



U.S. Department of the Interior

# Office of Natural Resources Revenue

## Overview and Updates

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**Petroleum Accountants Society of  
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# Outline

- Reorganization of MMS
- Strategic Review
- ONRR FY 2012 Reorganization
- Current Initiatives
- Regulations
- Royalty Policy Committee Status
- Royalty in Kind Close-Out



# Reorganization of MMS

By Order dated May 19, 2010, Secretary Salazar restructured the Minerals Management Service into three new bureaus/offices:

**Bureau of Ocean Energy Management (BOEM):** A new bureau under the Assistant Secretary for Land and Minerals Management (ASLM) responsible for the sustainable development of the Outer Continental Shelf's conventional and renewable energy resources, including resource evaluation, planning, and other activities related to **leasing**.

**Bureau of Safety and Environmental Enforcement (BSEE):** A new bureau under ASLM responsible for ensuring comprehensive oversight, **safety, and environmental protection** in all offshore energy activities.

**Office of Natural Resources Revenue (ONRR):** A new office under the Assistant Secretary for Policy, Management, and Budget, responsible for the **royalty and revenue management** function including the collection and distribution of revenue, auditing and compliance, and asset management.





# Reorganization of MMS

- On October 1, 2010, ONRR was formally established and moved under the Office of the Assistant Secretary for Policy, Management and Budget.
- The move to PMB provided:
  - ✓ Independence from leasing and inspection activities
  - ✓ Greater transparency and mission focus as a stand-alone entity
  - ✓ Greater ability to influence cross-agency collaboration
  - ✓ Opportunity to be a test case for broader DOI reforms
- ONRR used the reorganization to spark an agency-wide Strategic Review, developing a strategic framework to prioritize new and ongoing initiatives for implementation.



# The Strategic Review Process

**ONRR's Employee-Driven Strategic Review had Three Steps:**

1

## **Identifying Opportunities for Improvement**

- Conducted focus groups and interviews in every field office and talked to ~200 employees
- Reviewed survey data and comments from over 430 employees that responded to the employee survey
- Conducted 6 “all hands” meetings in every field office

2

## **Developing Initiatives to Address Opportunities**

- Three full-time teams formed from throughout the organization to investigate opportunities

## **Clarifying Strategic Objectives and Assessing Existing Initiatives**

- QSC convened to define outcomes and strategic objectives, and assess existing initiatives

3

## **Prioritizing and Planning for Implementation**

- New and existing initiatives prioritized and integrated
- Timing, accountability and management plan created for implementation
- Internal and external communications plans developed





# Three Outcomes Define ONRR's Success

**1** Companies timely comply with laws, regulations and lease terms and pay every dollar due

**2** States, Tribes, Indian mineral owners, US Treasury and other entities receive timely, accurate revenues and data

**3** The public trusts ONRR's professionalism, integrity, efficiency and quality





# ONRR Strategic Outcomes & Objectives

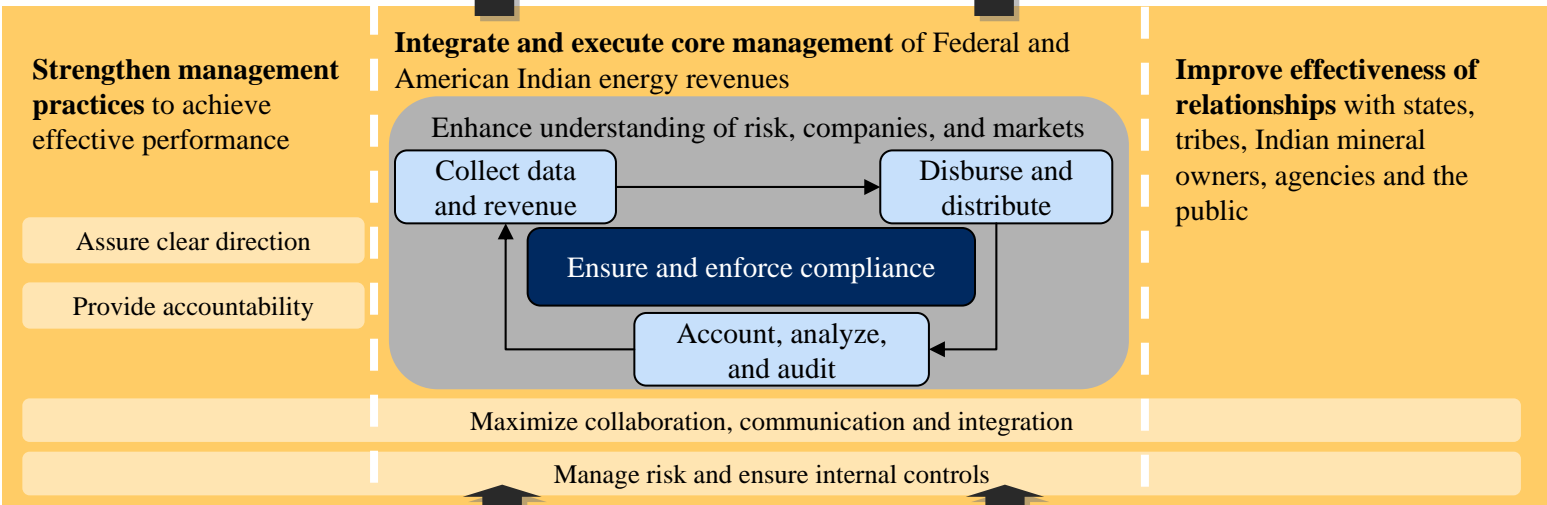
**Outcomes for taxpayers and constituents**

**Companies timely comply with laws, regulations, and lease terms and pay every dollar due**

**States, Tribes, Indian mineral owners, U.S. Treasury, and other entities receive timely, accurate revenues and data**

**The public trusts ONRR's professionalism, integrity, efficiency, and quality**

**Internal processes**



**Enabling talent and tools**

**Maximize workforce effectiveness and create a more fulfilling environment where high-performing people want to work**

**Target and deploy tools and support that enhance efficient and effective delivery of the mission**

**Resources**

**Align and efficiently utilize existing resources and secure appropriate additional resources**



# Implementing Strategic Priorities

## ➤ **Several Implementation Work Groups are now actively implementing ONRR's Strategic Priority Initiatives focused on:**

- Enhancing our understanding of risk, companies, and the market
- Integrating and enhancing efforts to drive compliance
- Improving efficiency, expanding automation, and increasing effectiveness of core processes
- Simplifying, clarifying, and strengthening regulation and legislation
- Increasing alignment with partner agencies
- Providing accountability for performance
- Maximizing talent and knowledge development
- Improving support services







# ONRR FY 2012 Reorganization

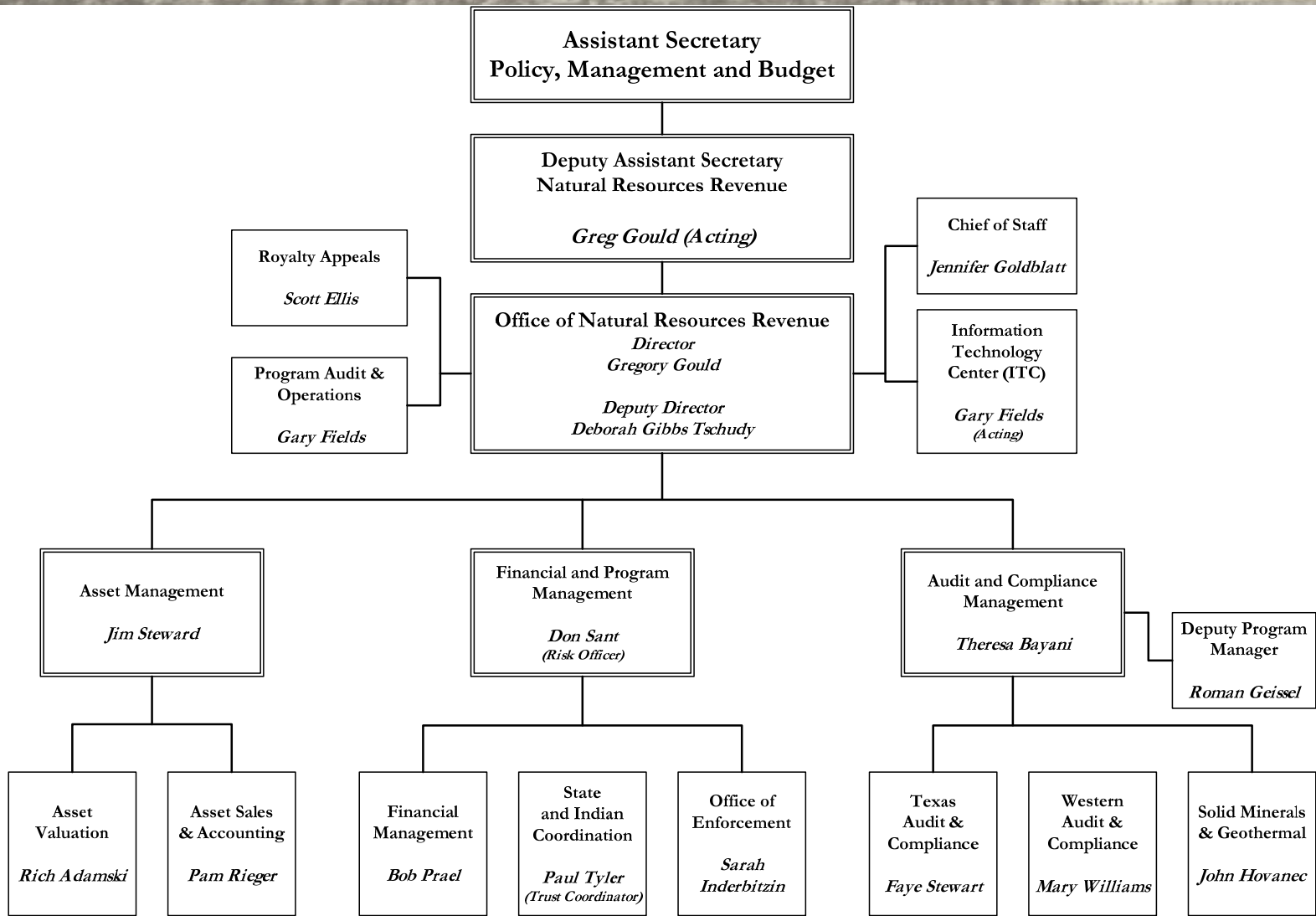
Following the Strategic Review, ONRR initiated a reorganization to:

- Align organizational resources to address priority initiatives.
- Transition HR and Procurement support for ONRR to the National Business Center, in support of the Secretary's commitment to centralize Administrative support.
- Incorporate all former RIK employees into other ONRR program areas, such as Audit and Compliance Management, Valuation, and Data Mining.
- Balance executive level oversight and management.



# ONRR FY 2012 Reorganization

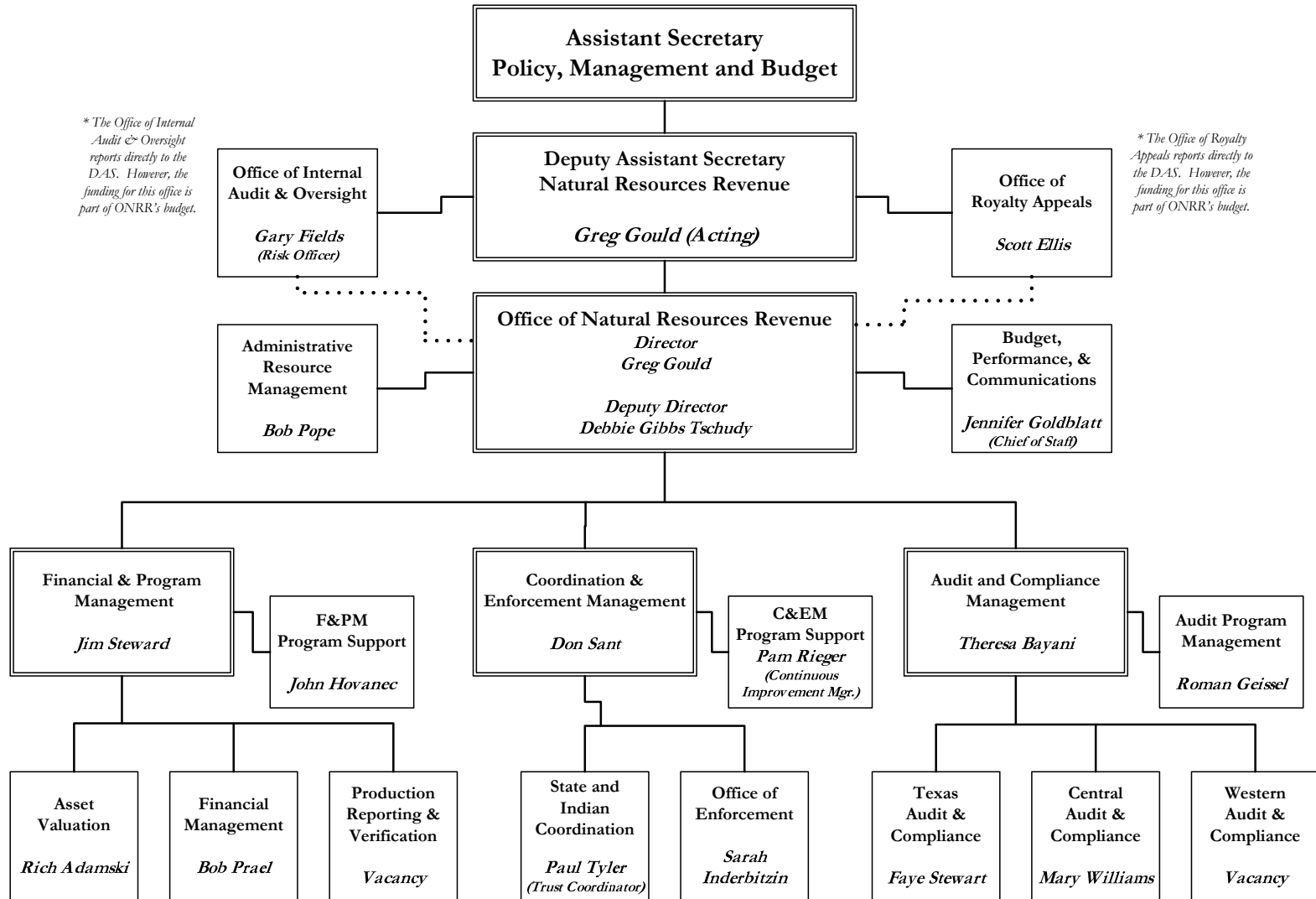
## Current Organization





# ONRR FY 2012 Reorganization

## Planned Organization



\* The Office of Internal Audit & Oversight reports directly to the D.A.S. However, the funding for this office is part of ONRR's budget.

\* The Office of Royalty Appeals reports directly to the D.A.S. However, the funding for this office is part of ONRR's budget.



# Current Initiatives

## Federal Oil and Gas Valuation - Advanced Notice of Proposed Rulemaking

- ONRR published an Advanced Notice of Proposed Rulemaking (ANPR) for Federal Oil and Gas Valuation on 5/27/2011.
- Purpose: Simplify and further clarify valuation regulations
- Comment period closed on July 26, 2011; 30 Commenters

## Public Meetings Scheduled

### Federal Oil/Gas

- Houston Tuesday, September 27, 2011
- Washington, D.C. Thursday, September 29, 2011
- Denver Tuesday, October 4, 2011

### Federal and Indian Coal

- Denver Wednesday, October 12, 2011
- St. Louis Tuesday, October 18, 2011
- Albuquerque Wednesday, October 20, 2011



# ANPR - Public Comments

## Oil and Gas

0 Indian Tribes  
8 Industry  
4 States  
4 Trade Groups  
1 Public Interest Group  
1 Pricing Publication  
1 State Association

## Coal

1 Indian Tribe  
3 Industry  
1 State  
3 Trade Groups  
1 Public Interest Group  
2 Pricing Publications





# Current Initiatives

## Unbundling of Transportation and Processing Costs

- Because fees charged by pipeline companies often include deductible and non-deductible costs, calculation of allowable gas transportation and gas processing costs can be difficult and complicates ONRR's compliance reviews and audits.
- ONRR and the State of New Mexico have unbundled six systems to date. Rates may be found at <http://www.onrr.gov/unbundling/default.htm>.
- ONRR is hiring 11 new FTE (with funding provided in the FY 2011 budget) and hiring a contractor to implement a strategy to unbundle rates for Federal and Indian transportation and processing systems.
- ONRR implementing the draft strategy in coordination with State and Tribal audit programs.

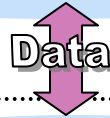


# Draft ONRR Unbundling Strategy

LEADERSHIP & DIRECTION  
DATA REPOSITORY  
AUDIT & DATA COLLECTION

## Unbundling Team (AV)

- Obtain data on transportation and processing systems.
- Develop and oversee a 3 - 5 year project plan.
- Develop the Statement of Work and oversee contractor.
- Provide technical support to ACM, STRAC, & contractor.
- Develop performance measures and monitor progress.
- Publish unbundled rates on website.



## Contractor

- Determine allowable equipment based on guidance provided by the Unbundling Team.
- Sort equipment costs by allowed and non-allowed costs.
- Use the data to determine allowable and non-allowable percentages.
- Store & maintain collected data.

A purple arrow pointing upwards from the Unbundling Audit Team (ACM) towards the Contractor, with the word "Data" written along its length.

A purple arrow pointing upwards from the States & Tribes towards the Contractor, with the word "Data" written along its length.

## Unbundling Audit Team (ACM)

- Incorporate the high risk transportation systems into annual work plans.
- Tour facilities of selected systems.
- Issue data requests to system operators.
- Analyze & submit data to Contractor.
- Issue orders to pay and perform.

## States & Tribes

- Issue data requests to system operators.
- Tour facilities of selected systems.
- Analyze & submit data to Contractor.
- Draft orders to pay and perform.

COLLABORATION



# Current Initiatives

## GAO High Risk Report

### Three "shortcomings" in Interior's revenue collection policies:

- 1) the Federal Government receives a fair return on its oil and gas resources (so called "government take")
- 2) Interior completes its production verification inspections
- 3) Interior's data on production and royalties are consistent and reliable

Responsibility shared with BLM and BOEMRE

ONRR's responsibility to accurately collect royalty and production data from industry







# Current Initiatives

## Four ONRR-related GAO Reports Cited on the GAO High Risk Report

**GAO-08-0893R** – *Mineral Revenues: Data Management Problems and Reliance on Self-Reported Data for Compliance Efforts Put MMS Royalty Collections at Risk*

Status: 2 implemented  
2 targeted for full implementation in 2011

**GAO-09-549** – *Mineral Revenues: MMS Could Do More to Improve the Accuracy of Key Data Used to Collect and Verify Oil and Gas Royalties*

Status: 2 implemented  
3 targeted for full implementation in 2011

**GAO-10-313** – *Oil and Gas Management: Interior's Oil and Gas Production Verification Efforts Do Not Provide Reasonable Assurance of Accurate Measurement of Production Volumes*

Status: 1 implemented

**GAO-11-34** – *Federal Oil and Gas Leases: Opportunities Exist to Capture Vented and Flared Natural Gas, Which Would Increase Royalty Payments and Reduce Greenhouse Gases*

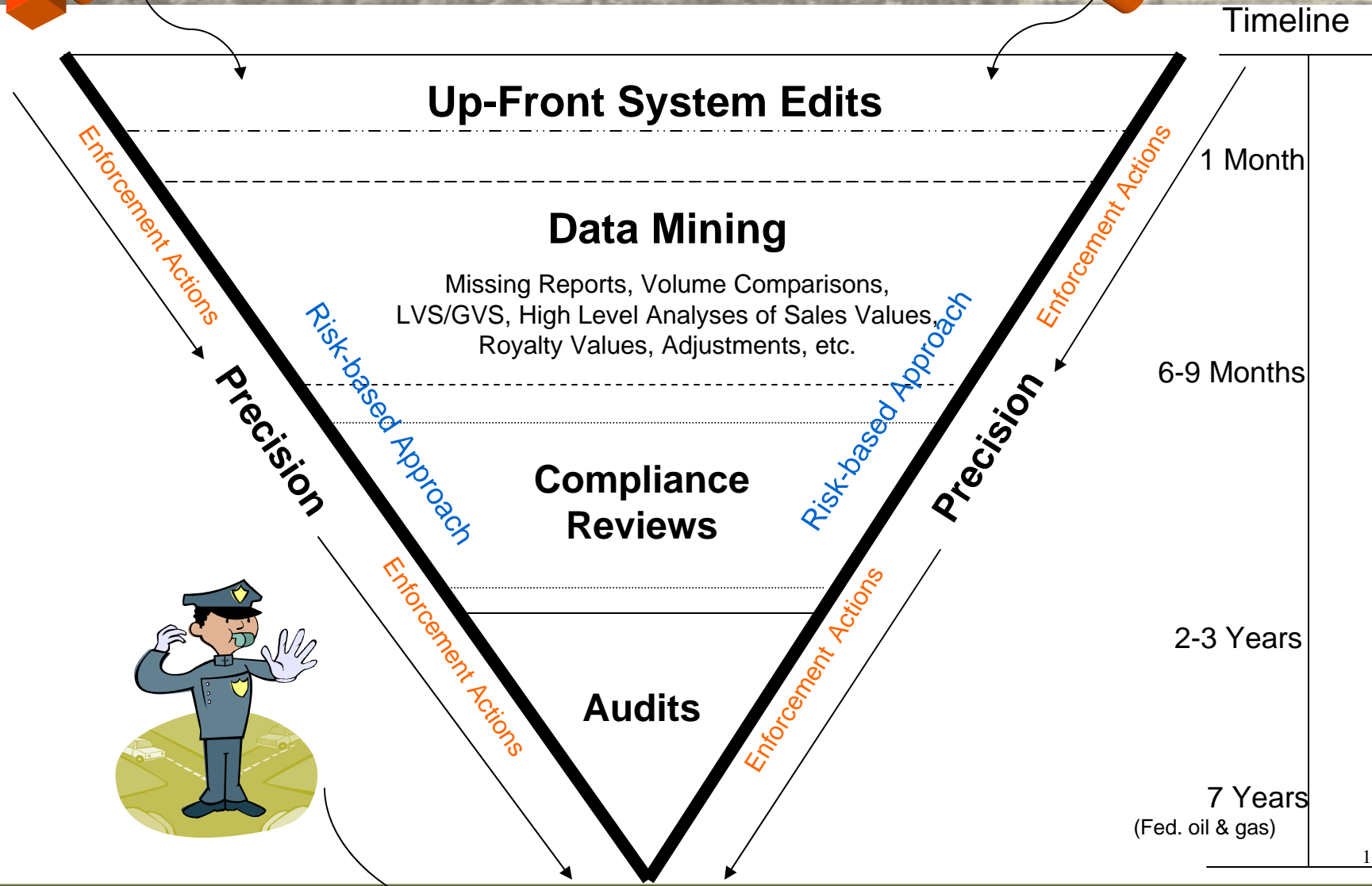
Status: 1 targeted for full implementation in 2013



**2014\$**

# ONRR DATA ACCURACY EFFORTS

**OGORS**





# Current Initiatives

## Indian Oil Valuation Negotiated Rulemaking Committee

- On August 22, 2011, ONRR published in the Federal Register a Second Notice of Intent to establish an Indian Oil Valuation Negotiated Rulemaking Committee
  - 30 day comment period
  - 14 proposed members from industry, Indian tribes and allottees, and the Federal government
  
- Purpose: Advise the Secretary on a rulemaking to address Indian oil valuation as it relates to the major portion requirement in Indian oil and gas leases.





# FY 2011 & 2012 Budget Initiatives

## ➤ **New Enforcement and Data Mining Resources**

- New production and measurement inspectors, chemical engineers and petroleum engineers to enhance capabilities to perform production verification, gas plant inspections, and meter inspections on offshore rigs/platforms and production facilities.
- 12 FTE to perform data mining reviews addressing earlier detection of missing or inaccurate royalties on a real-time basis.

## ➤ **Expanded 202/205 State and Tribal Audit Program**

- Expanded funding for existing state and tribal delegated audit agreements and a new Hopi Tribal cooperative audit agreement.





# FY 2011 & 2012 Budget Initiatives

## ➤ **Expanded Internal Audit and Oversight**

- 10 new FTE with expertise as certified internal auditors and fraud examiners to perform internal reviews and investigations to ensure that procedures and performance are effective.

## ➤ **New Compliance, Valuation, and Market Research Staff**

- 11 new FTE to increase ONRR's ability to ensure proper royalties paid on transported and processed natural gas (i.e.; unbundling).





# Regulations

- **Reorganization of Title 30 CFR** – Direct final rule
  - Published October 4, 2010
  - Moved ONRR’s regulations from Chapter II to Chapter XII in 30 CFR (New rules now 30 CFR 1200 rather than 30 CFR 200)
  
- **Debt Collection, 30 CFR 1218** – Final rule.
  - Clarifies and codifies provisions of Debt Collection Act of 1982 and Debt Collection Improvement Act of 1996
  - Establishes procedures governing collection of delinquent royalties, rentals, bonuses, and other amounts due
  - Includes provisions for administrative offset
  
- **Amending OMB Control Numbers and Forms Listed in Title 30** – Direct final rule.
  - Updates some of ONRR’s form numbers to reflect new organization (e.g., MMS-4435 would be ONRR-4435)



# Regulations

- **Takes vs. Entitlements** - Proposed rule
  - New regulations would prescribe when a Federal lessee must report and pay royalties on the volume of oil and gas it takes from a lease or on the volume to which it is entitled based on its ownership interest in the unit or lease
  
- **Other**
  - Single P.O. Box: Consolidates six ONRR P.O. boxes for rent payments, adjustments, various reporting instructions, allowances, 2014s and OGORs, to one P.O. box.
    - Announced in August 29, 2011 Dear Reporter letter





# Royalty Policy Committee Status

- RPC provides advice to the Secretary advice on royalty management issues when needed. Charter expires April 2, 2012.
  
- Two active RPC Subcommittees:
  - Coal Valuation
  - Oil and Gas Royalty Reporting
  
- The Royalty Policy Committee, Subcommittee on Royalty Management issued a draft report on December 17, 2007 titled, “*Mineral Revenue Collection from Federal and Indian Lands and the Outer Continental Shelf*”.
  - As of August 1, 2011, DOI has completed 95 of the 110 recommendations.
  - ONRR has completed 70 of its 77 recommendations.





# RIK Close-Out

- The Secretary of the Interior announced the termination of the RIK Program on September 16, 2009.
  
- On December 8, 2009, the Secretary established guiding principles for the RIK phase out including:
  - Minimize impact to RIK employees
  - Conduct termination in a deliberate and orderly fashion
  - Honor all existing RIK sales contracts
  - Cease all future RIK sales
  
- All RIK sales ended as of September 30, 2010.
  
- Form MMS-2014 reports received on all leases that reverted to in value.
  
- As of August 1, 2011, 96% of close-out tasks completed.



# RIK Close-Out

## Operator Imbalances (as of August 1, 2011):

➤ 99.6% of the operator imbalances (666 out of 669) have been reconciled and were either cashed out or written off. This includes 179 oil Facility Measurement Points (FMPs) and 487 gas FMPs.

- 203 Orders Issued totaling over \$52 Million
- 131 Credit Memos Issued totaling over \$24 Million
- 332 Written Off (below threshold) or previously issued
- 46 Orders appealed totaling over \$13 Million
- 15 Appeals closed totaling over \$5 Million





# Questions?

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