full EIS or a more focused Environmental Assessment 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 environmental review 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 (Categorical Exclusion Reviews (CERs)). CERs 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. CERs also identify mitigation measures to avoid or minimize adverse effects of the proposed action.

Additionally, the provisions of the CZMA ensure that covered OCS activities are consistent with the affected states’ coastal zone requirements. OCS lease sales, plans, and permits are subject to review by states that have developed Coastal Management Programs (CMPs) to manage and balance competing uses that may affect land and water use and natural resources of the coastal zone. The 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 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*
> *Report of the U.S. Commission on Ocean Policy*

The OCSLA 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. The 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 the President's Management Agenda initiative - 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. The 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. The 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 potential development of methane hydrates and with 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 bi-monthly 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 as educational materials to assist teachers in preparation of lessons about the ocean environment.

During the 2004 budget process, the 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.

2008 PERFORMANCE BUDGET REQUEST

Offshore Minerals Management

Resource Evaluation Subactivity

Table 24: OMM Resource Evaluation Subactivity Budget Summary

		2006 Enacted	2007 President's Budget	2008 Fixed Costs & Related Changes	2008 Program Changes	2008 Budget Request	Change from 2007
Resource Evaluation	($000)	29,407	30,117	774	-1,092	29,799	-318
Subactivity	FTE	221	221	0	-2	219	-2

SUMMARY OF 2008 PROGRAM CHANGES

Request Component	Amount	FTE
• OCS 5-Year Leasing Program	+137,000	+1
• Ultra-Deepwater	+411,000	+3
• EPAct Implementation - Methane Hydrate Research	-1,000,000	-1
• Refocusing Resources*	-640,000	-5
Total, Program Changes	**-1,092,000**	**-2**

* Final FTE Reduction Numbers and Funding Levels may shift between subactivities

JUSTIFICATION OF 2008 PROGRAM CHANGES

The 2008 budget request for the Resource Evaluation (RE) Subactivity is $29,799,000 and 219 FTE, a net program decrease of $318,000 and -2 FTE from the 2007 President's Budget Request.

Alaska OCS 5-Year Leasing Program (+$137,000/ +1 FTE)

The Proposed 2007-2012 OCS 5-Year Leasing Program ("Proposed Program") includes areas not previously considered and expands activities in currently active areas of the Outer Continental Shelf (OCS). In particular, the Alaska planning areas expect to see a tremendous expansion of their current programs. In order to implement the new 5-Year Program, an additional geoscientist will be needed. Specific factors driving the need for additional resources include:

<u>North Aleutian Basin</u> - The DOI is considering holding lease sales in the North Aleutian Basin area during the 2007-2012 Leasing Program. Given the past prohibition against leasing in the area, first by Congressional moratoria (removed in 2005) and then by Presidential withdrawal (removed January 9, 2007), MMS has not looked in detail at the geology of the North Aleutian Basin in nearly 20 years. The MMS has been informed by several major oil companies that they plan to submit applications for geophysical exploration permits (seismic acquisition programs) as early as 2007. A significant portion of the data planned will be 3D seismic. The North Aleutian Basin is highly prospective for natural gas, with a high estimate (fifth percentile) of more than 23 Tcf of anticipated production of natural gas. A thorough interpretation and synthesis of the

newly acquired seismic data will be needed for bid adequacy decisions. The last sale in the North Aleutian Basin was held in 1988. At that time, 23 tracts were leased for high bids of $95.4 million, and currently, there are no active leases in this area.

Beaufort and Chukchi Seas – The MMS approved permit applications for extensive 3D seismic programs in the Beaufort and Chukchi Seas that started in 2006. These programs will result in the acquisition of more 3D seismic data during its proposed 3-year duration than were previously collected on the entire Alaska OCS. The new data does not overlap previously acquired 3D data, so new interpretations will be required, not simply the review and updating of previous interpretations. Furthermore, the last sale in the Chukchi Sea planning area was held in 1991 where no new data have been acquired since 1990. Industry's need for 3D seismic data implies that the geologic risks and uncertainties are high due to complex geology or an interest in subtle, difficult to image stratigraphic features. Both cases require highly advanced seismic interpretations that will be critical to performing bid adequacy reviews for the upcoming Beaufort Sea sales. These data and interpretations will also be critical for fulfilling our responsibilities related to proper development and production decisions and the conservation of resources. In 2005, Sale 195 offered tracts on the Beaufort Sea OCS. In that sale, 117 tracts were leased for high bids of $46.6 million. Additional Beaufort Sea sales are envisioned in the Proposed Program.

Seismic Data Management – Until recently, 3D seismic data had not been routinely collected in the Alaska OCS. In 2004, one permit was issued for a 3D seismic survey in the Beaufort Sea. In 2005, no permits were issued in the Beaufort Sea. However, in 2006, one permit for a 3D seismic survey was issued for the Beaufort Sea and two permits for seismic surveys were issued for the Chukchi Sea. Interest in Arctic areas of the Alaska OCS and subsequent collection of seismic data likely will increase in the future. Collection of 3D seismic will significantly increase data storage needs. Additionally, recent leasing and permitting activities by a highly respected industry leader is likely to spark a renewed interest in the Alaska OCS by other companies, with attendant increased demand on the RE workforce.

Human Capital – The MMS expects to lose over half of the RE workforce to retirement over the next four years. In Alaska, the average professional experience of the current RE workforce is around 30 years. The MMS will be forced to transition to another generation of experts in Alaska geology at the same time that the workload is increasing, requiring that this be accomplished in an orderly and timely fashion.

Additional new demands are now placed on staff because of new requirements related to the permitting process that did not exist 10 to 20 years ago. For example, the North Slope Borough tribal entities are requesting government-to-government meetings concerning seismic permits and activities. This requires RE staff to develop presentations, conduct meetings, and keep the tribal entities advised of the activities. These discussions revolve around impacts to whaling and other subsistence hunting activities, impacts to the health of specific marine mammals and the needed research and studies to determine the extent of the impacts due to seismic activities. The RE staff also coordinate extensively with the National Marine Fisheries Service and the Fish and Wildlife Service relative to issuing and enforcing incidental take authorizations due to the sensitivity of seismic operations to natives and the environmental communities. The region must work proactively with these agencies and industry to ensure that all required information is accessible.

Furthermore, MMS is in the process of replacing its current resource economic evaluation model (MONTCAR). Developmental work on these computer programs, testing, and implementation of the new models will further challenge staff resources.

The President's Request includes a geoscientist position who will be trained in Alaskan geology and the use of MMS seismic interpretation software. This individual will be mentored by the current maturing professionals in order to pass along their expertise and unique knowledge, and therefore maintain the high quality standards of the Alaska RE Office.

<u>Impact on Performance</u>

Collectively, anticipated production and net benefits for the nation from these three planning areas are 2.2 billion barrels of oil (BBO), 5 trillion cubic feet of gas (Tcf), and $20.65 billion over 40 years.

Program Area	**Resources**		
	Oil (BBO)	**Gas (Tcf)**	**Net Benefits**
Beaufort Sea	1.000	0.000	$6.58
Chukchi Sea	1.000	0.000	$6.37
North Aleutian Basin	0.200	5.000	$7.70

***Note**: All dollar values represent net present value in billions of 2007 dollars.*

Additional resources of $3,863,000 and five FTE are included in the Leasing and Environmental (LE) Subactivity for the 2007-2012 OCS 5-Year Program.

Gulf of Mexico Frontier Activity, Ultra-Deepwater, and Ultra-deep Drilling on the Shelf (+$411,000/ +3 FTE)

The MMS is witnessing a surge in exploration activity and development in the ultra-deepwater area of the Gulf of Mexico (GOM), at water depths from 5,000 feet to 10,000 feet. There were about 2,300 active leases in this water depth interval. Over the past three years, there have been 20 significant discoveries in ultra-deepwater, four of which were announced in the GOM in 2006. At the end of 2006, there were about 2,184 active leases in this water depth, and in the five-year period 2002-2006, there were a total of 215 wells drilled in these water depths, of which 149 were exploratory wells. This activity level and the discoveries of oil and gas have now started to translate into development projects. Ten projects began production in the ultra-deepwater area during 2004-2006. This activity is increasing workload and creating new challenges for MMS. In order to address these issues, MMS requires subject matter expertise in the following areas:

Frontier Play Analysis (+$274,000/+2 FTE) – The newly discovered deepwater Paleogene reservoirs and the drilling of ultra-deep wells on the shelf are expected to result in very significant additions to GOM oil and gas production. Announced discoveries in the Paleogene are located across a vast swath of the GOM extending from the Alaminos Canyon in the Western GOM to Walker Ridge in the Central GOM. The MMS play analyses project this play extending even further eastward into the Eastern GOM. Reservoir sands of Paleogene age located in the deepwater and ultra-deepwater of the GOM are believed by some in industry to have a potential of up to 15 billion barrels of oil equivalent (BOE). However, others in industry have expressed doubts about the ability of these Paleogene reservoirs to produce at commercial rates. An extended well test was recently completed at the Jack discovery to assess the ability of these formations to produce oil and gas from the Paleogene. The results at this location were very encouraging, but their applicability to other discoveries and prospects is still uncertain at this time. Several energy companies have teams of geoscientists and engineers working on regional studies of the Paleogene and ultra-deep shelf potential reservoirs. The Paleogene play extends about 325 miles across the entire Western and Central GOM. It represents a period of 41 million years, thousands of feet of geologic section, and several distinct episodes of sand deposition with reservoirs of varying quality. Independently, different companies are regionally mapping several key biostratigraphic levels, identifying and mapping sandstone depositional environments and facies, and integrating these maps with petrophysical and engineering data from the wells to be able to predict reservoir productivity. This regional background and understanding will allow industry to identify the more favorable “sweet spots” in otherwise poor-quality reservoirs; thereby identifying prospects and lease blocks of greater potential productivity, and hence, greater value.

ExxonMobil, in partnership with Newfield Exploration and others, has completed drilling an ultra-deep well at the Blackbeard prospect in South Timbalier 168 at a total depth of 30,067 feet. The well had an original proposed total depth of more than 32,000 feet, but failed to reach its primary targets because of higher than expected pressure. This multi-block prospect is part of a prospective trend that extends from the central part of the Louisiana shelf into Texas. This well was a true frontier venture designed to penetrate the entire Tertiary section (including the Paleogene), and at least the upper part of the Mesozoic interval. The next step in this venture is to issue a Suspension of Operations. Newfield anticipates that it will be at least two years before drilling of a redesigned well could commence.

Two of the primary roles of MMS are to ensure that the U.S. Government receives fair market value for OCS acreage made available for leasing and that oil and gas development and production activities are undertaken in a manner that conserves resources. Current MMS studies of the Paleogene have only focused on specific lease sale blocks and discoveries, and studies of the ultra-deep shelf have been restricted to the general size and number of structures in support of undiscovered resource estimates. At present, MMS has no integrated analysis of the several distinct reservoir levels, regional extent, variability, and productivity.

To fulfill these functions, MMS must have the “in-house” scientific expertise to proactively evaluate the potential oil and gas resources and production capabilities from the emerging Paleogene and ultra-deep shelf reservoirs, and to understand and evaluate industry studies and production proposals. This regional understanding will become increasingly important as industry requests MMS regulatory assistance; i.e., suspensions, approval of new technologies, unitization, etc. in bringing these challenging reservoirs on production. The MMS regional expertise needs to be developed very quickly since many ultra-deepwater blocks held by industry are due to expire in the next three years and industry is likely to attempt to extend the primary term for many of these leases.

Regional mapping and reservoir information is essential for effective play analysis, resource assessments, prospect analyses, bid adequacy determinations (fair market value estimates), preparation of reserve estimates, and decisions impacting the conservation of resources including development, unitization, and suspension of production.

<u>Acquisition of Seismic Data</u> (+$137,000/+1 FTE) – The MMS will need to permit, acquire, and reprocess site-specific seismic data to comply with field mapping requirements as outlined by the recent Ultra-Deepwater Report. Access to reprocessed data is required for MMS to perform independent evaluations of fields. The industry is increasingly utilizing in their ultra-deepwater evaluations, seismic data attributes, such as amplitude versus offset (AVO) data, stacking velocities, and other shot offset data that are not routinely provided to MMS. To perform a thorough independent evaluation of these projects MMS geoscientists will be required to have access to and interpret similar datasets.

The requested position will assure the proper datasets are acquired from industry seismic surveys. Getting the best or latest processing of a seismic survey requires good communication among the MMS seismic interpreter, the Data Acquisition Unit of RE, and the industry to assure that the appropriate data are identified as available and then requested. Reserves field mapping, play analysis, field analogs to support bid adequacy decisions, and reservoir mapping in support of development and unitization decisions regarding conservation of resource issues all require such site-specific reprocessed seismic surveys. The data acquired by this FTE will directly impact three Program Assessment Rating Tool (PART) measures:

1) Percent of tracts with high bids rejected in the previous lease sale receiving acceptable bids at the planning area's next lease sale,
2) Percent of high bids accepted within 30, 60, 90 days, and End of Sale, and
3) Reserves recovered per dollar of funding for the conservation management component of the program.

<u>Impact on Performance</u>

The newly discovered Paleogene reservoirs and ultra-deep targets on the shelf are expected to provide very significant increases in U.S. oil and gas production. Energy companies are committing significant resources towards mapping and engineering analysis with the goal to better predict reservoir productivity. The MMS is responsible for ensuring that the U.S. Government receives fair market value for OCS acreage available for leasing and that any oil and gas activities occur in a way that conserves resources. At present, MMS has no integrated analysis of the several distinct reservoirs levels, their regional extent, variability, and productivity.

This regional understanding will become increasingly important as industry requests MMS regulatory assistance (i.e., suspensions, approval of new technologies, unitization) in bringing these challenging reservoirs on production. This funding request impacts and crosses two subactivities – RE and Regulatory (RO). The performance chart for this request can be found in the RO Subactivity discussion.

EPAct Implementation - Methane Hydrates (-$1,000,000/ -1 FTE)

While MMS realizes the importance of methane hydrates research in determining regulatory needs for managing this potential energy source, actual production of this resource remains a number of years away; therefore, it is appropriate to redirect these funds to more immediate oil and gas program needs.

Refocusing Resources (-$640,000/ -5 FTE)

This proposal is discussed under the LE Subactivity.

PROGRAM OVERVIEW

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 sulphur and methane hydrates) through the acquisition and analysis of geological and geophysical (G&G) data; estimate the potential quantities of undiscovered technically and economically recoverable resources that may exist and the volume of reserves discovered and likely to be produced; forecast future industry activity levels; and determine 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 in targeted areas. The Marine Minerals program is responsible for all other minerals on the OCS including sand and gravel. International activities provide MMS the opportunity to become involved in initiatives that promote better integration of safety and environmental concerns into offshore development decisionmaking.

2008 Program Performance Estimates

• OCS 5-Year Leasing Program	+$137,000	+1
• Ultra-Deepwater	+$411,000	+3
• EPAct Implementation - Methane Hydrate Research	-$1,000,000	-1
• Refocusing Resources	-$640,000	-5
Total, Program Changes	**-$1,092,000**	**-2**

We estimate 2008 program performance changes at the request level as follows:

- Blocks/tracts assessed or evaluated will increase to 9,300 from 8,000 assuming that expanded acreage as published in the Proposed 2007-2012 OCS 5-Year Leasing Program is offered for lease. The increase is assumed to be primarily from the expanded Central GOM and Alaska lease sales.

PERFORMANCE OVERVIEW

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. 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.

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. The MMS geoscientists and engineers conduct detailed analyses and develop possible scenarios for oil and natural gas production from these tracts. RE staff integrate G&G, engineering, and 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, and price forecasts, geologic risks, and other subjective factors. 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's bid adequacy requirements, the bid is rejected and the tract is returned to the inventory for possible leasing in the area's subsequent lease sale. The success of these efforts is attested to by the program's continued success at achieving its annual GPRA FMV Ratio target. For each program year, 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 Activity-Based Costing (ABC) system.

Bid Procedures Lead to Higher Returns

The 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. A net gain of $16.1 million was realized in the 2005 lease sales for 15 of 18 tracts with previously-rejected bids.

Within its ABC 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.

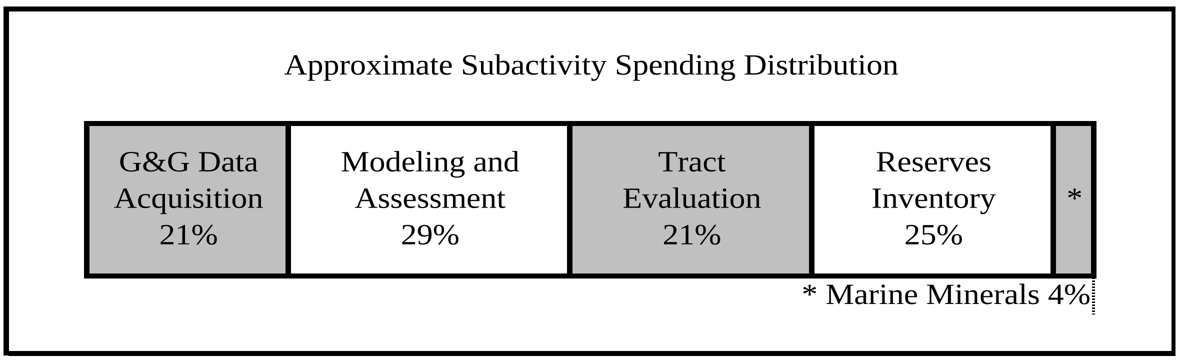


Figure 8: Resource Evaluation Spending Profile

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. The 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 operator plans and activities, as well as a variety of studies related to the OCS.
The use of 3-D seismic data has become standard in the GOM for exploration as well as development activities and is becoming increasingly important in the Alaska OCS. 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 revolutionized hydrocarbon exploration in the GOM. This reprocessing technique allows geoscientists to properly image salt bodies and the sediment strata beneath the salt, opening these areas to lower risk exploration. The MMS has more than 1.5 million line-miles of two-dimensional seismic information covering all regions of the OCS. Since 1993, MMS has acquired (primarily in the GOM) about 360,000 square-miles of 3-D seismic data.

Resource Modeling and Assessment: Another component of the RE subactivity is Resource Modeling and Assessment, 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. The MMS assesses the hydrocarbon potential and estimates the value 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 and costs. These resource assessments provide valuable information for policy decision makers throughout the leasing process. Information acquired through MMS resource assessment activities has been instrumental in the development of the OCS 5-Year 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; NEPA analyses; and conservation-related decisions. Further, the oil and gas industry and the investment community often use the MMS reports and data in their own assessments.

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 analyses.

Field Reserves Inventories: The MMS develops independent estimates of economically recoverable amounts of oil and natural gas contained within discovered fields by conducting field reserve studies. The reserve estimates are revised periodically to reflect new information obtained from development and production activities. Reserve studies are critical inputs to resource assessments, the review and approval of royalty relief applications, as analogs for bid adequacy determinations, and in the review of industry plans and requests. 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 analyses 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 analyses 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; and
- Providing economic analysis to other bureaus, DOI, and Congress on minerals leasing policies and national energy strategies.

Beginning in 2006, 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 minimum 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 29 million cubic yards of OCS sand for shore protection and coastal restoration projects – protecting critical wetland habitat, and property and infrastructure.

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. The MMS is committed to communicating, consulting, and cooperating with many diverse stakeholders in order to build consensus while balancing national, regional, and local interests. The Marine Minerals Program has received supplemental funds to conduct offshore sand studies in support of coastal restoration efforts to address damage from Hurricanes Katrina and Rita in the Gulf Coast states of Louisiana, Texas, Alabama, and Mississippi. The funds will be used to investigate available sources of federal OCS sand that can be used to restore portions of coastal areas significantly impacted by the hurricanes of 2005.

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. The 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.

Table 25: Performance Overview - Resource Evaluation

End Outcome Goal 1.1 Resource Use (energy): Manage or influence resource use to enhance public benefit, responsible development, and economic value.

Measure	2004 Actual	2005 Actual	2006 Plan	2006 Actual	2007 President's Budget	2007 Plan	2008 Plan	Change from 2007 Plan to 2008	Long-term Target 2012
Intermediate Outcome Strategy 3: Appropriate value through effective lease and permit management									
GPRA Intermediate Outcome Measures, and Bureau and PART Outcome Measures									
Percent of high bids accepted or rejected within 60 days (PART)	63% (572/906)	78% (612/ 786)	65%	68% (530/ 785)	65%	65%	65%	No Change	65%
Total Actual/Projected Cost($M)	14.4	15.5	15.6	15.6	15.7	15.7	15.7	0	
Comments	*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 for 62 days immediately prior to and following Hurricanes Katrina and Rita. Absent such adjustment, the result would be 36% (283/786). The outyear targets are lower than the 2005 actual value as a result of increased workload in the deepwater area where currently leased tracts, with 10 year lease terms, will be relinquished, then made available, as follows: 478 in 2007, 783 in 2008, and 437 in 2009. It is anticipated that greater than 45% of these tracts will be bid on; this plus other available acreage will likely place 2007-2009 sales over and above the baseline 600 tracts receiving bids.*								
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)	57% (12/21)	83% (15/18)	50%	39% (9/23)	50%	50%	50%	No Change	50%
Comments	*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. However, MMS does not appear to be receiving the same interest in previously rejected tracts that was evident in the past. In recent sales, there has not been much interest in some of the lower-valued rejected tracts on re-offering.*								

Table 25: Performance Overview - Resource Evaluation, cont.

Measure	2004 Actual	2005 Actual	2006 Plan	2006 Actual	2007 President's Budget	2007 Plan	2008 Plan	Change from 2007 Plan to 2008	Long-term Target 2012
Blocks/Tracts Evaluated (ABC)	8,140	8,177	8,000	10,996*	8,000	8,000	9,300	+1,300	9,300
Total Actual/Projected Cost ($M)	43.3	46.6	47.4	47.4	47.9	47.9	48.3	+ 0.4	48.3
Actual/Projected Cost per Unit ($thou	5.3	5.7	5.9	4.3	6.0	6.0	4.5	-1.5	
Comments	*In the base period under the current 5-year program (2002-2007), MMS experienced an average of 8,000 OCS tracts evaluated per year. Based on the proposed 2007-2012 program, MMS expects 9,300 tracts per year. It is anticipated that the proposed 5-year program, with its five-expanded program areas while surveying for interest in one additional planning area, will result in far more, labor-intensive, block/tract evaluation units. The number of OCS blocks/tracts evaluated (and thus, the unit cost thereof) fluctuates significantly from year to year due to the "size" of sales.* **Of the 10,996 blocks/tracts evaluated in FY 2006, 3,003 were Atlantic tracts. New geologic information was evaluated for the Proposed 2007-2012 5-Year Oil and Gas Leasing Program. This evaluation in the Atlantic was a special occurrence.*								
Intermediate Outcome Strategy 1: Effectively manage and provide for efficient access and development									
GPRA Intermediate Outcome Measures, and Bureau and PART Outcome Measures									
Change in acres with leasing incentives receiving bids compared to acres receiving bids without incentives in previous sales (PART)	+1.5 million	+1.5 million	+1.0 million	+ 1.2 million	TBD	TBD	TBD	TBD	TBD
Comments	*This measure tracks the effect of MMS leasing royalty incentives (subject to price thresholds) 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.*								

Note: The 2007 plan is the performance level based upon a projection of 2007 likely enacted made during the first quarter of 2007. The 2008 plan and 2012 long-term targets build on the 2007 plan. To the extent that Congress enacts a 2007 appropriation that is different from the 2007 projection, the 2008 plan and 2012 targets may require revision.

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2008 PERFORMANCE BUDGET REQUEST

Offshore Minerals Management

Regulatory Subactivity

Table 26: OMM Regulatory Program Subactivity Budget Summary

		2006 Enacted	2007 President's Request	2008 Fixed Costs & Related Changes	2008 Program Changes	2008 Budget Request	Change from 2007
Regulation of Operations	($000)	50,587	53,129	1,146	294	54,569	1,440
	FTE	334	336	0	-2	334	-2
Technology Assessment and Research	($000)	885	885	0	615	1,500	615
	FTE	0	0	0	0	0	0
Regulatory Subactivity	**($000)**	**51,472**	**54,014**	**1,146**	**909**	**56,069**	**2,055**
	FTE	**334**	**336**	**0**	**-2**	**334**	**-2**

SUMMARY OF 2008 PROGRAM CHANGES

Request Component	Amount	FTE
• Ultra-Deepwater	+$889,000	+2
• GOMR Hurricane Recovery	+$820,000	+4
• Refocusing Resources*	-$800,000	-8
Total, Program Changes	**+$909,000**	**-2**

* Final FTE Reduction Numbers and Funding Levels may shift between subactivities

JUSTIFICATION OF 2008 PROGRAM CHANGES

The 2008 budget request for the Regulatory (RO) Subactivity is $56,069,000 and 334 FTE, a net program increase of $909,000 and a decrease of 2 FTE from the 2007 President's Budget Request.

Ultra-Deepwater (+$889,000/+2 FTE)

The MMS is witnessing a surge in exploration activity and development in the ultra-deepwater area of the Gulf of Mexico (GOM) at water depths between 5,000 feet to about 10,000 feet. Over the past three years, there have been 20 significant discoveries in ultra-deepwater. Four of these significant ultra-deepwater discoveries were announced in the GOM in 2006. At the end of 2006, there were about 2,184 active leases in this water depth interval, and in the five-year period 2002-2006, there were a total of 215 wells drilled in these water depths, of which 149 were exploratory wells. This activity and the discoveries of oil and gas continue to translate into development projects. Ten development projects began production in the ultra-deepwater area during 2004-2006.

Operations in the ultra-deepwater areas of the Outer Continental Shelf (OCS) present new and complex technological and conservation issues that must be considered when evaluating exploration, development, and production activities. The MMS must have access to information that will allow it to approve industry requests to operate in the ultra-deepwater, and the means of acquiring this information is through studies and research. Without it, MMS may be in the position where it cannot approve industry requests to operate in frontier areas. In addition to new activity, expiration of the primary terms of deepwater leases issued in the late 1990's will increase the number of unitization and suspension requests received from industry. In order to avoid production and development delays to industry, MMS is requesting technology research funding, one position to conduct unitization and suspension work, and one position to research, review, evaluate, and approve cutting-edge technology requests from industry.

The 2007-2012 proposed program for OCS oil and gas leasing increases the overall tracts that MMS must assess from 8,000 to 9,300; the overall funding request will also assist MMS regulate this expanding area.

An additional three FTE ($411,000) are also being requested in the Resource Evaluation (RE) Subactivity to support activities in Ultra-Deepwater. See the Ultra-Deepwater discussion in Justification of 2008 Program Changes section of the RE Subactivity.

<u>Technology Assessment and Research</u> ($615,000) – Increasing activity in ultra-deepwater has generated the need for MMS to assess new technologies and develop guidelines and technology evaluations for many different types of technology proposals. Additional base funding is critically needed to conduct research and studies in the following technological and conservation areas:

- High Pressure (HP)/High Temperature (HT) equipment reliability;
- Evaluation of High Integrity Pressure Protection Systems (HIPPS);
- Fatigue life of risers and floating structures;
- Improvement of the fatigue modeling process to set a replacement standard; and
- Improved resource recovery technologies including the electric booster pump and subsea gas lift.

The MMS Technology Assessment and Research (TAR) program funds operational safety and engineering studies that provide information critical to the development of appropriate regulations and standards and MMS evaluation of industry plans and permit requests. As a result of fixed costs absorption, the program's ability to fund new studies has been reduced in recent years. Funding provided as part of the *Ultra-Deepwater Safety and Resource Potential* initiative will enable MMS to begin new projects in 2008.

Additionally, the initiative will provide MMS with the needed capacity to review industry requests for geological and geophysical exploration permits and to analyze ultra-deepwater reservoir data to inform decisionmakers about the development potential of this emerging frontier province – the leading edge of domestic energy resource exploration in the GOM. It also supports MMS's responsibility for ensuring that the U.S. Government receives fair market value for OCS acreage available for leasing and enables MMS to deal effectively with the increase in industry unitization and suspension requests as MMS reaches the end of the primary terms for deepwater leases issued in the late 1990's. These assessments will contribute to MMS conservation management efforts by helping to ensure OCS operators are diligent in producing oil and natural gas resources in a manner that maximizes the ultimate recovery of the minerals leased.

In order to leverage research funds and to avoid duplication of effort, MMS collaborates on more than half of its research efforts concerning safety of operations in the OCS. The TAR program expects to join research efforts with industry, universities and other government agencies – both domestically and internationally in 2008. MMS will endeavor to join and be a catalyst for deepwater research efforts such as high pressure and high temperature equipment reliability.

<u>Unitization</u> (+$137,000/+1 FTE) – Unitization occurs when leasees organize their leases into geographic or geologic units for joint exploration and development, run by one operator. Under the right circumstances, unitization expedites exploration and development, prevents waste, conserves natural resources, and protects correlative rights – including Federal royalty interests. The MMS expects to see a large increase in the volume of unitization requests in coming years. Many of these requests will be related to the increase in activities in the deepwater GOM.

During the three-year period 2008 through 2010, the primary terms of approximately 2,300 active leases will expire, of which approximately 1,000 are leases located in greater than 1,000 feet of water. In 2008 alone, there are 517 leases in greater than 1,000 feet of water that will expire. While a percentage of these leases will expire or be extended by leaseholding operations, many leasees will pursue unitization.

On average, a unitization request takes approximately two to four months to complete. This time frame includes geophysical, geological, engineering, and legal work. The increase in unitization requests would result in a significant workload increase for MMS.

<u>Technology Review, Standards and Regulatory Development</u> (+$137,000/+1 FTE) – As industry continues to push into deeper water in search of oil and gas reserves, new technology is constantly evolving that allows for exploration and production activities in world record water depths. In order to review and approve these technologies, MMS must keep abreast of these new, cutting edge technologies. This position will be used to monitor the research and development of this technology by participation at industry workgroups involved with developing standards and the necessary MMS regulatory approach.

A number of the American Petroleum Institute (API) standards are out of date, provide no guidance or contradictory guidance, and do not reflect the present state of technological advancements. API has recognized that their standards did not adequately address operations in deepwater, subsea, and high pressure/high temperature (HPHT) environments found in the far reaches of the GOM. As a result, API decided to formulate a series of wide ranging documents, which specifically address some of these issues. The MMS and industry are presently addressing these issues, and there is an urgent need for these documents to be published as soon as possible. This position will be used in not only developing industry standards but also in developing applicable regulations and policies for safe and pollution free operations in these harsh environments. These areas include HPHT, underbalanced drilling, composites and material analysis, High Integrity Pressure Protection Systems (HIPPS), and managed pressure drilling. Because of the uniqueness and complexity of this technology, this FTE will be required to be proficient and experienced in the use and limitations of this equipment. Having the expertise to promulgate regulations and conduct the technical reviews of this technology is essential to ensuring that ultra-deepwater operations are conducted prudently and in accordance with sound engineering principles. Also, given the rapid pace of ultra-deepwater activity, the position is critical to ensure that advances in technology are not hindered or delayed because of a lack of resources to review and approve such requests.

<u>Impact on Performance</u>: Operational safety and engineering studies provide information critical to the evaluation of industry plans and permit requests, and the development of appropriate regulations and standards. The requested funding increase will enable MMS to increase the 2008 target to 90 percent. This funding will allow MMS to fully assess the risk of ultra-deep subsurface drilling and the long term integrity of deepwater production facilities.

The number of unitization requests is industry driven and requires a complex technical evaluation (geologic, geophysical, and engineering). An MMS decision on unitization is needed prior to the date of lease expiration; therefore, our technical evaluations and extensive legal reviews must be completed within a limited time frame. Consequently, less than optimal staffing would: (a) diminish the thoroughness of the technical analysis and legal review; (b) delay unitization approval which would defer exploration, development, and the ultimate hydrocarbon production from the unit; or (c) result in the failure to complete the unitization process resulting in the proposed unit leases being returned to inventory for possible resale at a later date with no guarantee that the lease will be reissued, explored, and developed.

Table 27: Program Performance Change Table – Ultra-Deepwater, +$1,300,000; +5FTE

Measure	2004 Actual	2005 Actual	2006 Actual	2007 President's Budget	2007 CR[1]	2008 Base Budget (2007 PB + Fixed Costs)	2008 Plan	Program Change Accruing in 2008	Program Change Accruing in Outyears
						A	B=A+C	C	D
Blocks/Tracts Assessed or Evaluated (ABC)	8,140	8,177	10996 [1/]	8,000	8,000	8,000	9,300	+1,300	No Change
Total Projected Cost ($M)	43.3	46.6	47.4	47.9	47.9	49.5	48.3	-1.2	No Change
Projected Cost per Unit ($000)	5.3	5.7	4.3	6.0	6.0	6.2	5.2	-	No Change
Comments	*In the base period under the current 5-year Program (2002-2007), MMS experienced an average of 8,000 OCS tracts evaluated per year. Based on the proposed 2007-2012 program, MMS expects 9,300 tracts per year. It is anticipated that the proposed 5-year program, with its 5-expanded program areas while surveying for interest in one additional planning area, will result in far more, labor-intensive, block/tract evaluation units. The number of OCS blocks/tracts evaluated (and thus, the unit cost thereof) fluctuates significantly from year to year due to the "size" of sales.* [1/] *Of the 10,996 blocks/tracts evaluated in FY 2006, 3,003 were Atlantic tracts. New geologic information was evaluated for the Proposed 2007-2012 5-Year Oil and Gas Leasing Program. This evaluation in the Atlantic was a special occurrence.*								
Conduct Technology Assessment and Research studies on X% of high-priority topics (BUR)	70% (16/23)	75% (16/20)	70% (17/22)	70%	70%	60%	90%	+30%	+20%
Total Projected Cost ($M)	1.1	1.1	1.1	1.1	1.1	1.1	1.8	+.7	0.0
Comments	*Proposed funding level offsets anticipated decreasing performance by providing increased funding for critical information needs related to ultra-deepwater operations. The anticipated performance increase to 90% for 2008 is contingent upon receiving the additional funding in the safety research budget. At the same time, the costs and complexity of the projects will be escalating which will cause a decrease in years beyond 2008. See Deepwater initiative.*								

[1] The performance and cost data in the 2007 CR column is presented at the 2007 President's budget level, which is based upon a projection of 2007 likely enacted made during the first quarter of 2007. The 2008 plan builds on the 2007 plan. To the extent Congress enacts a 2007 appropriation that is different from the 2007 projection, the 2008 plan may require revision.

Note: Projected costs may not equal program change as these are full costs, which may include funds from other sources and (or) use averages.

Column B: The level of performance and costs expected in 2008 at the 2007 likely enacted level plus funded fixed costs. Reflects the impact of prior year funding changes, management efficiencies, absorption of prior year fixed costs, and trend impacts, but does not reflect the proposed program change.

GOMR Hurricane Damage Recovery (+$820,000/+4 FTE)

Many valuable, but painful lessons were learned from the devastating hurricanes of 2004 and 2005. One of these lessons is that MMS must establish an ongoing capability to address long term recovery issues resulting from storms like Hurricanes Katrina, Rita, and Ivan, and future storms of this magnitude. The supplemental funds provided by the Congress and the Administration were critical in allowing MMS to ensure continuity of operations in the Gulf, both for industry and for its own operations. However, supplemental funding is by its nature temporary and reactive, and MMS must look forward and address the ongoing need for dedicated resources, specifically workover and structural engineers. These positions will enable MMS to address proper abandonment and pollution prevention from the more than 800 wells damaged in the three hurricanes, and properly oversee the structural modifications and repairs to the numerous platforms affected by the hurricanes.

Workover Engineers (+$548,000/+4 FTE) – The 2005 hurricane season in particular was devastating to the GOM offshore structures and associated wells. The MMS estimates that 3,050 of the Gulf’s 4,000 platforms were in the direct path of either Hurricane Katrina or Hurricane Rita. Because of the large amount of infrastructure in the path of hurricane-force winds and waves, the amount of damage was substantial. Hurricanes Katrina and Rita destroyed 113 platforms and damaged 52 others.

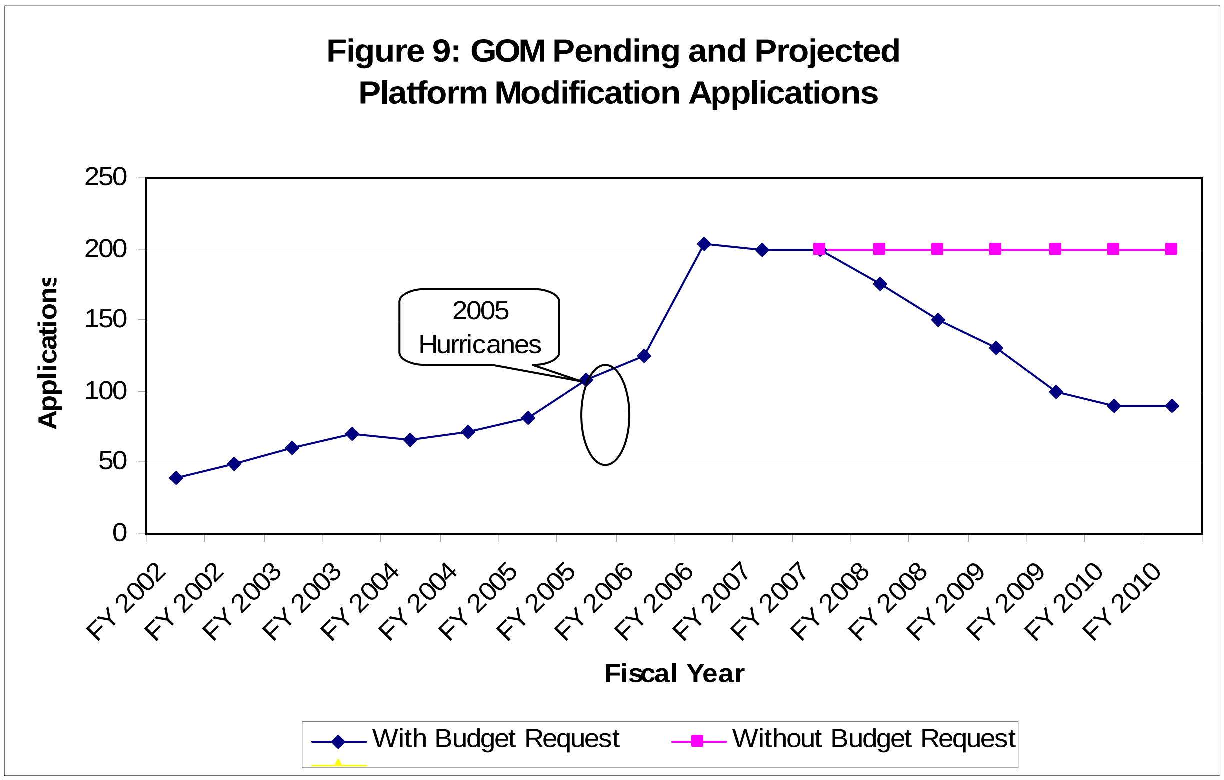
The loss of many platforms and rigs was very apparent to most involved with the offshore oil and gas industry. What was not quite as apparent was the loss of 861 wells that were associated with the lost platforms. To date, only a handful of these wells have been permanently abandoned. Although this pace is partially attributable to scarcity of equipment needed to conduct the work, it is also attributed to the lengthy work procedures required by this effort.

Damaged wells are not permanently secured until the final permanent abandonment work is complete. To initiate the abandonment process, the offshore operator must submit a permit for each one of these wells. These permits must be reviewed and approved by MMS district workover engineers. It should be noted that these abandonments do not utilize standard abandonment equipment or procedures. Storm damaged wells (bent over at or below the mudline, possibly buried below mudline, casings and tubings possibly severed, etc.), require different procedures; therefore, the abandonment permits take longer to review, require more consultation with the operator, and take much more continuous monitoring. Many cases also involve an extensive alternative compliance review by MMS district personnel to ensure environmental protection equivalent to regulatory requirements.

Table 17 in the OMM Overview illustrates the large number of wells needing to be abandoned. This well damage in the GOM has truly created a large workload for district workover engineers that is unprecedented within the history of MMS. The requested workover engineers will facilitate the timely review and approval of abandonment permits and monitoring of overall progress toward the ultimate goal of permanently abandoned wells, so that these operations do not pose a threat to the environment.

<u>Structural Engineers</u> (+$272,000) – Aging infrastructure and a dramatic spike in production activity have already required MMS to utilize all current resources to keep pace with structural modification and repair permit requests. In addition, the 2005 hurricane season and Hurricane Ivan in late 2004 caused widespread structural damages. Operators are required by regulation to perform various structural inspections of their storm-impacted facilities and submit the results of these inspections to MMS for review prior to returning the facility to service. Additional structural engineers are required to perform these structural damage reviews in a timely manner. MMS anticipates these will be contractor employees.

<u>Impact on Performance</u>. The review and approval of structural modification requests is a critical milestone in restoring the oil and gas production in the GOM. The measure in the table below and its associated graphic demonstrates how the resource request will return MMS to a pre-hurricane level of processing structure modification permits. In 2004, MMS had a backlog of 75 pending permits. This workload activity spiked following the hurricanes to a point that the number of pending modification applications (received but not yet approved) tripled in 2006 to 204 permits. With the 2008 requested funding and personnel, MMS will be able to reduce this backlog to 120 by 2009 and to 90 by 2012.



Note: The baseline for the number of pending structure applications (2004) is 75. As a result of the hurricanes, but just as significantly the impact of the aging infrastructure in the GOM and the complexity of structure modification permits received, the backlog has more than doubled. Approval for a structure modification permit on an existing structure takes significantly more time than a new structure because of the engineering analysis that must be performed on older structures. Many Gulf structures are beyond their original design life and require significant engineering analysis and coordination with industry. Operations cannot proceed until the permits are approved. The addition of four structural engineers (2008 President's Budget) will reduce the backlog by 25% in 2008, and a projected 60% by 2012.

Refocusing Resources ($-800,000/ -8 FTE)

Please see the write-up for this proposal in the Leasing and Environmental Subactivity.

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 43 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 RO Subactivity 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**.**

2008 Program Performance Estimates

The MMS estimates the 2008 program performance changes as follows:

- Increase by 30 percent the number of high-priority technology assessment and research studies to be conducted;
- Reduce by 50 the number of pending modification applications, allowing offshore facilities to be returned to service more quickly; and
- Increases by 105 the number of conservation assessments projected to be completed in 2008, as industry moves to unitize deepwater oil and gas leases in the GOM leading to more efficient exploration, development, and production.

PERFORMANCE OVERVIEW

The full range of regulatory activities are critical elements of MMS's overall success and contributed to the achievement of the top rating of "Effective" in the 2005 Program Assessment Rating Tool (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."

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 GOM 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.

For the period 2004-2006, MMS conservation management efforts are estimated to have recovered 39.7 million barrels of oil (or equivalent volumes of natural gas).

In addition to safety and pollution prevention, the OCS Lands Act (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.

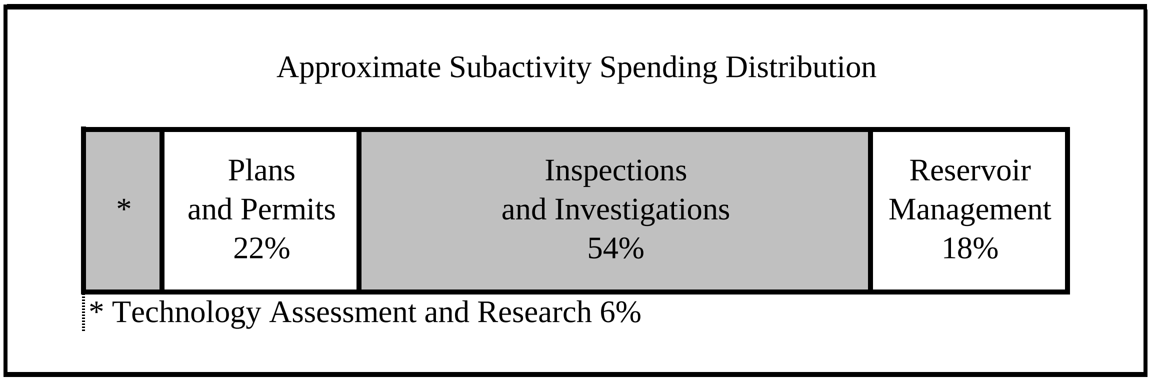


Figure 10: Regulatory Spending Profile

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

- *Identify and Implement Lessons Learned from Post-Hurricane Studies and Assessments.* The 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*. The 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. The 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.* The 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*. The 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. The 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.

Table 28: Performance Overview - Regulatory

Measure	2004 Actual	2005 Actual	2006 Plan	2006 Actual	2007 President's Budget	2007 Plan	2008 Plan	Change from 2007 Plan to 2008	Long-term Target 2012
End Outcome Goal 1.1 Resource Use (energy): Manage or influence resource use to enhance public benefit, responsible development, and economic value.									
Intermediate Outcome Strategy 1: Effectively manage and provide for efficient access and development									
GPRA Intermediate Outcome Measures, and Bureau and PART Outcome Measures									
Percent of leases drilled for 1st time - 5 Year Leases (PART)(CY measure)	8.4% (129/1,531)	7.1% (132/1,858)	7.5%	5.9% (119/ 2,023)	7.5%	6.0%	6.1%	No Change	6.1%
Percent of leases drilled for 1st time - 8/10 Year Leases (PART)(CY measure)	1.2% (43/3,531)	1.1% (42/3,918)	1.7%	1.1% (43/ 3,774)	1.7%	1.3%	1.4%	No Change	1.5%
Comments	*Results for 2005 and 2006 reflect lower than projected activity due to industry curtailment of operations immediately prior to and following Hurricanes Katrina, Rita, and Wilma. OCS operators are continuing to dedicate resources to re-establish production and repair/replace the damaged infrastructure during 2006. Some drilling rigs and ships previously used to drill exploratory wells are dedicated to developmental and appraisal drilling due to damages sustained by the drilling platforms and a backlog of recent deepwater discoveries. There are currently 7 new ultra-deepwater rigs under construction and 2 additional ultra-deepwater rig upgrades with contracts to work in the Gulf of Mexico. These additional rigs are expected to be added to the GOM rig fleet between 2008 and 2010. Additionally, many shallow water jack-up drilling rigs have left the Gulf of Mexico for international work as the number of leases held by industry remains steady or is increasing. The jack-up rigs leaving the GOM usually get 3 to 5 year contracts overseas compared with well-to-well contracts in the GOM.*								

Table 28: Performance Overview - Regulatory (cont'd)									
Measure	**2004 Actual**	**2005 Actual**	**2006 Plan**	**2006 Actual**	**2007 President's Budget**	**2007 Plan**	**2008 Plan**	**Change from 2007 Plan to 2008**	**Long-term Target 2012**
Intermediate Outcome Strategy 2: Enhance responsible use management practices									
GPRA Intermediate Outcome Measures, and Bureau and PART Outcome Measures									
Amount (in barrels) of offshore oil spilled per million barrels produced (SP/PART)	7.9 (4,768/ 600.5 million)	31.2 (17,404/ 557.4 million)	5	0.9 (416/476 million)	5	5	5	No Change	5
Total Actual/Projected Cost ($M)	60.6	62.9		63.8	66	66	65	-1	
Comments	*Recent results are subject to revisions as hurricane damage assessments are completed and additional oil is recovered. The MMS remains committed to safety and environmental protection as top priorities. 2004 results excluding Hurricane (Ivan) spills are .2 per million barrels produced. 2005 results excluding Hurricane (Katrina & Rita) spills are also .2 per million barrels produced. The 2005 result was impacted by the hurricanes with both an increase in numerator (spillage) and reduced denominator (shut-in production)*								
Process X% of exploration plans in less than 30 days (BUR)	100% (350/350)	99% (367/371)	70%	75% (259/ 345)	100%	100%	100%	No Change	100%
Total Actual/Projected Cost ($M)	6.1	6.7		6.5	6.6	6.6	6.7	0.1	
Process X% of development plans in less than 120 days (BUR)	100% (314/314)	100% (258/258)	95%	94% (293/313)	100%	100%	100%	No Change	100%
Total Actual/Projected Cost ($M)	8.1	8.9		8.7	8.8	8.8	8.9	0.1	
Process X% of right-of-way pipeline applications within 140 days (BUR)	98% (133/136)	93% (144/155)	70%	97% (133/137)	100%	90%	90%	No Change	90%

Table 28: Performance Overview - Regulatory (cont'd)

Measure	2004 Actual	2005 Actual	2006 Plan	2006 Actual	2007 President's Budget	2007 Plan	2008 Plan	Change from 2007 Plan to 2008	Long-term Target 2012
Total Actual/Projected Cost ($M)	4.1	4.5		4.3	4.4	4.4	4.5	0.1	
Comments	*The 2005 results and 2006 targets reflect the closure of the MMS Gulf of Mexico Region and some associated district offices for as much as 62 days immediately prior to and following Hurricanes Katrina, Rita, and Wilma. Katrina and Rita damaged 457 pipelines and 101 larger diameter pipelines (10 inches or greater). The target for 2006 is lower than the 2004 and 2005 actual values due to a significant increase in workload for pipeline modification permits and other damage reporting in FY 2006. Pipeline damage assessments are still ongoing.*								
Conduct Technology Assessment and Research studies on X% of high-priority topics (BUR)	70% (16/23)	75% (16/20)	70%	70% (17/22)	70%	70%	90%	+20%	70%
Total Actual/Projected Cost	1.1	1.1		1.1	1.1	1.1	1.8	0.7	
Comments	*Proposed funding level offsets anticipated decreasing performance by providing increased funding for critical information needs related to ultra-deepwater operations. The anticipated performance increase to 90% for 2008 is contingent upon receiving the additional funding in the safety research budget. At the same time, the costs and complexity of the projects will be escalating which will cause a decrease in years beyond 2008. See Deepwater initiative.*								
Achieve a utilization rate of X% at OHMSETT, the national oil spill response test facility (BUR)	84%	75%	75%	80%	75%	75%	83%	+8%	83%
Total Actual/Projected Cost ($M)	3.2	3.2		3.2	3.2	3.2	2.7	-0.5	
Comments	*The 2008 President's Budget reflects a return of funding following completion of a $1,000,000/year four-year major renovation that ends in 2007. The anticipated performance increase to 83% for 2008 is contingent upon continuing to receive $500,000 in Ohmsett renovation funding for maintenance.*								

Table 28: Performance Overview - Regulatory (cont'd)

Measure	2004 Actual	2005 Actual	2006 Plan	2006 Actual	2007 President's Budget	2007 Plan	2008 Plan	Change from 2007 Plan to 2008	Long-term Target 2012
Total Number of Compliance Inspections Completed (PART/)	24,938	23,115	23,000	19,961	25,000	22,300	22,000	- 300	22,300
Total Actual/Projected Cost ($M)	38.5	38.2		39.8	41.6	41.6	41.3	-0.3	
Actual/Projected Cost per Unit ($)	1,544	1,687		1,730	1,665	1,865	1,875	-	
Inspect X safety and pollution prevention components per year (BUR/ABC)	67,608	64,025	60,000	56,454	66,560	60,500	60,000	- 500	60,500
Total Actual/Projected Cost ($M)	38.5	38.2		39.8	41.6	41.6	41.3	-0.3	
Actual/Projected Cost per Unit ($)	570	645		665	625	685	690	-	
Comments	*The 2005 and 2006 results 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 have been adjusted to reflect the Gulf of Mexico loss of more than 4000 components and 125 facilities due to Hurricanes Ivan, Katrina and Rita. A significant number of smaller facilities have not returned to production and are not operating. Historically, the GOM facilities/components have been flat. The MMS is also conducting more component sampling and performance based inspections which focus on higher risk facilities and reduce the component and inspection count. The MMS expects this trend to continue into the near future.*								
Composite accident severity ratio (SP/PART)	0.08	0.03	0.08	0.05	0.07	0.07	0.06	-0.01	0.05
Total Actual/Projected Cost ($M)	40.2	40.5		42.1	43.9	43.9	42.8	-1.1	
Actual/Projected Cost per Unit ($)	-	-	-		-		-	-	

Table 28: Performance Overview - Regulatory (cont'd)

Measure	2004 Actual	2005 Actual	2006 Plan	2006 Actual	2007 President's Budget	2007 Plan	2008 Plan	Change from 2007 Plan to 2008	Long-term Target 2012
Maintain an annual composite operator performance index of X or less (PART/BUR)	0.17	0.11	0.20	0.15	0.20	0.20	0.20	No Change	0.20
Comments	*True targets are zero; figures presented here are used as expected values for performance analysis. The MMS remains committed to safety and environmental protection as top priorities.*								
Reduce number of fatalities among workers in DOI permitted or contracted activities (PART)	3	6	6	9	REDUCE	2002-2006 Avg = 7 2007 Target = 6	REDUCE	-	REDUCE
Reduce number of serious injuries among workers in DOI permitted or contracted activities (PART)	29	23	23	29	REDUCE	2002-2006 Avg = 24 2007 Target = 23	REDUCE	-	REDUCE
Comments	*The MMS's target is to continually reduce the number of deaths and serious injuries. A rolling five-year average is used to calculate an expected value for the result. MMS sets the target by reducing from the expected value. The 2006 result was likely due to the unusual offshore activity level during FY 2006. During FY 2006 the offshore industry in the Gulf of Mexico has been engaged in recovering from the record damage caused by Hurricanes Katrina and Rita. The number of repair operations and man-hours has been well above that of recent years. Additionally, several of the fatalities and serious injures are regulated by the USCG, but counted in MMS results because the incident occurred on or near an OCS facility.*								
Intermediate Outcome Strategy 3: Appropriate value through effective lease and permit management									
GPRA Intermediate Outcome Measures, and Bureau and PART Outcome Measures									
Reserves recovered per dollar	6.8	3.5	5.2	20.4	5.2	5.2	5.2	No	5.2
Comments	*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. Through the review of Conservation Information Documents, MMS analyzes reservoirs that an operator has proposed to bypass. The MMS has made operators commit to develop zones that the operator had proposed to bypass. The price of oil has increased significanly in 2006. This made reservoirs that may have previously been uneconomic, economic to produce.*								

Note: The 2007 plan is the performance level based upon a projection of 2007 likely enacted made during the first quarter of 2007. The 2008 plan and 2012 long-term targets build on the 2007 plan. To the extent that Congress enacts a 2007 appropriation that is different from the 2007 projection, the 2008 plan and 2012 targets may require revision.

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.

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 OCSLA 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 Activity Based Costing (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 2006, MMS inspectors completed almost 20,000 inspections.

The 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. The MMS and other agencies, such as the USCG, investigate accidents that result in loss of life, serious injuries, major fires, damage to facilities, and major spillages in order to identify causes and prevent future similar incidents. In 2005, the MMS investigated 57 incidents to determine causes and analyze regulatory performance. Though ABC data indicate that these investigations account for less than three 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.

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 does not meet certain targets.

For the period from 1990 to 2006, MMS collected over $15 million from civil penalty cases.

Civil Penalties and Operator Disqualification: The 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 two 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, or 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 conservation by avoiding loss, preventing waste, and ensuring ultimate recovery of the resources. Conservation of oil and gas resources is an integral part of the nation's energy policy and a primary objective for the MMS regulatory program. To promote conservation, 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 subactivity).

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 2006, the TAR program "co-funded" twelve 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.

The expansion of industry operations into the deepwater areas of the GOM 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 GOM 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.

2008 PERFORMANCE BUDGET REQUEST
Offshore Minerals Management
Information Management Program Subactivity

Table 29: OMM Information Management Program Subactivity Budget Summary

		2006 Enacted	2007 Likely Enacted	2008 Fixed Costs & Related Changes	2008 Program Changes	2008 Budget Request	Change from 2007
Information Management	($000)	30,181	30,024	257	-1,394	28,887	-1,137
Subactivity	FTE	74	74	0	0	74	0

SUMMARY OF 2008 PROGRAM CHANGES

Request Component	Amount	FTE
• Reduction to OCS Connect	-$1,394,000	0

JUSTIFICATION OF 2008 PROGRAM CHANGES

The 2008 budget estimates for the Information Management Program subactivity is $28,887,000 and 74 FTE, with a program reduction of $1,394,000 from the 2007 President's Budget Request.

Reduction to OCS Connect (-$1,394,000)

In 2008, the Outer Continental Shelf (OCS) Connect project, a five-year business process re-engineering effort, will begin its transition from development and planning to implementation and maintenance. The proposed reduction reflects funding that is no longer needed for development, planning, implementation, or maintenance, and will not adversely impact performance measures or targets.

OCS Connect Funding

2005 Funding	2006 Funding	2007 Request	2008 Request
15,615,138	15,596,406	15,671,000	14,277,000

*Funding amounts are net of across the board reductions

PROGRAM OVERVIEW

The Information Management Program 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 Offshore Minerals Management (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.

Approximate Subactivity Spending Distribution

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

Figure 11: Information Management Spending Profile

PERFORMANCE OVERVIEW

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 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 Information Management Program is responsible for maintaining its share of the Bureau-wide IT shared services. Currently this portion of the budget supports the Exchange (email) infrastructure, the master domain infrastructure, the Systems Management Server, 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 Program 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 Program 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 Program resources.

Headquarters IT staff (located in Washington and New Orleans) provide single-point management, coordination, and standardization of OMM IT activities, resulting in an efficient centralized operation. Recently the Gulf of Mexico Region IT operations staff was centralized into the HQ structure to provide consolidated integration and operations. Some of the many responsibilities of this staff include:

- Coordination with DOI'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;
- Program-wide operations support;
- 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 the other two MMS OCS Regions (Alaska 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 re-engineering 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 Information Management Program subactivity funds 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 Program 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 Information Management Program 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 2003. The Project Management Office, in conjunction with OMM management, identified and prioritized clusters of business processes to maximize benefits expected from this investment. During 2004 and 2005, OMM completed the Business Process Re-engineering 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 2005, OMM completed the Systems Requirements Specifications 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 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. In addition, 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 2006, MMS and the prime contractor focused 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 2007 and the systems will be implemented for the third process cluster in late 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 future resource availability that will be available in New Orleans as the project office is reestablished in that city.

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. As of February 200, approximately 98 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 (GOMR)," 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, MMS also developed and deployed *Public Connect*. This public commenting system provides secure online access to the regulatory programs of the OMM 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's ability to track and manage public input. Initially deployed to support OMM, *Public Connect* was expanded in 2005 to support other MMS programs. For 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.

2008 PERFORMANCE BUDGET ESTIMATES

Offshore Minerals Management

Coastal Impact Assistance Program

Section 384, Energy Policy Act of 2005

PROGRAM OVERVIEW

The Energy Policy Act (Public Law 109-58) authorizes disbursement of $250.0 million from OCS oil and gas revenues in each of the fiscal years 2007 through 2010 to producing states (Alabama, Alaska, California, Louisiana, Mississippi, and Texas) and coastal political subdivisions (counties, parishes, or boroughs) for a variety of uses, with an emphasis on approved coastal restoration and conservation.

Pursuant to the Act, eligible recipients shall use all amounts received under this section for one or more of the following purposes:

- Projects and activities for the conservation, protection, or restoration of coastal areas, including wetlands;
- Mitigation of damage to fish, wildlife, or natural resources;
- Planning assistance and the administrative costs of complying with Section 384 of the Act;
- Implementation of a federally-approved marine, coastal or comprehensive conservation management plan; and
- Mitigation of the Outer Continental Shelf activities by funding onshore infrastructure projects and public service needs.

Recipient allotments for 2007 and 2008 will be determined by several factors, including 2006 Qualified Outer Continental Shelf Revenues, U.S. Census population, and coastline length. Allotment amounts for 2009 and 2010 will be calculated using the same methodology, with updated revenue, population, and coastline length data, as appropriate.

Under the statute, states must submit plans no later than July 1, 2008. The MMS Director must approve each state plan before recipients can submit grant applications for funds. To complete grant applications, recipients will need MMS to have completed the Environmental Assessment (EA) on the program and determined the allotment amounts.

The CIAP Plan guidelines were published in the Federal Register on September 29, 2006 and MMS was open to receiving state plans as of October 2, 2006. The Plan guidelines state that MMS would accept grant applications from states with approved plans starting early May 2007. The Draft Programmatic EA was published for comments in the Federal Register in November, 2006.

The FY 2007 President's Budget, which has not been enacted as of this writing, requested appropriations language that would provide MMS with the funds needed to administer the program. However, as of January 2007, MMS has been operating under continuing resolutions that do not include administrative funds. A delay in administrative funding in 2007 may affect MMS's original target dates for receiving plans, completing the EA and CIAP fund allocations, and readying the agency to accept grant applications by early May. If this occurs, the states and coastal political subdivisions may not be ready to apply for funds until 2008 and MMS may not be ready to release 2007 CIAP funds until late into 2008.

Administration of the Program

The MMS consulted with a number of other federal grant program managers in order to determine the level of resources that would be needed to implement and administer a grant program of this nature. This included the U.S. Fish and Wildlife Service, and the National Oceanographic and Atmospheric Administration's (NOAA) Coastal Programs Division. The NOAA administered a smaller version of the same program in 2001-2002, and its $150 million one-year CIAP program funded over 600 projects. Based on those discussions, the MMS 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.

It is important to note that the MMS CIAP grant management and monitoring functions will extend far beyond the 2007-2010 disbursement period. Grant guidelines require oversight throughout completion of a project. The NOAA continues to monitor their CIAP projects from 2001. It is projected that the installments of retained funds is needed to fund the grants management and oversight through FY 2014. Also, due to a continuing resolution, this timeline may extend beyond 2014.

The table below summarizes the 2008 CIAP program at three percent or $7.5 million annually for three years, and also assumes (and there is no certainty as of this writing) that 1% or $2.5 million will be provided for FY 2007. Depending on when funds are provided to administer the program, it may be necessary to adjust projected spending between fiscal years, and redirect funds intended for indirect expenses to direct expenses (for example, hiring of additional contracting officers, project officers, other technical staff).

Table 30: Coastal Impact Assistance Program Funding
FY 2008 Coastal Impact Assistance Program
($000)

FTE	Task/Responsibility	FY 2007 Estimate	FY 2008 Estimate	FY 2009 Estimate	FY 2010 Estimate	FY 2011-2014 Estimate
	Appropriation [1/]	2,500	7,500	7,500	7,500	0
	Carryover from prior year [2/]	0	0	4,269	8,201	12,007
	Total Operating Funds	**2,500**	**7,500**	**11,769**	**15,701**	**12,007**
	Expenses:					
	Salaries (assumes annual 3% increase; 2007 is partial year)	-1,874	-2,471	-2,545	-2,621	-9,090
1	Program Manager					
8	Project Officers					
1	Economist					
1	Grants Manager					
5	Grants/Contracting Officer					
1	Fiscal Grant Administrator/Auditor					
	Share Annual DOI Audit	-75	-77	-80	-82	-353
	Travel & Training	-100	-100	-100	-100	-500
	Annual Audit			-200	-225	-1,075
	Total Direct Expenses	**-2,049**	**-2,648**	**-2,925**	**-3,028**	**-11,018**
	Indirect Expenses (22% Standard)	**-451**	**-583**	**-643**	**-666**	**-2,424**
	Total Expenses	**-2,500**	**-3,231**	**-3,568**	**-3,695**	**-13,442**
	Absorbed within MMS					**1,435**
	Carryover to next year [3/]	**0**	**4,269**	**8,201**	**12,007**	**0**

1/ Assumes a 1% appropriation for FY 2007, and a 3% appropriation for FY 2008-2010.
2/ While the CIAP is authorized for four years, MMS anticipates it will need to administer the grant program through 2014. The funding MMS retains during the authorized four year period will need to be managed in such a way that funds are still available in the outyears to continue administration of the program through the life of the grants and into closure of the program.
3/ Administrative funds not required to operate the program will be returned to the states.

The MMS will require a number of specialized staff to manage the CIAP grant process.

Regional Project Officers: The MMS estimates it will need up to eight project officers, depending on the number of grant applications and amendments submitted. At a minimum, there will be one project officer located in Alaska, one in California, and three in Louisiana coordinating activities for the Gulf Coast States of Louisiana, Mississippi, Alabama, and Texas. The role of the Project Officer is key in the review and approval process of the CIAP, and they must be available in the earliest stages of the Program to answer questions by the states and coastal political subdivisions on the Plan guidelines, Plan development, authorized uses of the funds, Plan submittal, and grant application processes.

Specifically, the Project Officers will:

- Receive state plans;
- Review the state plans for completeness;
- Review the technical plan to determine:
    - proposed project types;
    - confirm the appropriateness of the project in regards to authorized uses;
    - confirm that certain projects do not exceed established spending limitations;
    - confirm the States provide adequate federal, state and local law compliance documentation;
    - prepare recommendations to the Director;
- Retrieve grant applications from Grants.gov;
- Coordinate the application with MMS Grant Officers and conduct concurrent; technical and budget reviews; and
- Monitor ongoing projects.

During the four years of the Program, new projects will be submitted every year and ongoing projects may be amended or modified, requiring additional technical review. The Project Officers will provide oversight of ongoing projects, conduct random site visits, and participate in close-out processes with the Grant Officer. It is anticipated that the last projects will not be completed until 2014 at the earliest.

Grant Officers (Specialists): The role of the Grant Officer will be to:

- Conduct a budget review of a project grant application (review for reasonableness and applicability to the program);
- Confirm grant application completeness (three standard forms);
- Confer with grant applicants as necessary to acquire needed information;
- Prepare Award Documentation;
- Oversee complete signature process;
- Approve the grant application;
- Conduct budget monitoring; and
- Close out grants.

Grant Officers have been benchmarked to manage approximately 40-50 projects at a time depending on the size and complexity of the projects. The staffing for Grant Officers will “ramp up” over time, with the maximum workload expected in 2010.

For all positions, Project Officers and Grant Officers, managing 40-50 projects should not be understood to mean that number could be handled in a timely manner if received at the same time. Risk mitigation will be factored into the process so that a heavy influx of projects or modifications does not cause significant delays in the processing of the funds. It is anticipated that the CIAP will receive anywhere from 300 to 500 project applications per year.

Both Project Officers and Grant Officers will be involved in traveling to conduct on-sight visits as part of a random monitoring program and/or to conduct visits to evaluate issues and concerns stemming from problems brought to light in annual project or financial reports. The CIAP administration budget will also include the cost of an annual audit, as this program is likely to receive noticeable attention requiring financial appropriateness and transparency.

Another significant workload is the economic analysis and modeling required to allocate authorized revenues to the eligible states. In addition to interpreting the complex allocation formula, a significant amount of input data is required, such as Submerged Lands Act baseline point files, coastal political subdivision perimeter point files, geographic center of leased tract calculations (latitude/longitude coordinates of the centroid of each defined block), and great circle distance calculations.

PERFORMANCE OVERVIEW:

- Final Guidelines – Published on September 29, 2006. Draft Guidelines were provided to eligible grant recipients for comment on March 6, 2006. The MMS worked closely with representatives from the affected states to ensure that comments, questions, and concerns were addressed quickly and completely.

- Stakeholder Workshop - on July 17-18, 2006, MMS conducted a very successful CIAP workshop with state representatives and a majority of the coastal political subdivision representatives. The workshop reviewed and discussed in detail each section of the draft guidelines, including MMS's responses to the comments, questions, and concerns received during the comment period for the draft guidelines issued in March. The outreach efforts by OMM CIAP team members prior to and during the workshop facilitated a positive discussion and demonstrated MMS' desire to conduct as transparent a program as possible. No comments received in writing or made in person during the workshop required notable or significant changes to the draft Plan guidelines.

- Programmatic Environmental Assessment – Published in November, 2006

- Future Milestones – Dependent on FY 2007 Appropriations Action

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2008 PERFORMANCE BUDGET REQUEST

Offshore Minerals Management

Oil Spill Research Subactivity

Table 31: OMM Oil Spill Research Subactivity Budget Summary

		2006 Enacted	2007 President's Request	2008 Fixed Costs & Related Changes	2008 Program Changes	2008 Budget Request	Change from 2007
Oil Spill Research	($000)	6,903	6,903	0	-500	6,403	-500
	FTE	18	18	0	0	18	0

SUMMARY OF 2008 PROGRAM CHANGES

Request Component	Amount
• Reduction to Ohmsett Operating Account	-$500,000

JUSTIFICATION OF 2008 PROGRAM CHANGES

The 2008 budget request for the Oil Spill Research (OSR) appropriation is $6,403,000 and 18 FTE, with a program decrease of $500,000 from the 2007 President's Request.

Reduction to Ohmsett Operating Account (-$500,000)

2007 will mark the end of a four-year, phased replacement of equipment at Ohmsett that totaled $4 million ($1 million per year). 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;
- Reparation 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.

Refurbishment of Ohmsett was necessary due to years of deferred maintenance caused by flat funding levels which could not accommodate the needs of an aging facility, and basic operation and maintenance needs. In fact, for several years before refurbishment of the facility the funds for operation and maintenance had to be redirected from other program activities. The Ohmsett facility will require $500,000 in ongoing operation and maintenance needs funding to protect the $4 million refurbishment investment in this important research facility. The remaining $500,000 is available to offset other high-priority mission needs.

The new skimmer described in this NY Times article was developed under an MMS funded research contract. The original goal was to test different materials for skimmer drums, but the results show that surface pattern was more important. Certain materials increased recovery by 20%, but the V-shaped surface pattern increased recovery by 200%. A skimmer using these results is now being marketed.

NY Times
Section: Science
Column: Observatory

By HENRY FOUNTAIN
Published: November 14, 2006

New Oil Skimmer

Among the most common equipment used to clean up after a marine oil spill is the oil skimmer. It is a very basic device, consisting of a rotating drum, belt or disk that constantly picks up the oil from the surface of the water. The oil is then removed by a scraper or roller.

But it's not a very efficient device. The flat surface of a drum cannot pick up much oil, and brush-like surfaces, which increase the collecting area, are difficult to scrape clean, so much of the oil is returned to the water.

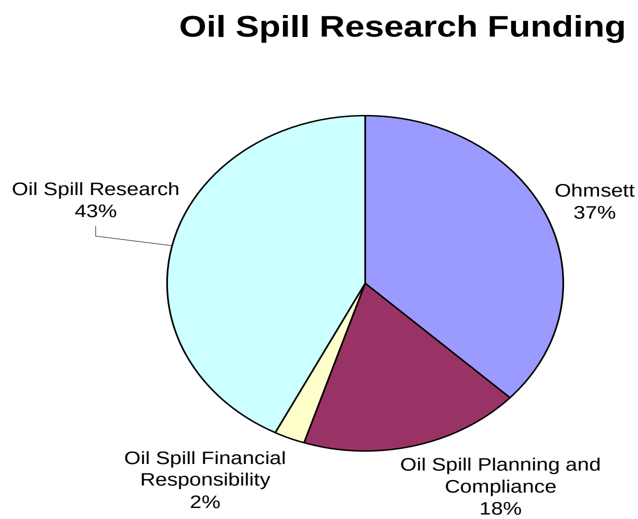
Now Victoria Broje and Arturo A. Keller of the University of California, Santa Barbara, have come up with a skimmer design that combines larger surface area with scrapeability. It is quite simple: a grooved drum with a scraper to match.

In a paper to be published next month in Environmental Science and Technology, the researchers describe their design and the tests that were conducted at the National Oil Spill Response Test Facility in Leonardo, N.J.

The amount of oil that can be collected depends on the viscosity of the liquid and on the depth and width of the V-shaped grooves. With a groove of a certain width, the oil that collects forms a meniscus that prevents it from draining off the drum before it is scraped off.

PROGRAM OVERVIEW

The Oil Spill Research (OSR) appropriation funds oil spill response research, the National Oil Spill Response Test Facility (Ohmsett), 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.



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:

- **Barrel Tax**. The largest source of revenue has been a 5-cent-per-barrel tax, collected from the oil industry on petroleum produced in or imported to the United States. The tax was suspended in July 1993 because the Fund reached its statutory limit. It was reinstated in July 1994 when the balance declined below $1 billion, but expired at the end of 1994 because of the sunset provision in the law. The 2005 Energy Policy Act again reinstated the tax, effective April 2006.
- **Transfers**. A second major source of revenue has been transfers from other existing pollution funds. Total transfers into the Fund since 1990 have exceeded $550 million. No additional funds remain to be transferred to the OSLTF.
- **Interest**. Interest on the Fund principal from U.S. Treasury investments generates additional revenue. As a result of historically low interest rates, interest income has declined significantly in recent years, falling to $13.5 million (or 45 percent of revenue) in 2004.
- **Cost Recoveries**. Another source is cost recoveries from responsible parties; those responsible for oil incidents are liable for costs and damages. The National Pollution Funds Center bills responsible parties to recover costs expended by the Fund. As these monies are recovered, they are deposited into the Fund.
- **Penalties**. In addition to paying for clean-up costs, responsible parties may incur fines and civil penalties under the Oil Pollution Act, the Federal Water Pollution Control Act, the Deepwater Port Act, and the Trans-Alaska Pipeline Authorization Act. Penalty deposits into the OSLTF are generally between $4 million and $7 million per year.

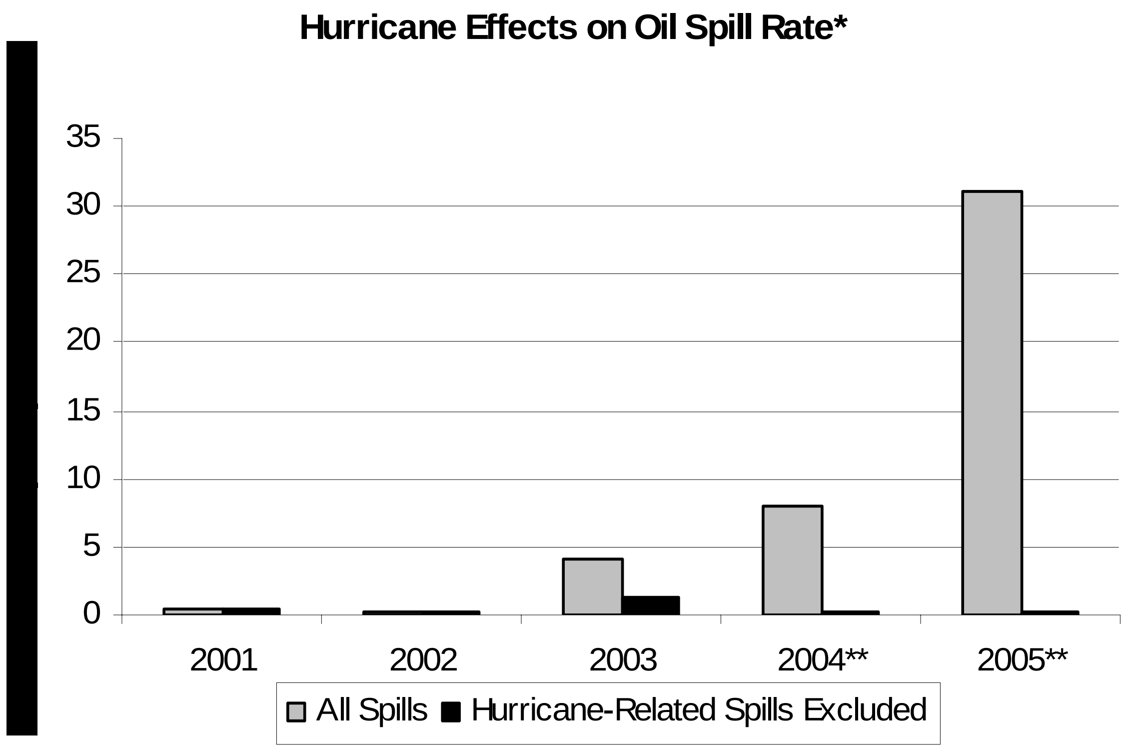
As intended by the Oil Pollution Act of 1990, the companies that produce and transport oil are supporting research to improve oil spill response capabilities.

2008 Program Performance Estimates

The request of -$500,000 for Ohmsett will not change the 2008 performance target as presented in the 2007 President's Budget Request. The MMS still estimates an eight percent increase in the utilization rate at Ohmsett from 75 percent to 83 percent as full operating capacity is restored following completion of the four-year renovation of the facility.

The OSR activities are critical elements of MMS' overall success and contribute to the achievement of the top rating of "Effective" in the Administration's Program Assessment Rating Tool (PART) review of the *OCS Regulatory and Compliance* program.

In 2002, 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 one percent of the oil discharges in North American waters is related to the extraction of petroleum." The MMS's goal is not to exceed spillage of five barrels of oil for every million barrels produced. Recent (estimated) results have been impressive, especially considering the major hurricanes that have affected the offshore industry in recent years.



*MMS is working with industry to mitigate the effects of hurricanes, with an eye toward limiting offshore oil spill volumes to no more than five barrels spilled per million barrels produced -- just .0005 percent.

**Hurricanes Ivan, Katrina, and Rita are the first hurricanes for which unrecovered petroleum on destroyed, heavily damaged, and/or missing offshore oil and gas facilities were reported in a comprehensive manner.

Figure 13: Hurricane Effe
cts on Oil Spill Rate

PERFORMANCE OVERVIEW

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.

Ohmsett - The National Oil Spill Response Test Facility: Ohmsett is the world's largest tow/wave tank designed to test and evaluate full scale equipment to detect, contain and cleanup oil spills. No other agency operates a facility like Ohmsett; in fact, major Federal clients such as the United States Coast Guard and the United States Navy rely on Ohmsett for their training needs. The diverse private client base of Ohmsett varies from major oil industry firms such as Exxon Corporation and Marine Spill Response Corporation to academic research institutions like the University of New Hampshire, University of Rhode Island, and the University of Miami.

Ohmsett 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 an important 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 USCG and USN 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 in 2006 included 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 2007 test schedule, can be found at www.ohmsett.com.

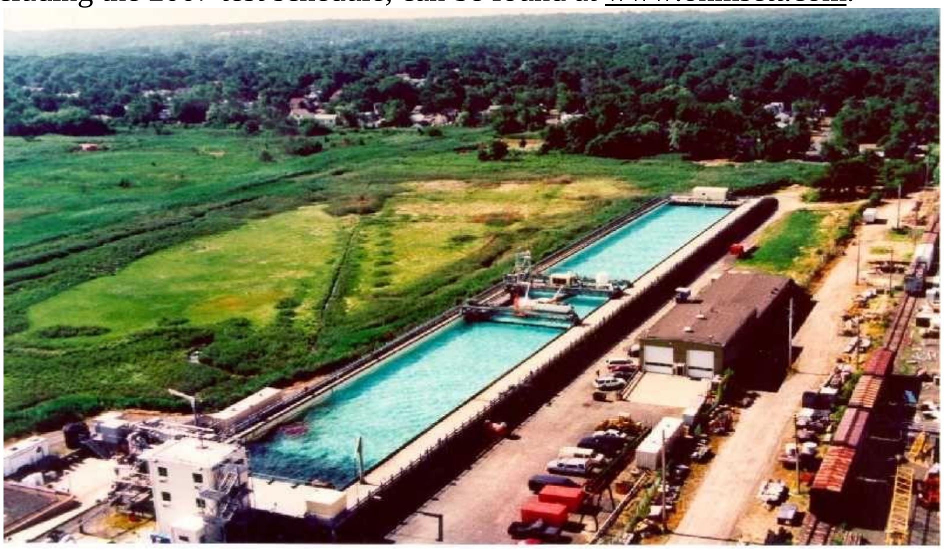


Figure 14: Ohmsett Facility in New Jersey

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. The 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. The MMS often collaborates with state response agencies to review and approve Oil Spill Response Plans for oil and gas facilities in state offshore waters. For the MMS, a major focus of activity is implementation of the DOI Emergency Preparedness & Response Strategy – Oil Discharges & Hazardous Substance Releases.

Oil Spill Financial Responsibility: The MMS is responsible for implementing the financial responsibility provisions of OCSLA and OPA, which require companies responsible for certain offshore oil and gas facilities, in both Federal and State waters, to demonstrate their ability to pay the costs of facility oil spill discharge removal and damages. Several methods may be used to demonstrate oil spill financial responsibility (OSFR), including insurance, bonds, self-insurance, and guarantee. The amount of OSFR needed is based on facility location and the volume of the worst-case oil spill discharge that could occur. Extensive coordination and exchange of lease data takes place with affected states to ensure that the public is insulated from fiscal risk by ensuring that each offshore operator maintains the ability to pay for damages resulting from worst-case oil spill scenarios.

2008 PERFORMANCE BUDGET REQUEST
Minerals Revenue Management

Table 32: MRM Summary of Budget Request

Minerals Revenue Management		2006 Enacted	2007 CR 1/	2008 Fixed Costs & Related Changes	2008 Program Changes	2008 Budget Request	Change from 2007
Compliance and Asset Management	($000)	42,723	43,134	1,390	940	45,464	2,330
	FTE	379	382	0	4	386	4
Revenue and Operations	($000)	35,159	36,024	433	450	36,907	883
	FTE	181	180	0	0	180	0
Subtotal	**($000)**	**77,882**	**79,158**	**1,823**	**1,390**	**82,371**	**3,213**
	FTE	**560**	**562**	**0**	**4**	**566**	**4**
Impact of CR	($000)		-1,276	1,132	144		1,276
	FTE		-2	0	2		2
Total	**($000)**		**77,882**	**2,955**	**1,534**	**82,371**	**4,489**
	FTE		**560**	**0**	**6**	**566**	**6**
Other Major Resources							
RIK Revenue Receipts for RIK Program Administration	($000)	17,310	19,000	-	-	19,600	+600
RIK Revenue Receipts for RIK Transportation	($000)	31,000	79,248	-	-	100,000 to 140,000	+20,752 to 60,752

1/ At completion of this 2008 budget justification, a 2007 appropriation had not yet been enacted, and a year-long continuing resolution (CR) was anticipated. This column reflects numbers from the 2007 President's Request, with an adjusting entry towards the bottom of the table to provide the CR total (P.L. 109-383, effective through February 15, 2007) for MRM, which is equal to the 2006 Enacted number.

The MMS is entrusted with an important fiduciary role by and for all Americans. Through its Minerals Revenue Management (MRM) Program, MMS efficiently and effectively utilizes its financial systems 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.

Impact of 2007 Continuing Resolution (-$1,276,000, -2 FTE)

At completion of this 2008 budget justification, a 2007 appropriation had not been enacted and substantial uncertainty existed regarding the ultimate level that would be appropriated for 2007. At the Bureau-level and Account-level, adjustments are shown such that these amounts equal the annual rate provided under the authority of the third fiscal year 2007 Continuing Resolution, P.L. 109-383 effective through February 15, 2007, which for MMS is equal to the 2006 Enacted. At lower levels of the budget structure (subactivity and initiative), line items are presented at the 2007 President's Request level.

The 2008 budget restores the priorities of the 2007 President's budget by funding 2007 programmed fixed cost increases, eliminating unrequested 2006 congressional earmarks, and implementing the program enhancement and program reduction initiatives included in the 2007 President's budget.

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 changed the MMS operating environment. The greatest immediate impact for MRM came from new royalty collection provisions that required major modifications to the MRM support system (MRMSS). The MRM is in the process of completing those system changes, and continues to make a major resource commitment to the timely and effective implementation of all the provisions of the Act for which we have responsibility.

The 2008 Budget Justifications include a request for additional funding for the following key MRM initiatives:

Adjustment Line Monitoring Initiative ($940,000; 4 FTE): Royalty adjustments must be made within established timeframes and in compliance with applicable laws and regulations. This initiative provides for system modifications and staff resources to identify improper royalty adjustments.

Interactive Payment Reconciliation and Billing ($1,450,000; 0 FTE): This initiative proposes an interactive, automated interface with enhanced online reporting, verification and electronic billing capabilities for MMS employees and reporters as well as enhancing MMS's electronic interaction with industry, States and Tribes.

As a result of MMS's analysis of base resources, the Budget Estimates include the following funding reductions for 2008 within MRM:

Energy Policy Act Reduction (-$750,000; 0 FTE): The Energy Policy Act system enhancements are scheduled to be completed in 2007. Therefore, further funding is not needed for this initiative.

Eliminate IT Dial-In Service (-$250,000; 0 FTE): For several years, MRM has used a dial-in service to access the MRM network as a backup system for travelers and telecommuters. With the implementation of new connection strategies, MRM proposes to eliminate the local and 800 dial in service.

PROGRAM OVERVIEW

Revenues collected by MMS are one of the largest sources of non-tax revenue to the Federal Government. In FY 2006, MMS disbursed billions 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 (see text box below).

Through the continuation of MRM's base programs and implementation of the 2008 initiatives, MMS will ensure the effective management of the Federal oil and gas royalty asset stream, optimize returns for the American public, and at the same time, increase efficiencies and reduce administrative costs.

Who Benefited from MMS Mineral Revenues Disbursements in FY 2006?

- ***Conservation and Recreation Programs — $900 Million***
  MMS transfers nearly $900 million annually to the Land and Water Conservation Fund, although spending from the account is subject to appropriation. In recent years, this fund has been used to purchase or acquire through exchange about 4.5 million acres throughout America for conservation purposes and recreational use.

- ***American Indian Tribes and Indian Mineral Owners — $641 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.

- ***State Infrastructure — $2.2 Billion***
  Mineral revenues disbursed to states are, in some states, a significant element of a state's financial resource picture, providing funding for local schools, roads, libraries, public buildings, and general operations as the states deem necessary.

- ***Western Water Users — $1.65 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. Taxpayers — $7.4 Billion***
  Mineral leasing revenues are one of the Federal Government's greatest sources of non-tax receipts funding various government functions and programs through the General Fund of the U.S. Treasury.

The MMS is a leader in securing economic value for America by managing the revenues generated from the natural resources 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.

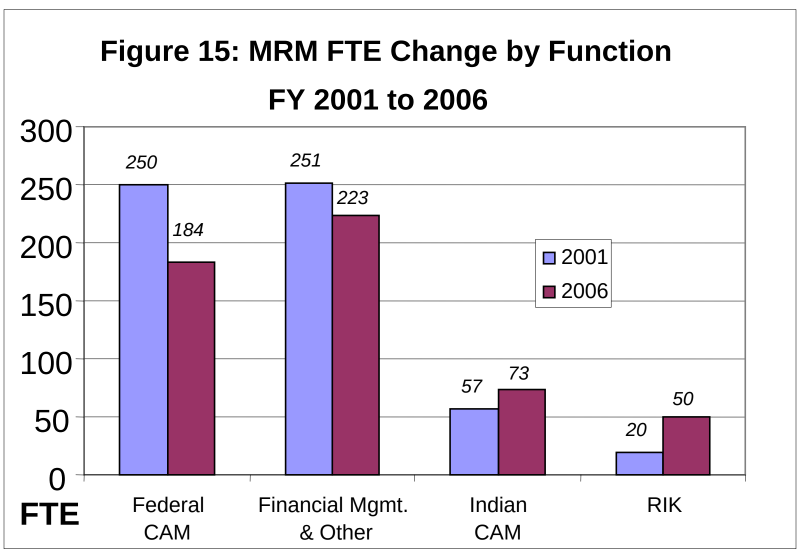
- *Compliance and Asset Management:* The CAM business process ensures that the Nation's Federal and Indian mineral revenues, whether received in-kind or in-value, are accurately reported and paid in compliance with laws, regulations, and lease terms. Integral to this process is the economic analysis to support decisions to take royalties in-kind (RIK) or in-value (RIV). When RIK is selected, the energy commodity is marketed 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 disbursed in a timely manner to recipients.

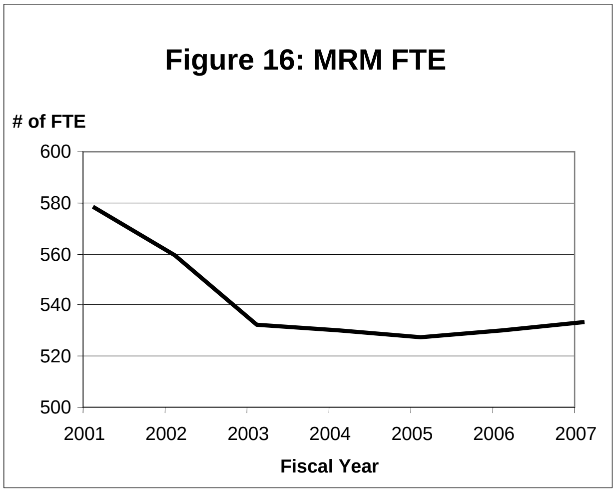
The MMS is committed to serving the Nation in the best, most efficient manner possible throughout all of its business activities. In addition, MMS places high emphasis on fulfilling its Indian Trust responsibilities when performing all MRM business processes. In 2007, MMS's continuing objective is to provide the highest possible Indian trust services relative to its role in collecting and disbursing royalties from Indian lands to 32 Tribes and to an estimated 30,000 IIMOs.

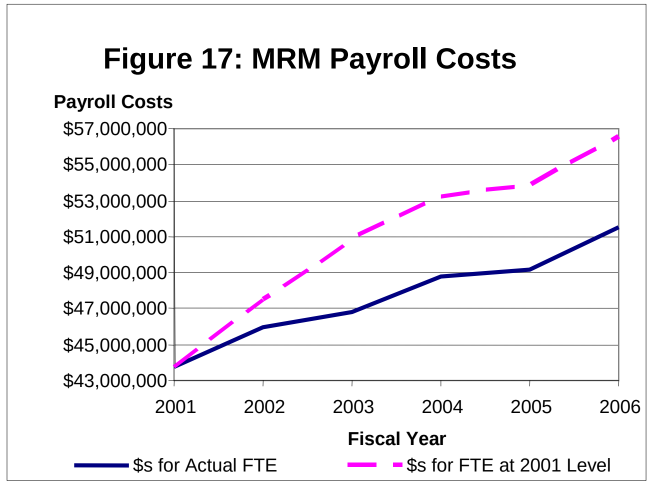
MRM Efficiencies Realized:
$19.7 Million in MRM Payroll Cost Avoidance

Since 2001, MRM has captured significant efficiency gains resulting from reengineering and RIK. From 2001 to 2006, MRM reduced Federal onshore and offshore compliance FTE by 66 and Financial Management and other FTE by 28. Total reductions in these areas equal 94 FTE, of which 46 were redeployed – 16 to focus on Indian compliance activities and 30 to expand RIK activities. Audit and compliance performance metrics showed improvements as a result of efficiency gains.



The remaining 48 FTE were eliminated through attrition, reducing overall MRM FTE by over eight percent from 2001 levels, allowing MRM to fund increased pay and other fixed costs.





If MRM FTE had remained at 2001 levels, program payroll costs would have been nearly $5 million higher in 2006 and cumulative 2001 through 2006 payroll costs would have been $19.7 million higher.

STRATEGIC PLANNING

The MRM Strategic Business Planning Initiative was completed in December 2005. This initiative charts the course and direction of the future MRM business through the year 2012. The new initiative focused on identifying and implementing best value services with high quality and integrity. 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. Importantly, the business planning initiative will be supportive of, and fully integrated with, Department and MMS strategic planning guidelines and responsive to the Administration's management improvement goals and objectives. Key outcomes include an MRM program-wide strategic plan and business plans that emphasize market-based regulatory guidance, valuation certainty, and improved business processes and systems with effective performance measures and strong internal controls.

By 2008, 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 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.

In 2005, MRM completed a program-wide risk management initiative. 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. In 2006, MMS conducted an evaluation of the internal controls over program operations and financial reporting of the Minerals Revenue Management program, in accordance with OMB Circular A-123, Management's Responsibility for Internal Control and the CFO Councils Implementation Guide. Based on the results of the evaluation, MMS provides reasonable assurance that the internal controls over program operations were suitably designed and operating effectively as of June 30, 2006. No material weaknesses were found in the design or operation of the internal controls over program operations or financial reporting. 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 the overall long-term strategic planning effort.

Integrating Budget and Performance

The work of MRM supports the DOI Strategic Plan goal to "manage or influence resource use to enhance public benefit, responsible development, and economic value." 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 RIK and RIV approach. The RIK/RIV comparative cost evaluations, 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 2003, MMS completed a PART review with the Office of Management and Budget (OMB) for the entire MRM 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 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 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 2005 of MRM audit activities, resulting in an Unqualified Opinion with no material weaknesses or reportable conditions.

More recently, the Inspector General conducted an audit at the request of the U.S. Senate Committee on Energy and Natural Resources. The audit, dated December 6, 2006, addresses concerns raised by the news media and the State and Tribal Audit Committee about MMS's increasing use of compliance reviews as part of its CAM program. Specifically, the audit determined whether compliance reviews are an effective part of the CAM program and whether MMS is effectively managing the compliance review process. Please refer to the MRM – CAM tab, Compliance Assurance Program Performance section, "Compliance Strategy – Office of the Inspector General's Report" subsection for a more complete description of the 2006 audit and the Bureau's response.

The MMS will complete a Re-PART of the MRM Program with OMB during FY 2007.

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2008 PERFORMANCE BUDGET REQUEST

Minerals Revenue Management

Compliance and Asset Management Subactivity

Table 33: MRM Compliance and Asset Management Subactivity Budget Summary

		2006 Enacted	2007 President's Request	2008 Fixed Costs & Related Changes	2008 Program Changes	2008 Budget Request	Change from 2007
Compliance and Asset Management Subactivity	**($000)**	**42,723**	**43,134**	**1,390**	**940**	**45,464**	**2,330**
	FTE	**379**	**382**	**0**	**4**	**386**	**4**
Other Major Resources							
RIK Revenue Receipts for RIK Program Administration	($000)	17,310	19,000	-	-	19,600	+600
RIK Receipts for RIK Transportation	($000)	31,000	79,248	-	-	100,000 to 140,000	+20,752 to 60,752

SUMMARY OF 2008 PROGRAM CHANGES

Request Component	Amount	FTE
• Adjustment Line Monitoring Initiative	+$940,000	+4
Total Program Changes	**+$940,000**	**+4**

JUSTIFICATION OF 2008 PROGRAM CHANGES

The 2008 budget for the Compliance and Asset Management (CAM) Subactivity is $45,464,000 and 386 FTE, with a program change of $940,000 and 4 FTE from the 2007 President's Request. The budget includes an increase for system modifications to automatically identify improper adjustment lines and compliance monitoring for violations.

Adjustment Line Monitoring Initiative (+$940,000; +4 FTE)

The requested increase of $940,000 would ensure that companies' royalty adjustments are made within the allowed timeframes and in compliance with laws and regulations. Section 111A(a)(4) of the Royalty Simplification and Fairness Act of 1996 (RSFA) states that all adjustments on Federal leases must be made within 6 years of the royalty due date.

The MMS's current adjustment monitoring process is manual and labor-intensive. Through this manual process, MMS has identified a number of violations of reporting adjustment requirements – including instances where 1) payments made related to findings from MMS audits or compliance reviews were later inappropriately recouped by the reporters, and 2) reporters made improper adjustments outside of required timeframes.

The requested funding would provide $420,000 for MRMSS modifications to automatically identify royalty adjustments made outside of required timeframes for further research by MMS staff. System modifications would also ensure that reporters are not allowed to adjust prior period reporting after MMS completes audits and compliance reviews. In addition to system modifications, the requested increase provides $520,000 for an additional 4 FTE to perform compliance work to monitor for system-identified violations and ensure that all research related to Federal and Indian adjustment monitoring is completed in a timely manner. It is anticipated that this capacity will provide a much larger return to the U.S. Treasury than the initiative will cost.

Performance Benefits – Though accurate measures of improper adjustments are not currently available, due to the manually intensive nature of gathering such data, a sample analysis of adjustments made during FY 2005 determined that some companies were adjusting royalties they had previously paid as far back as 1989. Further analysis of this same sample identified more than 10,000 adjusting lines for dates after the three-year compliance cycle was completed. Of these, more than 2,000 were negative recoupments and were outside of the RSFA-allowed statute of limitations. A cursory review of this sample appears to show improper company royalty recoupments of more than $10 million.

If MMS does not discover and require company repayment of improper adjustments within the statute of limitations, the government is at risk of not receiving all revenues due. MMS cannot adequately monitor adjustments without automated system modifications and additional staff resources. This initiative will provide MMS the system and human resource capability to compile and monitor accurate and real-time company performance data related to improper adjustments. The requested funding would ensure that improper adjustments are identified in a timely manner and that the government is made whole.

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, managing the sale of 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 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.

- *Royalty in Kind 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), as has occurred in the past.

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 Bureau'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 (IIMOs) 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.

PERFORMANCE OVERVIEW

In FY 2006, MMS reviewed and/or audited 72.5 percent of all Federal and Indian royalty revenues within three years from the date of receipt of payment, using a system that targets areas of greatest risk - the largest properties and payers.

In early 2005, MRM completed a program-wide risk management initiative, identifying the most significant areas within our control environments to place or enhance internal control. In December 2005, the MRM published its Strategic Business Plan for 2007-2012, charting the course and direction of the future MRM program, aligned with the DOI Strategic Plan.

Based on these efforts, MMS made a preliminary determination that while it is important to continue the focus on the three-year compliance cycle, royalty dollars should not be the only focus of this measure. It is also important to address compliance coverage for companies and properties that might be at a high risk of non-compliance. The Office of Inspector General's (OIG) recently completed an audit of MRM's Compliance Review process, and in its final report dated December 2006, the OIG concurred, stating: "MMS should consider modifying its CAM Program strategy to ensure appropriate coverage of properties and companies within a reasonable timeframe even if this results in a reduction in the overall percentage of dollars covered."

In early 2006, as part of MRM's strategic planning initiative, MMS began pursuing the development of a risk-based strategy for compliance. The MMS sought expert contract support to provide assistance in developing this strategy. It is anticipated that this strategy will provide the detail to identify properties or companies where audits or compliance reviews are warranted.

The MMS anticipates implementing a pilot during 2007 to further develop and implement these risk strategies. In FY 2007, MMS must redirect resources to develop and pilot the methodology to assess compliance risks. To accommodate this workload and to implement the OIG's recommendations, MMS will cover $5.8 billion in revenues (this equates to 65 percent compliance coverage of mineral royalties) and increase the percentage of companies being reviewed/ audited.

During FY 2007, MMS anticipates developing a new three-year compliance coverage measure, based on the new risk-based compliance strategy related to royalties, properties, and companies, and other factors. MMS is examining a more dynamic, risk-based approach of compliance coverage to include companies and properties. Targets for FY 2008 forward will be based on the revised three-year compliance measure and will be available by the end of FY 2007.

Also, if given the requested additional $940,000 in funding in FY 2008, MMS would increase audit staff by 4 FTE to perform compliance work for adjustment monitoring, in addition to modifying systems to automatically identify royalty adjustments made outside of required timeframes.

Table 34: Performance Overview - Compliance and Asset Management

Measure	2004 Actual	2005 Actual	2006 Plan	2006 Actual	2007 President's Budget	2007 Plan	2008 Plan	Change from 2007 Plan to 2008	Long-term Target 2012
End Outcome Goal 1.1 Resource Use (energy): Manage or influence resource use to enhance public benefit, responsible development, and economic value.									
Intermediate Outcome Strategy 3: Appropriate value through effective lease and permit management									
GPRA Intermediate Outcome Measures, and Bureau and PART Outcome Measures									
Percent of Federal and Indian royalties compliance work completed within the 3-year compliance cycle (SP/PART)	69.4% of 2001 royalties ($4.763B/ $6.865B)	71% of 2002 royalties ($4.289B/ $6.000B)	72% of CY 2003 royalties ($5.784B/ $8.035B)	72.5% of CY 2003 royalties ($5.827B/ $8.035B)	79% of CY 2004 royalties ($7.116B/ $9.007B)	65% of CY 2004 royalties[1/] ($5.855B/ $9.007B)	TBD [1/]	TBD	TBD [1/]
Total Actual/Projected Cost ($M)	43.7	44.2	53.2	53.2	53.4	53.4	56.1	2.7	n/a
Comments	*[1/] While it is important to continue the focus on the 3-year compliance cycle, royalty dollars should not be the only focus of this measure. MMS is examining a more dynamic, risk-based approach to measure compliance coverage to include companies and properties. In FY 2007, MMS is reducing its target to 65% in order to redirect resources to develop and pilot the new methodology to assess compliance risks. Revised compliance coverage measurement, based on new risk strategy, and targets for FY 2008 forward, will be available by the end of FY 2007.*								
Reduce time to balance RIK transactions to 180 days for X% of facility measurement points (BUR)	80.8% within 180 days (2,979 pts. /3,685 pts.)	85.3% within 180 days (3,963 pts./ 4,646 pts.)	83% within 180 days	84.8% within 180 days (3,808 pts./ 4,492 pts.)	87% within 180 days	87% within 180 days	89% within 180 days	2%	TBD
Comments	*"Pts." are facility measurement points. Targets for RIK measures for FY 2010 forward will be addressed during MRM's Business Planning initiative, and will be available by the end of FY 2008.*								

Table 34: Performance Overview - CAM continued

Measure	2004 Actual	2005 Actual	2006 Plan	2006 Actual	2007 President's Budget	2007 Plan	2008 Plan	Change from 2007 Plan to 2008	Long-term Target 2012
Net return (in dollars) to the government through royalties-in-kind (RIK) (SP/PART) (estimated)	$19.7 million	$36M (cum)	$43.9M (cum)	See note[2/] in Comments	$51.8M (cum)	$51.8M (cum)	$59.6M (cum)	+ $7.8M	TBD [3/]
Total Actual/Projected Cost ($M)			17.3	17.3	n/p	19.0	19.6	0.6	TBD
Comments	*[2/] FY 2006 results not available until April 2007 at which time results for the period October 1, 2005 through September 20, 2006 will be reported. [3/] MRM's goal is $67.5M by FY 2009. 2004 result is the baseline. Annual targets are based on cumulative progress made 2005 and forward in reaching the $67.5 million 5-year target. Due to market volatility and its potential impact on revenue uplift, future gains – or losses – will be variable. Targets for FY 2010 forward will be addressed during MRM's Business Planning initiative, and will be available by the end of FY 2008.*								
Reduce RIK administrative costs per BOE by X% over the last 3 years of the RIK Business Plan (FY 2007-2009) (BUR)	N/A	N/A	Baseline	See note[4/] in Comments	n/p	-2%	-5% (Cum)	-3%	TBD
Comments	*[4/] FY 2006 results not available until April 2007 at which time results for the period October 1, 2005 through September 20, 2006 will be reported. Targets for RIK measures for FY 2010 forward will be addressed during MRM's Business Planning initiative, and will be available by the end of FY 2008.*								
Ensure substantial compliance for X% of Indian gas properties within 3 years for Indian-specific major portion/index pricing terms. (BUR)	100% of CY 2001 (2,259/ 2,259)	100% of CY 2002 (2,216/ 2,216)	100% of CY 2003 (2,246/ 2,246)	100% of CY 2003 (2,246/ 2,246)	100% of CY 2004 (2,284/ 2,284)	100% of Y 2004 (2,284/ 2,284)	100% of CY 2005	No Change	100% of CY 2009

Table 34: Performance Overview - CAM continued

Measure	2004 Actual	2005 Actual	2006 Plan	2006 Actual	2007 President's Budget	2007 Plan	2008 Plan	Change from 2007 Plan to 2008	Long-term Target 2012
Outputs									
RIK Barrels of Oil Equivalent (BOE) Sold	41.5 million	56.6 million	103 million	72.1 million	112 million	112 million 5/	125 million 5/	+ 13 million	TBD
Total Actual/Projected Cost ($M)			$17.310M	$17.310M	n/p	$19.000M	$19.600M	$0.600M	n/p
Actual/Projected Cost per Unit ($000)			$0.1681	$0.2401	n/a	$0.1696	$0.1568	-$0.0128	n/p
Comments	*Targets for RIK measures for FY 2010 forward will be addressed during MRM's Business Planning initiative, and will be available by the end of FY 2008.* *5/ FY 2007 and FY 2008 volumes include barrels of oil equivalents that will be delivered to the SPR and will not be sold through the RIK program.*								
Properties Reviewed for Compliance	4,868	4,852	4,896	4,051	5,200	4,989	5,164	-211	TBD
Total Actual/Projected Cost ($M)	26.7	26.0	32.1	32.1	32.5	32.5	33.9	1.5	n/p
Actual/Projected Cost per Unit ($000	5.5	5.4	6.6	7.9	6.2	6.5	6.6	0.1	n/p
Comments	*Projected workloads for 2007 and 2008 have been changed since submission of the 2007 Greenbook. MRM changed targets in light of past performance, expected future resource allocation and as a result of a comprehensive Compliance Business Planning process.*								
Audits Completed	163	632	n/p	144	n/p	TBD	TBD	TBD	TBD
Total Actual/Projected Cost ($M)	11.3	12.7	15.8	15.8	n/p	16.0	16.7	0.7	n/p
Actual/Projected Cost per Unit ($000)	96.9	25.0	TBD	109.7	n/p	TBD	TBD	TBD	n/p

Table 34: Performance Overview - CAM continued

Measure	2004 Actual	2005 Actual	2006 Plan	2006 Actual	2007 President's Budget	2007 Plan	2008 Plan	Change from 2007 Plan to 2008	Long-term Target 2012
Indian Inquiries Serviced	5,736	5,247	6,000	4,366	6,000	6,000	6,000	No Change	TBD
Total Actual/Projected Cost ($M)	0.624	0.575	0.678	0.678	0.685	0.685	0.717	No Change	n/p
Actual/Projected Cost per Unit ($)	109	110	113	155	113	114	120	6	n/p
Conduct X Indian outreach sessions per year (BUR)	70	84	65	74	65	65	65	No Change	TBD
Total Actual/Projected Cost ($M)	0.309	0.381	0.391	0.391	0.395	0.395	0.414	0.019	n/p
Actual/Projected Cost per Unit ($000	4.4	4.5	6.0	5.3	6.1	6.1	6.4	0.3	n/p

Note: The 2007 plan is the performance level based upon a projection of 2007 likely enacted made during the first quarter of 2007. The 2008 plan and 2012 long-term targets build on the 2007 plan. To the extent that Congress enacts a 2007 appropriation that is different from the 2007 projection, the 2008 plan and 2012 targets may require revision.

Notes:
n/a - Data not available
n/p - Not projected in Plan

COMPLIANCE ASSURANCE PROGRAM PERFORMANCE

The MMS Federal and Indian compliance activities have yielded significant additional revenues to States, Tribes, IIMOs, and the Federal Treasury. Since 1982, MMS's additional collections of royalties and interest attributable to its compliance activities totaled over $3.1 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 or in-kind. 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 three-year compliance cycle focusing on the largest producing properties (both RIK and RIV) with a more detailed strategy for Indian leases.

MMS's audit program receives clean audit opinion

In October 2005, MMS's audit program received a clean audit opinion from an independent certified public accounting firm. The accounting firm stated: "In our opinion, the system of quality control for the Federal Audit Function of MMS in effect for the two-year period ending December 31, 2004, has been designed to meet the requirements of the quality control standards established by the Comptroller General of the United States for a Federal Government audit organization and was complied with during the two-year period ending December 31, 2004, to provide MMS with reasonable assurance of conforming with applicable auditing standards, policies, and procedures."

To complete compliance work for both RIV and RIK properties in the three-year compliance strategy, MMS performs compliance reviews and audits. The MMS 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. (RIK uses market indices and other market data to measure net value returned to the American public.)

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 Generally Accepted Government Auditing Standards. Audits are performed on specifically targeted companies or properties, often 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.

Compliance Strategy - Office of the Inspector General's Report

The OIG conducted an audit at the request of the U.S. Senate Committee on Energy and Natural Resources. The audit, dated December 6, 2006, addresses concerns raised by the news media and the State and Tribal Audit Committee about MMS's increasing use of compliance reviews as part of its CAM program. Specifically, the audit determined whether compliance reviews are an effective part of the CAM program and whether MMS is effectively managing the compliance review process.

The OIG audit concluded that compliance reviews can be an effective part of MMS' CAM program, though the audit "disclosed some weaknesses that may prevent MMS from maximizing the benefits of the compliance reviews." In addition, the OIG audit found that while MMS had audited and or reviewed 72.5 percent of all revenues from Federal and Indian leases in FY 2006, this meant that the bureau examined only 9 percent of all properties and 20 percent of all companies. The OIG recommended that MMS "consider modifying its CAM program strategy to ensure appropriate coverage of properties and companies within a reasonable timeframe *even if this results in a reduction of the overall percentage of dollars covered*." Italics added.

In response, on December 28, 2006, MRM formally submitted an *"Action Plan to Strengthen Minerals Management Service Compliance Program Operations."* The Action Plan documents the improvement actions taken and planned to fully and effectively implement the OIG recommendations:

- MMS will provide reliable data for managing and reporting on CAM program operations; strengthen the compliance review process; and improve performance measures to better reflect CAM program operations.
- The Action Plan requires extensive oversight and frequent implementation status reporting by MMS CAM managers and senior executives. Each improvement action has a target completion date and a designated MMS official with implementation responsibility.
- MMS will pursue a more dynamic, risk-based approach to compliance. As a result, coverage of mineral revenues will decrease from 72.5 percent to 65 percent, even as the number of properties and companies covered will increase, consistent with the OIG's recommendation.

Additional Focus on Indian Trust Compliance

The MMS assesses 100 percent of the Indian trust mineral revenue for industry compliance with specific provisions contained in Indian gas leases within three years. The January 2000 Indian gas valuation regulations require 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.

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 perform audits on tribal mineral royalties within their reservation 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 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 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. These outreach sessions 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 2006, MMS held 74 outreach sessions with American Indian constituents and resolved 4,366 royalty-related inquiries. The MMS plans to continue these efforts in 2006 and beyond.

Working in partnership with our sister agencies, Bureau of Land Management (BLM), Bureau of Indian Affairs (BIA), Office of the Special Trustee for American Indians (OST), and the U.S. Geological Survey (USGS), MMS is leading an effort to expand the number of Indian outreach sessions provided by developing Indian oil and gas training that covers all aspects of trust management including land ownership, leasing, drilling, production verification, lease inspection, royalty reporting, compliance, royalty disbursement, and financial trust accounts. The new training is tailored for tribes and IIMOs in the various regions where outreach is conducted as well as for Department employees who are involved in Indian oil and gas activities. The additional outreach sessions and the joint agency training program will provide Indian communities and DOI employees with opportunities to gain more knowledge of the full spectrum of Indian mineral resources.

Revised Regulations

On July 21, 2006, MMS published a proposed geothermal valuation rule to implement the new royalty provisions of the EPAct in a manner that streamlines and simplifies the rules while achieving the same general level of revenues for both electrical generation and direct use. The new regulations address the payment of royalty on geothermal resources produced from Federal leases and the payment of direct use fees in lieu of royalties. In addition, the regulations address the procedures and requirements for the MMS audits of payments.

In an earlier effort to streamline the MMS geothermal regulations, the MMS Royalty Policy Committee (RPC), a Federal Advisory Committee, formed the Geothermal Valuation Subcommittee (Subcommittee), on October 28, 2004. The Subcommittee was comprised of members from one industry association, several geothermal producers, two of the major states affected, and MMS employees. A representative of BLM served as technical advisor to the Subcommittee. The RPC requested that the Subcommittee work together to simplify the regulations, reduce administrative costs to the geothermal industry, and develop more efficient royalty valuation methods that will ensure a fair return to the Federal Government as well as encourage geothermal development. The Subcommittee prepared a report and submitted it to the RPC; and on May 26, 2005, the RPC accepted the Subcommittee's recommendations. MMS expects to publish a final rule in 2007.

In addition, MMS proposed 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 published the Indian Oil Valuation Proposed Rule in February 2006, and the comment period closed on April 14, 2006. After evaluating the comments received from tribes, industry trade associations, industry producers, and an individual, a decision was made to:

1) Make technical corrections to the current 1988 Indian Oil Valuation Rule; and
2) Establish a negotiated rulemaking committee to address issues regarding oil major portion for Indian leases and non-arm's-length Indian oil transportation allowances.

MMS plans to publish the technical corrections to the current Rule in 2007.

On April 7, 2006, MMS published the Reporting and Paying Royalties on Federal Leases on Takes or Entitlements Basis Advance Notice of Proposed Rulemaking (ANPR). The ANPR requested comments on reporting and payment of royalties when oil and gas production is commingled upstream of the point of royalty measurement. The public meeting was held May 10, 2006 in Denver. In 2007, MMS plans to publish a proposed Takes vs. Entitlements Rule and a proposed rule for Prepayment of Royalties on Marginal Properties.

ROYALTY IN KIND PROGRAM PERFORMANCE

The RIK program provides MMS the opportunity to reduce administrative costs, reduce disputes on royalty valuation and increase revenues to the Treasury, states, and special purpose funds.

This can include selling the received product in the marketplace and then disbursing revenues as prescribed by law, or transferring resources to the Department of Energy to fill the Nation's Strategic Petroleum Reserve (SPR). The MMS collects royalties in-kind if there is economic advantage to the Government.

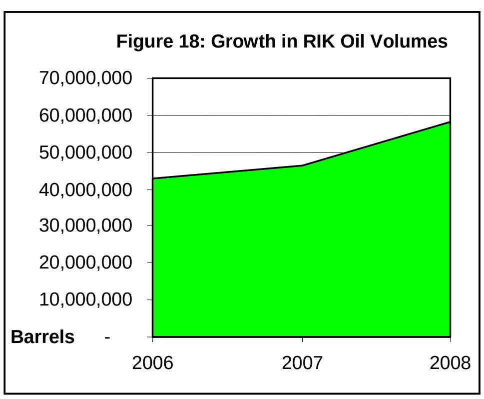
Royalty in Kind Generates Solid Results

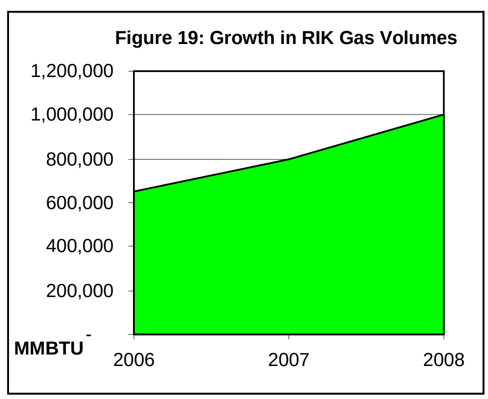
The Five Year RIK Business Plan for FY 2005-2009 targets a cumulative RIK net return to the government of $67.5 million over five years.

In 2005, sales of royalty oil and gas through MMS's RIK program are estimated to have increased net return to the government by $36 million above what would have been received if the government had taken the oil and gas royalties in value, or as cash payments. The 2005 result of $36 million is a combined total of the following:

- *$30.8 million increased RIK incremental net revenue (additional revenues that would not have been generated under RIV),*
- *$1.5 million incremental interest revenue (positive time value of money by collecting RIK revenues within 25 days rather than 30 days for in-value royalties), and*
- *$3.7 million cost avoidance by collecting offshore oil and gas in kind (RIK) rather than in value (RIV).*

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 often 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 American public 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 American public.





The Five Year Royalty in Kind Business Plan outlines business principles, goals, objectives, and specific strategies to guide and evolve the Federal RIK program from 2005 through 2009. Implementing this plan will continue to enhance MMS's ability to assure the American public 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.

RIK Program Funding

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 administrative costs and RIK transportation and processing costs with RIK receipts.

Estimates of future costs of transporting crude oil and transporting and processing natural gas are dependent on a wide variety of factors, many of which are not known until after the product has been produced. These factors include actual volumes produced, the absolute prices of natural gas and natural gas liquids (determines costs of processing and gas transportation), properties actually converted to in-kind status or to in-value status, and effects of severe weather events. Several factors accounting for increasing RIK transportation and processing costs include:

- MMS expects a 36 percent increase in oil RIK volumes and a 54 percent increase in gas volumes from 2006 levels:
    - Expected oil volumes climb from 43 million barrels in 2006 to 58.4 million barrels in 2008 as several new large offshore properties come online
    - Gas volumes in the RIK program are also expected to increase from 2006 levels of approximately 650,000 MMBtu to 1 billion MMBtu by 2008 as called for in the RIK 5-year plan.

- As the RIK gas program expands, it requires an increase in the volumes of gas that need to be processed. Processing increases MMS RIK costs, but those costs are more than recouped upon the sale of the product due to the value added. The net effect is an increase in total revenues to Treasury.

- Processing costs continue to be higher than pre-hurricane levels as a result of reduced capacity and increased fuel costs incurred by processing plants. However, it is important to note that market factors that affect MMS transportation and processing costs have similar impacts on private industry as well.

Estimated 2006 and 2007 funding levels are shown in the following table.

Table 35: Estimated 2006 and 2007 RIK Costs
(in millions)

	2006*	2007*	Increase
Transportation and Processing			
GAS			
Processing 1/	$ 8,600	$ 20,520	$ 11,920
Transport 2/	$ 60	$ 11,800	$ 11,740
OIL			
Transport and quality bank 3/	$ 22,340	$ 46,928	$ 24,588
Total Transportation and Processing	**$ 31,000**	**$ 79,248**	**$ 48,248**
Administrative Costs	$ 17,310	$ 19,000	$ 1,690
Total Estimated RIK Costs	**$ 48,310**	**$ 98,248**	**$ 49,938**

**Estimated as of July 31, 2006.*

Notes:

1/ Increases in processing are based on the current WTI-NGL price relationship to determine future processing costs and include anticipated increases in gas volumes for 2007.

2/ Increase in transport due to RIK plans to schedule and transport certain pipelines; previous to FY07 transport costs were paid by RIK purchasers and netted with sales to that purchaser.

3/ Increase in transport due to increases, beginning July 1, 2006, in tariff rate charges of approximated 2-4 cents/bbl and transportation hurricane surcharges of 25-60 cents/bbl. Includes transport and quality bank cost if Atlantis (a new property) is taken in-kind for 6 months in FY07.

2008 RIK Program Costs

The preliminary 2008 estimate for RIK transportation and processing costs is in a range of between $100 million and $140 million dollars.

Transportation and processing costs are incurred whether the government takes the product in value (RIV) or in kind (RIK). Under RIV, these costs are paid by lessees and then deducted from royalty payments, reducing net payment to the Treasury. Under RIK, MMS pays for the transportation and processing because it can secure favorable pricing based on the large volumes represented by the RIK program. Purchasers then pay MMS for the full transported and processed value of the product.

Although RIK volumes are expanding, MMS anticipates that the administrative costs will remain relatively flat. The preliminary 2008 estimate for RIK administrative costs is $19.6 million, an increase of only $600,000 for fixed cost adjustments over the 2007 Likely Enacted. When compared to RIV, RIK resulted in administrative cost avoidance of $3.7 million in 2005, primarily due to decreased audit, compliance, and litigation costs. MMS anticipates similar cost avoidance to continue in future years.

2006 - Diversifying the RIK Business Model

The approved RIK Five-Year plan includes the enhancement of specific asset management, 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, contracting, and legal advice, in order to assess the risks and rewards associated with each marketing strategy and its potential impact on the portfolio.

Hurricanes Katrina and Rita had a significant impact on both the in value and in kind operations of the MMS in 2005 and 2006 with reduced volumes and dramatically increased costs to transport and process those volumes. These impacts were felt for both RIV and RIK properties equally. For RIV revenues, although energy prices rose, the impact of reduced volumes and significantly higher transportation and processing costs deducted from reported revenues offset some of the price increases. For RIK volumes, MMS incurred the higher transportation and processing costs directly.

The RIK Program provides vivid examples of the types of cost and volume changes that occurred throughout the industry. For example, the average cost to process RIK gas in 2005 was approximately $.02 per MMBtu. That cost increased to as much as $.15 to $.17 per MMBtu on gas processed in October and November 2005. Since then, the processing cost has decreased steadily, but has not returned to pre-hurricane levels. Oil volumes were also down substantially beginning in October. Due to pipeline infrastructure problems, some production was barged to the mainland from October 2005 through February 2006 and oil was rerouted as necessary. This increased transportation costs from a pre-hurricane average of approximately $.18 per barrel, to approximately $.50 per barrel after the hurricanes.

2007 - Further Automating RIK Performance Metrics

In 2007, the Business Plan calls for MMS to enhance management information systems to refine or 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 for RIV to 25 days for RIK 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 $2.6 million during 2006 and, as RIK volumes increase, MMS anticipates that this result will continue to increase.

- *Transaction Cycle Time (TCT):* One of the major benefits in the RIK program is the significant reduction in the transaction cycle time compared to 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 2006, MMS balanced/reconciled 84.8 percent of RIK transactions within 180 days, and even though RIK volumes will be continuously increasing, MMS has set a target of 89 percent by 2008.

- *RIK Risk Metrics:* MMS will develop system capability and methodologies to measure risks of not achieving fair market value, including exposures and probabilities. A prototype was developed in 2006 and tested in 2006 and 2007. System completion in 2008 will significantly enhance MRM's capability to measure and report on risks to be encountered, at the same time providing crucial information to inform decisions. Because of the unique performance measures for RIK compared to a private sector marketing organization, RIK risk metrics will employ somewhat unique methodologies. The RIK program is thoroughly testing the model prior to operational deployment.

2007 and 2008 - RIK Expansion and Risk Management

During 2007 and 2008, the primary focus toward enhancing net revenue and diversifying market strategies will be on natural gas RIK expansion. Growth of RIK gas volumes is projected at an optimal level consistent with expectations of being equal to or exceeding appropriate fair market value (FMV) benchmarks. Currently, the natural gas RIK business unit takes more than 40 percent of Gulf of Mexico (GOM) natural gas royalties in kind; MMS expects this percentage to rise to 80 percent by 2009. In addition, MMS plans to increase oil RIK volumes during 2007 and 2008.[1]

Though RIK volumes are expanding, MMS does not expect RIK administrative costs to expand commensurately. The Five Year RIK Business Plan targets 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 is setting the baseline for this measure during 2006. Reflective of this performance target, the program administrative funding request only increases by $1.7 million between 2006 and 2007 and by $600,000 in 2008 despite increases in oil and gas volumes.

MMS developed a Risk Procedures Manual in April 2006 as a guide to RIK staff in everyday implementation of the risk policy. The Manual aligns with MMS's RIK internal control and the performance and risk monitoring framework, established in 2005, to support the RIK operational program and MMS policy oversight functions. In August 2005, MMS released a RIK Risk Management Policy (based on two comprehensive risk assessments of the RIK Program) which identified and addressed the risks encountered in this energy commodity sales program. In 2007 and 2008, MMS plans to implement an effective risk metrics program to quantitatively identify exposures and inform decision making within the RIK Program.

[1] During 2006, MMS ceased delivery of RIK oil to SPR and began converting these volumes to the RIK Commercial Program. The crude oil RIK business unit comprises 80 percent of GOM crude oil royalties.

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

SUBACTIVITY SUMMARY

The MMS manages a substantial Federal monetary asset on behalf of the American public. Revenues from mineral leasing on public lands have averaged over $7 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 makes 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 2008 Subactivity will ensure that MMS is able to perform its Federal and Indian compliance activities effectively.

2008 PERFORMANCE BUDGET REQUEST

Minerals Revenue Management

Revenue and Operations Subactivity

Table 36: MRM Revenue and Operations Subactivity Budget Summary

		2006 Enacted	2007 President's Request	2008			Change from 2007
				Fixed Costs & Related Changes	Program Changes	Budget Request	
Revenue and Operations Subactivity	($000)	35,159	36,024	433	450	36,907	883
	FTE	181	180	0	0	180	0

SUMMARY OF 2008 PROGRAM CHANGES

Request Component	Amount	FTE
• Energy Policy Act Implementation Reduction	-$750,000	0
• Eliminate IT Dial-In Service	-$250,000	0
• Interactive Payment Reconciliation and Billing	+$1,450,000	0
Total Program Changes	**+$450,000**	**0**

JUSTIFICATION OF 2008 PROGRAM CHANGES

The 2008 budget request for the Revenue and Operations Subactivity is $36,907,000, a net program increase of $450,000 with no change to FTE levels from the 2007 President’s Request. The budget includes a decrease of $1,000,000 and a request for MRMSS e-Gov related systems enhancements of $1,450,000 to improve efficiency and customer service.

Energy Policy Act Implementation Reduction (-$750,000; 0 FTE)

The 2007 President’s Budget Request included $750,000 in the Revenue and Operations Subactivity for the final year of system enhancements related to implementation of the royalty credit requirements contained in the Energy Policy Act. These enhancements to the Minerals Revenue Management Support System (MRMSS) are scheduled to be completed in 2007. Further funding should not be needed for this initiative and a reduction of this funding will not have a direct impact on any of MRM’s existing performance measures or their associated targets.

Eliminate IT Dial-In Service (-$250,000; 0 FTE)

The MMS proposes to eliminate the local and 800 dial-in service to access the MRM network. MRM currently has both local and 800 dial-in numbers from government laptops that provide connectivity to the MRM network for multiple travelers and telecommuters. In recent years, MRM has implemented alternative connection strategies for travelers and telecommuters through the Internet using Citrix/Nfuse and VPN technology that provides these personnel, as well as contractors, with secure access to the MRM network and their applications. These alternative connection strategies are both faster and more secure. Although dial-in service is expensive to maintain and usage is declining, MRM had temporarily maintained the service access as a backup system in the case of an internet shutdown. The MMS now considers the system unnecessary and is proposing to eliminate dial-in service which is estimated to save $250,000 per year ($70,000 of which is captured in the IT infrastructure line item of the MMS Exhibit 53 with the remaining savings coming from telecommunication cost reductions). These reductions will not have a direct impact on any of MRM's existing performance measures or their associated targets.

Interactive Payment Reconciliation and Billing ($1,450,000; 0 FTE)

This two-year initiative proposes an interactive, automated interface with enhanced online reporting and verification capabilities for MMS employees and reporters as well as enhancing MMS's electronic interaction with industry, States and Tribes. Benefits of this initiative include:

- Providing secure access for industry reporters to play a more interactive role in matching payments to the appropriate receivable;
- Aiding in the reduction of accounts receivable balances;
- Greatly speeding the resolution of outstanding interest bills; and
- Addressing two areas of concern in the Bureau's CFO audit.

Interactive Payment Reconciliation – MMS requires prompt payment and reporting on rents and mineral royalties due, as stated in the terms of each lease. Currently, when industry does not provide accurate payment-to-revenue report matching information, MRM staff must determine how to match payments manually, often requiring multiple contacts with industry reporters. This process is labor-intensive, completely manual, and is further complicated because reporters cannot access and actively monitor their account status.

This initiative would provide secure access for industry reporters to view their account status, permitting them to play a more interactive role in matching payments to the appropriate receivable which will aid in the reduction of accounts receivable balances. These balances have also been an area of concern in the Bureau's CFO audit. Additionally, upon implementation, payers would have the ability and responsibility to review their accounts and keep them current.

Interactive Electronic Billing – The MMS issues bills to industry reporters when reporting or payments are not in compliance with regulations or the terms of the lease. The current process generates voluminous paper reports, which must then be manually reviewed by MMS staff to ensure accuracy prior to billing. The reports are then boxed and mailed to industry payers for payment. Upon receipt, industry representatives review the bills again in a manually labor-intensive process before making payment. The current process is long and expensive for both MMS and industry.

This initiative would greatly speed the resolution of outstanding interest bills by providing an interactive electronic billing process to allow MRM employees to efficiently access, sort, review and research billing actions online. This initiative would allow more late payment invoices to be issued in a timely manner, which is an area of concern in the Bureau's CFO audit. It would then generate electronic bills which industry users have requested, but MMS cannot currently provide. Electronic bills also greatly benefit industry, allowing them to quickly access and sort the bill by lease number, royalty document, date, or other fields to verify that the bill is correct before paying, thus speeding receipt of payment to MMS.

Cost Saving Benefits – Upon implementation in 2010, MMS estimates that this initiative would reduce payment reconciliation and billing resource needs by 4-5 FTE, which could be redirected to address other priority areas within MMS.

Performance Benefits – When implemented, these enhancements will allow MRM to:

- Provide web-enabled tools to allow greater royalty report-to-payment matching capabilities to industry reporters and increase reporters' responsibility to ensure that their reporting and payment data are accurate and complete;
- Improve MRM timeliness of royalty disbursements to States, which in turn will reduce late disbursement interest (LDI) costs;
- Improve MRM timeliness of royalty disbursements to Tribal and Individual Indian Mineral Owners (IIMOs);
- Address areas of concern related to late payment interest and accounts receivable balances identified during recent CFO audits;
- Meet Indian and Federal record retention requirements by storing bills electronically versus on paper;
- Eliminate costly, labor-intensive, manual processes which MRM can no longer afford; and
- Provide more efficient electronic bill formats for industry payers as requested.

One of MMS's performance goals is to reduce interest payments related to late disbursements to states by 90 percent over 5 years. MMS pays late disbursement interest to states in large part because of problems tracking how industry payments should match their reports. This initiative would greatly enhance MMS's ability to meet this goal by facilitating quick problem and payment matching resolution, improving communication and coordination between MRM and industry reporters, and shifting greater responsibility for proper reporter accounting to industry reporters.

The age of unresolved accounts receivables and unmatched payments can create a significant impact on late disbursement interest. This initiative will greatly facilitate the timely issuance of late payment interest invoices and resolution of accounts receivables resulting in reduced interest liabilities to states, all areas of concern in the Bureau's CFO audit. MMS is targeting reduction of accounts receivable over 120 days by 80 percent during 2007-2012. More current accounts receivable balances will provide for more timely disbursement of revenues to ultimate recipients.

Performance Measure – Reduce accounts receivable over 120 days by X percent. Reducing accounts receivable will directly impact our ability to also reduce the "percent of late disbursements" – a measure included in the 2007-2012 DOI Strategic Plan.

Table 37: Program Performance Change Table: Interactive Payment Reconciliation and Billing, +$1,450,000

Measure	2004 Actual	2005 Actual	2006 Actual	2007 President's Budget	2007 CR[1/]	2008 Base Budget (2007 PB + Fixed Costs)	2008 Plan	Program Change Accruing in 2008	Program Change Accruing in Outyears
						A	B=A+C	C	D
Reduce accounts receivable over 120 days by X%	N/A	N/A	Sept. 30, 2006 Baseline $231.6M	N/A	-10% -$23.2M	-20% (cum) -$46.3M	-20% (cum) -$46.3M	-10% -$23.1M	-80% (cum) by 2012 -$185.3M
Percent of Federal and Indian revenues disbursed on a timely basis per statute (SP)	95.5% ($1.344B/ $1.407B)	98% ($1.978B/ $2.011B)	94.5% ($2.505B/ $2.650B)	97.0%	97.0%	98.0%	98.0%	+ 1%	n/p
Total Actual/Projected Cost ($M)	41.9	42.3	43.7	44.5	44.5	45.1	45.6	0.5	n/p
Comments	*This is a two-year initiative. The outyear total projected costs represent level funding for the initiative in 2009. Beginning in 2010 and continuing through 2012, the total projected costs will return to the 2007 level. During 2007-2009, MRM will utilize manual processes to reduce receivables. During 2010, after system enhancements have been implemented, we anticipate a learning curve for Industry. We are anticipating greater benefits will be recognized during 2011 and 2012.*								

[1/] The performance and cost data in the 2007 CR column is presented at the 2007 President's budget level, which is based upon a projection of 2007 likely enacted made during the first quarter of 2007. The 2008 plan builds on the 2007 plan. To the extent Congress enacts a 2007 appropriation that is different from the 2007 projection, the 2008 plan may require revision.

Note: Projected costs may not equal program change as these are full costs, which may include funds from other sources and (or) use averages.

n/p - Not projected in Plan

Column A: The level of performance and costs expected in 2008 at the 2007 President's budget level plus funded fixed costs. Reflects the impact of prior year funding changes, management efficiencies, absorption of prior year fixed costs, and trend impacts, but does not reflect the proposed program change.

Column D: Outyear performance beyond 2008 addresses lagging performance — those changes occurring as a result of the program change (not total budget) requested in 2008. It does <u>not</u> include the impact of receiving the program change again in a subsequent outyear.

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 approximately $164.9 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 disbursed to recipients in a timely manner. The Financial Management process 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 in a timely manner 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 in a timely manner.

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.

PERFORMANCE OVERVIEW

2008 Program Performance

Planned Activities – During 2008, MMS will begin the two-year initiative to implement the interactive, automated interface with enhanced online reporting and verification capabilities for MMS employees and reporters as well as enhancing MMS's electronic interaction with industry, States and Tribes. This will provide secure access for industry reporters to play a more interactive role in matching payments to the appropriate receivable, aid in the reduction of accounts receivable balances, greatly speed the resolution of outstanding interest bills, and address two areas of concern in the Bureau's CFO audit.

Factors Influencing Unit Costs – Increased onshore leasing has led to a 45 percent increase in MMS's lease and agreement maintenance workload during 2006. MRM increased the number of completed maintenance actions by 50 percent - from 9,766 completed actions in 2004 to 14,613 completed actions in 2006. Simultaneously, MRM costs to complete a maintenance action were reduced by 28 percent; from $98 to $70 per unit. MMS anticipates that the increased leasing will ultimately have increased impact on financial rent and royalty workload as well. However, MRM is continuing to implement process efficiencies, and plans to manage the increased workload within current funding. Upon implementation in 2010 of the proposed interactive payment matching and billing initiative, 4-5 reconciliation and billing FTE can be redirected to address increases in other workload caused by the current increases in onshore leasing.

2008 Performance Targets – The primary financial management measure is to ensure timely disbursement of revenues to ultimate recipients. When disbursements are not timely, MMS must pay late-disbursement interest. One of MMS's performance goals is to reduce interest payments related to late disbursements to states by 90 percent over five years. Interest costs during FY 2006 were about $1.8 million. The MMS pays late disbursement interest to states in large part because of problems tracking how industry payments should match their reports. During 2008-2009, MMS will be implementing the interactive payment matching and billing initiative, and thus current manually-intensive processes will continue to be used to address unresolved accounts receivables and unmatched payments. Once completed in 2010, MMS anticipates a learning curve for companies during the first year, and then a much increased capability to reduce accounts receivable and accompanying late-disbursement interest. The MMS is targeting reduction of accounts receivable over 120 days by 80 percent during 2007-2012. More current accounts receivable balances will provide for more timely disbursement of revenues to ultimate recipients.

Planned Accomplishments – In 2008, MMS will be in the implementation phase of the Financial Management Business Planning initiative, and it will implement strategies and performance measures for fulfilling compliance responsibilities, and linking to the Department's Strategic Plan, as Management determined during Strategic Business Planning discussions.

Changes in 2006 and 2007 Expected Performance Levels

MMS does not anticipate any changes to the 2006 and 2007 expected performance levels as were reported in the 2007 President's Budget. Expected performance is shown in the Performance Overview: Revenue and Operations table below.

Table 38: Performance Overview - Revenue and Operations

End Outcome Goal 1.1 Resource Use (energy): Manage or influence resource use to enhance public benefit, responsible development, and economic value.									
Measure	**2004 Actual**	**2005 Actual**	**2006 Plan**	**2006 Actual**	**2007 President's Budget**	**2007 Plan**	**2008 Plan**	**Change from 2007 Plan to 2008**	**Long-term Target 2012**
GPRA End Outcome Measures									
Percent of Federal and Indian revenues disbursed on a timely basis per statute (SP) (PART)	95.5% ($1.344B/ $1.407B)	98% ($1.978B/ $2.011B)	96.5%	94.5% ($2.505B/ $2.650B)	97%	97%	98%	1%	99%
Total Actual/Projected Cost ($M)	41.9	42.3	43.7	43.7	44.5	44.5	45.6	1.1	n/p
Comments	*FY 2006 result, although below target, is within DOI's +/- 5% range for "target met." In FY 2006, MRM focused on reducing accounts receivable and unapplied payments. This resulted in the processing of several older payments, which lowered our timely disbursements result to 95%, compared to 98% in FY 2005. MRM has completed this work. Timely disbursements should increase during FY 2007.*								
Intermediate Outcome Strategy 3: Appropriate value through effective lease and permit management									
GPRA Intermediate Outcome Measures, and Bureau and PART Outcome Measures									
X% royalty information reported accurately the first time (PART) (BUR)	96.7% (2.575M/ 2.663M lines)	96.9% (3.025M/ 3.121M lines)	97.5%	97.4% (3.084M/ 3.167M lines)	98%	98%	98%	No Change	TBD

Table 38: Performance Overview - RO continued

Measure	2004 Actual	2005 Actual	2006 Plan	2006 Actual	2007 President's Budget	2007 Plan	2008 Plan	Change from 2007 Plan to 2008	Long-term Target 2012
Reduce late disbursement interest costs to taxpayers by X% over 5 years (BUR)	N/A	N/A	Baseline Year	Baseline $1.851M	n/p	-20% -$0.370M	-40% (Cum) -$0.740M	-20% -$0.370M	-90% (Cum) -$1.666M
Comments	*This is a new measure being developed to support a focus on process and systems improvement to increase MRM's overall efficiency and decrease taxpayer dollars spent. In 2006, due to late disbursement interest (LDI) increases in recent years, MMS set a new performance measure targeting reductions in interest paid. The Interactive Payment Reconciliation and Billing initiative would greatly enhance MMS's ability to meet this goal by facilitating quick problem and payment matching resolution, improving communication and coordination between MRM and industry reporters, and shifting greater responsibility for proper reporter accounting to industry reporters. 2006 is the baseline year. More current accounts receivable balances will provide for more timely disbursement of revenues to States, which in turn will reduce late disbursement interest (LDI) costs. The earlier we can reconcile accounts receivable and disburse funds, the less interest we will have to pay.*								
Reduce accounts receivable over 120 days by X% (BUR)	N/A	N/A	N/A	Baseline $231.6M	-10%	-10% -$23.2M	-20% (cum) -$46.3M	-10% -$23.1M	-80% (cum) -$185.3M
Comments	*2006 is the baseline year. During 2007-2009, MRM will utilize manual processes to reduce receivables. During 2010, after system enhancements have been implemented, we anticipate a learning curve for Industry. We are anticipating greater benefits will be recognized during 2011 and 2012. More current accounts receivable balances will provide for more timely disbursement of revenues to States, which in turn will reduce late disbursement interest (LDI) costs. The earlier we can reconcile accounts receivable and disburse funds, the less interest we will have to pay.*								
Percent of late disbursements (SP)	4.5% ($0.063B/ $1.407B)	2% ($0.033B/ $2.011B)	3.5%	5.5% * ($0.145B/ $2.650B)	3%	3%	2%	- 1%	1%
Comments	** Please see comments to "Percent of Federal and Indian revenues disbursed on a timely basis per statute" measure above.*								

Table 38: Performance Overview - RO continued

Measure	2004 Actual	2005 Actual	2006 Plan	2006 Actual	2007 President's Budget	2007 Plan	2008 Plan	Change from 2007 Plan to 2008	Long-term Target 2012
Transfer X percent of revenue to OST within 24 hours of receipt (BUR)	100% ($92.4M/ $92.4M)	100% ($113.4M/ $113.4M)	99.5%	100% ($157.1M/ $157.1M)	99.5%	99.5%	100%	+ 0.5%	TBD
Provide lease distribution data to BIA for X percent of royalties by first semi-monthly disbursement (PART)	84% ($64.9M/ $77.3M)	92% ($95.8M/ $103.2M)	90%	94.7% ($130.0M/ $137.3M)	95%	95%	96%	+ 1%	TBD
Comments	*Targets for 2006, 2007 and 2008 have been increased since submission of the 2007 Greenbook. MRM changed targets in light of past performance and expected future resource allocation.*								
Outputs									
Federal disbursements	12	12	12	12	12	12	12	No Change	12
Total Actual/Projected Cost ($M)	17.1	15.4	19.6	19.6	20.2	20.2	20.4	0.2	n/p
Actual/Projected Cost per Unit ($M)	1.4	1.3	1.6	1.6	1.7	1.7	1.7	0.0	n/p
Indian Revenue Distribution Transactions	24	24	24	24	24	24	24	No Change	24
Total Actual/Projected Cost ($M)	9.1	8.3	7.1	7.1	7.3	7.3	7.5	0.2	n/p
Actual/Projected Cost per Unit ($000)	379	347	297	297	304	304	312	8	n/p
Errors & exceptions resolved	786,923	2,978,743	2,920,000	3,973,267	2,860,000	2,860,000	2,800,000	-60,000	TBD
Total Actual/Projected Cost ($M)	3.971	5.276	4.570	4.570	4.693	4.693	4.750	0.057	n/p
Actual/Projected Cost per Unit ($)	5.05	1.77	1.56	1.15	1.64	1.64	1.70	0.06	n/p
Comments	*Continuous process improvements, efficiency enhancements, and efforts in educating companies are anticipated to reduce workload.*								
Invoices processed	4,878	6,210	6,000	7,958	4,525	4,500	4,500	No Change	TBD
Total Actual/Projected Cost ($M)	3.030	1.485	2.022	2.022	2.077	2.077	2.102	0.025	n/p
Actual/Projected Cost per Unit ($)	621	239	337	254	459	461	467	6	n/p
Comments	*Continuous process improvements, efficiency enhancements, and efforts in educating companies are anticipated to reduce workload.*								

Table 38: Performance Overview - RO continued

Measure	2004 Actual	2005 Actual	2006 Plan	2006 Actual	2007 President's Budget	2007 Plan	2008 Plan	Change from 2007 Plan to 2008	Long-term Target 2012
Lease & well agreement actions completed	113,001	104,564	117,500	120,478	119,850	119,850	120,000	150	TBD
Total Actual/Projected Cost ($M)	2.445	2.879	2.696	2.696	2.769	2.769	2.803	0.034	n/p
Actual/Projected Cost per Unit ($)	21.63	27.54	22.95	22.38	23.10	23.10	23.35	0.25	n/p
Checks & documents processed	88,385	85,715	83,100	86,484	87,800	87,800	86,700	-1,100	TBD
Total Actual/Projected Cost ($M)	0.819	1.063	0.973	0.973	0.999	0.999	1.011	0.012	n/p
Actual/Projected Cost per Unit ($)	9.26	12.40	11.70	11.25	11.38	11.38	11.66	0.28	n/p
Comments	*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.*								
Account Reconciliation Actions	23,084	23,521	23,000	23,648	n/p	22,000	20,000	-2,000	TBD
Total Actual/Projected Cost ($M)	5.122	7.743	6.480	6.480	6.655	6.655	6.736	0.081	n/p
Actual/Projected Cost per Unit ($)	222	329	282	274	n/p	302	337	35	n/p
Comments	*MRM believes that the manual efforts in 2007 and 2008 to reduce account receivables over 120 days will be effective enough to concurrently reduce the account reconciliation actions in same year. The quantity of account reconciliation actions will be offset due to the increased focus on aged receivables. Expected impacts from the focus on accounts receivable over 120 days include fewer reporting errors and reconciliation issues due to the education of payors that will take place during the reconciliation process.*								
Note: The 2007 plan is the performance level based upon a projection of 2007 likely enacted made during the first quarter of 2007. The 2008 plan and 2012 long-term targets build on the 2007 plan. To the extent that Congress enacts a 2007 appropriation that is different from the 2007									

Notes:
n/a - Data not available
n/p - Not projected in Plan

DISBURSEMENT AND FINANCIAL REPORTING PROGRAM PERFORMANCE

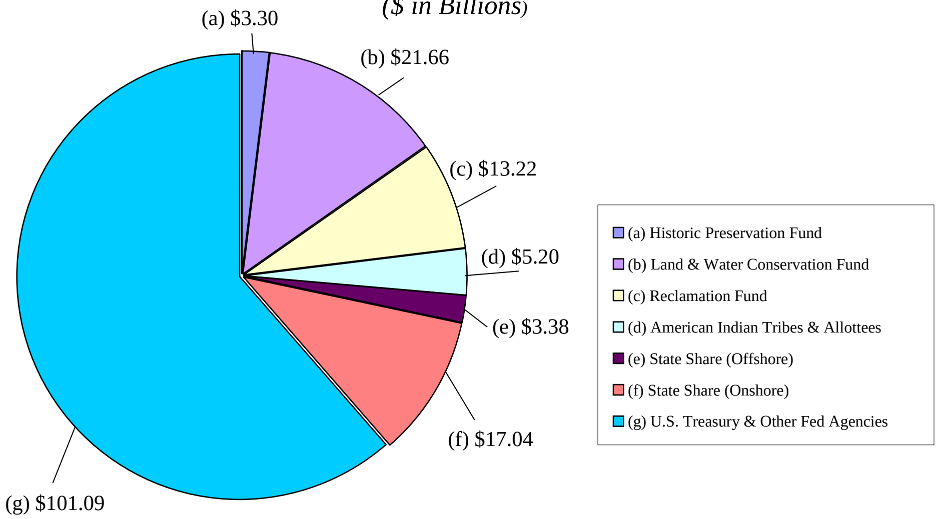
The Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), as amended, requires monthly distribution and disbursement of payments to states and Indians for their share of mineral leasing revenues. Historically, the distribution and disbursement function within MRM has ensured that, on average, approximately $7 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[1]:

- $101.1 billion to the U.S. Treasury
- $ 21.7 billion to the Land and Water Conservation Fund
- $ 20.4 billion to 38 states
- $ 13.2 billion to the Reclamation Fund
- $ 5.2 billion to 41 American Indian Tribes and 30,000 IIMOs
- $ 3.3 billion to the National Historic Preservation Fund

Approximately 60 percent of all annual collections go to the General Fund of the U.S. Treasury, 23 percent to special purpose funds that are subject to appropriation, 12 percent to states, and three percent to the American Indian community.

Figure 20: Cumulative Mineral Lease Revenue Disbursement (1982-2006)
($ in Billions)



[1] In addition, MMS has delivered oil to the Department of Energy for the Strategic Petroleum Reserve valued at an estimated $4.4 billion.

Special purpose funds, including the Land and Water Conservation Fund (LWCF), the National Historic Preservation Fund, and the Reclamation Fund, have received more than $38 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.

Program Performance: Past Accomplishments & Future Goals

Timely Revenue Disbursement: The MMS ensures that funds are disbursed to recipients by the end of the month following the month received, per statute. In 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. In FY 2006, MRM focused on reducing Accounts Receivable and unapplied payments. This resulted in the processing of several older payments, which lowered our timely disbursements result to 94.5 percent, compared to the 96.5 percent target. MRM has completed this work, so timely disbursements should increase during FY 2007. The targets for 2007 and 2008 are 97 percent and 98 percent, respectively, for this measure.

Additionally, in 2006 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 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 2007. In 2008, MMS has set the target at 100 percent.

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 2006, MMS provided lease distribution data to BIA for 94.7 percent of royalties by the first semi-monthly distribution. The target for 2007 is 95 percent, and in 2008, MMS has set the target at 96 percent.

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 the successful disbursing of funds in a timely manner.

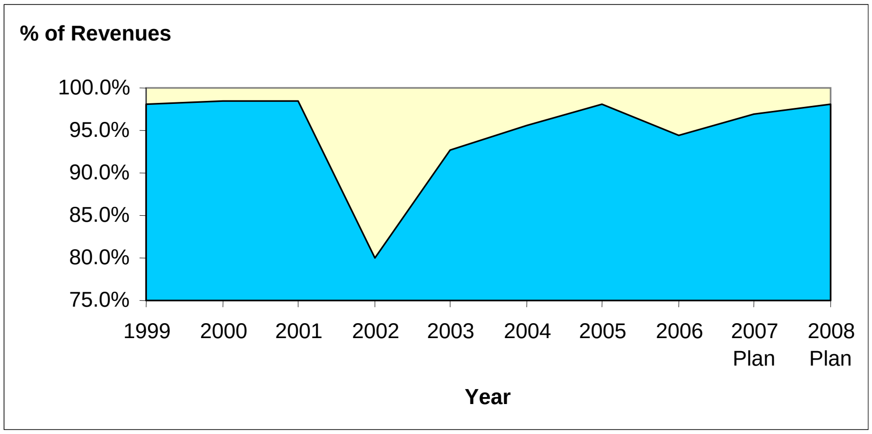


Figure 21: Percent of Revenues Disbursed On-Time

In 2002, after implementation of the new systems and the court-ordered shutdown, 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 2006, MMS processed several older payments, which lowered our timely disbursements result to 94.5 percent, even though companies reported 97.4 percent accurately. MRM has completed the older processing work, so timely disbursements should increase during FY 2007. During 2008, MMS is targeting 98 percent disbursement timeliness and 98 percent reporting accuracy.

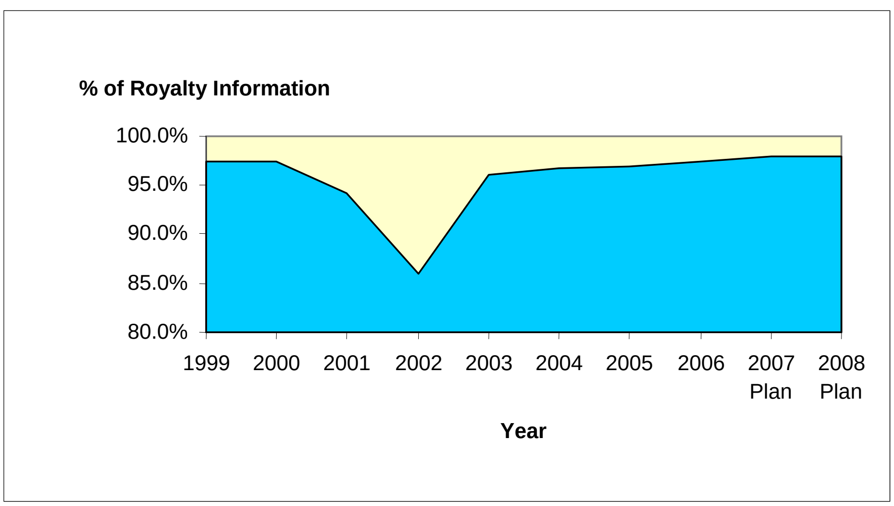


Figure 22: Percent of Royalty Information Reported Accurately

Financial Accountability: The MMS's 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 DOI 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 2006. In 2006, MMS conducted an evaluation of the internal control over financial reporting of the Minerals Revenue Management in effect as of June 30, 2006. This evaluation was conducted in accordance with OMB Circular A-123, Management's Responsibility for Internal Control and the CFO Councils Implementation Guide. Based on the results of the evaluation, MMS provides reasonable assurance that the internal controls over financial reporting were suitably designed and operating effectively as of June 30, 2006. No material weaknesses were found in the design or operation of the internal controls over financial reporting. In addition, in coordination with OST, MMS completed a risk assessment of its Indian processes to identify and test controls, which are designed to mitigate risk. For 2007 and beyond, the goal is continued unqualified audit opinions.

Energy Policy Act Implementation Project. The MRM program continues to move forward in implementing provisions of the Energy Policy Act of 2005 (EPAct). In FY 2006, MRM completed the following:

- Published, in conjunction with BLM, proposed rules to implement provisions and procedures for geothermal leasing, exploration, and development designed to streamline the geothermal valuation and payment process and encourage the development of new geothermal energy resources. The MMS has worked closely with the geothermal industry, affected States, and others in developing the regulations.

- Completed MRM Support System modifications for automated county-level geothermal royalty disbursements and disbursements to special accounts including Naval Petroleum Reserve, Ultra Deep Water Research, and CIAP. Initiated design and development of system changes needed to implement three credit provisions in the EPAct. The Act authorizes limited or partial credits against royalties for (1) geothermal lessees for the value of electricity delivered in-kind to a state or county government; (2) reimbursement of lessees for costs to reclaim orphaned, abandoned, or idled wells on leased or unleased Federal land; (3) payments made by a lessee directly to a state under section 6004(c) of the Oil Pollution Act (primarily involving one lessee and old drainage issues with the State of Louisiana).

- Established numerous new Treasury accounts to fund programs specified by the Act, including the Naval Petroleum Reserve, the BLM Permit Processing Pilot Office, and BLM geothermal activities, and funded $33 million to date through mineral revenues.

- Submitted a report to Congress[2] on actions taken to develop business processes and automated systems to fully support the RIK program and on future RIK business operation plans and objectives.

MRM is currently developing final geothermal valuation regulations and proposed coal advanced royalty regulations required by EPAct. The royalty credit provisions of the Act require major system enhancements affecting all components of the current financial system. The 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. Additionally, the President's FY 2007 request includes $750,000 to fully fund this project. Implementation of all system-related provisions of the Energy Policy Act is expected by late 2007.

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 Minerals Revenue Management Support System (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. Through these efforts, MMS continues to ensure that its systems remain secure, interactive, in compliance with latest mandated accounting requirements and technologies, and Web-based. In 2007, MRM will implement the latest version of PeopleSoft for its financial module as well as upgrade software versions for the RIK module. While the Web-based paradigm creates efficiencies and conforms to industry best practice, this approach creates a strong dependency on access to the internet.

The MRMSS is critical to the ability of MRM to account for, and disburse in a timely fashion, mineral revenues to Treasury, States and Indians. 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 use 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

[2] *Minerals Management Service, Minerals Revenue Management, Royalty in Kind Program Fiscal Year 2005 Report*, dated April 2006.

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.

Two further critical subsystems of the MRMSS that are vital to the accomplishment of the MRM mission are the Compliance Asset Management (CAM) subsystem and the Royalty-in-Kind (RIK) subsystem:

- The CAM subsystem includes specialized tools for finding anomalies in production reporting for follow-up. Compliance activities yield a varying stream of revenues based on when individual settlement of issues occurs.

- The RIK subsystem uses a suite of tailored COTS applications that were integrated into the Financial Management subsystem. The RIK subsystem provides an automated system supporting internal controls to manage the transportation, processing, and sale of oil and natural gas taken in kind and sold by MRM in lieu of the receiving in value payments.

In 2007, MRMSS has a base budget of $15.888 million. In 2008, the MRMSS costs will increase by $1.12 million for the initiatives and $0.288 million for FTE costs. The total MRMSS budget for 2008 will be $17.296 million as reported in the MMS Exhibit 53; however, these cost estimates may need to be adjusted upon completion of the operations and support contract recompete in late 2007.

COLLECTION AND INVOICING PROGRAM PERFORMANCE

The MMS collects annual rental revenues and reporting information on more than 37,000 non-producing leases and monthly royalty revenue and sales reports on more than 28,000 producing onshore and offshore Federal leases. Additionally, MMS collects royalty revenue and reporting information for more than 3,700 producing Indian leases.

Generally, royalty payments are due from energy companies on the last day of the month following the month of production. Each month, MMS receives and processes approximately 34,000 reports containing more than half a million lines of data from over 2,100 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 or from MMS's Offshore Minerals Management 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.

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.

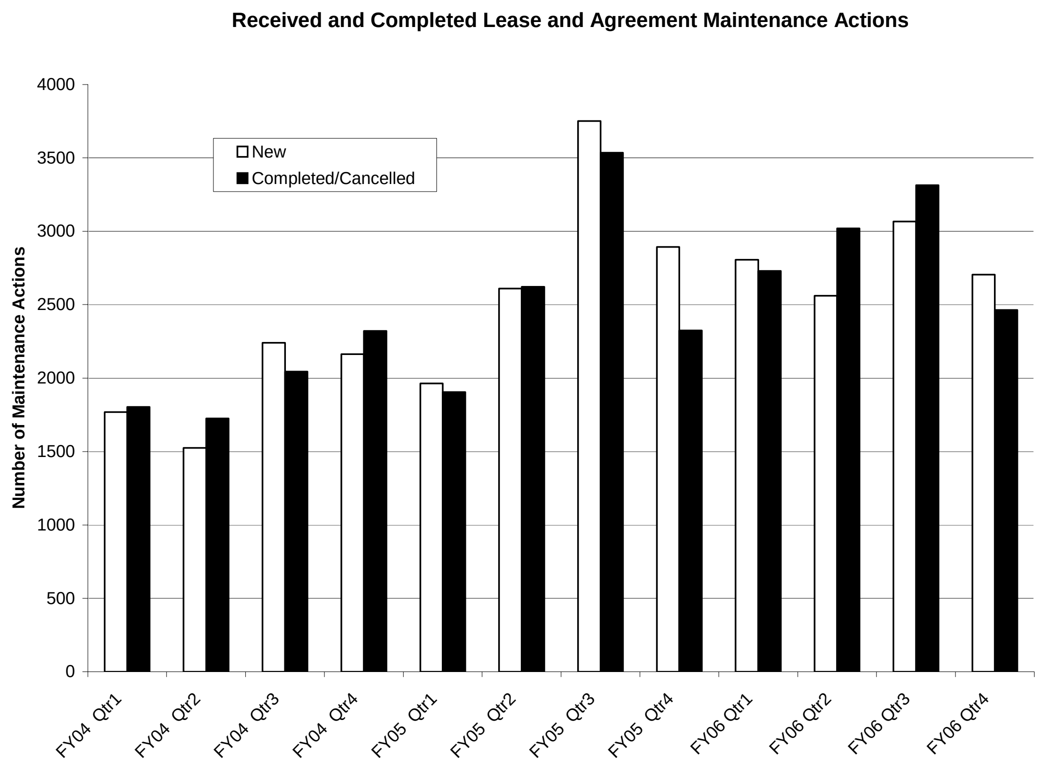
Receiving proper payments also includes ensuring that delinquent invoices are pursued in accordance with the Debt Collection Act. This is achieved through calls and letters to customers, demands to payors, notices to lessees/operating rights owners, demands to surety, referrals to the Justice Department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

Using Performance and ABC Data

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 external customers.

MRM increased the number of completed maintenance actions by 50 percent - from 9,766 completed actions in 2004 to 14,613 completed actions in 2006. This was a significant accomplishment during a timeframe when the number of lease and agreement maintenance items received by MRM increased by 45 percent. This increase in lease and agreement maintenance actions was the result of a number of BLM actions related to coal bed methane leases.

Figure 23: Received and Completed Lease and Agreement Maintenance Actions



Though workload volumes increased, total costs of the function remained stable. MRM costs to complete a maintenance action were therefore reduced by 28%; from $98 to $70 per unit. 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.

Program Performance: Past Accomplishments & Future Goals

Company reporting accuracy is key to ensuring that MMS achieves timely disbursement. In 2006, Companies reported 97.4 percent of royalties accurately, thus, requiring MMS intervention to resolve royalty errors on only 2.6 percent of all royalties reported and paid. In 2007 and 2008, the target is 98 percent for this measure.

SUBACTIVITY SUMMARY

In summation, the MMS manages a substantial Federal monetary asset on behalf of the American public. 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 makes 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.

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2008 PERFORMANCE BUDGET REQUEST
General Administration

Table 39 : General Administration Summary of Budget Request

General Administration		2006 Enacted	2007 CR 1/	2008 Fixed Costs & Related Changes	2008 Program Changes	2008 Budget Request	Change from 2007
Executive Direction	($000)	2,100	2,533	82	0	2,615	82
	FTE	19	27	0	0	27	0
Policy and Management Improvement	($000)	4,199	4,090	125	0	4,215	125
	FTE	33	33	0	0	33	0
Administrative Operations	($000)	17,044	16,837	723	0	17,560	723
	FTE	158	160	0	-20	140	-20
General Support Services	($000)	24,125	23,398	268	395	24,061	663
	FTE	0	0	0	0	0	0
Total, General Administration	**($000)**	**47,468**	**46,858**	**1,198**	**395**	**48,451**	**1,593**
	FTE	**210**	**220**	**0**	**-20**	**200**	**-20**
Impact of CR	($000)		610	616	-1,226		-610
	FTE		-10	0	10		0
Total	**($000)**		**47,468**	**1,814**	**-831**	**48,451**	**983**
	FTE		**210**	**0**	**-10**	**200**	**-10**

1/ At completion of this 2008 budget justification, a 2007 appropriation had not yet been enacted, and a year-long continuing resolution (CR) was anticipated. . This column reflects numbers from the 2007 President's Request, with an adjusting entry towards the bottom of the table to provide the CR total (P.L. 109-383, effective through February 15, 2007) for General Administration, which is equal to the 2006 Enacted number.

BUDGET OVERVIEW

General Administration programs support the OMM and MRM program activities, and the proposed changes to General Administration are linked with proposed changes within the programs. With the transfer of the Interior Franchise Fund (GovWorks) from MMS to Departmental management, and the subsequent reduction in reimbursable work and supported positions within MMS's Administrative Operations Subactivity, a net decrease of 20 FTE is shown in the table above.

Impact of the 2007 Continuing Resolution (+$610,000, -10 FTE)

At completion of this 2008 budget justification, a 2007 appropriation had not been enacted and substantial uncertainty existed regarding the ultimate level that would be appropriated for 2007. At the Bureau-level and Account-level, adjustments are shown such that these amounts equal the annual rate provided under the authority of the third fiscal year 2007 Continuing Resolution, P.L. 109-383 effective through February 15, 2007, which for MMS is equal to the 2006 Enacted. At lower levels of the budget structure (subactivity and initiative), line items are presented at the 2007 President's Request level.

The 2008 budget restores the priorities of the 2007 President's budget by funding 2007 programmed fixed cost increases, eliminating unrequested 2006 congressional earmarks, and implementing the program enhancement and program reduction initiatives included in the 2007 President's budget.

Fixed Costs and Related Changes

For 2008, an increase of $5,886,000 for fixed costs is requested for all of MMS, which covers anticipated increases in pay, benefits and other costs. If these increases are not funded, MMS's mission critical programs may suffer since unfunded fixed costs must be absorbed and existing resources may have to be redirected from programmatic needs to pay for fixed costs.

The Bureauwide requested fixed cost increase, which is spread across subactivities based on personnel costs and other factors, is composed of the following (actual dollars shown):

Pay raises (annual adjustments, promotions, etc.)	+$3,947,000
Two additional pay days in 2008 (versus 2007)	+$1,111,000
Employer Share – Health Benefits	+$560,000
Rent increases	+$311,000
Workers' compensation	- $401,000
Unemployment compensation	-0-
Increase – Department Working Capital Fund	+$358,000
Total requested Fixed Cost Increases	**+$5,886,000**

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.

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.

The 2008 Budget Justifications include a request for additional funding for the following General Administration initiative:

FBMS System Implementation ($395,000; 0 FTE)

The 2008 budget request includes an increase of $395,000 for implementation of a Department-wide Financial and Business Management System (FBMS), to support the Bureau's share of the 2008 charge from the Centralized Billing Working Capital fund[1]. Department-wide, the 2008 budget includes $40.4 million in appropriated funding for implementation of FBMS. The 2008 request supports implementation of new modules for property and initial budget formulation. Core financials and eGrants were implemented in the first bureaus in 2006, and the acquisition module is scheduled for 2007. The Department is implementing the system in phases by Bureaus, with the all bureaus scheduled to be implemented by the end of 2011. The 2008 request will support implementation of the new modules for the Office of Surface Mining and Minerals Management Service, and all modules for the Bureau of Land Management. The 2008 request represents the peak funding year for the project, as it involves the implementation of the remaining modules, and would allow the Department to retire eleven additional legacy systems.

The Department-wide Programs budget justification includes additional materials supporting this Department-wide request for FBMS under the Working Capital Fund.

Performance

General Administration does not have performance measures specifically for its activities; rather, the efforts within General Administration feed into the performance measures for the functional programs (Offshore Minerals Management and Minerals Revenue Management).

The four subactivities within General Administration, and the proposed changes in each, are described in the following pages.

[1] In addition to the increase for FBMS implementation noted above, the centralized WCF reflects a reallocation from ABACIS to FBMS Hosting of $477,000.
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2008 PERFORMANCE BUDGET REQUEST
General Administration
Executive Direction

Table 40: Executive Direction Subactivity Budget Summary

		2006 Enacted	2007 President's Request	2008 Fixed Costs & Related Changes	2008 Program Changes	2008 Budget Request	Change from 2007
Executive Direction	($000)	2,100	2,533	82	0	2,615	82
	FTE	19	27	0	0	27	0

SUMMARY OF 2008 PROGRAM CHANGES

No program changes are requested. The increase in full time equivalents (FTEs) for Executive Direction from 2006 to 2007 resulted from a transfer of public affairs officers from the MRM and OMM programs to Executive Direction.

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.

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.

2008 PERFORMANCE BUDGET REQUEST
General Administration
Policy and Management Improvement Subactivity

Table 41: Policy and Management Improvement Subactivity Budget Summary

		2006 Enacted	2007 President's Request	2008 Fixed Costs & Related Changes	2008 Program Changes	2008 Budget Request	Change from 2007
Policy & Management Improvement	($000)	4,199	4,090	125	0	4,215	125
	FTE	33	33	0	0	33	0

SUMMARY OF 2008 PROGRAM CHANGES

No program changes are requested.

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.

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 support two key DOI strategic goals: assuring fair value is received for resources and ensuring accountability of government assets.

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.

Implementation of the Energy Policy Act of 2005

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 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.

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.

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.

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.

2008 PERFORMANCE BUDGET ESTIMATES

General Administration

Administrative Operations Subactivity

Table 42: Administrative Operations Subactivity Budget Summary

		2006 Enacted	2007 President's Request	2008			Change from 2007
				Fixed Costs & Related Changes	Program Changes	Budget Request	
Administrative Operations	($000)	17,044	16,837	723	0	17,560	723
	FTE	158	160	0	-20	140	-20

SUMMARY OF 2008 PROGRAM CHANGES

No program funding changes are requested. MMS expects a net reduction of twenty FTE in this subactivity as a result of the ongoing transfer of the GovWorks operations from MMS to Departmental Management.

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 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.

Emergency Management

The Emergency Management program is responsible for providing emergency management services and preparing continuity of operations plans. An Emergency Coordinator and associated staff oversee the operations of this program. MMS has a process in place for reporting critical emergency incidents to the appropriate officials in a timely manner. Our

Continuity of Operations Program (COOP) includes training and exercises, providing for alternate relocation facilities, alternate interoperable communications, and alternate database/records access. Our goal is to have appropriate emergency management plans, and continuity of operations plans, in place for any unplanned event or unforeseen circumstance that can cause significant disruption of mission functions. After recovery from the damages of Katrina was well underway, MMS began the process of identifying changes to our COOP plan resulting from lessons learned and we are working on a COOP multi-year strategy.

MMS continues to be in compliance with the Office of Homeland Security's National Incident Management System and Incident Command System, working closely with designated lead agencies such as the U.S. Coast Guard to safeguard our Nation's energy supply.

MMS is not requesting additional funding for our work on a COOP multi-year strategy or for our participation on the Interior Regional Emergency Coordinating Council. MMS will contain costs by reassessing our EM and COOP focus and priorities and redirecting our efforts accordingly.

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 Planning & Management 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 2004 and the 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.

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 with 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.

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.

2008 PERFORMANCE BUDGET ESTIMATES
General Administration
General Support Services Subactivity

Table 43: General Support Services Subactivity Budget Summary

		2006 Enacted	2007 President's Request	2008 Fixed Costs & Related Changes	2008 Program Changes	2008 Budget Request	Change from 2007
General Support Services	($000)	24,125	23,398	268	395	24,061	663
	FTE	0	0	0	0	0	0

SUMMARY OF 2008 PROGRAM CHANGES

Request Component	Amount	FTE
• FBMS System Implementation	+$395,000	+0
Total Program Changes	**+$395,000**	**+0**

JUSTIFICATION OF 2008 PROGRAM CHANGES

The 2008 budget for the General Support Services (GSS) Subactivity is $24,061,000 with no FTE, with a program change of $395,000 from the 2007 President's Request.

FBMS System Implementation ($395,000; 0 FTE)

The 2008 budget request includes an increase of $395,000 for implementation of a Department-wide Financial and Business Management System (FBMS), to support the Bureau's share of the 2008 charge from the Centralized Billing Working Capital fund. Department-wide, the 2008 budget includes $40.4 million in appropriated funding for implementation of FBMS. The 2008 request supports implementation of new modules for property and initial budget formulation. Core financials and eGrants were implemented in the first bureaus in 2006, and the acquisition module is scheduled for 2007. The Department is implementing the system in phases by Bureaus, with the all bureaus scheduled to be implemented by the end of 2011. The 2008 request will support implementation of the new modules for the Office of Surface Mining and Minerals Management Service, and all modules for the Bureau of Land Management. The 2008 request represents the peak funding year for the project, as it involves the implementation of the remaining modules, and would allow the Department to retire eleven additional legacy systems.

The Department-wide Programs budget justification includes additional materials supporting this Department-wide request for FBMS under the Working Capital Fund.

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 and unemployment compensation,
- Federal Telecommunications System (FTS) Service/Commercial Communications,
- 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.

2008 PERFORMANCE BUDGET REQUEST
Mineral Leasing Receipts

The discussion under this tab is divided as follows:

Permanent Appropriations: This section refers specifically to those mineral leasing receipts which are permanently appropriated for making payments to States and local governments from revenues generated from onshore Federal lands and from certain offshore mineral leasing receipts. Funds are distributed into permanent accounts, and payments to states (and where appropriate, local political subdivisions) are made from those accounts. Permanent appropriations are a subset of the larger "Mineral Leasing Receipts" discussion.

Mineral Leasing Receipts: This section comprehensively discusses both onshore and offshore receipts, with charts explaining the distribution of receipts, and tables with detailed breakouts. In addition to permanent appropriations, funds are deposited in the General Fund of the U.S. Treasury and various special fund accounts, with spending from those accounts subject to subsequent appropriation.

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 and certain offshore areas. The revenues for these payments are derived from bonuses, rentals, and royalties collected from Federal 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, including late disbursement interest, to the states (and to counties in the case of geothermal receipts). 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. Grants provided under the Coastal Impact Assistance Program (CIAP) are subject to MMS oversight and verification that the funds are being spent in a manner consistent with the authorizing legislation for these payments (Section 384 of the Energy Policy Act of 2005). The Act provides for a direct appropriation of $250 million for CIAP grants in each of fiscal years 2007-2010.

Table 44 on the following page shows the breakout of permanent appropriations.

Table 44: Permanent Appropriations ($000)

Appropriation	States Share	FY 2006 Actual	FY 2007 Estimate	FY 2008 Estimate	Change from 2007
Mineral Leasing Associated Payments *(MLAP)*	50%	2,110,432	1,875,413	1,994,729	+119,316
National Forest Fund Payments to States *(Forest Fund)*	25%	8,647	6,405	6,803	+398
Payments to States from Lands Acquired for Flood Control, Navigation, and Allied Purposes *(Flood Control)*	75%	4,912	2,435	2,608	+173
Subtotal, Payments to States	**--**	**2,123,991**	**1,884,253**	**2,004,140**	**+119,887**
Geothermal, Payments to Counties	25%	3,912	3,438	0	-3,438
Coastal Impact Assistance Program	N/A	0	250,000	250,000	0
Total, Permanent Appropriations	**--**	**2,127,903**	**2,137,691**	**2,254,140**	**+116,449**

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 50 percent of the revenues resulting from the leasing of mineral resources on federal public domain lands within their borders. Additionally, 40 percent of onshore revenues are paid to the Reclamation Fund, which funds western water projects. The remaining ten percent is paid into the General Fund of the U.S. Treasury. By law, Alaska receives no payments from the Reclamation Fund, but receives a 90 percent share of receipts from Federal 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.

The 2008 President's Budget proposes amending section 35 of the Minerals Leasing Act to implement a form of "Net Receipts Sharing," which refers to sharing a portion of the administrative program costs among the federal government and producing states before making the required state distributions of onshore mineral leasing revenues. Under this proposal, MMS would deduct two percent from the States' share of receipts from onshore Federal mineral leasing activities under the MLA prior to making revenue distributions to the states. This percentage will defray a portion of the administrative costs incurred in the management of onshore leasing activities, and would be deposited into the U.S. Treasury as miscellaneous receipts.

Under 16 U.S.C. 499, states receive a Forest Fund payment equal to 25 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 75 percent of revenue collected from leasing on lands acquired for flood control in a particular state be shared with that state. These funds are to be expended as the state legislature may prescribe for the benefit of the public schools and roads in the county from which the revenue was collected or for defraying any of the expenses of county government. These types of expenses include public obligations of levee and drainage districts for flood control and drainage improvements.

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 25 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, 25 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 MLA and set an undesirable precedent for future expansion of revenue sharing with local governments.

The Energy Policy Act also amended section thirty-one of the Outer Continental Shelf (OCS) Lands Act (43 U.S.C. 1356 et seq.) and authorizes the Secretary of the Interior to distribute to producing states and coastal political subdivisions $250 million for each of the fiscal years 2007 through 2010. This funding will be shared among six producing states (Alabama, Alaska, California, Louisiana, Mississippi, and Texas) and 67 eligible Coastal Political Subdivisions (CPSs) within those states, based upon allocation formulas prescribed by the Act.

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.

The distribution formula is based on the amount of qualified OCS revenues generated off each producing state as a part of total OCS revenues. 35 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. However, as of February 2007, it appears that MMS will be operating under an extended continuing resolution, which does not provide funds to administer this new program. As a result, the states and CPSs may not be ready to apply for funds until 2008 and the agency will not be ready to release 2007 Coastal Impact Assistance Program funds until possibly late in 2008. Please refer to the CIAP section for additional information.

In December 2006, Congress passed the Gulf of Mexico Energy Security Act of 2006 (P.L. 109-432). The Act opens additional areas in the Gulf of Mexico for offshore oil and gas leasing. The Act also provides that 50 percent of revenues from these open areas (termed "qualified OCS revenues") be disbursed to Gulf producing states *(Accounts 5535.1 and 5535.2)* and to the Land and Water Conservation Fund *(Accounts 5005.9 and 5005.9)*, with specific provisions for allocation during FY 2007 – 2016. Beginning in 2017, the Act would share additional revenue from any new leases signed after enactment in the current program areas of the Gulf. The revenue would be shared in the same percentages (37.5 percent to Gulf states and 12.5 percent to LWCF) as for the newly opened areas. However, this additional revenue sharing is subject to a cap of $500 million per year (through 2055); revenues in excess of this cap would be deposited in the Treasury.

The funding to Gulf producing states is intended to be used primarily for coastal protection and restoration and is available in the year following the year in which the revenues are collected. The first payments under the Act are not expected to take place until FY 2009.

Calculation of States' Payments

Each permanent appropriation has a respective account in the United States Treasury. The FY 2006 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 estimates 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 45, Mineral Revenue Payments to States, outlines the actual and estimated onshore mineral leasing revenue payments to states for FY 2006, FY 2007, and FY 2008.

Table 45: Mineral Revenue Payments to States ($000)

States:	**FY 2006 Actual Payments**	**FY 2007 Estimated Payments**	**FY 2008 Estimated Payments**
Alabama	751	610	649
Alaska	14,419	12,813	13,628
Arizona	73	65	69
Arkansas	6,825	4,943	5,264
California	47,411	42,131	44,812
Colorado	147,194	130,802	139,124
Florida	142	126	134
Georgia	0	0	0
Idaho	1,257	1,117	1,188
Illinois	181	90	96
Indiana	0	0	0
Kansas	2,458	2,180	2,319
Kentucky	379	270	287
Louisiana	1,171	945	1,006
Michigan	659	570	606
Minnesota	15	11	12
Mississippi	1,053	789	838
Missouri	1,980	1,466	1,558
Montana	38,236	33,978	36,140
Nebraska	28	24	26
Nevada	7,628	6,779	7,210
New Mexico	573,424	509,567	541,986
N. Carolina	0	0	0
N. Dakota	15,512	13,679	14,550
Ohio	489	258	277
Oklahoma	5,100	4,386	4,666
Oregon	652	579	616
Pennsylvania	92	52	56
S. Carolina	0	0	0
S. Dakota	851	756	804
Texas	8,728	7,102	7,553
Utah	173,011	153,743	163,525
Virginia	217	127	135
Washington	1,082	961	1,023
West Virginia	493	283	302
Wyoming	1,072,479	953,047	1,013,681
Totals	**2,123,991**	**1,884,253**	**2,004,140**

Notes:
- Figures exclude payments made to coastal states under the Section 8(g) of the OCS Lands Act since they are direct, unappropriated transfers; these amounts are presented in Table 50.
- Figures do not include actual or estimated receipts for sales in the National Petroleum Reserve-Alaska, proposed Artic National Wildlife Refuge (ANWR) legislation, or payments to counties under the Geothermal Steam Act authority.
- Columns may not add due to rounding.

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 97 percent of Federal onshore lands, and most Indian lands.

The remaining Federal onshore mineral leasing collections include those payments that are made semi-annually or annually, including the payment made to Alaska for NPRA (administered by BLM) and payments made for leasing activities on acquired national grasslands. National grassland collections, which are shared between the General Fund of the U.S. Treasury and counties, are administered by the BLM and by the U.S. 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 the Bureau of Indian Affairs, 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 24 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.

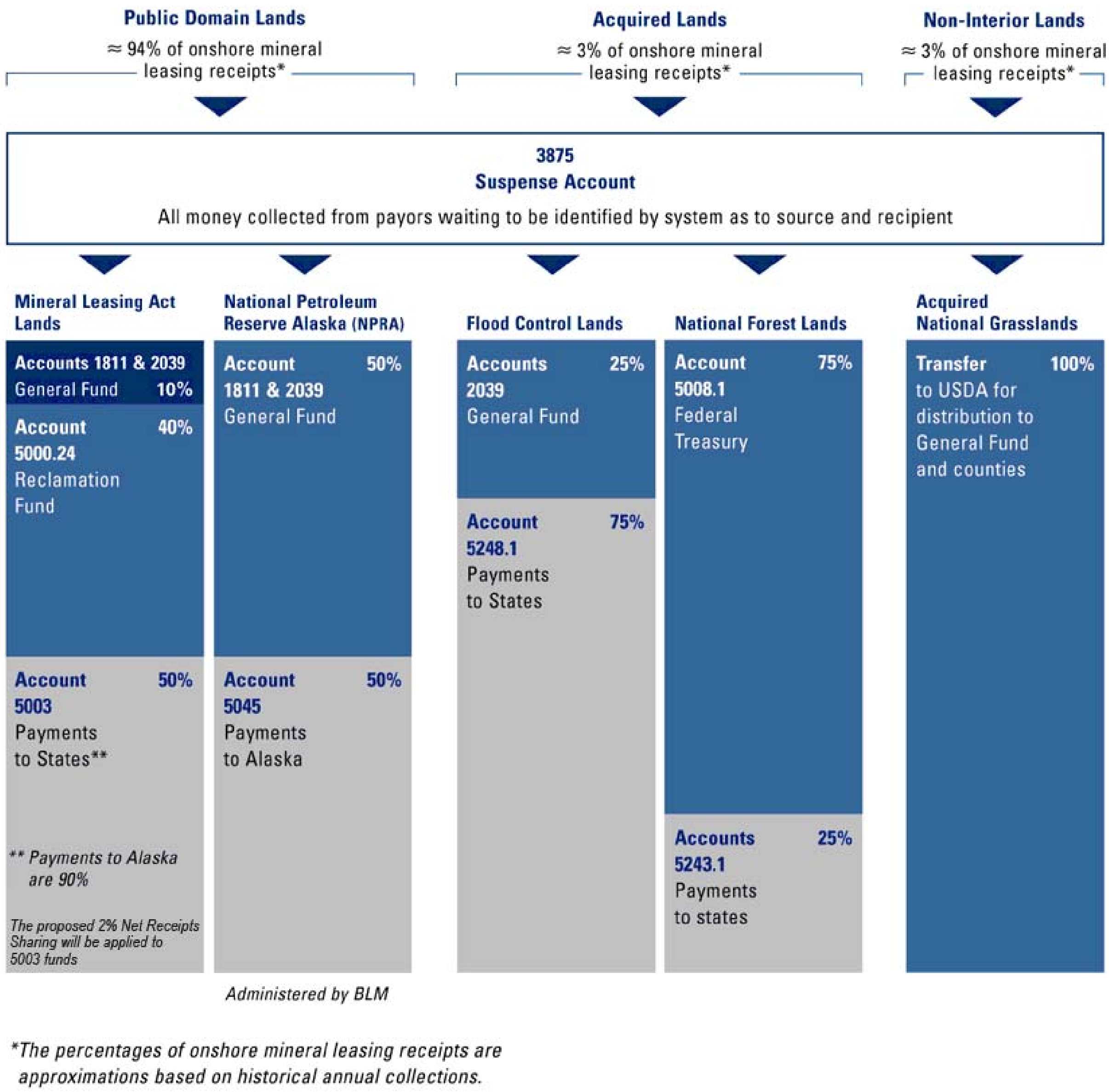
The collections from public domain lands leased under the Mineral Leasing Act (MLA) authority are shared fifty percent with the states (*Account 5003*), forty percent with the Reclamation Fund (*Account 5000.24*) for western water projects, and ten percent with the General Fund of the U.S. Treasury, after 2 percent is deducted and deposited to the General Fund in accordance with the 2008 President's Budget Net Receipts Sharing proposal. 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 payments 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 derived from 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 providing twenty-five percent to the States (*Account 5243.1*).

The Energy Policy Act of 2005 amended section 20 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, 25 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 25 percent of revenues are deposited into a separate Treasury account (*Account 5575*) for DOI use in the implementation of the Geothermal Steam Act of 1970 and the Energy Policy Act of 2005.

Figure 24: 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. Figure 25 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*.

Under Section 8(g) of the OCS Lands Act, payments made to coastal states for their 27 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 46 provides information on the 8(g) payments to coastal States.

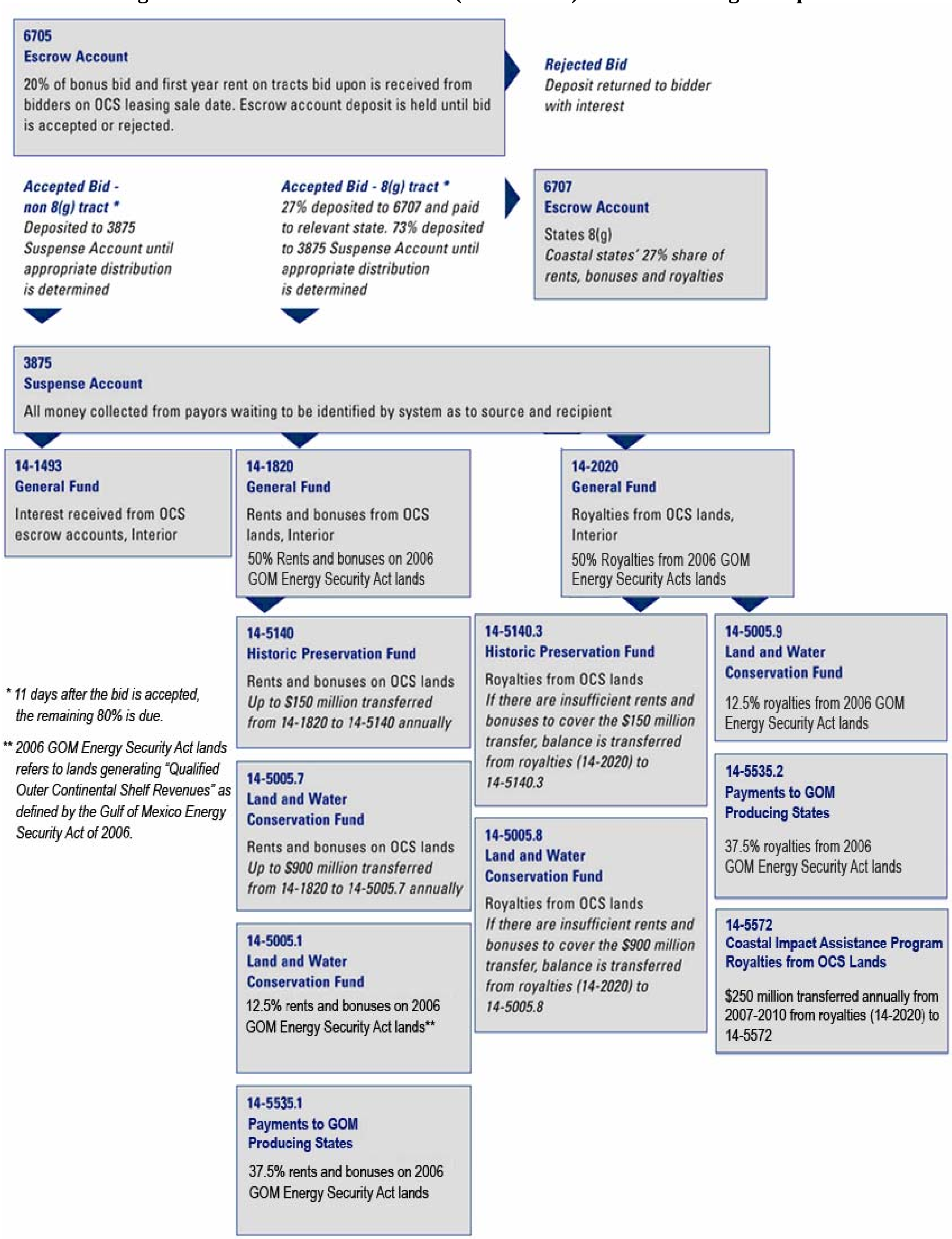
Table 46: Payments to Coastal States under OCSLA Section 8(g) ($000)

	FY 2006 Actual Payments	FY 2007 Estimated Payments	FY 2008 Estimated Payments
Alabama	17,869	17,051	20,176
Alaska	11,295	10,778	12,753
California	7,251	6,919	8,187
Florida	1	1	1
Louisiana	32,072	30,603	36,213
Mississippi	546	521	616
Texas	13,321	12,711	15,041
Total	**82,355**	**78,584**	**92,987**

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 to be made from OCS rents and bonuses, and then any further needed payments to be made from OCS royalties.

Payments to the Gulf producing states under the Gulf of Mexico Energy Security Act of 2006 (37.5 percent of receipts from certain leases) flow through Accounts 5535.1 and 5535.2; an additional 12.5 percent of funds from these leases are deposited into the LWCF (*5005.1 and 5005.9)* and are available for expenditure without further appropriation.

Figure 25: 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. The Law requires that the corpus of the Fund be invested. 20 percent of the interest earned by the Fund is permanently appropriated to the Department of Commerce. 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:

- Table 47: Mineral Leasing Receipts by Commodity Source;
- Table 48 Mineral Leasing Receipts by Account;
- Table 49: Onshore Mineral Receipts;
- Table 50: Onshore Rents and Bonuses;
- Table 51: Federal Onshore Royalty Estimates;
- Table 52: Outer Continental Shelf Mineral Receipts;
- Table 53: OCS Rents and Bonuses; and
- Table 54: Federal Offshore Royalty Estimates.

Table 47: Mineral Leasing Receipts by Commodity Source ($000) 1/

	FY 2007 Estimate 2/	FY 2008 Estimate	FY 2009 Estimate	FY 2010 Estimate	FY 2011 Estimate	FY 2012 Estimate
Onshore Mineral Leasing						
Onshore Rents and Bonuses						
Oil and Gas	155,711	151,251	148,290	148,538	149,773	150,022
Coal	437,600	442,500	592,300	538,300	543,200	853,400
Geothermal	1,250	1,300	1,500	1,700	1,900	1,900
Oil Shale	15	15	200,035	100,045	45	45
All Other	21	21	21	21	21	21
Subtotal, Rents and Bonuses	**594,597**	**595,087**	**942,146**	**788,604**	**694,939**	**1,005,388**
Onshore Royalties						
Oil and Gas	2,591,929	2,897,238	2,955,155	2,972,595	2,956,658	3,039,024
Coal	525,036	540,531	559,625	565,824	582,018	596,314
Geothermal	12,416	12,416	12,416	12,416	12,416	12,416
All Other (including oil shale)	57,819	56,940	56,089	55,264	54,462	53,686
Subtotal, Royalties	**3,187,200**	**3,507,125**	**3,583,285**	**3,606,099**	**3,605,554**	**3,701,440**
Total, Onshore Receipts	**3,781,797**	**4,102,212**	**4,525,431**	**4,394,703**	**4,300,493**	**4,706,828**
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	411,520	2,154,425	919,084	624,736	532,435	474,505
OCS Royalties	6,398,680	7,040,277	9,058,332	8,386,779	9,085,134	8,910,034
Total, OCS Receipts	**6,810,200**	**9,194,702**	**9,977,416**	**9,011,515**	**9,617,569**	**9,384,539**
TOTAL, MINERAL RECEIPTS 3/	**10,592,127**	**13,297,044**	**14,502,977**	**13,406,348**	**13,918,192**	**14,091,497**

1/ Onshore receipts for oil and natural gas include a reduction for Acquired Natural Grasslands. OCS receipts include reductions for MMS's Offsetting Collections, 8(g) Payments to States, and Ultra-Deepwater and Unconventional Natural Gas Research Fund.

2/ 2007 Estimates are significantly reduced due to the cancellation of sale 201.

3/ Estimates may change pending on upcoming developments with companies holding leases subject to deep water royalty relief; small discrepancies may occur due to rounding.

Table 48: Mineral Leasing Receipts by Account ($000) 1/

		FY 2007 Estimate 2/	FY 2008 Estimate	FY 2009 Estimate	FY 2010 Estimate	FY 2011 Estimate	FY 2012 Estimate
Onshore Mineral Leasing Receipts							
1811.00	Rents and Bonuses	52,951	58,936	93,698	78,333	68,953	99,988
2039.00	MLR Royalties	315,922	389,786	403,993	404,832	402,648	417,851
5000.24	Reclamation Fund	1,472,247	1,628,388	1,797,779	1,745,437	1,707,775	1,870,083
5003.02	Payments to States	1,875,413	1,994,729	2,199,854	2,135,870	2,090,940	2,288,182
5243.10	Forest Fund, States share	6,405	6,803	6,844	6,847	6,810	6,909
5008.10	Forest Fund, Government share	19,215	20,408	20,532	20,542	20,431	20,727
5248.10	Flood Control, States shares	2,435	2,608	2,629	2,640	2,635	2,687
5573.10	Rent from mineral leases (Permit Processing Fund)	28,230	-	-	-	-	-
5574.10	Geothermal Lease Revenues, County share	3,438	-	-	-	-	-
5575.10	Geothermal Lease Revenues, DOI share	3,438	-	-	-	-	-
5576.10	Leases from Naval Petroleum Reserve #2	2,105	554	103	202	302	401
Subtotal, Onshore Receipts		**3,781,799**	**4,102,212**	**4,525,432**	**4,394,703**	**4,300,494**	**4,706,828**
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 3/	-	1,088,264	-	-	-	-
5535.1	OCS Rents and Bonuses, State share from qualified leases	-	19,161	32,848	2,571	1,213	1,213
5005.9	OCS Rents and Bonuses, LWCF share from qualified leases	-	6,387	10,949	857	404	404
2020.00	OCS Royalties	5,513,200	6,790,277	8,647,568	7,711,944	8,569,356	8,336,319
5535.2	OCS royalties, State share from qualified leases	-	-	-	-	-	8
5005.1	OCS royalties, LWCF share from qualified leases	-	-	-	-	-	3
5005.70	Land & Water Conservation Fund (OCS R & B)	261,520	890,613	725,287	471,308	380,818	322,888
5005.80	Land & Water Conservation Fund (OCS royalties)	635,480	-	160,764	424,835	515,778	573,706
5140.00	Historic Preservation Fund (OCS R & B)	150,000	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		**6,810,200**	**9,194,702**	**9,977,416**	**9,011,515**	**9,617,569**	**9,384,541**
TOTAL, MINERAL RECEIPTS 4/		**10,592,129**	**13,297,044**	**14,502,978**	**13,406,348**	**13,918,193**	**14,091,499**

1/ 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. Accounts 5535.1, 5535.2, 5005.9, 5005.1 are new accounts from the Energy Security Act of 2006.

2/ 2007 estimate is significantly reduced due to the cancellation of sale 201.

3/ 2008 estimate is affected by Sale 205 which is the remaining after all transfers to LWCF and the Historic Preservation Fund.

4/ Estimates are subject to change; small discrepancies may occur due to rounding.

Table 49: Onshore Mineral Receipts, FY 2007 - FY 2008 ($000)

	FY 2007 Estimate	FY 2008 Estimate	Change	Explanation
Rents & Bonuses				
Oil & Gas	155,711	151,251	-4,460	Decrease in bonuses, rents remain constant
Coal	437,600	442,500	+4,900	Increase in bonuses, rents remain constant
Geothermal	1,250	1,300	+50	Increase in rents, bonuses remain constant
All Other (including oil shale)	36	36	0	Assumption of consistent rents & bonuses
Subtotal, Rents & Bonuses	**594,597**	**595,087**	**+490**	
Royalties				
Oil & Gas	2,591,929	2,897,238	+305,309	Increase in gas production and price estimates
Coal	525,036	540,531	+15,495	Increase in production
Geothermal	12,416	12,416	0	Assumption of consistent royalties
All Other (including oil shale)	57,819	56,940	-879	Assumption of annual decline in total royalties
Subtotal, Royalties	**3,187,200**	**3,507,125**	**+319,925**	
Total Onshore Mineral Receipts 1/	**3,781,797**	**4,102,212**	**+320,415**	

1/ Estimates are subject to change; small discrepancies may occur due to rounding.

Table 50: Onshore Rents and Bonuses ($000) 1/

	FY 2007 Estimate	FY 2008 Estimate	FY 2009 Estimate	FY 2010 Estimate	FY 2011 Estimate	FY 2012 Estimate
Oil and Gas						
Rents Lower 48	55,023	57,073	59,123	61,173	63,223	65,273
Bonuses Lower 48	85,000	80,000	75,000	73,000	72,000	70,000
Subtotal, Oil and Gas	**140,023**	**137,073**	**134,123**	**134,173**	**135,223**	**135,273**
Coal						
Rents	1,400	1,400	1,400	1,400	1,400	1,400
Bonuses 2/	436,200	441,100	590,900	536,900	541,800	852,000
Subtotal, Coal	**437,600**	**442,500**	**592,300**	**538,300**	**543,200**	**853,400**
Geothermal						
Rents and Bonuses	1,250	1,300	1,500	1,700	1,900	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 3/	**578,909**	**580,909**	**927,979**	**774,239**	**680,389**	**990,639**

1/ 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.

2/ Estimates have incorporated DOI's coal bonus initiative.

3/ Estimates are subject to change; small discrepancies may occur due to rounding.

Table 51: Federal Onshore Royalty Estimates *(in millions of volume and dollars) 1/*

	FY 2007 Estimate	FY 2008 Estimate	FY 2009 Estimate	FY 2010 Estimate	FY 2011 Estimate	FY 2012 Estimate
Oil						
Oil Volume (MMBbl)	95.62	93.29	91.13	89.15	87.37	85.50
OMB Price/Bbl (in whole $s)	$55.50	$55.17	$53.90	$52.68	$52.02	$51.69
Royalty Rate	0.107	0.107	0.107	0.107	0.107	0.107
Subtotal Oil Royalties ($M)	**$565.622**	**$548.589**	**$523.487**	**$500.564**	**$484.388**	**$471.042**
Gas						
Natural Gas Volume (bcf)	2.861	3.093	3.306	3.499	3.672	3.808
OMB Price/Mcf (in whole $s)	$6.17	$6.61	$6.40	$6.15	$5.86	$5.87
Royalty Rate	0.116	0.116	0.116	0.116	0.116	0.116
Subtotal Natural Gas Royalties ($M)	$2,041.840	$2,366.011	$2,449.377	$2,489.845	$2,489.988	$2,586.194
CO2 Royalties	$26.537	$28.688	$30.664	$32.454	$34.059	$35.320
Gas Plant Products	$147.319	$159.265	$170.232	$180.170	$189.079	$196.081
Subtotal Gas Royalties ($M)	**$2,215.696**	**$2,553.964**	**$2,650.273**	**$2,702.469**	**$2,713.126**	**$2,817.595**
Total, Oil & Gas Royalties ($M)	**$2,781.318**	**$3,102.553**	**$3,173.760**	**$3,203.034**	**$3,197.513**	**$3,288.637**
Coal Royalties	$525.200	$540.700	$559.800	$566.000	$582.200	$596.500
Geothermal Royalties	$12.500	$12.500	$12.500	$12.500	$12.500	$12.500
All Other Royalties	$57.819	$56.940	$56.089	$55.264	$54.462	$53.686
TOTAL ONSHORE ROYALTIES ($M) 2/	**$3,376.837**	**$3,712.693**	**$3,802.149**	**$3,836.798**	**$3,846.675**	**$3,951.323**

1/ 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.

2/ Estimates are subject to change; small discrepancies may occur due to rounding.

Table 52: OCS Mineral Receipts, FY 2007 - FY 2008 ($000) 1/

	FY 2007 Estimate 3/	FY 2008 Estimate	Change	Explanation
Rents & Bonuses				
Rents	48,520	66,004	+17,484	Increase due to new sale area
Bonuses	363,000	2,088,421	+1,725,421	Major increase due to cancellation of sale 201 in 2007
Subtotal, Rents & Bonuses	**411,520**	**2,154,425**	**+1,742,905**	
Royalties				
Oil	3,534,510	3,829,507	+294,997	Major increase due to recovery from the impacts of Hurricanes Katrina, Rita, and Wilma
Gas	2,914,170	3,210,770	+296,600	Increase in production and price estimates
Subtotal, Royalties 2/	**6,448,680**	**7,040,277**	**+591,597**	
Total OCS Mineral Receipts 4/	**6,860,200**	**9,194,702**	**+2,334,502**	

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

2/ Estimates may change pending on upcoming developments with companies holding leases subject to deep water royalty relief.

3/ Amounts differ from the "Mineral Leasing Receipts by Source" table since they do not reflect the Ultra-Deepwater transfers.

4/ Small discrepancies may occur due to rounding.

Table 53: OCS Rents and Bonuses *(in millions of dollars)*

Sale Number 1/	Sale Date (CY)	Sale Area	High Bids	% in FY	8(g) to States	Receipt Estimate 5/
FY 2007 Estimate 2/						
200	late 06	Western Gulf of Mexico	341	100%	3	338
202	mid 07	Beaufort Sea	25	100%	0	25
204	late 07	Western Gulf of Mexico	220	0%	0	0
205	late 07	Central Gulf of Mexico	1,290	0%	0	0
193	late 07	Chukchi	45	0%	0	0
			Bonuses Subtotal			**363**
			Rents			**49**
			FY 2007 TOTAL			**412**
FY 2008 Estimate 3/						
204	late 07	Western Gulf of Mexico	220	100%	2	218
205	late 07	Central Gulf of Mexico	1,290	100%	10	1,280
193	late 07	Chukchi	45	100%	0	45
206	mid 08	Central Gulf of Mexico	500	100%	4	496
207	late 08	Western Gulf of Mexico	240	0%	0	0
tbd	mid 08	Eastern GOM - ESA 4/	49	100%	0	49
			Bonuses Subtotal			**2,088**
			Rents			**64**
			Rents - subject to ESA			2
			FY 2008 TOTAL			**2,154**
FY 2009 Estimate						
207	late 08	Western Gulf of Mexico	240	100%	2	238
208	mid 09	Central Gulf of Mexico	510	100%	4	506
209	mid 09	Beaufort	20	100%	0	20
210	late 09	Western Gulf of Mexico	160	0%	0	0
211	late 09	Cook Inlet	1	0%	0	0
208	mid 09	Central GOM - ESA	84	100%	0	84
			Bonuses Subtotal			**848**
			Rents			**67**
			Rents - subject to ESA			4
			FY 2009 TOTAL			**919**
FY 2010 Estimate						
210	late 09	Western Gulf of Mexico	160	100%	1	159
211	late 09	Cook Inlet	1	100%	0	1
212	mid 10	Chukchi	25	100%	0	25
213	mid 10	Central Gulf of Mexico	370	100%	3	367
215	late 10	Western Gulf of Mexico	130	0%	0	0
213	mid 10	Central GOM - ESA	6	100%	0	6
			Bonuses Subtotal			**558**
			Rents			**66**
			Rents - subject to ESA			1
			FY 2010 TOTAL			**625**
FY 2011 Estimate						
215	late 10	Western Gulf of Mexico	130	100%	1	129
216	mid 11	Central Gulf of Mexico	320	100%	3	317
217	mid 11	Beaufort	20	100%	0	20
218	late 11	Western Gulf of Mexico	94	0%	0	0
219	late 11	Cook Inlet	1	0%	0	0
tbd	mid 11	Eastern GOM - ESA	1	100%	0	1
216	mid 11	Central GOM - ESA	1	100%	0	1
			Bonuses Subtotal			**468**
			Rents			**63**
			Rents - subject to ESA			1
			FY 2011 TOTAL			**532**
FY 2012 Estimate						
218	late 11	Western Gulf of Mexico	94	100%	1	93
219	late 11	Cook Inlet	1	100%	0	1
221	late 11	Chukchi	15	100%	0	15
222	mid 12	Central Gulf of Mexico	320	100%	3	317
tbd	mid 12	Subject to ESA	2	100%	0	2
			Bonuses Subtotal			**428**
			Rents			**45**
			Rents - subject to ESA			1
			FY 2012 TOTAL			**474**

1/ Sale numbers 204 and higher are included in the 2007-2012 Draft Proposed Program. A decision has not yet been made whether they will be included in the Final Program. However, for the purpose of the bonus and rental receipt estimates, the assumption is made that the sales will be held excluding North Aleutian Basin.

2/ 2007 estimates are significantly reduced due to the cancellation of sale 201 scheduled in March 2007. These areas are included in a later sale.

3/ 2008 estimates are affected by Sale 205 which include a portion of the revised CGOM planning area that was not offered previously.

4/ The projections have incorporated the Energy Security Act of 2006.

5/ Rent estimates are subject to change based on cost recoveries recouped on an annual basis. Rent totals are net of MMS offsetting collections. Small discrepancies may occur due to rounding.

Table 54: Federal Offshore Royalty Estimates *(in millions of dollars)*

	FY 2007 Estimate 1/	FY 2008 Estimate 1/	FY 2009 Estimate	FY 2010 Estimate	FY 2011 Estimate	FY 2012 Estimate
Oil (Million Barrels)						
Alaska 2/	2	2	1	13	16	14
POCS	26	25	23	21	19	18
Total GOM	543	639	763	811	819	816
Royalty Free Production (Deep Water) 3/	30	35	40	50	60	70
GOM Royalty Production	513	604	723	761	759	746
Total Royalty Production	541	630	748	794	794	778
Royalty Rate	0.13	0.13	0.13	0.13	0.13	0.13
OMB Price/Bbl (in whole $s)	$57.20	$61.24	$61.24	$60.17	$59.02	$57.94
Subtotal Oil Royalties	**$4,034.33**	**$5,011.33**	**$5,915.01**	**$6,145.35**	**$5,999.74**	**$5,739.44**
Adjustments to Federal Royalty Receipts from Energy Security Act of 2006						
Royalties subject to ESA	0	0	0	0	0	0.01
Revised Federal Royalty Receipts	**$4,034.33**	**$5,011.33**	**$5,915.01**	**$6,145.35**	**$5,999.74**	**$5,739.43**
Gas (Billion Cubic Feet)						
POCS	29	27	25	23	21	19
Total GOM	3,390	3,567	3,752	3,869	3,916	3,957
Royalty Free Production (Deep Gas) 3/	270	340	380	340	265	220
Royalty Free Production (Deep Water) 3/	250	260	270	280	290	280
GOM Royalty Production	2,870	2,967	3,102	3,249	3,361	3,457
Total Royalty Production	2899	2994	3127	3272	3382	3476
Royalty Rate	0.15	0.15	0.15	0.15	0.14	0.14
OMB Price/Mcf (in whole $s)	$6.82	$7.31	$7.08	$6.80	$6.48	$6.49
Subtotal Gas Royalties	**$2,914.17**	**$3,210.77**	**$3,233.30**	**$3,236.55**	**$3,175.54**	**$3,258.60**
Adjustments to Federal Royalty Receipts from Energy Security Act of 2006						
Royalties subject to ESA	0	0	0	0	0	0.02
Revised Federal Royalty Receipts	**$2,914.17**	**$3,210.77**	**$3,233.30**	**$3,236.55**	**$3,175.54**	**$3,258.58**
Total Oil and Gas Royalties	**$6,948.50**	**$8,222.10**	**$9,148.31**	**$9,381.90**	**$9,175.28**	**$8,998.01**
Adjustments						
8(g) Payments to States	-78.58	-92.99	-103.46	-106.05	-103.63	-101.50
SPR 5/	-434.72	-1,102.32		-902.55		
Settlements	13.48	13.48	13.48	13.48	13.48	13.48
NET FEDERAL OCS ROYALTIES 4/	**$6,448.68**	**$7,040.27**	**$9,058.33**	**$8,386.78**	**$9,085.13**	**$8,909.99**

1/ Lingering effects from Hurricanes Katrina, Rita, and Wilma (e.g., delay in Thunderhorse startup) affect 2007 and 2008 GOM oil and gas production.

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 relief. Royalty relief price thresholds are expected to be exceeded.

4/ Estimates may change pending on upcoming developments with companies holding leases subject to deep water royalty relief. Small discrepancies may occur due to rounding.

5/ No SPR estimates in 2009, 2011, and 2012 due to construction of the new capacity.

FY 2008 MMS PERFORMANCE BUDGET REQUEST
Appendices

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

<u>Additional Operational Costs from 2007 and 2008 January Pay Raises</u>:

	2007 Budget	2007 Revised	2008 Change
1. 2007 Pay Raise, 3 Quarters in 2007 Budget	+1,930	+1,930	n/a
Amount Absorbed	*[827]*	*[827]*	*n/a*
2. 2007 Pay Raise, 1 Quarter (Assumed 2.2%)	n/a	n/a	+733
3. 2008 Pay Raise (Assumed 3.0%)	n/a	n/a	+3,214

These adjustments are for an additional amount needed to fund estimated pay raises for Federal employees.

Line 1 reflects the 2007 budget estimate based upon an assumed 2.2 percent pay raise.

Line 2 is the amount needed in 2008 to fund the estimated 2.2 percent January 2007 pay raise from October through December 2007.

Line 3 is the amount needed in 2008 to fund the estimated 3.0 percent January 2008 pay raise from January through September 2008.

<u>Other Fixed Cost Changes:</u>

	2007 Budget	2007 Revised	2008 Change
Two More Pay Days			+1,111

This adjustment reflects the increased costs resulting from the fact that there are two more pay days in 2008 than in 2007.

	2007 Budget	2007 Revised	2008 Change
Employer Share of Federal Health Benefit Plans	+724	+724	+560
Amount Absorbed	*[310]*	*[310]*	*[0]*

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 5.7 percent.

	2007 Budget	2007 Revised	2008 Change
Workers Compensation Payments	+498	+498	-401
Amount Absorbed	*[0]*	*[0]*	*[0]*

These adjustments are for actual charges through June 2005 in the costs of compensating injured employees and dependents of employees who suffer accidental deaths while on duty. Costs for

2007 will reimburse the Department of Labor, Federal Employees Compensation Fund, pursuant to U.S.C. 8147(b) as amended by Public Law 94-273.

	2007 Budget	**2007 Revised**	**2008 Change**
Unemployment Compensation Payments	-9	-9	-
Amount Absorbed	*[0]*	*[0]*	*[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.

	2007 Budget	**2007 Revised**	**2008 Change**
Working Capital Fund	-615	-615	+358
Amount Absorbed	*[0]*	*[0]*	*[0]*

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.

	2007 Budget	**2007 Revised**	**2008 Change**
Rental Payments to GSA and Others	+164	+164	+311
Amount Absorbed	*[0]*	*[0]*	*[0]*

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. These costs include building security; in the case of GSA space, these are paid to DHS. 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 2008 **+5,886**

Total, Fixed Costs and Related Changes – Absorbed in 2008 *[0]*

For 2008, an increase of $5,886,000 for fixed costs is requested. If the requested fixed cost increase 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.

Appendix B - 2008 Appropriations Language

Federal Funds

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; for energy-related or other authorized marine-related purposes on the Outer Continental Shelf; and for matching grants or cooperative agreements; including the purchase of not to exceed eight passenger motor vehicles for replacement only, $155,048,000, of which $82,371,000 shall be available for royalty management activities; and an amount not to exceed $135,730,000, 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 $135,730,000 in addition to receipts are not realized from the sources of receipts stated above, the amount needed to reach $135,730,000 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, 2009: 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 for the costs of administration of the Coastal Impact Assistance Program authorized by section 31 of the Outer Continental Shelf Lands Act, as amended (43 U.S.C. 1456a), MMS in fiscal years 2008 through 2010 may retain up to three percent of the amounts which are disbursed under section 31 (b)(1), such retained amounts to remain available until expended: Provided further, That the eighth proviso under the heading of "Minerals Management Service" in Division E, Title I, of the Consolidated Appropriations Act, 2005 (Public Law 108-447), is amended by inserting "and Indian accounts" after "States", replacing the term "provision" with "provisions", and inserting "and (d)" after 30 U.S.C. 1721(b)".

Trust Funds

OIL SPILL RESEARCH

For necessary expenses to carry out title I, section 1016, title IV, sections 4202 and 4303, title VII, and title VIII, section 8201 of the Oil Pollution Act of 1990, $6,403,000, which shall be derived from the Oil Spill Liability Trust Fund, to remain available until expended.

Justification of Proposed 2008 Appropriations Language Changes

1. Change: *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, as amended (43 U.S.C. 1456a), MMS in fiscal years 2008 through 2010 may retain up to three percent of the amounts which are disbursed under section 31 (b)(1), such retained amounts to remain available until expended:*

   The Energy Policy Act of 2005 Section 384, Coastal Impact Assistance Program, shares Federal Revenues of $250 million per year, for fiscal years 2008 through 2010 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 three percent of the program funding to properly administer this new, large-scale grants program.

2. Technical Correction: *Provided further, That the eighth proviso under the heading of "Minerals Management Service" in Division E, Title I, of the Consolidated Appropriations Act, 2005 (Public Law 108-447), is amended by inserting "and Indian accounts" after "States", replacing the term "provision" with "provisions", and inserting "and (d)" after 30 U.S.C. 1721(b)".*

   In 2005, a permanent change was made to appropriations language to allow MMS to pay any late disbursement interest to States and Indian accounts out of receipts, instead of with appropriated dollars. A critical element was inadvertently left out of the change to the appropriations language in 2005. The clause that was included refers only to States and section 1721(b), and therefore only allows payment to States. Because the change was permanent, it did not appear in the 2006 appropriations language or the 2007 President's budget proposal. The language allowing MMS to pay these fees from appropriated funds was deemed unnecessary and was also dropped in 2006.

   Without language expressly allowing for payment of late disbursement interest to Indian accounts and section 1721(d), MMS is not able to make payments to Indian accounts out of receipts or appropriated funds.

   There is evidence that the House and the Senate fully intended to include payment of any late disbursement interest to Indian accounts out of receipts. Page 63 of the House Report and page 35 of the Senate Report both provided authority to MMS "...to pay any late disbursement interest caused by delays in processing royalty payments for States and Tribes [Indian accounts] out of the Federal royalty share rather than the agency's appropriated funds."

Appendix C: 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. 109-432	The Gulf of Mexico Energy Security Act of 2006 required leasing certain areas in the Central and Eastern Gulf of Mexico Planning Areas within one year of enactment (December 20, 2006); and established a moratoria on leasing in remaining areas in the eastern planning area and a portion of the central planning area until 2022.
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.
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.
P.L. 109-432	Gulf of Mexico Energy Security Act of 2006 requires sharing with Gulf producing states revenues generated from leases entered into after the date of enactment of the Act in certain Gulf OCS areas.

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).

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

Treasury Account ID: 14-1917		FY 2006 Actual	FY 2007 Estimate	FY 2008 Estimate
Obligations by program activity				
Direct program				
00.01	OCS Lands	76	83	83
00.02	Minerals Revenue Management	43	43	43
00.03	General Administration	32	32	31
00.04	Hurricane Supplementals	13	18	0
01.92	Total direct program	164	176	157
Reimbursable program				
09.01	OCS Revenue Receipts	116	129	135
09.02	Reimbursable (RIK)	46	98	160
09.03	Reimbursable (from other agencies)	7	6	5
09.99	Total reimbursable program	169	233	300
10.00	Total new obligations	333	409	457
Budgetary resources available for obligation				
21.40	Unobligated balance, start of year	14	38	12
22.00	New budget authority (gross)	353	378	452
22.10	Resources available from recoveries	4	5	5
23.90	Total budgetary resources available for obligation	371	421	469
23.95	Total new obligations	-333	-409	-457
24.40	Unobligated balance carried forward, end of year	38	12	12
New budget authority (gross), detail				
Discretionary				
40.00	Appropriation	154	151	155
40.00	Katrina hurricane supplemental	31	0	0
40.35	Appropriation permanently reduced	-2	0	0
41.00	Transferred from other accounts (14-2301)	-3	0	0
43.00	Appropriation (total discretionary)	180	151	155
Net budget authority and outlays				
89.00	Budget authority	180	151	155
90.00	Outlays	141	128	140

Minerals Management Service **Royalty and Offshore Minerals Management (ROMM)** **Object Classification** *(dollars in millions)*				
Treasury Account ID: 14-1917		**FY 2006 Actual**	**FY 2007 Estimate**	**FY 2008 Estimate**
Direct obligations (Annual ROMM Appropriation)				
11.1	Personnel Compensation: Full-time permanent	118	120	118
12.1	Civilian personnel benefits	29	30	29
21.0	Travel and transportation of persons	4	4	4
23.1	Rental Payments to GSA	10	10	0
23.3	Communications, utilities, and misc. charges	1	1	1
25.2	Other services	0	9	3
26.0	Supplies and materials	1	1	1
31.0	Equipment	1	1	1
99.0	Subtotal, direct obligations	164	176	157
99.0	Subtotal, reimbursable obligations	169	233	300
99.9	Total new obligations	333	409	457

Minerals Management Service **Royalty and Offshore Minerals Management (ROMM)** **Account Object Class Information** *(dollars in millions)* **Treasury Account ID: 14-1917**								
	FY 2007 Estimate Amount		**Uncontrollable & Related Changes**		**Programmatic Changes**		**FY 2008 Budget Request**	
Object Class	**FTE**	**AMT**	**FTE**	**AMT**	**FTE**	**AMT**	**FTE**	**AMT**
Total Appropriation And Offsetting Collections	1653	*$274	---	0	-20	0	1633	290
Total personnel compensation	---	$120	---	0	---	-2	---	118
Civilian personnel benefits	---	$30	---	0	---	-1	---	29
Travel and transportation of persons	---	$4	---	0	---	0	---	4
Rents	---	$10	---	0	---	0	---	10
Communications utilities, and misc. charges	---	$1	---	0	---	0	---	1
Other services	---	$103	---	9	---	10	---	122
Supplies and materials	---	$2	---	0	---	0	---	2
Equipment	---	$4	---	0	---	0	---	4
**FY 2007 Continuing Resolution - $151,391M Annual Appropriation and $122,730M Offsetting Collections*								

Minerals Management Service Oil Spill Research (OSR) Program and Financing *(dollars in millions)*				
Treasury Account ID: 14-8370		**FY 2006 Actual**	**FY 2007 Estimate**	**FY 2008 Estimate**
Obligations by Program activity				
00.01	Direct program activity	7	7	7
10.00	Total new obligations	7	7	7
Budgetary resources available for obligation				
22.00	New budget authority (gross)	7	7	7
23.95	Total new obligations	-7	-7	-7
New budget authority (gross), detail **Discretionary**				
40.00	Appropriation (trust fund)	7	7	7
Net budget authority and outlays				
89.00	Budget authority	7	7	7
90.00	Outlays	7	7	7

Minerals Management Service Oil Spill Research (OCS) Object Classification *(dollars in millions)*				
Treasury Account ID: 14-8370		**FY 2006 Actual**	**FY 2007 Estimate**	**FY 2008 Estimate**
Direct obligations				
11.1	Full-time permanent	2	2	2
25.2	Other services	5	5	5
99.9	Total new obligations	7	7	7

Minerals Management Service Oil Spill Research (OSR) Account Object Class Information *(dollars in millions)* Treasury Account ID: 14-8370								
	FY 2007 Estimate Amount		**Uncontrollable & Related Changes**		**Programmatic Changes**		**FY 2008 Budget Request**	
Object Class	**FTE**	**AMT**	**FTE**	**AMT**	**FTE**	**AMT**	**FTE**	**AMT**
Total Appropriation	18	$7	0	0	0	0	18	$7
Total personnel compensation	---	$2	---	0	---	0	---	$2
Other services	---	$5	---	0	---	0	---	$5

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Appendix E: Employee Count by Grade

	FY 2006 Actual [1]	FY 2007 Actual[2]	FY 2008 Estimate[3]
Executive Level	15	14	14
Subtotal	**15**	**14**	**14**
GS-15	65	57	59
GS-14	217	225	230
GS-13	441	435	445
GS-12	405	390	410
GS-11	137	134	138
GS-10	11	10	10
GS-9	81	80	80
GS-8	72	71	72
GS-7	102	94	97
GS-6	64	49	50
GS-5	50	41	41
GS-4	9	17	17
GS-3	11	10	10
GS-2	4	2	2
GS-1	1	2	2
Subtotal	**1,670**	**1,617**	**1,663**
Total	**1,685**	**1,631**	**1,677**
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.			

[1] As of fiscal year-end (September 30, 2006).
[2] As of January 2007.
[3] Projections assume many currently vacant positions will be filled. Vacancies are currently very high, especially in the Gulf of Mexico Region.

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Appendix F: Use of Research and Development Criteria

The current Research and Development (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 2008 totals over $30 million and comprises three main elements: the Environmental Studies Program (ESP), Technology Assessment & Research (TAR), 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 2008 is needed to support high priority oil and gas program needs, such as $2.5 million for environmental work associated with the new 5-Year OCS Oil and Gas Program that includes new and expanded areas of leasing activity.

- The TAR 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. In 2008, $615,000 is being requested to conduct technological and conservation research and studies in the new Ultra-Deep Water frontier areas of the OCS.

- 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. No additional funds are requested for the OSR program in 2008.

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's research efforts were reviewed in the 2004 Environmental Studies Program (ESP) Performance Assessment Rating Tool (PART). The review found that the program is "very effective in providing timely and peer-reviewed environmental research to decision makers," and the program received a score of "Moderately Effective."

MMS Research and Development Funding (2006- 2008)

	2006 Enacted	2007 CR[1]	2008 Request
OMM Leasing & Environmental Subactivity			
Leasing & Environmental Assessment	**3,661**	**3,661**	**4,390**
The Leasing & Environmental Assessment Program includes funding for staff associated with the Environmental Studies Program.			
Environmental Studies Program (ESP)	**16,171**	**16,171**	**19,195**
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	**974**	**974**	**1,008**
The Regulation of Operations Program includes funding for the staff associated with the TAR 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 (TAR)	**885**	**885**	**1,500**
The TAR Program supports research associated with operational safety, engineering research and pollution prevention.			
OMM Resource Evaluation Subactivity			
Center for Marine Research & Environmental Technology (CMRET)	**896**	**0**	**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 2005 and 2006 $900,000 (prior to rescissions) was provided for CMRET. No funding is shown for 2007 as this project is classified as an earmark and is proposed for termination. No funding is requested in 2008.			
OMM Oil Spill Research Appropriation			
Oil Spill Research	**5,724**	**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.			

[1] *At completion of this 2008 budget justification, a 2007 appropriation had not yet been enacted, and a year-long continuing resolution (CR) was anticipated. Appropriation dollars shown in the 2007 column reflect P.L. 109-383 continuing resolution effective through February 15, 2007, which for MMS is equal to the 2006 Enacted budget. Please refer to the Table of Contents introduction, and to Page 2 of the General Statement, and to Appendix J for a more complete explanation of the CR calculations.*

Appendix G

Minerals Management Service FY 2008 Mandatory Accounts and Offsetting Collections	
Appropriations Proposals	
Offsetting Collections (General Statement)	With increased rental income, the Minerals Management Service requests a $7.0 million increase over the FY 2007 President's Request. The FY 2008 President's Budget includes a total request of $135.7 million for Offsetting Collections. The increase in Offsetting Collections will be used to fund the Bureau's programs, and allows the Bureau to reduce its appropriation request by an equal amount.
Coastal Impact Assistance Program (see CIAP tab)	The FY 2008 President's Request proposes that the Minerals Management Service may retain up to 3 percent of the amounts disbursed under section 31(b)(1) of the Coastal Impact Assistance Program, authorized by Section 31 of the Outer Continental Lands Act, as amended (43 U.S.C. 1456(a)), for administrative costs, to remain available until expended.
Authorizing Proposals	
Net Receipts Sharing (General Statement)	The 2008 President’s Request proposes amending section 35 of the Minerals Leasing Act (MLA) to implement a form of “Net Receipts Sharing,” whereby two percent will be deducted from the states’ share of receipts from Federal leasing activities under the MLA.
Deep Gas and Deep Water Incentives (General Statement)	The 2008 budget proposes to repeal Section 344 of the Energy Policy Act of 2005, which extended existing deep gas incentives in two ways. First, it mandated an increase in the royalty suspension volumes from 25 to 35 billion cubic feet of natural gas in a third drilling depth category (greater than 20,000 feet subsea). Second, it directed that incentives for all three drilling depth categories also be applied to leases in 200-400 meters of water. The 2008 budget also proposes to repeal Section 345 of the Energy Policy Act, which provided additional mandatory royalty relief for certain deep water oil and gas production.
Geothermal Payments (see BLM Budget Justifications)	The Administration proposes to repeal certain Bureau of Land Management (BLM) related Energy Policy Act of 2005 provisions that divert funds from the U.S. Treasury and provide mandatory funding for geothermal leasing activities and a new oil and gas pilot program. The Section 365 pilot language also prohibited the implementatin of new user fees that would have generated substantial revenues to BLM.

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WORKING CAPITAL FUND REVENUE - Direct billing
FY 2008 President's Budget
MINERALS MANAGEMENT SERVICE
($ in thousands)

Actvity/Office	2006 Actual	2007 Estimate	2008 Estimate
Other OS Activities			
Departmental Direction Activity Coordination			
OEPC - 516 DM Chapters	3.0	3.0	0.0
Linh Luu Award bureaus	0.3	0.0	0.0
Departmental Medals	6.8	7.3	6.8
OPM Leadership 360 Assessment	3.5	0.0	0.0
Human Capital Conf - Sep 2006	5.6	0.0	0.0
OLES Conference	0.3	0.0	0.0
Management and Coordination Initiatives	19.5	10.3	6.8
Financial and Business Management System (FBMS)			
HSPD-12	0.0	201.0	172.0
HSPD-12	0.0	201.0	172.0
Oracle License & Support Contract	12.2	467.1	224.1
Enterprise Architecture Services	2.3	9.6	0.0
Microsoft Enterprise Licenses	355.8	357.7	356.7
Anti-Virus Software Licenses	40.8	49.4	40.9
Popkin System Architect Licenses	1.7	2.4	3.6
Karta GoLearn Licenses	26.4	26.4	26.4
Enterprise Architecture Services	156.9	0.0	0.0
OCIO Conference - Reno NV	10.2	0.0	0.0
Information Resources Initiatives	606.3	912.7	651.8
ESN	26.3	633.1	623.1
ESN	199.8	0.0	0.0
Enterprise Services Network (ESN)	226.1	633.1	623.1
Cobell - Restoration	0.2	40.0	20.0
Cobell - Live E-mail	121.6	253.1	173.8
Search Request [non-zantaz]	3.8	4.2	4.0
Cobell - Security (Audit)	0.0	8.0	4.0
Cobell - 3 Yr Live Capture Email	1.9	10.8	6.4
FY 2004 KPMG Audit	62.1	0.0	0.0
Cobell - Professional Services	0.0	9.6	4.8
OIG Hurricane Response and Recovery Oversight	0.0	70.2	0.0
FY 2006 KPMG Audit	255.9	25.0	0.0
Cobell - Historical Tape Storage	0.0	201.0	100.5
FY 2007 KPMG Audit	0.0	170.4	25.0
FY 2005 KPMG Audit	33.0	0.0	0.0
Federal FSA Program	40.5	44.0	44.0
Central Services	519.0	836.3	382.4
Subtotal Other OS Activities	1,370.9	2,593.4	1,836.1

WORKING CAPITAL FUND REVENUE - Direct billing
FY 2008 President's Budget
MINERALS MANAGEMENT SERVICE
($ in thousands)

Actvity/Office	2006 Actual	2007 Estimate	2008 Estimate
National Business Center			
NBC header CB			
Training Services			
Career, Balance, & Diversity Forums	18.0	4.4	4.0
Denver Forums	3.5	3.5	3.3
Financial Management Intern Program 3	10.5	0.0	0.0
Financial Management Intern Program 4	46.0	0.0	0.0
Financial Management Intern Program 5	24.0	0.0	0.0
Washington Learning & Performance Center	23.9	9.1	9.1
Anchorage Learning & Performance Center	4.8	0.0	1.4
Denver Learning & Performance Center	10.4	0.0	4.0
Online Learning	4.8	26.2	21.0
NBC Human Capital Directorate	145.8	43.2	42.8
Information Technology Services			
Technology Services		19.3	19.9
NBC- IT		19.3	19.9
Human Resources Management			
FPPS - Application Mgmt Office	62.4	5.0	5.1
FPPS - Payroll Systems		54.1	63.5
NBC - E-Payroll	62.4	59.1	68.6
DOI Support Services			
Facilities Reimbursable Services		36.3	36.7
Building Alteration Services	4.6		
Reimbursable Moving Services	2.9		
Creative Communications	52.8	105.3	101.8
Reimbursable Security Services		0.0	0.0
Reimbursable ATC Services		0.5	0.3
Reimbursable Mail Services		2.1	2.4
Postage	2.0	0.0	0.0
Family Support Room	0.2	0.0	0.0
Modernization Security Reimbursement	0.1		
NBC - Administrative Operations	62.6	144.2	141.2
Financial Management Services			
IDEAS	9.0	9.2	9.2
Financial Systems	5.7	0.0	0.0
	14.6	9.2	9.2
Aviation Services			
Aviation Management Directorate			
NBC-Appraisal Services			
NBC Direction			
Solutions Coordination Office (LOB Funded)			
NBC - Management			
Subtotal National Business Center	285.5	275.0	281.7

WORKING CAPITAL FUND REVENUE - Direct billing
FY 2008 President's Budget
MINERALS MANAGEMENT SERVICE
($ in thousands)

Actvity/Office	2006 Actual	2007 Estimate	2008 Estimate
TOTAL	1,656.3	2,868.4	2,117.8

WORKING CAPITAL FUND REVENUE - Centralized billing
FY 2008 President's Budget
MINERALS MANAGEMENT SERVICE
($ in thousands)

Actvity/Office	2006 Actual	2007 Estimate	2008 Estimate
Other OS Activities			
Invasive Species Program	31.8	32.7	34.4
Invasive Species DOI Coordinator	5.2	5.4	5.8
Secretary's Immediate Office	36.9	38.1	40.2
Alaska Field Office	10.9	11.1	11.8
Secretary's Immediate Office	10.9	11.1	11.8
Alaska Resources Library and Information Services	73.1	73.1	73.1
Secretary's Immediate Office	73.1	73.1	73.1
Secretary's Immediate Office			
Document Management Unit	34.6	3.7	22.2
Office of the Executive Secretariat	34.6	3.7	22.2
Departmental News and Information	42.6	51.2	0.0
Departmental Newsletter	14.1	8.2	0.0
Hispanic Media Outreach	22.9	24.3	0.0
Departmental Communications Office	0.0	0.0	17.9
Office of Communications	79.6	83.7	17.9
Policy, Management and Budget			
Office of Policy Analysis			
Electronic Records Management (ERM)	0.0	0.0	23.4
Office of the Executive Secretariat	0.0	0.0	23.4
Financial Management Training	27.4	30.2	0.0
Travel Management Center	11.8	12.0	12.8
Office of Financial Management	39.2	42.2	12.8
Activity Based Costing/Management	26.3	26.3	25.5
Office of Financial Management	26.3	26.3	25.5
Quarters Program, Space Mgmt Initiative, and Interior Collections	0.0	0.0	0.0
Interior Collections Management System (ICMS)	0.0	3.0	2.5
DOI Space Management Initiative	6.0	6.3	6.6
Renewable Energy Certificates	0.0	0.0	4.7
Office of Property and Acquisition Management	6.0	9.3	13.9
Planning and Performance Management	75.1	78.0	34.1
Office of Planning and Performance Management	75.1	78.0	34.1
Center for Competitive Sourcing Excellence	9.9	13.0	12.1
Office of Competitive Sourcing	9.9	13.0	12.1
DOI wide OWCP Coordination	0.0	1.6	1.8
Partnership Coordination	3.7	2.5	2.5
CLC - Human Resources	0.9	0.9	0.9
OPM Federal Employment Services	3.9	10.1	10.1
Office of Human Resources	8.5	15.2	15.2
Special Emphasis Program and EEO Complaints Tracking System	4.9	4.9	4.9
EEO Complaints Tracking System	0.0	0.0	3.0
Office of Civil Rights	4.9	4.9	8.0

WORKING CAPITAL FUND REVENUE - Centralized billing
FY 2008 President's Budget
MINERALS MANAGEMENT SERVICE
($ in thousands)

Actvity/Office	2006 Actual	2007 Estimate	2008 Estimate
Occupational Health and Safety	17.5	17.9	21.2
Health and Safety Training Initiative	4.3	4.3	4.8
SMIS	12.2	12.6	14.8
Office of Occupational Health and Safety	34.1	34.8	40.8
Classified Information Facility	7.5	11.2	7.9
Emergency Preparedness	20.4	21.3	32.5
Law Enforcement Coordination and Training	7.8	8.0	13.7
Watch Office	23.4	24.5	29.4
Office of Law Enforcement and Security	59.2	65.0	83.5
IT Security	233.8	68.7	69.6
IT Security Certification & Accreditation	125.3	125.3	125.3
OS-HSPD12 (e-Authentication)	111.6	32.9	32.9
Information Technology Architecture	89.9	124.6	88.8
Capital Planning	37.8	41.9	51.0
Enterprise Resource Management	0.0	8.8	9.8
Data Resource Management Program	19.6	5.8	5.8
Office of the Chief Information Officer	618.1	408.0	383.3
DOI-wide Telecommunications Initiatives			
Messaging	0.0	62.8	0.0
Enterprise Services Network (ESN)	225.2	350.1	288.2
ESN - Program Change	617.1	0.0	0.0
Active Directory	29.5	29.5	32.0
Office of the Chief Information Officer	871.9	442.4	320.3
Web & Internal/External Comm	13.8	14.8	14.5
GPEA	25.1	47.8	47.8
DOI FOIA Tracking & Reporting System	8.9	29.0	31.7
Office of the Chief Information Officer	47.8	91.5	94.0
Ethics Training	1.3	1.3	1.2
ALLEX Database	3.6	3.6	3.6
FOIA Appeals	0.0	35.2	35.2
Solicitor	4.9	40.1	40.0
CFO Financial Statement Audit	775.7	819.5	1,198.1
Departmentwide Activities	775.7	819.5	1,198.1
E Government Initiatives	323.5	323.5	92.3
Office of Planning and Performance Mgmt.	323.5	323.5	92.3
Appraisal Services			
Appraisal Services			
CPIC	0.0	3.9	4.2
DOI Geographic Info Mgmt EGIM	4.8	13.7	13.3
SBA Certifications	4.8	6.3	11.2
Contingency Reserve	7.9	7.9	3.8
Departmentwide Activities	17.4	31.7	32.5
FBMS Program Change	0.0	0.0	395.0
FBMS Redirection from Enterprise Messaging System	0.0	0.0	62.8

WORKING CAPITAL FUND REVENUE - Centralized billing
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($ in thousands)

Actvity/Office	2006 Actual	2007 Estimate	2008 Estimate
Central Services	0.0	0.0	457.8
Subtotal Other OS Activities	3,157.5	2,655.1	3,053.0

WORKING CAPITAL FUND REVENUE - Centralized billing
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MINERALS MANAGEMENT SERVICE
($ in thousands)

Actvity/Office	2006 Actual	2007 Estimate	2008 Estimate
National Business Center			
Cultural Resources & Events Management	9.3	11.8	11.6
Partnership Schools & Commemorative Programs	3.3	3.7	3.8
Departmental Museum	34.4	37.3	37.8
Departmental Library	69.5	69.6	71.3
Learning and Performance Center Management	8.8	16.2	16.2
SESCDP & Other Leadership Programs	13.2	5.0	4.8
Washington Learning & Performance Center	28.9	29.5	21.6
Albuquerque Learning & Performance Center	1.7	1.8	2.2
Anchorage Learning & Performance Center	13.7	12.6	13.4
Denver Learning & Performance Center	92.3	68.1	83.5
On-Line Learning	11.1	11.7	9.0
Financial Management Training	0.0	0.0	31.7
NBC Human Capital Directorate	286.2	267.3	307.0
Desktop Services	10.3	10.5	10.8
Telecommunications services	85.6	81.8	84.2
Voice/data switching	21.3	20.4	20.9
Integrated Digital Voice Communications System	36.7	52.2	63.4
Information Mgt. - FOIA and Records Management	38.6	39.7	40.8
NBC IT Security Improvement Plan	0.0	18.8	15.3
NBC Information Technology Directorate	192.5	223.3	235.4
FPPS - Application Mgmt Office	25.7	0.0	0.0
FPPS - Payroll Operations	148.1	0.0	0.0
FPPS - Payroll Systems	171.4	0.0	0.0
FPPS/Employee Express - O&M	0.0	334.6	346.1
HR LOB W2 Surcharge	0.0	0.0	22.0
NBC FPPSS Directorate	345.2	334.6	368.1
Property Accountability Services	3.4	4.1	4.2
Vehicle fleet	3.9	3.9	4.1
Interior Complex Management & Svcs	36.7	37.9	36.3
Family Support Room	0.7	1.3	1.3
Moving Services	10.7	8.0	7.7
Shipping and Receiving	17.8	18.7	18.0
Space Management Services	7.7	10.1	11.9
Security	239.2	252.7	249.4
Accessible Technology Center	7.4	8.1	8.0
Federal Executive Board	5.9	6.5	6.5
Health Unit	9.8	12.4	12.2
Transportation Services (Household Goods)	0.6	0.0	4.6
Passport & Visa Services	11.9	19.5	20.0
Blue Pages	19.2	20.1	19.4
Mail Policy	7.7	8.3	8.2
Mail and messenger services	40.2	42.8	71.1
Special Events Services	0.0	2.4	2.5
NBC Administrative Operations Directorate	422.9	457.0	485.5
Financial Systems (inc Hyperion)	16.9	17.5	17.9

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Actvity/Office	2006 Actual	2007 Estimate	2008 Estimate
IDEAS	86.8	86.6	88.8
FBMS Hosting	0.0	0.0	477.0
NBC Budget and Finance	103.7	104.1	583.7
Aviation Services	213.9	235.3	433.1
NBC Aviation Management Directorate	213.9	235.3	433.1
Subtotal National Business Center	1,564.4	1,621.6	2,412.8
TOTAL	4,721.9	4,276.7	5,465.8

Appendix I
FY 2007 Analysis of Budgetary Changes from FY 2006 Enacted

	($000)	**FTE**
Implementation of the Energy Policy Act of 2005	+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**

Note: As of this writing , the above request, part of the 2007 President's Budget, has not been received and MMS is operating under a continuing resolution at the 2006 Enacted level.

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