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Minerals Management Service
FY 2004 President's Budget

For over 20 years, the MMS has been a leader in asset management for the Federal Government. Our mission includes managing the mineral resources on the Outer Continental Shelf (OCS) as well as Federal and Indian mineral revenues to enhance both public and trust benefits, promote responsible use, and realize fair value. In pursuing this mission, MMS also supports the broader goals of the Department of the Interior, particularly:

- The Department's Resource Use goal for managing resources to enhance public benefit, promote responsible use, and ensure optimal value in energy and non-energy areas.

- The Department's Serving Communities goal for protecting lives and property and fulfilling Indian trust responsibilities.

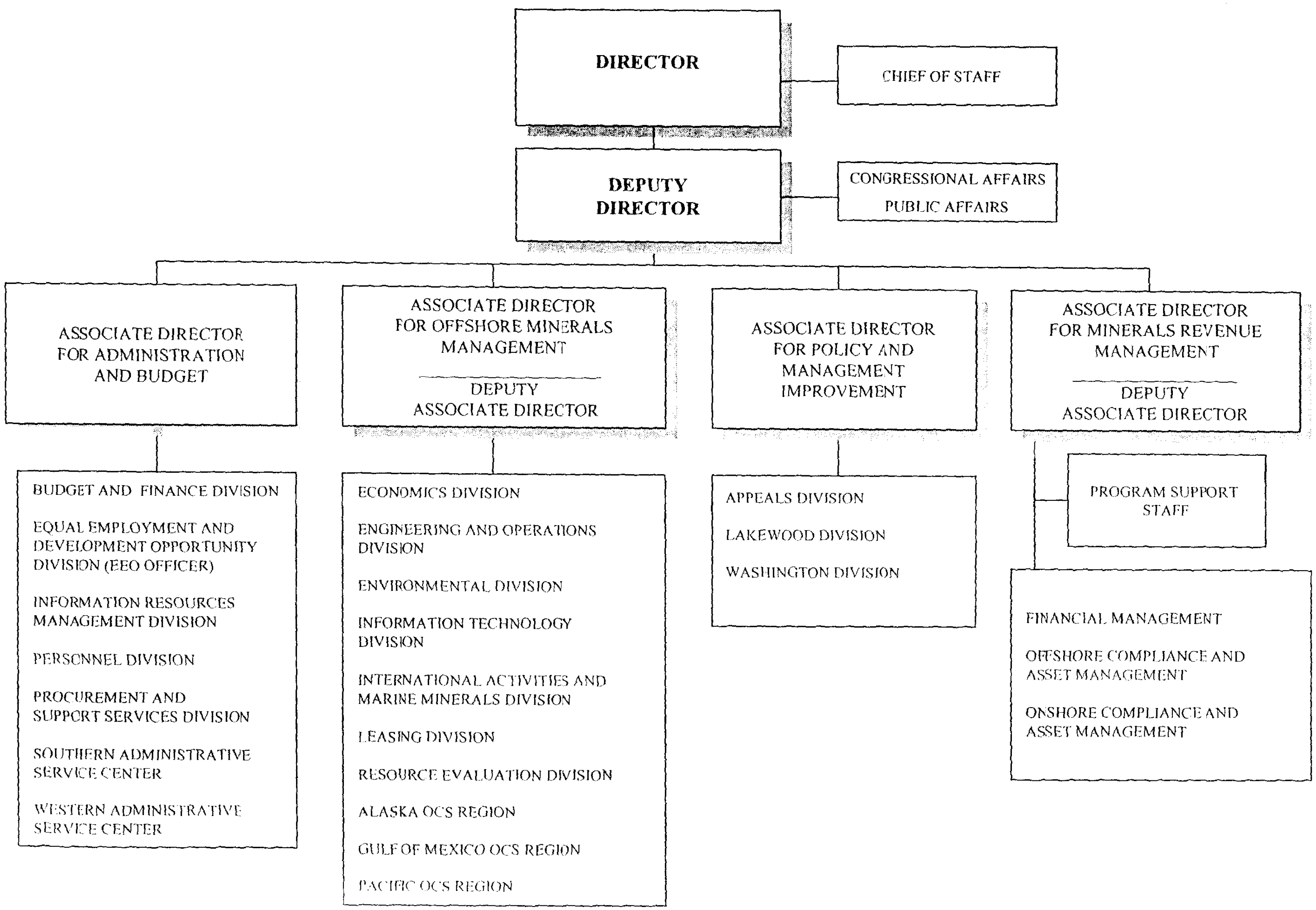
The work that MMS does affects the lives of millions of people; from the consumer of oil and gas to the family vacationing in one of America's national parks or on an ocean beach to the children studying in an Indian school.

> **MMS**
>
> **Benefits to the Nation**
>
> **National Energy Supply**
> The OCS is projected to account for over 25 percent of both the Nation's oil and natural gas production in 2004.
>
> **The Federal Treasury**
> In FY 2004, MMS is projected to collect approximately $5.8 billion in OCS rents, bonuses, and OCS and onshore Federal and Indian royalties.
>
> **State Treasuries**
> The MMS will disburse over $889 million to States in fiscal year 2004. This money is used by the States for schools, roads, and public works projects, or placed in the general fund and used as needed. Another $897 million from OCS receipts is deposited into the Land and Water Conservation Fund to acquire, restore, and create parks, wildlife preserves, wilderness areas, and recreational facilities.

As stewards of the mineral resources on the OCS, and as a leader in offshore safety, science, and environmental responsibility, our Offshore Minerals Management Program is responsible for balancing the Nation's search for energy with the protection of our natural environment. Our commitment to environmental protection and safe operations begins with the first step in the leasing process and continues through the decommissioning of facilities.

Oil and natural gas production from the OCS are an important part of the President's National Energy Policy. Not only does OCS production represent over 25 percent of the

MINERALS MANAGEMENT SERVICE



Nation's domestically produced oil and gas, but a significant part of the royalties from oil are being taken in-kind and used to fill the remaining capacity of the Nation's Strategic Petroleum Reserve. The percentage of oil and gas produced from the OCS is likely to increase in the coming decade because more than 60 percent of the Nation's remaining oil and gas is located offshore.

The Minerals Revenue Management (MRM) Program is responsible for managing all the revenues generated by Federal offshore and onshore and American Indian mineral leases. The revenues from Federal leases represent one of the government's greatest sources of non-tax income. Using a sophisticated accounting system, the MMS processes more than $500 million each month. Bonuses, rents, and royalties from over 80,000 leases amount to several billion dollars each year. These revenues benefit not only the Federal Treasury and the public, but also States and Indians. To ensure proper revenues are collected and disbursed, MMS utilizes a broad range of financial services, and pursues a comprehensive compliance strategy that includes an automated compliance verification program to validate the accuracy and timeliness of revenues paid and an audit program staffed by MMS, State, and tribal auditors. The business environment in which MMS administers royalty payments is similar in many respects to that in which private and State land minerals owners operate. However, in scale of activity and variety and complexity of lease terms, it is significantly different. For example, MMS currently administers the rental, royalty, and other financial terms for over 84,000 leases including approximately 26,000 producing and 58,000 non-producing mineral leases.

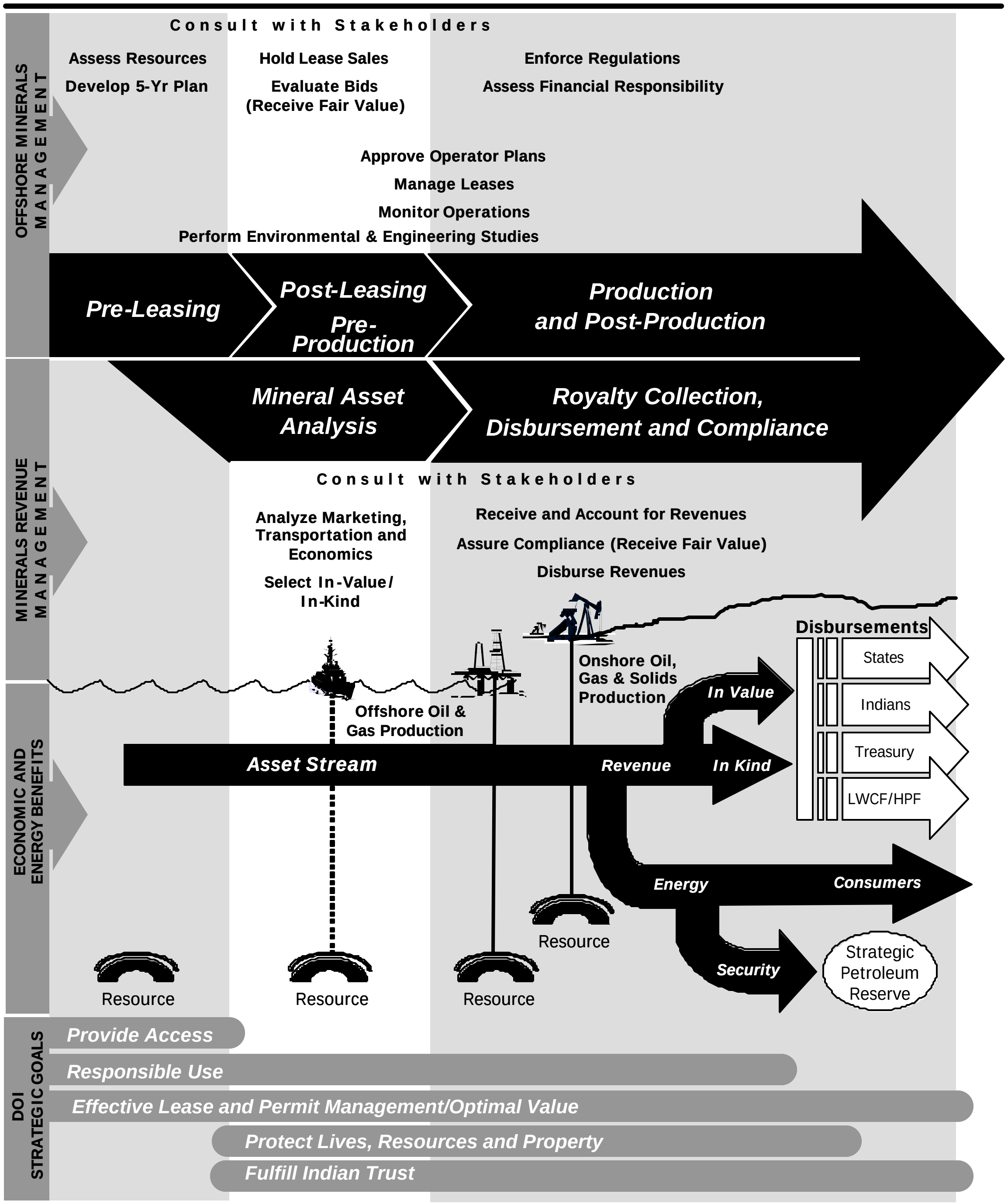
MMS Asset Management Process

The graphic on the next page illustrates the scope of our asset management responsibilities. As stewards of the physical resources of the Outer Continental Shelf our responsibilities start with the assessment of resource areas that may be offered for leasing. While our major area of activity involves oil and natural gas, we also assess and lease other resources as well, e.g., sand and gravel which can be used for restoration of beaches or onshore construction projects.

Once the resources have been assessed, we develop a plan for offering those resources to interested developers. In the case of oil and gas development, this planning process provides for comments and input from all interested parties (including the public, industry, states and the Congress). Designed to consider both the environmental and economic concerns of the Nation, this process results in a Five Year Plan for lease sales. Before each sale, opportunities are provided for additional comments and suggestions from all interested parties.

Furthermore, once the sales are completed and leases assigned to winning bidders, each action by the lease operator must go through a carefully considered permitting process for exploration, development and production activities. These post leasing reviews and approvals are complimented by an inspection process that sends MMS staff out to look at each operation to insure that all activities are conducted in an environmentally and physically safe manner and to insure that the Government is receiving its fair share of the production.

Minerals Management Service Asset Management Process



The Government's share of production from offshore operations may be taken in-value or in-kind. In either case, our Minerals Revenue Management (MRM) program closely manages these assets to insure that the correct shares are provided by the producer. The MRM program, which is also responsible for revenues from onshore Federal and Indian mineral leases, utilizes a sophisticated computer system supported by a staff of people expert in the fields of mineral leasing, accounting, auditing, and business analysis.

Payments in-value are carefully tracked, reviewed, and distributed in line with laws and regulations. Payments in-kind are managed so as to assure that the resources received are disposed of in a manner that best benefits the Nation. This may include transfer to the Department of Energy for filling the Nation's Strategic Petroleum Reserve (SPR) or it may include sale in the market place of the product received. In-kind products provided to the SPR support the President's National Energy Policy. In-kind products sold in the market place provide revenues to the Federal Treasury. Decisions on how and when to take and sell the products received in-kind are made in a manner to assure that the value received for the products sold will, at least, equal the value that would have been received if the original producer had paid in-value.

In both cases, in-value or in-kind receipts, a thorough auditing process is conducted to insure that the ultimate beneficiaries of these revenues receive fair value. Since its inception over 20 years ago, the MMS auditors have identified over $2.5 billion in additional receipts due from producers.

From the assessment of resource availability to the auditing of financial and in-kind payments, the MMS manages a significant amount of assets for the Federal government, States, Indians and the American people. In the 21 years of MMS existence, the disbursement of receipts from these activities has averaged over $6 billion per year.

50th Anniversary
OCS Oil & Gas Program

The OCS Lands Act of 1953 celebrates its 50th anniversary on August 7, 2003. Passed in 1953, the Act authorized the Secretary of the Interior to lease OCS lands for mineral exploration, development, and production and mandated the development of OCS resources. Also passed in May of 1953 was The Submerged Lands Act that gave States jurisdiction over the lands and natural resources out to 3 miles seaward from the mean high tide line (3 marine leagues for Texas and the Gulf Coast of Florida), and established Federal jurisdiction over the offshore lands beyond those States waters. Together, these acts form the basis of the U.S. OCS Oil and Gas Program.

The first Gulf of Mexico lease sale was conducted on October 13, 1954. It offered 748,819 acres for lease, and received high bonus bids totaling $116 million. Since that time, MMS and its predecessor agencies have conducted 137 lease sales, offering almost 1.5 billion acres for lease, and attracting high bonus bids of more than $60 billion. From the time of its passage, total revenue generated through rents, bonuses, and royalties has exceeded more than $135 billion, and is distributed by MMS' Mineral Revenues Management Program to the U.S. Treasury, the Land and Water Conservation Fund, the Historic Preservation Fund, and certain coastal states.

Offshore oil and gas activities have now produced over 150 trillion cubic feet of natural gas and 14 billion barrels of oil. The Gulf of Mexico has become America's new frontier for oil and gas exploration thanks to its deepwater reserves. Deepwater oil production grew over 23 percent to 335 million barrels in 2001 as compared to 2000. In 1985, only six percent of the Gulf's oil production came from deepwater wells. Today it is over 50 percent. Natural gas production from these deepwater areas has also increased from less than one percent of total production in 1985 to over 20 percent in FY 2001. Production potential from proven reserves in deepwater areas is estimated to be roughly 1.8 billion barrels of oil and 5.8 trillion cubic feet of natural gas.

Fiscal and Energy Benefits of MMS Activities

Major fiscal and energy benefits are provided by MMS to taxpayers, States, the American Indian community, and the Nation. In FY 2004, MMS will account for an estimated $5.8 billion in Federal receipts, including $4.0 billion from OCS rents, bonuses, and royalties, and $1.8 billion from onshore rents, bonuses, and royalties. Another $0.2 billion will be collected from Indian leases.

The $5.8 billion will be distributed as follows: approximately $3.2 billion will be deposited to the General Fund of the U.S. Treasury to pay for Federal programs; approximately $889 million in mineral revenue payments will be made to onshore States; approximately $897 million will be transferred to the Land and Water Conservation Fund; $150 million will be deposited to the Historic Preservation Fund; and approximately $708 million will be credited to the Reclamation Fund. In addition to the $5.8 billion in Federal Receipts, approximately $200 million will be transferred to the Office of Trust Fund Management for distribution to American Indian tribes and allottees, and coastal States will receive an estimated $55 million in shared mineral revenue receipts.

Mineral leasing revenues are one of the Federal Government's greatest sources of nontax receipts. They are used to fund numerous quality of life enhancements, such as parklands, support for education, preservation of historical sites, etc. Monies going to the States are used as the States deem necessary, oftentimes for schools, roads, libraries and other public buildings. Revenues collected from Indian lands go directly to the American Indian tribes and individual American Indian mineral owners, meeting a wide variety of their needs.

Since its establishment, in 1982 through 2002, the MMS has distributed over $125 billion to States, Tribes, and the U.S. Treasury (including special funds).

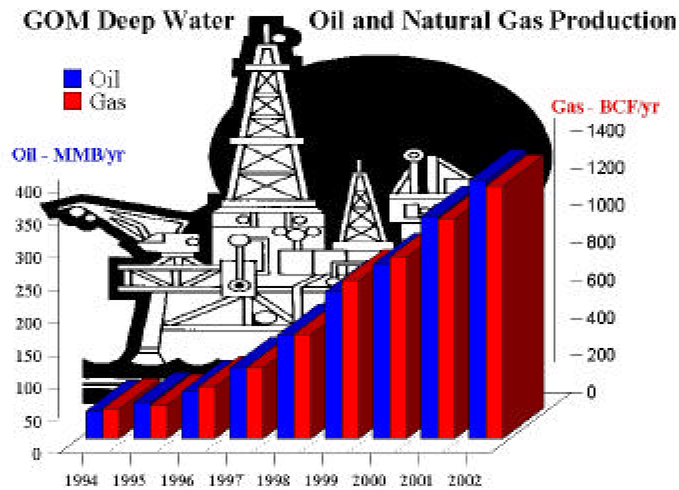
Disbursement of Federal and Indian Mineral Lease Revenues 1982-2002
(dollars in thousands)

	Historic Preservation Trust Fund	Land & Water Conservation Fund	Reclamation Fund	American Indian Tribes & Allottees	State Share Offshore	State Share Onshore	U.S. Treasury	**Total**
1982	150,000	825,950	435,688	203,000		609,660	5,476,020	**7,700,318**
1983	150,000	814,693	391,891	169,600		454,359	9,582,227	**11,562,770**
1984	150,000	789,421	414,868	163,932		542,646	5,848,044	**7,908,911**
1985	150,000	784,279	415,688	160,479		548,937	4,744,317	**6,803,700**
1986	150,000	755,224	339,624	122,865	966,186	424,446	4,983,055	**7,741,400**
1987	150,000	823,576	265,294	100,499	613,083	377,030	4,030,979	**6,360,461**
1988	150,000	859,761	317,505	125,351	370,063	397,558	2,627,721	**4,847,959**
1989	150,000	862,761	337,865	121,954	46,850	433,422	2,006,837	**3,959,689**
1990	150,000	843,765	353,708	141,086	49,023	452,184	2,102,576	**4,092,342**
1991	150,000	885,000	368,474	164,310	43,683	480,524	2,291,085	**4,383,076**
1992	150,000	887,926	328,081	170,378	68,392	432,474	1,624,864	**3,662,115**
1993	150,000	900,000	366,593	164,385	77,467	466,250	1,945,730	**4,070,425**
1994	150,000	862,208	410,751	172,132	83,327	523,183	2,141,755	**4,343,356**
1995	150,000	896,987	367,284	153,319	75,468	477,544	1,541,048	**3,661,650**
1996	150,000	896,906	350,264	145,791	89,871	457,754	2,866,509	**4,957,095**
1997	150,000	896,979	442,834	196,462	116,132	569,422	3,867,865	**6,239,694**
1998	150,000	896,978	421,149	191,484	106,526	549,699	3,663,532	**5,979,368**
1999	(150,000)	898,978	368,604	163,493	93,854	483,024	2,504,053	**4,362,006**
2000	150,000	892,021	537,710	235,646	108,469	735,077	5,147,394	**7,806,317**
2001	150,000	896,493	822,315	325,102	141,388	1,052,907	6,407,065	**9,795,270**
2002	150,000	896,479	544,340	195,018	30,443	690,660	4,140,229	**6,647,169**
*2003	150,000	897,000	709,355	300,000	55,191	890,982	3,430,296	**6,432,824**
Total	**3,000,000**	**18,963,385**	**9,309,885**	**3,886,286**	**3,135,416**	**12,049,742**	**82,973,201**	**133,317,915**

The annual funding authorization of $150 million for the National Historic Preservation Fund (NHPF) expired at the end of FY 1997. A transfer of $150 million was erroneously made to the NHPF in September of FY 1998. That transfer was recouped in February for FY 1999. In FY 2000, the NHPF was reauthorized.

* Disbursements for FY 2002 are actual except for American Indian Tribes and Allottees. 2003 figures are based on FY 2003 President's Budget Mid Session Review estimates.

In his second week of office, the President established the National Energy Policy (NEP) Development Group. Its mandate was to "develop a national energy policy designed to help the private sector, and as necessary and appropriate, State and local governments, promote dependable, affordable, and environmentally sound production and distribution for the future." Within 5 months, the President announced his comprehensive energy plan. The plan is a blueprint for securing our Nation's energy security in the 21st century.



The MMS plays an integral part in the Interior plan to implement the NEP. Of course, our focus on meeting the Nation's energy needs is not new. The MMS has played a key role for over two decades to help the Nation meet these needs and will continue to do so. The MMS manages mineral resources in an environmentally sound manner on 1.76 billion submerged acres on the OCS with about 40 million acres under lease. In fact, MMS and its predecessors have managed the OCS lands for 50 years. The OCS Lands Act, which is the basis of current operations, was passed by Congress in 1953. From very limited beginnings, the OCS currently provides more than 25 percent of the natural gas and oil produced in the United States.

What Does the Future Hold?

The United States demand for petroleum products is expected to grow more than 35 percent for oil and about 50 percent for natural gas over the next 2 decades. This equates to an additional demand for 6 million barrels of oil a day while domestic oil production will actually decline by 1.5 million barrels a day. Natural gas demand will increase by 50 percent or an additional 12 trillion cubic feet per year. By comparison, domestic production is expected to increase only 14 percent or about 3 trillion cubic feet per year.

Currently, the United States depends on foreign sources for more than half of our oil resources. During the 1973 oil crisis, that dependence had a major impact on our Nation and individuals across America. The U.S. now produces nearly 40 percent less oil than we did in 1970 – that equates to more than 4 million barrels each day.

As much as 22 billion barrels of oil and 61 trillion cubic feet of gas remain to be discovered in the areas MMS has designated for leasing in our 2002-2007 offshore program. Clearly, OCS resources, managed by MMS, play a major, strategic role in fulfilling the President's National Energy Policy. This role will likely grow in the future with the OCS estimated to contain more than 60 percent of the undiscovered oil and natural gas resources in the United States.

The MMS's offshore program contributes to a sustainable future in several ways. Obtaining sufficient supplies of oil and gas at reasonable prices will continue to be crucial to our energy security and economic strength until alternative energy sources become viable. The MMS's offshore program creates wealth and contributes to a higher standard of living. The offshore industry has paid billions of dollars in labor, goods, and services to other industries as well as its own. Coastal states have received billions in Federal offshore revenues, providing needed funds for investment in technology, safety, infrastructure, research, development, education, and social programs.

Another major component in the Nation's future is the need to decrease the dependence on oil and gas resources from other countries and also to provide the availability of needed oil resources for our Nation in the case of events threatening our national security. To that task President Bush has ordered the filling of the Strategic Petroleum Reserve (SPR) to capacity. MMS is responding to President Bush's initiative to fill the SPR to capacity. MMS with the assistance of the Department of Energy continues to deliver oil to the SPR, increasing previous daily fill rates to 130,000 barrels beginning April 1, 2003. MMS is now an established crude oil sales entity with well-developed relationships with producers, pipelines, aggregators, exchange partners, and purchasers of crude oil. Thus, MMS is well positioned to facilitate a cost effective and efficient transfer of crude oil from lease to onshore market centers for DOE use in the SPR fill.

FY 2004 Budget Request Summary

Bureau: **Minerals Management Service**
Budget Authority and FTE for 2002, 2003, and 2004
(BA in millions of dollars)

	2002 Enacted	2003 President's Budget	2004 Request	Change 2004 less 2003
Budget Authority				
Total Net Discretionary Authority	156,740	170,327	171,321	994
Total Mandatory Authority	688,278	890,982	888,771	-2,211
Total Budget Authority	**845,017**	**1,061,309**	**1,060,092**	**-1,217**
FTE Usage				
Total Direct FTE	1,714	1,664	1,664	0
Total Reimbursable FTE	62	83	83	0
Total Allocation FTE	0	0	0	0
Total FTE	1,776	1,747	1,747	0

The MMS is requesting a total of $1,060.1 million in mandatory and net discretionary authority for FY 2004. The largest portion of this request ($889 million) provides Payments to States under various laws and thus represents mandatory authority. The MMS operations are funded from a net discretionary authority request of $171.3 million. The following discussion will focus on the changes in net discretionary authority. The requested level for net discretionary authority contains a net increase of $1.0 million over the FY 2003 pending President's Budget Request. This includes uncontrollable cost increases of $2.8 million primarily for pay and rental related costs; programmatic decreases of -$11.9 million made possible by office closings, streamlining efforts, and the completion of initiatives;

Decrease Categories	Amount
Office Closings/Downsizings	-$2,375,000
Streamlining Initiatives	-1,200,000
Completion of FY 2003 initiatives	-6,015,000
IT investment savings	-2,270,000
Total	-$11,860,000

and program increases of $10.0 million which fall into three major categories of need:

Increase Categories	Amount
Maintaining Operations	$6,245,000
Visionary Requirements	3,208,000
Critical Infrastructure Protection	600,000
Total	$10,053,000

Maintaining Operations

The ongoing provision of exceptional services requires attention to the details of maintaining current operations. This requires the application of resources to activities which will not provide an apparent increase in performance. However, if these resources are not applied, these activities can be expected to show future performance declines.

The MMS operates a test tank (Ohmsett) in New Jersey for the testing of environmental safeguarding equipment and for the training of Federal oil spill response teams. It is estimated that 95 percent of the quantitative performance data on mechanical equipment used by the industry, the U.S. Coast Guard, and the U.S. Navy was obtained through Ohmsett testing and evaluation. Ohmsett is the only facility in the world where people who respond to oil spills can be trained under actual conditions. This facility has begun to show signs of aging and must be rehabilitated to assure that it can continue to function. To minimize the budgetary impact of this effort, MMS proposes to perform the rehabilitation over several years.

The recent reengineering of the MRM program adhered to the Administration's guidelines on the use of commercial off-the-shelf (COTS) technology. This approach ensured that minimal costs were incurred during the development and implementation process. However, this approach also requires that software and hardware upgrades be purchased to assure the ongoing viability of the systems. The MMS is seeking funds in FY 2004 to stay current with the COTS products applied in the reengineered systems.

FY 2003 will see the completion of the software development and implementation efforts to provide a RIK gas and liquids management system. Funding requested in FY 2003 for this purpose has been identified as a reduction in FY 2004. For FY 2004, MMS is requesting funds to operate the completed RIK systems.

The MMS has always been conscious of its responsibility to protect the information it receives from the public and from industry. The importance of this approach was confirmed by the court order to disconnect all Department operations from the Internet until proper security levels were confirmed across the Department. While connections have been restored, it is important to maintain proper security levels at all nodes of the DOI systems. In order to remain in sync with Department wide efforts to insure proper levels of computer security, MMS is requesting additional resources in FY 2004.

Finally, the Gulf of Mexico workload continues to grow. As noted above, the United States demand for oil and gas products is only expected to increase. During the next 2 decades, demand for oil is projected to increase more than 35 percent and demand for natural gas is projected to grow by 50 percent. The OCS is estimated to contain more than 60 percent of the Nation's undiscovered oil and natural gas. Industry has recognized this and has aggressively expanded its operations on the OCS. The MMS must be prepared to meet these needs if it can be expected to meet the goals set forth in the President's National Energy Policy.

Visionary Requirements

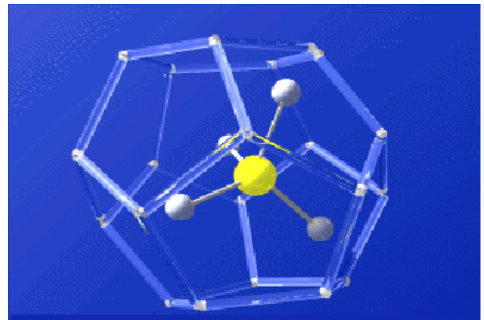
No bureau can expect to maintain a record of quality operations without the forethought to consider the future and the challenges it will bring. The MMS has always made a point of scanning the horizon to see what we will face in the years to come. These efforts have served us well in preparing for tomorrow's requirements today. As such, we have avoided the catastrophic results associated with being unprepared for new demands. For FY 2004, we have included two initiatives in this Visionary Requirements category.

First, as noted above, in FY 2003, MMS received first year funding for a multi-year effort to reengineer the Offshore Minerals Management program by incorporating e-Government strategies. This reengineering effort will help OMM:

- Transform offshore program business processes, which generate over $4 billion per year in Federal Revenues;
- Design and implement an integrated corporate database, working collaboratively with State and Federal agencies, industry, and citizens to enable MMS to better achieve its strategic goals—safe and environmentally sound offshore operations;
- Deliver web-based, paperless transaction in near real-time;
- Introduce "Knowledge Management" tools to electronically collect, store, receive and distribute information from or to internal and external stakeholders;
- Coordinate workflow for the regulatory process to reduce redundant requests and maximize stakeholder reviews, promoting more efficient analysis and shorter cycle times;
- Support multiple Federal and State requirements surrounding regulation of the offshore oil and gas industry; and
- Provide a standard data model for industry and stakeholders, which may apply to other domestic and international processes in other agencies.

The OMM reengineering effort is a major undertaking and additional funds are requested in FY 2004 to continue the process.

Second, the expected increase in demand for natural gas cannot be met from conventional sources. An alternate domestic source of natural gas to meet future demand may be gas hydrates. Gas hydrate is a crystalline solid consisting of gas molecules, usually methane, each surrounded by a cage of water molecules. It looks very much like water ice. Methane hydrate is stable in ocean floor sediments at water depths greater than 300 meters, and where it occurs, it is known to cement loose sediments in a surface layer several hundred meters thick.



Hydrate structure showing carbon (center) and hydrogen (attached to center) trapped in ice lattice. (Source: USGS)

The U.S. Geological Survey estimates that hydrates may contain more organic carbon than all the world's coal, oil, and non-hydrate natural gas combined. This initiative will allow MMS to be ready with proper policy and planning for future gas production from hydrates in the OCS, once industry is ready with the technology for offshore hydrate production.

Increased Security

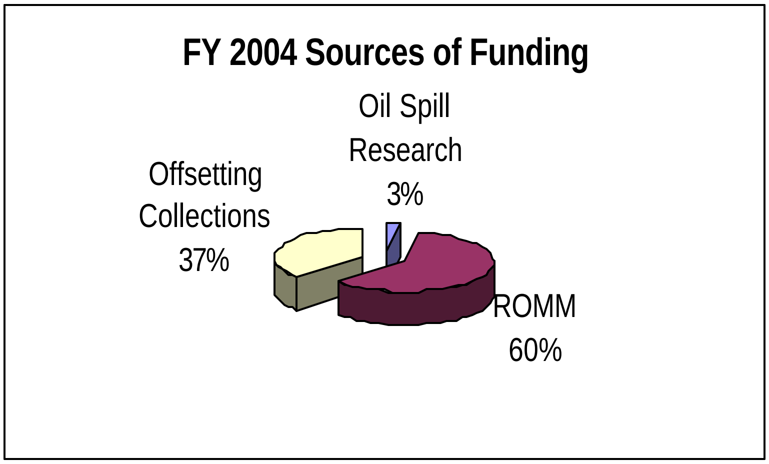
MMS is coordinating with its partners to ensure the physical security of our facilities and the OCS infrastructure. The MMS works closely with OCS facility operators, U.S. Coast Guard, other Federal agencies, and local authorities to identify potential security risks and appropriate security measures that should be imposed. The MMS is working with the Homeland Security Office in Washington, DC, to develop OCS-wide security guidelines to enhance existing measures for the protection of OCS personnel, facilities, and equipment.

Specifically, the MMS has taken a proactive approach in offshore security—one that is consistent with our mission to manage OCS mineral resources in a safe and environmentally sound manner. While the U.S. Coast Guard has the federal lead on terrorism and security issues associated with OCS facilities, the MMS is the federal authority on production equipment and practices. Our expertise can be used to help identify vulnerabilities and ensure offshore personnel, the environment, and OCS oil and gas production and transportation facilities are all protected.

Total FY 2004 Funding for MMS Operations

Minerals Management Service
FY 2003 and FY 2004 Funding for Operations
thousands of dollars

	FY 2003	FY 2004	Change
Royalty & Offshore Minerals Management	164,222	164,216	-6
Oil Spill Research	6,105	7,105	1,000
Offsetting Collections	100,230	100,230	0
Total	**270,557**	**271,551**	**994**



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 (primarily rental receipts from offshore leases).

Since 1994, when MMS first received authority to retain a portion of OCS rental receipts[1] (offsetting collections), over $776 million has been made available to fund MMS operations. At the same time, this authority freed a like amount of appropriated dollars to fund other critical needs of the Department. In FY 2004, approximately 37 percent of MMS's funding is proposed to come from offsetting collections.

Making Improvements

Although working hard to manage the mineral resources of the OCS as well as Federal and Indian mineral revenues is a big job—it isn't our only one. One of the key requirements in MMS's long list of responsibilities is assuring that the American people receive fair value for their resources. We continuously monitor our business processes to determine how we can improve our efficiency and level of service. The best examples of this, our reengineering initiatives, embody our commitment to developing and utilizing best business practices and cutting-edge technology.

Spurred by aging computer systems, changing energy markets, and the need to implement business cycles and processes that are better aligned with industry and financial institutions, the MMS completely reorganized its royalty management program, including changing the program name to Minerals Revenue Management.

Involving a complete redesign of the royalty program's core business processes and support systems, the reengineered program has made significant progress toward the goals of:

- providing States, American Indian tribes, individuals, and other Federal Agencies access to their funds within 24 hours of the due date to us,
- reducing the royalty management compliance cycle from 6 years to 3 years or fewer,
- increasing our efficiency by modernizing our aging automated support systems,
- simplifying and streamlining industry reporting requirements, and
- improving communication by cultivating partnerships with our customers.

[1] Offsetting collections are receipts scoreable to the ROMM appropriation from an increase in the offshore natural gas and oil lease rental rates. The ability of MMS to collect and retain these receipts has been a significant benefit in that it has enabled MMS costs to be paid from revenues instead of appropriations and thereby "freed up" a like amount of budget authority to fund other critical programs within the Department.

We are embarking on a similar reengineering process in our Offshore Minerals Management Program. During the past 2 years, we have been working with stakeholders (including industry, environmental groups, the States, and the public) to determine what areas we should concentrate on first and to identify best practices. In FY 2003, we received funding for the first year of a multi-year effort to develop and implement a reengineered approach to our Offshore program using e-Government strategies.

We are also looking for other ways to ensure fair benefit for the American taxpayer, such as the Royalty-in-Kind (RIK) Program. The MMS is actively pursuing the use of RIK under those circumstances where it makes good business sense in the management of the public's royalty bearing assets. We believe that a viable RIK program should benefit both the taxpayer and industry through increased revenues; lower administrative costs; reduced costs of audits, fewer appeals, and less litigation; and greater certainty on fulfillment of royalty obligations.

President's Management Agenda

Management reform is, and will continue to be, an integral part of MMS operations. Established out of an effort to improve the manner in which proper fiscal accountability and management of the Nation's mineral resources were handled, the MMS has always sought to increase the efficiency and effectiveness of its operations. By listening closely and working cooperatively with local citizens, tribal leaders, States, and industry, MMS has been able to achieve many improvements. However, there will always remain challenges and opportunities for further growth.

The Secretary's Plan for Citizen Centered Governance, published in September 2001, outlined the blueprint for implementing the President's Management Agenda within DOI. This year's progress report summarizes progress being made at DOI and its bureaus on the PMA and outlines steps that will be taken over the next year to continue making progress.

The MMS is working to improve service delivery using the President's management initiatives and the Secretary's vision of effective program management. Our efforts related to the President's Management Agenda initiatives are briefly discussed below.

Strategic Management of Human Capital

We have completed our initial workforce analysis. Using the services of a contractor, we identified projected retirement rates and the drivers that will affect the MMS workforce during the coming years. These include internal changes such as the implementation of the MRM Reengineered systems, the development of the OMM e-Gov initiative, and competitive sourcing outcomes, as well as industry driven changes.

In each of these areas, MMS already has experienced changes and expects to see more. The MRM's reengineering initiative with its redesigned work processes and continued use of technology to achieve program efficiencies and attain goals has challenged MRM to develop new skill mixes. In addition, plans to initiate an e-Government improvement in OMM will bring about significant changes in work processes that will require a new set of skills for current and future OMM employees. In line with requirements to downsize the Pacific OCS Regional Office, we assessed the workforce identifying skills and positions needed to continue operations as well as skills and positions that would no longer be required. We then attempted to match the skills and positions that would no longer be needed in the Pacific Office with requirements in other parts of our bureau or sister agencies. We also sought and successfully obtained bureau-wide early-out authority to provide another option for staff who wished to leave government service.

The next step for MMS involves a more detailed look at the implementation of policies and practices that will ensure MMS does not experience critical staffing and skill gaps as the result of the drivers identified and those that are not yet predicted.

Competitive Sourcing

The MMS has from its very beginnings supported the concept of contracting out activities that can more efficiently be handled by the private sector. The MRM systems were contracted out from their inception and the recent reengineering effort has only increased that focus. We contract with States and tribes for the auditing of leases within their boundaries. Our environmental studies and technology assessment research efforts are all contracted out to private firms, State universities, and others.

In keeping with our past practices, MMS supports the concepts of the Federal Activities Inventory Reform Act. We are conducting the comprehensive self-examinations and evaluations of in-house performance and costs relative to the private sector, as required by the Act, and are in the process of developing appropriate Most Efficient Organizations for the competition process in identified areas. As part of our commitment to improving how government works, we completed Competitive Sourcing Plans for FY 2002 and FY 2003. In FY 2002, 5 percent of our positions were subject to competition and, in FY 2003, an additional 10 percent. The FY 2004 goal calls for a cumulative goal of 25 percent. The MMS has taken an aggressive approach to outsourcing and will meet the two year 15 percent goal of 78 functions reviewed by the end of 2002 and is already well on the way to achieving the three year 25 percent goal required by the end of 2004.

Improving Financial Performance

The MMS has a very good record of financial performance in the area of royalty collections and disbursement and has received unqualified audit opinions in this area. The MMS has responded to recommendations made by the Inspector General and moved aggressively during the past 2 years to improve our administrative financial performance. We hired a new financial management chief and reorganized the financial management staff as recommended by an outside accounting firm. We improved definition of staff responsibilities and functions, internal controls, and expanded training for all staff to assure better compliance with rules and regulations. As a result, we received an unqualified opinion from the auditors on our FY 2001 financial statements balance sheet.

FY 2002 was a very difficult year for the royalty collections activities. Challenged not only by the implementation of a reengineered system, but also by being cut off from the Internet by a court order for almost 4 months (preventing companies from filing their royalty and production reports), we continued to strive for a clean opinion on FY 2002 financial operations. Through the dedication and extra efforts of MMS staff, we were successful in obtaining an unqualified opinion for the FY 2002 Annual Financial Report. We have made great strides over the past several years and are proud of our success.

Expanding Electronic Government

Since MMS's formation, we have sought to find easier, faster, more reliable means of exchanging information with our constituents. We use our Internet web page as one of our primary interfaces with all interested parties and the Internet itself as a means of moving information back and forth between MMS and our constituents. We also recognize that electronic government expansion is an integral part of transforming the way we do business. During the past several years, MMS undertook a major reengineering effort that, among other things, is providing constituents improved access to MRM activities through the Internet.

The MMS also initiated an electronic government initiative within the OMM program, e-Government Transformation. The OMM established a small Program Management Office in October 2001 that has been working with a contractor to baseline OMM business areas and business functions and to establish priorities for the business process re-engineering effort and the technology to support those reengineered processes. The President's Budget for FY 2003 requested $8.742 million for this initiative and this request includes an additional $2.9 million for the effort. This is the beginning of a multi-year effort to modernize our processes and improve our interaction with the public, industry and other government agencies.

The MMS is participating in three Quicksilver initiatives:

- On-Line Permitting
- Electronic Rulemaking
- Electronic Recordkeeping

In addition, the MMS has extensive, ongoing efforts to ensure that updated Security Plans are in place along with timely security reviews.

Budget and Performance Integration

Changes in Dollars = Changes in Performance

The MMS is fully committed to improving this linkage. To that end, the MMS FY 2004 request includes figures for the DOI mission goals that were determined by evaluating the contributions of the various parts of the organization toward each of the goals. The entire cost for the MMS, including general and administrative costs, is allocated to the mission components and outcome goals. The total for all mission components and mission goals matches the MMS totals in this budget submission. And, we have tied our resource requests to performance levels throughout this request.

While MMS tracked outputs on a manual basis during and prior to FY 2002, we have developed an automated means of tracking and analyzing both activities and costs. The MMS is one of three bureaus tasked with applying **activity based costing/management** (ABC/M) methods to its operations by FY 2003. The ABC/M will provide managers with information they can use to monitor and evaluate their program performance, allocate resources more effectively, and measure results. The ABC/M is also a tool that will help in the implementation of the President's management initiative on budget and performance integration. Costing activities were identified across the bureau. Staffs were trained in the proper recording of their time to these cost activities. And, appropriate output measures were established. Beginning in FY 2003, MMS started to capture data for the ABC/M system. Currently, reports are being assessed and adjustments will be made in the system as necessary to assure that managers are receiving effective and informative data from the system.

Contributions to DOI Draft Strategic Plan

The MMS contributes to two of the four DOI Mission Components: Resource Use and Serving Communities. Within these mission components, MMS activities support efforts to:

- Goal 2.1 -- Manage or influence resource use to enhance public benefit, promote responsible use, and ensure optimal value (Energy) by:
  - Enhancing responsible use management practices,
  - Effective lease and permit management, and
  - Improving information based, resource management, and technical assistance.

- Goal 2.2 -- Manage or influence resource use to enhance public benefit, promote responsible use, and ensure optimal value (Non-Energy) by:
  - Enhancing responsible use management practices,
  - Effective lease and permit management, and
  - Improving information based, resource management, and technical assistance.

- Goal 4.1 -- Protect lives, resources and property by
  - Improving public safety and security and protect public resources from damage.

- Goal 4.3 -- Fulfill Indian Trust Responsibilities through
  - Management of land and natural resource assets.

The MMS resources in support of these activities are displayed in the following chart.

Minerals Management Service
FY 2004-Budget Allocation Table
(in thousands of dollars)

	DOI DRAFT MISSION GOAL AREAS	RESOURCE USE		SERVING COMMUNITIES		TOTAL
		2.1	2.2	4.1	4.3	
		Provide access to responsible use and optimum value-energy	Provide access to responsible use and optimum value-non-energy	Protect lives and property	Fulfill trust responsibilities	
Account	**Activity**					
	OMM					
	ROMM	46,639	717	34,120		81,476
	Offsetting Collections	35,957	2,150	19,623		57,730
	Subtotal OMM	**82,596**	**2,867**	**53,743**		**139,206**
	MRM					
	ROMM	42,071			11,825	53,896
	Offsetting Collections	20,686			5,814	26,500
	Subtotal MRM	**62,757**			**17,639**	**80,396**
	Administration					
	ROMM	18,901	153	7,270	2,520	28,844
	Offsetting Collections	10,759	408	3,728	1,105	16,000
	Subtotal Administration	**29,660**	**561**	**10,998**	**3,625**	**44,844**
	Oil Spill	**7,105**				**7,105**
	MMS Total	**152,458**	**3,428**	**64,741**	**21,264**	**271,551**

Summary of Requirements

Royalty and Offshore Minerals Management

dollars in thousands

	FY 2002 Actual		FY 2003 Requested		Uncontrollable and Related Changes		Programmatic Changes		Collections to Appropriation		FY 2004 Request		Inc(+) Dec(-) From 2003	
	FTE	**Amt**	**FTE**	**Amt**	**FTE**	**Amt**	**FTE**	**Amt**	**FTE**	**Amt**	**FTE**	**Amt**	**FTE**	**Amt**
OCS Lands														
Leasing/Environment														
Appropriation	220	18,238	227	17,298	0	297	-1	-685	0	0	226	16,910	-1	-388
Offsetting Collections	0	17,135	0	20,335	0	0	0	0	0	0	0	20,335	0	0
Total	220	35,373	227	37,633	0	297	-1	-685	0	0	226	37,245	-1	-388
Resource Evaluation														
Appropriation	168	16,074	172	16,445	0	300	-1	60	0	0	171	16,805	-1	360
Offsetting Collections	54	8,903	54	8,903	0	0	0	0	0	0	54	8,903	0	0
Total	222	24,977	226	25,348	0	300	-1	60	0	0	225	25,708	-1	360
Regulatory														
Appropriation	360	35,129	321	36,069	0	490	0	-600	0	0	321	35,959	0	-110
Offsetting Collections	25	14,443	25	14,443	0	0	0	0	0	0	25	14,443	0	0
Total	385	49,572	346	50,512	0	490	0	-600	0	0	346	50,402	0	-110
Information Mngt														
Appropriation	5	845	5	10,001	0	143	2	1,658	0	0	7	11,802	2	1,801
Offsetting Collections	59	14,049	59	14,049	0	0	0	0	0	0	59	14,049	0	0
Total	64	14,894	64	24,050	0	143	2	1,658	0	0	66	25,851	2	1,801
Total OCS Lands														
Appropriation	753	70,286	725	79,813	0	1,230	0	433	0	0	725	81,476	0	1,663
Offsetting Collections	138	54,530	138	57,730	0	0	0	0	0	0	138	57,730	0	0
Total	891	124,816	863	137,543	0	1,230	0	433	0	0	863	139,206	0	1,663

Summary of Requirements

Royalty and Offshore Minerals Management

dollars in thousands

	FY 2002 Actual		FY 2003 Requested		Uncontrollable and Related Changes		Programmatic Changes		Collections to Appropriation		FY 2004 Request		Inc(+) Dec(-) From 2003	
	FTE	**Amt**	**FTE**	**Amt**	**FTE**	**Amt**	**FTE**	**Amt**	**FTE**	**Amt**	**FTE**	**Amt**	**FTE**	**Amt**
MRM														
Compliance & Asset Mngt														
Appropriation	389	34,871	388	35,489	0	555	0	-3,015	0	0	388	33,029	0	-2,460
Offsetting Collections	0	16,435	0	13,235	0	0	0	0	0	0	0	13,235	0	0
Total	389	51,306	388	48,724	0	555	0	-3,015	0	0	388	46,264	0	-2,460
Revenue & Operations														
Appropriation	184	21,961	184	21,295	0	312	0	-740	0	0	184	20,867	0	-428
Offsetting Collections	0	13,250	0	13,250	0	0	0	0	0	0	0	13,250	0	0
Total	184	35,211	184	34,545	0	312	0	-740	0	0	184	34,117	0	-428
Indian/Allottee Refunds														
Appropriation	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Offsetting Collections	0	15	0	15	0	0	0	0	0	0	0	15	0	0
Total	0	15	0	15	0	0	0	0	0	0	0	15	0	0
Total MRM														
Appropriation	573	56,832	572	56,784	0	867	0	-3,755	0	0	572	53,896	0	-2,888
Offsetting Collections	0	29,700	0	26,500	0	0	0	0	0	0	0	26,500	0	0
Total	573	86,532	572	83,284	0	867	0	-3,755	0	0	572	80,396	0	-2,888

Summary of Requirements

Royalty and Offshore Minerals Management

dollars in thousands

	FY 2002 Actual		FY 2003 Requested		Uncontrollable and Related Changes		Programmatic Changes		Collections to Appropriation		FY 2004 Request		Inc(+) Dec(-) From 2003	
	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt
Administration														
Executive Direction														
Appropriation	20	1,003	20	1,030	0	32	0	0	0	0	20	1,062	0	32
Offsetting Collections	0	1,000	0	1,000	0	0	0	0	0	0	0	1,000	0	0
Total	20	2,003	20	2,030	0	32	0	0	0	0	20	2,062	0	32
Policy & Mgmt Improv														
Appropriation	33	3,036	33	3,095	0	55	0	0	0	0	33	3,150	0	55
Offsetting Collections	0	1,000	0	1,000	0	0	0	0	0	0	0	1,000	0	0
Total	33	4,036	33	4,095	0	55	0	0	0	0	33	4,150	0	55
Admin Operations														
Appropriation	236	14,407	237	15,083	0	319	0	-130	0	0	237	15,272	0	189
Offsetting Collections	0	1,555	0	1,555	0	0	0	0	0	0	0	1,555	0	0
Total	236	15,962	237	16,638	0	319	0	-130	0	0	237	16,827	0	189
Gen Support Services														
Appropriation	0	5,071	0	8,417	0	298	0	645	0	0	0	9,360	0	943
Offsetting Collections	0	14,945	0	12,445	0	0	0	0	0	0	0	12,445	0	0
Total	0	20,016	0	20,862	0	298	0	645	0	0	0	21,805	0	943
Total Administration														
Appropriation	289	23,517	290	27,625	0	704	0	515	0	0	290	28,844	0	1,219
Offsetting Collections	0	18,500	0	16,000	0	0	0	0	0	0	0	16,000	0	0
Total	289	42,017	290	43,625	0	704	0	515	0	0	290	44,844	0	1,219
Total ROMM														
Appropriation	1,615	150,635	1,587	164,222	0	2,801	0	-2,807	0	0	1,587	164,216	0	-6
Offsetting Collections	138	102,730	138	100,230	0	0	0	0	0	0	138	100,230	0	0
Total	1,753	253,365	1,725	264,452	0	2,801	0	-2,807	0	0	1,725	264,446	0	-6

Summary of Requirements

Oil Spill Research

dollars in thousands

	FY 2002 Actual		FY 2003 Requested		Uncontrollable and Related Changes		Programmatic Changes		Collections to Appropriation		FY 2004 Request		Inc(+) Dec(-) From 2003	
	FTE	**Amt**	**FTE**	**Amt**	**FTE**	**Amt**	**FTE**	**Amt**	**FTE**	**Amt**	**FTE**	**Amt**	**FTE**	**Amt**
OSR														
OSR														
Appropriation	23	6,105	22	6,105	0	0	0	1,000	0	0	22	7,105	0	1,000
Offsetting Collections	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	23	6,105	22	6,105	0	0	0	1,000	0	0	22	7,105	0	1,000

Uncontrollable and Related Costs

dollars in thousands

Additional Cost in 2004 of January Pay Raises

	2003 Estimate	2004 Change
2003 Pay Raise - Budgeted	**NA**	**+$610**
2003 Pay Raise - Absorbed	**NA**	**[+$712]**

The additional cost of funding an estimated 3.1 percent January 2003 pay increase for GS-series employees and the associated pay rate changes made in other pay series. Total estimated increase +$1,322 of which +$712 is absorbed.

	2003 Estimate	2004 Change
2004 Pay Raise - Budgeted	**NA**	**+$1,176**
2004 Pay Raise – Absorbed	**NA**	**[+$1,382]**

The additional cost of funding an estimated 2.0 percent January 2004 pay increase for GS-series employees and the associated pay rate changes made in other pay series. Total estimated increase +$2,558 of which $1,382 is absorbed.

Other Uncontrollable Cost Changes

	2003 Estimate	2004 Change
Workers Compensation Payments	**$872**	**-$239**

This adjustment is for actual charges from 2002 in the cost of compensating injured employees and dependents of employees who suffer accidental death while on duty. Cost for 2003 are for the 12-months ending June 2002 and will reimburse the Department of Labor, Federal Employees Compensation Fund, pursuant to 5 U.S.C. 8147 (b) as amended by Public Law 94-273.

	2003 Estimate	2004 Change
Unemployment Compensation Payments	**$10**	**+$11**

The adjustment is for 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

	2003 Estimate	2004 Change
Rental Payments to GSA	**$16,015**	**+$558**

The adjustment is for changes in the cost payable to General Services Administration resulting from changes in rates for office and non-office space as estimated by GSA.

	2003 Estimate	2004 Change
Department Working Capital Fund	**$1,630**	**-$32**

The change reflects expected changes in the charges for Department services and other services through the working capital fund.

	2003 Estimate	2004 Change
One Additional Pay Day - Budgeted	**NA**	**+$283**
One Additional Pay Day - Absorbed	**NA**	**[+$334]**

This adjustment reflects the fact that there is one more pay day in FY 2004 than in FY 2003.

	2003 Estimate	2004 Change
Employer Share of Federal Health Benefit Plans	**$6,457**	**+$434**

The adjustment is for changes in the Federal government's share of the cost of health insurance coverage for Federal employees.

Total Uncontrollable & Related Costs - Budgeted	**+$2,801**

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Summary of Programmatic Changes

dollars in thousands

Gulf of Mexico Workload $+1,600

The Gulf of Mexico OCS Region is confronted with a continuing increase in the level and complexity of work associated with offshore oil and gas activity. Near record numbers of deepwater rigs are now drilling in the Gulf. Deepwater exploration has increased dramatically and is expected to remain at high levels and generate additional workload for the MMS. Subactivities: L&EA $+240, p.96 RE $+560, p.122 and RO $+800, p.151. This increase in funding supports DOI's draft Resource Use and Serving Communities Strategic Goals.

OCS Office Streamlining and Closures $-2,375

Continued savings from streamlining activities in the Pacific Region ($-1,500: L&EA $-500, p.99RE $-500, p.128; and, RO $-500, p.160 and new savings from closing of Pensacola (L&EA $-125, p.102) and Corpus Christi (RO $-750, p.158) offices. Streamlining will not compromise the bureau's responsibilities for oversight of the OCS operations.

OMM Streamlining $-1,200

Savings from proposed organizational streamlining initiatives within the OMM Program. Streamlining will not compromise the bureau's responsibilities for oversight of the OCS operations. Subactivities: L&EA $-300, p.101; RE $-300, p.130; RO $-500, p.162; and, IMP $-100, p.176.

Methane Hydrates $+300

Studies indicate that hydrates may contain more organic carbon than all the world's coal, oil, and non-hydrate natural gas combined. This increase will allow MMS to develop a model for the evaluation of geologic risk and quantitative assessment of hydrates that will facilitate proper policy and planning for future gas hydrates in the OCS. Subactivity: OCS RE, p.126. This increase in funding supports DOI's draft Resource Use Strategic Goal.

Infrastructure Security $+600

This initiative supports MMS efforts to assure that facilities and infrastructure are protected from security threats and that MMS operations can continue in the face of emergency conditions. Subactivities: OCS RO +$350, p.155; and, General Administration Ad Ops +$250, p.248. This increase in funding supports DOI's draft Serving Communities Strategic Goal.

Electronic Government $+2,908

An increase of $2,908 is requested for this multi-year e-Government initiative. This increase is requested to continue the transformation of the OMM business processes and provide secure, on-line access to its business customers. Subactivity: OCS IMP, p.171. This increase in funding supports DOI's draft Resource Use and Serving Communities Strategic Goals.

IT Reduction $-2,270

The reduction in IT is due to the Department taking a corporate approach that will include consolidated purchases of hardware and software, consolidation of support functions including helpdesks and email support, and web services, and coordination of training. Subactivities: OCS IMP $-1,150, p.175; MRM R&O $-740, p.225; and, GA Ad Ops $-380, p.249.

OHMSETT $+1,000

An increase of $1,000 is requested to begin a four-year phased replacement of equipment and for increased operational costs at the National Oil Spill Response Test Facility, p.185. This increase supports DOI's draft Resource Use Strategic Goal.

MRM Software Upgrades $+2,000

An increase of $2,000 is requested to provide contractor software upgrades to the reengineered MRM minerals revenue management system. Developed from a Commercial Off-The-Shelf software package, this system must be updated whenever the COTS software and supporting hardware are updated. Without this increase the system can not be maintained by the contractor or the vendor. Subactivity: MRM CAM, p.212. This increase supports DOI's draft Resource Use Strategic Goal.

MRM System Operations and Support $+1,000

An increase of $1,000 is requested to fund operational support and enhancements for the royalty-in-kind systems. Subactivity: MRM CAM, p.216. This increase supports DOI's draft Resource Use Strategic Goal.

RIK Liquids Management System $-6,015

A decrease of $6,015 is requested to reflect the completion of the RIK Liquids and Risk Management Systems. This decrease will not affect support for Departmental goals. Subactivity: MRM CAM, p.219.

IT Security $+645

An increase of $645 is requested for IT Security. This is the first of a multi-year program to test, assess, and remediate systems in order to reach a goal for certification and accreditation of all high-risk systems by December 2005. Subactivity: GA GSS, p252.

Total Programmatic Changes $-1,807

Appropriations Language Sheet

Royalty and Offshore Minerals Management

For expenses necessary for minerals leasing and environmental studies, regulation of industry operations, and collection of royalties, as authorized by law; for enforcing laws and regulations applicable to oil, gas, and other minerals leases, permits, licenses and operating contracts; and for matching grants or cooperative agreements; including the purchase of not to exceed eight passenger motor vehicles for replacement only, $164,216,000 of which $80,396,000 shall be available for royalty management activities; and an amount not to exceed $100,230,000, 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 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 $100,230,000 in additions to receipts are not realized from the sources of receipts stated above, the amount needed to reach $100,230,000 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, 2005: *Provided further*, That funds appropriated under this Act shall be available for the payment of interest in accordance with 30 U.S.C. 1721(b) and (d): *Provided further*, That not to exceed $3,000 shall be available for reasonable expenses related to promoting volunteer beach and marine cleanup activities: *Provided further*, That notwithstanding any other provision of law, $15,000 under this heading shall be available for refunds of overpayments in connection with certain Indian leases in which the Director of the Minerals Management Service (MMS) concurred with the claimed refund due, to pay amounts owed to Indian allottees or tribes, or to correct prior unrecoverable erroneous payments: *Provided further*, That MMS may under the royalty-in-kind pilot program, or under its authority to transfer oil to the Strategic Petroleum Reserve, use a portion of the revenues from royalty-in-kind sales, without regard to fiscal year limitation, to pay for transportation to wholesale market centers or upstream pooling points, and 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 filling the Strategic Petroleum Reserve: *Provided further*, That MMS shall analyze and document the expected return in advance of any royalty-in-kind sales to assure to the maximum extent practicable that royalty income under the pilot program is equal to or greater than royalty income recognized under a comparable royalty-in-value program.

Oil Spill Research

For necessary expenses to carry out title I, section 1016, title IV, sections 4202 and 4303, title VII, and title VIII, section 8201 of the Oil Pollution Act of 1990, $7,105,000 which shall be derived from the Oil Spill Liability Trust Fund, to remain available until expended.

Permanent Appropriations

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

MMS disburses all monthly mineral-leasing payments to States. All States' monthly payments include late disbursement interest.

The Bureau of Land Management (BLM) disburses those payments which are made semi-annual or annually, including the payment made to Alaska for its share of National Petroleum Reserve-Alaska (NPRA) receipts.

Included under this heading are the following permanent appropriations:

Permanent Appropriations
dollars in thousands

Appropriation	**States Share**	**FY 2002 Actual**	**FY 2003 Estimate**	**FY 2004 Estimate**	**Change from 2003 Estimate**
Mineral Leasing Associated Payments *(MLAP)*	50%	684, 553	886, 694	884, 438	-2,256
National Forest Fund Payments to States *(Forest Fund)*	25%	2, 748	3, 057	3, 081	+24
Payments to States from Lands Acquired for Flood Control, Navigation, and Allied Purposes *(Flood Control)*	75%	976	1, 231	1, 252	+21
Total		688, 277	890, 982	888, 771	-2,211

Note: For an explanation of how mineral leasing collections are distributed among the various States and Federal accounts, please refer to the following section titled Receipts. This section also includes details on the assumptions used to develop the gross mineral receipt estimates such as additional amounts due to the audit of contract settlements, and production and price forecasts. The amounts shown above do not include late interest payments made by MMS to the states, or estimated receipts for sales in the National Petroleum Reserve – Alaska or the Arctic National Wildlife Refuge (ANWR).

Distribution Statutes

For MLAP, the Mineral Leasing Act (MLA), 30 U.S.C. 181 et seq., provides that all States be paid 50 percent of the revenues resulting from the leasing of mineral resources on Federal public domain lands within their borders (except Alaska which receives 90 percent).

Forest Fund payments to a State (16 U.S.C. 499) provides that as of May 23, 1908, 25 percent of all money received during any fiscal year from each national forest shall be paid at the end of that year to the State in which that forest is situated. Law requires a State's payment be based on national forest acreage and where a national forest is situated 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 be shared with the State in which it was collected. These funds are to be expended as the State legislature may prescribe for the benefit of the public schools and roads in the county from which the revenue was collected or for defraying any of the expenses of county government. These types of expenses include public obligations of levee and drainage districts for flood control and drainage improvements.

Calculation of States' Payments

- The total amount for each of the three appropriations is calculated as follows:
  For each land category - public domain, Forest Fund, Flood Control and National Grasslands administered and distributed by the Forest Service, a three-year average for each source type (oil and gas, coal, other mineral royalties, etc.) is developed.

- Within each land category, each source type's three-year average is applied to the three-year average for all source types to determine the percent that each source type within each land category contributes to total collections.

- This percent is applied to the gross revenue estimate for each source type to determine, for each land category, its share of the gross revenue estimated for that source. This ensures that the source type revenue estimates are distributed to the correct land category and therefore to the proper accounts.

- For each land category, the appropriate distribution formula is applied to each source type and summed into the various account totals. For example, Public domain lands: the MLAP Account 5003 (States share) calculates and sums 50 percent from all source types; the General Fund Account 1811 (Federal share of rent and bonuses) calculates and sums 10 percent of all rents and bonuses, and the General Fund Account 2039 (Federal share of royalties) calculates and sums 10 percent of all royalties.

The estimate of the gross payment to a State for any future fiscal year is based on the percent of mineral receipts disbursed to that State to the total mineral receipts disbursed to all States in the prior year. However, when an unusually large one-time adjustment is made for a State in the prior year, the actual for the year before that is substituted and the total amount adjusted accordingly.

Mineral Revenue Payments To States*

(in thousands of dollars)

States:	FY 2002 Actual Payments	FY 2003 Estimated Payments	FY 2004 Estimated Payments
Alabama	251	325	324
Alaska	8,035	10,402	10,376
Arizona	129	166	166
Arkansas	894	1,158	1,155
California	12,339	15,973	15,934
Colorado	43,808	56,710	56,569
Florida	0	0	0
Idaho	1,905	2,465	2,459
Illinois	73	94	94
Kansas	1,034	1,338	1,335
Kentucky	31	41	40
Louisiana	726	940	938
Michigan	249	323	322
Minnesota	17	22	22
Mississippi	380	493	491
Missouri	601	778	776
Montana	22,325	28,900	28,828
Nebraska	9	11	11
Nevada	3,482	4,508	4,497
New Mexico	191,626	248,062	247,447
N. Dakota	4,414	5,714	5,700
Ohio	259	336	335
Oklahoma	1,379	1,785	1,781
Oregon	15	19	19
Pennsylvania	17	22	22
S. Dakota	403	521	520
Texas	1,688	2,185	2,180
Utah	31,656	40,979	40,878
Virginia	20.52	27	26
Washington	692.74	897	895
West Virginia	194.98	252	252
Wyoming	359,621.63	465,534	464,379
	688,277	**890,982**	**888,771**

** Excludes payments made to coastal States under the Outer Continental Shelf Lands Act, as they are direct, unappropriated transfers. Does not include actual or estimated receipts for sales in the National Petroleum Reserve- Alaska, proposed Arctic National Wildlife Refuge (ANWR) legislation, or late interest payments. Columns may not add due to rounding.*

Receipts

The Minerals Management Service (MMS) is responsible for the collection of all mineral leasing receipts collected from Federal onshore and offshore Outer Continental Shelf lands and most Indian lands. 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 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 which, in most part, is based on land category (various types of public domain and acquired lands) and source type (oil and gas, coal, and other mineral royalties, etc.).

The MMS is responsible for the disposition of all OCS collections and about 97 percent of all Federal onshore collections into receipt accounts. The remaining 3 percent of collections are from acquired national grasslands administered by the Department of Agriculture (USDA). These collections are shared between the General Fund and counties (versus States). Since MMS does not have the authority to disburse these funds to counties, the funds are transferred to the USDA for disposition. 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 BIA, OST instructs Treasury to make payments to Tribal and Indian allottee accounts.

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 fall into this category), or 2) Undistributed proprietary receipts which offset total Federal budget authority and outlays as a bottom-line adjustment (currently, all OCS receipts fall into this category).

This receipts section includes:

- An explanation as to the distribution of onshore and offshore royalty revenues into receipt accounts.

- A discussion of the changes between the FY 2003 and FY 2004 receipt estimates.

- A summary description of current onshore and offshore royalty and rental rates, bonus criteria, and other lease information.

For FY 2003 - FY 2009, tables of the:

- estimated receipts by source type and by account;

- detailed backup information from which the gross estimates are developed (estimated price, production, etc.); and

- transfer payments made to coastal states under section 8(g) of the Outer Continental Shelf Lands Act (OCSLA) (payments to onshore States are provided in the Permanents section).

Distribution of Receipt Accounts

The following flowcharts describe the flow of Onshore (Diagram 1) and OCS (Diagram 2) mineral leasing collections into receipt accounts. First, as payments are received from payors, they are deposited into a holding or suspense account until the accounting system has identified the payments by the:

Source type (oil and gas, coal, other mineral royalties, etc);

Land category (acquired Forest, public domain, OCS, etc.); and

Location (to determine recipient States' or counties' shares if applicable).

If reports are filed correctly by payors, this process usually takes about one month.

Onshore Accounts. After the payments are identified by the above three criteria, they are redirected immediately into all accounts based on land category and source type. Detailed State information is necessary to disburse States' shares to States' treasuries. The acquired lands collections shared with counties are electronically transferred to the USDA for disposition into receipt accounts.

The collections from public domain lands leased under Mineral Leasing Act (MLA) authority are shared 50% with the States (Account 5003), 40% with the Reclamation Fund (Account 5000.24) which funds western water projects, and 10% with the General Fund. 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). By law, Alaska receives no funds from the Reclamation Fund, but receives a 90 percent share of mineral leasing receipts except for lands located within the National Petroleum Reserve – Alaska (NPRA).

The MMS transfers to the Bureau of Land Management, for distribution, the monies collected from public domain lands not leased under MLA authority, such as the National Petroleum Reserve-Alaska (NPR-A) lands from which Alaska and the General Fund receive 50 percent shares. Since there is currently no production from the NPR-A, the entire General Fund share is deposited into Account 1811 (rents and bonuses). BLM makes payment to Alaska for its share of the NPR-A receipts.

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 Mineral Leasing Act for Acquired Lands. Therefore, MMS also reports the following accounts: Accounts 5008.1 and 5243.1 are the Federal and States' shares (75 and 25 percent respectively) of receipts collected from National Forest lands, and Account 5248.1 is the States' 75 percent share of receipts collected from Lands Acquired for Flood Control, Navigation and Allied Purposes.

The Government's 25 percent share of these collections will be deposited to the General Fund (either Account 1811 or 2039).

OCS Accounts. OCS receipts are deposited into accounts depending on source: rents, bonuses, or royalties. Also, the interest earned on collections held in escrow is deposited to a separate account. Amounts held in escrow accounts are not included in receipt totals.

In order to bid on an OCS lease tract offered for sale, a bidder must submit an upfront cash deposit equal to 1/5 of the entire proposed bid. This money is deposited into escrow (account 6705) and accrues interest until MMS has determined the proposed bonus is at least equal to the fair market value of that tract. If rejected, the 1/5 upfront deposit, plus interest, is returned to the bidder. If the bid is accepted, the 1/5 bonus, the remaining 4/5 bonus, and the first year's rent are deposited into the receipt account for OCS rents and bonuses (Account 1820). Accrued interest is deposited into Account 1493. Future OCS rents, due on the anniversary date of lease issuance, are also deposited into Account 1820. OCS royalties, due from payors at the end of the month following the month of production, are deposited into the OCS royalty account (Account 2020).

The payments made to coastal States for their 27 percent share of OCS collections within the 8(g) zone, the area approximately 3 miles seaward from the State/Federal boundary, flow through Escrow Account 6707. The last table provides information as to actual and estimated payments for these States.

Approximately 25 percent of the OCS receipts accumulated throughout the year in General Fund accounts are transferred at the end of the fiscal year to the Land and Water Conservation Fund (LWCF) (accounts 5000.7 and 5000.8) which is administered by the National Park Service. OCS receipts are the main funding source of the mandated $900 million required for the LWCF. Additional funding sources for the LWCF are motor boat fuel taxes ($1 million), and receipts from the sale of surplus government property and materials. LWCF must be funded from OCS receipts, and accounting procedures require payments be made from rents and bonuses, and then any further needed payments should be made from royalties. The LWCF is subject to appropriation and the amount of States' grants is determined by various criteria which are not related to the amount of OCS receipts collected offshore their coastlines.

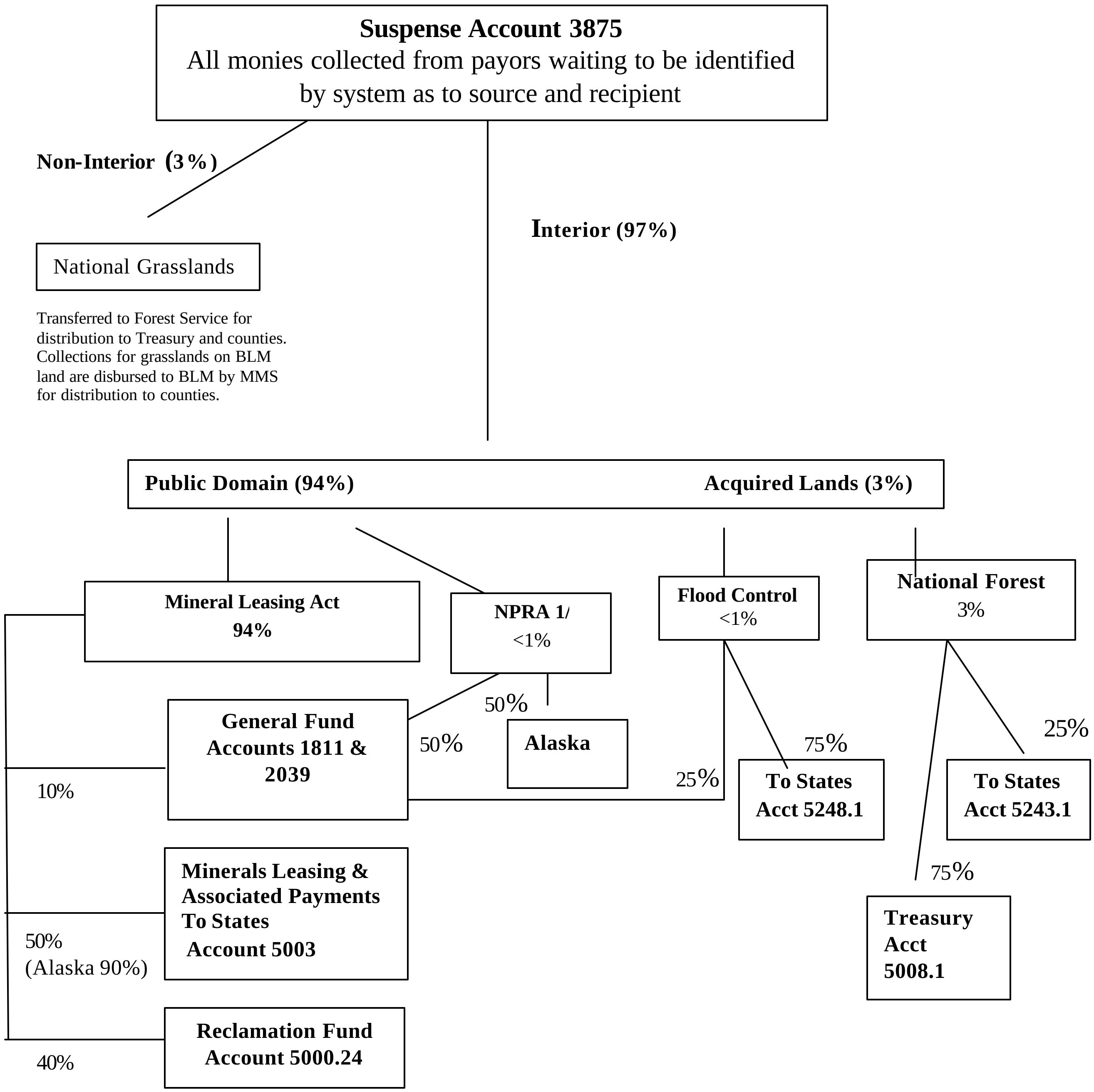
Recent Changes

Net Receipt Sharing. From FY 1991 through FY 2000, States paid 25 percent of the Federal cost to administer the Federal Onshore mineral leasing program. This requirement was referred to as “Net Receipts Sharing” and mandated by language in the FY 1991 and FY 1992 Interior Appropriations Acts. In FY 1993, Congress passed the Omnibus Budget Reconciliation Act, which made Net Receipt Sharing (NRS) permanent. Net receipt sharing was subsequently repealed by Public Law 106-393, signed by the President on October 30, 2000. No further administrative costs were withheld from payments to states beginning in October 2000 (FY 2001).

Alaska Escrow Account and the Environmental Improvement Fund. For many years, the state of Alaska and the Federal government were engaged in a dispute over the State/Federal boundary of areas leased for oil and gas exploration in the Beaufort Sea between 1979 and 1991. Pending resolution of the dispute, sale bonuses collected during this time, and associated rental payments, were deposited into Escrow Account 6704. The U.S. Supreme Court issued a final decree on the matter on June 29, 2000, settling the dispute and permitting the release of funds that had been held in the Treasury escrow account.

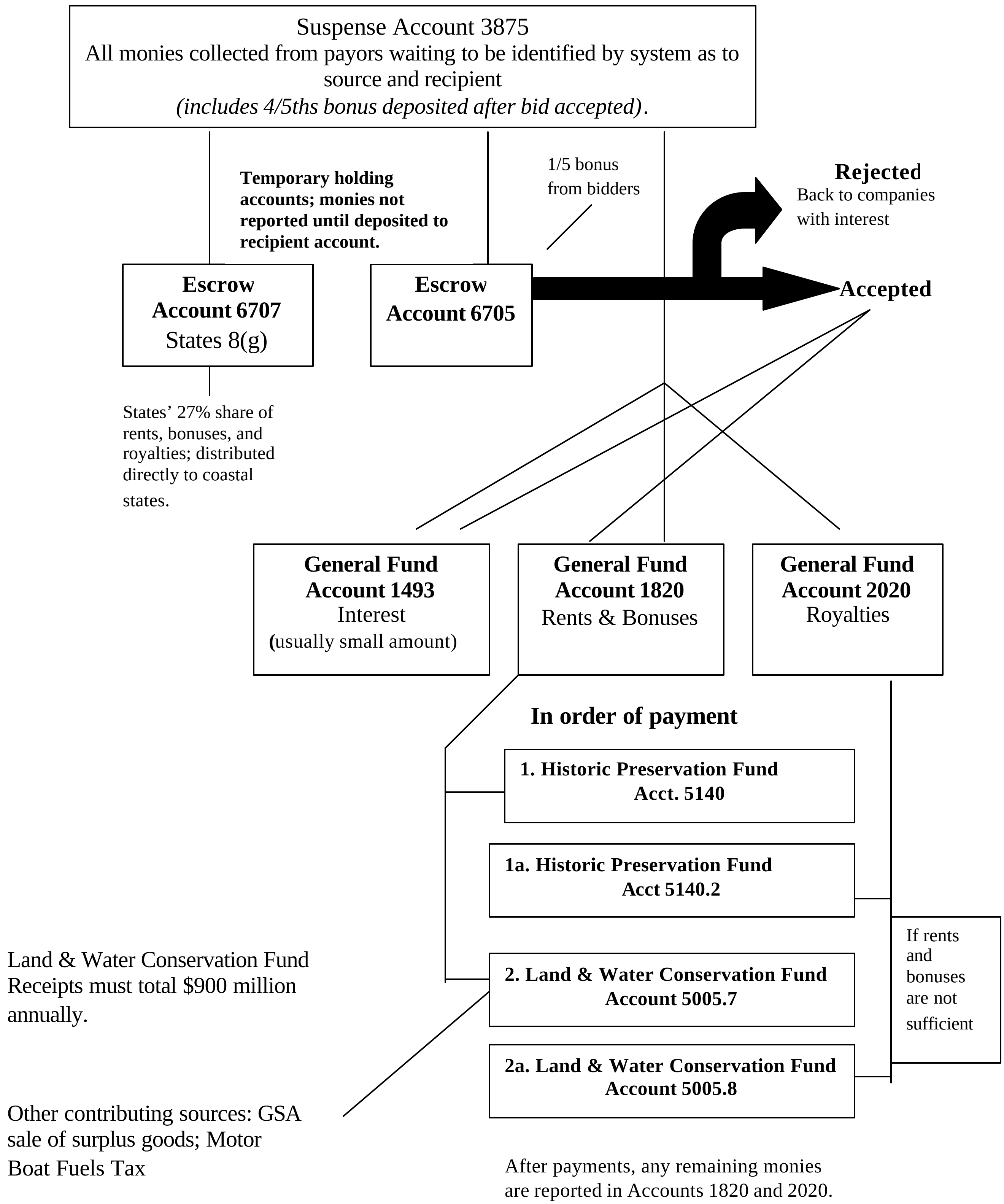
As required by Public Law 105-83, as amended, one-half of the principal and one-half of the interest were deposited into the Environmental Improvement and Restoration Fund. The law requires that the corpus of the Fund be invested. Twenty percent of the interest earned by the Fund is permanently appropriated to the Department of Commerce. Commerce received $4.9M from this account in FY 2002. Congress can appropriate the remaining 80 percent by annual appropriations, for specific purposes as outlined in the law. The MMS administers the fund. The remaining one-half principal and interest was deposited into the General Funds of the United States Treasury.

Distribution of Onshore Receipts



1/ National Petroleum Reserve – Alaska Acct 5045

Distribution of Offshore (OCS) Receipt Accounts



Onshore Mineral Receipts
FY 2003 Estimates vs. FY 2004 Estimates
(Dollars in thousands)

DOI Proprietary Onshore Mineral Receipts

	Fiscal Year			
	2003	2004	Change	Explanation
Rents & Bonuses				
Oil & Gas	96,655	102,573	+5,918	Expect higher competitive bonus payments and more production resulting in increased rental payments.
Coal	172,500	188,100	+15,600	Expect 3-5 competitive lease sales to be conducted in FY 2004 (of which at least 2 are projected to produce a large volume of bonus receipts)
Geothermal	1,100	1,050	-50	Expected to remain relatively level
Oil Shale	15	15	0	Expected to remain level
All Other	21	21	0	Expected to remain level
Subtotal	**270,291**	**291,759**	**+21,468**	
Royalties				
Oil & Gas	1,134,343	1,116,700	-17,643	Decline in oil and gas resulting from a short-term price fall from FY 2003 to FY 2004 and declines in oil reserves on Federal lands.
Coal	340,342	331,675	-8,667	Coal production projected to increase, but prices will decrease resulting in lower revenues.
Geothermal	15,576	15,675	+99	Expected to remain level.
All Other	26,704	27,061	+357	Expected to remain relatively level.
Subtotal	**1,516,965**	**1,491,111**	**-25,854**	
Total	**1,787,256**	**1,782,870**	**-4,386**	

Outer Continental Shelf Mineral Receipts
FY 2003 Estimates vs. FY 2004 Estimates

(Dollars in thousands)

DOI Undistributed Proprietary OCS Mineral Receipts

	Fiscal Year			
	2003	**2004**	**Change**	**Explanation**
Rents and Bonuses				
Rents	93,000	92,000	-1,000	Expected to remain relatively level
Bonuses	476,000	523,000	+47,000	Difference reperesents addition of an EGOM sale in FY 2004
Subtotal	**569,000**	**615,000**	**+46,000**	
Royalties				
Oil	1,058,931	798,467	-260,464	Slightly lower gas prices projected in FY 2004 and an increase in the amount of oil converted to the Strategic Petroleum Reserve.
Gas	2,611,617	2,515,285	-96,332	Slightly lower oil and gas prices projected in FY 2004 and
Negotiated Settlements	60,000	60,000	0	
Subtotal	**3,730,548**	**3,373,752**	**-356,796**	
Total	**4,299,548**	**3,988,752**	**-310,796**	

Department of the Interior
Mineral Leasing Receipts by Commodity Source
dollars in thousands

By Source - President's Policy

	FY 2003 Estimate	FY 2004 Estimate	FY 2005 Estimate	FY 2006 Estimate	FY 2007 Estimate	FY 2008 Estimate	FY 2009 Estimate
Onshore Mineral Leasing							
Rents and Bonuses							
Oil and Gas	96,655	102,573	108,491	109,477	95,669	90,738	85,806
Coal	172,500	188,100	216,900	227,200	176,200	173,600	168,200
Geothermal	1,100	1,050	1,000	1,000	1,200	1,000	1,500
Oil Shale	15	15	15	15	15	15	15
All Other	21	21	21	21	21	21	21
Subtotal, Rents and Bonuses	270,291	291,759	326,427	337,713	273,105	265,374	255,542
Royalties							
Oil and Gas	1,134,343	1,116,700	1,128,137	1,136,500	1,154,521	1,203,752	1,241,297
Coal	340,342	331,675	323,149	316,293	311,554	306,594	301,927
Geothermal	15,576	15,675	15,675	15,675	15,675	15,675	15,675
All Other	26,704	27,061	25,333	24,398	24,101	23,806	23,489
Subtotal, Royalties	1,516,965	1,491,111	1,492,294	1,492,866	1,505,851	1,549,827	1,582,388
Subtotal, Onshore	1,787,256	1,782,870	1,818,721	1,830,579	1,778,956	1,815,201	1,837,930
Royalty-in-Kind fees	3	3	3	3	3	3	3
Sale of publications	149	149	149	149	149	149	149
Subtotal, Other	152	152	152	152	152	152	152
Total, Onshore and Other	1,787,408	1,783,022	1,818,873	1,830,731	1,779,108	1,815,353	1,838,082
Outer Continental Shelf							
OCS Rents and Bonuses	569,000	615,000	499,000	481,000	583,000	418,000	410,000
OCS Royalties	3,730,547	3,373,752	3,995,577	4,674,214	4,760,742	4,777,532	4,805,285
Total, OCS	4,299,547	3,988,752	4,494,577	5,155,214	5,343,742	5,195,532	5,215,285
TOTAL, Mineral Receipts	6,086,955	5,771,774	6,313,450	6,985,945	7,122,850	7,010,885	7,053,367

Department of the Interior
Mineral Leasing Receipts by Account
dollars in thousands

By Account - President's Policy

		FY 2003 Estimate	FY 2004 Estimate	FY 2005 Estimate	FY 2006 Estimate	FY 2007 Estimate	FY 2008 Estimate	FY 2009 Estimate
Onshore Mineral Leasing								
1811.00	Rents and Bonuses	26,693	28,819	32,265	33,390	26,977	26,221	25,255
2039.00	MLR Royalties	151,057	148,486	148,629	148,695	149,963	154,333	157,567
5000.24	Reclamation Fund	709,355	707,550	721,855	726,605	706,113	720,563	729,637
5003.02	Payments to States	886,694	884,438	902,319	908,256	882,641	900,704	912,047
5243.10	Forest Fund, states share	3,057	3,081	3,090	3,083	3,006	3,035	3,047
5008.10	Forest Fund, Govt share	9,170	9,243	9,271	9,249	9,018	9,104	9,140
5248.10	Flood Control (States shares)	1,231	1,252	1,292	1,302	1,238	1,242	1,238
Subtotal, Onshore		1,787,257	1,782,869	1,818,721	1,830,580	1,778,956	1,815,202	1,837,931
2419.1	Royalty-in-kind fees	3	3	3	3	3	3	3
2259.0	Sale of publications	149	149	149	149	149	149	149
Subtotal, Other		152	152	152	152	152	152	152
Total, Onshore and Other		1,787,409	1,783,021	1,818,873	1,830,732	1,779,108	1,815,354	1,838,083
Outer Continental Shelf								
1820.00	OCS Rents and Bonuses	-	-	-	-	-	-	-
2020.00	OCS Royalties	3,252,547	2,941,752	3,447,577	4,108,214	4,296,742	4,298,532	4,318,285
5005.70	LWCF (OCS R & B)	419,000	465,000	349,000	331,000	433,000	418,000	410,000
5005.80	LWCF (OCS royalties)	478,000	432,000	548,000	566,000	464,000	479,000	487,000
5140.00	Hist. Pres. (OCS R & B)	150,000	150,000	150,000	150,000	150,000		-
Total, OCS		4,299,547	3,988,752	4,494,577	5,155,214	5,343,742	5,195,532	5,215,285
Total, Mineral Receipts		6,086,956	5,771,773	6,313,450	6,985,946	7,122,850	7,010,886	7,053,368

Onshore Rents and Bonuses
dollars in thousands

	FY 2003 Estimate	FY 2004 Estimate	FY 2005 Estimate	FY 2006 Estimate	FY 2007 Estimate	FY 2008 Estimate	FY 2009 Estimate
Oil and Gas							
Rents							
Lower 48	43,000	44,000	45,000	46,000	47,000	47,000	47,000
Bonuses							
Lower 48	55,000	60,000	65,000	65,000	50,000	45,000	40,000
Subtotal, Oil and Gas	98,000	104,000	110,000	111,000	97,000	92,000	87,000
Coal							
Rents	1,400	1,400	1,400	1,400	1,400	1,400	1,400
Bonuses	171,100	186,700	215,500	225,800	174,800	172,200	166,800
Subtotal, Coal	172,500	188,100	216,900	227,200	176,200	173,600	168,200
Geothermal							
Rents and Bonuses	1,100	1,050	1,000	1,000	1,200	1,000	1,500
Oil Shale							
Rents and Bonuses	15	15	15	15	15	15	15
Other Minerals							
Rents and Bonuses	21	21	21	21	21	21	21
TOTAL, Rents & Bonuses	271,636	293,186	327,936	339,236	274,436	266,636	256,736

Amounts may differ slightly from the "Mineral Leasing Receipts by Source" table. Estimates in that table do not reflect amounts collected for Grasslands. Receipt estimates for NPR-A are reported by the Bureau of Land Management.

OCS Rents and Bonuses
January 2003
Bonus Revenue Estimates
(dollars in millions)

Sale Number	Sale Date (FY)	Sale Area	High Bids	% in FY	Total 8(g)	8(g) to States	Receipt Estimate
184	late 02	Western Gulf of Mexico	149	100%	8	2	147
185	mid 03	Central Gulf of Mexico	310	100%	2	1	309
186	mid 03	Beaufort Sea	20	100%	1	0	20
187	late 03	Western Gulf of Mexico	200	0%	2	1	0
		Bonus Total					476
		Rents					93
		Total - Estimate FY 2003 Receipts					569
187	late 03	Western Gulf of Mexico	200	100%	2	1	199
188	early 04	Norton Basin	1	100%	0	0	1
189	early 04	Eastern Gulf of Mexico	50	100%	0	0	50
190	mid 04	Central Gulf of Mexico	270	100%	[illegible]	0	270
191	mid 04	Cook Inlet	3	100%	0	0	3
192	late 04	Western Gulf of Mexico	160	0%	1	0	0
		Bonus Total					523
		Rents					92
		Total - Estimate FY 2004 Receipts					615
192	late 04	Western Gulf of Mexico	160	100%	1	0	160
193	early 05	Chukchi	10	100%	0	0	10
194	mid 05	Central Gulf of Mexico	230	100%	1	0	230
195	mid 05	Beaufort	15	100%	1	0	15
196	late 05	Western Gulf of Mexico	130	0%	1	0	0
		Bonus Total					415
		Rents					84
		Total - Estimate FY 2005 Receipts					499
196	late 05	Western Gulf of Mexico	130	100%	1	0	130
197	early 06	Eastern Gulf of Mexico	30	100%	0	0	30
198	mid 06	Central Gulf of Mexico	250	100%	1	0	250
199	mid 06	Cook Inlet	3	100%	0	0	3
200	late 06	Western Gulf of Mexico	160	0%	1	0	0
		Bonus Total					413
		Rents					68
		Total - Estimate FY 2006 Receipts					481
200	late 06	Western Gulf of Mexico	160	100%	1	0	160
201	mid 07	Central Gulf of Mexico	360	100%	1	0	360
202	mid 07	Beaufort Sea	10	100%	1	0	10
203	late 07	Chukchi	5	0%	0	0	0
	late 07	Western Gulf of Mexico	170	0%	0	0	0
		Bonus Total					530
		Rents					53
		Total - Estimate FY 2007 Receipts					583
203	late 07	Chukchi	5	100%	0	0	5
	late 07	Western Gulf of Mexico	130	100%	1	0	130
	mid 08	Central Gulf of Mexico	250	100%	1	0	250
	late 08	Western Gulf of Mexico	130	0%	0	0	0
		Bonus Total					385
		Rents					33
		Total - Estimate FY 2008 Receipts					418

OCS Rents and Bonuses
January 2003
Bonus Revenue Estimates
(dollars in millions)

Sale Number	Sale Date (FY)	Sale Area	High Bids	% in FY	Total 8(g)	8(g) to States	Receipt Estimate
	late 08	Western Gulf of Mexico	130	100%	0	0	130
	mid 09	Central Gulf of Mexico	250	100%	0	0	250
	late 09	Western Gulf of Mexico	130	0%	0	0	0
		Bonus Total					380
		Rents					30
		Total - Estimate FY 2009 Receipts					410
	late 09	Western Gulf of Mexico	130	100%	0	0	130
	mid 10	Central Gulf of Mexico	250	100%	0	0	250
	late 10	Western Gulf of Mexico	130	0%	0	0	0
		Bonus Total					380
		Rents					32
		Total - Estimate FY 2010 Receipts					412
	late 10	Western Gulf of Mexico	130	100%	0	0	130
	mid 11	Central Gulf of Mexico	250	100%	0	0	250
	late 11	Western Gulf of Mexico	130	0%	0	0	0
		Bonus Total					380
		Rents					30
		Total - Estimate FY 2011 Receipts					410
	late 11	Western Gulf of Mexico	130	100%	0	0	130
	mid 12	Central Gulf of Mexico	250	100%	0	0	250
	late 12	Western Gulf of Mexico	130	0%	0	0	0
		Bonus Total					380
		Rents					7
		Total - Estimate FY 2012 Receipts					387
	late 12	Western Gulf of Mexico	130	100%	0	0	130
	mid 13	Central Gulf of Mexico	250	100%	0	0	250
	late 13	Western Gulf of Mexico	130	0%	0	0	0
		Bonus Total					380
		Rents					0
		Total - Estimate FY 2013 Receipts					380

FY 2004 President's Budget
Federal Onshore Royalty Estimates
FY 2003-2009
(dollars in millions)

Federal Onshore	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Oil							
Oil (mil. bbls.)	92.486	88.485	86.132	83.308	80.719	78.365	76.012
Actual/OMB Price	23.38	22.86	23.20	23.55	23.93	24.34	24.75
Royalty Rate	0.0937	0.0937	0.0937	0.0937	0.0937	0.0937	0.0937
Oil Royalty	202.6	189.5	187.2	183.8	181.0	178.7	176.3
Oil Min. Royalty	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Subtotal Oil ($MM)	$ 204.6	$ 191.5	$ 189.2	$ 185.8	$ 183.0	$ 180.7	$ 178.3
Gas							
Gas (bill. of cubic feet)	2.183	2.244	2.251	2.253	2.268	2.358	2.409
Actual/OMB Price	3.41	3.30	3.35	3.40	3.46	3.52	3.59
Royalty Rate	0.1157	0.1157	0.1157	0.1157	0.1157	0.1157	0.1157
Gas Royalty	$ 861.3	$ 856.8	$ 872.5	$ 886.3	$ 907.9	$ 960.3	$ 1,000.6
CO2							
CO2 (mil. Mcf)	270	270	270	267	267	267	264
Estimated Price	0.58	0.58	0.58	0.58	0.58	0.58	0.58
Royalty Rate	0.06	0.06	0.06	0.06	0.06	0.06	0.06
CO2 Royalty	9.4	9.4	9.4	9.3	9.3	9.3	9.2
Gas Plant Products	32.9	32.7	32.8	33.9	35.2	36.6	38.6
Gas Min. Royalties	6	6	6	6	6	6	6
Subtotal Gas ($MM)	$909.53	$904.86	$920.66	$935.48	$958.45	$1,012.24	$1,054.39
Total, Oil & Gas ($MM)	$1,114.1	$1,096.4	$1,109.9	$1,121.3	$1,141.4	$1,193.0	$1,232.7

FY 2004 President's Budget
Federal Onshore Royalty Estimates
FY 2003-2009
(dollars in millions)

Federal Onshore	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Coal							
Coal mil. tons	450.9	457.7	464.6	471.6	478.7	485.9	493.2
Estimated Price	7.26	6.97	6.69	6.42	6.23	6.04	5.86
Royalty Rate	0.1040	0.1040	0.1040	0.1045	0.1045	0.1045	0.1045
Total Coal ($MM)	$340.4	$331.8	$323.3	$316.4	$311.7	$306.7	$302.0
Geothermal ($MM)	$15.7	$15.8	$15.8	$15.8	$15.8	$15.8	$15.8
All Other ($MM)	$26.7	$27.1	$25.4	$24.4	$24.1	$23.8	$23.5
TOTAL ($MM)	$1,497.0	$1,471.0	$1,474.3	$1,477.9	$1,493.0	$1,539.3	$1,574.0
Negotiated Settlements ($MM)	$25	$25	$23	$20	$18	$16	$14
Other Revenues ($MM)	$2	$2	$2	$2	$2	$2	$2

FY 2004 President's Budget
Federal Offshore Royalty Estimates
FY 2003-2009
(dollars in millions)

	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Oil (Million Barrels)							
Alaska[1]	3	4	4	3	2	2	1
POCS	26	23	20	17	15	13	11
Total GOM	590	600	640	690	720	725	730
GOM Royalty Production[2]	579	585	620	665	689	689	690
Total Royalty Production	608	612	644	685	706	704	702
Royalty Rate	0.1396	0.1392	0.1381	0.1375	0.1368	0.1361	0.1354
OMB Price per Barrel	23.95	22.18	22.52	22.87	23.25	23.66	24.08
Royalty Receipts ($MM)	2,033.9	1,888.5	2,002.2	2.153.5	2,246.3	2,267.2	2,290.3
Gas (Billion Cubic Feet)							
POCS	32	28	24	21	18	16	14
Total GOM	5,050	5,100	5,125	5,120	5,100	5,075	5,050
GOM Royalty Production[2]	4,985	5,007	5,004	4,973	4,934	4,895	4,861
Total Royalty Production	5.017	5,035	5,028	4,994	4,052	4,911	4,875
Royalty Rate	0.1527	0.1514	0.1501	0.1488	0.1475	0.1462	0.1449
OMB Price per Mcf	3.41	3.30	3.35	3.40	3.46	3.52	3.59
Royalty Receipts ($MM)	2,611.6	2,515.3	2,528.4	2,526.7	2,527.4	2,527.3	2,536.0
Adjustments							
Strategic Petroleum Reserve[3]	-920	-1038	-536				
State's Share (8G)	-55	-52	-53	-55	-57	-56	-56
Negotiated Settlement	60	60	54	49	44	39	35
Total Adjustments	**-915**	**-1030**	**-535**	**-6**	**-13**	**-17**	**-21**
Total	**3,730.5**	**3,373.8**	**3,995.6**	**4,674.2**	**4,760.7**	**4,777.5**	**4,805.3**

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

[2]GOM Royalty Production is GOM production net of that production which is not subject to royalties because of the Deep Water Royalty Relief Act and similar royalty relief incentives.

[3] Approximately 38.4M, 46.8M, and 23.8M barrels of RIK oil are targeted for transfer to the SPR in FY 2003, 2004, and 2005, respectively.

Summary Description - Federal Onshore Leases

Royalty Rate	Rents	Lease Duration	Bonus
		Oil & Gas	
Competitive: Leases issued under MLA (Prior to 12/23/87), royalty assessed on amount of production and ranges from 12.5% to 33%.	Under MLA, for leases 1-5 years, rate is $2/acre/yr. Secretarial Order on 12/92 reduced to $1/acre/yr through 2/98.	5 years: continued if capable of commercial production. 10 years: for leases after enacted after the Nat'l Energy Policy Act of 1992. After commercial production, the lessor pays minimum royalty.	Under MLA, bonuses are based on fair market value.
Competitive: Leases issued under LRA are set at 12.5%.	Under LRA, rent is $1.50/acre/yr for years 1-5 and $2.00/acre/yr for years 6-10.	see above	Under LRA, bonus is not less than $2.00/acre.
Non-Competitive: Based on 12.5% of production.	Under MLA, rent is $1/acre/yr for years 1-10. SOG leases are $2/acre/yr and KGS $2/acre/yr but are subject to above rental reduction.	10 years: continued if capable of commercial production (than lessor pays minimum royalty)	All leases are now offered only by competitive means
NPRA: Set by regulation at 16.66%. However, no production anticipated.	$3/acre/yr	10 years or less	
		Coal	
Post-FCLAA (1976): 12.5% of value. Secretary may set lower rate for underground mines. Currently 8%.	Rental rate is $3/acre/yr.	Indefinite period with 20-year readjustments.	Bid amount must be equal to or greater than fair market value. At least 1/2 the amount for lease in a year must be offered through deferred bonus bidding.
Pre-FCLAA: $.15/ton underground and $.175/ton surface mines	Rental rate is $1/acre/yr	see above	see above
		Geothermal	
Generally set for individual leases. By statute it may not be less than 10% nor more than 15% of the value of steam & not less than 5% of the value of demineralized water.	**Competitive:** $2/acre/yr or $5/acre/yr for yrs 1-5 if choose not to file report showing significant expenditures to develop. **Non-Competitive:** $1/acre/yr for yrs 1-5 and $4/acre/yr for subsequent years.	10 years; continued if capable of producing commercial quantities.	**Competitive:** if within a Known Geothermal Resource Area, lease is by sealed bid **Non-Competitive** : if outside KGRA, lease is by over-the-counter basis.
		Other Minerals	
Royalty is paid based on lease terms and varies by commodity.	Based on statute and regulation, rent varies by commodity and ranges $0.25 - 1/acre/yr	Varies by commodity. 20 years subject to readjustment every 10-20 years	Competitive (vs. non-competitive) leases are awarded to highest qualified bid exceeding fair market value.

MLA - Mineral Leasing Act; LRA - Leasing Reform Act; NPRA - National Petroleum Reserve-Alaska
FCLAA - Federal Coal Leasing Amendments Act of 1976

Summary Description - Federal OCS Leases

Royalty Rate (Non-DWRRA)	Rents	Lease Duration	Bonus
Is set for each sale area in its Final Notice of Sale. It may be: 1. 12.5% for water depths > 400m or 16.66% for water depths < 400m. The 12.5% is also used for Alaska & certain parts of California 2. Sliding-scale (12.5-65%) based on average of all production 3. Step-scale which increases by steps as production increases 4. Flat rate of 33.33% 5. Net profit share which require royalty (in the form of share of profits) only after certain expenditures are recovered	Pre-1993: $3/acre/year with a few $10/acre/yr for drainage sales. Post-1993: $5/acre with $2/acre transferred to MMS in water depths less than 200 meters. $7.50/acre with $4.50/acre transferred to MMS for water depths greater than 200 meters.	In the Gulf of Mexico: 5 years in water depths less than 400 meters. 8 years in water between 400 and 800 meters (drilling must commence in first 5 years). 10 years in water deeper than 800 meters. 10 years in Alaska. Production holds leases indefinitely beyond the primary lease term.	Based on fair market value. In the Gulf of Mexico: $25 per acre in water depths less than 800 meters. $37.50 per acre in water depths greater than 800 meters. $25 per acre in Alaska.

<u>Royalty Rates Under the Deepwater Royalty Relief Act (DWRRA)</u>

Royalty suspensions resulting from the Deep Water Royalty Relief Act (DWRRA)—Certain Gulf of Mexico (GOM) deep water leases issued between 11/28/95 and 11/28/00 receive royalty suspensions based on the following criteria:

- Lease must lie west of 87 degrees, 30 minutes West longitude.
- Lease must not be located within a field producing prior to 11/28/95.
- All leases share the field royalty suspension on a first-come-first-served basis.
- Leases in fields located in between 200 and 400 meters of water do not pay royalties until 17.5 million barrels of oil equivalent (MMBOE) have been produced from the field.
- Leases in fields located in between 400 and 800 meters of water do not pay royalties until 52.5MMBOE have been produced from the field.
- Leases in fields located in deeper than 800 meters of water do not pay royalties until 87.5MMBOE have been produced from the field.
- Royalty suspensions do not apply to production for periods when actual product prices exceed prescribed thresholds.

The DWRRA expanded the Secretary of the Interior's latitude to offer reduced royalty terms anywhere on the Federal Outer Continental Shelf.

Out from under the mandates of the DWRRA, royalty suspensions for GOM deep water leases issued beginning in 2001 will receive royalty suspensions based on the following criteria:

- Leases can be anywhere in the GOM.
- Leases can be located within a producing field.
- Royalty suspension volumes are applied per lease rather than per field.
- Beginning in 2002, leases located in between 400 and 800 meters of water do not pay royalties until 5MMBOE have been produced from the lease.
- Leases located in between 800 and 1,600 meters of water do not pay royalties until 9MMBOE have been produced from the lease.
- Leases located in deeper than 1,600 meters of water do not pay royalties until 12MMBOE have been produced from the lease.
- Royalty suspensions do not apply to production for periods when actual product prices exceed prescribed thresholds that are more stringent than for the DWRRA.

<u>Minimum royalties</u>

- Leases granted prior to Lease Sale 178 in March 2001. Rents are paid on a lease at the beginning of the lease year until a successful well is drilled; once a successful well has been drilled, the lease must pay a minimum royalty amount equal to its previous rental by the end of the lease year. Once a well goes into production, the lease must pay, at a minimum, a royalty amount equal to its previous rental amount. Leases sold under the Deepwater Royalty Relief Act (from 1996 – 2000 in water 200 meters or deeper in the Gulf of Mexico), pay no royalties until the royalty suspension volume has been met.
- Leases granted with, and after, Lease Sale 178 in March 2001. Rents are paid until royalty suspension volume, if any, has been met, then royalties subject to minimum royalties are paid. Before a discovery, this rent is due at the beginning of the lease year, after the discovery it is due by the end of the lease year.

Department of the Interior

Minerals Management Service

Royalty and Offshore Minerals Management

Program and Financing

dollars in millions

Treasury Account ID: 14-1917		FY 2002 Actual	FY 2003 Estimate	FY 2004 Estimate
Obligations by program activity				
	Direct program			
0001	OCS Lands	70	86	86
0002	Minerals Revenue Management	57	63	63
0003	General Administration	24	27	27
0192	Total direct program	151	176	176
	Reimbursable program			
0901	OCS Revenue Receipts	122	100	100
0902	Franchise Activities	505	0	0
0903	ROMM	2	2	2
0999	Total reimbursable program	629	102	102
1000	Total new obligations	780	278	278
Budgetary resources available for obligation				
2140	Unobligated balance, start of year	11	7	5
2200	New budget authority (gross)	767	266	266
2210	Resources available from recoveries	9	10	10
2390	Total budgetary resources available for obligation	787	283	281
2395	Total new obligations	-780	-278	-278
2440	Unobligated balance carried forward, end of year	7	5	3
New budget authority (gross), detail				
	Discretionary			
4000	Appropriation	151	164	164
	Spending authority from offsetting collections			
6801	Offsetting collections (cash)	108	100	100
6802	Offsetting collections (cash)	2	2	2
6890	Total spending authority from offsetting collections	110	102	102
	Mandatory			
6900	Offsetting collections (cash)	506	0	0
7000	Total new budget authority (gross)	767	266	266
Change in obligated balances				
7240	Obligated balance, start of year	69	78	80
7310	Total new obligations	780	278	278
7320	Total outlays (gross)	-762	-266	-271
7345	Recoveries of prior year obligations	-9	-10	-10
7440	Obligated balance, end of year	78	80	77

Outlays (gross) detail				
8690	Outlays from new discretionary authority	196	197	197
8693	Outlays from discretionary balances	66	69	74
8697	Outlays from new mandatory authority	450	0	0
8698	Outlays from mandatory balances	50	0	0
8700	Total outlays (gross)	762	266	271
Offsets against gross budget authority and outlays				
8800	Offsetting collections from Federal sources	506	0	0
8840	Offsetting collections from Non-Federal sources	110	102	102
8890	Total, offsetting collections	616	102	102
Net budget authority and outlays				
8900	Budget authority	151	164	164
9000	Outlays	145	164	169
Additional net budget authority and outlays to cover cost of fully accruing retirement				
9900	Budget authority	10	10	10
9901	Outlays	10	10	10

Note: Beginning with FY 2003, the Interior Franchise Fund (IFF) account was transferred to MMS.

Department of the Interior

Minerals Management Service

Royalty and Offshore Minerals Management

Object Classification

dollars in millions

Treasury Account ID: 14-1917		FY 2002 Actual	FY 2003 Estimate	FY 2004 Estimate
	Direct obligations			
1111	Full-time permanent	105	104	104
1121	Civilian personnel benefits	26	26	26
1210	Travel and transportation of persons	3	3	3
1233	Communications, utilities, and misc. charges	6	5	5
1252	Other services	9	36	36
1260	Supplies and materials	1	1	1
1310	Equipment	1	1	1
1990	Subtotal, direct obligations	151	176	176
	Reimbursable obligations			
2111	Full-time permanent	4	*0	*0
2121	Civilian personnel benefits	1	*0	*0
2210	Travel and transportation of persons	1	1	1
2233	Communications, utilities, and misc. charges	13	13	13
2252	Other services	604	82	82
2260	Supplies and materials	1	1	1
2310	Equipment	5	5	5
2990	Subtotal, reimbursable obligations	629	102	102
9999	Total new obligations	780	278	278

Beginning with FY 2003, the Interior Franchise Fund account as been transferred to the Minerals Management Service. FY2003 and FY2004 columns show only OCS Revenue Receipts under the reimbursable obligations heading. Line 9999 is estimated obligations of current year and prior year collections/budget authority.

Department of the Interior

Minerals Management Service
Royalty and Offshore Minerals Management

Account Object Class Information

dollars in millions

Treasury Account ID: 14-1917

	FY 2003 Estimate Amount		**Uncontrollable & Related Changes**		**Programmatic Changes**		**FY 2004 Budget Request**	
Object Class	FTE	AMT	FTE	AMT	FTE	AMT	FTE	AMT
Total appropriation (includes OCS Revenue Receipts/ Offsetting Collections)	1642 *(1725-83)	258 *($264-6)	0	0	0	0	1642 *(1725-83)	258 *($264-6)
Total personnel compensation		$104 *($109-5)		0		0		$109
Civilian personnel benefits		$26 *($27-1)		0		0		$27
Travel and transportation of persons		$4		0		0		$4
Rents, communications utilities, and misc. charges		$18		0		0		$18
Other services		$98		0		0		$98
Supplies and materials		$2		0		0		$2
Equipment		$6		0		0		$6

*Excludes estimated 83 FTE and $6 million in pay and benefits associated with support of the Interior Franchise Fund.

Department of the Interior

Minerals Management Service
Interior Franchise Fund
Program and Financing

dollars in millions

Treasury Account ID: 14-4529		FY 2002 Actual	FY 2003 Estimate	FY 2004 Estimate
Obligations by program activity				
0000	Interior Franchise Fund Activities	520	926	1,025
1000	Total new obligations	520	926	1,025
Budgetary resources available for obligation				
2140	Unobligated balance, start of year	128	284	348
2200	New budget authority (gross)	677	990	990
2390	Total budgetary resources available for obligation	805	1,274	1,338
2395	Total new obligations	-520	-926	-1,025
2440	Unobligated balance carried forward, end of year	284	348	313
New budget authority (gross), detail				
	Mandatory			
6900	Offsetting collections (cash)	570	900	900
6910	Change in uncollected customer payments from Federal sources (unexpired)	107	90	90
6990	Spending authority from offsetting collections	677	990	990
Change in obligated balances				
7240	Obligated balance, start of year	92	143	137
7310	Total new obligations	520	926	1,025
7320	Total outlays (gross)	-362	-842	-891
7400	Change in uncollected customer payments from Federal sources (unexpired)	-107	-90	-90
7440	Obligated balance, end of year	143	137	181
Outlays (gross), detail				
8697	Outlays from new mandatory authority	312	792	792
8698	Outlays from mandatory balances	50	50	99
8700	Total outlays (gross)	362	842	891
Offsets against gross budget authority and outlays				
8800	Offsetting collections from Federal sources	570	900	900
8895	Change in uncollected customer payments from Federal sources (unexpired)	107	90	90
Net budget authority and outlays				
8900	Budget authority	0	0	0
9000	Outlays	-207	-58	-9

Note: Beginning with FY 2003, the Interior Franchise Fund (IFF) account was transferred to MMS. Offsetting collections, Line 6900, are estimated to be $900 million in FY 2003.

Department of the Interior

Minerals Management Service
Interior Franchise Fund

Object Classification

dollars in millions

Treasury Account ID: 14-4529		FY 2002 Actual	FY 2003 Estimate	FY 2004 Estimate
	Reimbursable obligations			
2111	Full-time permanent		5	5
2121	Civilian personnel benefits		1	1
2252	Other services	520	920	1,019
9999	Total new obligations	520	926	1,025

Note: Beginning with FY 2003, the Interior Franchise Fund (IFF) account was transferred to MMS. Line 9999 is estimated obligations of current and prior year collections of funds. Estimated current year collections for FY 2003 are $900 million.

Department of the Interior

Minerals Management Service

Interior Franchise Fund

Account Object Class Information

dollars in millions

Treasury Account ID: 14-4529

	FY 2003 Estimate Amount		Uncontrollable & Related Changes		Programmatic Changes		FY 2004 Budget Request	
Object Class	FTE	AMT	FTE	AMT	FTE	AMT	FTE	AMT
Offsetting Collections Estimated	83	$900	0	0	0	0	83	$900
Total personnel compensation	83	$5	0	0	0	0	83	$5
Civilian personnel benefits		$1	0	0	0	0		$1
Other services		$894	0	0	0	0		$894

Beginning with FY 2003, the Interior Franchise Fund account has been transferred to the Minerals Management Service. MMS is providing acquisition support and other administrative support services to roughly 30 customers, which include bureaus within the Department, large civilian and military Federal government agencies, and some smaller organizations such as the Federal Retirement Thrift Investment Board. Collections are based on the level of customer requests for services.

Department of the Interior

Minerals Management Service

Oil Spill Research

Program and Financing

dollars in millions

Treasury Account ID: 14-8370		FY 2002 Actual	FY 2003 Estimate	FY 2004 Estimate
Obligations by program activity				
0001	Direct program activity	8	6	7
1000	Total new obligations	8	6	7
Budgetary resources available for obligation				
2140	Unobligated balance carried forward, start of year	1	0	0
2200	New budget authority (gross)	6	6	7
2390	Total budgetary resources available for obligation	7	6	7
2395	Total new obligations	-8	-6	-7
2440	Unobligated balance carried forward, end of year	0	0	0
New budget authority (gross), detail				
	Discretionary			
4026	Appropriation (trust fund)	6	6	7
Change in obligated balances				
7240	Obligated balance, start of year	4	6	6
7310	Total new obligations	8	6	7
7320	Total outlays (gross)	-6	-6	-7
7440	Obligated balance, end of year	6	6	6
Outlays (gross) detail				
8690	Outlays from new discretionary authority	5	5	6
8693	Outlays from discretionary balances	1	1	1
8700	Total outlays (gross)	6	6	7
Net budget authority and outlays				
8900	Budget authority	6	6	7
9000	Outlays	5	6	7

Department of the Interior

Minerals Management Service

Oil Spill Research

Object Classification

dollars in millions

Treasury Account ID: 14-8370		**FY 2002 Actual**	**FY 2003 Estimate**	**FY 2004 Estimate**
	Direct obligations			
1111	Full-time permanent	2	2	2
1252	Other services	6	4	5
9999	Total new obligations	8	6	7

Department of the Interior

Minerals Management Service

Oil Spill Research

Account Object Class Information

dollars in millions

Treasury Account ID: 14-8370

	FY 2003 Estimate Amount		**Uncontrollable & Related Changes**		**Programmatic Changes**		**FY 2004 Budget Request**	
Object Class	FTE	AMT	FTE	AMT	FTE	AMT	FTE	AMT
Total Appropriation	22	$6	0	0	0	0	22	$7
Total personnel compensation		$2		0		0		$2
Other services		$4		0		$1		$5

Department of the Interior

Minerals Management Service

Oil Spill Research

Account Object Class Information

dollars in millions

Treasury Account ID: 14-8370

	FY 2003 Estimate Amount		Uncontrollable & Related Changes		Programmatic Changes		FY 2004 Budget Request	
Object Class	FTE	AMT	FTE	AMT	FTE	AMT	FTE	AMT
Total Appropriation	22	$6	0	0	0	0	22	$7
Total personnel compensation		$2		0		0		$2
Other services		$4		0		$1		$5

Department of the Interior
Minerals Management Service
All Appropriations
Employee Count By Grade

	FY 2002 Actual	FY 2003 Estimate	FY 2004 Estimate
Executive Level 5			
ES-6	0	0	0
ES-5	6	6	6
ES-4	2	2	2
ES-3	1	1	1
ES-2	0	0	0
ES-1	2	2	2
Subtotal	**11**	**11**	**11**
GS-15	56	56	56
GS-14	191	191	191
GS-13	449	452	452
GS-12	468	472	472
GS-11	123	131	131
GS-10	10	10	10
GS-9	59	59	59
GS-8	74	74	74
GS-7	104	104	104
GS-6	73	73	73
GS-5	67	67	67
GS-4	32	32	32
GS-3	10	10	10
GS-2	4	4	4
GS-1	7	7	7
Subtotal	**1,727**	**1,742**	**1,742**
Total	**1,738**	**1,753**	**1,753**

Outer Continental Shelf Lands Activity

Analysis by Subactivity

dollars in thousands

Subactivity		2002 Actual	2003 Request	Uncontrollable And Related Changes	Programmatic Changes	2004 Budget Request	Change From 2003
***Leasing &**	$	35,373	37,633	+297	-685	37,245	-388
Environment	FTE	220	227	0	-1	226	-1
***Resource**	$	24,977	25,348	+300	+60	25,708	+360
Evaluation	FTE	222	226	0	-1	225	-1
	$	49,572	50,512	+490	-600	50,402	-110
Regulatory	FTE	385	346	0	0	346	0
Information	$	14,894	24,050	+143	+1,658	25,851	+1,801
Management	FTE	64	64	0	+2	66	+2
Total OMM	$	124,816	137,543	+1,230	+433	139,206	+1,663
	FTE	891	863	0	+0	863	+0

** FY 2002 L&E dollars are net of $3.2 million reprogramming to MRM and FY 2002 RE is net of $12,000 for rescission.*

As the Nation's designated steward of the mineral resources on the Outer Continental Shelf (OCS), the MMS is committed to achieving the proper balance between providing energy for the American people and protecting unique and sensitive coastal and marine environments.

The U.S. offshore oil and gas program has been in operation for almost 50 years. Management of this program has changed significantly since its inception as a result of experience, technological advances, and response to societal preferences. The MMS program today is characterized by the use of exemplary science in decision making, close and careful consultation with affected interests, and considerable oversight of operations. All three areas continue to evolve. For example, the regulatory program emphasizes performance results rather than strict conformance to prescriptive regulations, clarity and simplification of government requirements, and a greater reliance on industry standards.

Offshore oil and gas resources will play an increasingly pivotal role in the Nation's future domestic energy supplies with the potential for significant energy, economic, and environmental benefits**.** Today the OCS provides about 30 percent of the Nation's domestic oil production. By 2012, that amount could increase to 40 percent or more.

The importance of domestic production has increased in view of the potential for a disruption in oil and gas imports. Recent geopolitical events have resulted in offshore production and transportation facilities becoming potential terrorist targets. Over the past 10 years, industry and government personnel have informally discussed platform security issues. However, in light of the potential for serious new threats there has been a concerted and cooperative government-industry effort to better ensure the safety of personnel and OCS facilities. Since September 11, 2001, the MMS has taken and continues to take steps to ensure that the OCS oil and gas production facilities and transportation network are secure. The MMS will continue to work closely with industry, the new Department of Homeland Security, including the U.S. Coast Guard, and other agencies in reviewing platform security issues. The MMS expertise can help identify vulnerabilities and develop guidelines to protect offshore personnel, the environment, and OCS oil and gas production and transportation facilities.

The MMS has a strong commitment to safety and environmental protection. OCS management activities span drastically different physical and sociological environments, and include relationships with an exceptionally diverse group of stakeholders. The offshore industry in the U.S. ranges from mega-national corporations with worldwide operations to small independents with operations in only one region or state. The move into deep water and the resulting activity have increased both the level and complexity of monitoring OCS operations. The MMS offshore program continues to seek ways to accomplish its goal of safe operations with minimal environmental impact. The MMS is increasing its focus on performance rather than prescriptive requirements and in finding ways to provide strong incentives for good performance while preventing those operators with poor records from participating. As part of its environmental mission, MMS must bring to bear a worldwide library of data and information about environmental effects of drilling and site specific knowledge of ocean currents, biology, marine mammals, and many other fields. This environmental analysis is part of the review of 1,300 wells drilled and the approval of 800 plans each year. The Nation has much to gain from excellent safety and environmental performance in terms of economic, energy, and environmental benefits.

50th Anniversary
OCS Oil & Gas Program

This is the fiftieth anniversary of the startup of the U.S. Outer Continental Shelf (OCS) Oil and Gas Program.

Initiated in 1953 with the passage of two laws: the Submerged Lands Act, P.L. 83-31, 67 Stat. 29, 43 U.S.C. 1301-1315, May 22, 1953; and the 1953, Outer Continental Shelf Lands Act, P.L. 83-212, 67 Stat, 462, 43 U.S.C. 1331-1343, August 7, 1953; the U.S. Government began conducting OCS lease sales in 1954. Since 1954, OCS lease sales have been conducted every year except in 1956, 1957, and 1958.

During the past half century, oil and gas production on the OCS has grown from modest beginnings to today's level of operations representing over 25 percent of domestic oil and gas production. In total, OCS operations have produced more than 150 TCF of gas and more than 14 billion barrels of oil for the Nation's economy.

There are dozens of notable milestones in the history of the U.S. Offshore program. Some of the more significant milestones will be found throughout the OCS Lands portion of this document in text boxes similar to this one.

Environmental benefits are obtained from providing access to clean-burning natural gas, and by reducing the risk of major coastal oil spills. Natural gas is increasingly being used nationwide to power electric generating stations and in the transportation sector. In fact, the use of natural gas is expected to provide a bridge to the Nation's future use of cleaner and, eventually, renewable energy sources. Oil from the Outer Continental Shelf routed to shore via pipelines is significantly less likely to produce a large oil spill than foreign tankers bringing in imported oil. The use of automatic pressure sensors and shutdown valves limits the escape of oil from damaged pipelines, thereby averting major oil spills.

The MMS is continuously striving to develop ways to ensure that safe and environmentally sound development is achieved in a cost-efficient manner. Current, on-going efforts to lower costs include reducing submission requirements, utilizing electronic business for submission of industry reports, and avoiding overlap with other government agencies. The MMS is working with representatives from the petroleum industry, independent IT contractors, and other affected parties to develop an electronic business plan. Preliminary efforts have been undertaken in a number of areas. For example, production reports and seismic navigation data are being received in digital formats. Other reports, such as well test data, pipeline location data, well logs, etc., are being received as part of MMS pilot projects.

While safe and environmentally sound domestic energy production is the foremost priority, MMS is also dynamically involved in international activities relating to offshore oil and gas development. 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. Many of MMS's ongoing international activities address several of the recommendations in the President's National Energy Policy. The MMS continues to expand its collaborative projects with other countries that are technologically advanced in their regulatory regimes to promote safe and environmentally sound oil and gas operations worldwide, as well as providing advice and expertise to countries beginning to develop their offshore oil and gas resources. Because of its regulatory expertise and its successful oversight of environmentally safe and sound operations, MMS is increasingly being called upon to assist and participate in international fora and projects that further our Nation's foreign policy goals. The growing scope and effects of international and regionally developed environmental and operational standards on the activities of the domestic industry require increased monitoring by the Bureau.

In addition to its vital role in energy production for the Nation, MMS also administers the Marine Minerals Program, managing all OCS minerals other than gas, oil, or sulfur. The major focus of the program over the past five years has been sand resources for coastal restoration because suitable near-shore sand resources are diminishing. Since enactment of the 1999 amendment to Section 8(k) of the OCS Lands Act, which eliminated fees for State and local communities' use of OCS sand for hurricane and shore protection projects, requests for OCS sand have increased substantially. Consequently, the need to identify OCS sand sources that may be accessed in an environmentally sound manner has also increased significantly.

From 1995 to 2002, MMS conveyed rights to over 16,000,000 cubic yards of OCS sand for shore protection and coastal restoration projects. In FY 2002, MMS conveyed 4.7 million cubic yards of OCS sand for projects in Louisiana and Virginia. The MMS continues to work through its State Cooperative Program to leverage available funds to evaluate OCS sand resources for high priority shore and wetlands protection projects. In particular, the States of Florida, Louisiana, and New Jersey have indicated a need to identify OCS sand deposits for several upcoming projects along their coasts for which sufficient sand in State waters is unavailable. Issues related to increased leasing activity include responding to multiple requests for the same sand deposit and keeping abreast of OCS activities not under MMS authority such as the siting of windmill farms and artificial reefs which may preclude further use of sand deposits.

The MMS's offshore program contributes to a sustainable future in several ways. Obtaining sufficient supplies of oil and gas at reasonable prices will continue to be crucial to our energy security and economic strength until alternative energy sources become viable. The MMS's offshore program creates wealth and contributes to a higher standard of living. Corporate profits have added to corporate investment and stockholder wealth. The offshore industry has paid billions of dollars in labor, goods, and services to other industries as well as its own. Coastal states have received billions in Federal offshore revenues, providing needed funds for investment in technology, safety, infrastructure, research, development, education, and social programs.

Overview of Deepwater Activity

In 2001, oil production in the Gulf of Mexico (GOM) reached an estimated 565 million barrels (MMbbl), an increase of 8 percent from the 2000 total of 521 MMbbl. This increase marks the eleventh straight year that oil production has increased on the Federal OCS and represents a 105 percent increase since the start of this run when 275 MMbbl were produced in 1990. This increasing trend averaged nearly 7 percent per year from 1990 through 2001 and increased at a near constant 9 percent per year from 1994 through 2001. The 105 percent increase in oil production from 1990 to 2001 has been driven by the dramatic increase in deepwater oil production which was only 12 MMbbl in 1990 or 5 percent of the GOM oil output and has risen to 340 MMbbl in 2001 representing 60 percent of GOM oil production. The annual increase in deepwater GOM oil production has averaged nearly 37 percent each year since 1990. The net increase of 295 MMbbl between 1990 and 2001 is providing more than $800 million a year in additional royalty payments to the U.S. Treasury (assuming $22 per barrel of oil at the wellhead and one-eighth royalty).

Federal Outer Continental Shelf (OCS) oil royalties increased 22 percent from 2000 to 2001. This dramatic increase was fueled partly by the 9 percent increase in oil production but mostly by the nearly 24 percent rise in average oil price from 2000 to 2001. In 2001, approximately $2.0 billion in oil royalties were collected versus $1.643 billion in 2000. This followed a 78 percent increase in oil royalties from 1999 to 2000 caused by a 5.5 percent increase in oil production and a 65 percent increase in oil prices.

In its most recent trend, GOM gas production reached a peak of over 5.1 trillion cubic feet (Tcf) produced in 1997. Each year since 1997, GOM gas production has remained very close to 5 Tcf. It is noteworthy that GOM deepwater gas production has risen some 214 percent from 1997 to 2001. In 1997, GOM deepwater gas production was 0.382 TCF; in 2001 it was about 1.2 Tcf. Shallow water GOM gas production has declined over 18 percent since 1997. From 1997 through 2000 this decline was constant at nearly 6 percent per year; from 2000 to 2001 the decline was an estimated 1.7 percent. Each year the decline in shallow water gas production has been offset, more or less, by deepwater gas production. Whereas GOM oil production has increased since 1990 because of the substantial contribution from deep water (60 percent of 2001 production), GOM gas production has remained relatively flat because deepwater gas production in the GOM has not yet reached a level comparable to oil (23 percent of 2001 production).

Federal OCS gas royalties increased 58 percent between 2000 and 2001 largely because of vast increases in gas prices for the year. OCS gas production increased only 3 percent for the year while average gas prices increased nearly 90 percent. In 2001, about $3.9 billion in gas royalties were collected versus $2.452 billion in 2000. This followed a 45 percent increase in gas royalties from 1999 to 2000 caused by a 2 percent increase in gas production and a 50 percent increase in gas prices.

The National Petroleum Council (NPC), in a study issued in late 1999, expects the consumption of natural gas in the United States to increase from 22 Tcf in 1999 to 29 Tcf by 2010. As industry strives to meet this supply challenge, we anticipate that gas and oil leases in both deep water and on the Shelf (the most prolific gas producing area in the U.S.) will continue to experience activity levels at historical highs.

It is important to note that, despite passage of the Deep Water Royalty Relief Act (DWRRA) in 1995 and the subsequent record breaking lease sales in 1997 and 1998, royalties are still being collected on the majority of the production in the GOM deepwater. This is because these leases were either sold prior to the DWRRA or production is from leases sold under the DWRRA that do not qualify for relief. In fact, because of the long lead times required for exploration and development activity in deep water, only 20 of the 3,400 leases issued under the provisions of the DWRRA from 1996 through 2000 have produced royalty free. Although the DWRRA expired in 2000, the Act granted authority to extend royalty relief provisions beyond that time. Of the 4,177 leases issued in greater than 200 meters of water from 1996 through 2002, only 223 have been drilled. More significantly, only 129 of the 3,397 leases issued in water depths greater than 800 meters have been drilled during this time period. These trends should begin to reverse as deepwater leases reach maturity in their primary terms and as leases issued since 2000, with royalty suspension volumes independent of producing field milestones, get explored and developed.

In addition to production increases, high prices for oil and gas in 2000 and 2001 led to a significant increase in deepwater GOM activity levels. Because of the long-term nature of deepwater drilling contracts, activity levels are expected to remain elevated for the near future despite product prices returning to more normal levels. In December 2000, natural gas prices topped $10 per thousand cubic feet (Mcf) though they have returned to more normal levels ($2.50 to $3.00 per MCF) beginning in the second half of 2001.

The GOM set drilling activity records in 2001. Late in 2001 a record high 47 rigs were drilling in water deeper than 1,000 feet in the GOM. In FY 2002, 139 wells were drilled in greater than 200 meters in the GOM. This is the most wells drilled in a single year in the GOM at these water depths. Although we saw a slight dip in the rig utilization rate in 2002, we expect the number to rise again in 2003 due to the increased demand for oil. Announcements by operators of significant discoveries and commitments to explore and develop in deep water continue to signal the growth of activity in this arena.

50th Anniversary OCS Milestones

1958 ▪ First Pacific offshore drilling and production platform erected in State waters - Platform Hazel in 30 m (100 ft) of water and 3.2 km (2 mi) offshore Summerland, CA, by Humble Oil & Refining Company and Western Operations, Inc.

1964 ▪ First Pacific OCS exploratory well drilled in Federal waters - Offshore northern California by Humble Oil.

1967 ▪ Initial Alaska discovery made by Arco exploratory well - Prudhoe Bay Field, Alaska.

1968 ▪ First Pacific OCS production - Platform Hogan, Lease OCS-P 0166.

Large numbers of GOM deepwater operating plans were filed again in 2002. Since this requirement was established in 1996, DWOP submittals have increased from 22 to 85 in

2002. New projects have increased from 16 to 42, with each project expected to have up to 3 separate phase submittals over its life. Each deepwater plan requires a focused environmental analysis, complex technical review, reservoir management review for the conservation of resources, platform approval, visits to construction yards for onsite inspections, and safety inspections of development operations. An increased emphasis on deepwater leasing, exploration, and development and the associated innovative technology for drilling and production, as well as the need to address conservation, engineering, safety, and unique supplemental bonding issues, continue to present new challenges for both industry and MMS.

Record Setting Gulf of Mexico Activity

In FY 2001, there was an all time high of 1,408 wells spudded in the GOM. This is approximately a 51 percent increase over the 928 wells spudded in FY 1995. While in 2002 we saw some fluctuation in the price of oil and some moderation in the pace of drilling activity, we expect an increase over 2001 numbers in 2003 due to the rebounding economy and the increased demand for oil.

In 1999, BP Amoco’s Thunder Horse prospect in 6,044 feet of water was proclaimed by the operator to contain over a billion barrels of oil equivalent in place. This is the largest discovery ever made in the GOM. A second discovery, Crazy Horse North, was made nearby in 2001.

In October 2000, BP Amoco announced tentative plans to construct the Mardi Gras pipeline system. Construction on some segments began in 2002. This system is currently designed to carry one MMbbl of oil and 850 million cubic feet (MMcf) of gas per day to shore. The South Green Canyon leg will be designed to carry 500,000 bbl of oil and 500 MMcf of gas and will initially service BP Amoco’s Holstein, Mad Dog, and Atlantis discoveries ranging in water depth from 4,292 feet to 6,560 feet. The Mississippi Canyon segment will be designed to carry 500,000 bbl of oil and 350 MMcf of gas per day and will initially service BP Amoco’s Thunder Horse discovery and Shell’s Nakika project which includes five fields developed subsea ranging in water depth from 5,800 to 7,600 feet.

A deepwater pipeline system named the Canyon Express was approved by MMS and two of its three fields came on production in the fall of 2002. This pipeline system will service several deepwater discoveries to be developed subsea in the Mississippi Canyon area in water depths up to 7,250 feet.

Currently the GOM has three deepwater production facilities handling over 100,000 bbl of oil per day. These facilities are Shell’s Bullwinkle (113,000 barrels of oil per day (BOPD) and 193 million cubic feet per day (MMcfd) of gas), Mars (180,000 BOPD and 180 MMcfd), and Ursa (109,000 BOPD and 218 MMcfd). The Ursa tension leg platform started production in 1999 while the Bullwinkle fixed leg facility started production in October 1983. Bullwinkle’s significant production increase is the result of two subsea deepwater projects being tied back to the facility.

Major new discoveries announced in 2002 include Tahiti, Great White, Merganser, and Shenzi.

Exxon/Mobil's Diana Hoover deepwater draft caisson vessel (similar to a spar) started production in May 2000 in 4,795 feet of water. Diana Hoover set a world water depth record for a drilling and production facility. Its oil production is expected to peak at 100,000 BOPD.

Union Oil Company set a new world record for deepwater drilling when they started drilling an exploratory well in 9,727 feet (this eclipsed Unocal's previous record of 9,687 feet and BHP Petroleum's previous record of 8,835 feet).

Advisory Board Coordination -- The Minerals Management Advisory Board was established to provide advice to the Secretary and other officers of the Department of the Interior (DOI) in performing discretionary functions of the OCSLA and to address royalty-related issues. The OCSLA requires that DOI consult with affected States and other interested parties on all aspects of leasing, exploration, development, and protection of OCS resources. The Advisory Board provides a formal mechanism for this consultation and includes several committees:

- OCS Policy Committee, which advises the Secretary on the national policy implications of managing the OCS oil, gas, and mineral resources;

- OCS Scientific Committee, which advises MMS on the feasibility, appropriateness, and scientific value of the Environmental Studies Program; and

- Royalty Policy Committee, which advises MMS on royalty management related policies.

The MMS provides support for all the Advisory Board committees, including the service of an Executive Secretary for each committee.

2002 OMM Performance and Accomplishments

Strategic Plan measures that were included in the FY 2002 Annual Performance Plan are presented below. The OMM had several key accomplishments in FY 2002 that demonstrate how the program supports the Department's vision of a society capable of responsibly meeting its resource needs to sustain a dynamic economy, while protecting lives, resources, and property. Additional accomplishments can be found in the program narrative.

DOI Resource Use Mission – Accomplishments for FY 2002

- In FY 2002, show a decrease in the environmental impact indicator below the FY 1999 level of 8.10 and maintain an oil spill rate of no more than 10 barrels spilled per million barrels produced.
- In FY 2002, maintain the current high bids accepted for OCS leases to MMS' estimated value ratio of 1.8 (+/- 0.4) to 1.
- In FY 2002, the current high bids accepted for OCS leases to MMS's estimated value ratio were 2.4 to 1. The ratio slightly exceeded the

The new 5-Year program will make available enough oil to fuel every vehicle in America for 2 to 5 years, and enough natural gas to heat, cool, and run appliances for every home in America for 2 to 3 years.

target range of 1.8 (+/- 0.4) to 1. However, the result of higher than expected revenues is not, of course, an entirely negative program result and must be viewed within the general context of uncertainty as to estimates of value. Also, the inclusion of a sale in a somewhat frontier area (Sale 181, Eastern Gulf of Mexico) affected the final ratio for the three sales covered during this year.

Secretary announced new 5-Year Oil and Gas Leasing Program for the OCS. In July 2002, MMS completed a 2-year planning process to develop the next 5-year OCS Oil and Gas Leasing Program. The Secretary approved a schedule of 20 OCS lease sales that continues the leasing program through 2007 for 8 OCS planning areas in the Gulf of Mexico and offshore Alaska. The program will make available from 10.2 billion to 21.5 billion barrels of oil and 40 to 60.6 trillion cubic feet of natural gas, generate thousands of jobs, and produce billions of dollars in revenue for the Federal and state governments.

The MMS held three successful lease sales. For the first time in 14 years, in FY 2002 MMS held a lease sale in the Eastern Gulf of Mexico, making available an area that is projected to contain 1.25 trillion cubic feet of natural gas and 185 million barrels of oil. Sale 181 was a great success, resulting in 190 bids on 95 tracts and totaling $340 million in high bids from 17 companies. Also quite successful were two sales in the Central and Western Gulf of Mexico. In these three sales, MMS leased 899 tracts, bringing in more than $830 million in revenue from high bids for the American people.

Royalty incentive program. For 2002 lease sales, MMS continued its royalty incentive program for deepwater leases and expanded the incentives to promote development of natural gas from deep horizons in shallow waters. MMS's judicious use of leasing incentives promotes continued industry interest and investment in new technologies for exploration and development in frontier areas of the OCS.

The MMS provides energy for the country. The Outer Continental Shelf (OCS) is an important source of energy resources for the Nation, helping to respond to our growing energy, economic and national security needs. In 2002, 4.6 trillion cubic feet of natural gas and 585 million barrels of oil were produced. MMS continues to encourage investment in new technologies for exploration and development in frontier areas of the OCS—such as deep and ultra-deep waters and from deep below the seabed. In 2002, the oil and gas industry set new world water-depth records (7,209 feet) for both pipelines and producing wells on deepwater leases in the Gulf of Mexico.

The MMS commenced E-Gov transformation. In 2002, the Offshore Program completed preparations for its multi-year e-Government transformation project that will dramatically reform and streamline business operations by 2007. OMB approved the project's FY 2003 Business Case and IT Capital Plan, giving it the highest score and offering it to other agencies as a model case. The Offshore Program's reengineering project will improve mission performance and service delivery and incorporate advancements in information technology and "best practices" to keep pace with increased complexity of oil and gas operations and greater workloads.

Ohmsett wins environmental awards. In FY 2002, MAR Incorporated, the management contractor for the national Oil and Hazardous Materials Simulated Environmental Test Tank (Ohmsett), was awarded the Department of the Interior's 2001 Environmental Achievement Award for developing and implementing innovative methods of recycling waste oil and scrap metal used at Ohmsett. In the same year, MAR Incorporated won the New Jersey Department of Environmental Protection's 2001 Environmental Excellence Award for the effective management of Ohmsett.

DOI Serving Communities Mission – OMM Accomplishments for FY 2002

Achieve a safety index not greater than .594. In FY 2002, the safety index result was .752. The safety index is the ratio of the number of incidents (times the severity factor) to the number of activities (times the complexity/risk factor). The FY 2002 result is higher than last year, but lower than FY 2000. The severity and number of incidents is about the same (slightly higher) as FY 2001. However, the activity, the numbers of wells drilled and completed, and the number of wells plugged and abandoned all decreased in FY 2002. We will continue to employ strategies and policies directed at further improvements in the excellent offshore safety records.

50th Anniversary OCS Milestones

1969 ▪ Santa Barbara Oil Spill - Platform blowout in Federal waters spurred development of oil spill regulation - and research.
▪ National Environmental Policy Act passed - requires detailed environmental review and statement before any major or controversial Federal action.

1970 ▪ Clean Air Act passed - regulates the emission of air pollutants from industrial activities.

1972 ▪ Coastal Zone Management Act passed - requires State review of Federal action that affects the land and water use of the coastal zone. Marine Mammal Protection Act passed - provides for the protection and conservation of all marine mammals and their habitats.

1973 ▪ Endangered Species Act passed - requires a permit to take an endangered species and that all Federal agencies must ensure that Federal actions will not significantly impair or jeopardize protected species or their habitats.

The MMS and Coast Guard streamline offshore regulatory oversight. The MMS worked in partnership with the U.S. Coast Guard to improve regulatory oversight of oil and gas operations where there is overlapping jurisdiction. Effective June 2002, the MMS assumed responsibility for inspection of Coast Guard regulated safety items on fixed OCS platforms. This agreement will improve government efficiency by streamlining the process for inspections of offshore facilities and reducing a reporting burden on industry.

Annual Performance Reviews. In FY 2002, the Gulf of Mexico Region met with 92 companies to review their performance, focusing on safety records, violations, accidents, and steps to correct deficiencies. The Pacific Region conducted meetings with each of their operators concerning safety performance.

Inspections. To protect lives, resources, and property, in FY 2002 the Offshore program conducted in excess of 17,700 inspections of drilling, workover, production, pipeline, and other operations.

2003 OMM Performance and Accomplishments

Strategic Plan measures that were included in the FY 2003 Annual Performance Plan, and measures that support the 2004-2008 DOI Strategic Plan, are presented below. OMM plans several key accomplishments in FY 2003 that demonstrate how the program supports the Department's vision of a society capable of responsibly meeting its resource needs to sustain a dynamic economy, while protecting lives, resources, and property. Additional accomplishments can be found in the program narrative.

DOI Resource Use Mission – OMM Accomplishments for FY 2003

- In FY 2003, complete 75 percent of offshore environmental assessments for development plans within 8 months and an oil spill rate of no more than 10 barrels spilled per million barrels produced.
- In FY 2003 maintain the current high bids accepted for OCS leases to MMS' estimated value ratio of 1.8 (+/- 0.4) to 1.
- Implement National Energy Policy by holding 17 offshore sales consistent with the Secretary's 5-Year Program (three sales are planned for FY 2003).
- Process 75% of exploration plans in less than 30 days.
- Process 95% of development plans in less than 120 days.
- Achieve a utilization rate of 83% at Ohmsett, the national oil spill response test facility.
- Issue 100% of sand and gravel leases within 30 days of receipt of the formal request with final lease terms.

The first goal listed is a change from the original FY 2003 goal, which was "In FY 2003, show a decrease in the environmental impact indicator below the FY 1999 level of 8.10". In FY 2003, the MMS established a team to develop a monitoring policy for MMS to provide a basis for future environmental performance measures. The environmental impact indicator was a preliminary measure developed to meet GPRA requirements; however data collection for this measure has proven to be problematic. MMS proposes to use an interim measure on environmental assessments until the team has completed its work.

Incentive for Deep Gas Production from Existing Undeveloped OCS Leases. In OCS lease sales in 2001 and 2002 MMS offered new leases in less than 200 meters water depth with royalty relief for natural gas produced from reservoirs with a total depth of at least 15,000 feet. MMS plans to issue a new regulation in 2003 that would make a similar royalty relief program available to existing leases issued prior to Sale 178 (March 2001) that did not previously produce natural gas from depths below 15,000 feet.

Facilitate implementation of the CZMA, MPA, MMPA and ESA. The National Energy Policy (NEP) directs the Secretaries of Interior and Commerce to examine our current policy and laws to determine if changes are needed to promote energy-related activities in the coastal zone and on the OCS. In FY 2003, MMS will consult with Commerce and form an effective partnership to address coastal zone management issues, as well as the implementation of the MPA, MMPA, and ESA.

Alaska Incentives. In recent years there has not been much exploratory drilling in the frontier area of Alaska. To provide incentives for Alaska development, alternative royalty relief decision options are being considered for the Proposed Notice of Sale for Sale 186 in the Beaufort Sea, scheduled for Sept. 2003. Also, MMS regulations are being revised to provide more flexible regulatory policies, e.g., allowing suspensions for leases when additional time is required for exploration and development because infrastructure is lacking.

Streamline Alaska permitting process. MMS will work with involved agencies to develop a new process timeline for project permitting in Alaska that increases certainty in requirements, and reduces cycle time for applications.

Manage alternative uses of OCS. The National Energy Policy directs federal agencies to expedite permits and other federal actions necessary for energy-related project approvals. The private sector is considering non-traditional energy-related projects on the OCS, however, a new law is required that establishes clear authority for permitting various alternative energy uses or energy-related activities on the OCS. The Department of the Interior is uniquely positioned to be the lead agency for managing any offshore project related to energy, due to the experience gained in managing OCS for oil and gas exploration and production. MMS will continue working with involved agencies on roles and processes.

Environmental monitoring. In FY 2003, MMS will develop a strategic plan for environmental monitoring which will establish and implement a policy to provide MMS with a new tool to support balanced decision making for OCS oil and gas, sand and gravel, and methane hydrates.

Regional plans for sand and gravel leasing. Increased demand for OCS sand raises concern about long term uses. The goal is to develop regional management strategies for OCS areas where sand resources will likely be used as a long-term source of borrow material. As a test case, in FY 2003, MMS will build upon the success of its MMS/New Jersey State cooperative by creating a pilot Sand Management Task Force with a State that has extensive coastal restoration efforts planned for the future.

Continue E-Government Plan. To support the re-engineering work, OMM will establish an Electronic Document Management System (EDMS), develop a data management strategy, and begin implementation of a formal data management program within OMM. The first areas expected to be re-engineered will be: (1) Manage Regulations, Laws and NTLs, and (2) Produce and Maintain Thematic Maps and Official Cadastral Descriptions.

Evaluation and interpretive technologies. In support of the Department's strategy of effective lease management, in FY 2003, OMM will evaluate computer models and interpretive technologies for resource assessment, oil and gas field evaluations, and evaluating the adequacy of competitive bids received at OCS oil and gas lease sales. OMM will benchmark its procedures and technologies against industry, and where applicable, develop a needs-based prioritization of technology that should be acquired.

Improve information base, resource management, and technical assistance. In support of this DOI strategy, OMM plans to publish updated estimates of conventionally recoverable and economically recoverable oil and natural gas resources, by region and planning area, as well as associated price–supply curves. Also, industry is currently moving toward production of methane hydrates as a source of energy. Preliminary estimates by USGS indicate potential natural gas from hydrates may be hundreds of times larger than current estimates of conventional offshore natural gas, and about 99.8% of this domestic hydrate potential is in the Federal offshore. In FY 2003, OMM will establish a state-of –the-art knowledge base for hydrate technology through a series of intra- and inter-agency meetings and workshops and consultation with international researchers. OMM will also establish a Statement of Work and solicit proposals on a model and methodology for assessing the economic value of the gas hydrate resource expected to be present in an OCS tract.

DOI Serving Communities Mission – OMM Accomplishments for FY 2003

- Maintain an annual composite operator safety index of 0.2 or less.
- Number of fatalities and serious injuries among workers in DOI permitted activities.
- Percent of DOI facilities designated as critical assets that meet national physical security guidelines
- Percent of oil and gas production covered by the Safety and Environmental Management Program (SEMP)

The first goal listed a change from the original FY 2003 goal, which was "Achieve a safety index not greater than 0.594." The MMS is replacing the safety index with the annual composite operator safety index as the latter is more widely used, is more quantifiable and less subjective, and is used to assess operator performance.

Revised U.S. Coast Guard MOU. Revising a new MOU with Coast Guard is a multi-year project given the complex nature of the work. In FY 2003, MMS will work in partnership with the Coast Guard to revise their regulations associated with fixed offshore facilities that include guidance on workplace safety and health, lifesaving appliances, fire-fighting equipment, design and equipment, and operations.

Aging infrastructure. Historically the design life for platforms has been 20 - 25 years. The average age of all current OCS platforms is approximately 20 years. In order to have the infrastructure in useful condition for years to come, it is important to properly maintain the wells, platforms, piping, equipment, and pipelines. In FY 2003, MMS will continue research studies that support protection of infrastructure. Also, MMS will incorporate industry revisions in the criteria for evaluating the design of fixed platforms on the OCS into the revised Subpart I of our latest draft regulations and will publish a new rule.

Program Performance Summary Tables

The table below shows how MMS contributes to several end and intermediate out goals in DOI's draft strategic plan. The table presents MMS's end outcome measures that support the DOI goals, including actual performance for the last 2 years (where applicable) and planned performance for FY 203 and FY 2004.

DOI Strategic Goal: Resource Use – Provide Access for Responsible Use and Optimal Value						
End Outcome Goal 2.1: Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value (Energy)						
End Outcome Measures	**FY 2001 Actual**	**FY 2002 Plan**	**FY 2002 Actual**	**FY 2003 Plan**	**FY 2004 Plan**	**Change in Performance— 2003 to Planned 2004**
Implement National Energy Policy by holding 17 offshore sales consistent with the Secretary's 5-Year Program	3	5	3	3	6	6 sales on the 5-Year schedule, however two AK sales may be delayed.
Intermediate Outcome: Effectively manage and provide incentives for access and development						
Intermediate Outcome Measures	**FY 2001 Actual**	**FY 2002 Plan**	**FY 2002 Actual**	**FY 2003 Plan**	**FY 2004 Plan**	**Change in Performance— 2003 to Planned 2004**
Hold 100% of offshore sales on time as scheduled in 5-Year Program	3 100%	3	3 100%	3	4	Plan on 4 sales being held on time. 6 sales planned but two may be delayed.
Process 75% of exploration plans in less than 30 days	449	391	391	401	401	No Change
Process 95% of development plans in less than 120 days.	449	300	300	353	353	No Change
Process 100% of right of way pipeline applications within 140 days*	133	New Measure	162	151	152	Activity expected to continue at these levels due to deepwater activities. The demand for pipelines is expected to decrease slightly.
Intermediate Outcome: Enhance Responsible Use Management Practices						
Intermediate Outcome Measures	**FY 2001 Actual**	**FY 2002 Plan**	**FY 2002 Actual**	**FY 2003 Plan**	**FY 2004 Plan**	**Change in Performance— 2003 to Planned 2004**
Maintain an oil spill rate for offshore development of no more than 10 barrels spilled per million barrels produced.	1	10	Expect Final in 5/03	10	10	No Change
Less than 1% of total gas produced is approved to be flared offshore.*	0.7%	0.7%	Expect Final in 5/03	0.7%	0.7%	No Change

Annually inspect 66,000 production facility components for compliance with safety and pollution prevention guidelines, including efforts to minimize impacts on environmental resources.(Measure also supports DOI Strategic Goal "Protect Lives, Resources, and Property") *	64,135	New Measure	67,608	66,560	66,560	No Change
Complete 75% of offshore environmental assessments for development plans within 8 months. *	15	New Measure	7	16	21	5 Continued increased interest in GOMR oil and gas prospects.
Intermediate Outcome: Effective Lease and Permit Management						
Intermediate Outcome Measures	**FY 2001 Actual**	**FY 2002 Plan**	**FY 2002 Actual**	**FY 2003 Plan**	**FY 2004 Plan**	**Change in Performance—2003 to Planned 2004**
Maintain the ratio of 1.8 to 1 (+/- 0.4) of accepted high bids to MMS' estimated value.	2.26 to 1	1.8(+/- 0.4) to 1	2.4 to 1	1.8(+/- 0.4) to 1	1.8(+/- 0.4) to 1	Scheduled evaluation in CY 2004 for a somewhat frontier area sale (E. Gulf of Mexico) may influence result.
Intermediate Outcome: Improve information base, resource management and technical assistance.						
Intermediate Outcome Measures	**FY 2001 Actual**	**FY 2002 Plan**	**FY 2002 Actual**	**FY 2003 Plan**	**FY 2004 Plan**	**Change in Performance—2003 to Planned 2004**
Achieve a utilization rate of 83% at Ohmsett, the national oil spill response test facility.	74%	80%	88%	83%	83%	No change
Conduct Technology Assessment and Research (TAR) studies on 80% of high priority topics.*	TAR was not using same priority	75%	58%	75%	75%	No change
DOI Strategic Goal: Resource Use – Provide Access for Responsible Use and Optimal Value.						
End Outcome Goal 2.1: Manage or Influence Non-Energy Mineral Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value. (Non-Energy)						
Intermediate Outcome: Provide access to and incentives for production.						

Intermediate Outcome Measures	**FY 2001 Actual**	**FY 2002 Plan**	**FY 2002 Actual**	**FY 2003 Plan**	**FY 2004 Plan**	**Change in Performance—2003 to Planned 2004**
Issue 100% of sand and gravel leases within 30 days of the formal request with final lease terms..	100% 3 leases	100% 2 leases	100% 2 leases	100% 3 leases	100% 3 leases	No change
DOI Strategic Goal: Serving Communities – Protect Lives, Resources, and Property.						
End Outcome Goal 4.1: Protect Lives, Resources, and Property						
End Outcome Measures	**FY 2001 Actual**	**FY 2002 Plan**	**FY 2002 Actual**	**FY 2003 Plan**	**FY 2004 Plan**	**Change in Performance—2003 to Planned 2004**
# of fatalities and serious injuries among workers on DOI managed or influenced lands and waters.	6 fatalities/26 serious injuries	New Measure	7 fatalities/21 serious injuries	Reduce from 5-year avg(1998-2002) of 7 fatalities and 26 serious injuries	Reduce from 5-year avg(1998-2002) of 7 fatalities and 26 serious injuries	No change
Intermediate Outcome: Improve Public Safety and Security and Protect Public Resources from Damage.						
Intermediate Outcome Measures	**FY 2001 Actual**	**FY 2002 Plan**	**FY 2002 Actual**	**FY 2003 Plan**	**FY 2004 Plan**	**Change in Performance—2003 to Planned 2004**
Update annually or quarterly the inventory of DOI regulated facilities designated as critical assets on the Outer Continental Shelf.	New Measure	New Measure	New Measure	4	4	No Change
Participation (on a production basis) in Safety and Environmental Management Program (SEMP) measures is 70% or greater.	84.7%	New Measure	81.6%	70%	70%	No Change
Annually inspect 66,000 production facility components for compliance with safety and pollution prevention guidelines, including efforts to minimize impacts on environmental resources.*(Measure also supports DOI Strategic Goal 2.1, "Responsible Use")	64,135	New Measure	67,608	66,560	66,560	No Change Overall decrease due to POCSR downsizing.

Conduct full Coast Guard inspections on 10% of manned offshore facilities annually.*	New Mea-sure	New Measure	New Mea-sure	79	79	No Change
Conduct unannounced audits of training programs for 10% of operators annually.*	New Measure	New Measure	5%	17%	17%	No Change
Maintain an annual composite operator safety index of 0.2 or less.*	0.2	New Indicator Established	Data Available Feb '03	0.2	0.2	No Change

Leasing and Environmental Programs

Justification of Program and Performance
Analysis by Subactivity

	2002 Actual *	2003 Request	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2004 Budget Request	Change From 2003 (+/-)
$(000)	20,202	21,462	+297	-685	21,074	-388
FTE	220	227	0	-1	226	-1

** L&E dollars are net of $3.2 million reprogramming to MRM.*

Leasing and Environmental Subactivity

DOI Draft Strategic Goal 2: *Resource Use—Provide Access for Responsible Use and Optimal Value (Energy)*
DOI Draft Outcome Goal 2.1: *Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value – Energy*

FY 2004 Program Overview

This subactivity supports DOI's draft Resource Use Strategic Goal, which is aimed at effectively managing or influencing resource use to enhance public benefit, promote responsible use, and ensure optimal value. The role of Federal offshore lands in the Nation's energy equation is becoming a preeminent one. Over the coming decade, production from the OCS is projected to provide 40 percent of domestic oil production. Through its leasing program, MMS plays a vital role in supporting the President's National Energy Plan by continuing the OCS leasing program on predictable schedules. A key indicator of MMS's performance in managing and facilitating access to energy resources is by holding offshore sales consistent with the Secretary's 5-Year Program. To clearly measure MMS's progress with its leasing program, one intermediate outcome measure rolls up into the Department's Intermediate Outcome Goal of effectively managing and providing incentives for access and development: holding 100% of sales on time as scheduled in the 5-Year Program.

This subactivity funds the Leasing and Environmental Assessment and Environmental Studies Programs. Leasing activities include 5-Year Program Planning; Pre-lease Planning and Decision Process; Mapping and Surveying Outer Continental Shelf (OCS) Boundaries; and Post-lease Adjudication Process.

Leasing and Environmental Assessment Program

	2002 Actual	2003 Request	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2004 Budget Request	Change From 2002 (+/-)
$(000)	20,202	21,462	+297	-685	21,074	-388
FTE	220	227	0	-1	226	-1

Leasing

5-Year Program Planning - Section 18 of 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. Preparation of each 5-year program must comply with the substantive and procedural requirements of Section 18, which prescribes a multi-step process of consultation and analysis. MMS has a new program, which covers the period July 2002 to July 2007. Section 18(e) requires an annual review of the current program; MMS will complete the required review of the 2002-2007 program by July 1, 2004.

Proposed Lease Sales – FY 2003	
Sale Number	Area
185	Central GOM
187	Western GOM
186	Beaufort Sea

Proposed Lease Sales – FY 2004

Sale Number	Area
189	Eastern GOM
190	Central GOM
191	Cook Inlet
192	Western GOM
188	Norton Basin
193	Chukchi Sea/Hope Basin

Pre-lease Planning and Decision Process -- The MMS consults extensively with States, coastal communities, Federal agencies, Native groups, and other concerned parties regarding areas considered for leasing.

The pre-lease planning and decision process has been modified to reflect the different leasing circumstances in the Central and Western Gulf of Mexico (GOM) as well as select planning areas in the Alaska OCS. Prior to sales held in 1998 in the Central and Western GOM, a separate Call for Information and Nominations, and Environmental Impact Statement (EIS) were prepared for each planned sale. Starting with the 1998 sales, a single multi-sale Call for Information and Nominations was issued for all sales in the Central and Western GOM. Individual EISs were replaced with a multi-sale Area Identification and EIS, enabling MMS to conduct the pre-lease decision processes for subsequent GOM sales more efficiently. After the multi-sale EIS and Consistency Determination (CD) for the first GOM sale, there is complete National Environmental Policy Act (NEPA) and Coastal Zone Management Act

(CZMA) coverage for each subsequent GOM sale (an Environmental Assessment (EA) or Supplemental EIS and a CD). The pre-lease process for the first sale took about two years; the pre-lease process for subsequent sales identified in the multi-sale process takes only about 11 months. We plan to use the multi-sale process for all Central and Western GOM sales in the 2002-2007 program.

In the Alaska OCS, the above process is proposed for the first time in the OCS Oil and Gas Leasing Program for 2002-2007 for two planning areas, Beaufort Sea and Cook Inlet. The pre-lease process for Alaska sales generally takes more than two years to complete; the pre-lease process for subsequent sales identified in the multi-sale process takes only about 18 months.

Following are the steps in the pre-lease planning and decision process (for some Alaska and Central and Western GOM sales, the draft and final EIS process is replaced by an EA/Finding of No Significant Impact):

- Call for Information and Nominations -- Invites potential bidders to nominate areas of interest within planning areas identified for leasing consideration in the 5-Year Program.
- Area Identification -- Identifies area for proposed action to be analyzed in NEPA document based on information gathered from the Call.
- Draft EIS -- Evaluates environmental effects of proposed actions, alternatives, and mitigating measures.
- Public Review and Comment – The draft EIS is made available for public review for approximately 60 days.
- Final EIS -- Incorporates responses to public comments on the draft EIS.
- Consistency Determination -- Documents Federal determination on whether the proposed sale is consistent to the maximum extent practicable with federally approved State CZM plan.

50th Anniversary
OCS Milestones

1976 ▪ First Alaska lease sale held - lease sale 39 in Gulf of Alaska. Bonus bids totaled $571,871,587.
▪ First Alaska OCS exploratory well drilled - Gulf of Alaska, Block 106, by Shell Oil.

1977 ▪ Clean Water Act passed - regulates discharge of pollutants into the surface waters of the United States.

1978 ▪ Major amendments to the OCS Lands Act passed - important changes: requirements for 5-year programs; formalized environmental studies program; and formalized coordination and information sharing.
▪ First Mid-Atlantic OCS exploratory well drilled - Block 683, NJ 18–3, by Exxon, 5,370 meters (17,620 ft) deep.

- Proposed Notice of Sale -- Provides information to the States and the public on the proposed size, timing, and location of the proposed lease sale.
- Letters to the Governors -- Governors of the affected States are sent copies of the proposed Notice for their review as required under Sec. 19 of OCSLA.

- Balancing Letters -- Informs Governors on final sale decisions and responds to comments.

- Final Notice of Sale -- Published a minimum of 30 days before the sale is held. Includes date, time and location of the bid opening, blocks offered, and terms and conditions of the sale.

- Sale

Major Mapping and Surveying Activities

- Continue working with California and Florida to finalize submerged lands jurisdictions. Both States are considering fixing their Submerged Lands Act boundaries through the United States Supreme Court. Both projects are hampered with issues surrounding the development of National Marine Sanctuaries by the Department of Commerce and higher priorities within the Justice Department;

- Work with the Commonwealth of Puerto Rico on Submerged Lands Act boundary issues;

- Work with the State of Hawaii on jurisdictional and boundary issues;

- Provide technical assistance to the Department of Justice for United States Supreme Court case, No. 128, State of Alaska v. United States, in southeast Alaska, the Alexander Archipelago, and in Glacier Bay National Park;

- Continue working with the National Ocean Service and the Department of State on the Baseline/Boundary Development Project under the Memorandum of Understanding signed September 26, 1996;

- The Mapping and Boundary Branch is converting all Leasing Maps, Official Protraction Diagrams and Supplemental Official OCS Block Diagrams to digital format and making these products available to our stakeholders through an MMS website. In addition, a project has been established with the Information Technology Division to produce and maintain Planning Area coverage along with supporting metadata files; and

- Continue efforts under the OMB Circular A-16 process and the Federal Geographic Data Committee's Marine Boundary Working Group to resolve issues and develop processes that will assist Federal agencies to meet their offshore boundary responsibilities in a more timely and efficient manner.

Post-lease Adjudication Process Supplemental bond compliance is considered during the lease assignment process, which includes evaluating the financial strength of the company. The transfer of producing leases from large to small companies could increase the risk of insufficient coverage due to increased risk of bankruptcy among less financially viable companies. The prospect of incurring costs into the millions of dollars for abandonment and cleanup prompted MMS to require additional supplemental bonding security review.

FY 2002 Accomplishments

- Completed development of the 5-Year OCS Oil and Gas Leasing Program for 2002-2007 which scheduled 20 lease sales in eight OCS planning areas.

- Implemented pre-lease steps for the remaining sales in the 1997-2002 OCS Program, conducting three OCS lease sales, including the first lease sale in the Eastern Gulf of Mexico in 13 years and the first sale in the 2002-2007 OCS Program, Sale 184 in the Western Gulf of Mexico.

- Ensured a smooth transition from the current to the new 5-Year OCS Program to streamline the pre-lease process by implementing preliminary program steps in January 2002 for multi-sale EISs in Alaska for the first time (in the Beaufort Sea and Cook Inlet) and the Gulf of Mexico.

- Continued efforts under OMB Circular A-16 process and the Federal Geographic Data Committee's Marine Boundary Working Group to resolve issues and develop processes that will help Federal agencies meet their offshore boundary responsibilities.

- Continued revisions of the Code of Federal Regulations Part 256—Leasing of Sulfur or Oil and Gas in the OCS, into plain English to better reflect current processes and practices.

Planned Activities for FY 2003

- Implement pre-lease steps for Gulf of Mexico and Alaska sales and plan to conduct two Gulf of Mexico sales, Sale 185, Central Gulf of Mexico, and Sale 187, Western Gulf of Mexico.

- Conduct annual review of the 5-Year OCS Oil and Gas Leasing Program for 2002-2007 by July 1, 2003, as mandated by section 18(e) of the OCS Lands Act.

- Complete revisions of the Code of Federal Regulations Part 256—Leasing of Sulfur or Oil and Gas in the OCS, into plain English to better reflect current processes and practices.

- Continue determinations and depictions of U.S. offshore leasing boundaries and coordination with the Department of State on depiction of international boundaries.

Planned Activities for FY 2004

- Implement pre-lease steps for the remaining sales scheduled in the 5-Year OCS Oil and Gas Leasing Program for 2002-2007.

- Conduct annual review of the 5-Year OCS Oil and Gas Leasing Program for 2002-2007 by July 1, 2004, as mandated by section 18(e) of the OCS Lands Act.

- Continue to improve the bidding and leasing process for OCS lease sales through the use of electronic technology.

- Participate in consultations with the Coast Guard on resource development implications of Liquefied Natural Gas facility applications filed under the Deepwater Ports Act.

- Continue determinations and depictions of U.S. offshore leasing boundaries and coordination with the Department of State on depiction of international boundaries.

Environmental Assessment

The MMS is committed to environmentally sound management of OCS mineral development, and this commitment continues throughout the life of each lease. Effective environmental stewardship becomes more challenging each year as activity increases in all phases of the mineral extraction process—exploration, development, production, and decommissioning. Furthermore, the conditions under which the Federal OCS minerals program operates have fundamentally changed over the last several years:

- Three-dimensional seismic exploration greatly reduces the number of wells needed to delineate deposits of oil and natural gas;
- New drilling and production technology has opened up the deep waters of the GOM to unprecedented levels of leasing, exploration, development, and production; and
- The availability of royalty relief has added to the financial attractiveness of both deepwater and shallow water prospects.

OCS activities in Alaska are increasing. The MMS approved the development and production plan for the Northstar project in Alaska's Beaufort Sea. Northstar, a joint State-Federal project, began production in October 2001 with the first OCS development well production beginning in January 2002. Another potential OCS development and production project, Liberty, was placed on hold pending ongoing re-evaluation of project configuration and cost. Nevertheless, MMS published the final environmental impact statement because it included substantial changes made in response to comments on the draft EIS and will serve as an important reference document for future projects. Additionally, MMS will consider holding three Beaufort Sea and two Cook Inlet OCS lease sales during the period 2002 through 2007—potentially adding active leases on which exploration, development, and production activities could occur.

Assuring the environmental soundness of the Offshore Program has become an impressive challenge in the face of technological transformation and the workload associated with increased exploration, development, and production permit applications and decommissioning. To assure environmental soundness, MMS evaluates the potential environmental effects of OCS activities, both pre- and post-lease. The key product of this effort is the identification of mitigation measures that may allow oil and natural gas extraction activities to continue while protecting the environmental resources of the area.

The pre-lease phases of the offshore production process consist of developing the 5-Year Program and holding competitive lease sales. An EIS is written for each of these phases. Work on lease sale EISs has become more challenging because of the ongoing technological changes that must be analyzed and the expanded scope to cover multiple OCS sales that may be held in the planning area.

In the post-lease phase, MMS requires permits at five different steps in the exploration, development, and production processes. Due to the complexity of new technology, permits that traditionally required less resource-intensive Categorical Exclusion Reviews will begin to require more extensive EAs. The EAs performed on an increasing number of technologically complex projects, such as those in ultra deep water, tax the resources MMS can dedicate to any one assignment. Some changes to existing operations on Pacific OCS leases, such as replacing pipelines and power cables from shore, require extensive coordination with State, local and Federal agencies and detailed environmental review. As appropriate, MMS prepares EAs for such projects to satisfy NEPA and State and local concerns. Joint State/Federal environmental documents will be considered on a case-by-case basis.

Some EAs may find the potential for significant impact. Such a finding would trigger the need for an EIS. In addition, oil spill analyses will still be necessary for all lease sales and exploration and development plans.

In addition to evaluating potential environmental effects of OCS activities, MMS also:

- meets with other Federal and State agencies to coordinate work where activities and jurisdiction overlap;
- provides policy direction for OCS activities connected with environmental laws;
- reviews and prepares technical comments and information in response to congressional legislative activities; and
- prepares Federal agency activity (e.g. OCS lease sales, sand and gravel projects) consistency documents to comply with Coastal Zone Management Act (CZMA) requirements. Serves as a point of contact for coastal States and operators on issues associated with OCS-related consistency determinations and certifications and other CZMA related requirements.

Pre- and post-lease environmental analyses have resulted in the application of mitigating measures that allow OCS oil and gas development to continue, while protecting the marine environment. Mitigation has focused on protecting environmental resources such as chemosynthetic communities, air quality, protected or endangered species, and archaeological sites.

The MMS will continue to work on several key environmental issues including:

- Improving Endangered Species Act (ESA) consultations—In preparing lease sale documents and approving oil and gas development plans, required ESA section 7 consultations between the Departments of Commerce (National Oceanic and Atmospheric Administration) and Interior (FWS and MMS) have become unpredictable in their timing and content. MMS' goal is to achieve prompt and efficient ESA consultations and to enhance coordination efforts under the Marine Mammal Protection Act (MMPA). ESA consultations and MMPA petitions for regulations should result in appropriate mitigation, monitoring, and reporting requirements that are compatible, practical, and within our authority to implement. Additionally, MMS needs to coordinate ESA consultations with MMPA petitions to achieve allowed incidental take of marine mammals for various OCS activities (e.g., geological and geophysical surveys and explosive removals of offshore structures) on a five-year cycle.

- Resolving Federal consistency process concerns—The National Energy Policy (NEP) directs the Secretaries of Interior and Commerce to examine our current policy and laws to determine if changes are needed to promote energy-related activities in the coastal zone and on the OCS. Currently, MMS is developing solutions to address our concerns with NOAA's Federal consistency regulations. In some cases, we will suggest changes to the regulations. We will discuss these suggestions with the Department of Commerce as part of implementing the recommendations of the NEP.

- Preparing National Petroleum Reserve—Alaska (NPRA) EIS—MMS is coordinating and preparing the Northwest NPRA EIS for Bureau of Land Management (BLM) in Alaska. Previously, MMS prepared the Northwest NPRA which was issued by BLM in 1998. The MMS responsibility, in conjunction with BLM, includes participation in public hearings on the draft EIS and responding to all public comments for the final EIS. Additional MMS responsibilities include preparation of a consistency determination (per the Coastal Zone Management Act), and conduct of the sale itself.

- Addressing "Environmental Justice" concerns—With the first OCS development underway (Northstar Project) and the focus of continued leasing in the Beaufort Sea planning area, MMS continues to place particular attention on Native concerns in Arctic Alaska. In accordance with a 1994 Executive Order on "Environmental Justice," MMS is evaluating potential disproportionately adverse environmental and health impacts on minority and low income populations in coastal Alaska resulting from OCS development. Through studies, surveys, and consultations with Native (Inupiat) groups, MMS is identifying specific concerns (e.g., affects on bowhead whale subsistence hunting) and addressing these concerns through the National Environmental Policy Act/EIS process. MMS is defining the potential adverse affects of OCS activities and developing mitigating measures to deal with these.

- Providing environmental compliance support for "Alternative Use" projects—Increasingly, there is a need for renewable energy resources and for new ways to support offshore oil and gas activities. The Federal government is advocating increased use of renewable sources of energy and the private sector is considering non-traditional energy-related projects on the OCS (e.g. wind, wave, and solar, facilities for liquefied or compressed natural gas, medical facilities to support oil and gas operations). For example, presently the US Army Corps of Engineers is evaluating a wind farm project that proposes to construct and operate 170 wind turbine generators on a grid over approximately 26 square miles of sub-tidal area known as Horseshoe Shoal in Nantucket Sound. If MMS approval were required, we would provide environmental compliance support (e.g., preparing appropriate environmental evaluation documents, drafting any Federal consistency documents, and consulting with resource agencies).

Accomplishments for FY 2002

- Published and released the 2002-2007 5-Year EIS.
- Completed a multi-sale EIS covering Central and Western planning areas of the Gulf of Mexico Region.
- Completed EAs for Pipeline Applications, Exploration Plans, and Development Operations Coordination Documents for proposed activities on the OCS in the Eastern, Central, and Western GOM Planning Areas.
- Completed comprehensive (or Grid) EAs for certain major surface facilities proposed in water depths greater than 400 meters in the Central and Western Planning Areas in the GOM.
- Completed EAs in support of issuing noncompetitive OCS sand leases to localities in Louisiana and Florida.

50th Anniversary OCS Milestones

1979 ▪ First South Atlantic OCS exploratory well drilled - Block 208, NH 17–5, by Tenneco, 2,363 meters (7,754 ft) total well depth.

1980 ▪ First 5-Year Leasing Program initiated - between 1980 and 1982, twelve OCS lease sales were held.

1981 ▪ First OCS leasing moratorium enacted by Congress (FY 1982) - central and northern California OCS. Leasing moratoria later extended to six other OCS planning areas.

▪ Highest bid on a block received - $333,596,200 in So. California lease sale 53, NI 10–06, Blk 464.

▪ First North Atlantic OCS exploratory well drilled -Block 133, NK 19–12, by Exxon, 4,303 meters (14,118 ft) deep.

Planned Activities for FY 2003

- Will complete multi-sale EISs covering the Beaufort and Cook Inlet planning areas of the Alaska Region.
- Will complete a multi-sale EIS covering the Eastern planning area of the Gulf of Mexico Region.
- Will complete EAs covering the lease sales for the Central and Western planning areas of the Gulf of Mexico Region.
- Will complete programmatic EA covering geologic and geophysical activities in with the Gulf of Mexico Region and decide whether to prepare an EIS.
- EAs will continue to be prepared for Pipeline Applications, Exploration Plans, and Development Operations Coordination Documents for proposed activities on the OCS in the Eastern, Central, and Western GOM Planning Areas.
- Comprehensive (or Grid) EAs will be prepared for certain major surface facilities proposed in water depths greater than 400 meters in the Central and Western Planning Areas in the GOM.
- EAs will continue to be prepared in support of the OCS Sand and Gravel program.
- EAs will continue to be prepared on revisions to development plans, as appropriate, and pipeline and power cable replacements on existing leases in southern California.

Planned Activities for FY 2004

- Work will continue on Bowhead Whale protection and monitoring activities.
- Work will continue on EA's required for proposed sales in the 2002-2007 5-Year Program.

- EAs will continue to be prepared for Pipeline Applications, Exploration Plans, and Development Operations Coordination Documents for proposed activities on the OCS in the Eastern, Central, and Western GOM Planning Areas.
- Comprehensive (or Grid) EAs will be prepared for certain major surface facilities proposed in water depths greater than 400 meters in the Central and Western Planning Areas in the GOM.
- EAs will continue to be prepared on proposed extended-reach exploration and development drilling from existing facilities, revisions to development plans, as appropriate, and pipeline and power cable replacements on existing leases in southern California.
- An EA could be prepared in the Pacific Region for development of State reserves from Federal platforms. Two such projects are being pursued.

Environmental Studies

	2002 Actual *	2003 Request	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2004 Budget Request	Change From 2003 (+/-)
$(000)	15,171	16,171	0	0	16,171	0
FTE	0	0	0	0	0	0

** FY 2002 Environmental Studies Program dollars are net of a $3.2 million reprogramming to MRM.*

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

The coordinated and collaborative efforts of the ESP, Technology Assessment and Research, and Oil Spill Research Programs in setting priorities and leveraging funds enable the conduct of the needed research that is essential to meeting the Bureau's strategic goal of basing decisions on sound science.

The ESP actively seeks partnerships with stakeholders who are involved with, or affected by, OCS activities. Not only does this result in important consensus building, but it also affords an opportunity for leveraging dollars and accomplishing research objectives that otherwise might not be attainable. The MMS has established key research partnerships through its Coastal Marine Institute (CMI) initiatives in Louisiana, Alaska, and California. The MMS works with several Federal agencies with relevant mandates to meet its information requirements to support OCS development and resource management decisions. The MMS works closely with the Biological Resources Division (BRD) of the U.S. Geological Survey to establish priorities for biological research to be conducted by BRD for MMS. The MMS is working with the National Marine Fisheries Service (NMFS), the Fish and Wildlife Service (FWS), University of Alaska, Office of Naval Research, Navy, and industry on marine mammal studies; the EPA on air quality and drilling discharge studies; and the Navy on ocean circulation modeling in the GOM. The MMS supports meteorological data buoys off the Pacific and GOM coasts through the National Oceanic and Atmospheric Administration's National Data Buoy Center. The data from these buoys are used by the National Weather Service as well as by MMS.

As a member of the National Oceanographic Partnership Program (NOPP), MMS is looking towards further coordination with other agencies, academia, and industry. Such coordination will allow for additional leveraging of resources and a better integration of MMS's efforts with national oceanographic research programs. Such integration is already the subject of discussion with the Oceans Commission and will undoubtedly continue as the nation's oceanographic information needs are critically examined.

With active participation from the OCS Scientific Committee, the MMS is designing and implementing the critical studies needed to support oil and gas and marine mineral development decision-making.

During formulation of the 2004 budget, the Administration began using the Program Assessment Rating Tool (PART) to identify strengths and weaknesses of programs and to inform budget, management, and policy recommendations. The process generated extensive information on program effectiveness and accountability including the need for additional performance measures.

The principal PART findings for the Environmental Studies Program are:

- The assessment found that the program is very effective in providing timely and peer reviewed environmental research to decisions makers, but needed to better quantify performance measures.

Further information on PART can be found in the Performance and Management Assessments volume of the 2004 President's budget.

FY 2002 Accomplishments

Accomplishments can be described for both the overall management activity associated with the conduct of the Environmental Studies Program as well as for the research results themselves. In the context of management oversight, the Environmental Studies Program was the first MMS program to undergo the OMB Performance Assessment using the Performance Assessment Rating Tool (PART). In the final analysis the ESP received the highest numerical rating of the entire Department of the Interior programs that were evaluated.

The MMS has identified three key annual performance goals for the management of the ESP:

- Perform annual assessment of information needs with stakeholders leading to the development and finalization of the annual research plan
- Complete detailed project designs and procurement award activities
- Maintain technical and financial oversight of ongoing research efforts and ensure dissemination of results from completed efforts.

The ESP accomplished each of these goals. Extensive discussion occurred with stakeholders within and outside MMS regarding the most pressing information needs which led to the approved research activities during the year. Subsequent to project design and award activities, more than forty-five new projects were started to address the critical information needs for oil and gas and marine minerals management decisions. Collectively, approximately three hundred projects were active during FY 2002. During this period, all projects received timely and accurate technical and financial oversight to assure technical performance and timely and proper disbursement of funds.

From a technical perspective, important progress was made through collaboration and partnerships to address several important research issues including:

- Response of sperm whales to seismic noise in the Gulf of Mexico
- Characterizing natural gas hydrates in the deep Gulf of Mexico
- Monitoring meteorological and air quality conditions in the Gulf of Mexico
- Monitoring of intertidal marine communities in areas of oil production in Southern California
- Regional benefit studies of coastal ocean observing systems (being conducted under the auspices of the National Ocean Partnership Program)

The ESP continued to emphasize information dissemination through co-sponsorship of scientific conferences, and conduct of "information transfer meetings" open to the general public. Of equal or perhaps greater importance, the ESP accomplished major improvements to the environmental studies website to bring information freely to anyone who wants:

- detailed descriptions of program level and project level research plans
- project level information on ongoing projects, and
- ready access to completed research reports.

The ESP information can be accessed at: http://www.mms.gov/eppd/sciences/esp/index.htm

Planned Activities for FY 2003

Gulf of Mexico Region - Rapid technological advances and recently passed legislation have resulted in a rush to develop both deepwater and subsalt oil and gas resources. Historically, OCS studies were focused on the continental shelf out to about 300 meters of water, and much information on that area is available. In 1997, a significant effort was undertaken to initiate studies that focus on some of the most pressing deepwater (beyond 300 meters) information needs. Because the cost of working in deep water is significantly higher than research on the continental shelf, the ESP is joining with other Federal, State, and academic institutions, and industry, in an attempt to provide the information needed in the most cost-effective manner.

Several major studies ongoing or planned for initiation in FY 2003 characterize the program direction for the GOM. These include:

- *Study of Physical Processes in the Slope and Rise Using Numerical Models.* This ongoing study will adapt numerical models to reflect the unique topography and physical processes of the slope and rise.
- *Northern Gulf of Mexico Continental Slope Biologic Habitats* -- an ongoing study will refine our understanding of benthic communities and habitats from a regional perspective. In addition, a new start in FY 2003 will focus on sensitive deepwater coral communities.
- *Deepwater Physical Oceanography* -- This research element will provide temporal and spatial scales of motion and the strength and frequency of deepwater currents. This information is important in understanding the strong currents recently discovered in deep water. In FY 2003 this research will move into the western Gulf of Mexico to stay ahead of, or keep pace with, the movement of industry into this deepwater area.

- *Sperm Whales and their Response to Seismic Exploration* The effects of industry noise on sperm whales are virtually unknown. This ongoing multiyear study will involve collaboration with the Navy and industry to gather critical information on sperm whale behavior and response to noise.
- *Air Quality Modeling for Breton National Wilderness Area and Gulf wide Air Emissions Inventory.* These studies collect needed environmental data and model the environment to ensure that mitigating measures are implemented when necessary.
- *The Archaeological and Biological Analysis of World War II Shipwrecks in the Gulf of Mexico: A Pilot Study of the Artificial Reef Effect in Deep Water* This issue was identified as an information need at the MMS May 2002 Deepwater Workshop. Since it is a multidisciplinary effort dealing with both the archeological and biological resources of the OCS, and involves aspects of ocean exploration, it will be conducted jointly with the NOAA Office of Exploration. The work will be solicited under the auspices of the National Ocean Partnership Program.

Pacific Region - In the Pacific OCS Region, partnerships with the State government, through the CMI at the University of California at Santa Barbara, and with Scripps Institute of Oceanography, continue to assist with the development of needed information. Studies will continue to monitor impacts associated with ongoing production activities. Particular emphasis will be placed on monitoring the general health of intertidal communities and on monitoring regulatory compliance at specific platforms. A major emphasis in the Pacific Region will be the continued collection of physical oceanographic field data that are needed for environmental assessments and review of oil-spill contingency plans. Additionally, research is expected to be undertaken on sediment transport processes in and around OCS oil and gas pipelines to increase information for safety and environmental protection. Information for future decommissioning activities will be an increasingly important part of the Pacific Region's focus relative to offshore platforms, associated pipelines, and onshore facilities.

Alaska Region – Studies in the Alaska OCS Region will be designed to provide information for management decisions associated with the Beaufort Sea and Cook Inlet areas for exploration, development, and lease sales. With production now on line at Northstar, and possibly in the future at Liberty in the Beaufort Sea, studies will collect background information on environmental conditions and subsequently monitor for potential effects. It will be important to continue monitoring efforts and studies of key species and marine communities. Monitoring of the bowhead whale will continue, and additional investigations will be conducted to update information on kelp communities, fishes, ringed seals, and migratory waterfowl. Studies will vary from description of behaviors to monitoring for changes. Additional examination of the physical environment, such as under ice currents and ice characteristics, will be undertaken to support interpretation of data from living resource investigations and to provide a better understanding of the fate and dispersion of OCS discharges. Social and economic monitoring, especially relative to key social indicators for which baselines have been established, will be undertaken. Alaskan studies will continue melding traditional knowledge with western science. Some of the major efforts that characterize the FY 2003 program in Alaska include:

- *Monitoring the Distribution of Arctic Whales*. This ongoing effort provides the only long-term database for evaluating potential cumulative effects of OCS activities on the entire bowhead migration corridor across the Beaufort Sea.

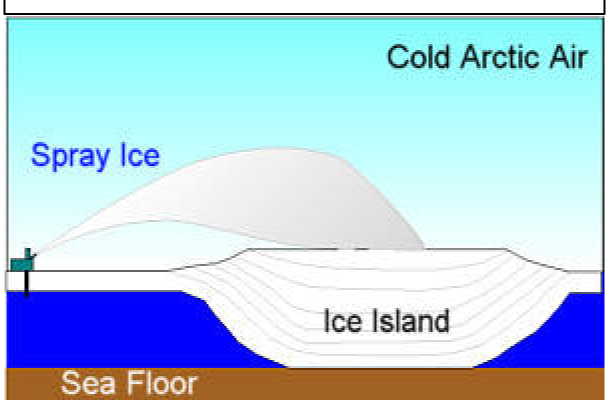
Islands of Ice

In most areas of the world, drilling platforms are constructed of steel. In the Arctic the oil companies can use sea water to build an ice island to use as a drilling platform.

It takes very cold temperatures to freeze sea water and even colder temperatures to build an ice island. In fact, if the temperature is above minus 20 degrees F, it is too warm to build one.

Although the sea ice naturally freezes to several feet each winter, the ice may not be thick enough to support a drilling rig. In areas were the ice moves, the ice island must touch (ground) on the bottom of the sea floor. One of the fastest ways to thicken the ice is to spray sea water up into the cold Arctic air where it super-cools and falls back down onto the surface of the ice. As the weight of the ice island increases it sinks deeper and deeper into the ocean until it grounds on the sea floor.

In the Beaufort Sea, ice island construction can begin in late December. It can take up to two months to build an ice island. After the island is constructed, the oil companies need enough time to drill the well and remove all of the drilling equipment before the ice begins to melt.



- *Arctic Nearshore Impact Monitoring in Development Area* (ANIMIDA). This suite of studies is oriented towards gathering long-term monitoring data to provide a basis of continuity and consistency in the evaluation of potential impacts of development. Baseline characterizations of contaminants in the sediments and biota in the area will be generated; subsistence whaling will be assessed annually; the boulder patch area will be monitored; and the sources, concentrations and dispersion pathways of suspended sediments will be determined.

- *Beaufort Sea Physical Oceanography and Sea-ice modeling* – multiple projects are ongoing, and several are planned for initiation this year to gather observational data on near shore currents, and modeling of sea-ice-ocean interactions. These projects will provide essential information for oil spill trajectory analyses and will contribute valuable information to the data analyses from monitoring studies such as ANIMIDA.

- *Quantitative Description of Potential Impacts of OCS Activities on Bowhead Whale Hunting and Subsistence Activities in the Beaufort Sea and Recommended Mitigation.* This study will quantitatively estimate the social and cultural impacts of OCS activities on selected communities and recommend mitigation measures.

Sand and Gravel - The rapidly expanding interest by coastal States for using sand located in Federal waters as material for beach and coastal restoration purposes will require environmental studies to assess the impacts of dredging before material is actually removed. Studies will include:

- site-specific biological and physical environmental surveys in potential borrow areas identified in advance through MMS/State Cooperative geological investigations; and
- development of environmental monitoring protocols to assess impacts from dredging on a long-term basis at areas that are expected to undergo multiple extraction operations.

<u>Planned Activities for FY 2004</u>

In most cases, the research projects identified as planned activities in FY 2003 are projects that will run 2-5 years, so they will be substantive components of our FY 2004 plans.

Gulf of Mexico Region – As previously described above, development of deepwater oil and gas resources is a significant influence for the environmental information needs in the Gulf. Many of the research projects are multiyear and have also been identified above for FY 2003. To provide a sense of program direction in the GOM in FY 2004 they are repeated here where appropriate along with new. These include:

- *Northern Gulf of Mexico Continental Slope Biologic Habitats -- an* ongoing study will refine our understanding of benthic communities and habitats from a regional perspective. In addition, a multiyear FY 2003 new start will focus on sensitive deepwater coral communities.
- *Deepwater Physical Oceanography* -- This research element will provide temporal and spatial scales of motion and the strength and frequency of deepwater currents. This information is important in understanding the strong currents recently discovered in deep water. In FY 2004 this research will continue emphasis in the western Gulf of Mexico where observational data are particularly sparse.
- *Sperm Whales and their Response to Seismic Exploration* -- The effects of industry noise on sperm whales is virtually unknown. This ongoing multiyear study will involve collaboration with the Navy and industry to gather critical information on sperm whale behavior and response to noise.
- *Environmental Risks of Offshore OCS Waste Subsea Disposal* – A new start in FY 2004 will address environmental issues important for consideration of the potential for large scale commercial disposal of oilfield wastes by subsea emplacement of these wastes into salt domes and abandoned wells several.

Pacific Region - Studies will continue to monitor impacts associated with ongoing production activities. Particular emphasis will be placed on monitoring the general health of intertidal communities and on monitoring regulatory compliance at specific platforms. Information for future decommissioning activities, such as the perception of oil platform’s importance for sport fishing, will be an increasingly important part of the Pacific Region's focus relative to offshore platforms, associated pipelines, and onshore facilities.

Alaska Region – Studies in the Alaska OCS Region will be designed to provide information for management decisions associated with the Beaufort Sea and Cook Inlet areas for exploration, development, and lease sales. With production now on line at Northstar, and possibly in the future at Liberty in the Beaufort Sea, studies will collect background information on environmental conditions, and subsequently monitor for potential effects. It will be important to continue monitoring efforts and studies of key species and marine communities. Monitoring of the bowhead whale will continue, and additional investigations will be conducted to update information on kelp communities, fishes, ringed seals, and migratory waterfowl. Studies will vary from description of behaviors to monitoring for changes. Additional examination of the physical environment, such as under ice currents and ice characteristics, will be undertaken to support interpretation of data from living resource investigations and to provide a better understanding of the fate and dispersion of OCS discharges. Social and economic monitoring, especially relative to key social indicators for which baselines have been established, will be undertaken. Alaskan studies will continue melding traditional knowledge with western science. Some of the major efforts in Alaska in FY 2004 include:

- *Monitoring the Distribution of Arctic Whales*. This ongoing effort provides the only long-term database for evaluating potential cumulative effects of OCS activities on the entire bowhead migration corridor across the Beaufort Sea.
- *Arctic Nearshore Impact Monitoring in Development Area* (ANIMIDA). This suite of studies is oriented towards gathering long-term monitoring data to provide a basis of continuity and consistency in the evaluation of potential impacts of development. Baseline characterizations of contaminants in the sediments and biota in the area will be generated; subsistence whaling will be assessed annually; the boulder patch area will be monitored; and the sources, concentrations and dispersion pathways of suspended sediments will be determined.
- *Sociological and Visual Documentation and Analysis of the Bowhead Whale Subsistence Hunt*. This study will help to understand the potential social and cultural impacts of OCS activities on selected communities and recommend mitigation measures.

Sand and Gravel - The use of sand located in Federal waters as material for beach and coastal restoration purposes will require continue to require environmental studies to assess the impacts of dredging before material is actually removed. In addition to monitoring studies, FY 2004 studies will include:

- site-specific biological and physical environmental surveys in potential borrow areas identified in advance through MMS/State Cooperative geological investigations; and
- studies of the importance of offshore shoal and ridge features as a food source to fish populations.

Justification of Program Change

Leasing and Environmental Assessment Program

Increase in Funding for Gulf of Mexico Workload

2004 Program Changes		
	2004 Budget Request	**Program Changes (+/-)**
$ (000's)	$ 37,245 *	+240
FTE	*226*	*+2*

** This number includes uncontrollables of $297K.*

The FY 2004 budget request for the Leasing and Environmental Assessment Program is $37,245,000 and 226 FTE including a program increase of $240,000 and 2 FTE for Gulf of Mexico Workload from the FY 2003 President's Budget Request.

Gulf of Mexico Workload (+$240,000, +2 FTE) The requested increase of $240,000 is part of a larger $1.6M Gulf of Mexico Workload initiative to provide additional resources to meet a growing workload demand.

Effect of proposed change on strategic and performance goals: The Gulf of Mexico workload continues to expand as the role played by oil and gas production in the Gulf of Mexico assumes a more prominent National position everyday. Over the coming decade, Gulf oil production is projected to provide more than 40 percent of all oil produced domestically. This national asset keeps growing and resources need to be allocated commensurate with its growing prominence.

In FY 2004, there is a need for 2 additional FTE in the Leasing & Environmental Assessment Program in the GOMR. The work of both FTE will directly support the DOI Resource Use Strategic Goal, which is aimed at effectively managing resources to enhance public benefit, promote responsible use, and ensure optimal value. The GOMR proposes to hire a physical scientist in the Gulf of Mexico Region, to deal with air quality issues. This FTE will implement methods for equipment inspection, review air quality flow measurements, passively monitor air quality, assess and compile pertinent onshore air quality and meteorological data, and report incidents of air quality noncompliance. In addition, there is a need for a biological scientist whose duties will include the development, reporting, inspecting and evaluation of mitigation measures. The addition of these FTE will result in an increase in the number of actions reviewed for compliance with environmental requirements.

2003 Program: In FY 2003, the Gulf of Mexico Region (GOMR) requested an increase of 7 FTE in the Leasing and Environmental Program to deal with the increased demands in the areas of lease administration and environmental reviews.

Increasingly complex lease sales resulting from complex negotiation and operating stipulations and financial incentives have doubled or tripled the lease administration workload. Two FTE were requested to handle the increased workload.

The GOMR faced increasing environmental assessment workloads in the areas of environmental review, coastal zone management review, and management of environmental studies. Five FTE were requested in FY 2003 to handle the increasing environmental review workload which has become much more complex, and time-consuming, due to the changing nature of the oil and gas industry in the Gulf of Mexico. Historically, environmental assessments have dealt closely with planned oil and gas extraction activity. Many applications do not fit this mold and involve new and technically challenging areas such as Atlantic area gas pipelines, commercial waste disposal into salt caverns and complex pipeline scenarios involving multiple projects and platforms.

Justification of 2004 Program Change: As operations move into ever-deeper waters, the concomitant increase in environmental risk must be managed. Monitoring levels must be increased to ensure that new and unknown habitats are studied and avoided, if necessary. Ongoing activities with potential to impact the environment must be tracked and modified as needed to maintain safe and clean operations. Standards and performance-based initiatives also play a role in maintaining these activities at a high level of safety. In order to meet these demands, the GOMR is requesting 2 FTE and $240,000 for Environmental Monitoring.

One FTE will serve as a physical scientist and will deal with air quality issues to include: methods for equipment inspection offshore and implementation thereof; flow measurements offshore; review of District files versus air quality inventory; passive air quality monitoring offshore; access and compile pertinent onshore air quality and meteorological data; access and complete satellite meteorological data; and report incidents of air quality noncompliance. The second FTE will serve as a biological scientist and will deal with development, reporting, inspecting, and evaluating mitigation measures. This will include working with inspectors to devise the inspection and reporting aspects of mitigations, investigate effectiveness of mitigations, and complete database searches on mitigations employed.

Selected Performance Measures for the Gulf of Mexico OCS Region-Based on Draft DOI Strategic Plan

Performance Measure(s)*	FY 2002 Performance Level	FY 2003 Performance Level	FY 2004 Performance Level with Request	Change in Performance From 2003 to Proposed 2004
# of Leases Managed				
Complete 75% of offshore environmental assessments for development plans within 8 months.	7 100%	15 100%	20 100%	+5
# Seafloor assessments and monitoring activities(MMS Measure)	63	100	105	+5
Process 75% of exploration plans in less than 30 days	389 100%	400 100%	420 100%	+20

Performance Measure(s)*	FY 2002 Performance Level	FY 2003 Performance Level	FY 2004 Performance Level with Request	Change in Performance From 2003 to Proposed 2004
# Permit applications approved(MMS Measure)	10,011	11,125	11,500	+375

*Preliminary measures pending final approval of DOI Strategic Plan.

Justification of Program Change

Leasing and Environmental Assessment Program

Reduction in Funding for OMM Pacific Region Streamlining

2004 Program Changes		
	2004 Budget Request	Program Changes (+/-)
$ (000's)	$ 37,245 *	-500
FTE	*226*	*0*

** This number includes uncontrollables of $297K.*

The FY 2004 budget request for the Leasing and Environmental Assessment Program is $37,245,000 and 226 FTE including a program decrease of $500,000 for Pacific Region Streamlining from the FY 2003 President's Budget Request.

OMM Pacific Region Streamlining (-$500,000) The requested decrease of $500,000 is part of a larger $1.5M effort in FY 2004 that continues FY 2003 streamlining efforts at the Pacific Regional Office.

<u>*Effect of proposed change on strategic and performance goals:*</u> Streamlining the Pacific OCS Region will not compromise the bureau's responsibilities for oversight of the OCS operations. The MMS will continue to be vigilant in ensuring safe operations, protection of the environment, and conservation of resources.

<u>*2003 Program*</u>: In the FY 2003 President's Budget, MMS identified savings of $1,000,000 as the first step towards streamlining activities in the Pacific OCS Region. Since then, a reorganization plan has been developed and approved. Several employees have been and are moving to the Gulf of Mexico Region and other MMS locations where their skills are needed and the workload exists. A few employees have retired or left MMS. In FY 2003, MMS will achieve the anticipated savings of $1,000,000 through staff reductions and eliminating the use of one helicopter. By the end of FY 2003, the reorganization will be complete.

<u>*Justification of 2004 Program Change:*</u> In concert with the President's "Strategic Management of Human Capital" Management Agenda item, MMS is continuing to review the overall workload and workforce throughout the Offshore Minerals Management Program. Workload is continuing to increase in the Gulf of Mexico OCS Region, while the workload in the Pacific OCS Region is declining.

In FY 2004, we anticipate a total savings of $1,500,000 from the continued implementation of the streamlining efforts in the Pacific OCS Region; $500,000 in the Leasing & Environmental Subactivity, $500,000 in the Resource Evaluation Subactivity, and $500,000 in Regulation of Operations. These savings are split between two DOI Strategic Plan Mission Components - $1,000,000 in Resource Use and $500,000 in Serving Communities. However, the total amount of savings from these efforts will not be known until submission of the FY 2005 budget, due to several variables such as the remaining helicopter contract, timing of final departures, residual personnel costs, etc.

Selected Performance Measures for the Pacific OCS Region- Based on Draft DOI Strategic Plan

Performance Measure(s)*	FY 2002 Performance Level	FY 2003 Performance Level	FY 2004 Performance Level with Request	Change in Performance From 2003 to Proposed 2004
# of Environmental Studies Awarded(MMS measure)	3	1	1	0
# of Environmental Studies Managed(MMS measure)	18	10	12	+2
# of Joint Environmental Reviews with State or Counties(MMS measure)	1	2	2	0

*Preliminary measures pending final approval of DOI strategic plan.

Justification of Program Change
Leasing and Environmental Assessment Program
Reduction in Funding for OMM Streamlining

2004 Program Changes		
	2004 Budget Request	**Program Changes (+/-)**
$ (000's)	$ 37,245 *	-300
FTE	*226*	*-3*

** This number includes uncontrollables of $297K.*

The FY 2004 budget request for the Leasing and Environmental Assessment Program is $37,245,000 and 226 FTE including a program decrease of $300,000 and 3 FTE for OMM Streamlining from the FY 2003 President's Budget Request.

OMM Streamlining (-$300,000, -3 FTE) In concert with the President's "Strategic Management of Human Capital" Management Agenda item, MMS is continuing to review the overall workload and workforce throughout the Offshore Minerals Management Program. During the third quarter of FY 2002, the Associate Director for Offshore Minerals Management issued reduced FTE targets to all of the OMM organizations. These reduced targets were based on a Workforce Planning review by all the managers. All managers examined their organization, workload, and staffing. The managers were asked to think of new ways to restructure or do the work if certain attrition or retirements occurred. The options included such items as technological solutions, centralization of functions, or combining duties across organizations. This effort has enabled the Offshore organization to identify a total anticipated streamlining savings of 12 FTE and $1,200,000 for FY 2004. The Leasing and Environmental Assessment Program will contribute $300,000 and 3 FTE toward the streamlining effort.

Justification of Program Change

Leasing and Environmental Assessment Program

Reduction in Funding for Closure of OCS Pensacola Office

2004 Program Changes		
	2004 Budget Request	**Program Changes (+/-)**
$ (000's)	$ 37,245 *	-125
FTE	*226*	*0*

** This number includes uncontrollables of $297K.*

The FY 2004 budget request for the Leasing and Environmental Assessment Program is $37,245,000 and 226 FTE including a program decrease of $125,000 for closure of the Pensacola Office from the FY 2003 President's Budget Request.

OCS Pensacola Office Closure (-$125,000) The requested decrease of $125,000 is part of a larger $.875M effort in FY 2004 to achieve efficiencies of operations by closing the Pensacola, Florida and Corpus Christ, Texas offices. The requested decrease of $125,000 reflects the changes that have occurred in the size and nature of the OCS program area in Pensacola and the determination that it is no longer necessary to maintain an office at this location.

Effect of proposed change on strategic and performance goals: Given the changes that have occurred in the size and nature of the OCS program area; there is currently no need to continue staffing an office in Pensacola. MMS believes that appropriate contact can be maintained with the Panhandle area through the Gulf of Mexico OCS Regional Office.

Justification of 2004 Program Change: This initiative proposes to close the Pensacola outreach office in Florida. This office is a small, two-person office that was established on December 1, 1996. The purpose of the office was to provide oil and gas information to the regional area and give MMS the ability to respond faster to area events, since the MMS Regional Office was located 180 miles away in New Orleans, Louisiana. At the time the office was established, MMS expected a lot of activity in the "Panhandle" area. It was anticipated that Chevron's Destin Dome development project would proceed, that Mobil's plan of exploration very close to shore on Pensacola Block 933 would proceed, and that a somewhat large Eastern Gulf (Sale 181) would take place. Since then, it has been decided to buy back the Chevron leases, the Mobil plan has been withdrawn and the leases have expired, the size of Sale 181 was reduced by 75 percent, and future lease sales will also be limited to this smaller area. Given the changes that have occurred in the size and nature of the OCS program area there is currently no need to continue staffing an office in Pensacola. MMS believes that appropriate contact can be maintained with the Panhandle area through the Gulf of Mexico OCS Regional Office. Savings of $125,000 can be realized through closing this office.

Selected Performance Measures for the Pensacola Outreach Office-Based on DOI Draft Strategic Plan

Performance Measure(s)*	FY 2002 Performance Level	FY 2003 Performance Level	FY 2004 Performance Level with Request	Change in Performance From 2003 to Proposed 2004
Outputs:				
# of Outreach meetings conducted(MMS measure)	40	0	0	0

*Preliminary measures pending final approval of DOI strategic plan.

Resource Evaluation

Justification of Program and Performance
Analysis by Subactivity

	2002 * Actual	2003 Request	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2004 Budget Request	Change From 2002 (+/-)
$(000)	24,977	25,348	+300	+60	25,708	+360
FTE	222	226	0	-1	225	-1

** FY 2002 RE Actual is net of $12,000 for rescission.*

Resource Evaluation Subactivity

DOI Draft Strategic Goal 2: Resource Use—Provide Access for Responsible Use and Optimal Value (Energy)
DOI Draft End Outcome Goal 2.1: Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible, Use, and Ensure Optimal Value (Energy)
DOI Draft Strategic Goal 2: Resource Use—Provide Access for Responsible Use and Optimal Value (Non-Energy Minerals)
DOI Draft End Outcome Goal 2.2: Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible, Use, and Ensure Optimal Value – (Non-Energy Minerals)

FY 2004 Program Overview

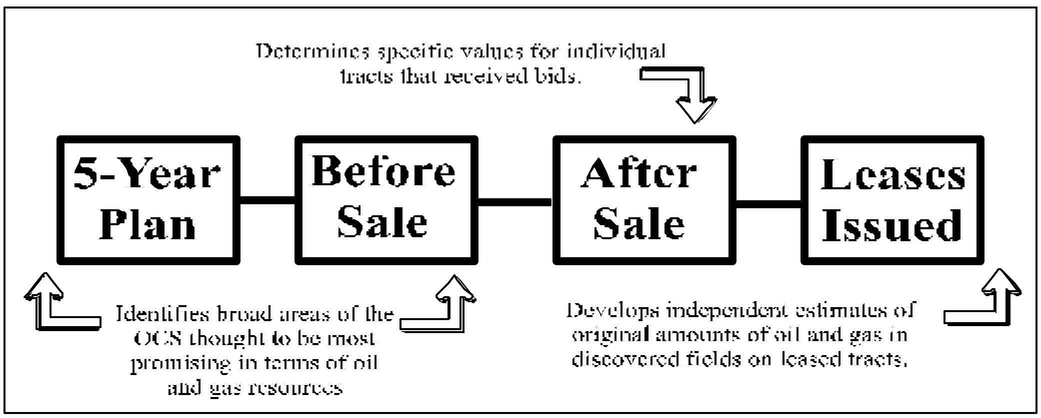
The Resource Evaluation Program plays a critical role in supporting DOI's End Outcome Goal, to Manage Resources to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value, both Energy and Non-Energy. It conducts resource assessments to determine the hydrocarbon potential of Federal lands; estimates the amounts of oil and natural gas likely to be discovered and produced as a result of leasing; and conducts tract evaluations to ensure that the Federal government receives fair market value for rights to mineral resources on individual OCS tracts. OMM outputs include the number of tracts assessed or evaluated; the number of reservoirs assessed or evaluated for resources; and the number of G&G permits issued. The Resource Evaluation Program also hosts the sand and gravel program. Requests for OCS sand have increased significantly since 1999, and MMS must evaluate these requests to determine whether OCS sand sources can be accessed in an environmentally sound manner. Indicators of MMS' performance and success in this area include the timeliness in approving sand and gravel lease requests and the number of cubic yards of sand conveyed.

This subactivity funds resource evaluation, economic analysis, marine minerals activities, and international activities.

Resource Evaluation Program

Elements of Resource Evaluation (RE) include:

- Regulation of data collection;
- Acquisition and analysis of geological and geophysical (G&G) data;
- Resource assessments;
- Estimation of resources and development activities;
- Tract evaluation for lease sales;
- Reserves inventory;
- Field determinations necessary for determination of royalty relief eligibility; and
- Technical information distribution.



The RE Program is involved in all phases of OCS program activities. For the 5-Year Program, RE identifies broad areas of the OCS that are most promising for oil and gas development as well as resources expected to be available and resources expected to be produced. For individual lease sales, RE estimates the resources likely to be discovered and produced and the associated development activities. When a sale is held, RE determines fair market values for individual tracts receiving bids. Once leases are issued, RE works with regulatory personnel to ensure that discoveries are developed and produced in accordance with the goals and provisions of the OCSLA.

Regulation of Data Collection – The MMS is charged with developing and implementing regulations (30 CFR Parts 251 and 280), rules, and procedures that must be followed by any party who collects pre-lease G&G data and information on the OCS for purposes related to mineral exploration. The regulations govern the permitting, data collection, reimbursement, and release of information. Adherence to these regulations ensures that exploration and research activities will be conducted in an environmentally safe manner and not interfere with other activities occurring in the area.

G&G Data Acquisition and Analysis - The oil and gas industry is the primary source of the G&G data and information used by the RE Program. While MMS does not directly collect data, the agency issues permits to industry for data collection. These permits include a stipulation allowing MMS to inspect the data and selectively acquire portions for the cost of reproduction. However, if industry has collected data in areas not under MMS jurisdiction (State waters or adjacent foreign waters), MMS must pay a significantly higher "market price" for obtaining the G&G data.

MMS interprets and uses the G&G data to prepare updated resource assessments; evaluate lease sale tracts; determine royalty relief; analyze information and data contained in EISs; support policy decision-making; and for a variety of studies related to the Offshore Program. These data are, therefore, very important to MMS because so many decisions are made based on the interpretation of G&G data.

The RE Program is converting its seismic database into a digital form usable by its computer workstations, a project that will take several years at current funding levels Digital seismic data are now the industry state-of-the-art, and upgrading the MMS database to this form will allow the Bureau to achieve the seismic interpretation capabilities now common within the oil and gas industry. In the case of digital well logs, a private contractor is converting paper well logs in the GOM into digital format. Bureau-wide, approximately 12-14% of the data have been converted. The conversion schedule has been based upon the expiration of proprietary terms.

***Resource Assessment* -** Resource assessments are conducted to determine the hydrocarbon potential of Federal lands. The MMS assessments have addressed vast areas, such as the entire GOM, Pacific Region, and offshore Alaska, as well as smaller areas such as a particular lease sale or deferral alternatives within a proposed lease sale area. Oil and gas assessments help to focus other technical studies on the environmental and operational challenges facing future OCS activities. Resource assessments also provide information for leasing policy decisions as leasing activity moves into new frontier areas, such as the deepwater GOM. Areas of high resource potential identified by resource assessments are used to formulate the 5-Year Program involving future lease sales, as well as for timely analysis of Administration and Congressional proposals affecting future OCS lands activities.

Oil and gas resource assessments for the GOM and Alaska planning areas were revised as a first step in the preparation of the 2002-2007 5-Year program. These revised estimates were used to weigh potential benefits versus other possible consequences of offering specific areas for oil and gas leasing.

The RE Program identifies geologic plays on the OCS that offer the highest potential for the development and production of oil and natural gas. Non-energy resources, such as sand and gravel, are also considered by regional geologic studies. Analysis of the geologic plays employs complex computer models and methodologies that incorporate specific G&G information, mathematical and statistical concepts, risk and probability theories, and a variety of assumptions pertaining to economic and petroleum engineering scenarios. Assessment results are released in detailed reports to provide both the public and government agencies with updated information concerning Federal lands.

Resource Estimation – The MMS estimates the amounts of oil and natural gas likely to be discovered and produced as a result of leasing, and generates engineering scenarios associated with the future industrial activities associated with development. Resource estimates and the exploration and development (E&D) scenarios provide the primary basis for environmental impact analysis. Under NEPA, the potential effects of large-scale activities must be understood and carefully controlled to minimize adverse impacts on environmental and cultural resources.

Prior to most lease sales, EISs are prepared to address the possible consequences of the leasing activity. Resource estimates provide a key element to oil spill risk analysis, which in turn are factored into a wide spectrum of environmental, biological, and cultural impact analyses. Environmental analysts use the E&D scenario to determine the cumulative effects of industrial activities in the proposed lease sale area. Resource estimates are also used in economic analyses that project the monetary benefits derived from the leasing activity. Resource estimates support critical policy decisions regarding lease sale alternatives, areas selected for deferral, Departmental initiatives, and agreements with affected States.

> **50th Anniversary**
> **OCS Milestones**
>
> **1982** ▪ MMS created as a bureau of the Department of the Interior - mission to manage OCS mineral resources in an environmentally sound and safe manner and to collect, verify, and distribute mineral revenues from Federal and Indian lands.
> ▪ Federal Oil & Gas Royalty Management Act passed - designed primarily to assure proper and timely revenue accountability from production and leasing of Federal lands.
> ▪ Initial 5-Year Leasing Program revised - introduced area wide leasing.
>
> **1983** ▪ Record number of lease sales in a year - eight sales.
> ▪ Greatest high bid dollar amount received at a lease sale - $3,469,214,969 in the Central GOM lease sale 72.
> ▪ First compliant guy-towered platform - GOM, 181.3 kilometers (110 mi) southeast of New Orleans, LA, in 303 meters (1,000 ft) of water.
> ▪ First preleasing moratorium enacted (FY 1984) - North Atlantic.
> ▪ President Reagan signs Proclamation 5030 (3 CFR 22) establishing U.S. Exclusive Economic Zone (EEZ) - area contiguous to the territorial sea of the United States, Commonwealth of Puerto Rico, Commonwealth of Northern Mariana Islands, and U.S. overseas territories and possessions. This area extends 200 nautical miles from the coastline.

Tract Evaluation – The MMS is responsible for assuring that the Federal government receives fair market value (FMV) for rights to mineral resources on individual OCS tracts. Immediately prior to and continuing after a lease sale, MMS begins the bid evaluation procedures that determine whether a bid can be accepted and a lease issued. Acceptance of a bid is based on a two-phase process.

Phase 1 is conducted on a tract-by-tract basis and is normally completed within a short time following the opening of bids. Phase 1 analysis is designed to accept those high bids where competitive market forces can be relied upon to assure receipt of FMV. Additionally, bids are accepted on tracts where government data indicate the tract does not contain an economically viable prospect and no further analysis is required.

The high bids not accepted in Phase 1 receive further evaluation in Phase 2. The MMS geoscientists conduct detailed geologic analyses, including reservoir studies, seismic stratigraphy, and prospect mapping, which support economic evaluations of oil and gas production from these tracts. The high industry bids are then compared to MMS estimates of Net Present Value (NPV) based on engineering simulation and discounted cash flow modeling.

Economic tract evaluation integrates G&G, engineering, and economic data in a complex computer model (MONTCAR) to derive tract values. This computer model accounts for the timing of development and production, lease terms and conditions, tax codes, variable project costs and reservoir performance, and other subjective factors such as geologic risk. This model has been revised to handle the royalty suspension volumes mandated for both deepwater and shallow water royalty relief.

Reserves Inventory – The MMS develops independent estimates of recoverable amounts of oil and natural gas in discovered fields by conducting field reserve studies. The estimates are revised periodically to reflect new discoveries and incorporate development information and annual production statistics. Reserve studies are critical inputs in the review and approval of royalty relief applications. The geologic and engineering information support other OCS program activities, Minerals Revenue Management (MRM) functions, and cooperative efforts with the Energy Information Administration and the Department of Energy.

Field Determinations - Determining which specific leases comprise individual fields is a critical factor in deciding the eligibility of leases for royalty relief, and the actual amount of relief. Each of these determinations could potentially involve hundreds of millions of dollars to either industry or the U.S. Treasury.

Technical Information Distribution – The MMS develops important technical information regarding the hydrocarbon resources on the Federal OCS that is useful to industry, Federal and State agencies, and the general public. OCS reports are continually being prepared in the RE Program on technical subjects, such as the geology of OCS planning areas, certain offshore wells, G&G data acquisition, production projections, and annual reserves. The Field and Reservoir Reserve Estimates Reports give a perspective on national trends of production, additions to the offshore reserves base, and drilling activity.

A team has addressed the demand, under differing price scenarios, for natural gas by the year 2010. This study examines the supply and contribution to that demand from the offshore. A document publishing the results of this study is available on the MMS homepage.

Prior to each GOM lease sale, a list of all currently unleased tracts having wells with indicated hydrocarbons is distributed to industry and the public. This list is extremely useful to smaller operators and new entrants to the GOM since it provides a systematic overview of exploration results on these leases and potential leads toward identifying low-risk exploration prospects.

FY 2002 Accomplishments

- The Alaska, Gulf of Mexico, and Pacific Regions released approximately 80,000 line miles of 2-D seismic information as required under current regulations at 30 CFR Part 251.

- Offshore acreage was evaluated for Fair Market Value determination for three sales in the Gulf of Mexico – one each in the Central, Western, and Eastern Gulf of Mexico.

- The Pacific and Gulf of Mexico Regions have developed independent estimates of current proved oil and natural gas reserves in discovered fields.

- The Alaska Region is conducting field studies regarding the Federal portion of the North Star Field, offshore Beaufort Sea as well as having developed resource estimates and exploration and development scenarios for the multi-sale EIS in the Beaufort Sea.

- The Resource Evaluation and Assessment models were modified to better model future royalty suspension programs.

Planned Activities for FY 2003

- The Alaska, Gulf of Mexico, and Pacific Regions will release between 80,000 and 100,000 line miles of 2-D seismic information to the public as required under current regulations at 30 CFR Part 251.

- Offshore acreage will be evaluated for Fair Market Value Determinations for two sales in the Gulf of Mexico and one sale in Alaska.

- The Pacific and Gulf of Mexico Regions will continue to report on the development of independent estimates of proved oil and natural gas reserves in discovered fields.

- The Alaska Region will conduct field studies regarding the Federal portion of the North Star field, offshore Beaufort Sea as well as monitor the resource potential of the McCovey prospect.

- The Resource Evaluation and Assessment models will be refined and modified to better model constantly changing offshore scenarios.

Planned Activities for FY 2004

- The Alaska, Gulf of Mexico, and Pacific Regions will release over 100,000 line-miles of 2-D seismic information to the public as required under current regulations at 30 CFR Part 251.

- Offshore acreage will be evaluated for Fair Market Value determination for three sales in the Gulf of Mexico and two sales in offshore Alaska with the possibility of a third in the Norton.

- The Pacific and Gulf of Mexico Regions will report on the development of independent estimates of proved oil and natural gas reserves in discovered fields.

- The Alaska Region will conduct field studies regarding the federal portion of the Northstar Field offshore Beaufort Sea.

- The resource evaluation and assessment models will be refined and modified to better model the constantly changing offshore scenarios.

Economic Analysis

The MMS:

- determines the size and form of royalties, rentals, and minimum bids for newly offered leases;
- develops and implements the procedures for filing and processing requests with MMS for royalty relief;
- designs fiscal and administrative incentive programs for encouraging drilling and production on active leases in the presence of market failures;
- addresses work on specific economic issues and program-related analyses, including the potential effects of alternative auction and leasing policies on MMS program objectives;
- designs the procedures to be followed at lease sales for ensuring receipt of FMV; and
- prepares an annual report to Congress evaluating bidding results and competition on the previous year's lease sales.

Economic Analysis Priorities

Design financial terms for lease sales.

Develop and implement royalty relief regulations and programs.

Design and assess the performance of bid adequacy rules for lease sales.

Review applications for royalty relief and requests for reconsideration of decisions to reject high bids.

Provide economic analysis to other MMS program offices and activities and to the Office of the Solicitor.

Design and study alternative auction and leasing arrangements.

Evaluate MMS policies regarding conservation of resources.

The results of this work enable MMS to ensure that the public receives FMV for the rights to OCS minerals and encourages timely and efficient mineral development on the OCS. Economic and statistical analyses are performed that incorporate RE Program data and information into overall MMS and DOI leasing policies and program decisions. These activities require sophisticated statistical and analytical modeling capabilities and access to a diverse array of OCS data.

FY 2002 Accomplishments

- Completed a deepwater royalty relief case

- Designed the fiscal terms for 3 Gulf of Mexico lease sales
- Developed the framework for a deep gas drilling program incentive targeted towards active leases
- Assisted DOE in structuring an incentive program for marginal properties in shallow water
- Assisted with the evaluation of the economic value of Pacific underdeveloped leases
- Conducted reviews of 4 appeals of bid rejections
- Developed extramural study to predict offshore exploration activity
- Reviewed and recommended most worthy CMI projects for MMS funding
- Assisted with preparation of 5-year program document
- Started study on role of MMS in conservation of resources
- Helped prepare subsalt rule that provides more flexibility in suspension policy
- Developed economic inputs for evaluation of tracts in 3 OCS sales

Planned Activities for FY 2003

- Design fiscal aspects of 3 OCS lease sales
- Conduct one deepwater royalty relief case
- Publish proposed rule on deep gas drilling incentives
- Begin study of possible incentives for shallow water tracts
- Review appeals of bid rejections from 3 OCS sales
- Review and monitor progress of extramural exploration study
- Initiate extramural study to improve tract evaluation methodology
- Review CMI proposals
- Provide economic inputs for tract evaluation in lease sales
- Initiate look-back study of deepwater program
- Complete development in incentives for Alaska Offshore program

Planned Activities for FY 2004

- Design fiscal aspects of 5 OCS lease sales
- Develop economic inputs for tract evaluations for 5 OCS lease sales
- Conduct reviews of appeals of bid rejections from 5 OCS relief cases
- Conduct 2 deepwater royalty relief cases
- Update economic assessment of undeveloped Pacific leases
- Continue evaluation of conservation of resources mandate
- Review and monitor look-back study of deepwater program
- Publish final rule on deep gas drilling incentives
- Revise guidelines for evaluating requests for deepwater royalty relief
- Update computer model and user’s guide for evaluating requests for deepwater royalty relief

Marine Mineral Activities

The Marine Minerals Program is responsible for all minerals on the OCS other than oil, gas, or sulfur. Currently, that responsibility is focused on Federal sand and gravel resources. Requests for OCS sand have increased significantly since the 1999 amendment to Section 8(k) of the Outer Continental Shelf Lands act eliminated fees for State and local communities' use of OCS sand for hurricane and shore protection projects. Consequently, the need to identify OCS sand sources that may be accessed in an environmentally sound manner has also increased significantly.

From 1995 to 2002, MMS conveyed nearly 17 million cubic yards of OCS sand for shore protection projects (see Table 1 below). In FY 2002 alone, we conveyed 5.7 million cubic yards of OCS sand for projects in Virginia and Louisiana. In FY 2003, we expect to convey Federal sand to coastal communities in Louisiana, New Jersey and to the Dam Deck Naval Facility in Virginia, based on discussions with those officials and information gathered through our State partnerships. Requests come in throughout the year, which are not anticipated, and they need to be addressed when they are received. Some requests have been for emergency beach repairs to prevent imminent breaching and required a rapid response by the MMS.

OCS Sand Conveyed through 2002 (by State)

State	Locality	Date	Sand Vol. (Cu. Yd.)	Borrow Area	Project Type
MD	Assateague Island	1998	134,000	Great Gull Bank	Emergency repair
MD	Assateague Island	2001	100,000	Great Gull Bank	Dune restoration
MD	Assateague Island	2001	1,800,000	Great Gull Bank	Coastal restoration
VA	Sandbridge Beach	1998	1,100,000	Sandbridge Shoal	Shore protection
VA	US Navy – Dam Neck	1996	808,600	Sandbridge Shoal	Facility protection
VA	Sandbridge Beach	2002	1,500,000	Sandbridge Shoal	Shore protection
FL	Jacksonville Beach	1995	1,240,000	Duval Borrow Area	Shore protection
FL	Brevard Co. – north	2000	2,800,000	Canaveral Shoal	Shore protection
FL	Brevard Co. - south	2001	2,500,000	Canaveral Shoal	Shore protection
FL	Patrick Air Force Base	2000	560,000	Canaveral Shoal	Facility protection
SC	Surfside Beach	1997	150,000	Surfside Borrow	Shore protection
LA	Holly Beach	2002	4,200,000	Peveto Channel	Shore protection
LA	South Pelto	2002	2,000	Ship Shoal	Test dredging

A key strategy to ensure environmental protection, safe operations, and issue resolution for decisions regarding access to OCS marine mineral activities are the closely coordinated partnerships MMS has forged with coastal States and local communities. The MMS has cooperative projects with Alabama, Delaware, Florida, Maryland, New Jersey, North Carolina, South Carolina, Texas, and Virginia to identify OCS sources of beach nourishment sand for potential use in shore protection projects. We also expect to establish cooperative agreements with Louisiana and California in 2003 as both states have or may have needs for Federal sand in the near future. These partnerships rely primarily on State Geological Surveys, in cooperation with other State and Federal agencies, to identify the States' needs and propose suitable offshore areas for study. When warranted, and when funds are available, geological and environmental studies are developed and conducted within the identified sites. Both types of studies provide the information needed for negotiated agreements with local communities for access to the sand.

The MMS will continue to work through the State Cooperatives to leverage the additional funding provided to the sand and gravel program in FY 2003 to identify OCS sand resources for priority shore and wetlands protection projects. In particular, the States of New Jersey and Florida have indicated a need to identify and evaluate OCS sand resources for several projects along their coasts for which insufficient sand in State waters exists. The cooperative programs typically involve formation of a task force composed of an MMS representative and representatives from other state and Federal agencies. The task force meets periodically to review current work and recommend new projects. The projects usually involve identification of coastal areas in greatest need of restoration, locating and evaluating OCS sand deposits suitable for such restorations, and completing environmental studies to determine possible impacts of dredging the sand and placing it on an adjacent beach.

The New Jersey Offshore Sand Task Force was the first formed and is the furthest along in its organization and extent of work completed. As such, it is used as a model for other similar efforts. New Jersey not only has a large number of beaches and a very active beach restoration program, but there are also many other users of the OCS off its shore including long-distance cables, artificial reefs, dump sites, and proposed windmill farms. The task force includes a wide variety of agencies that are working closely together to minimize conflicts over access to sand deposits. New Jersey has completed evaluation of sand resources for about half of its 150-mile shoreline. Florida and Louisiana also have active beach and coastal restoration programs and Louisiana is a likely candidate for the regional offshore sand management implementation project planned for 2003 in which MMS will coordinate an effort to guide the State through an organizational and planning process for managing offshore sand resources.

The MMS, the State of Florida, and Florida State University signed a memorandum of agreement in March 2001 establishing a Coastal Marine Institute (CMI) to conduct sand source investigations and environmental studies of sites offshore Florida as potential sources of hurricane protection material. This is the first CMI specifically focused on the unique issues surrounding the use of OCS sand resources. We are working with the CMI to bring the local expertise available at Florida State University and the Florida Department of Environmental Protection to bear on the priority information needs of MMS and the State of Florida.

A number of environmental studies have been completed for OCS areas having high potential as sand borrow sites. These studies included numerical wave modeling to determine the effects of dredging on wave energy and adjacent coastal erosion and benthic biological surveys to assess the abundance and diversity of biota in and around the borrow areas.

FY 2002 Accomplishments

- Design protocols, for biological and physical monitoring of the long-term cumulative effects of sand mining, went from the drawing board to the field for testing at Sandbridge Shoal, a sand borrow located off of Sandbridge Beach, VA.

- The MMS entered into a cooperative agreement with the Virginia Institute of Marine Science (VIMS) to test the validity and appropriateness of the designed protocols. Sandbridge Shoal was chosen because of its past use and numerous planned restoration projects which will use the shoal for sand borrow material (see Table 1.).

- Continued work with the Mid-Atlantic States, through their respective geological surveys, to locate potential sand borrow areas in Federal waters offshore their respective coasts. This has resulted in the identification of numerous shoals which contain compatible sand for coastal and beach restoration projects. However, fish and other mobile organisms are known to utilize these shoal areas, and the potential for long-term adverse impact associated with an offshore dredging operation does exist. Little information is available regarding how these finfish utilize the shoals, thereby making it difficult to fully assess these potential adverse impacts. The information gathered from this study will be used to evaluate requests for OCS sand, assist MMS in consultation processes, and enable the agency to better evaluate the potential impacts of offshore dredging activities on finfish within the shoal areas of the Mid-Atlantic.

- Entered into an interagency agreement with the U.S. Fish and Wildlife Service to conduct aerial surveys of wintering water birds. This study will assess the distribution and abundance of wintering water birds over shoals, which may be potentially used for sand mining from Northern New Jersey to the Virginia/North Carolina border. While water bird populations in coastal bays and along the coast are well known, little information is known about the offshore populations.

- Completed sand leases for Holly Beach, Louisiana, and Virginia Beach, Virginia, conveying over 5.7 million cubic yards of OCS sand.

- Managed the marine minerals applied research programs of the Center for Marine Resources and Environmental Technology (CMRET) at the University of Mississippi and the Marine Minerals Technology Center (MMTC) at the University of Alaska.

<u>Planned Activities for FY 2003</u>

- In cooperation with the USGS's Biological Resource Division, will begin work on two new environmental studies. The first study, to take place in Federal waters offshore southeastern Texas and southwestern Louisiana, will investigate finfish populations that utilize potential borrow areas as habitat. The second study is a literature synopsis. The objective of the study is to review and analyze existing literature and data sets to better characterize benthic communities that utilized shoal and ridge features along the U.S. East coast and Gulf of Mexico. The information gathered from this study will be used to aid in environmental assessments, needed to grant requests for the use of OCS sand by coastal States. Additionally, this will also identify data gaps and provide insight as to the direction of future benthic studies.

- Will gather information to determine the proper extent of buffer zones around shipwrecks, should they be identified, to avoid damage during dredging operations on Federal borrow sites. MMS maintains an extensive database of shipwreck and other historical artifacts and sites offshore, and we continue to gather and evaluate information to locate unrecorded shipwrecks or artifacts in the sand borrow areas we lease.

- Will lease additional sand resources to Virginia Beach, the State of Louisiana and possibly the State of New Jersey.

- Pending new legislation, working with the U.S. Army Corps of Engineers on several windmill farm permit applications.

- Will continue work with 10 or 11 coastal states through cooperative agreements.

Planned Activities for FY 2004

- Convey Federal sand to coastal communities in New Jersey, Louisiana, and to the Dam Deck Naval Facility in Virginia.

- Continue to work through the existing State cooperative programs to identify OCS sand resources for priority shore and wetlands protection projects.

- Establish new offshore sand cooperative agreements with California and Louisiana and begin systematic assessments of OCS sand resources off these States.

- Initiate a pilot project with a State (most likely Louisiana) to implement and evaluate a regional approach to offshore sand leasing and management.

- Fund a project to evaluate the environmental effects of dredging sand for beaches on the east coast of Florida through the new Florida Coastal Marine Institute.

50th Anniversary OCS Milestones

1984 ▪ National Fishing Enhancement Act passed - encourages using offshore oil platforms as artificial reefs.
▪ Most tracts offered at a lease sale - 8,868 tracts in the Eastern GOM lease sale 79.
▪ Record number of exploratory wells drilled in a year - 597 in the GOM.
▪ Record number of platform installations in a year - 229 in the GOM.
▪ Focused leasing concept introduced - allowed deletion of low industry interest, environmentally sensitive acreage from sale areas early in the lease sale process.

1985 ▪ Well drilled farthest from shore - 965 kilometer (603 mi) in Navarin Basin, Alaska, Block 673; ARCO, Inc.

1986 ▪ Deepest well drilled - 7,620 meters (25,000 ft) in the Central GOM, Viosca Knoll, Block 117, by Apache Corp.
▪ OCS Lands Act Amendments to Section 8(g) passed - distributed funds in escrow to Federal Government and affected States.

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 what is clearly a global industry. 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 prospects 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. In FY 2004, our focus is on:

- Implementing relevant international components of President Bush's National Energy Policy;
- Monitoring, developing, and refining safety and environmental standards;

- Technical and information exchanges with our international regulatory counterparts;
- Providing technical advice to the Department of State.

National Energy Plan - Recognizing that today's offshore oil and gas industry is global in scope, MMS pursues an international strategy to enhance its domestic capability, share in the benefits of worldwide technology innovation, promote safe and environmentally sound operating practices, and enhance the role of our Nation in the global economy. The MMS's international activities are consistent with the President's National Energy Plan. In FY 2004, MMS will continue activities in the following areas:

- **Bilateral and Multilateral Relationships:** Many countries desiring to develop their offshore resources have contacted MMS to establish bilateral and, in some cases, multilateral relationships. The MMS uses these relationships to encourage countries to consider implementing a system of clear, open, and transparent regulations and procedures to govern and at the same time facilitate foreign investment.

- **Memorandum of Understanding:** The MMS has MOUs with our counterpart agencies in Australia, Canada, China, and Norway to exchange scientific and technical information related to offshore oil, gas and mineral activity. Discussions are underway regarding establishing MOUs with Brazil, India, Mexico and Russia. Subject to funding availability, cooperation includes exchange of information on resource assessment, administrative procedures and practices, leasing, development, environmental protection, economic analysis, risk perception, safety of personnel and offshore installations and pipelines, and public education.

  - **Russia:** With USAID funding, MMS has engaged the Russian Federation in cooperative activities related to the technical aspects of regulating and managing offshore exploration and development of oil and gas resources since the mid-nineties. Agency efforts have focused on information management, resource evaluation and international reporting methods, environmental risk assessment, and methods of transferring mineral rights. Current efforts have focused on encouraging Russia to consider a new regulatory regime consistent with international practices that would promote safe and environmentally sound approaches to offshore oil and gas development while at the same time facilitate foreign investment.

  - **Brazil:** The MMS will continue to coordinate on several joint industry projects and international workshops and on-going regulator to regulator discussions.

  - **India:** The MMS has developed contacts with the Indian Directorate General of Hydrocarbons of the Ministry of Petroleum and Natural Gas. Discussions are ongoing between technical experts from both organizations on laws and regulations regarding management of mineral resources, accident data and corrective measures, inspection and enforcement, economic analysis, and safety and environmental issues, as well as organization and staffing issues. MMS is in discussions with the Department of State regarding a possible workshop in India on technological issues.

- **Caspian States:** With funding from the U.S. Agency for International Development, MMS continues to provide advice and assistance to the countries of Kazakhstan, Turkmenistan, and Georgia, as they continue their efforts to implement legislative and regulatory reforms to provide more stable regulatory regimes. The experience and expertise MMS provides through technical assistance workshops and regulatory partnerships is designed to help these countries develop and implement regulatory systems that incorporate modern-day safety and environmental standards.

- **Angola:** The MMS is working with the Angola Ministry of Oil and Sonangol, the National oil company, to schedule a joint meeting in Luanda to share information concerning management of offshore oil and gas resources.

- **Asia Pacific Economic Cooperation (APEC) forum:** The MMS provides support to the Department of State on the APEC Marine Resources Conservation Working Group. Under the auspices of APEC, the MMS conducted two workshops in Indonesia on oil spill response and on platform decommissioning and in China on the structural integrity of offshore oil and gas platforms. The MMS and DOS have an interagency agreement and are discussing a possible workshop in 2003 to exchange information and improve response capabilities to spills in oil and hazardous materials.

Internationalization of Oil and Gas Technical Standards and Regulatory Regimes -- The growing scope and effect of international technical standards and regulatory regimes require monitoring to assess potential impacts on our domestic industry. The MMS is better able to understand and contribute to the development of regional and international standards through direct involvement with international standards organizations such as the International Organization for Standardization (ISO) and the International Association of Oil and Gas Producers (OGP). The MMS is also better able to affect international regulatory regimes through direct involvement with organizations such as the International Maritime Organization; the International Regulators Forum (IRF); and the Arctic Council. If MMS were not involved, key decisions on issues and activities that could impact MMS domestic programs would be abdicated to other governments, foreign oil and gas competitors, and less knowledgeable groups.

Today, many offshore oil and gas producing nations are considering what role international standards should play in their overall regulatory regimes. Governments understand that, if done correctly, a set of internationalized standards that allows for regional differences can lower costs, make more resources economical to produce, and raise worldwide safety and environmental performance. If done incorrectly, internationalized standards that are imposed on the industry from external sources can be inefficient, costly, and burdensome.

Regulators around the world are increasing their participation in the development of international standards that meet established safety criteria. These standards can facilitate the movement of rigs, equipment, services, and personnel among offshore provinces, regardless of the regulatory regime. The MMS is actively enlisting the participation of regulators from other countries and encouraging U.S. companies to contribute their resources and to support the work of the ISO.

The MMS has, both individually and through the IRF, been developing a close professional relationship with the OGP, an international association of oil companies and petroleum organizations.

Technical and Information Exchanges – The MMS exchanges information and expertise by:

- Maintaining an Internet web site that provides detailed information on MMS's safety and environmental programs;
- Hosting visits from foreign experts and scientists;
- Participating and sponsoring scientific conferences; and
- Participating in technical assistance programs funded by the U.S. Agency for International Development (USAID).

As a world leader in the management of offshore mineral resources, other nations and international organizations will continue to seek MMS's participation when discussing offshore issues such as the development of guidelines for satisfactory safety and environmental management systems and the regional goals that such systems should aim to achieve.

Technical Advice to the Department of State -- The MMS will continue to assist and monitor the activities of the Convention on the Law of the Sea, the London Convention of 1972, and the International Convention for the Prevention of Pollution from Ships. Issues currently being discussed, that includes drilling mud discharges and platform removal requirements, bear directly on U.S. offshore oil and gas operations.

FY 2002 Accomplishments

In FY 2002, MMS continued active participation with the U.S. Technical Advisory Group to ISO, Technical Committee 67, dealing with Materials, Equipment and Offshore Structures and with the U.S. Technical Advisory Group to ISO, Technical Committee 28, dealing with Petroleum Products and Lubricants. The standards developed by these ISO committees will impact the oil and gas industry for years to come.

The MMS and the Norwegian Petroleum Directorate discussed the possibility of jointly championing an offshore crane safety project for consideration by all IRF member nations (U.S., Norway, Britain, Canada, Netherlands, Australia, New Zealand, and Brazil) during the 2002 timeframe. The goal of this project would be to improve crane safety through the development of a common set of international standards. The IRF is currently in the process of evaluating this proposal.

At a March 2002 Society of Petroleum Engineers' International Conference on Health, Safety and Environment, MMS presented the regulator perspective on international regulation and global harmonization. The OGP is the coordinator for the panel session and will lead the discussion on the benefits and costs associated with international harmonization of regulations and regulatory approaches.

- At the request of the Department of Energy, MMS participated in a seminar in Manila, Philippines, on Gas Regulation in the United States and in the U.S.-Indo Conference on Building Natural Gas Markets in India held in New Delhi, India.

- Continued to monitor international issues that may impact MMS' domestic mission such as the United Nations Convention on the Law of the Sea, the International Convention for the Prevention of Pollution from Ships, and the London Convention of 1972.

- Entered into an Inter Agency Agreement with the Department of State to conduct a workshop on oil spill response in the Asia Pacific area under the auspices of the Asia Pacific Economic Cooperation forum.

- In response to a request from the Government of Angola, MMS entered into discussions with the Ministry of Energy and the national oil company, Sonangal, to conduct a joint meeting in Luanda, Angola, to exchange information on managing offshore oil and gas resources.

- Under a project funded by the U.S. Agency for International Development (USAID), MMS provided technical assistance to the Government of Kazakhstan to develop their ability to perform resource evaluation using geological and geophysical commercial software packages.

- Under a USAID project through the Alaska-Sakhalin Working Group, the MMS led a group of Federal, State and industry representatives to Sakhalin Island, Russia, for a seminar/workshop on Environmental Management for Offshore Oil and Gas Activities.

- In response to requests from the World Bank, the Academy for Educational Development, foreign embassies and foreign government representatives, the MMS met with delegations from Brazil, China, Morocco, Nigeria, Norway, and the Philippines to discuss safety, environmental and revenue management issues.

Planned Activities for FY 2003

- Conduct a joint workshop in Luanda, Angola, on the role of a regulatory agency in managing its offshore oil and gas resources.

- Negotiate a Memorandum of Understanding with our counterpart organization in Mexico to exchange information on safety and environment issues involved in managing offshore oil and gas resources.

- Work with the Department of State to conduct an Asia Pacific Economic Cooperation forum workshop in the Asia Pacific area on oil spill response.

- Provide technical assistance to the Governments of Uzbekistan and Turkmenistan on the use of geological and geophysical commercial software packages for resource evaluation.

- Continue to provide advice and assistance to the Department of State and other agencies in support of the National Energy Policy.

Planned Activities for FY 2004

- Implement relevant international components of President Bush's National Energy Policy.
- Monitor, develop, and refine safety and environmental standards.
- Continue technical and information exchanges with our international regulatory counterparts.
- Provide technical advice to the Department of State

Justification of Program Change

Resource Evaluation Program

Increase in Funding for Gulf of Mexico Workload

2004 Program Changes		
	2004 Budget Request	**Program Changes (+/-)**
$ (000's)	$ 25,708 *	+$560
FTE	*225*	*+2*

** This number includes uncontrollables of $300K.*

The FY 2004 budget request for the Resource Evaluation Program is $25,708,000 and 225 FTE including a program increase of $560,000 and 2 FTE for Gulf of Mexico Workload from the FY 2003 President's Budget Request.

Gulf of Mexico Workload (+$560,000, 2 FTE) The requested increase of $560,000 is part of a larger $1.6M Gulf of Mexico Workload initiative to provide additional resources to meet a growing workload demand.

<u>*Effect of proposed change on strategic and performance goals:*</u> The Gulf of Mexico workload continues to expand as the role played by oil and gas production in the Gulf of Mexico assumes a more prominent National position everyday. Gulf oil production is projected to provide more than 40 percent of all oil produced domestically. This national asset keeps growing and resources need to be allocated commensurate with its growing prominence.

The Gulf of Mexico has entered a new era of increased development activity after several record years of exploration activity. The number of oil and gas development plans filed with MMS continues to grow. There were 133 initial development plans filed in the Gulf in FY 2001. The average in 2000-01 is 50 percent higher than 1995-96 and the increase has triggered a growing workload in several sectors. MMS also faces an accelerating workload on pipelines with 1,285 applications in 1998; 1,351 in 1999; 1,626 in 2000; and 1,994 in 2001. The National Energy Plan (NEP) predicts that oil production from the Gulf will rise from its current 27 percent of all domestic oil production to 40 percent in 2010.

The requested increase supports the DOI Strategic Goal "Resource Use - Provide Access for Responsible Use and Optimal Value (Energy);" the End Outcome Goal, "Manage or Influence Resource Use to enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value (Energy);" and the Intermediate Outcome, "Effective Lease and Permit Management" by:

- Improving financial performance by safeguarding and verifying the accuracy of allocation of payments with different royalty rates and assuring that operators have the proper financial responsibility measures in place for oil spill liability.
- Adding additional analytical capability for proper field determinations affecting royalty relief.

- Increasing the knowledge of resource estimates on the OCS.

The increase also will enable MMS to move paper records into electronic (digital) format, assisting evaluation staff with several types of determinations vital to assuring receipt of fair market value. The final component of the increase is for a geologic resource study which will enhance our information base for decision making.

2003 Program: In FY 2003, the Gulf of Mexico Region (GOMR) requested an increase for the equivalent of 9 FTE (a combination of 4 in-house staff and 5 contractors).

Five FTE equivalents will deal with field determinations to assure the receipt of proper royalties for the U.S. Government. This is an area that has rapidly evolved into an important, resource-intensive responsibility having a huge economic impact to both the Government and industry.

The MMS has also requested the equivalent of 4 FTE to collect, process, distribute and archive technical data and records derived from industry exploration and production activities. A massive set of technical data exists about the Gulf of Mexico and must be managed effectively to ensure the effective management of OCS resources. In addition, the GOMR will contract for the digitizing of well logs and will perform regional sand resource identification.

Justification of 2004 Program Change: The total request for new resources is for 2 FTE and $560,000.

Two positions ($240,000) are requested to provide proper field determinations affecting royalty relief. The field determination process results in the proper placement of a “new producible lease” (NPL) into a “field”. It has rapidly evolved into an important, resource intensive responsibility having a huge economic impact to the both the Government and industry. Prior to the Deep Water Royalty Relief Act (DWRRA), field determinations were primarily an administrative procedure for production accounting purposes. The DWRRA introduced major fiscal consequences to industry and the U.S. Treasury related to determining which leases comprise a field. Consequently, NPL discoveries resulting from record drilling levels in water depths greater than 800 meters will rapidly add more workload to all Reserves Inventory Program processes, especially the field determination process. For example, from 1997 through 1999 about 172 wells were drilled each year in water depths greater than 1,000 feet, with more than 30 new lease discoveries in 1999. A record 225 wells were drilled in greater than 1,000 feet of water in 2000, an increase of about 33 percent from the plateau of 172 wells per year for the previous 3 years. As deepwater development continues to mature, the amount of new drilling adjacent to existing fields will increase. The level of complexity in each field determination, and the potential for challenges by industry of MMS field determinations, will likely increase as companies explore these more marginal accumulations. Significant staff time and effort are also required to meet with industry to discuss and review differences in field boundary interpretations with all affected lease holders. An individual field determination can require from one-quarter to two FTE’s of effort. In addition, quality, attention to details, and thoroughness required for each field is impacting resource needs. Industry is employing expert consultants and extensive technical staff using “state of the art” geophysical data, evaluation methods, and computer models to prepare and present interpretations of their lease holdings to MMS and appeal panels.

Consequently, highly qualified staff with extensive training and experience in geology and geophysics is required to employ the quality science necessary to provide credibility for MMS decisions subject to challenge by industry appeals and lawsuits.

$250,000 is requested to move paper records into electronic (digital) format. The GOMR is moving to provide critical paper records to users in standard digital formats. Processes will soon exist to provide users with TIFF well data through a web browser interface, Finder, and ArcView. These processes need to be expanded to include other types of critical data. Resource Evaluation has a vast amount of paper files that users need to make fair market value determinations, field determinations, new producible lease determinations, and new well analysis. This proposal is to begin scanning these paper records to TIFF Version 4 image format. No duplicate copies of these records exist. To ensure continued access to these important historical records, the data needs to be captured in raster format as soon as possible. If funding is not received in a timely manner to develop this digital database, the hardcopy geoscientific/geotechnical data, information and interpretations will continue to deteriorate over time to the point where they cannot be scanned and saved. In addition, MMS will not be in compliance with OCS laws and regulations as well as MMS e-Gov guidelines. This resource cannot be regenerated once the hard copies are indecipherable.

Lastly, $70,000 is requested to conduct a Petroleum Reservoir Characterization of Lower Cretaceous Carbonate study with the University of Alabama. The Gulf of Mexico Region periodically updates their assessment of resources in all planning areas on the Atlantic and Gulf of Mexico OCS. Policy makers in both the Government and the private sector use these resource numbers for planning future energy-related activities. The University of Alabama proposal, *"Lower Cretaceous Carbonate Petroleum Reservoir Characterization, Northeastern Gulf of Mexico"* is a multi-phase 4-year project with a total project cost currently estimated at $300,000. The results from this study will provide MMS with valuable information necessary when updating our resource estimates for the OCS. The investigators for this project are regarded among the leading experts on the subject. At this time we are requesting funding for the information and data collection phase and will request additional funds in the future based on initial results. As our knowledge of the deeper (greater than 25,000 feet) section of the Central and Western GOM is studied and the early history of the Gulf sedimentary basin is unraveled, the Lower Cretaceous section may be found to be prospective throughout the GOM OCS.

Selected Performance Measures for the Gulf of Mexico Region-Based on DOI Draft Strategic Plan

End Outcome Goal: Manage or influence resource use to enhance public benefit, promote responsible use, and ensure optimal value				
Intermediate Goal: Effective Lease and Permit Management				
Performance Measure(s)*	**FY 2002 Performance Level**	**FY 2003 Performance Level**	**FY 2004 Performance Level**	**Change in Performance From 2003 to Proposed 2004**
Maintain the ratio of 1.8 to 1 (+/- 0.4) of accepted high bids to MMS' estimated value.	2.4 to 1	1.8 (+/- 0.4) to 1	1.8 (+/- 0.4) to 1	0
# Tracts assessed or evaluated(MMS Measure)	922	845	895	+50
# Production measurement plans approved	358	360	370	+10
# Conservation actions processed	15,263	16,760	17,860	+1,100

*Preliminary measures pending final approval of DOI Strategic Plan.

Justification of Program Change

Resource Evaluation Program

Increase in Funding for Methane Hydrates

2004 Program Changes		
	2004 Budget Request	**Program Changes (+/-)**
$ (000's)	$ 25,708 *	+$300
FTE	*225*	*0*

** This number includes uncontrollables of $300K.*

The FY 2004 budget request for the Resource Evaluation Program is $25,708,000 and 225 FTE including a program increase of $300,000 for Methane Hydrates from the FY 2003 President's Budget Request.

Methane Hydrates (+$300,000)

The requested funds will be used to develop a methodology for the evaluation of geologic risk and quantitative assessment of hydrates, with an expectation toward a formal assessment of hydrates on the OCS and their evaluation as a leaseable resource.

<u>*Effect of proposed change on strategic and performance goals:*</u> The demand for natural gas is expected to increase significantly in the next ten to fifteen years in response to conversion of electric power plants from coal to cleaner burning natural gas, and other industrial and domestic needs. An increase of more than 50 percent in demand is predicted from various sources including Energy Information Administration (EIA) in their Annual Energy Outlook (AEO 2000). Domestic production from conventional sources cannot keep pace with the increase in demand. The shortfall is expected to be met by an increase in imports from Canada and in LNG (Liquefied Natural Gas) form from other countries.

An alternate domestic source of natural gas to meet future demand may be gas hydrates. Methane hydrates are a form of clathrates in which methane molecules are trapped within the lattice structure of frozen water molecules. This has raised serious considerations for the utilization of hydrates as a source of natural gas.

This initiative supports the DOI Strategic Plan mission component "Resource Use—Provide Access for Responsible Use and Optimal Value (Energy) and End Outcome Goal 2.1 "Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value (Energy)" by establishing an analytical model to determine the quantitative estimation of hydrates in the OCS. The proposed model will allow MMS to be ready with proper policy and planning for future gas production from hydrates in the OCS, once industry is ready with the technology for offshore hydrate production. .

2003 Program: There were no funds requested in the President's FY 2003 Budget for the Methane Hydrates Program.

Justification of 2004 Program Change: The Congress and the President of the United States, in 2000, recognizing the importance of hydrate research, enacted Public Law 106-193, the *Methane Hydrate Research and Development Act of 2000*. This act directed DOE to commence basic and applied research to identify, explore, assess and develop methane hydrate as a source of energy, in consultation with MMS, DOC, DOD, USGS, and NSF. The OCS Policy Committee in recognizing the importance of the gas hydrates recommended in their May 23, 2001, report that "*The MMS, in conjunction with DOE, should encourage international cooperation in development of gas hydrates, with a goal of a pilot program in place within 10 years.*" To date, MMS, in conjunction with DOE initiatives, has launched an effort to prepare a regional geophysical seafloor map to assist in evaluating hydrate resources.

The MMS is responsible for assuring safe operations, managing the development of energy resources from the OCS, and assuring that the Government receives fair market value for OCS lands that are leased. These funds will be used to establish an analytical model to determine the quantitative estimation of hydrates in the OCS. The initiative will be completed in two phases. The first phase will be the development of the methodology and the second will be the application of the methodology to a distinct study area. The final goal will be to initiate an offshore hydrates assessment. The initiative will be about 3 years in duration and will be competitively sourced.

The proposed model will allow MMS to develop proper policy and planning for future gas production from hydrates in the OCS, once industry is ready with the technology for offshore hydrate production. The recent successful testing of gas flows from hydrates in the Arctic, and plans from the DOE-funded Joint Industry Project to drill and core hydrate sites in the OCS in two years, may indicate the feasibility of commercial offshore gas production from the hydrates within 10 to 15 years.

This request fits well with the President's Energy Policy for promoting "dependable, affordable and environmentally sound production and distribution of energy for the future."

Justification of Program Change

Resource Evaluation Program

Reduction in Funding for OMM Pacific Region Streamlining

2004 Program Changes		
	2004 Budget Request	**Program Changes (+/-)**
$ (000's)	$ 25,708 *	-$500
FTE	*225*	*0*

** This number includes uncontrollables of $300K.*

The FY 2004 budget request for the Resource Evaluation Program is $25,708,000 and 225 FTE including a program decrease of $500,000 for Pacific Region Streamlining from the FY 2003 President's Budget Request.

OMM Pacific Region Streamlining (-$500,000) The requested decrease of $500,000 is part of a larger $1.5M effort in FY 2004 that continues FY 2003 streamlining efforts at the Pacific Regional Office.

<u>*Effect of proposed change on strategic and performance goals:*</u> Streamlining the Pacific OCS Region will not compromise the bureau's responsibilities for oversight of the OCS operations. The MMS will continue to be vigilant in ensuring safe operations, protection of the environment, and conservation of resources.

<u>*2003 Program*</u>: In the FY 2003 President's Budget, MMS identified savings of $1,000,000 as the first step towards streamlining activities in the Pacific OCS Region. Since then, a reorganization plan has been developed and approved. Several employees have been and are moving to the Gulf of Mexico Region and other MMS locations where their skills are needed and the workload exists. A few employees have retired or left MMS. In FY 2003, MMS will achieve the anticipated savings of $1,000,000 through staff reductions and eliminating the use of one helicopter. By the end of FY 2003, the reorganization will be complete.

<u>*Justification of 2004 Program Change:*</u> In concert with the President's "Strategic Management of Human Capital" Management Agenda item, MMS is continuing to review the overall workload and workforce throughout the Offshore Minerals Management Program. Workload is continuing to increase in the Gulf of Mexico OCS Region, while the workload in the Pacific OCS Region is declining.

In FY 2004, we anticipate a total savings of $1,500,000 from the continued implementation of the streamlining efforts in the Pacific OCS Region; $500,000 in the Leasing & Environmental Subactivity, $500,000 in the Resource Evaluation Subactivity, and $500,000 in Regulation of Operations. These savings are split between two DOI Strategic Plan Mission Components - $1,000,000 in Resource Use and $500,000 in Serving Communities. However, the total amount of savings from these efforts will not be known until submission of the FY 2005 budget, due to several variables such as the remaining helicopter contract, timing of final departures, residual personnel costs, etc.

Selected Performance Measures for the Pacific OCS Region- Based on DOI Draft Strategic Plan

End Outcome Goal: Manage or influence resource use to enhance public benefit, promote responsible use, and ensure optimal value				
Intermediate Goal: Effective Lease and Permit Management				
Performance Measure(s)*	**FY 2002 Performance Level**	**FY 2003 Performance Level**	**FY 2004 Performance Level with Request**	**Change in Performance From 2003 to Proposed 2004**
# of Resource Assessments(MMS Measure)	27	20	15	-5
# of Estimations of Reserves	5	4	2	-2
# Technical information distributions	7	4	2	-2
# Tract Evaluations for Lease Sales	1	0	0	0

*Preliminary measures pending final approval of DOI Strategic Plan.

Justification of Program Change

Resource Evaluation Program

Reduction in Funding for OMM Streamlining

2004 Program Changes		
	2004 Budget Request	**Program Changes (+/-)**
$ (000's)	$ 25,708 *	-$300
FTE	*225*	*-3*

** This number includes uncontrollables of $300K.*

The FY 2004 budget request for the Resource Evaluation Program is $25,708,000 and 225 FTE including a program decrease of $300,000 and 3 FTE for OMM Streamlining from the FY 2003 President's Budget Request.

OMM Streamlining (-$300,000, -3 FTE) In concert with the President's "Strategic Management of Human Capital" Management Agenda item, MMS is continuing to review the overall workload and workforce throughout the Offshore Minerals Management Program. During the third quarter of FY 2002, the Associate Director for Offshore Minerals Management issued reduced FTE targets to all of the OMM organizations. These reduced targets were based on a Workforce Planning review by all the managers. All managers examined their organization, workload, and staffing. The managers were asked to think of new ways to restructure or do the work if certain attrition or retirements occurred. The options included such items as technological solutions, centralization of functions, or combining duties across organizations. This effort has enabled the Offshore organization to identify a total anticipated streamlining savings of 12 FTE and $1,200,000 for FY 2004. The Resource Evaluation Program will contribute 3 FTE and $300,000 toward the streamlining effort.

Regulatory Programs

Justification of Program and Performance
Analysis by Subactivity

	2002 Actual	2003 Estimate	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2004 Budget Request	Change From 2003 (+/-)
$(000)	49,572	50,512	490	-600	50,402	-110
FTE	385	346	0	0	346	0

Regulatory Subactivity

DOI Draft Strategic Goal 2: *Resource Use – Provide Access for Responsible Use and Optimal Value (Energy)*
DOI Draft End Outcome Goal 2.1: *Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value – Energy*
DOI Draft Strategic Goal 4: *Serving Communities – Protect Lives, Resources and Property*
DOI Draft End Outcome Goal 4.1: *Protect Lives and Property*

FY 2004 Program Overview

This subactivity supports two DOI Resource Use Strategic Goals – Resource Use and Serving Communities.

Resource Use – The MMS supports the President's Energy Policy to "promote dependable, affordable, and environmentally sound production and distribution of energy for the future." Key indicators of MMS' performance and success in this area are the timeliness in which industry exploration and development plans and pipeline right-of-way applications are processed; limiting the amount of gas approved to be flared offshore; inspecting more than 66,000 production facility components for compliance with safety and pollution prevention guidelines; and achieving an offshore development oil spill rate of no more than 10 barrels spilled per million barrels produced.

Serving Communities – The MMS governs offshore operations with the goal of ensuring that mineral development is conducted in a safe and environmentally sound manner. This goal becomes more challenging each year with the increase in operational activity, especially as evidenced in the GOM OCS, which is one of the most exciting exploration and development areas in the world. MMS serves communities by protecting lives and property. It achieves this through its inspections of offshore facilities; its safety and environmental management program (SEMP); the safety award program; annual operator performance reviews; civil and criminal penalty program; industry training; and incident analysis. Indicators of performance and success in this area include the number of fatalities or serious injuries among workers within MMS' scope of authority; the number of OCS regulated facilities designated as critical assets; the percentage of participation (on a production basis) in SEMP Performance Measures; the percentage of Coast Guard inspections performed annually; unannounced audits of training programs, and, as in Resource Use, production facility component inspections.

The Regulatory Program subactivity includes funding for two program elements: Regulation of Operations and Technology Assessment and Research.

Regulation of Operations

	2002 Actual	2003 Estimate	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2004 Budget Request	Change From 2003 (+/-)
$(000)	48,687	49,627	490	-600	49,517	-110
FTE	385	346	0	0	346	0

Regulation of Operations activities include:

- Inspections;
- OCS Infrastructure Security;
- Safety and Environmental Management Program (SEMP);
- Annual Operator Performance Reviews;
- Safe Award Program;
- Approval of Industry Plans, Activities and Requests;
- Civil and Criminal Penalties;
- Medical Standards

Inspections – The inspection of OCS oil and gas operations is a major activity of the Regulatory Program. The MMS inspects drilling and production facilities on the OCS using both scheduled and unannounced inspections. An inspection can range from two hours in duration by a single inspector to several days by two or more inspectors, depending upon the operation being inspected and the complexity of the facility.

On June 7, 2002, the Final Rule entitled “Inspection Under, and Enforcement of Coast Guard Regulations for Fixed Facilities on the Outer Continental Shelf (OCS) by the Minerals Management Service (MMS)” became effective. The new regulation authorizes the MMS to conduct inspection of Coast Guard regulated items delineated in Subchapter N, while maintaining the Coast Guard as the agency with program oversight responsibilities. The Rule also modified operator reporting and data management requirements, and established notification requirements for deficient life-saving and fire fighting equipment. The Office of Management and Budget approved attendant collection of information requirements on March 12, 2002.

The MMS has adopted a phased program implementation process that extends assumption of inspection functions by MMS past the June 7 effective date of the rule. Before full implementation of the program, MMS inspectors will receive both classroom and field training by Coast Guard staff on the inspection of Coast Guard regulated items. Additionally, Incidents of Noncompliance (INCs), which were jointly developed by the Coast Guard and MMS based upon the Coast Guard Self-Inspection Form (CG-5432), will not be issued by MMS until the

Final Potential Incident of Noncompliance (PINC) list has been placed on the MMS web site for 30 days. As the final PINC list was posted to the MMS Regulatory Compliance web site on July 30, 2002, MMS began the inspection of Coast Guard regulated items on August 30, 2002.

During Fiscal Year 2003, MMS inspectors will continue the function of conducting "spot" inspections of Coast Guard regulated safety equipment and will continue population of the TIMS database with information on both compliance and non-compliance. Additionally, MMS will be recording data submitted by the U.S. Coast Guard when they conduct initial facility inspections and spot inspections. Select MMS inspectors will also be undergoing fire training in preparation for assumption of additional duties associated with fire and evacuation drills on fixed facilities.

The MMS utilizes aircraft to assist in the regulation and administration of oil and gas drilling and production leases and operations on the OCS. With approximately 4,000 oil and gas fixed platforms, 120 mobile offshore drilling units, and 33,000 miles of pipelines located and operating in Federal offshore waters, primarily in the Gulf of Mexico from 3 miles offshore to 180 miles offshore, the reliable and speedy transportation provided by small helicopters is necessary to perform the inspections required by the OCS Lands Act and to investigate accidents and incidents when they occur.

Over the past 20 years, less than 0.001 percent of the oil produced from the U.S. Outer Continental Shelf has been spilled from offshore oil production facilities. Through its regulatory program, MMS is working toward keeping this statistic as low as possible.

During the 12 months from September 1, 2001 through August 31, 2002, the MMS utilized a total of 15 helicopters home-ported at its five District and one Subdistrict offices in the Gulf of Mexico OCS Region and two helicopters home-ported at its two District offices in the Pacific OCS Region to make 3,548 flights offshore in support of its regulatory responsibility.

OCS Infrastructure Security – The MMS continues to take a proactive approach in homeland security -- one that is consistent with our mission to manage OCS mineral resources in a safe and environmentally sound manner. The MMS established specific protective measures for each standardized threat condition level of the Homeland Security Advisory System. The "OMM Threat Advisory Guidelines for OCS Operations" enhance existing measures for the protection of offshore personnel, environment, and facilities and form the foundation for a comprehensive OCS infrastructure security system. In FY 2003, MMS revised the Guidelines to improve our response during a crisis. The MMS actively participated in regional coordination groups to increase vigilance, identify potential security risks, and establish procedures for communication and reporting suspicious occurrences near offshore production and transportation facilities. The coordination groups include the participation of offshore operators, the U.S. Coast Guard, as well as other federal, state and local authorities. In FY 2004 the MMS will continue to analyze OCS infrastructure security and Guidelines for possible improvements. The MMS will also continue to participate in regional coordination groups.

Safety & Environmental Management Program – Both a 1990 MMS task force on inspection and enforcement and the Marine Board of the National Academy of Sciences recommended that

OCS operators develop and implement a safety and environmental management program (SEMP). The SEMP is intended to reduce the risk of injuries and pollution from OCS operations by incorporating safety management practices into all facility activities and by establishing clear safety goals and management tools for achieving them. A SEMP describes, among other things, the responsibilities of company officials, employees, and contractors; training programs; audit systems; and the means for assuring regulatory compliance.

The American Petroleum Institute (API), the Independent Petroleum Association of America, and the Offshore Operators Committee (OOC), with MMS participation, developed an industry-wide recommended practice for implementing SEMP. The MMS subsequently requested that industry voluntarily adopt the recommended practice, while MMS agreed to monitor industry's performance. From an API survey, MMS has learned that companies representing most of the OCS production reported having a SEMP generally in place. Based on this and acceptable industry performance, MMS has stated that the voluntary approach to operator implementation would be continued.

The MMS and offshore industry formed a Performance Measures Work Group to develop an initial set of indicators to measure the success of SEMP implementation. Annually, beginning in 1998, MMS has collected industry data, performed analyses, and published reports of the aggregate information. Workshops were later held to promote the program and allow pacesetter companies to demonstrate methods that led to their exceptional performance. Since SEMP is a voluntary program, these performance measures are not used for enforcement actions or to set industry-wide performance targets. Additional performance measures data will be collected in FY 2004.

The MMS continues to work collaboratively with industry representatives to revise the recommended practice, refine the performance measures and encourage widespread program participation. During FY 2004, the MMS will be evaluating options for future development of safety management systems on the OCS. These options may include conducting surveys of operator perceptions regarding safety to provide insight as to how SEMP impacts safety and environmental protection.

Annual Operator Performance Reviews **–** The MMS continues to refine its annual performance review process. The MMS uses the Operator Safety Index (OSI) to prioritize communications with operators. The reviews assess how well the industry is performing relative to regulatory compliance measures, and center on an operator’s history of compliance, violations forwarded and assessed for civil penalty review, accident/incident history, and a company’s overall safety management plan. Introductory meetings are held with all new operators. Discussions focus on the company’s familiarity with governing regulations, operating structure, and any previous compliance problems with properties the new operators may be acquiring. Looking forward, alternatives under consideration for improving the performance review program include modified meeting structures and frequency as well as documenting worker activity and staffing levels in relation to INCs and accidents.

The MMS continues to meet with highly successful operators to learn about their operations, and shares “best practices” and successful safety approaches employed by the top operators with the rest of industry. For operators whose compliance measures need improvement, MMS meets with them to determine where improvements need to occur and to provide guidance for improving their performance.

The MMS has developed regulations that enable removal of a company as a designated operator from the OCS. If MMS determines that an operator's overall performance is unacceptable and that they do not successfully respond to repeated attempts by MMS to correct their performance or they pose a continual threat to the environment or human safety, then MMS may pursue a disqualification action. The MMS will continue to develop operator performance improvement techniques and incorporate these into the overall performance improvement strategy.

***Safe Award Program* –** Since 1983, MMS has presented the Safety Award for Excellence (SAFE) to energy companies that excel in the offshore oil and gas arena and who aid our ongoing effort to find new ways to develop domestic oil reserves in a safe and environmentally conscious manner. Beginning in 1999, the SAFE Award was presented at the Industry Awards Program and Luncheon where Industry's top finalists are recognized and the winners announced. The winners, selected from over 250 Outer Continental Shelf (OCS) companies represent the finest operators and contractors in their class at the district and national level. Prior to 1999, the national MMS SAFE Award was presented at the annual National Ocean Industries Association awards luncheon.

In recent years, the SAFE Award Program has placed added attention on contractors due to their growing presence in offshore production and drilling operations. For FY 2003, MMS plans to develop improved methods to measure the performance of contractors and to better define the review and selection process for both contractors and operators as potential District and National SAFE Award candidates.

***Approval of Industry Plans, Activities and Requests* –** The ongoing effort by MMS to develop performance-based operating regulations is expected to generate an increasing number of operator requests for approval of alternative compliance programs. Prior to making approval decisions on alternative compliance, MMS must assess the alternatives to ensure they provide equal or greater protection than the regulatory requirements they would replace. The MMS will be required to commit a substantial and increasing amount of resources to these assessments in order to evaluate an operator's alternative, verify adherence, and determine its effectiveness. An increase in operational activity translates into a substantial increase in requests for approval of plans, permits and other related operations.

***Civil and Criminal Penalties* –** By pursuing, assessing, and collecting civil penalties, MMS encourages compliance with OCS statutes and regulations. Over the past five years, MMS has "reinvented" the program by rewriting, in plain English, the civil penalty regulations at 30 CFR 250.1400. This "reinvention" streamlined the civil penalty process by eliminating two layers of middle management. From 1990 through 1995, the program collected $350,000. Since 1996, following this reinvention effort, the program has collected over $8 million.

In FY 2001, MMS worked with the Inspector General (IG) and the Office of the Solicitor to develop guidelines for referral of potential criminal violations. In mid-FY 2002, the IG provided detailed training related to criminal penalty referrals to all MMS district and regional offices. These final guidelines will be incorporated into the OCS Civil/Criminal Penalties Guidebook in early 2003. In late FY 2002, MMS started a statistical review to determine the effectiveness of the program. Initial data was reviewed by the Regional Civil Penalty Coordinators and the final product will be introduced to MMS managers in the first quarter of 2003. The information will also be used to help MMS focus on problem operators. The Annual Review of the Civil/Criminal Penalties Program was held in October 2002 in the GOMR. Updates to the Guidebook and policies associated with specific civil penalty cases were clarified and documented.

In addition to the OCSLA civil penalty authority (which includes the current OCSLA financial responsibility regulations), the Oil Pollution Act (OPA) of 1990 and Executive Order 12777 give MMS civil penalty authority to enforce the OPA-mandated financial responsibility requirements.

Medical Standards **–** On August 23, 2002 the Director signed an Interim Policy Document establishing the policy and guidance for the Medical Standards Program (MSP) within the MMS. The MSP is a medical qualification and evaluation program designed to safeguard the health and safety of all its employees working in the offshore environment. Medical standards provide a way for MMS to determine medical problems that may hinder an individual's ability to safely and efficiently perform the functional requirements of a position without undue risk to himself/herself or others.

Enrollment in the MSP is based on a position's exposure to arduous physical exertion or hazardous conditions during visits to platforms, rigs, or other hazardous work areas. The medical clearance process MMS uses to arrive at a medical fitness determination ensures a comprehensive and objective assessment of any given individual's ability to perform the full range of duties required for his or her position.

In 2003, the MMS began the periodic examinations conducted by examining physicians for those employees who are enrolled in the program. A Medical Review Officer (MRO) evaluates the medical data provided by the examining physician as it relates to the known physical demand of the employee's position. The MRO uses a documented waiver and accommodation process to evaluate an individual's ability to perform the job safely and efficiently and issues a determination. After the initial round of examinations in 2003, employees will have physical exams every 2 years.

Implementation of this program brings MMS into compliance with the requirements of 5 CFR 339 and protects our employees at significant risk attributable to occupational and environmental exposure and demands.

Industry Training -- With full implementation of the new Subpart O performance-based training regulation on October 15, 2002, MMS is now actively engaged in monitoring industry compliance through implementation of a variety of techniques. In October 2002, MMS started conducting audits in the Gulf of Mexico Region (GOMR). Currently, the GOMR plans on conducting two audits per month. In addition to the audits, the GOMR will conduct a minimum of ten Informal Employee Interviews per month per district.

The Pacific Region started implementing audits and Informal Employee Interviews in November 2002. The Alaska Region also conducted its first audit in November 2002, and plans on conducting a second audit shortly thereafter. Alaska will also implement Informal Employee Interviews in December, 2002. MMS will select audit candidates randomly or from a list of poor performers.

50th Anniversary
OCS Milestones

1988 ▪ Congress enacts first OCS drilling ban (FY89 DOI appropriations) - 73 existing leases in Eastern GOM, south of 26° N Latitude. Drilling moratoria later expanded to include North Aleutian Basin and leases offshore North Carolina.

▪ Lease in deepest water - 3,335 meters (10,942 ft) in the Eastern GOM, lease sale 116, in Lloyd Ridge, Block 737, by Kerr–McGee Corp.

1989 ▪ Most bids received on a block - 15 in Western GOM lease sale 122, offshore Galveston, TX, Block 313

▪ Exxon Valdez spill (onshore-produced oil) in State waters - Approximately 10 MMbbl of oil spilled into Prince William Sound, Alaska. Led to passage of the Oil Pollution Act of 1990.

▪ President Bush establishes OCS Task Force to examine concerns over adverse impacts of lease sales offshore California and Eastern GOM, south of 26°N.

Incident Analysis – In FY 2001, MMS continued development of its incident analysis program to promote safety and to identify operational trends, to determine root causes, and to gain a better understanding of safety problems on the OCS. Incident data analysis is now used for evaluating an individual company's performance and in formulating MMS's internal Government Performance and Review Act process.

In 2003, MMS will be working with the International Regulators Forum (IRF) to compare the incident data that the IRF agencies collect and to identify data the agencies collect in common. Once these common data are identified, the IRF will use them to develop a common set of indicators that can be used to measure offshore performance among the member countries.

In FY 2002, MMS released a report containing FY 2000 data on Incidents Associated with Oil and Gas Operations, Outer Continental Shelf. This report was also published on MMS's website at http://www.mms.gov/stats/incidents. In FY 2003, we plan to issue reports containing CY 2001 and 2002 data. Data for the calendar years 1995-2000 is now available on the web. The MMS also publishes a table, which is also located at http://www.mms.gov/stats, showing the number and type of incidents that have occurred on the OCS (i.e., fatalities, blowouts, and other incidents that are reported to MMS). This information is updated weekly and posted on the MMS website.

Beginning in 1999, MMS started to revise its incident reporting regulations. We have worked with the USCG on this effort. Our goals for the revised regulations are to (1) clarify what incidents are to be reported to MMS, (2) bring more consistency between MMS and USCG reporting requirements for OCS operators, and (3) reduce duplicative reporting and streamline the reporting process between the two agencies. As part of the effort to reduce duplicative reporting and streamline the reporting process, MMS and USCG are developing a web-based reporting system.

A proposed rule revising incident reporting requirements is currently being written and will be published during the first quarter 2003. We plan to implement the web-based reporting system, once the new reporting rule has been finalized. The revised regulations will help MMS gather more consistent data, which will improve our ability to analyze incident information. The rule will also help industry minimize the time they spend reporting incidents to the two agencies and will help both MMS and USCG to collect and monitor this information more efficiently.

In July 2000, MMS released a proposed rule soliciting comment on incorporating API Specification 2C, Specification for Offshore Cranes, Fifth Edition, into the regulations as part of the ongoing work to improve the safety of crane operations on OCS fixed facilities. This API Specification incorporates minimum crane design standards for fixed platforms and incorporates the use of anti-two block safety devices on all cranes. MMS has drafted a final rule incorporating API Spec 2C into our regulations with an expected publication date of early to mid March 2003.

In 2000, a review of incident data shows that several well control incidents over the last several years have involved well cementing operations. In 2000, MMS issued a National Safety Alert on this safety concern and urged API to address this issue by developing a series of Recommended Practices dealing with annular flow best cementing practices. In FY 2002, the first of these standards was released addressing deepwater operations (API Recommended Practice 65). The MMS will continue to work with the API on this issue into FY 2003. Work on developing a second standard was started in FY 2002. This standard will address cementing practices for shallow water operations. MMS has decided to incorporate API RP 65 into our regulations. A proposed rule to this effect should be published during the second quarter of 2003. These two new standards will provide operators with important new guidance that will enhance the safety of their operations.

As a result of a review of incident data in 2000 and 2001, MMS has also identified safety concerns with coil tubing operations. In 2002, MMS personnel started working with the API well control and well intervention task group writing a standard for coil tubing equipment and procedures. We will continue this work in 2003.

Rulemaking -- Rules and regulations implement policies and procedures necessary to improve and ensure safe and environmentally sound offshore operations. The MMS continually strives to improve the rulemaking process. New regulations are written to implement recent statutes, and existing regulations are revised so that those affected (such as new companies and small entities) can easily understand them and know how to comply. Rules are also revised to reflect technological advances and changes in industry practices. MMS also issues Notices to Lessees and Operators (NTLs) that clarify, supplement, or provide more detail about certain requirements. MMS will issue Regional and National NTLs as necessary.

During the next year or two MMS will publish several rules. Final rules to be published pertain to Drilling Operations; Plans and Information; Modification to Proprietary terms; and Clarifying Amendments to Bidding Systems. Proposed rules to be published pertain to Incident Reporting; Leasing in the OCS; Royalty Relief for Deep Gas Wells; OCS Rights-of-Use and Easement; and Definitions, Data Release, and Suspensions. MMS will publish proposed and final rules to incorporate by reference several API documents and engineering standards for Floating Production Facilities.

FY 2002 Accomplishments

Alaska OCS Region

- Processed and approved the McCovey exploration plan and oil spill contingency plan.
- Provided technical review of the Steel Drilling Caisson used for the McCovey exploration project.
- Processed and approved three applications for permit to drill for Federal wells and monitored drilling activities for three State wells (Northstar).
- Issued two suspensions of operations.
- Conducted three inspections of the Northstar facility; issued one incident of non-compliance notice.
- Collected and monitored monthly production verification reports for Northstar.
- Reviewed and approved Maximum Efficient Rate (MER) and Maximum Production Rate (MPR) for the Northstar development project and continue to monitor rate control.
- Approved updated/revised OPA oil spill plans for 14 facilities in State submerged lands.
- Participated in the coordinated mutual aid oil spill response exercise for the North Slope and conducted inspections of North Slope oil spill cooperative equipment.
- Participated in oil spill equipment field demonstrations in support of modified response strategies for the Northstar project.
- Monitored flaring events at the Northstar development project and coordinated with the State of Alaska to effect corrections to the compressor systems to avoid continued flare events.
- Initiated development of reservoir model for supporting production allocation adjustments to the Northstar Unit.
- Participated in promulgation of new regulations and development of safety standards.

Gulf of Mexico OCS Region

- Processed and provided technical and environmental review of 388 oil and gas exploration plans and 300 development plans in FY 2002.

- Conducted technical and structural review for the integrity of 123 new production platforms.

- Conducted meetings and reviews with 92 individual companies concerning their performance for the year and focused on their safety record, violations, accidents, and steps to correct deficiencies.

- Conducted approximately 16,000 inspections of drilling, workover, production, pipeline, and other operations.

- Reviewed and approved the installation of 1,280 new miles of oil and gas pipelines.

- Developed appropriate protocols and reviewed techniques to implement the new requirements related to offshore worker training.

- Conducted investigative work as part of formal accident reviews on 6 serious oil and gas accidents to establish lessons learned and changes needed.

Pacific OCS Region

- Cooperative efforts with State of California agencies through FY 2002, seeking to ensure consistent policies, regulations, and practices through joint inspections and audits of offshore oil and gas facilities; implementation of OPA requirements concerning spill response plan review/approval and oil spill financial responsibility; and future decommissioning of offshore structures.
  Accomplished: Annual meeting with the State Division of Oil, Gas and Geothermal Resources to address policy issues. Initiated discussions with State inspection agencies for joint reviews on Federal facilities slated to drill into State waters, pending permit approval.

- Cooperative efforts with the DOT and State of California to ensure pipeline safety through joint inspection, review of integrity testing, and certification. As the infrastructure continues to age, increased vigilance becomes essential to preventing accidents and catastrophic events.
  Accomplished: Pacific Region met with DOT and State agencies five times during the course of the year to discuss appropriate action to remedy pipeline problems of OCS operators.

- Reviewed and acted on industry plans; activities; requests for seismic surveying and delineation drilling; exploration plans; and development and production plans for the 36 undeveloped leases in the Pacific Region.
  Accomplished: Activity on industry plans for the 36 undeveloped leases was precluded by the appeals process underway during FY 2002 in the 9th Circuit Court of Appeals. Internal activity related to the 36 leases included responses to the Solicitor's Office and OMM for information and maps.

- Continued implementation of royalty relief, when appropriate, to conserve resources. *Accomplished:* The royalty relief program continued to operate in the Point Hueneme Unit and the Beta Unit. No new applications were submitted.

- Reviewed and acted on industry plans, such as revisions to development and production plans, reservoir management programs, activities on wells, and unit plans of operation. *Accomplished:* Revisions to DPP's were processed to keep production continuing on the 43 producing Pacific OCS leases. Reservoir management programs approved included water injection and gas injection for 6 reservoirs; flaring requests were approved for a variety of operational reasons during the year. Numerous permits for new wells, re-drills, sidetracks and workovers were processed and approved. Unit plans of operation were approved for all 8 units.

- Conducted cooperative reviews with State and other agencies on projects requiring multiple agency permits. *Accomplished*: Extensive review on offshore power cable project was conducted cooperatively with the State of California and Santa Barbara County.

- Conduct inspections of drilling, workover, production, pipeline, and other operations. *Accomplished:* 1,718 inspections were completed during FY 2002.

- Conduct meetings and reviews with each operator concerning their safety performance for the year, focusing on violations, accidents and efforts to correct deficiencies. *Accomplished:* A meeting was held with each operator on the Pacific OCS to review performance in safety and environmental management both offshore and onshore.

50th Anniversary
OCS Milestones

1990 ▪ Amendments to Clean Air Act passed - EPA authorized to set air quality standards and regulate air emissions. Listed 189 chemicals and chemical categories for which EPA would set national emissions standards.

▪ Oil Pollution Act of 1990 passed - enacted in response to a number of larger tanker spills with the objectives of (1) preventing discharges of oil into Federal waters from vessels and facilities and (2) ensuring that owners and operators have the resources to clean up such spills should they occur.

▪ North Carolina Outer Banks Protection Act passed - prohibits the Secretary of the Interior from conducting a lease sale, issuing any new leases, approving any exploration, development and production plans, or any application for permit to drill or permit any drilling for oil and gas under the OCS Lands Act on any OCS lands offshore North Carolina. Stipulated that an Environmental Sciences Review Panel be established no later than 6 months after enactment.

▪ President Bush decides to withdraw certain areas for lease until 2000 - areas offshore California, Washington, and Oregon, North Atlantic, and Eastern GOM (south of 28°) until after the year 2000.

1991 ▪ Deepest producing natural gas well - 6,587 meters (21,612 ft) water depth in the GOM, Well A001, Lease OCS–G 5058, Mobile Block 821, by BP Exploration & Oil Inc.

Planned Activities for FY 2003

Alaska OCS Region

- Review, approve and conduct compliance inspections of the drilling, completion and workovers and production measurement systems for the Northstar development project.

- Continue to collect, monitor and verify production reports for the Northstar development project.

- Continue administrative oversight of the Northstar development project; annual performance review with the operator, compliance audit of the approved development and production plan and coordination with the State of Alaska under the joint Federal/State unit (e.g., unit plan of operations, modification to processing equipment, flaring).

- Review and approve reallocation of production for the Northstar development project in coordination with the State of Alaska.

- Conduct compliance inspections and administrative oversight of the McCovey exploration project.

- Process a new exploration plan for an expanded McCovey delineation program.

- Initiate the regulatory review of a new-start development and production plan for the Liberty development project.

- Review and approve 1-3 OPA oil spill contingency plans for facilities on State submerged lands.

- Participate in the annual oil spill response mutual aid exercises and 1-3 project specific oil spill drills and oil spill inspections.

- Participate in oil spill and technology research and development activities.

- Participate in expanding ISO/API standards for Arctic conditions, particularly for design, operation, and maintenance of subsea Arctic pipelines.

- Increase liaison with other DOI agencies, State, and Joint Pipeline Office to process and administer a right of way for an Alaska Natural Gas Pipeline (ANGP); participate in pipeline bend tests directed at supporting pipeline design standards for ANGP.

- Participate in program management activities; develop MOU with State of Alaska on coastal consistency review of post-lease activities, develop MOU with State of Alaska on implementing OPA responsibilities on State submerged lands, develop internal guidance for conducting government to government consultation for post-lease activities.

- Assist in pre-lease NEPA document preparation and consultation activities for all lease sales.

- Monitor exploration activities and unit operations for the Cosmopolitan Unit/Hansen exploration well and process future suspension of operation and unit plans.

- Participate in MMS program activities; develop new regulations (e.g., Subpart B), standards development (API, ISO, etc), accident investigation, National Security initiatives, etc.

Gulf of Mexico OCS Region

- Process and provide technical and environmental review of approximately 400 oil and gas exploration plans and 350 development plans.

- Conduct technical and structural review for the integrity of 125 new production platforms expected to be installed during the year.

- Conduct meetings and reviews with 95 individual companies concerning their performance for the year and focus on their safety record, violations, accidents, and steps to correct deficiencies.

- Conduct approximately 16,000 inspections of drilling, workover, production, pipeline, and other operations.

- Review and approve the installation of more than 1,300 new miles of oil and gas pipelines.

- Implement the new requirements related to offshore worker training. Conduct audits of individual companies.

- Issue requirements for underwater inspections for structural damage from Hurricane Lili and evaluate necessity for repair and removal of structures.

- Conduct technical reviews of new technology such as cell spars.

- Conduct investigative work as part of formal accident reviews on 6 serious oil and gas accidents to establish lessons learned and changes needed.

- Conduct reviews of 60 conservation information document submittals.

- Evaluate and approve 100 gas cap production requests.

Pacific OCS Region

- Cooperative efforts with State agencies through FY 2004, seeking to ensure consistent policies, regulations, and practices of offshore oil and gas facilities; implementation of OPA requirements concerning spill response plan review/approval and oil spill financial responsibility; and future decommissioning of offshore structures.

- Five Cooperative efforts with the DOT and State of California to ensure pipeline safety through joint inspection, review of integrity testing, and certification. As the infrastructure continues to age, increased vigilance becomes essential to preventing accidents and catastrophic events.

- Continue implementation of royalty relief, when appropriate, to conserve resources.

- Review and act on 10 industry plans, such as revisions to development and production plans, reservoir management programs, activities on wells, and unit plans of operation.

- Conduct two cooperative reviews with State and other agencies on projects requiring multiple agency permits.

- Conduct approximately 1,000 inspections of drilling, workover, production, pipeline and other operations.

- Conduct meetings and reviews with each operator concerning their safety performance for the year, focusing on violations, accidents and efforts to correct deficiencies.

- Continue to work with Headquarters and the DOI Solicitor's Office on responding to one operator's formal appeal (to the Interior Board of Land Appeals) of POCS Regional and District decisions and orders.

- Continue to administer the OCS Civil/Criminal Penalties Program in the POCSR, by reviewing up to four regulatory violations and assessing civil penalties and by referring potential criminal penalty violations to the DOI Office of Inspector General, to further the MMS goal of safe and clean offshore operations.

- Continue involvement with Interagency Decommissioning Work Group, made up of Federal, State, and local agencies, to identify critical longer term issues and strategize solutions in anticipation of submittal of initial decommissioning plans in FY 2004.

Planned Activities for FY 2004

Alaska OCS Region

- Maintain significant safety and operational inspection and oversight of the Northstar development project and other potential projects, such as the Liberty and McCovey projects in the Beaufort Sea.

- Manage the significant increase in regulatory responsibilities associated with exploration or development for the Liberty, McCovey, and Cosmopolitan projects, including reservoir management, production measurement and verification and coordination with Minerals Revenue Management.

- Participate in field demonstrations and additional research to advance oil spill detection and response cleanup in ice.

- Participate in expanding ISO/API standards for Arctic conditions, particularly for design, operation, and maintenance of subsea Arctic pipelines.

- Increase liaison with other DOI agencies, State, and Joint Pipeline Office to process and administer a right of way for an Alaska Natural Gas Pipeline.

- Complete pre-sale assessments for an oil and gas lease sale in the Beaufort Sea and complete the Cook Inlet EIS.

- The Alaska OCS Region will continue to provide Resource Evaluation assistance to BLM for the overall National Petroleum Reserve-Alaska program and will assist BLM in preparing for and conducting the NPRA oil and gas lease sale in mid-2004.

- Beaufort Sea Sale 186 is scheduled for September 2003; actual lease issuance will occur in the first quarter of FY 2004.

- Cook Inlet Sale 191 is scheduled for May 2004.

- If industry interest is shown in either or both Norton Basin Sale 188 or Chukchi/Hope Sale 193, the prelease process will proceed toward scheduled sales in September 2004. These are special interest sales focusing on areas of particular industry interest. If no industry interest is shown in a particular year, the prelease process stops and the area may be reoffered for consideration annually during the 2002-2007 program. Norton Basin is limited to one round of lease issuance, the Chukchi/Hope Basin capped at two rounds of lease issuance, during the current program.

Gulf of Mexico OCS Region

- Process and provide technical and environmental review of approximately 550 oil and gas exploration plans, 400 development plans, and 800 applications expected in FY 2004.
- Conduct technical and structural review for the integrity of 90 to 120 new production platforms expected to be installed during the year.
- Conduct meetings and reviews with 130 individual companies concerning their performance for the year and focus on their safety record, violations, accidents, and steps to correct deficiencies.
- Conduct approximately 20,000 inspections of drilling, workover, production, pipeline, and other operations. Review and approve the installation of more than 1,500 new miles of oil and gas pipelines.
- Develop appropriate protocols and review techniques to implement the new requirements related to offshore worker training.
- Complete the administrative and technical review of approximately:

  - 780 Exploration and Development Plans reviewed for Conservation of Resources, Prevention of Waste, and Protection of Correlative Rights including Federal Royalty Interests

  - 15 Unitization proposals

  - 175 Suspension of Operation or Suspension of Production Requests

  - 100 Gas cap production requests

  - 120 Downhole commingling requests

  - 60 Conservation Information Document submittals

  - 300 Surface commingling applications

  - 5 Deep Water Royalty Relief requests

  - 60 Premature Reservoir Abandonment reviews

  - 50 Shallow Water Deep Gas reviews

50th Anniversary
OCS Milestones

1992 ▪ Secretary of Interior delegated OPA–90 authority to MMS - MMS responsible for certifying (1) oil spill prevention and response plans for all offshore oil and gas facilities, including platforms and pipelines in State waters as well as on the OCS, and (2) financial responsibility for oil spill liability at an increased level of $150 million for all operators of offshore facilities, including pipelines.
▪ Conoco Inc. vs. The United States lawsuit - concerning congressional moratoria preventing drilling of existing leases in certain areas.

1993 ▪ Most platform removals in a year - 182 GOM.

1994 ▪ Full transfer of OCS Air Regulations to EPA - air quality regulatory authority for Pacific OCS facilities transferred from DOI to EPA. EPA transferred authority to local air pollution control districts.

Pacific OCS Region

- Continue cooperative efforts with State agencies, seeking to ensure consistent policies, regulations, and practices through joint inspections and audits of offshore oil and gas facilities, and future decommissioning of offshore structures.

- Continue to ensure pipeline integrity through smart pig and remote operated vehicle inspections, while emphasizing technological advances in leak detection systems. As the infrastructure ages, increased vigilance is essential to prevent accidents and catastrophic events. These efforts will be coordinated with the Department of Transportation, Office of Pipeline Safety and the State of California.

- Review and act on industry plans such as: revisions to development and production plans; reservoir management programs; and activities on wells.

- Continue implementation of royalty relief, when appropriate, to conserve resources.

- Continue cooperative efforts with the State, initiated in 2001, to develop shared reservoirs from existing Federal platforms.

- Coordinate with the State of California to ensure all OCS operations, including proposed exploration, development, and production activities, satisfy the requirements of the Coastal Zone Management Act.

- Review up to three initial decommissioning proposals (for platforms and associated facilities/structures), working with the applicant and Federal, State, and local regulators to identify and resolve issues related to environmental and technical issues associated with the proposals. Continue involvement with Interagency Decommissioning Work Group, made up of Federal, State, and local agencies, to identify critical longer term issues and strategize solutions.

Technology Assessment and Research

	2002 Actual	**2003 Estimate**	**Uncontrollable & Related Changes (+/-)**	**Program Changes (+/-)**	**2004 Budget Request**	**Change From 2003 (+/-)**
$(000)	885	885	0	0	885	0
FTE	0	0	0	0	0	0

The MMS Regulatory Program encompasses a research element, entitled the Technology Assessment and Research (TAR) Program. The TAR Program supports research associated with operational safety and pollution prevention. The TAR Program was established in the 1970's to ensure that industry operations on the OCS incorporated the use of the Best Available and Safest

Technologies (BAST) --subsequently required through the 1978 OCSLA amendments. The TAR Program focuses its research activities on Operational Safety and Engineering Research (OSER).

The TAR Program has four primary objectives:

1. *Technical Support*
   Provide engineering support to MMS decision-makers in evaluating industry operational proposals and related technical issues and ensure that these proposals comply with applicable regulations, rules, and operational guidelines and standards.

2. *Technology Assessment*
   Investigate and assess industry applications of technological innovations and ensuring that governing MMS regulations, rules and operational guidelines encompass the use of the BAST.

3. *Research Catalyst*
   Promote leadership in the fields of operational safety and engineering research by acting as a catalyst for industry research initiatives.

4. *International Regulatory*
   Provide international cooperation for research and development initiatives to enhance the safety of offshore oil and natural gas activities and the development of appropriate regulatory program elements worldwide.

The TAR Program operates through contracts with universities, private firms, and government laboratories to assess safety-related technologies and to perform necessary applied research. Participation in jointly funded projects with industry, other Federal and State agencies, and international regulatory organizations has become the primary funding mechanism of the TAR Program. This is due to the overlap of issues and challenges, as well as a broader recognition that participation in these joint projects is the most effective and efficient means to leverage available funds.

TAR-Operational Safety and Engineering Research

The TAR-OSER Program activities address technological issues associated with the complete spectrum of operations, ranging from the drilling of exploratory wells to the removal and decommissioning of platforms and related production facilities. The expansion of industry operations into the deepwater areas of the GOM presents significant technological challenges to industry and MMS, the regulator. The industry is focused upon the development of new concepts, operational procedures, production facilities, and transportation facilities to meet the physical and economic challenges imposed by the operating environments associated with water depths between 3,000 and 10,000 feet. In many cases, custom designs are being developed, employing new space-age 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.

Concurrently, industry continues to conduct exploratory drilling operations in shallow-water areas of the GOM. These operations are focused on finding new oil and natural gas accumulations that are being identified by technologically advanced geophysical data collection and computer-assisted analysis systems. Companies also continue to operate several thousand production platforms and subsea pipelines of various ages and operational efficiencies. As these platforms and pipelines continue to age, MMS is becoming increasingly concerned with means to ensure the integrity of these older facilities and is sponsoring research on the means available to conduct such assessments and processes available to correct or reverse problematic aging events. Finally, 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. National and international focus on this process has identified numerous safety and long-term environmental concerns which must be addressed by MMS regulatory personnel as such operations proceed. Multi-year research projects are being jointly formulated by MMS and industry to assess the most feasible means of decommissioning and removal of these facilities, including the possible impacts on the marine environment as well as related onshore impacts arising from regulatory decisions.

The first commercial development of oil discoveries on Federal portions of the Beaufort Sea offshore Alaska also present special challenges to the MMS TAR Program, particularly the forces associated with sea ice and potential impacts of ice forces upon the production structures and pipelines necessary to produce these discoveries.

50th Anniversary OCS Milestones

1995
- Deepwater Royalty Relief Act passed - expands MMS's discretionary authority to grant royalty relief and mandates royalty relief (under certain conditions) for GOM leases in 200 meters (658 ft) or greater water depth.
- Settlement agreement reached as part of Conoco lawsuit. - certain leases under litigation were relinquished to the Federal Government by lessees in return for a fee.

1996
- OPA–90 Amendments passed - applied to financial responsibility for offshore facilities and to spill prevention within State waters.
- Congress repeals Section 6003 of OPA–90 - resulted in repeal of North Carolina leasing and drilling moratorium.
- World's first production SPAR installed - 564 meters (1,851 ft) of water in Viosca Knoll, Neptune SPAR by Oryx Energy in Central GOM.
- Producing well in GOM's deepest water - Platform Mars in 896 meters (2,940 ft) of water in Central GOM, Mississippi Canyon Block 807, Shell Deepwater Production, Inc.
- GOM deepwater production record and world record tieback set - Mensa field subsea system in 1,615 meters (5,300 ft) of water 225 kilometers (140 mi) southeast of New Orleans, LA, with a 12-inch flow line tied back 109 kilometers (68 mi) to a shallow water platform.
- Royalty Simplification and Fairness Act signed - designed to improve the management of royalties from Federal and OCS oil and gas leases, was the first major legislation affecting royalty management since the Federal Oil and Gas Royalty Management Act of 1982.

FY 2002 Accomplishments

- 28 projects were funded in FY 2002 addressing a broad range of operational safety issues including pipeline safety, deepwater drilling, aging infrastructure, and other topics identified by MMS Regional offices and technical experts.

- 17 projects were funded through a Cooperative Agreement between MMS and the Offshore Technology Research Center (OTRC).

Planned Activities for FY 2003

- Research projects will be initiated to address 14 topics identified by MMS Regional Offices and technical experts in addition to continuation of studies being funded in FY 2002.

- MMS and industry are jointly funding a major study to evaluate alternatives for developing and producing deepwater natural gas from Gulf of Mexico discoveries.

- Research initiatives at the Offshore Technology Research Center will continue to focus upon deepwater Gulf of Mexico production systems and related topics.

Planned Activities for FY 2004

The MMS TAR-OSER Program routinely participates in approximately 20-40 concurrent research project activities, most of which are multi-year activities, with several organizations and participants. Planned activities include:

- *Technical Support* projects will continue to focus on a variety of topics related to the deepwater activities in the GOM, as well as continued operations and platform decommissioning operations occurring on the GOM and Pacific shelf areas.

- *Technology Assessment* activities will also continue to focus on deepwater GOM operations, as well as Arctic ice-gouging and pipeline research studies.

- *Research Catalyst* activities will include continued participation in the composite materials engineering and applications work, as well as various activities evolving from the MMS - OTRC partnership established in FY 1999.

- *International Regulatory* activities will continue with several topics and projects of interest to international regulators including human factors studies, offshore mooring alternative materials, platform and pipeline decommissioning and similar activities, and issues confronting MMS and its international regulatory associates.

Justification of Program Change

Regulation of Operations Program

Increase in Funding for Gulf of Mexico Workload

2004 Program Changes		
	2004 Budget Request	**Program Changes (+/-)**
$ (000's)	$ 50,402 *	+$800
FTE	*346*	*+5*

**This number includes uncontrollables of $490K.*

The FY 2004 budget request for the Regulation of Operations Program is $50,402,000 and 346 FTE including a program increase of $800,000 and 5 FTE for Gulf of Mexico Workload from the FY 2003 President's Budget Request.

Gulf of Mexico Workload (+$800,000, +5 FTE) The requested increase of $800,000 is part of a larger $1.6M Gulf of Mexico Workload initiative to provide additional resources to meet a growing workload demand.

Effect of proposed change on strategic and performance goals: The Gulf of Mexico workload continues to expand as the role played by oil and gas production in the Gulf of Mexico assumes a more prominent National position everyday. Gulf oil production is projected to provide more than 40 percent of all oil produced domestically. This national asset keeps growing and resources need to be allocated commensurate with its growing prominence.

The Gulf of Mexico has entered a new era of increased development activity after several record years of exploration activity. The number of oil and gas development plans filed with MMS continues to grow. There were 133 initial development plans filed in the Gulf in FY 2001. The average in 2000-01 is 50 percent higher than 1995-96 and the increase has triggered a growing workload in several sectors. MMS also faces an accelerating workload on pipelines with 1,285 applications in 1998; 1,351 in 1999; 1,626 in 2000; and 1,994 in 2001. The National Energy Plan (NEP) predicts that oil production from the Gulf will rise from its current 27 percent of all domestic oil production to 40 percent in 2010.

This initiative will support the DOI Strategic Goals, " Resource Use–Provide Access for Responsible Use and Optimal Value (Energy)" and "Serving Communities—Protect Lives, Resources and Property" by providing sufficient resources to prevent unnecessary delays in permit processing and by facilitating the technical review, inspection, and safety of increasing oil and gas production, especially in the deepwater Gulf of Mexico.

2003 Program: In FY 2003, the Gulf of Mexico Region (GOMR) requested an increase of 9 FTE to perform a wide variety of functions. Two FTE will process Deepwater Operations Plans, which are expected to increase in both number and complexity as operations continue to progress into deeper water. A corrosion engineer will be hired to address the aging infrastructure in the Gulf of Mexico (GOM) and the corrosion that results from aging. One FTE will be hired to prioritize pipelines with the highest risk of failure, and the resulting consequences of failure, as well as participating in accident investigations. Three positions will perform inspection duties related to Coast Guard responsibilities (one FTE in each of three districts). Two FTE will systematically review production completions to determine when operators are commingling production from two or more reservoirs in the tubing string without prior approval, thereby possibly harming ultimate recovery.

The GOMR will also fund engineering and other technical training and provide additional accident analysis capability in the GOM by obtaining the expertise of a contractor.

Justification of 2004 Program Change: The total request for new resources is for 5 FTE and $800,000. The additional resources will:

- Facilitate the technical review, inspection, and safety of increasing oil and gas production, especially in the deepwater Gulf of Mexico by providing sufficient resources to prevent unnecessary delays in permit processing.
- Implement the President's focus of strategic management of human capital by conducting inspections on behalf of the U.S. Coast Guard. This will save Coast Guard resources and make maximum efficient use of MMS helicopters to conduct the inspections.

One Petroleum Engineering expert is needed to review subsea production technology that is just now maturing from the design and testing phase. Additionally, it is anticipated that this FTE would also review the technologies involved with an FPSO application.

One additional engineering position is requested to review measurement and allocation procedures for oil and gas pipeline systems. At the present time, measurement and allocation procedures for 101 pipeline systems (transporting approximately 50 million barrels of oil and 400 billion cubic feet of gas per month) have been approved, but no follow-up is done to ensure that the approved measurement and allocation schedules are followed. This engineer would work closely with the producer representative for each system and the pipeline system allocator to analyze monthly allocation statements and to ensure that production and sales volumes allocated to the contributing leases in each system are accurate and equitable. This oversight would be beneficial to our verification programs as more accurate sales volumes would be reported, and more accurate royalty collections would occur. Additionally, this monitoring will aid MMS in the determination of the effectiveness of current allocation practices which would enable us to approve more accurate and equitable measurement allocation procedures in future applications.

Three Engineer/Inspector positions are requested in the 2004 budget. One position will be used to conduct inspections on fixed OCS facilities for safety of the workplace and lifesaving in accordance with U.S. Coast Guard regulations. There are 1,178 manned facilities in the Gulf of Mexico OCS Region and MMS has agreed to inspect more than 10 percent of the facilities annually. The additional workload has been more burdensome than previously anticipated and will require additional personnel to maintain the 10% manned facility inspection requirement. The U.S. Coast Guard has not funded the positions needed for MMS to assume the inspection responsibility formerly held by the U.S. Coast Guard for fixed facilities offshore. The U.S. Coast Guard will spend far less time offshore in the future as a result of its role in anti-terrorism, including new duties under the proposed Homeland Security Act.

The second position will be used for increased oversight of offshore operators with a poor performance record, first-time operators, and problem operators. Operators in the poor performance and problem operator category require more than the one annual mandated inspection. The MMS inspects a number of problem operators three to four times a year. This year MMS assigned two inspectors to one such operator for 16 weeks to complete an inspection where more than 600 incidents of noncompliance were issued.

The third position will be used to provide additional oversight and prepare documentation required in the disqualification of an operator. The review for one operator has begun, and it is anticipated that several more will be initiated. Additional resources are requested to manage this increasing workload.

$200,000 is requested to contract for technical and engineering analysis of alternative technologies to support the rapidly advancing deepwater technologies. Funds would be used to investigate proposed new technologies that MMS does not have the expertise to evaluate. Currently, MMS is being asked to evaluate three or four new major technology changes a year, and the expertise cannot quickly be brought to bear with the current staff.

Selected Performance Measures for the Gulf of Mexico Region-Based on Draft DOI Strategic Plan

End Outcome Goal: Protect Lives and Property				
Intermediate Outcome: Improve Public Safety and Security and Protect Public Resources from Damage				
Performance Measure(s)*	**FY 2002 Performance Level**	**FY 2003 Performance Level**	**FY 2004 Performance Level**	**Change in Performance From 2003 to Proposed 2004**
Maintain an annual composite operator safety index of 0.2 or less(MMS measure)	0.2	0.2	0.2	0
# Plans Approved(MMS measure)	1,013	1,106	1,106	0
# Permit Applications Approved(MMS measure)	10,011	11,125	11,500	+375
Annually inspect 66,000 production facility components for compliance with safety and pollution prevention guidelines, including efforts to minimize impacts on environmental resources.(MMS measure)	63,078	63,000	63,000	0
# Production measurement plans approved(MMS measure)	358	360	370	+10
# Conservation actions processed(MMS measure)	15,263	16,760	17,860	+1,100
Conduct full Coast Guard inspections on 10% of manned offshore facilities annually.(MMS measure)	Not available, new program.	118 facilities 10%	118 facilities 10%	0%
Conduct unannounced audits of training programs for 10% of operators annually.(MMS measure)	Not available, new program.	18 17%	18 17%	0 0%
# Annual Performance Reviews conducted(MMS measure)	130	130	130	0
# Accident investigations(MMS measure)	45	Investigate as necessary	Investigate as necessary	N/A

*Preliminary measures pending final approval of DOI strategic plan.

Justification of Program Change
Regulation of Operations Program
Increase in Funding for OCS Infrastructure Security

2004 Program Changes		
	2004 Budget Request	**Program Changes (+/-)**
$ (000's)	$ 50,402 *	+$350
FTE	*346*	*0*

**This number includes uncontrollables of $490K.*

The FY 2004 budget request for the Regulation of Operations Program is $50,402,000 and 346 FTE including a program increase of $350,000 for OCS Infrastructure Security from the FY 2003 President's Budget Request.

OCS Infrastructure Security (+$350,000)

This is part of a bureau-wide increase request of $600,000 to support development of improved security protocols and application for Offshore and MMS facilities and to evaluate the benefits of smart card technology.

The Department's security guidance for 2004 contained four priority-funding categories: (1) positions for DOI-wide coordination; (2) protection of critical facilities; (3) northern and southwest border collaboration; and (4) protection of all other DOI facilities. The Secretary and key law enforcement leadership emphasized the critical nature of the first three priorities, and the need to fill the voids necessary for an integrated Departmental security strategy, while adopting a reasonable funding approach. This proposal supports the Department's Draft Strategic Goal of Serving Communities—Protect Lives, Resources and Property, and the End Outcome Goal of Protect Lives and Property. Increases totaling $12.5 million can be found for BLM, MMS, FWS, NPS, BOR, USGS, BIA, OIA, and O/SEC.

Effect of proposed change on strategic and performance goals: The program will enhance security within MMS facilities.

Offshore is requesting $350,000 to support development of improved security protocols and application for Offshore and MMS. This initiative supports the DOI Draft Strategic Plan Goal "Serving Communities—Protect Lives, Resources and Property," and the Intermediate Outcome "Improve Public Safety and Security and Protect Public Resources from Damage" by ensuring that DOI regulated facilities meet national physical security guidelines. The program will enhance existing MMS measures for the protection of offshore personnel, the environment, and OCS oil and gas production and transportation facilities and equipment.

2003 Program: The MMS is the federal authority on production equipment and practices. While the U.S. Coast Guard has the federal lead on terrorism and security issues associated with

OCS facilities, our expertise can be used to help identify vulnerabilities and develop guidelines to protect offshore personnel, the environment, and OCS oil and gas production and transportation facilities. The MMS has taken a proactive approach to infrastructure security that is consistent with our mission to manage OCS mineral resources in a safe and environmentally sound manner.

The MMS worked with the Office of Homeland Security in Washington, D.C., to develop OMM *Threat Advisory Guidelines for OCS Operations.* The OCS-wide security guidelines enhance existing MMS measures for the protection of offshore personnel, facilities, and equipment. They establish specific protective measures for each standardized threat condition level of the Homeland Security Advisory System.

The Guidelines form the foundation for a comprehensive MMS Offshore security system and provide a plan and strategy identifying future activities needed to improve our response during a crisis. A number of protocols described in the Guidelines have not been finalized and will require additional coordination with offshore operators, the new Department of Homeland Security, including the U.S. Coast Guard, and other federal, state, and local officials.

In addition, MMS actively participates with regional coordination groups to increase vigilance, identify potential security risks, and establish procedures for communication and reporting suspicious occurrences near offshore production and transportation facilities.

Justification of 2004 Program Change:. The MMS recognizes the importance of OCS oil and gas production and the need to protect offshore personnel, the environment, and facilities. Since September 11, 2001, the Bureau has taken and continues to take steps to ensure that the OCS oil and gas production facilities and transportation network are secure. The MMS works closely with regional coordination groups that include the participation of offshore operators, the U.S. Coast Guard, as well as other federal, state and local authorities to increase vigilance, identify potential security risks, and establish procedures for communication and reporting suspicious occurrences near offshore production and transportation facilities.

Funding is requested to cover travel costs, security clearances, Inspector training, and staff work associated with the Secretary's commitment to communication, consultation, and cooperation with Federal, State, and local agencies, industry, and the general public. Security procedures are also being reviewed with the Office of Aircraft Services and MMS helicopter contractors to determine if any changes are needed. The MMS contracts 16 helicopters to fly inspectors to offshore facilities.

The MMS will continue to analyze OCS infrastructure security and the *OMM Threat Advisory Guidelines for OCS Operations* for possible improvements. Consistent with the Guidelines, the MMS will continue to work closely with the regional coordination groups, the Department of Homeland Security, including the U.S. Coast Guard, industry, the military, and other Federal agencies to improve communication and the dissemination of information and identify potential security risks and appropriate security measures to enhance operator security plans. Security committees have been established, and all parties are fully aware of the notifications that should be made when suspicious activity is observed. Other actions that are being implemented or considered include:

- The development and implementation of an identification protocol between MMS inspectors flying offshore and the Coast Guard, State authorities, and operators of OCS facilities;
- Establish emergency contact lists to ensure that the Coast Guard and OCS operators can be contacted at all times; and
- The establishment of security zones around "key" OCS facilities to restrict ship traffic, as well as, other measures to restrict small boats (fishing/sport boats) in and around OCS facilities.

Selected Performance Measures for Infrastructure Security

End Outcome Goal: Protect Lives and Property				
Intermediate Outcome: Improve Public Safety and Security, Protect Public Resources from Damage				
Performance Measure(s)	**FY 2002 Performance Level**	**FY 2003 Performance Level**	**FY 2004 Performance Level with Request**	**Change in Performance From 2003 to Proposed 2004**
End Outcome Measure % of DOI (regulated) facilities and designated critical assets meeting national physical security guidelines	Not available, new program	100%	100%	No change
Intermediate Outcome Measure Update quarterly the inventory of DOI regulated facilities designated as critical assets on the OCS	Not available, new program	4	4	0
# DOI regulated facilities designated as critical assets	77	79	79	0
# of inspectors trained in platform security	0	0	60	60

Justification of Program Change

Regulation of Operations Program

Reduction in Funding for Closure of OCS Corpus Christi Sub-District Office

2004 Program Changes		
	2004 Budget Request	Program Changes (+/-)
$ (000's)	$ 50,402 *	-$750
FTE	*346*	*0*

**This number includes uncontrollables of $490K.*

The FY 2004 budget request for the Regulation of Operations Program is $50,402,000 and 346 FTE including a program decrease of $750,000 for closure of the Corpus Christi Sub-District Office from the FY 2003 President's Budget Request.

Closure of OCS Corpus Christi Sub-District Office (-$750,000) The requested decrease of $750,000 is part of a larger $.875M effort in FY 2004 to achieve efficiencies of operations by closing the Pensacola, Florida and Corpus Christ, Texas offices. The requested decrease of $750,000 will result in the closing of the Corpus Christi Sub-district office with its responsibilities transferred to the Lake Jackson District Office.

Effect of proposed change on strategic and performance goals: Closing the Corpus Christi Sub-district office will not compromise the bureau's responsibilities for oversight of the OCS operations. The inspection functions will continue to be conducted from the district office, rather than the sub-district office, which will be closed. This initiative will save OMM money while continuing required inspections. The MMS will continue to be vigilant in ensuring safe operations, protection of the environment, and conservation of resources.

2003 Program: Offshore will implement the closure the Corpus Christi, Texas, Sub-district office by the end of FY 2003.

Justification of 2004 Program Change: This initiative proposes to close the Corpus Christi Sub-district Office in Texas. The sole purpose of the three-person Corpus Christi Sub-district Office is to conduct inspections. These inspection functions can be performed out of the Lake Jackson District, and $700,000 of helicopter costs and $50,000 of office costs could be saved. The helicopter costs for the Sub-district are now $850,000. By giving up a helicopter and using $150,000 for increased usage and distance for the remaining helicopters in the Lake Jackson District, the net savings will be $700,000.

Selected Performance Measures for the Gulf of Mexico Sub District Office Closure Based on Draft DOI Strategic Plan

Performance Measure(s)*	FY 2002 Performance Level	FY 2003 Performance Level	FY 2004 Performance Level with Request	Change in Performance From 2003 to Proposed 2004
Outputs:				
# of helicopters used for inspections(MMS measure)	1	1	0	-1
# of inspections performed by Corpus Christi Subdistrict	700	400	0	-400
# of inspections performed Lake Jackson District	2,800	3,100	3,500	+400

*Preliminary measures pending final approval of DOE strategic plan.

Justification of Program Change
Regulation of Operations Program
Reduction in Funding for OMM Pacific Region Streamlining

2004 Program Changes		
	2004 Budget Request	**Program Changes (+/-)**
$ (000's)	$ 50,402 *	-$500
FTE	*346*	*0*

**This number includes uncontrollables of $490K.*

The FY 2004 budget request for the Regulation of Operations Program is $50,402,000 and 346 FTE including a program decrease of $500,000 for Pacific Region Streamlining from the FY 2003 President's Budget Request.

OMM Pacific Region Streamlining (-$500,000) The requested decrease of $500,000 is part of a larger $1.5M effort in FY 2004 that continues FY 2003 streamlining efforts at the Pacific Regional Office.

Effect of proposed change on strategic and performance goals: Streamlining the Pacific OCS Region will not compromise the bureau's responsibilities for oversight of the OCS operations. The MMS will continue to be vigilant in ensuring safe operations, protection of the environment, and conservation of resources.

2003 Program: In the FY 2003 President's Budget, MMS identified savings of $1,000,000 as the first step towards streamlining activities in the Pacific OCS Region. Since then, a reorganization plan has been developed and approved. Several employees have been and are moving to the Gulf of Mexico Region and other MMS locations where their skills are needed and the workload exists. A few employees have retired or left MMS. In FY 2003, MMS will achieve the anticipated savings of $1,000,000 through staff reductions and eliminating the use of one helicopter. By the end of FY 2003, the reorganization will be complete.

Justification of 2004 Program Change: In concert with the President's "Strategic Management of Human Capital" Management Agenda item, MMS is continuing to review the overall workload and workforce throughout the Offshore Minerals Management Program. Workload is continuing to increase in the Gulf of Mexico OCS Region, while the workload in the Pacific OCS Region is declining.

In FY 2004, we anticipate a total savings of $1,500,000 from the continued implementation of the streamlining efforts in the Pacific OCS Region; $500,000 in the Leasing & Environmental Subactivity, $500,000 in the Resource Evaluation Subactivity, and $500,000 in Regulation of Operations. These savings are split between two DOI Strategic Plan Mission Components -- $1,000,000 in Resource Use and $500,000 in Serving Communities. However, the total amount of savings from these efforts will not be known until submission of the FY 2005 budget, due to several variables such as the remaining helicopter contract, timing of final departures, residual personnel costs, etc.

Selected Performance Measures for the Pacific OCS Region-Based on DOI Draft Strategic Plan

Performance Measure(s)*	FY 2002 Performance Level	FY 2003 Performance Level	FY 2004 Performance Level with Request	Change in Performance From 2003 to Proposed 2004
Outputs:				
# of Inspections(MMS measure)	924	550	550	0
# of Development & Production Plan reviews	3	3	3	0
# of Applications for Permit to Drill reviews	0	10	14	+4
# of Exploration Plan reviews	6	0	0	0

*Preliminary measures pending final approval of DOI Strategic Plan.

Justification of Program Change
Regulation of Operations Program
Reduction in Funding for OMM Streamlining

2004 Program Changes		
	2004 Budget Request	**Program Changes (+/-)**
$ (000's)	$ 50,402 *	-$500
FTE	*346*	*-5*

**This number includes uncontrollables of $490K.*

The FY 2004 budget request for the Regulation of Operations Program is $50,402,000 and 346 FTE including a program decrease of $500,000 and 5 FTE for OMM Streamlining from the FY 2003 President's Budget Request.

OMM Streamlining (-$500,000, -5 FTE) In concert with the President's "Strategic Management of Human Capital" Management Agenda item, MMS is continuing to review the overall workload and workforce throughout the Offshore Minerals Management Program. During the third quarter of FY 2002, the Associate Director for Offshore Minerals Management issued reduced FTE targets to all of the OMM organizations. These reduced targets were based on a Workforce Planning review by all the managers. All managers examined their organization, workload, and staffing. The managers were asked to think of new ways to restructure or do the work if certain attrition or retirements occurred. The options included such items as technological solutions, centralization of functions, or combining duties across organizations. This effort has enabled the Offshore organization to identify a total anticipated streamlining savings of 12 FTE and $1,200,000 for FY 2004. The Regulation of Operations Program will contribute 5 FTE and $500,000 toward the streamlining effort.

Information Management Program

Justification of Program and Performance
Analysis by Subactivity

	2002 Actual	2003 Estimate	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2004 Budget Request	Change From 2003 (+/-)
$(000)	14,894	24,050	+143	+1,658	25,851	+1,801
FTE	64	64	0	+2	66	+2

Information Management Subactivity

DOI Draft Strategic Goal 2: Resource Use—Provide Access for Responsible Use and Optimal Value (Energy)
DOI Draft Outcome Goal 2.1: Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value (Energy)
DOI Draft Outcome Goal 2.2: Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value (Non-Energy)
DOI Draft Strategic Goal 4: Serving Communities—Protect Lives, Resources and Property
DOI Draft Outcome Goal 4.1: Protect Lives and Property

FY 2004 Program Overview

The Information Management Program supports all of the outcome goals of the DOI Strategic Goals, Resource Use and Serving Communities, as well as providing support to all other OMM programs.

The Information Management Program (IMP) subactivity funds information technology (IT) personnel support costs, hardware, software, training, security activities, hardware and software maintenance, and IT technical support for the Offshore Program. The IMP provides a central foundation for the management of the large volume of information and data used in Offshore's scientific, engineering, and management activities.

To ensure that IMP provides the infrastructure and services that are required to support IT activities Offshore-wide, an Information Management Committee (IMC) was established with managers from all major program areas in headquarters and the three Offshore Regions. The IMC regularly revisits Offshore IT needs, reprioritizes needs based on new circumstances, and collectively determines the most effective distribution of limited IMP resources. The IMC reports to the Associate Director, Offshore Minerals Management.

Headquarters IT staff (located in Washington and New Orleans) provides a single-point management and coordination/standardization of IT activities, resulting in an efficient centralized operation. Responsibilities include:

- Coordination with Interior's Departmental Chief Information Officer, and adherence to Departmental Enterprise Architecture, Departmental Capital Planning and Investment Control process, and Departmental IT Security.
- Nationwide policy coordination and standardization for Offshore's IT Program;
- Nationwide management of the OMM IMP budget formulation, tracking distribution of funds and management of acquisitions, and implementation of procurements;
- 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;
- Coordination of major IT activities related to nationwide procurements including hardware and software maintenance agreements;
- Acquisition management of all service contracts in Offshore in support of software development, help desk support, and Information Technology consulting;

50th Anniversary
OCS Milestones

1997 ▪ Most bids received at a lease sale - 1,790 bids for Central GOM lease sale 166.
▪ Most tracts bid on at a lease sale – 1,032 tracts for Central GOM lease sale 166.
▪ GOM gas production record set - Southeast Tahoe field, Viosca Knoll Block 784, production rate of 119 MMcfd from a single satellite well tied back to the Bud Lite facility, 13 miles away.
▪ First royalty relief granted under the Deepwater Royalty Relief Act for existing leases - to Tatham Offshore, Inc., for Sunday Silence, a deepwater field offshore Louisiana in 457 meters (1,500 ft) water depth , about 45 kilometers (72 mi) offshore and about 84 kilometers (135 mi) south of New Orleans, LA.

1998 ▪ GOM water-depth drilling record set by oil drillers - set by the Glomar Explorer drill ship, at a water depth of 2,352 meters (7,718 ft), 175 miles southeast of New Orleans, LA, in GOM's Atwater Valley section. Chevron USA Production Company led the project.
▪ Production record set in GOM - A-7 well in Ursa field, Mississippi Canyon Block 809, produced at a rate of 39,317 bpd of oil and 60.67 MMcfd of gas, or 50,150 bpd of oil equivalent. Exceeds previous record of 46,475 boepd set at the Troika development. Shell, BP Amoco, Conoco, and Exxon are joint owners.
▪ First freestanding offshore compliant tower and tallest freestanding structure in the world - Baldpate, located in 503 meters (1,650 ft) of water in GOM's Garden Banks Block 260, extends almost 580 meters (1,902 ft) above the seafloor to the tip of its flare boom.
▪ Presidential Directive under the OCS Lands Act to prevent leasing any area under moratorium before 2012 - extended by 10 years the protection provided by DOI's leasing plan.

- Acquisition and oversight of Geological Interpretive Tools to assist the geoscientists with the evaluation of Offshore leases and management of operations and environmental concerns on the OCS;

- Leadership in the evaluation and integration of new IT solutions;

- Supporting and providing transition services for the e-Government project; and

- Managing and coordinating A-76 responsibilities relating to the IT program.

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

- Maintaining the Information Technology facilities equipment/software in each location;
- Providing technical support for Local Area Networks and installed desktop workstations;
- Managing the Local Area Networks and maintaining information security at the local facility, including security training;
- Managing an increasing number of IT contractors necessary to maintain computer systems and meet the mission of the organization;
- Locally implementing Offshore-wide standards and policy; and
- Providing help desk, training, and computer room operations support for the program offices.

The IT needs have evolved rapidly, increasing many-fold each year from what was envisioned just a few years ago. New developments in Offshore and MMS-wide technology standards and policies are impacting the IMP in the following ways:

- Users are more mobile and need remote access to information and systems;
- More applications requirements must be developed and maintained;
- Broadening of the level and number of users who require greater access to MMS data;
- More data must be maintained, processed and archived;
- Data management methods must be refined to support the additional data;
- Computers and networks must be faster and more powerful;
- Data must be structured according to industry and Departmental data standards;
- More resources must be applied to coordinating, testing, and implementing administrative systems and reengineering projects;
- Deployment and management of Offshore and MMS-wide systems and standards must be more carefully coordinated;
- Increased security requirements must be addressed;
- Skill levels must keep pace continually with the rapid rate of technology change; and
- Life cycle management requires additional attention and resources to meet the needs of the users and to keep up with the industry.

FY 2002 Accomplishments

- Deployed Windows 2000 based Standard Client for all OMM offices;
- Drafted and helped implement the MMS Infrastructure Change Management system;
- Chaired the MMS Client Work Group and MMS WAN Team;
- Continued development and maintenance of TIMS databases;
- Conducted IT planning for transition to E-Government Transformation project;
- Significantly improved security through systems upgrades, policy enhancements, and completion of awareness training by all OMM staff;
- Successfully completed first phase of E-Government Transformation pilot;
- Participated in the development of a Department wide OMM Enterprise Architecture;
- Maintained life-cycle upgrades for the desktop workstations, upgraded desktop software applications, and upgraded storage and application servers; and
- Developed OMM IT policy framework.

Planned Activities for FY 2003

- Participate in the enterprise-wide software projects;
- Maintain and enhance the Offshore corporate data bases;
- Support, test, install, and maintain new technologies;
- Develop and support Offshore software applications, and upgrade and expand computer network infrastructure;
- Analyze Departmental IT architecture and applications as they relate to mission critical activities in the future;
- Install and maintain life-cycle upgrades for the desktop workstations, upgrade desktop software applications, and upgrade storage and application servers;
- Expand and strengthen the information security infrastructure of MMS and heighten the information security awareness of all MMS employees;
- Begin the transition to Electronic Government;
- Initiate system security certification and accreditation activities; and
- Develop transition/integration plans for OCS Connect activities.

Planned Activities for FY 2004

- Continue to develop/update policies consistent with appropriate regulations/guidelines in support of mission requirements;
- Continue to enhance the information security infrastructure of MMS and heighten the information security awareness of all MMS employees;
- Finalize system security certification and accreditation;
- Participate in the enterprise-wide software projects;
- Convert, maintain and expand the Offshore corporate data bases as part of the OMM E-Government Transformation project;
- Support, test, install, and maintain new technologies;
- As part of the OMM E-Government Transformation project, help develop the IT architectures and applications necessary to deploy OMM's next generation of Internet enabled applications and integrate related security requirements;

- Analyze current IT architecture and applications as they relate to mission critical activities in the future;
- Install and maintain life-cycle upgrades for the desktop workstations, upgrade desktop software applications, and upgrade storage and application servers; and
- Develop and implement an Enterprise Architecture Program for OMM and participate in the development of an Enterprise Architecture covering the Bureau.

E-Government Transformation

The Offshore Minerals Management (OMM) e-Gov initiative, a cross-cutting component of the Department of the Interior's Management Reform Plan, transforms OMM's business processes and provides secure, online access for all citizens, including MMS employees, to appropriate MMS information and business processes. As a cross cutting initiative, the e-Gov project supports all of the strategies of the DOI Strategic Plan mission components "Resource Use," Outcome Goal 2.1 "Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value – Energy" and "Serving Communities," Outcome Goal 4.1 "Protect Lives, Resources and Property." E-Gov directly links to the President's management agenda (expanded electronic government), and is listed under "Department-wide Activities and Plans" in the Secretary's plan for citizen centered governance (CCG initiative).

Leasing of Federal lands and subsequent development of mineral assets has made the OCS a major source of the Nation's supply of crude oil and natural gas. In the Gulf of Mexico alone, approximately 1.3 million barrels of oil and 13.8 billion cubic feet of gas are produced each day. Since the Outer Continental Shelf Lands Act (OCSLA) of 1953 (67 Stat. 462, as amended (43 U.S.C. 1331 et seq. (1988)) established the Federal OCS leasing program, the market value of oil and gas produced has totaled more than $385 billion.

Since the oil and gas resources of the OCS, though abundant, are ultimately exhaustible, MMS must manage these resources in a manner consistent with sustainable development. To do this, MMS must impose complex requests and reporting requirements on the oil and gas industry. It must also share information, analysis, and storage with other government and public entities. Together, these management responsibilities create intense pressure for automation of many recurring processes. To fulfill each of its mandated tasks, MMS must facilitate the exchange of OCS-related information within a complex network of stakeholders (industry, other agencies, states, and the public). That fact is the basis of OMM's e-Government vision.

The OMM's e-Government framework consists of investment in core infrastructure, such as a regulatory data model, redesigned web-enabled corporate database, document management, security, and a data warehouse to support its business functions. A strong OMM infrastructure will support web-based, customer-responsive solutions; facilitate internal analysis; and set a foundation for future integrated systems. Additional investments will support processes such as permitting, inspections, Freedom of Information Act, public commenting, and industry reporting. To ensure that the foundation is flexible, capabilities will be built in a coordinated and modular fashion, using commercial off-the-shelf applications (COTS) and outsourcing when feasible. The approach is driven by customers and stakeholders, focused on mission and strategy, process-efficient, and technology-enabled.

During the development of the OMM Enterprise Architecture, OMM will collaborate with the Fluid Minerals Branch of the Bureau of Land Management (BLM) to ensure that there is a coherent DOI Fluid Minerals Architecture. The OMM and BLM will work toward development of a common data architecture and business architecture within the constraints of our differing organizational and IT architectures, as well as a rational data exchange standard. We will leverage available solutions in the common touch points between our organizations. The OMM will also work in a community of regulators, including States such as California, Louisiana, Texas, and New Mexico, to develop such standards through existing voluntary standards organizations that would be available for use across the domestic oil and gas industry with all national regulatory groups.

As the steward of the nation's offshore mineral resources, OMM must upgrade its ability to process an increased number of requests from industry in a timely manner, distribute decisions for comment, provide approvals, and monitor activity on the leasehold through analysis of complex information reported. This investment in capital assets supports all those activities through true automation of information exchange and storage. This transformation supports the President's Management and Performance Agenda item "Expanding Electronic Government" by improving connectivity between the government and the public; creating a citizen-centered web presence; and building a cross-agency e-government infrastructure.

FY 2002 Accomplishments

- The Program Management Office (PMO) for the e-Gov project was established, and the Chief and Deputy Chief selected.
- Implementation Planning for the 5-year project was completed.
- Business processes were mapped and then ranked by weighted criteria, and the Business Process Reengineering (BPR) sequence prioritized.
- The preliminary OMM Data Model was developed.
- Draft Security Policy, Architecture and preliminary Plan were completed.
- Concept of operations for the "to be" operating environment was developed.
- Preliminary Performance Measures that aligned to existing DOI and MMS Strategic Plans and Goals were developed.
- Draft Communications Plan was developed.
- Preliminary baseline Enterprise Architecture (EA) was developed.

Planned Activities for FY 2003

- Online rulemaking system modeled after EPA EDOCKETS will be developed and launched.

- A public comment and response capability that is key to 5 separate clusters will be developed.

- Core capability for an Electronic Document Management System (EDMS), including Electronic Records Management System (ERMS) will be developed for limited implementation.

> **50th Anniversary**
> **OCS Milestones**
>
> **2001** ▪ GOM's largest find to date - British Petroleum and ExxonMobil Corporation announced a major discovery in the deepwater GOM on February 13th. Located 5 miles northwest of the Crazy Horse field on Mississippi Canyon Block 776, Crazy Horse North will produce 1 billion barrels, making it the largest ever opened in the GOM and ranking as one of the five largest fields in the GOM. The Discoverer 534 drillship spudded the hole in 1,719 meters (5,640 ft) of water and drilled to a total depth of 7,938 meters (26,045 ft or 4.9 mi).
>
> ▪ World deepwater drilling record set at 9,687 feet in the GOM (Previous records were 9,157 feet offshore Gabon and 9,111 feet offshore Brazil.) - Transocean Sedco Forex's drillship, *Discoverer Spirit*, spudded an exploration well in 2,945 meters (9,687 ft) of water while working for Unocal at their Trident Prospect located in Alaminos Canyon, Block 903.
>
> ▪ Offshore world record set for oil and gas production tieback in the GOM - ExxonMobil began production on its Mica Project in 4,350 feet of water on Mississippi Canyon Blocks 167 and 211 located 100 miles south of Mobile Bay, Alabama. The subsea development project is tied back by an underwater flowline 29 miles to the existing Pompano platform. The tieback involves both oil and gas. Production started on August 17, 2001, at a rate of 140 million cubic feet of natural gas and 13,000 barrels of oil per day.

- Management of Regulations, Laws and Notices to Lessees will be re-engineered and implemented within the relevant OCS Connect subsystems.

- Management of Cadastral and Thematic Maps will be re-engineered, aligned with Geospatial OneStop, and implemented within the relevant OCS Connect subsystems.

- Development of the OMM standardized data model will continue.

- Project Security Policy and Plan will be implemented.

- Further development of OMM standardized data model. Work with relevant industry standards organizations to align data models.

- "My OCS" portal will be developed to provide common, secure access for stakeholders, both external and internal.

Planned Activities for FY 2004

- Fully implement business processes that were re-engineered and implementation begun in FY 2003: e-rulemaking aligning with e-Rulemaking e-Gov initiative, public comment and response on programmatic issues, management of cadastral and thematic maps aligning with Geospatial One-stop e-Gov initiative.

- Focus on standardized data models and an eSubmission Framework.
  - Facilitate development of industry data exchange standards based upon the OMM standardized logical data model that was developed in FY 2003.
  - Integrate e-Submission prototype into developing OMM e-Gov system.

- Expand development of initial Electronic Document Management System (EDMS) and Electronic Records Management System (ERMS) capabilities developed in FY 2003.

- Implement full authentication and validation of users, both internal and external, via "My OCS" portal begun in FY 2003

- Conduct business process re-engineering of processes associated with protection of environmental resources, OCS oil and gas lease management, for lease sales only. Lease adjudication will not be re-engineered at this time.

Justification of Program Change
Information Management Program
Increase in Funding for E-Government

2004 Program Changes		
	2004 Budget Request	Program Changes (+/-)
$ (000's)	$ 25,851 *	+ 2,908
FTE	*66*	*+3*

* *This number includes uncontrollables of $143K.*

The FY 2004 budget request for the Information Management Program is $25,851,000 and 66 FTE including a program increase of $2,908,000 and 3 FTE for E-Government from the FY 2003 President's Budget Request.

E-Government (+ $2,908,000, +3 FTE) The request represents the second year funding requirements for the 5-year project. An increase of $ 2.908M and 3 FTE is requested to continue the transformation of the Offshore Minerals Management (OMM) business processes and provide secure, on-line access to its business customers. The initiative supports all program areas of Offshore Minerals Management. The total requested funding is necessary for successful system development.

The MMS e-Gov initiative is a component of the Secretary's Citizen Centered Governance Plan. The e-Gov initiative is in the early stages with the reengineering of processes and systems still to occur. Once changes to current processes are identified the effect on mission category goals and measures can be realistically determined. Until that time, surrogate intermediate performance measures from the management category of DOI's strategic plan (% initiatives in Citizen Centered Governance Plan completed on schedule) are more appropriate indicators and will be used to gauge the effectiveness of managing and implementing the e-Gov initiative. The performance goals and narrative remain the same under both mission categories as the total aggregate requested funding is necessary for successful system development.

Effect of proposed change on strategic and performance goals: The Offshore Minerals Management (OMM) e-Gov initiative, a cross-cutting component of the Department of the Interior's Management Reform Plan, transforms OMM's business processes and provides secure, online access for all citizens, including MMS employees, to appropriate MMS information and business processes. MMS will design and implement a distributed enterprise architecture in concert with Departmental guidance to deliver web-based, paperless transactions, and provide data standards to better manage data, reduce future costs, and deliver products to stakeholders. MMS is exploring developmental options for this initiative with its industry partners. As a cross-cutting initiative, the e-Gov project supports all of the strategies of the DOI Strategic Goals: "Resource Use—Provide Access for Responsible Use and Optimal Value (Energy); "Resource Use—Provide Access for Responsible Use and Optimal Value (Non-Energy); and "Serving Communities – Protect Lives, Resources and Property." E-Gov directly links to the President's management agenda (expanded electronic government), and is listed under "Department-wide Activities and Plans" in the Secretary's plan for citizen centered governance (CCG initiative).

The OMM will continue to seek every opportunity to scale all relevant applications across the entire bureau. The OMM e-Gov project directly responds to four of the Administration's Management Initiatives:

- Strategic Management of Human Capital – Enhances use of agency technical expertise by decreasing time spent on retrieving and collecting data and changing focus to quality technical analysis of data.

- Competitive Sourcing – Focuses agency on development and use of core competencies and provides for outsourcing of skills outside of those core competencies.

- Expanding Electronic Government – Will provide secure, web-based access to appropriate OMM data and business processes for the public, including the regulated community. Will streamline interactions with citizens, minimize redundant reporting, and increase timeliness of agency decisions by reengineering and automating major business transactions.

- Linking Budget and Performance – The IT Capital Plan is based upon a Return on Investment (ROI) that projects cost savings and cost avoidance for both OMM and the regulated community. Reengineered business processes serve as the basis for linking activity-based cost information with measuring the Bureau's performance and achievement of strategic goals.

2003 Program: In FY 2003, the OMM will begin re-engineering selected prioritized clusters of processes prior to moving them from a paper-based data stream to a digital, web-based data stream. The OMM will also begin hardware and software acquisition for an OMM implementation of an Electronic Document Management System (EDMS). This is the first step in scaling the EDMS across the bureau-level enterprise (MMS). One of the tools of this implementation provides the public with the capability to participate online in the OMM rulemaking and programmatic processes, as well as the development of environmental assessments.

OMM will also develop and implement a data management strategy that will improve the quality and integrity of the data that OMM uses and releases to the public. Also, an outward-facing portal will be developed in FY 2003 that provides a single face (access point) to the public for secure access to OMM business processes and public domain data. The portal is secure and customizable by the user to retain automatic access to points of interest. It will provide controlled access and centralized authority, retain entitlements, and provide for audit trails all the way to the data to ensure accountability and responsibility.

Justification of 2004 Program Change: A budget initiative for FY 2004 in the amount of $11.65 million is submitted for the OMM e-Gov project. This is a total increase of $2.908 million, for both mission categories, over the $8.742 million base requested for the project in FY 2003 which was predicated upon a 5-year project schedule beginning in FY 2003.

The OMM will continue the re-engineering of the next tier of clusters of prioritized processes in FY 2004, and, as applications have been re-engineered, move them into the live environment. As discussed above, implementation of the EDMS will be completed in FY 2004. The full capability of the EDMS will occur in FY 2004, and will include a public commenting capability and integration into the DOI Electronic Records Management System (ERMS). The EDMS, however, will be fully functional only for those processes re-engineered in FY 2003. Implementation of that capability for the remaining business processes will occur as they are reengineered.

Also, the OMM will begin development of an ebXML-based data exchange protocol(s) that will serve as the basis for a standard for the exchange of regulatory oil and gas data at all levels of government—Federal, state, and international.

Selected Performance Measures for the e-Gov Project-Based on DOI Draft Strategic Plan

End Outcome Goal: Manage or influence resource use to enhance public benefit, promote responsible use, and ensure optimal value (Energy)

Intermediate Outcome: Effectively manage and provide incentives for access and development; Enhance responsible use management practices; Effective lease and permit management; and improve information base, resource management and technical assistance

Performance Measure(s)*	FY 2002 Performance Level	FY 2003 Performance Level	FY 2004 Performance Level with Request	Change in Performance From 2003 to Proposed 2004
Intermediate Outcomes:				
Outputs:				
% of time security systems prevent unauthorized access to e-Gov systems(MMS measure)	N/A	100%	100%	No change
% of time that 95% or more of e-Gov portal and related systems are up and running and internet accessible(MMS measure)	None	90%	100%	+11%
Increase on-line transactions to x% relative to a baseline inventory of all DOI transactional services(MMS measure)	5%	10%	20%	+100%
Reduce information collection burden hours imposed on the public by x% over baseline(MMS measure)	5%	10%	20%	+100%
% initiatives in Citizen-Centered Governance Plan completed or on-schedule for completion(MMS measure)	None	20%	25%	+25%
# of major IT investment projects for which cost estimates, established in project or contract agreement, meet actual costs within a variance of x%(MMS measure)	None	1	1	No change

*Preliminary measures pending final approval of DOI Strategic Plan.

Other Department End Outcome Goals and Intermediate Outcomes Supported by These Funds:

DOI End Outcome Goal 2.2:	*Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value (Non-Energy)*
Intermediate Outcome:	*Provide access to and incentives for production*
DOI End Outcome Goal 4.1:	*Protect Lives and Property*
Intermediate Outcome:	*Improve Public Safety and Security and Protect Public Resources from Damage*

Justification of Program Change

Information Management Program

Reduction in Funding for Information Technology

2004 Program Changes		
	2004 Budget Request	**Program Changes (+/-)**
$ (000's)	$ 25,851 *	-$1,150
FTE	*66*	*0*

* *This number includes uncontrollables of $143K.*

The FY 2004 budget request for the Information Management Program is $25,851,000 and 66 FTE including a program decrease of $1,150,000 for Information Technology Reduction from the FY 2003 President's Budget Request.

Information Technology Reduction (-$1,150,000) The Department is undertaking significant information technology reforms to improve the management of IT investments, to improve the security of systems and information, and to realize short and long-term efficiencies and savings. The Department is taking a corporate approach that will include consolidated purchases of hardware and software, consolidation of support functions including helpdesks and email support, and web services, and coordination of training.

The Offshore Information Management Program (IMP) funds information technology (IT) personnel support costs, hardware, software, training, security activities, hardware and software maintenance, and IT technical support for the Offshore Program. As a centrally managed program, IMP helps the Offshore Program achieve efficiencies through standardization, consolidated purchasing, and alignment with bureau IT objectives. The Information Management Program has been highly successful in developing a secure, integrated system capable of supporting high level analytic computing and the management of complex corporate data. The Offshore Program anticipates adding improved capabilities and expanded services to the public through its eGovernment Transformation Project. IMP is also the vehicle through which the Offshore Program will achieve compliance with circular A-130 and other critical security requirements. The MMS recognizes the importance of a well managed information technology program to the success and security of its overall program. The decreased funding level will allow a tightened focus on core requirements, higher priority projects, and necessary policies and standards. Savings are anticipated from participation in centralized DOI wide purchasing opportunities and consolidation of web services.

Justification of Program Change

Information Management Program

Reduction in Funding for OMM Streamlining

2004 Program Changes		
	2004 Budget Request	**Program Changes (+/-)**
$ (000's)	$ 25,851 *	-$100
FTE	*66*	*-1*

* *This number includes uncontrollables of $143K.*

The FY 2004 budget request for the Information Management Program is $25,851,000 and 66 FTE including a program decrease of $100,000 and 1 FTE for OMM Streamlining from the FY 2003 President's Budget Request.

Streamlining Reduction (-$100,000, -1 FTE) In concert with the President's "Strategic Management of Human Capital" Management Agenda item, MMS is continuing to review the overall workload and workforce throughout the Offshore Minerals Management Program. During the third quarter of FY 2002, the Associate Director for Offshore Minerals Management issued reduced FTE targets to all of the OMM organizations. These reduced targets were based on a Workforce Planning review by all the managers. All managers examined their organization, workload, and staffing. The managers were asked to think of new ways to restructure or do the work if certain attrition or retirements occurred. The options included such items as technological solutions, centralization of functions, or combining duties across organizations. This effort has enabled the Offshore organization to identify a total anticipated streamlining savings of 12 FTE and $1,200,000 for FY 2004. The Information Management Program will contribute 1 FTE and $100,000 toward the streamlining effort.

Oil Spill Research

Justification of Program and Performance
Analysis by Subactivity

	2002 Actual	2003 Budget Request	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2004 Budget Request	Change From 2003 (+/-)
$(000)	6,105	6,105	0	1,000	7,105	+1,000
FTE	23	22	0	0	22	0

DOI Draft Strategic Goal 2: Resource Use – Provide Access for Responsible Use and Optimal Value (Energy)
DOI Draft End Outcome Goal 2.1 Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value (Energy)

FY 2004 Program Overview

The Oil Spill Research (OSR) Program plays a critical role in supporting DOI's End Outcome Goal to Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value. The program supports the DOI strategy of Enhancing Responsible Use Management Practices by focusing on research, planning, preparedness, and select response-related activities related to oil and gas exploration. These activities contribute to DOI's Intermediate Outcome Measure to achieve an oil spill rate for offshore development of no more than 10 barrels spilled per million barrels produced. The Oil Spill program also supports the DOI strategy to Improve Information Base, Resource Management and Technical Assistance. This is accomplished through research results from studies funded with OSR dollars and the body of knowledge acquired through the testing of equipment, techniques, and methodologies at Ohmsett, the National Oil Spill Response Test Facility in Leonardo, New Jersey.

The Oil Spill Research (OSR) Appropriation, funded by the Oil Spill Liability Trust Fund, supports oil spill research, oil spill prevention and response planning activities, financial responsibility, and activities in State waters.

The MMS research supports the bureau goal of safe and environmentally sound operations and promotes responsible use by improving capabilities to detect, contain and cleanup open ocean oil spills. The research program complies with Title VII of the Oil Pollution Act of 1990 (OPA-90) and is conducted in cooperation with the Interagency Coordinating Committee for Oil Pollution Research, as called for in the OPA-90. Oil spill research is one tool that MMS uses to fulfill its regulatory responsibilities mandated by OPA-90. Information derived from the OSR program is directly integrated into MMS's offshore operations and is used in making regulatory decisions pertaining to permit and plan approvals, safety and pollution inspections, enforcement actions, and training requirements.

The OSR Appropriation funds:

- Research to further oil spill detection, containment, and response capabilities in the event of an oil spill in the marine environment;

- Research aimed at prevention of oil spills through operational and safety enhancements;

- Research to further understanding of the fates and effects of spilled oil on the marine environment;

- Operation and maintenance of Ohmsett - The National Oil Spill Response Test Facility;

- Management of financial responsibility; and

- Activities in State waters.

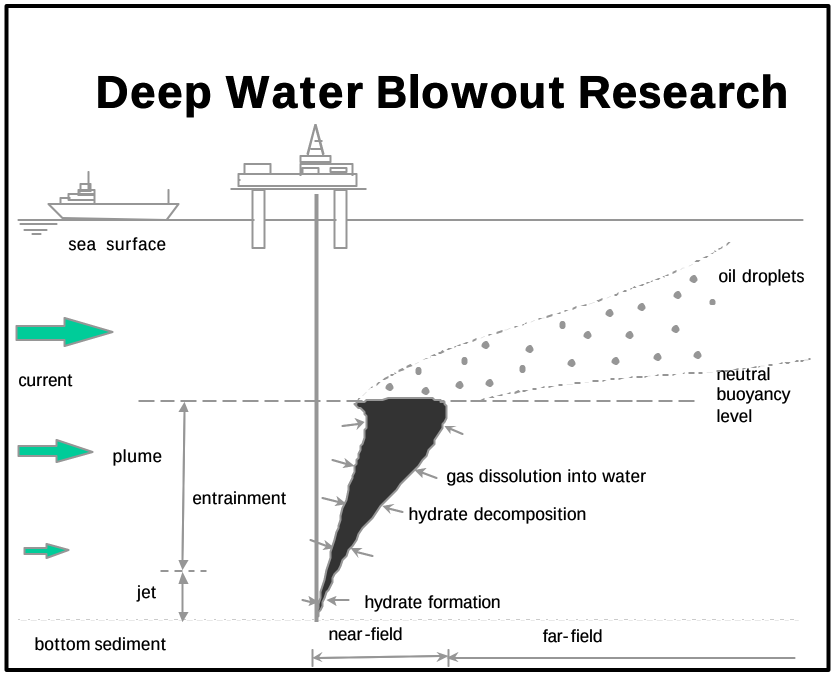
Research

The MMS is the principal U.S. Government agency funding offshore oil spill response research. Through funding provided by MMS, scientists and engineers from the public and private sectors, worldwide, are working to address outstanding gaps in information and technology concerning the cleanup of oil spills. Credible scientific research and technological innovation are considered key elements for improving oil spill response and protecting our coasts and ocean waters against the damage that could be caused by spills. The OSR program operates through contracts and other agreements with universities, private industry, State governments, government laboratories, and foreign countries with the expertise to perform the necessary research. Funding is leveraged by co-sponsoring research whenever possible.

Research Partnerships - The cooperative nature of the OSR program encourages innovation and creativity in the accomplishment of its mission. Knowledge gained from this research has significantly improved the ability to reduce the impact and damage caused from oil spills. The scope of MMS's oil spill response program was increased in 1986 by aligning the MMS program with those of Environment Canada (EC) and the National Institute of Standards and Technology (NIST).

Working with EC and NIST, MMS expanded its research efforts to address auxiliary topics, including remote sensing, dispersants, and the in situ burning of spilled oil. EC also partnered with MMS in efforts to analyze, and make available, the physical properties of crude oils and crude oil products produced from offshore oil fields worldwide. The MMS and EC also worked to develop advanced chemical fingerprinting techniques aimed at identifying sources of mystery oil spills and ascertaining financial responsibilities for cleanup activities. EC and NIST have been important partners in sponsoring international workshops to present research results, as well as identifying research gaps associated with offshore oil spill response. MMS will partner with EC and NIST in the future whenever new mutually beneficial cooperative research opportunities are identified.

Current Research Focus



General: The OSR program currently focuses on (1) testing and evaluating the technologies required to respond to oil spills in the ice-infested waters of the Alaskan Beaufort Sea; (2) evaluating the technologies required to respond to open water spills from deepwater operations offshore California and in the Gulf of Mexico; (3) conducting a comprehensive assessment of the operational and environmental factors associated with the use of chemical dispersants to treat oil spills from MMS regulated facilities and pipelines; (4) increasing the knowledge base of the physical and chemical properties of crude oil and how these properties change during a spill; (5) improving the ability to burn oil slicks on the water's surface (in situ burning); and (6) mitigation of oil spills associated with pipelines.

Mitigation of Pollution Associated with Pipelines. Pipelines are the source of about 97 percent of oil-spill volume associated with OCS oil and gas operations. The MMS is actively pursuing research to ascertain the integrity of the 33,000 miles of oil and gas pipelines on the OCS. Another 10,000 miles of pipeline exist in State waters and, with MMS's additional responsibility for pollution control in State waters; these projects will serve a dual purpose. A risk analysis and management database is being devised to provide valid assessments of the conditions of aging pipeline systems as well as the probabilities and consequences of leaks. The MMS pipeline research is intended to improve leak detection capabilities, improve internal and external inspection practices, improve shutdown systems, and develop a better understanding of the environmental forces active on pipelines. The MMS is also working with the States to map pipelines in State waters and incorporate them into the currently complete Federal database.

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

Oil Spill Response and Planning

The Minerals Management Service (MMS) is responsible for planning and preparedness and select response related activities related to oil and gas exploration, development, and production in the Outer Continental Shelf (OCS). The authority of MMS to administer and oversee requirements for spill planning and preparedness is derived from the Outer Continental Shelf Lands Act, the Oil Pollution Act, the Federal Water Pollution Control Act, and Executive Order 12777.

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

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

For all oil and gas activities, including oil spill preparedness and response, MMS's jurisdiction extends from the boundary of the OCS out 200 miles, covering almost eight billion acres in Alaska, the Pacific, the Gulf of Mexico, and along the Atlantic Seaboard. The OCS boundary has been agreed upon through Memorandum of Understanding with each State and can be located from three miles from shore, such as in Louisiana, to three leagues (nine miles) from shore, as in Florida. It should be noted that the OCS boundary has no relationship to the geological feature known as the outer continental shelf.

The MMS also has authority over oil spill response planning in State offshore waters, which is the defined as the recognized shoreline of the State, extending to the OCS boundary. In this capacity, MMS reviews and approves Oil Spill Response Plans for oil and gas facilities in State offshore waters, often collaborating with the State response agencies in plan approval.

The MMS also has a Memorandum of Understanding (MOU) with the U.S. Coast Guard that includes items on oil spill preparedness and response. The MOU, which was effective December 16, 1998, addresses oil spill financial responsibility, oil spill preparedness and response planning, response inspection requirements, and unannounced drills. Issues associated with authority for the shutting in of offshore facilities and for returning facilities to production status are also addressed, with MMS retaining authority of all actions that would warrant cessation of production pending determination of a spill's source. The decision to return wells to production also remains with the MMS. In cases of imminent hazard, however, the Federal On-Scene Coordinator is empowered to order facilities shut-in.

Existing mandated oil spill preparedness and response activities will continue throughout Fiscal Year 2003. The major focus of activity during the fiscal year, however, will shift toward implementation of the DOI Emergency Preparedness & Response Strategy – Oil Discharges & Hazardous Substance Releases. The strategy, which was approved by the Director of MMS on August 8, 2002, and which is part of an overall agency initiative, requires that MMS take actions to ensure that policies and programs designed to improve oil spill preparedness and response are prepared, adopted, and implemented, and that planned actions are consistent with the National Response System. Compliance with the 16 directives of the Strategy, which range from increased participation in National, Regional, and Area Contingency Planning and Federal On-Scene Coordinator Support to creation of communications protocols, will require active participation of staff at the District, Regional, and Headquarters levels. Through a phased approach, several activities will be assimilated by existing staff, while others, such as training and travel expenses, will require additional dedicated funding in order to increase the level of commitment that is required by the DOI Strategy.

Ohmsett - The National Oil Spill Response Test Facility (Ohmsett) is located in Leonardo, New Jersey. It is a vital component of MMS's research program. The Ohmsett facility provides testing and research capabilities to help the government fulfill its regulatory requirements and meet its goal of clean and safe operations. This unique facility is capable of replicating various conditions at sea. Ohmsett features a fully computerized data collection system, above and below waterline video capability, and a complete oil storage and handling system. Ohmsett is the only facility in the U.S. where full-scale equipment can be easily tested, without going out into the ocean. Through testing, valuable performance data on equipment are provided to manufacturers and suppliers to develop new, or to improve existing, equipment. Industry personnel can be trained in the use of their equipment in a safe, controlled environment (as compared to the open sea). More than 95% of all performance data on offshore oil spill response equipment has been gathered at Ohmsett. Performance data can be used by response planners in reviewing and approving facility contingency plans.

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

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

To respond to the challenges of testing and evaluating the equipment required to respond to oil spills in ice infested waters, the Ohmsett facility has been upgraded to offer cold water testing (with or without ice) and training. These upgrades will enable the Ohmsett facility to remain open year round for testing and training. Planned activities in FY 2004 include evaluation of oil spill skimmers for collecting spilled oil in broken ice, cold water dispersant effectiveness tests, evaluations of viscous oil pumping equipment, cold water oil spill response training, and evaluations of fast water oil spill response equipment. The President's FY 2004 budget includes a request for additional resources to perform long deferred maintenance and major repairs at the Ohmsett facility.

Oil Spill Financial Responsibility

The MMS implements the financial responsibility provisions of OCSLA and OPA, which require companies responsible for certain offshore oil and gas facilities, in both Federal and State waters, to demonstrate their ability to pay the costs of facility oil spill discharge removal and damages. Several methods may be used to demonstrate oil spill financial responsibility (OSFR), including insurance, bonds, self-insurance, and guarantee. The MMS has published a final rule to implement the 1996 amendments to OPA (30 CFR Part 253). Under OSCLA, the amount of OSFR is set at $35 million. Under the new rule, effective October 13, 1998, the amount of OSFR needed is based on facility location and the volume of the potential worst-case oil spill discharge that could occur. The OSFR amount required ranges from $10 million in State waters to $150 million for Federal waters. The rule covers facilities located in the OCS and State coastal waters.

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

Activities in State Waters

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

1) reviewing oil spill response plans submitted by more than 160 companies;

2) conducting annual unannounced oil spill response drills (30 CFR 254.42(g));

3) performing annual inspections of oil spill response equipment (30 CFR 254.43 (a) and (b));

4) providing staff assistance to train more than 500 oil spill responders annually for the following stakeholders:

- Contractors
- The Texas General Land Office
- The Louisiana Oil Spill Coordinator's Office

- Other Federal, State, and local agencies; and

5) participating on two Regional Response Teams as part of the National Response Team's National Contingency Plan. The National Response Team includes representatives from 16 Federal agencies and is chaired by the EPA and the USCG.

The MMS also serves on Regional Response Teams in the Alaska and Pacific Regions.

FY 2002 Accomplishments

? Successfully tested and evaluated the full-scale MORICE (Mechanical Oil Recovery in Ice-Infested Waters) prototype skimmer and two internal recovery devices in cold water and broken ice at Ohmsett – The National Oil Spill Response Test Facility in Leonardo, New Jersey.

? The MMS and Exxon Mobil Research and Engineering Co. participated in a series of research experiments to evaluate the effectiveness of dispersants on Hibernia and Alaska North Slope (ANS) crude oils in cold water/broken ice conditions.

? The MMS and industry conducted a joint research project to investigate the minimum ignitable thickness, combustion rate, residue amount and the effects of waves and currents for crude oil burned in situ in broken ice.

? Increased testing capabilities at the Ohmsett facility to be able to simulate Arctic conditions in the test tank.

? Held the first oil spill response training classes specifically designed for oil company students using their own response equipment.

Planned Activities for FY 2003

? The MMS will conduct additional experiments at Ohmsett – The National Oil Spill Response Test Facility to evaluate the effectiveness of dispersants on Alaska crude oils.

? The MMS will assemble a group of Federal agencies (NOAA, USCG, others) to cooperatively fund an update of “Using Oil Spill Dispersants on the Sea” that was published by the National Research Council in 1989.

? The MMS will work with the Environmental Protection Agency and the National Oceanic and Atmospheric Administration to conduct research experiments at Ohmsett – The National Oil Spill Response Test Facility to characterize the wave energy and spectra in the tank. This research information will be used to plan and conduct oil spill modeling and dispersant experiments.

? The MMS will prepare a detailed Strategic Plan for marketing the Ohmsett facility to outside testing and training clients.

Planned Activities for FY 2004

The MMS TAR/OSR Programs routinely participate in 20-40 concurrent research project activities, most of which are multi-year activities and projects, with several organizations and participants. However, unlike the TAR Program responsibilities, the OSR activities address a vast array of topics associated with oil spills – whether or not such spills are associated with offshore oil and gas production. Hence, the balancing of research activities across the TAR Program's four primary objectives (see write-up in Technology Assessment and Research section) results in significantly higher weighting among the ***Technology Assessment, Research Catalyst***, and ***International Regulatory*** categories.

- ***Technical Support****:* Projects and activities will continue to focus on deepwater oil spill issues and detection, tracking, and cleaning up oil in ice-infested areas. These activities are aimed at providing MMS decision makers with data and information necessary to evaluate industry exploration and development proposals for GOM and Alaska operating areas and support MMS directives for requiring mitigating measures.

- ***Technology Assessment****:* Projects and activities under this category will continue to focus on various aspects of in-situ burning, effectiveness of oil spill chemical treating agents, effectiveness of dispersants, feasibility of satellite oil spill tracking devices, and related and associated technological innovations for detecting, tracking and cleaning up oil spills in the marine environment.

- ***Research Catalyst****:* Activities will continue to focus on joint project research with traditional MMS research partners – including the U.S. Coast Guard, U.S. Navy, EC and the Canadian Coast Guard.

- ***International Regulatory****:* OSR Program activities under this category tend to be structured more towards "International Co-operation" rather than "Regulatory". MMS is expanding its efforts to jointly sponsor international oil spill research projects, workshops, and conferences with governmental and private research organizations interested in marine oil spill response and cleanup technology. In addition to pursuing joint projects with Norway, Canada, United Kingdom, Mexico, and Brazil, MMS is currently working with the State Department to sponsor an Oil Spill Workshop in late 2003 or early 2004 to address issues of interest to the members of the Asian-Pacific Economic Cooperation (APEC).

- ***Alaska Region:*** Continue implementation of the OPA by (1) working on oil spill contingency plans and prevention of oil spills in State waters with the State and other Federal agencies; (2) active participation in implementation of the OPA rules for financial responsibility; and (3) increasing coordination with the State of Alaska to administer provisions of 5(j) of the OSCLA and certificate of financial responsibility responsibilities under the OPA for oil and gas facilities on submerged lands in state waters.

- ***Gulf and Pacific Regions:*** Continue implementation of OPA requirements concerning spill response plan review and approval and oil spill financial responsibility.

Justification of Program Change
Oil Spill Research Program
Increase in Funding for Ohmsett

2004 Program Changes		
	2004 Budget Request	Program Changes (+/-)
$ (000's)	$ 7,105	+$1,000
FTE	*22*	*0*

The FY 2004 budget request for the Oil Spill Research Program is $7,105,000 and 22 FTE, a net program increase of $1,000,000 from the FY 2003 President's Budget Request.

Ohmsett (+$1,000,000) This initiative is for $1.0 million in FY 2004 to begin a 4-year, $4 million, phased replacement of equipment at Ohmsett, and to provide needed funding for increased operational expenses at the facility.

Effect of proposed change on strategic and performance goals: More commonly known as the National Oil Spill Response Test Facility, the Oil and Hazardous Material Simulated Environmental Test Tank (Ohmsett) is a national asset, and the only one of its type in the world. MMS performs two primary and essential functions for national oil spill response at Ohmsett:

- Full scale equipment testing. It is estimated that 95% of the quantitative performance data on mechanical equipment used by industry, the U.S. Coast Guard, and the U.S. Navy was obtained through Ohmsett testing and evaluation.
- Responder training. Ohmsett is the only facility in the world where people who respond to oil spills can be trained under actual conditions using real oil. U.S. Coast Guard spill response teams experience continual turnover. Training provided at Ohmsett ensures new responders are trained in advance, enabling rapid and efficient response to an actual spill event.

This facility is a vital part of the nation's oil spill response strategy. It is a critical tool in the development of oil spill response technology, and is essential in fulfilling MMS's regulatory responsibilities under the Oil Pollution Act of 1990 (OPA 90). These functions support the DOI Strategic Goal 2: Provide Access for Responsible Use and Optimal Value (Energy) and DOI End Outcome Goal 2.1: Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value (Energy), by responsibly developing the nation's resources to meet its energy needs. Offshore oil response equipment and methodologies are tested in a safe, controlled environment. Response planners use the performance data from these tests to review and approve facility contingency plans.

The 2004 request is for equipment upgrades and to cover increased operational expenses at Ohmsett. Without this increased funding, MMS may have to divert funds from already minimal research dollars to pay for the continued safe operation of Ohmsett. The decrease in research funding will ultimately result in lack of data to support our regulatory decisions, which will impact drilling operations in deep water Gulf of Mexico and the Beaufort Sea in Alaska.

We hope to achieve our target utilization rate in FY 2003 and FY 2004. However, the planned downtime for maintenance may impact the utilization rate performance measure for the facility in FY 2004, but an upgraded facility will support greater utilization in the out-years. Without maintenance, it will definitely be impacted.

2003 Program: During FY 2003, Ohmsett will continue to provide testing, research, and training capabilities to government, industry, academia, and private organizations. Planned activities in FY 2003 include evaluation of oil spill skimmers for collecting spilled oil in broken ice, cold water dispersant effectiveness tests, evaluations of viscous oil pumping equipment, basic research on the evaporation of oil and formation of emulsions, cold water oil spill response training, and evaluations of fast water oil spill response equipment.

Justification of 2004 Program Change: Nearly a decade ago, MMS completed a partial restoration effort. Since that time, only those operation and maintenance activities deemed critical to continuing operations have been performed. Ohmsett has experienced a 150% increase in its use over the past five years, and has begun to exhibit signs of its aging structure. Recent failures have underscored the need to replace vital equipment, some of which is over 30 years old. In July 2000, two failures in separate components of the moveable bridge occurred during equipment testing by industry. In March 2001, the original cables used to tow the bridges were replaced. They had been used so long that they had developed flat spots, fraying and cracking due to metal fatigue. The cables had reached the point that they were deemed a safety hazard to future operations if they were to part under the enormous tension that is placed on them.

In March 2000, MMS conducted an extensive assessment of all existing equipment and training facilities. A subsequent review of major systems was completed in January 2002, and three major problem areas were identified. There are 11 expansion joints running the width of the tank. The seals in these joints were installed in 1991 with an estimated leak free life of five years. In the last few years, leaks have appeared along some of these joints. When the tank has been drained for maintenance these leaks have been sealed with epoxy and the spalled concrete adjacent to the joints repaired. These repairs were only temporary measures, and the leaks are worsening each year. A catastrophic failure of a seal or collapse of the adjacent concrete structure could cause a release of all 2.6 million gallons of tank water onto the adjacent property. If that occurs when the water is heavily contaminated with oil, such as after a dispersant test, this contaminated water would end up on sensitive coastal marshes or in the nearby Sandy Hook Bay within sight of the Sandy Hook National Seashore.

The second item is the high-pressure filtration system that is capable of processing all 2.6 million gallons of water in about 24 hours. It has had major repairs over the last few years. Leaks from the filtration system pressure tank and piping continue to expand. Once the filtration system reaches the point of needing immediate replacement, it will cease operations at the tank for weeks, interrupting planned testing and training.

The third item is the oil recovery tanks and associated piping on the moveable bridge. The recovery tank is a critical component of measuring the efficiency of oil collection by equipment being tested. The tank is part of Ohmsett's original equipment and recently has had an aluminum liner installed due to the extensive corrosion of the exterior tank walls. The liner is also corroding due to the high salt content of the oil-water mixture collected in the tank as well as the surrounding coastal atmosphere.

Based on these evaluations, the recently experienced failures, and the potential for major problems and catastrophic failures, we have developed a comprehensive, $4.0 million plan to replace critical equipment and components and renovate newly acquired building space. If requested funds are made available, the following projects will be planned in FY 2004. Estimated costs include the equipment, supplies, and contractor/subcontractor installation costs:

- Resurface entire tank basin (stripping concrete, repair cracks in surface, and resurface with epoxy, last done in FY 1996) - $625K (Subcontractor with oversight by on-site contractor.)
- Replace all 11 tank expansion joint seals - $250K (Will probably be subcontracted with oversight by on-site contractor.)
- Purchase 50-ton hydraulic crane with extendable boom arm to be mounted on main bridge for equipment deployment and retrieval in test tank - $125K (Will probably be subcontracted with oversight by on-site contractor.)

Base funding requests for Ohmsett have remained constant for several years. Normal costs of living and labor increases have been absorbed by the program and have significantly eroded the baseline budget. However, current resources are no longer adequate for the funding of even routine operational expenses, like utilities. In addition, the new 5-year facility management contract awarded in January 2002 has consumed a larger share of the limited resources available to the Ohmsett program. With the additional funds, MMS will be able to avoid major disruptions to the testing and training programs at Ohmsett, and ensure the continued development of advanced oil spill response technology.

***Ohmsett Cost Recovery* -** MMS is marketing the testing and training capabilities of Ohmsett and has substantially increased its utilization by external clients and diversified its client base. All external clients currently pay for the full cost of their testing and training activities at Ohmsett. Beginning late in FY 2000, we imposed a 5% MMS maintenance fee on top of these charges to recover a pro rata share of Ohmsett's long term maintenance and operational costs. We will continue to increase marketing efforts, especially to attract new clients from the nearby international community such as Western Europe. We will also develop innovative new strategies to build on these gains.

It should be noted that there is little private research funding for oil spill response research. The MMS is the largest source of funds for this kind of research in the US Government. The Ohmsett facility is critical to that research program. As both public and private sector budgets are squeezed, increased costs are borne by the MMS as the legally mandated agency for Ohmsett operation in the absence of any legal requirement for the private sector to do so, beyond the contributions to the Oil Spill Liability Trust Fund by the oil industry.

Selected Performance Measures for Oil Spill-Based on Draft DOI Strategic Plan

End Outcome Goal: Manage or influence resource use to enhance public benefit, promote responsible use, and ensure optimal value

Intermediate Goal: Enhance Responsible Use Management Practices
Intermediate Goal: Improve Information Base, Resource Management, and Technical Assistance

Performance Measure(s)*	FY 2002 Performance Level	FY 2003 Performance Level	FY 2004 Performance Level	Change in Performance From 2003 to Proposed 2004
# Oil spill or technology tests (MMS measure)	59	60	60	0
Achieve a utilization rate of 83% at Ohmsett, the national oil spill response test facility.	88%	83%	83%	0%

*Preliminary measures pending final approval of DOE Strategic Plan.

Minerals Revenue Management

Analysis by Subactivity

dollars in thousands

Subactivity		2002 Actual	2003 Request	Uncontrollable And Related Changes	Programmatic Changes	2004 Budget Request	Change From 2003
Compliance and Asset Management	$	51,306	48,724	+555	-3.015	46,264	-2,460
	FTE	389	388	0	0	388	0
Revenue and Operations	$	35,211	34,545	+312	-740	34,117	-428
	FTE	184	184	0	0	184	0
Indian/Allottee Refunds	$	15	15	0	0	15	0
	FTE	0	0	0	0	0	0
Total, MRM	$	86,532	83,284	+867	-3,755	80,396	-2,888
	FTE	573	572	0	0	572	0

**FY 2002 CAM dollars include a 3.2 million reprogramming from OCS and CAM is net of $12,000 for rescission.*

The Minerals Revenue Management (MRM) collects, accounts for, and disburses more than $6 billion yearly in revenues from offshore Federal mineral leases and onshore mineral leases on Federal and Indian lands.

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, MRM has provided nearly $127 billion to Federal, State, and Indian accounts, including more than $2.5 billion from compliance activities.

Since MMS's inception in 1982, through 2002, the MRM program has disbursed:

- $79.5 billion to the U.S. Treasury
- $2.9 billion to the National Historic Preservation Fund
- $18.1 billion to the Land and Water Conservation Fund
- $8.6 billion to the Reclamation Fund
- More than $14.2 billion to 38 States
- Nearly $3.6 billion to 41 American Indian tribes and 20,000 individual American Indian mineral owners (allottees)

Mineral leasing revenues are one of the Federal Government's greatest sources of non-tax receipts.

The MRM collects mineral royalties both in-value and in-kind. In-value royalties are paid to the MRM. In-kind royalties are taken, at the discretion of the Government, by delivery of oil and gas production to the MRM for sale in the marketplace.

Headquartered in Washington, DC, MRM has its primary operations in Lakewood, Colorado, with field offices in Texas, Oklahoma, and New Mexico. The MRM processes more than 250,000 transactions each month from more than 26,000 producing Federal and Indian leases. The MRM coordinates its royalty management efforts with MMS Offshore Minerals

Management, the Bureau of Indian Affairs (BIA), Bureau of Land Management (BLM), Office of the Special Trustee for American Indians, Department of Energy (DOE), U.S. Forest Service, Army Corps of Engineers, and the U.S. military. The MRM also works closely with State governments, Indian tribes and allottees, and industry to improve overall royalty management.

New systems, implemented during FY 2002 and 2003, support MRM's core end-to-end business processes – the financial management process and the compliance and asset management (CAM) process. Through these new systems and processes, MRM is well positioned to contribute dramatically to two of DOI's strategic missions.

DOI Strategic Missions:

- **Resource Use—*Provide access for responsible use and optimal value***
- **Serving Communities—*Fulfill Indian trust responsibilities***

DOI Mission: Resource Use—*Provide access for responsible use and optimal value*

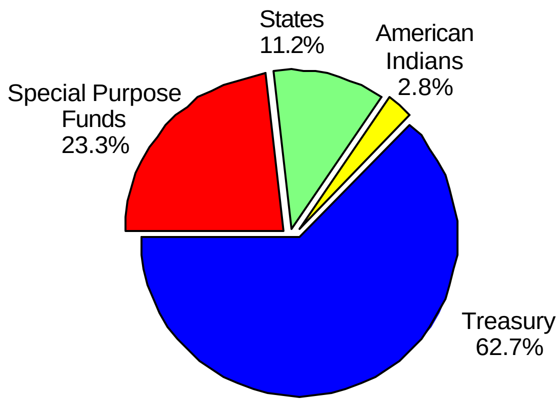
The MMS is a comprehensive mineral resource steward, managing the mineral resources on the Outer Continental Shelf and Federal and Indian mineral revenues to enhance public and trust benefit, promote responsible use, and realize fair value. The MRM is committed to managing the mineral revenue asset to enhance public and trust benefit and to ensure optimal value.

Asset Analysis. The MRM promotes realization of optimal value through the asset analysis process. Key to this process is the capability that our new systems and core business processes provide to gain sufficient understanding of the production and marketing environment to make asset management decisions regarding whether to take royalty-in-kind or in-value. If there is an economic advantage to the Government, either because of increased revenues, greater administrative efficiency, or security needs of the Nation, MRM will take royalties in-kind.

Collection and Disbursement of Revenues. The MRM achieves optimal value by ensuring that all revenues from Federal and Indian mineral leases are efficiently, effectively, and accurately collected, accounted for, and disbursed to recipients.

Requested additional funding for FY 2004 will be used to ensure continued system-wide functionality, which will ensure our ability to timely collect, account for, and disburse mineral revenues. The MRM systems are run on commercial off-the-shelf (COTS) software that is contractor-owned and -operated. The software currently running on MRM systems has already been superceded with new releases, and by the end of FY 2004, our current version will no longer be supported. In FY 2004, MRM will dedicate significant efforts toward data conversion and testing of the new software versions and to transition from a client server architecture to a more efficient Web-enabled financial software package, which the new software version provides. With the additional funding, MRM will be able to ensure the systems remain secure, up-to-date, interactive, and Web-based.

Disbursement of Federal and American Indian mineral lease revenues since inception of the Minerals Revenue Management Program, Fiscal Years 1982-2002



Average annual collections since 1982 total more than $6 billion with approximately 63 percent going to the U.S. Treasury, 23 percent to special purpose funds, 11 percent to States, and 3 percent to the American Indian community. Revenues directed to the Federal Government are used to fund appropriations for programs Congress approves. Monies that go to the States are used as the States deem necessary, oftentimes for schools, roads, libraries, public buildings, and general operations.

Special purpose funds, including the Land and Water Conservation Fund (LWCF), the National Historic Preservation Fund, and the Reclamation Fund, have received more than $29 billion in MRM-collected mineral revenues since 1982. During the past decade, mineral revenues from the Outer Continental Shelf (OCS) have accounted for more than 90 percent of the deposits to the LWCF. Most LWCF revenues in recent years have been used to purchase or acquire through exchange about 4.5 million acres. Acquisitions funded through LWCF grants must remain in recreation use in perpetuity.

Strategic Petroleum Reserve. In response to a Presidential directive issued in November 2001, MMS, in partnership with DOE, launched the Strategic Petroleum Reserve (SPR) Fill Initiative. This Initiative provides public benefit by filling the remaining capacity of the SPR using Federal Gulf of Mexico (GOM) royalty-in-kind (RIK) oil. The Initiative was structured so that MMS manages the supply side logistics of taking RIK oil at Federal offshore lease sites and then accomplishes the aggregation of the oil at onshore market centers. Custody of the oil is passed to DOE, which exchanges it for crude oil of desired quality and ensures that the oil is physically delivered to the SPR sites. The MMS has met all scheduled dates for initiation of deliveries to DOE and all staged increases in the delivery rates.

During FY 2004, the joint DOE/DOI SPR Fill Initiative will continue until 120 million barrels of RIK oil has been delivered. We expect to complete the fill initiative in 2005.

Royalty-in-Kind. Through a comprehensive implementation of the RIK program, MRM is now poised to incorporate proven RIK methodologies into our overall asset management strategy. RIK is a viable asset management option where its application is at least revenue neutral and promotes efficiency and cost effectiveness for both the Government and industry payors.

Ongoing operations of the RIK Program have successfully accomplished competitive sales of oil and gas in the GOM, offshore Pacific, and the State of Wyoming.

The MRM plans for FY 2004 include the implementation of a new MMS 5-year RIK Business Plan, spanning the years 2004-2008. The Business Plan includes action elements that will further evolve RIK business activity, particularly in the area of program scale. While oil production taken in-kind is nearing capacity from the OCS, ongoing analytical work is expected to identify additional OCS natural gas production that warrants consideration for conversion to RIK.

Offshore RIK

SPR

- *130,000 barrels per day GOM*

Small Refiner Program

- *50,000 barrels per day GOM*
- *10,000 barrels per day Pacific*

At 180,000 barrels per day, MMS will be taking more than 80 percent of total GOM oil royalties in kind.

At 10,000 barrels per day, MMS will be taking approximately 78% of Pacific OCS oil royalties-in-kind.

The MMS also will continue to work with the States and Indian tribes to identify opportunities to cooperatively pursue the use of the RIK asset management option.

The requested FY 2004 funding increase will provide for operating, supporting, and enhancing the RIK system after completion of its development in FY 2003. This will continue to enhance MMS's ability to assure the taxpayer of proper collection of royalty receipts and continued future use of RIK, and will support the DOI's Resource Use mission by ensuring the receipt of fair market value for production royalties taken in kind. It will also ensure MMS's ability to track, analyze, control, and manage the over $1 billion federally owned oil and gas royalties taken in-kind.

Compliance Assurance. The MRM compliance activities have yielded significant additional revenues to States, tribes, individual Indian mineral owners, and the Federal Treasury. Between 1982 and 2002, additional collections of royalties and interest, attributable to our compliance activities, totaled more than $2.5 billion.

During MRM's reengineering effort, we challenged ourselves to cut the 6-year compliance cycle in half. The MRM demonstrated the feasibility of completing the compliance function in 3 years or less. Through the operational models, we gathered information necessary to develop the new compliance systems. As a result, MRM is positioned with a national compliance program for the future that is dramatically improved and will be less costly to administer.

MRM Goes to New Lengths!

The MRM compliance activities have collected enough money in additional royalties that if laid end-to-end as dollar bills they would:

(Multiple Choice)

A. Reach from New York to Washington D.C.

B. Reach from New York to San Francisco

C. Encircle the equator of the earth more than 10 times.

D. None of the above

Answer: C is correct

The MRM property focus provides efficient and effective compliance services and also supports managing the royalty resource through the use of the in-kind royalty option when it makes good business sense. We continue to expand compliance coverage, to ensure that the Government is realizing fair market value, and that companies are in compliance with applicable laws, regulations, and lease terms. During FY 2004, we plan to complete compliance work covering properties representing 70 percent of calendar year (CY) 2001 royalties. By FY 2008, our goal is to complete compliance work covering properties representing 95 percent of CY 2005 royalties.

DOI Mission: Serving Communities—*Fulfill Indian Trust Responsibilities*

The MRM is a steward of the royalty asset from Indian trust properties and serves as an advocate for the interests of Indian mineral owners, ensuring fulfillment of our Indian trust responsibility. The MRM serves American Indian tribes and individual American Indian mineral owners by ensuring that they receive accurate returns for mineral production on their land. While working to protect American Indian mineral interests, MMS also emphasizes American Indian empowerment. We coordinate with eight tribes who choose to handle their own royalty audit work through cooperative agreements.

Through FY 2002, MRM has disbursed over $3.6 billion to 41 American Indian tribes and 20,000 individual American Indian mineral owners (allottees). Revenues generated from mineral production on Indian lands go directly to those tribes and allottees, meeting a wide variety of their needs, and in many cases, providing their daily sustenance.

Enforcement of the Indian gas rule and completion of major portion and index valuation compliance work for the year 2000 resulted in the collection of more than $1.4 million.

The new Indian gas rule, effective January 2000, made several significant changes to valuation methods. This rule made valuation of Indian gas more efficient for companies and MMS and at the same time fulfills our trust responsibility to the Indian community.

MRM contributes to DOI's ability to provide accurate and timely information and revenues to Trust beneficiaries. As an example, MRM transfers American Indian mineral revenues to the Office of Trust Funds Management (OTFM) within 24-hours of receipt. The MRM's goal in FY 2004 is to improve timeliness of lease data to BIA, enhancing their ability to provide revenues more quickly to the ultimate Trust recipients.

American Indian Empowerment. The MRM encourages and promotes American Indian management of their mineral revenue assets, to the extent that they seek to do so. While working to protect American Indian mineral interests, MRM also emphasizes American Indian empowerment through government to government relationships. MMS's goal in the DOI Strategic Plan is to expand the percentage of mineral revenues audited by tribes. Through the Intergovernmental Personnel Act (IPA) program, MRM provides hands-on opportunities to give tribes knowledge and experience performing royalty management processes. We anticipate these IPAs will eventually lead to additional cooperative agreements with the tribes to perform their own audits.

In FY 2002, by entering into cooperative audit agreement with the Crow Tribe, MRM expanded the cooperative audit program to eight tribes performing their own royalty audit work. The MRM also entered into an IPA to provide an internship opportunity to the Chippewa-Cree Tribe. During FY 2004, we plan to add the Hopi and Alabama Coushatta Tribes as two more participants in the IPA program.

Communication and Consultation with American Indians. The MRM is committed to communicating and consulting with American Indian owners about issues related to Indian minerals. When we restructured our organization in October 2000, we reemphasized our focus on Indian Trust responsibilities by establishing the Indian Compliance and Asset Management section, specifically dedicated to serving mineral-producing tribes and individual Indian mineral owners (allottees). Based in MRM's Denver offices, this service organization is augmented by team sites in Oklahoma City, Tulsa, and Muskogee, Oklahoma; and Farmington, New Mexico. The MRM provides outreach to approximately 20,000 individual Indian mineral owners through over 30 outreach meetings per year in various geographic locations. The MRM also uses other innovative outreach methods, such as Navajo radio broadcasts and attending pow-wows, to reach our American Indian constituents.

Federal Indian Minerals Office. In Farmington, New Mexico, MRM participates in the Federal Indian Minerals Office (FIMO). This office unites oil and gas staff from the BIA, BLM, and MMS, under one director for outreach, inspection, enforcement, and mineral revenue compliance services to industry and American Indian allottees and their heirs. With the Department-wide focus on Trust, the Farmington office has reengineered processes and services to better serve its constituents. As a result of this office's success, Department officials are interested in adopting this approach in other geographic areas and are formalizing the FIMO concept for implementation in other areas. To achieve our FY 2004 goal of one additional FIMO, MMS will work through the Indian Mineral Steering Committee and in coordination with BIA, BLM, and OTFM to explore opportunities for additional FIMOs in areas that will better serve the Indian community.

2002 MRM Performance and Accomplishments

The MRM Strategic Performance data for FY 2002 is presented below, providing linkage to the DOI Strategic Plan for 2004-2008.

DOI Mission: Resource Use—*MRM strategic performance in FY 2002*

- Disbursed 80 percent of revenue to recipients by the end of the month following the month received.
- Completed compliance work for 97 percent of royalties associated with year 1999 converted properties (properties converted to the 3-year compliance cycle) and 50 percent of royalties associated with year 2000 converted offshore properties.
- Provided the SPR with 11.8 million barrels of oil taken in kind.

The MRM made estimated payments to States from December 2001 to July 2002 to minimize the disruption of mineral revenue to States during a court-ordered system shutdown. The court-ordered system shutdown prevented MMS from providing detailed supporting mineral revenue data along with mineral revenue payments to States. Once the system was available, we were able to disburse and compile data for this measure for the fourth quarter of FY 2002.

Completed compliance work for 1999 covered properties representing $416.5 million in total royalties. The 2000 property compliance universe covers properties representing $2.7 billion total royalties.

The MRM met key dates for initiating and filling the SPR, achieving 60,000 barrels per day by April 1, 2002; and 100,000 barrels per day by October 1, 2002.

DOI Mission: Serving Communities—*MRM strategic performance in FY 2002*

- Disbursed 99 percent of American Indian revenues to OTFM within 24 hours of receipt.
- Tribes managed audit activities for 88 percent of tribal mineral royalties.
- Completed index/major portion pricing work through the order stage for 100 percent of CY 2000 properties.

- Ensured for the years 1984-1999 that 86 percent of Indian gas-producing properties were in compliance with dual accounting requirements.

Revenues received from American Indian lands are immediately transferred to OTFM to be placed into interest-bearing accounts. Though we strive to achieve 100 percent timeliness in this money transfer, there are occasions when we do not have complete information to identify funds as belonging to American Indians.

Eight tribes currently manage audit activities for properties on their reservation, representing 88 percent of all tribal mineral royalties.

Changes provided in the Indian gas valuation regulation, effective January 1, 2000, have simplified the burden of complying with the major portion and dual accounting lease term requirements. Following implementation of this rule, we provided training and guidance to industry, MRM, and the Indian community. We also established a Web site for companies to obtain the major portion prices, index zone prices, and due dates to report this data. This has increased our efficiency in ensuring major portion and dual accounting compliance for gas-related properties after January 1, 2000.

Information Technology. MMS implemented the new financial system on November 1, 2001. The new MRM complete system is an integrated minerals revenue management system consisting of a PeopleSoft financial module, a Compliance and Asset Management (CAM) module, a relational database environment, a robust data warehouse, and a variety of technology tools. During FY 2002, MMS continued to phase in other components that support our reengineered business processes.

During FY 2002, MRM has progressed with additional development of major technology solutions to support the future permanent Royalty-in-Kind (RIK) Program. Development work on MRM's Gas Management System began in January 2002 with full implementation occurring in January 2003.

The MRM also implemented strong passwords and an Intrusion Detection System (IDS) on an accelerated schedule in order to obtain Court Approval to restore MRM's support systems and to reconnect to the Internet in March 2002.

Royalty- in- Kind and the Strategic Petroleum Reserve Fill Initiative. In addition to the RIK systems development and SPR Fill Initiative, ongoing operations of the RIK Program have successfully accomplished competitive sales of oil and gas in the GOM, offshore Pacific, and the State of Wyoming. Competitive GOM oil sales in FY 2002 reached approximately 60,000 barrels per day until the advent of the SPR Initiative when those volumes were redirected to implement the President's directive.

2003 MRM Planned Performance and Activities

The MRM Strategic Performance Goals for FY 2003 that relate to the DOI Strategic Plan for 2004-2008 are shown below.

DOI Mission: Resource Use—*MRM strategic goals for FY 2003*

- Disburse 92 percent of revenue to recipients by the end of the month following the month received.

- Complete compliance work for 95 percent of royalties associated with year 2000 converted properties and 90 percent of royalties associated with year 2001 converted offshore properties.

- Offer up to 130,000 barrels per day of RIK oil for the SPR.

DOI Mission: Serving Communities—*MRM strategic goals for FY 2003*

- Disburse 99 percent of American Indian revenues to OTFM within 24 hours of receipt

- Tribes manage audit activities for 88 percent of tribal mineral royalties.

- Complete index/major portion pricing work through the order stage for 90 percent of CY 2001 properties.

- Ensure for the years 1984-1999 that 95 percent of Indian gas-producing properties are in compliance with dual accounting requirements.

The MRM previously set two additional FY 2003 goals which are not included in our final slate of FY 2003 measures. We eliminated the compliance index goal for FY 2003, because we were unable to develop new compliance measurement methodology in the new system because of the court-ordered system shutdown and subsequent recovery efforts. The MRM plans to develop new compliance index calculation methodology in FY 2003 and establish an annual performance goal for FY 2004. We also eliminated the goal of ensuring compliance with Indian gas major portion requirements. We are unable to make further progress on this goal until we have an Indian oil rule, but we will once again begin tracking progress toward this goal once the rule is promulgated.

Information Technology. In FY 2003, we will implement additional components to our system to enhance our ability to invoice late payment interest, track Indian over-recoupments, and monitor lease financial term compliance.

In FY 2003, we will also complete development of the RIK Liquids Management System, which we began in July 2002. A companion Risk and Performance Management System is being developed concurrently as an integrated component of the underlying COTS solution that forms the foundation for the Liquids and Gas Management Systems.

Additionally in FY 2003, we will ensure that all documentation for MRM systems is in accordance with new DOI guidelines, which will meet OMB A-130 requirements for re-certification and re-accreditation. The MRM will also begin implementation of the Intrusion Detection System within the internal components of the MRM network and will continue implementation of secure CITRIX Nfuse network access technology to obtain Court (Cobell) approval to reconnect remote users of MRM systems.

Instant Information
http://www.mrm.mms.gov/Stats/statsrm.htm

Customers find MRM's Instant Information Web site useful, with mineral revenue data that is immediately available in a convenient format.

- ***In FY 2002 we added 15 additional mineral statistical data sets to our Instant Information Internet site, achieving 35 percent of comprehensive searchable mineral data available online back to 1920 for Federal onshore, to 1953 for Federal offshore, and to 1928 for Indian areas.***

- ***By the end of FY 2003, we anticipate that 80 percent of the historical data will be available online in searchable databases, with the remainder being completed in FY 2004.***

Royalty in Kind and the Strategic Petroleum Reserve Fill Initiative. In January 2003, the MMS awarded a contract for (1) an independent review of its RIK Program to assess its current capabilities and its readiness for an expansion, and (2) the development of a 5-year strategic business plan to guide the RIK Program in achieving its expansion goals. Contract deliverables are expected in August 2003 for MMS's use in guiding further improvements in the RIK Program and expanding the application of the RIK asset management option.

Strategic Petroleum Reserve deliveries to DOE will maintain at 130,000 barrels per day after April 1, 2003. Competitive oil sales under the Small Refiner Program during FY 2003 will maintain the FY 2002 average of approximately 60,000 barrels per day with approximately 50,000 barrels being sourced in the GOM and up to 10,000 barrels per day being from Pacific OCS leases. Competitive sales of RIK oil in Wyoming reached 4,000 barrels per day. Competitive sales of natural gas will continue in the GOM during FY 2003 at FY 2002 levels, with volumes ranging between 320,000 and 400,000 MMBtus per day.

The MMS continued to explore with State governments the feasibility of using the RIK asset management option for OCS Section 8(g) leases and onshore oil and gas leases. From these efforts, the State of Louisiana and MMS entered into a cooperative agreement in FY 2003 to begin an oil and gas pilot involving Section 8(g) leases, offshore Louisiana.

Core Business Processes

The MRM supports two end-to-end core business processes—Compliance and Asset Management and Financial Management. We meet our Indian Trust responsibilities throughout both business processes.

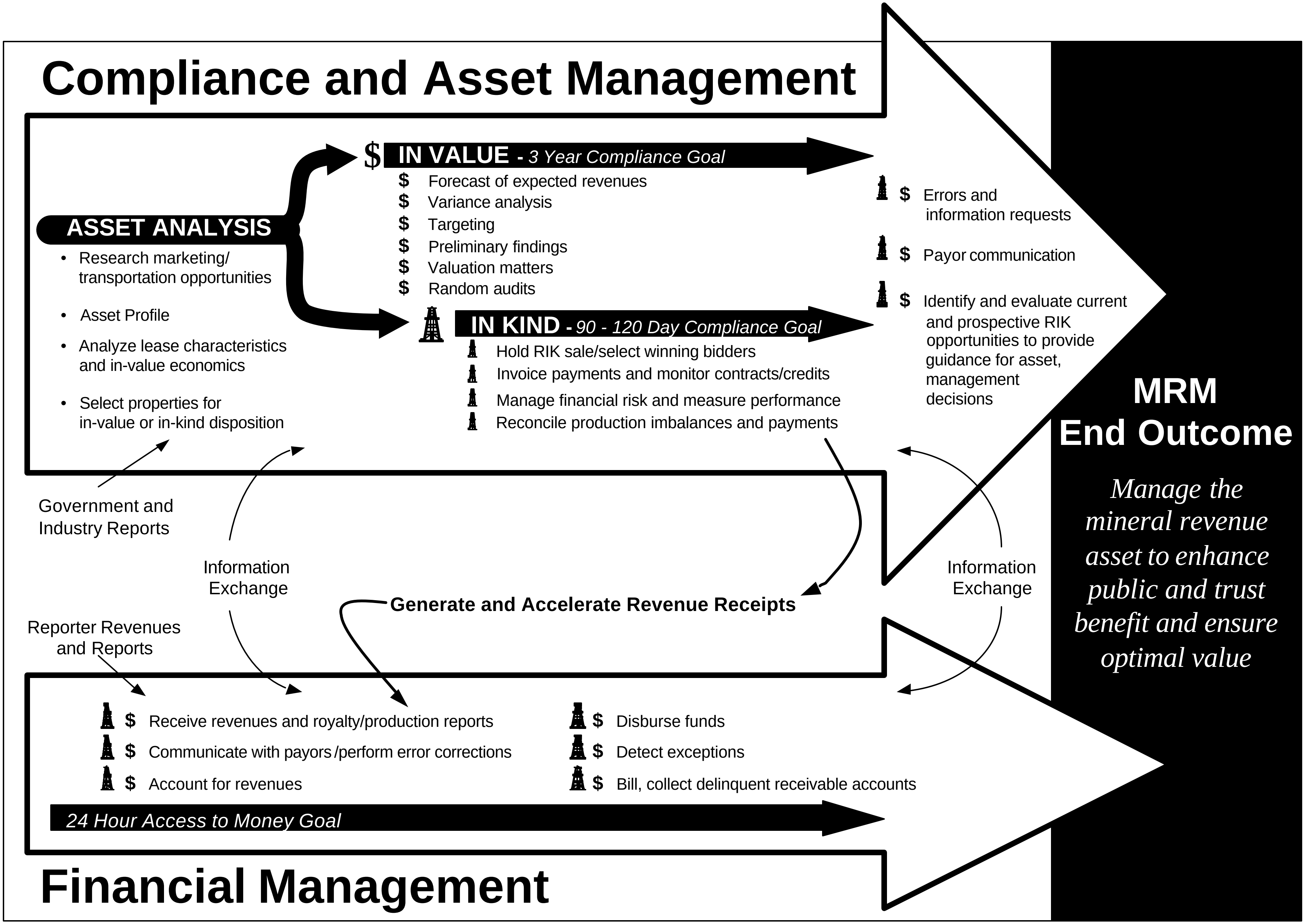
The MRM Compliance and Asset Management (CAM) process ensures that Federal and Indian mineral revenues, whether received through in-kind or in-value royalties, are accurately reported and paid and that the compliance status of all leases is known. Integral to this process is the asset analysis decision to take royalties in kind or in value.

The MRM Financial Management process ensures the proper receipt and timely processing of Federal and Indian mineral revenues and information to the appropriate recipient. The goal of the financial management process is to give recipients access to their revenues within 1 business day of MRM receipt.

The two business processes are integrated through effective use of the new MRM systems. Royalty and production information received from reporters is entered into a program-wide data warehouse. This information, combined with industry, government, and market data, is exchanged extensively within MRM, facilitating informed asset analysis, financial management, compliance, and Indian Trust decisions.

The interrelationship of MRM core business processes is shown in the graphic that follows. The two large arrows represent the two end-to-end processes. Within these two processes are components and subprocesses, each of which will be described in the Subactivity narratives. In the CAM arrow, the dollar symbols indicate in-value processes, and the derrick symbols indicate in-kind processes.

MRM Core Business Processes



Program Performance Summary Tables

The table below shows how MMS contributes to several end and intermediate out goals in DOI's draft strategic plan. The table presents MMS's end outcome measures that support the DOI goals, including actual performance for the last 2 years (where applicable) and planned performance for FY 203 and FY 2004.

DOI Strategic Goal: Resource Use – Provide Access for Responsible Use and Optimal Value						
End Outcome Goal 2.1: Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value (Energy)						
End Outcome Measures	**FY 2001 Actual**	**FY 2002 Plan**	**FY 2002 Actual**	**FY 2003 Plan**	**FY 2004 Plan**	**Change in Performance— 2003 to Planned 2004**
Implement National Energy Policy by providing the Strategic Petroleum Reserve with 120 million barrels of oil by 2005**.**	0	10.9 million barrels	11.0 million barrels	42.1 million barrels	47.6 million barrels	5.5 million barrels
Royalties received for mineral leases are 98% of predicted revenues, based on market indicators, in the production year.	.9835	.9775	.9870	N/A	.98	N/A
Royalties received for mineral leases are 100% of value (determined by regulation) after verification and audit.	9.6% of 1999 royalties confirmed	10.3% of 1999 royalties confirmed	10.5% of 1999 royal-ties confirmed	46% of 2000 royalties confirmed	68% of 2001 royalties confirmed	20% (see related increase in covered universe below in 3 yr goal) (1999 properties were "operational model" properties representing low dollars with multiple land categories and reporting issues)
Disburse 98% of revenues timely per regulation.	98%	98%	80%	92%	94%	2%

Intermediate Outcome: Enhance Responsible Use Management Practices						
Intermediate Outcome Measures	**FY 2001 Actual**	**FY 2002 Plan**	**FY 2002 Actual**	**FY 2003 Plan**	**FY 2004 Plan**	**Change in Performance—2003 to Planned 2004**
Take in kind 130,000 barrels of oil per day for the Strategic Petroleum Reserve *	0	60K barrels a day by 4/02	60K barrels a day avg 04/02-09/02	100K barrels a day 10/02-03/03 130K barrels a day 04/03 forward	130,000 barrels a day	Avg 15,000 barrels/day increase
Intermediate Outcome: Effective Lease and Permit Management						
Intermediate Outcome Measures	**FY 2001 Actual**	**FY 2002 Plan**	**FY 2002 Actual**	**FY 2003 Plan**	**FY 2004 Plan**	**Change in Performance—2003 to Planned 2004**
97% royalty information is reported accurately the first time.	96.2%	95%	86%	94%	95%	1% (In FY 2002, companies experienced a learning curve with the new MRM system)
Complete compliance work and issue necessary orders within 3 years of the due date for 95% of royalties.	Assure compliance for 89.2% of properties representing 11% of 1999 royalties	Assure compliance for 95% of properties representing 11% of 1999 royalties	Assure compliance for 97.2% of properties representing 11% of 1999 royalties	Assure compliance for 95% of properties representing 49% of 2000 royalties	Assure compliance for 95% of properties representing 70% of 2001 royalties	Royalty universe covered by compliance activities increase by 21%.
Increase royalty share taken in kind.(Goals based on Offshore oil in Gulf of Mexico and Pacific)	44% offshore oil; 15% offshore gas	45% offshore oil; 15% offshore gas	45% offshore oil; 15% offshore gas	60% offshore oil; 15% offshore gas	80% offshore oil; 30% offshore gas	20% offshore oil; 15% offshore gas
Obtain unqualified audit opinion on MMS Annual Financial Statement for Custodial Accounts. *	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	No Change

DOI Strategic Goal: Serving Communities – Fulfill Indian Trust Responsibilities						
End Outcome Goal 4.3: Fulfill Indian Trust Responsibilities						
Intermediate Outcome: Improve Indian Trust Beneficiary Services						
Establish one additional Federal Indian Mineral Office by 2004. *	1	1	1	1	2	1
Conduct 40 or more Indian outreach sessions per year. *	67	60	62	57	58	1
Intermediate Outcome: Improve Management of Land and Natural Resource Assets						
Disburse 100% revenue to OTFM within 24 hours of receipt.	99%	99%	NA	99%	99%	No Change
Provide lease data to BIA for 98% of royalties within 21 days of receipt.	New Measure	New Measure	New Measure	New Measure	90% within 21 days	N/A
Tribes manage audit activities for 95% of Tribal mineral royalties	88%	88%	88%	88%	88%	No Change
Intermediate Outcome: Support Indian Self-Governance and Self-Determination						
Establish at least one Tribal internship per year. *	7	8	8	9	10	1

Compliance and Asset Management

Justification of Program and Performance
Analysis by Subactivity

	2002 Actual	2003 Budget Request	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2004 Budget Request	Change From 2003 (+/-)
$(000)	51,306	48,724	555	-3,015	46,264	-2,460
FTE	389	388	0	0	388	0

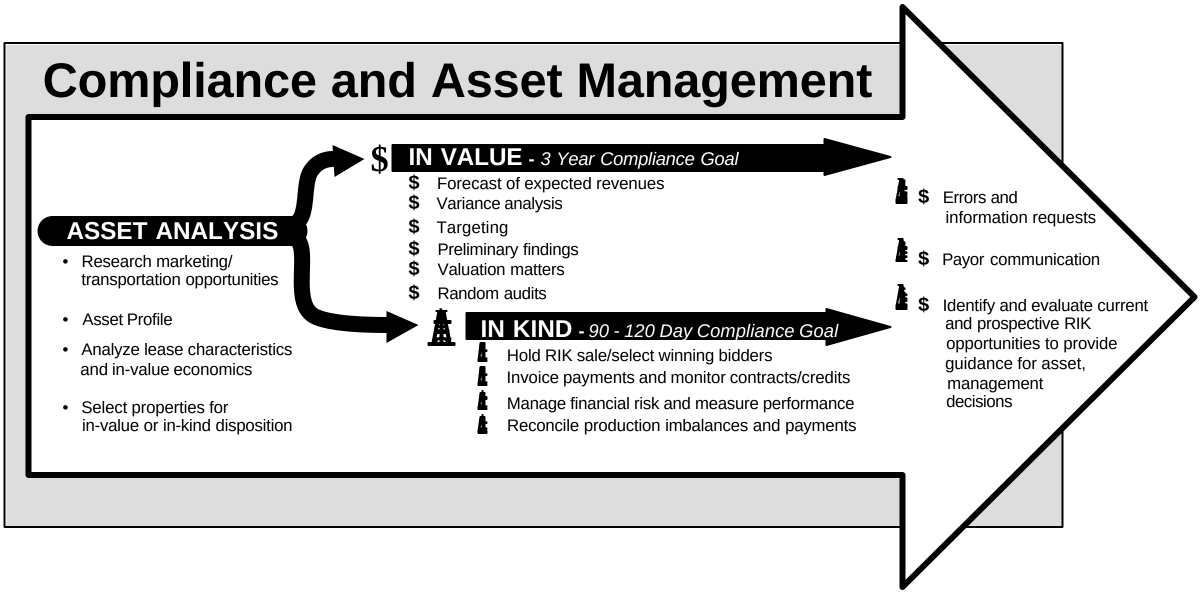
Compliance and Asset Management includes all MRM activities associated with ensuring that the Nation's oil, gas, solid minerals and geothermal resources receive optimal value. This activity supports DOI's Resource Use Strategic Goal***, to assure the receipt of optimal value*** by the American taxpayer. The MRM staff assesses the best opportunity available for receiving the royalty share of energy produced on Federal and Indian properties. The MRM either elects to receive royalties in-value or to receive the royalty share in-kind and then sells the resource on the open market or otherwise uses it to fill the Strategic Petroleum Reserve.

The MRM goal is to complete the in-value compliance process in 3 years or less. For in-kind compliance processes, the MRM goal is to confirm and reconcile RIK royalties within 90 to 120 days.

The MRM has Cooperative Audit Agreements with 10 States and 8 tribes. The States and tribes are working partners and an integral aspect of the overall onshore compliance effort. The Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), Section 202 and 205, authorized the Secretary to develop cooperative agreements with States and tribes to carry out certain inspection, auditing, investigation, and enforcement activities for leases in their jurisdiction.

Compliance and Asset Management Process

The Compliance and Asset Management (CAM) process focuses on the same areas of operation as industry—the property and producing areas. Through this approach and the application of the reengineered processes, MRM's goal is to complete our compliance verification in the shortest possible time but no later than 3 years from the royalty payment due date.



The following steps help MRM accomplish its goals:

Asset Analysis

1. Research marketing/transportation opportunities:

To identify attractive RIK opportunities, MRM studies market accessibility and current pricing in various property areas, including:

(1) Investigating pricing mechanisms for contract terms,
(2) Evaluating how to package certain quantities and qualities of oil or gas production,
(3) Identifying optimal points for delivering RIK production to purchasers, and
(4) Recognizing specific market needs or demands that would make RIK production desirable in the marketplace.

2. Asset profile:

The asset profile is a database that contains property reference data, royalties and production history, and case history. Additionally, the asset profile contains analyzed data that establish the "expectation parameters" that will be used in the in-value process to forecast expected revenues.

3. Analyze lease characteristics and in-value economics:

One of the primary goals of the RIK program is to ensure that revenues are increased or remain neutral when compared to in-value royalties. A lease's RIK potential is determined by evaluating its physical and legal characteristics; lease terms; production quality, type, and volume; and the infrastructure of the surface facilities.

4. Select properties for in-value or in-kind disposition:

Based on analysis of the marketing, transportation, and lease economics, MMS selects properties to participate in upcoming RIK sales.

In-Value

For in-value transactions, the MRM compliance and asset management staff predict expected revenues and analyze variances, perform targeted and random audits, resolve valuation discrepancies, and negotiate settlements to ensure that optimal value is received by the American taxpayer and Indian recipients.

1. Forecast of expected revenues:

To ensure a consistent approach for creating forecasts and expectations, MRM will develop forecasting guidelines. Forecasts are prepared in advance of the production month and therefore must make assumptions about future economic conditions and production volumes. The forecasting application uses price, allowance and volume estimates to generate a forecast of expected royalties.

- Price data will often be formula driven from external market sources.
- MMS rules and regulations establish allowances.
- Volume estimates will generally be derived from trending production increase/decline calculations.

Preliminary forecasts are reviewed for reasonableness, and analyses are performed to explain the major causes of changes from the previous forecast.

Lessons learned and best practices are monitored for incorporation in subsequent guidelines and for implementing process improvement initiatives.

Accomplishments

- ***Completed development of an innovative method to value gas produced from offshore California. The quality and conditions associated with producing this gas presented substantial challenges to the communities, the State of California, the companies, and MRM.***
- ***Completed audits of the Bluewater, North Terrebone, Sea Robin, and Yscloskey gas plants. These gas plants comprise a substantial amount of the gas produced in the Gulf of Mexico. This effort resulted in identification of multiple issues and substantial resource savings.***

2. Variance analysis:

Given the size of the MRM property portfolio, we monitor each property portfolio and its major components in a disciplined, timely, structured process. Variance analysis detects when expected revenues differ from revenue receipts.

3. Targeting property analysis and specialized testing:

The MRM formulates and maintains targeting policies and procedures and issues periodic guidelines to apply to our properties. These policies set the standard for reasonableness, materiality, thresholds and severities, within the targeting process. Using these targeting guidelines, the data generated from the variance analysis process is analyzed.

The units that are most in need of further detailed analysis and compliance testing are identified. Property testing, surveillance activities and specialized testing are performed to determine whether production and royalties have been accurately reported and paid.

4. Preliminary findings:

Comprehensive compliance reviews and audits are conducted by MRM employees and the State and Tribal Cooperative and Delegated Audit Program. These reviews are in accordance with the MRM *Audit Procedures Manual* and other audit regulations and policies.

If it is determined that mineral royalties have been underpaid, the billing and collecting procedures within the Financial Process are used to collect outstanding obligations.

Accomplishments

- ***In collaboration with the Jicarilla Tribe, developed and initiated a comprehensive and contemporaneous audit strategy for Jicarilla tribal leases.***
- ***Coordinated with States and tribes to transition to MRM's 3-year compliance cycle.***

5. Valuation matters:

In-value royalties are based on the value of the commodity produced, the volume of production sold, and the royalty rate applicable to the lease.

To provide requested guidance and resolve disputes over the value of the commodity, product specific information, applicable laws and regulations, legal precedents, transportation and processing costs, lease terms and agency policy are used to prepare a decision document detailing the proper method to be followed in determining royalty value.

The MRM further resolves these issues by preparing product valuation regulations and guidelines and by providing valuation interpretations, training, outreach and technical support to government agencies and industry.

6. Random audit:

In addition to the targeted audits, we perform property-based random audits, ensuring that the targeted audit process identifies all variances and provides audit coverage for the majority of all properties.

7. Settlements:

After efforts have been made to collect delinquent receivables and collection steps have been performed on unpaid balances from payors, lessees and lessee sureties, royalties may remain unpaid, which results in litigation. MRM provides litigation support to the Office of the Solicitor and Department of Justice. Through the litigation efforts, settlement opportunities arise that resolve the outstanding royalty obligations.

In-Kind and SPR Fill Initiative

For in-kind transactions, the MRM compliance and asset management staff hold RIK sales and select winning bidders or transfer volumes to the Strategic Petroleum Reserve. Additionally our staff monitors contracts and bidder credit risk, invoices payments, and reconciles production imbalances and payments. When royalties are received in-kind, MRM either sells the volumes and disburses the proceeds, or delivers the volumes to DOE to fill the SPR. With either disposition, the general RIK process is described below.

MRM's goal for royalties taken in-kind is to complete all compliance activities within 120 days. The RIK process continues to build as MRM implements its RIK Strategic Business Plan and the President's 2001 Strategic Petroleum Fill Initiative.

Accomplishments

- ***Competitive oil sales under the Small Refiner Program during FY2002 and FY 2003 averaged approximately 60,000 barrels per day with approximately 50,000 barrels being sourced in the Gulf of Mexico and up to 10,000 barrels per day being from Pacific OCS leases.***
- ***Competitive sales of RIK oil in Wyoming reached 4,000 barrels per day. Competitive sales of natural gas continued in the Gulf of Mexico during 2002 and 2003, with volumes ranging between 320,000 and 400,000 MMBtus per day.***
- ***Initial deliveries of RIK oil to the SPR were 60,000 barrels per day. By the end of FY 2002 this volume grew to 100,000 barrels per day.***

1. Hold RIK sale/select winning bidders:

Holding an RIK sale requires significant up-front analysis and research, as indicated in the Asset Analysis section. The Invitation for Offer must be developed to incorporate all the terms and conditions of the sale. As required by the lease terms, operators and payors are notified when the MMS exercises its RIK option. To ensure the financial standing of prospective bidders, an in-depth analysis must be performed. The sale bids must be evaluated, using criteria developed under the asset analysis process, and winning bidders selected and notified.

2. Invoice payments and monitor contract compliance:

RIK oil and gas payments are both invoiced monthly for payments due and monitored monthly to ensure payments were received. This process involves computation of the expected amount of payment due using pricing sources, production reports, pipeline statements, or electronic bulletin boards to verify the values and volumes of RIK production. Contracts are also monitored for compliance with terms as well as volume imbalances to assure that MMS is receiving the proper royalty volume produced from the RIK property.

3. Manage financial risk and measure performance:

Similar to royalty in value, RIK programs bring an element of risk to the Government, whether it be price risk, risk of purchaser default, or general contract performance risks. MRM actively manages such risks by evaluating purchasers' financial standing, taking management actions to mitigate financial exposure by measuring sales performance in relation to price benchmarks. MRM implemented a Risk and Performance Management System that uses the capabilities of the RIK management systems to assess and document counter party risks and sales program performance relative to standard industry benchmarks for oil and gas commodity sales. System use is "real-time" allowing for prompt management actions to minimize risks and enhance performance.

4. Reconcile production imbalances and payments:

Upon termination of an RIK contract, MMS must work with RIK purchasers, pipeline owners, lease operators and lessees to ensure that the proper volume of RIK production was delivered to and paid for by the purchaser. Since production imbalances are prevalent, particularly when the delivery points are remote from the lease, significant attention must be paid to monitor and resolve imbalance issues. The process usually requires extensive communication and examination of industry records and Government reports. MMS is striving to accomplish full reconciliation within 90 to 120 days after the termination of the typical RIK contract.

Elements Used by both In-Value and In-Kind

1. Errors and information requests:

Both the in-value and the RIK processes depend on receipt of information from reporters, industry, and governmental agencies. If an apparent error has been made or there is an unexplainable difference between data received from two sources, the correct information must be determined. After researching the discrepancies through all available internal sources, if additional clarification is needed for resolution, MRM contacts the responsible organization.

2. Payor communication:

On an as-needed basis, MRM employees contact payors to proactively resolve reporting errors. On a regular basis, MRM provides payor training to explain how to submit information and payments that are error free. The result of these aggressive outreach efforts has resulted in approximately 97 percent of royalty payors reported correctly the first time.

Justification of Program Change

Compliance and Asset Management

Increase in Funding for Systems Operation and Support (O&S) Costs

	2004 Budget Request	Program Change (+/-)
$(000)	46,264	+2,000
FTE	388	0

Resource Use

The increase of $2.0 million is required to provide contractor software upgrades.

Effect of proposed change on strategic and performance goals. The MMS is wholly dependent upon its contractor-owned and -operated systems for its minerals revenue management operations. Since the system employs COTS software that is not exclusive to MRM operations, software enhancements are developed without input from MRM. The software currently running on the MRM systems has either already been superceded with new releases and this version will no longer be supported by the end of FY 2004, or is scheduled to be superceded and will require replacement with FY 2004 funds.

The $2.0 million increase is required to ensure the systems are secure, up-to-date, interactive, and Web-based. Specifically, this funding will:

- Ensure Web-based PeopleSoft capability and support, enhancing our ability to efficiently and timely collect mineral revenues and reports;
- Continue services from our USi data center for operational staff and data base support of the new PeopleSoft software version;
- Provide up-to-date systems and eliminate any possibility of disruption in providing the Treasury and other mineral revenue customers timely access to funds;
- Control and minimize the Department's late disbursement interest costs; and
- Fulfill the Department's responsibilities to Indian Trust beneficiaries.

Failure to receive this funding for system enhancements in FY 2004 will lead to deficiencies in bureau performance in FY 2005. It will negatively impact MMS's ability to collect and disburse mineral revenues, increase customer dissatisfaction, and jeopardize the Department's commitment to its Indian trust responsibilities.

This program supports the Department's Resource Use mission by ensuring receipt of fair value for mineral revenues.

End Outcome Goal: Manage Resources to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value – Energy					
Intermediate Goal: Effective Lease and permit Management					
Performance Measures*	**FY 2002 Performance Level**	**FY 2003 Performanc e Level**	**FY 2004 Base Performance Level**	**FY 2004 Performance Level with Request**	**Change in Performance From 2003 to Proposed 2004**
End Outcome: Disburse 98% of revenues in a timely manner per regulation.	Not Available *	92%	94%	94%	2%
Royalties received for mineral leases are 98% of predicted revenues, based on market indicators in the production year and 100% of the value(as determined by regulation) after verification and audit.	Not Available *	95%	95%	95%	0
***** Data for FY 2002 is not available due to the court-ordered system shutdown, which prevented MMS from providing detailed supporting mineral revenue data along with mineral revenue payments to states for several months. MMS made estimated payments to states from December 2001 to June 2002 to minimize the disruption of mineral revenue to states. MMS anticipates that it will complete the reconciliation process by FY 2003, when we will begin tracking on time disbursements.					
Intermediate Measure: % of American Indian revenue disbursed to OTFM within 24 hours of receipt	99%	99%	99%	99%	0
% of monies accessible to states within one business day(MMS measure)	0 **	20% **	40% **	40%	0
% of leases with royalty reporting accuracy(MMS measure)	86%	93%	94%	94%	1%

# of distributions per month (outgoing) MMS Measure	4	4	4	4	0
*Preliminary measures pending final approval of DOI Strategic Plan ** The FY 2003 goal is not overly aggressive because MRM will be in a learning mode with the recovered systems, as will the companies. The FY 2004 target, however, will move MRM incrementally closer to achieving its long-term goal of having 90 percent of funds accessible to recipients within one business day of MMS receipt. The impact of insufficient funding for these software release upgrades will not be realized in FY 2004. The full effect will be realized in FY 2005 when all of MRM's reengineered system functionality will be compromised.					

2003 Program. In the FY 2003 President's Budget request, funding is provided for normal operation and support of the MRM reengineered financial and compliance system implemented in October 2001.

The development of the MRM reengineered systems began in FY 1998 and was completed in FY 2002. The systems are run on commercial off-the-shelf (COTS) software that is contractor owned and operated. The contractor built the new systems using software packages and software releases commonly available in 2001.

(dollars in thousands) **Item or Project (Account/Activity/Subactivity/Budget Element)**	**2003**	**Base Program 2004**	**Change 2004 (+/-)**
ROMM/Minerals Revenue Management / Compliance and Asset Management/ Systems O&S Costs	0	2,000	+2,000

Justification of 2004 Program Change. The MRM system was designed as a COTS application to reduce overall development costs. As a result, when the vendor changes or upgrades the software, we must do the same to assure that the application will perform properly. The software currently running on the MRM systems has either already been superceded with new releases and this version will no longer be supported by the end of FY 2004, or is scheduled to be superceded and will require replacement with FY 2004 funds.

The $2.0 million increase is required to ensure the systems are secure, up-to-date, interactive, and Web-based. Specifically, this funding will:

- Ensure Web-based PeopleSoft capability and support, enhancing our ability to efficiently and timely collect mineral revenues and reports;

- Continue services from our USi data center for operational staff and data base support of the new PeopleSoft software version;

- Provide up-to-date systems and eliminate any possibility of disruption in providing the Treasury and other mineral revenue customers timely access to funds;

- Control and minimize the Department's late disbursement interest costs; and
- Fulfill the Department's responsibilities to Indian Trust beneficiaries.

Failure to receive this funding for system enhancements in FY 2004 will lead to deficiencies in bureau performance in FY 2005. It will negatively impact MMS's ability to collect and disburse mineral revenues, increase customer dissatisfaction, and jeopardize the Department's commitment to its Indian trust responsibilities

Justification of Program Change

Compliance and Asset Management

Increase in Funding for Royalty-in-Kind – Systems Costs

	2004 Budget Request	Program Change (+/-)
$(000)	46,264	+1,000
FTE	388	0

Resource Use

The increase of $1.0 million is required to operate, support, and provide enhancement for the royalty-in-kind (RIK) systems.

Effect of proposed change on strategic and performance goals. The RIK systems development project has three modules: the Gas Management System, the Liquids Management System, and the Risk Management System. MMS utilized a contractor-owned, contractor-operated strategy that is integrated with the new systems supporting the Financial Management and Compliance and Asset Management (CAM) processes.

The requested increase of $1.0 million will provide the resources necessary to fund operational support and enhancements to the RIK systems.

The FY 2003 RIK Systems initiative developed a Liquids Management System and a Risk and Performance Management System that will be used to oversee RIK commodity sales/logistics and monitor and track risk exposure and sales performance. For example, in support of the Presidential initiative to fill the Strategic Petroleum Reserve to its authorized capacity, the MMS will use these systems in managing the transportation of RIK oil from the GOM to points of exchange for the Department of Energy. Operating, supporting and enhancing the system after completion of its development will continue to enhance MMS's ability to assure the taxpayer of proper collection of royalty receipts and continued future use of RIK. This will support the Department's Resource Use mission by ensuring the receipt of fair market value for production royalties taken in-kind.

In addition, funding for the operation of these systems will ensure MMS's ability to track, analyze, control, and manage the Federal Government-owned volumetric energy asset base worth over $1.0 billion.

Selected Performance Measures Based on Draft DOI Strategic Plan

End outcome Goal: Manage Resources to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value – Energy					
Intermediate Goal: Effective Lease and Permit Management					
Performance Measures**	**FY 2002 Performance Level**	**FY 2003 Performance Level**	**FY 2004 Base Performance Level**	**FY 2004 Performance Level with Request**	**Change in Performance from 2003 to Proposed 2004**
Intermediate Measure:					
Confirm and reconcile within 90-120 days all production royalties taken in kind(MMS Measure)	50%	50%	50%	**70%**	**40%**
Accelerate the timing of revenue receipt by 5 days	90%	90%	90%	**90%**	**0%**
Outputs:					
# RIK Barrels delivered to DOE	10.6 million	39.3 million	39.3 million	44.5 million	5.2 million
# RIK Barrels Sold *(MMS Measure)	28.2 million	21.0 million	21.0 million	21.0 million	0 million
# RIK MMBtus Sold *(MMS Measure)	116 million	140 million	140 million	170 million	30 million
*****Changing market conditions and unexpected declines in well production levels may impact RIK production goals. Responding to the President's directive to commence the use of RIK oil to fill the Strategic Petroleum Reserve, available volumes of RIK oil being sold in the marketplace were transferred in 2002 to the SPR fill initiative thus reducing the volumes subject to competitive sale in 2003. **Preliminary measures pending final approval of DOI Strategic Plan.					

2003 Program. The 2003 President's Budget includes $6.015 million to complete the development of the Liquids and Risk Management systems. At the end of FY 2003, the MMS expects to accept and take delivery of the remaining modules of the RIK System.

(dollars in thousands) **Item or Project (Account/Activity/Subactivity/Budget Element)**	**2003**	**Base Program 2004**	**Change 2004 (+/-)**
ROMM/Minerals Revenue Management / Compliance and Asset Management/ RIK Systems O&S costs	199	1,199	+1,000

Justification of 2004 Program Change. Because the RIK Management systems are contractor-owned and operated, requirements to assure optimal system performance are determined by the contractor. The 2003 President's Budget request provides only a nominal funding level for the operation and support of the Gas Management system. No funding was requested for the full year operations and support costs for the Liquids and Risk Management systems, and the MMS baseline budget cannot absorb the additional costs.

Funding for the operation of these systems will ensure MMS's ability to track, analyze, control, and manage the Federal Government-owned volumetric energy asset base worth over $1.0 billion. Specifically, the funding will enhance our ability to:

Track delivery of over 130,000 barrels/day of RIK production, through dozens of OCS pipelines to the Department of Energy. The MMS is managing the exchange of 120 million barrels of GOM Federal RIK oil to DOE to fill the Strategic Petroleum Reserve through FY 2005 as directed by President Bush.

Verify within 90-120 days all production royalties taken in kind, providing earlier certainty that the Federal Government-owned asset is whole.

Confirm deliveries and invoice companies earlier to accelerate revenue receipts to within 25 days after the month of production rather than the current 30 days using the royalty in value approach. The Treasury and mineral revenue customers will realize significant monetary benefit in the time value of the early receipt of revenue and reduced cost of borrowing to the Treasury.

Justification of Program Change

Compliance and Asset Management

Reduction in Funding for Royalty-in-Kind – Liquids and Risk Management Systems

	2004 Budget Request	Program Change (+/-)
$(000)	46,264	-6,015
FTE	388	0

Effect of proposed change on strategic and performance goals. The program will act to ensure receipt of fair value of minerals revenues.

There will be no impact on the strategic or performance goals as a result of this decrease. The funding in FY 2003 for developing the Liquids Management System and the Risk Management System will complete the development stage of this project. Therefore no funding is required in FY 2004.

Selected Performance Measures Based on Draft DOI Strategic Plan

End Outcome Goal: Manage Resources to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value – Energy					
Intermediate Goal: Effective Lease and permit Management					
Performance Measures*	**FY 2002 Performance Level**	**FY 2003 Performance Level**	**FY 2004 Base Performance Level**	**FY 2004 Performance Level with Request**	**Change in Performance From 2003 to Proposed 2004**
Outputs: software support systems built	1	2	0	0	-2

2003 Program. *The RIK systems development project has three subsets, the Gas Management System (funded in FY 2002; $7.3 million), the RIK Liquids Management System and the RIK Risk and Performance Management System (both funded in FY 2003; $6.015 million). At the end of FY 2003, the MRM expects to accept and take delivery of the Liquids and Risk Management Systems.*

*Preliminary measures pending final approval of DOI Strategic Plan.

(dollars in thousands) **Item or Project** **(Account/Activity/Subactivity/Budget Element)**	**2003**	**Base Program 2004**	**Change 2004 (+/-)**
ROMM/Minerals Revenue Management/ Compliance and Asset Management/RIK Systems Development	6,015	0	-6,015

Justification of 2004 Program Changes. *In FY 2003 the Liquids Management System and the Risk Management System for the RIK program will be completely funded, built, and accepted. There is no need for additional development funding in FY 2004*

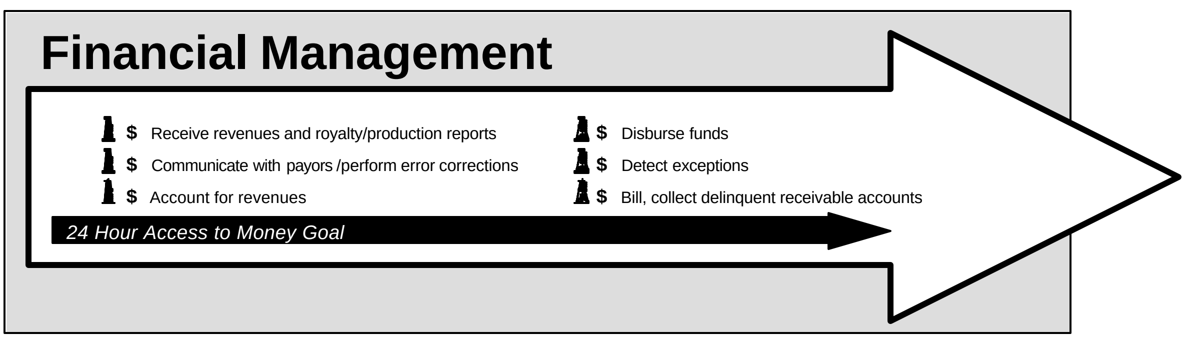
Revenue and Operations

Justification of Program and Performance
Analysis by Subactivity

	2002 Actual	2003 Budget Request	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2004 Budget Request	Change From 2003 (+/-)
$(000)	35,211	35,545	+312	-740	34,117	-428
FTE	184	184	0	0	184	0

The MMS collects and processes reports and payments from bonuses, rents, and royalties for more than 80,000 leases each month. We distribute and disburse these revenues—more than $5.7 billion annually—directly to recipients: States, the Office of the Special Trustee's OTFM, Federal agencies, and U.S. Treasury accounts. The BIA, working with OTFM, disburses revenues to the appropriate tribes and individual Indian mineral owners (allottees).

The Federal Oil and Gas Royalty Management Act requires monthly distribution and disbursement of payments to States and Indians for their share of mineral leasing revenues. The MRM's long-term goal is to provide mineral royalty recipient's access to their funds within 1 business day of MRM receipt.



Financial Management Process

Through the MRM Financial Management Process, we receive mineral revenues and reports from industry, account for and disburse revenues, and communicate with companies to resolve reporting errors.

The following steps help MRM accomplish its goal:

1. **Receive revenue and royalty/production reports**

Royalty reports are due when lease production begins. Production reports are due once production begins and are required until the lease is closed and relinquished.

For oil, gas, geothermal, and solid minerals, the MRM is responsible to:

- Process all incoming royalty and production reports related to on Federal and Indian leases;
- Collect royalty payments on Federal and Indian leases;
- Collect rents and bonuses on offshore and onshore Federal leases; and
- Collect rentals on producing Indian leases. (The BIA collects rentals and bonuses on non-producing Indian leases.)

About 3,700 reporters submit various reports and payments to the MRM each month on more than 80,000 Federal and Indian leases.

Reengineering has resulted in the following improvements:

- Elimination of the Monthly Report of Operations (Form MMS-3160);
- Modification of the Oil and Gas Operations Report (OGOR) (Form MMS-4054), for onshore and offshore production reporting;
- Collection of all oil and gas operators production information on the OGOR; and
- Modification of the Report of Sales and Royalty Remittance (Form MMS-2014), for oil and gas royalty reporting;
- Consolidation of eight solid mineral reports into one report.

Accomplishments

- ***In FY 2002, MRM financial systems became fully compliant with the latest requirements of the Federal Financial Management Improvement Act, providing capability of reporting data to the U.S. Government's General Ledger at the transaction level.***
- ***By the end of FY 2003, MRM will be in compliance with the new U.S. Treasury mandate to forward General Ledger's Monthly Statement of Transactions within 3 business days instead of the 5 business days permitted over the last 15 years. This will replace our current manual procedure with a system-generated Monthly Statement of Transactions.***

2. Communicate with reporters and perform error corrections

The MRM receives between 7 and 8 million lines of report data each year. Over the last several years, the error rate has been about 3 percent on all royalty and production lines submitted. Weekly reports summarize the number and source of all rejected lines. The MRM staff researches each of the lines, contacts the reporter, if necessary, and resolves the error.

Error correction is critical because the royalty dollars associated with rejected lines cannot be distributed to the proper recipient until the lines have been corrected.

Our reengineered systems no longer require reporters to routinely provide us with royalty reference data information on a separate Payor Information Form (MMS-4025). We collect this information from the data provided on the monthly royalty reports submitted by our royalty reporters.

Accomplishments

- ***Disposed of our old mainframe systems per OMB A-130 requirements and downsized, converting the data center to a Network Communication Center (NCC).***
- ***Increased our system's physical security using new motion detection system and access procedures.***

3. Account for revenues

The MRM records financial transactions with an account structure consistent with the U.S. Government Standard General Ledger (USSGL). We use the USSGL accounts to prepare external reports to OMB and the U.S. Treasury and to prepare our financial statements and the Annual Financial Report.

Through the reengineered financial system, we have automated internal controls and accounting processes to reconcile subsidiary and control accounts and to ensure proper recording and reporting of revenues.

4. Disburse funds

The distribution and disbursement function within MRM ensures that approximately $6 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 distribution formulas required by 20 different legislative acts.

Federal disbursements occur on or about the 20th of every month. The MRM has until the month following the receipt of funds to disburse payments before owing interest to the State leaseholders for the undistributed Federal funds. Additionally, MRM disburses to the OTFM into interest-bearing accounts on a daily basis and identifies the funds applicable to tribal and allotted leases. Historically, we have provided distribution information for tribal and allotted leases twice monthly. However, in late FY 2002, we increased to four distributions per month, a level we plan to sustain through FY 2004. During FY 2001, more than 98 percent of all money collected was disbursed on time and interest free.

5. Detect exceptions

The MRM automated exception detection processes can be placed in three categories:

(1) Interest exceptions
(2) Indian overrecoupment, and
(3) Financial terms

Interest exceptions occur when payments are received after the due date or estimated payments are insufficient to cover the current month's obligation. An exception is also detected when a payor inadvertently overpays his royalty obligation, in which case MRM pays interest for overpayments and estimates that exceed the current month's obligation.

Indian overrecoupment exceptions occur when a company violates the recoupment limitations in adjusting prior months' payments.

Financial term exceptions occur when financial obligations established in the lease are not met, such as deferred bonuses, rentals, and minimum royalty obligations.

Each month these automated exception detection processes are run against all cleared receivables (i.e., all lines accepted and payments applied—Indian overrecoupment does not require payments to be applied). Pre-bill documents are created for further manual verification. The verified pre-bills are used to create invoices that are issued to the payors.

6. Bill and collect delinquent receivable accounts

The MRM bills for late and underpaid royalties through its automated exception processing system. Bills not paid are subjected to a comprehensive debt collection process. This collection process includes dunning and collection notices to working interest owners, lessees, the BIA and the BLM. Enforcement actions include collections through the lease surety, Notices of Non-Compliance, and referrals to the U.S. Treasury.

Justification of Program Change

Revenue and Operations

Reduction in Funding for Information Technology

	2004 Budget Request	Program Change (+/-)
$(000)	34,117	-740
FTE	184	0

Information Technology Reduction (-$740,000). The Department is undertaking significant information technology reforms to improve the management of IT investments, to improve the security of systems and information, and to realize short and long-term efficiencies and savings. The Department is taking a corporate approach that will include consolidated purchases of hardware and software, consolidation of support functions including helpdesks and email support, and web services, and coordination of training.

In addition to Department-wide efforts, the MRM will further achieve savings in information technology by accelerating its transition to a thin-computing model that eliminates dedicated telecommunications lines and also substantially reduces support costs to remote users. MRM will also adjust, but not eliminate selected IT projects and support services as these services are consolidated at the national level. In order to reflect expected efficiencies, a reduction is proposed in network hardware, enterprise architecture services, and legacy tape archival.

Refunds on Behalf of Allottees

Justification of Program and Performance Analysis by Subactivity

	2002 Actual	2003 Budget Request	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2004 Budget Request	Change From 2003 (+/-)
$(000)	15	15	0	0	15	0
FTE	0	0	0	0	0	0

The MMS proposes to continue to pay refunds to companies on behalf of Indian allottees when recoupment of company overpayments from future royalties is not feasible. In these cases, allottees are unable to refund overpayments to the companies because production is too low to generate sufficient royalties or there is no production (in cases where the payment was made to an incorrect lease).

The need for these refunds arises from past policy that required a payor who appealed a bill to pay the bill, pending the outcome of the appeal. Additionally, the policy required MMS to distribute BIA's portion of an appealed bill to BIA regional offices as soon as possible so they could subsequently disburse the revenues to the individual Indian allottees. In cases where the payor's appeal was upheld and the allottee was not able to repay the company, recoupment was made against future royalty payments. To mitigate these situations, the BIA changed its policy in FY 1987 and MMS implemented new procedures. Current procedures allow the companies to post bonds for the disputed amounts; MMS then suspends requirement for payment. Only after the appeal is settled does MMS distribute BIA's portion.

The MRM also uses this authority to make adjustments to BIA accounts for prior unrecoverable erroneous payments. This authority allows MRM to correct minor errors and make refunds to payors on behalf of allottees.

General Administration

Analysis by Subactivity

dollars in thousands

Subactivity		2003 Requested	Uncontrollable And Related Changes	Programmatic Changes	2004 Budget Request	Change From 2003
Executive Direction	$	2,030	+32	0	2,062	+32
	FTE	20	0	0	20	0
Policy and Management Improvement	$	4,095	+55	0	4,150	+55
	FTE	33	0	0	33	0
Administrative Operations	$	16,638	+319	-130	16.827	+189
	FTE	237	0	0	237	0
General Support Services	$	20,862	+298	+645	21,805	+943
	FTE	0	0	0	0	0
Total: General Administration	$	43,625	+704	+515	44,844	+1,219
	FTE	290	0	0	290	0

The General Administration activity provide leadership, direction, management, coordination, communications strategy, and outreach (Executive Direction); policy management, and strategic planning (Policy and Management Improvement); budget, financial, personnel, procurement, facilities, and information management services (Administrative Operations); and infrastructure support (General Support Services) to the Offshore Minerals Management and Minerals Revenue Management Programs.

Among the key reasons for MMS current programmatic achievements is the ability of its senior managers to develop a sense of the direction of the industry and pubic it serves. This has been achieved through utilization of communication outreach via advisory councils, discussions with members of Congress, Congressional Committees and their staff, industrial and environmental spokesmen, and community representatives affected by ongoing and proposed MMS activities.

These efforts, recent technological developments, fundamental changes in the auditing and accounting philosophies, and MMS response to enactment of recent legislation have yielded a clear vision of where the MMS of the 21st century needs to be headed. Providing leadership, securing resources, developing organization capabilities, building infrastructure and assuring appropriate delivery of services are the responsibility of the General Administration.

Executive Direction

Justification of Program and Performance
Analysis by Subactivity

	2003 Estimate	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2004 Budget Request	Change From 2003 (+/-)
$(000)	2,030	32	0	2,062	+32
FTE	20	0	0	20	0

The Executive Direction subactivity comprises the Office of the Director, the Office of Public Affairs, the Office of Communications, and the Office of Document Management. The Office of the Director, which includes the Director, the Deputy Director and their immediate staff, is responsible for providing general policy guidance and management of the organization.

Office of Public Affairs (OPA) is responsible for broad communications strategy and outreach. Its goal is to ensure a coordinated and consistent message and effective exchange of information with all customers and stakeholders. The OPA manages the coordination and implementation of an effective, efficient, and inclusive outreach program to numerous audiences including state and local governments, the industry, related trade associations, the environmental community, Indian Tribes and Allottees, and the general public. The goal is to ensure a coordinated and consistent message and effective exchange of information with these customers and stakeholders.

In addition, the Office of Public Affairs serves as primary point of contact and bridge-builder with our external constituencies, by facilitating dialogue and establishing ongoing, two-way communication with constituencies to ensure informed participation from all stakeholders in the decision-making process. The OPA serves as the focal point for MMS print and news media information and education. The OPA provides advice to the Director and other officials on policy and procedures for disseminating information.

Office of Congressional Affairs (OCA) serves as the primary point of contact with Congress. The OCA serves as the primary liaison for all MMS congressional and legislative matters with Congress, state and local governments, and the Department on activities and legislative proposals that affect MMS. This activity includes evaluation of legislative proposals; communications regarding programs and policies and statement of positions on matters under consideration by the Congress; preparation and coordination of testimony for MMS witnesses; and coordination of arrangements for MMS's involvement in congressional meetings and committee hearings.

Office of Document Management (ODM) is responsible for managing all of the official documents of the Office of the Director. In addition, it ensures the timely development and coordination of Minerals Management Service documents requiring review, action, or signature by the Director, Deputy Director or Departmental officials. Office staff ensures that documents, correspondence, or actions under review are complete, accurate, and timely. To accomplish this, the staff maintains an automated tracking system with electronic capture, archiving, and dissemination of controlled documents and produces status and other management reports as necessary. The ODM is also responsible for managing Freedom of Information and Discovery requests that require a response from the Director's office. The ODM serves as a clearinghouse for the consolidation of several channels of information, all of which require action, review, or follow-up. The ODM works closely with the Departmental Executive Secretariat to ensure conformance with Secretarial and Departmental guidance and policies and is responsible for providing training within MMS on document preparation procedures and policies. The ODM maintains contact with the staff of the Assistant Secretary, Land and Minerals Management and other Assistant Secretaries to ensure coordination on issues of multi-bureau interest and concern.

Policy and Management Improvement

Justification of Program and Performance
Analysis by Subactivity

	2003 Estimate	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2004 Budget Request	Change From 2002 (+/-)
$(000)	4,095	55	0	4,150	+55
FTE	33	0	0	33	0

Overview

The Office of Policy and Management Improvement (PMI) provides the Director with a small organization capable of providing an impartial review and assessment of organizational policies, procedures, and performance. Because of its size, and freedom from the operational requirements of MMS' larger programs, PMI can be responsive to a broad range of crosscutting organizational issues. These include: strategic and performance planning, coordinating MMS initiatives in response to the President's National Energy Policy; conducting and coordinating internal reviews; coordinating audits performed by the Office of the Inspector General and GAO; assuring implementation of recommendations derived from internal reviews, Inspector General audits, and GAO reviews or audits; managing MMS' compliance with the Departmental regulatory process; coordinating information collection requirements; and assuring program compliance with the requirements of the Federal Advisory Committee Act (FACA), Government Paperwork Elimination Act (GPEA), Paperwork Reduction Act (PRA), Government Performance and Results Act (GPRA), the Quality of Information Guidelines required by the Data Quality Act; and citizen-centered customer service initiatives.

The PMI also initiates pilot and laboratory projects for the Director and promotes efforts aimed at improving organizational performance such as those advanced by the President's Management Agenda (PMA). The PMI has overall coordination responsibility for the PMA and specifically leads initiatives in Budget and Performance Integration and Electronic Government. The PMI has overall responsibility for ensuring that all the PMA initiatives are incorporated into MMS's management culture.

Finally, PMI is responsible for developing fair and impartial decisions on administrative appeals filed under the regulatory program.

Organizational Structure and Responsibilities

The Associate Director of PMI and immediate staff are located in Washington, D.C. Supporting staffs capable of conducting reviews and analyses are located in Lakewood, Colorado, close to the Minerals Revenue Management (MRM) program, and in Washington, D.C., near the Offshore Minerals Management (OMM) program and Departmental Headquarters offices. Administrative Appeals are evaluated and processed in both Lakewood and Washington.

Policy Reviews and Program Analyses

Evaluation of MMS's existing and proposed policies and programs is generally conducted through economic and programmatic analyses. PMI provides policy reviews and analysis on a broad range of matters within MMS. Assignments are typically conducted:

- in support of proposed or existing MRM and OMM program issues or
- to evaluate or implement new Bureau initiatives.

These efforts are generally carried out as special studies or technical assistance to the programs. Special studies may involve major analytical efforts, usually long-term in nature, to examine technical issues relevant to the program, analyze policy implications, and provide recommendations to the Director. These efforts may encompass both program specific subjects and developments elsewhere that may have an impact on the programs. Technical assistance to the programs is accomplished by leading or participating on Bureau task forces or by directly supplementing staff of the office responsible for specific projects.

PMI reviews legislation, regulations, and other documents for their policy content and provides analysis of proposals from outside MMS that affect Bureau programs. PMI is responsible for ensuring that programmatic plans and policies are consistent with and integrated into the overall Bureau mission and responsibilities, as well as the Department and Administration policy framework.

The PMI will continue to participate in the development of policy options or performing analyses on such items as:

- Supporting department work on energy policy development;
- Future bureau policy for offshore oil and gas incentives;
- The sale of royalty oil and gas from Federal leases directly to the open market;
- Ongoing evaluation of alternative valuation methods of gas and oil on Federal lands with related cost benefit analyses;
- Final resolution on complex issues under administrative appeal to the Director; and
- Level of services provided to individual Indian mineral landowners.

Royalty-in-Kind (RIK) Pilots

Under the terms of standard Federal oil and gas leases, the Government is entitled to a share (royalty) of production removed or sold from the lease. Historically, the Government has received this share in value (i.e., as a percentage of the sales proceeds received by the mineral lessee). There are, however, reasons to examine whether the Government should receive at least some of its royalties not in-value, but in-kind, that is, by taking and selling volumes of oil or gas equaling the percentage royalty share. A primary reason to examine this issue is that taking royalty-in-kind (RIK) may provide opportunities to substantially reduce disputes between lessees and the Government over the value of Federal production.

In 1995, MMS conducted a limited pilot to evaluate taking oil in-kind. That test produced mixed financial results but provided invaluable experience and knowledge to MMS about the operation and marketing of crude oil. Despite the initial mixed results, interest in Government RIK programs continued. A September 1997 *RIK Feasibility Study* assessed the potential for the United States to take its oil and natural gas royalties in-kind. It concluded that, under the right conditions, RIK programs could be workable, revenue positive and administratively more efficient for all parties. In certain situations, taking RIK would probably increase royalty revenue.

The PMI initially directed the implementation of longer term RIK projects. One project involved the sale of oil in Wyoming. The MMS began its first gas in-kind project in December 1999. Currently the MMS sells approximately 395,000 Mcf/d of gas under the RIK projects in the Gulf of Mexico. PMI has been responsible for evaluating the feasibility and efficiency of the RIK projects. Two reports have been completed, and a third is due in early 2003. MMS anticipates that the lessons learned from these pilot projects will eventually improve organizational efficiency and become part of normal operations. PMI will participate and monitor activities as RIK becomes integrated into the reengineered MRM.

Administrative Appeals

Sometimes companies or individuals disagree with compliance actions taken by MMS. Most of these disagreements arise when MRM finds that the company did not pay sufficient royalties and orders the company to correct the error. Any party disagreeing with a final order or decision issued by an officer of MRM has a right under Federal regulations at 30 CFR Part 290 (2000 Subpart B) to appeal to the MMS Director; or, if Indian land is involved, the appeal is filed with the Deputy Commissioner of Indian Affairs. The program office (generally MRM) reviews the appeal, and if it is not resolved at that stage, they forward it to the Appeals Division, PMI, for review and recommended decision.

The PMI Appeals staff is insulated from MRM so they can render an independent review of the issue under appeal. Appeals staff reviews the facts and arguments presented by both the appellant and the program office, analyzes the case against legal and policy precedents, and recommends a decision for signature by the Director, the Associate Director, PMI, or the Deputy Commissioner of Indian Affairs for cases involving Indian leases. If the appellant disagrees with the decision of MMS or BIA, they can appeal further to the Interior Board of Land Appeals (IBLA).

Increasingly, Appeals staff has become more involved in settlement or alternative dispute resolution activities.

The Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (RSFA) requires the Department to render final decisions on administrative appeals involving Federal oil and gas leases within 33 months of the filing of the appeal. A rule published in the *Federal Register* on May 13, 1999, implemented the requirements of RSFA for the issuance of decisions on theses appeals.

Acknowledging that improvements in the appeals process are needed to better implement the RSFA requirements, MMS continues to analyze the process. Further improvements are expected in the current fiscal year.
Emphasis for the Appeals Division will be on resolving outstanding appeals cases within the first 16 months of the RSFA review period so that IBLA has adequate time to review lessee's

appeals of MMS decisions; collaboration with the Minerals Revenue Management program to use Alternative Dispute Resolution to effectively resolve disputes; and to pursue options to improve the appeals process.

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

On August 25, 2001, OMB released the President's Management Agenda (PMA), an integrated plan to reform the Federal Government by addressing its most glaring and long-standing problems. The Agenda sets out specific steps to accomplish reforms through five government-wide initiatives:

- Strategic Management of Human Capital
- Competitive Sourcing
- Improving Financial Performance
- Expanding Electronic Government
- Budget and Performance Integration

In September 2001, DOI published the Secretary's Plan for Citizen-Centered Governance laying out the strategy to improve delivery of programs and services. It closely follows the PMA while tailoring its initiatives to fit the Department's unique situation.

The PMI is actively engaged in working on all of these initiatives, bringing to them an objective focus and consistent direction across MMS and ensuring that they are implemented in a mutually reinforcing manner. PMI serves as Administrator for monitoring implementation of the PMA initiatives, reporting on their status, and ensuring improvement plans are in place. PMI leads MMS initiatives on Expanding Electronic Government and Budget and Performance Integration.

Expanded electronic government is a consistent thread woven through all the PMA initiatives. To ensure that opportunities for electronic government are actively explored, PMI established the MMS E-Government Managers Group to develop an overall strategy for MMS, implement departmental initiatives, and to explore underdeveloped potential to improve business processes and management of the organization.

The PMA ultimately calls for more complete integration of information about costs and program performance in a single oversight process. The PMI led the MMS initiative to apply activity based costing/management (ABC/M) methods to its operations, implementing a bureau wide ABC/M system in October 2002. In the initial phase of the implementation, costs of MMS work activities are captured. In March 2003, the second phase of the system was implemented where program outputs were fully funded and linked to performance measures and budget. The system provides timely feedback for MMS managers at all levels to make program and resource decisions and gives them better control over resources as well as providing a cost history to support future planning and budget initiatives.

Planning and Performance Management

Strategic planning and accountability for results is woven into the culture of MMS. PMI has overall responsibility for coordinating and guiding the bureau in developing and implementing its strategic and annual implementation plans and ensuring their links to the Department's GPRA Strategic Plan. PMI ensures MMS success in the planning process through monitoring and reporting performance, and initiating process improvements.

The MMS published its first Strategic Plan in September 1997. It was revised and issued in March 2000 for the 2000-2005 timeframe. MMS is continuing to participate in Departmental efforts to develop an integrated DOI Strategic Plan. MMS has developed Annual Performance Plans for each year from FY 1999 through the current fiscal year. The MMS prepared Annual Performance Reports from 1999 through 2001. For FY 2002, MMS's performance was reported through the Department's FY 2002 Report on Performance and Accountability.

As more experience and knowledge is gained, MMS continues to refine its strategic thinking, re-evaluate its goals and measures and improve its capacity to gather, analyze and make performance information available to those who need it. Although the Department is developing an integrated Strategic Plan for FY 2004-2008 that will satisfy GPRA requirements, MMS is developing an implementation plan that links to and supports the Department's plan.

Continuing efforts in the current fiscal year and beyond will focus on:

- Verification, validation and reporting of performance information in a way that is useful and useable to managers and decision makers.
- Creating stronger linkages between performance and the budget.
- Creating more accountability for program performance.

Performance Improvement

PMI is responsible for overseeing Bureau-wide performance improvement initiatives; coordinating training; and providing technical expertise. The staff provides technical assistance, training and guidance for MMS offices pursuing performance improvement initiatives. The staff serves as the clearinghouse for disseminating management improvement information, resources, and expertise throughout MMS and in cooperative departmental and government initiatives.

For example, in FY 2002, in accordance with Section 515 of the Treasury and General Government Appropriations Act for FY 2001, PMI developed Information Quality Guidelines for MMS that address the quality, objectivity, utility, and integrity of information that is disseminated to the public. A web address was developed for the public to access should they wish to challenge information that MMS disseminates to the public. The guidelines address the process MMS will use when responding to these challenges.

During the current fiscal year, PMI will be involved in new and on-going MMS performance improvement initiatives, including continuing to refine Activity Based Costing/Management within MMS.

Regulatory Direction

The PMI manages the MMS regulatory program and serves as liaison to the Department's regulatory office. PMI initiates efforts to improve internal and external regulations and ensures the use of "Plain English" regulation writing when regulations are necessary.

In this capacity, it plays a major role in the Bureau's efforts to coordinate MMS policy and implement the requirements of:

- The Paperwork Reduction Act of 1995 and related information collection requirements;
- The Government Paperwork Elimination Act;
- Executive Orders (e.g., 12866) or legislation (e.g., The Regulatory Flexibility Act) directed towards the reduction and improvement of federal regulations;
- Small Business Regulatory Enforcement Fairness Act of 1996;
- Executive Orders or legislation promoting methods of alternate dispute resolution, a more effective administrative appeal process, and improved regulatory drafting procedures; and
- The Negotiated Rulemaking Act (Neg-Reg Act) PL 101-648.

The PMI leads MMS initiatives in regulatory reform and fosters activities utilizing conflict resolution. PMI's Appeals Division is actively engaged in dispute resolution of administrative appeals. Dispute resolution techniques are being used to resolve disagreements without litigation or administrative adjudication.

Program Evaluation and Review of Internal Management Controls

The MMS is increasing its efforts to improve the MMS program evaluation process. PMI ensures that results of all the numerous evaluations conducted of MMS programs and activities were gathered, analyzed, and provided to key executives for use in their decision making process. The evaluation process includes both internal and external reviews such as control reviews, performance assessments, ABC data reviews, administrative reviews, audits, OMB's Program Assessment Rating Tool, and other special ad hoc reviews of MMS programs and initiatives.

The PMI manages the MMS Management Control Review (MCR) Program designed to assess the bureau's systems of management, administrative and financial controls in accordance with the standards and guidelines established by the Federal Managers' Financial Integrity Act and the Office of Management and Budget.

Administrative Operations

Justification of Program and Performance Analysis by Subactivity

	2003 Request	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2004 Budget Request	Change From 2003 (+/-)
$(000)	16,638	+319	-130	16,827	+189
FTE	237			237	0

The Administrative Operations subactivity consists of the following functions: Administrative Direction and Coordination, Budget and Finance, Equal Employment and Development Opportunity, Personnel Management, Procurement and Support Services, and Information Resources Management. These functions are directed and carried out at Headquarters and nationwide through five Divisions and two Administrative Service Centers (ASCs), the Western Administrative Service Center (WASC) and the Southern Administrative Service Center (SASC).

Administrative Direction and Coordination

This function 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 Department, Office of Management and Budget, General Services Administration, and other executive branch administrative policies and regulations.

Additionally, this function provides a proactive homeland security program to ensure nationwide protection of employees, visitors, and facilities. This includes educating employees and conducting physical security assessments to increase awareness and strengthen security measures. The Bureau's goal is to be prepared and have appropriate emergency management plans in place for any unplanned event or unforeseen circumstance that can cause significant disruption of mission functions.

This function also includes responsibility for the Bureau's management analysis functions (management studies and reviews, organizational review, delegations of authority and related activities, and special projects, such as administrative management reviews) and budget formulation and execution for Administration and Budget. In addition, this function maintains a liaison with Departmental offices in order to affect a coordinated and unified administrative program consistent with the mission and goals of the Department. Administration and Budget, in keeping with the spirit of the President's Management Agenda, contributes to all five components: Strategic Management of Human Capital, Competitive Sourcing, Financial Performance, Expanding Electronic Government, and Linking Budget and Performance.

Budget and Finance Division

The Budget and Finance Division (BFD) is responsible for the planning and effective utilization of budgetary and financial system resources in support of the varied operating and support programs of the bureau. The BFD 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.

- The Budget Branch provides analysis and budget guidance, assures proper funding and staffing allocations, and oversees budget execution in accordance with appropriations signed into law. The Budget Branch develops and maintains all budget data to support MMS budgetary requests to the Department, the Office of Management and Budget (OMB), and the Congress; and provides analysis of financial and other resource utilization reports for use by bureau and program managers. The Branch is responsible for preparing the annual Budget Estimates to the Department and OMB, as well as the annual Congressional Budget Justification in the presentation and explanation of budget submissions to the Department, OMB and the Congress.
- The Financial Management Branch (FMB) is responsible for the administrative accounting operations of the Bureau. The FMB operates the administrative accounting system, audits and schedules bills for payments, collects debts, develops financial data, prepares financial reports, provides advice and assistance on financial matters, and maintains liaison with Departmental offices and other Government agencies.

It is both a Presidential Management Agenda 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 the Inspector General and to improve our financial performance. These efforts have resulted in MMS receiving an unqualified opinion on the FY 2002 Annual Financial Report.

MMS also supports the Department’s efforts to increase the integration of the budget and the Government Performance Results Act requirements. To that end, MMS implemented Activity Based Costing in October 2002 in accordance with the Department’s schedule which required MMS and the Office of Surface Mining to pilot ABC during FY 2002. The remainders of DOI bureaus are scheduled to implement in FY 2003.

Equal Employment and Development Opportunity

The Equal Employment and Development Opportunity Division (EEDOD) develops, directs, monitors, and operates the MMS Equal Employment Opportunity (EEO) program in compliance with the Civil Rights Act of 1964, the Equal Employment Opportunity Act of 1972, Executive Order 11478, departmental directives and other related statutes and orders. Specifically, these duties include:

- Maintenance and operation of the discrimination complaint system;
- Implementation of equal employment opportunity and affirmative action plans;
- Implementation of programs for diversity higher education and related partnerships;
- Administration of the Employee Counseling Program;
- Administration of a program for dispute resolution alternatives;
- Development and tracking of working place equity programs;
- Coordination of employee training programs;

- Responsibility for special initiative programs which are underway to involve more women and minorities and people with disabilities in the program areas and throughout all levels of management; and
- Responsibility for developmental programs such as Student Employment, Upward Mobility, and Management Development.

The division provides policy, coordination, and direction for MMS developmental programs which include managing and monitoring the equity of employee development opportunities associated with formal developmental program, cross training assignments, and mentoring activities. Emphasis is placed on training managers and supervisors in employee development and human resources planning.

To ensure that workforce activities are inclusive, that they promote the full utilization and exchange of skills and talent, the division will develop and coordinate Special Emphasis activities; develop and implement EEO complaints prevention initiatives, and track and analyze applicant flow data and employment trends.

The EEDOD coordinates compliance with the Departmental Office for Equal Opportunity and EEO Commission directives and Solicitor's requests regarding EEO issues and coordinates with the Department and other agencies concerning employee development issues. The division chief serves as the MMS Equal Employment Opportunity Officer.

Personnel Management

The Personnel Division administers the MMS's human resource management program. Major responsibilities of the personnel management function are:

- Develops and implements policies, procedures, guidelines, and standards relating to general personnel management, recruitment and employment, position management and classification; human resource planning; personnel program evaluation; labor management relations; conflict of financial interest and standards of conduct; employee relations and services; personnel security; incentive awards; family friendly programs; the Federal Equal Opportunity Recruitment Program; and Senior Executive Service programs.

- Prepares appropriate reports, performs all operational personnel services for the MMS Headquarters and client organizations, and provides assistance and guidance related to personnel matters for all MMS regional and field installations.

- Reviews, processes, and represents management in employee grievances, appeals, and adverse or performance based actions.

- Provides Bureau wide payroll and personnel systems liaison services. Maintains liaison with the Office of Personnel Management, the Federal Labor Relations Authority, the Merit Systems Protection Board, and the Department on personnel management and related issues. Coordinates MMS matters involving personnel investigations by maintaining liaison and coordination with the Department's Office of Inspector General concerning such investigations. Conducts and coordinates inquiries and determines appropriate actions related to whistle blower complaints.

- Consults with and refers actions related to allegations based on discrimination to Equal Employment and Development Opportunity Division, advising them of any issues which may impact on the administrative remedy process.

- Carries out reductions-in-force, reorganizations, and executive initiatives related to human resource issues.

- Seeks to ensure regulatory compliance to prevent real or apparent conflicts by providing guidance on standards of conduct and conflict of financial interest to employees Bureau wide through proactive employee awareness training and information bulletins, advice on specific conflict issues, and the initiation of remedial orders when needed.

- Leads the MMS Workforce Planning initiative. This includes serving on Departmental Workforce Planning committees, analyzing work related to the analysis of present workforce competencies (demographics, retirement projections, etc); identification of competencies needed in the future; a comparison of the present workforce to future needs to identify competency gaps and surpluses; the preparation of plans for building the workforce needed in the future.

In addition, the MMS's Personnel Division provides operational personnel services to client organizations on a reimbursable arrangement. The Division currently provides personnel support to the following organizations:

- Office of the Secretary of the Department of the Interior
- Office of the Special Trustee for American Indians
- James Madison Memorial Scholarship Foundation
- Harry S. Truman Scholarship Foundation
- U.S. Office of Special Counsel
- Accounting Operations Office, National Park Service
- Chemical Safety and Hazard Investigation Board

Procurement and Support Services

The Procurement and Support Services Division (PASSD) is responsible for the execution and administration of MMS' acquisitions, space and facilities management, property management, safety and health management, transportation, and general office services functions.

The Procurement Operations Branch (POB) solicits, awards, and administers contracts, simplified acquisitions, Federal assistance awards, and intra- and interagency agreements essential to the mission of the MMS. The PASSD 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 and subcontractors.

The Division provides 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 PASSD administers the purchase card program.

The support services functions include facilities management (27 buildings in 26 cities), space management, mail and courier activities, bureau-wide 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 contractors within the MMS; manages the Bureau vehicle fleet; and manages the Bureau museum property including an Arts and Artifacts program.

- *Space Utilization Studies and Space Layout and Reconfiguration.* In FY 2004, as staff realignments continue in the MMS, the Division will continue to conduct MMS-wide space utilization studies and layouts. These studies allow MMS to proactively manage space, which has resulted in more efficient utilization and increased energy conservation.

- *Overall Acquisition Program.* Contract activity for the Offshore Technical Information Management System and the Technology Assessment and Research Program are an important part of the acquisition program within PASSD. In addition to the acquisition of information technology (IT) equipment and services to directly support the missions of MMS, the PASSD has established and administered Department-wide contracts including Trust-net support and a software licensing agreement with Novell. Additional Department-wide IT requirements are anticipated in FY 2004. Due to the joint environmental studies being conducted in the Gulf of Mexico by the MMS and Mexico, PASSD is now awarding contracts to educational institutions in Mexico to conduct their portion of the study. Under the Department's franchise pilot program authorization and the authority of the Government Management Reform Act of 1994, the MMS is providing acquisition support for the Department of Defense, Executive Office of the President, Department of the Interior, Transportation Security Agency, and other federal civilian agencies.

- *Implementation of the Federal Acquisition Streamlining Act Requirements.* Under the provision of this Act: (1) MMS expanded its purchase card program allowing personnel to purchase the majority of their requirements of less than $2,500. (2) The PASSD will continue the use of oral proposals in FY 2003, a practice that was initiated in FY 1996 and which has proven to be an efficient and effective acquisition method that has been embraced by MMS personnel and the contractor community. (3) The Division will continue to acquire performance-based services to the greatest degree possible. (4) The PASSD will continue to use past performance as an evaluation factor. These, as well as other best practices, will be tools that will enable us to obtain the best value in our procurements.

- *E-Government Transformation Implementation:* This complex $80M project for MMS includes Business Process Re-engineering, design, procurement, and implementation of the transformation solution throughout the life cycle: acquisition, system design and implementation, system performance, and the change that management needed to ensure the successful transition of MMS from its current state to a fully integrated electronic Government environment. POB has a critical post-award contract administration role.

Every six months POB staff will be evaluating performance metrics to ensure the contractor is in compliance with the contract.

- *State/Federal Government Research Partnerships:* MMS has established a research partnership with several coastal States through their Coastal Marine Institute (CMI) system. This university-based research and study program allows MMS and the States to respond to shared scientific information requirements by utilizing the scientific expertise found within the State's Outer Continental Shelf region. The MMS and the States equally share the funding burden for these programs. Each Federal research dollar must be matched by a State dollar. PASSD awards and administers the cooperative agreements that format the CMI program. Part of this effort is insuring that the dollar-for-dollar matching requirement is met. This involves extensive tracking of research dollars and insuring they are spent in accordance with the intentions of the CMI charter.

- *Interior Department Electronic Acquisition System – Procurement Desktop (IDEAS-PD).* The PASSD continues to use the electronic acquisition system at MMS Headquarters and in the Western and Southern Administrative Service Centers. IDEAS-PD will continue to require maintenance and hardware and software enhancements to incorporate the latest technology advancements. The MMS actively participates in the IDEAS Departmental User Group meetings and periodic user training. The interface between the financial management system, ABACIS, and IDEAS-PD is operational, but will require ongoing enhancements, testing, maintenance, and support.

- *Competitive Sourcing Program:* PASSD is responsible for implementing this Bureau-wide program. Some of the highly complex and sensitive efforts required for this Program include: (1) coordinating the preparation of annual FAIR Act inventories with the program offices; (2) preparing the MMS annual FAIR Act inventories and submitting them to the Department; (3) coordinating/developing responses to inventory challenges/appeals; (4) keeping the MMS employees informed by developing and maintaining an intranet Competitive Sourcing site; (5) coordinating the development of annual competitive sourcing plans; (6) providing policy and guidance in support of competitive sourcing activities; (7) assisting, monitoring, and evaluating Bureau-wide competition efforts; (8) reporting planned and completed competitive sourcing studies to the Department and OMB; and

  (9) Preparing self-assessment and developing scorecard ratings as required in support of the President's Management Agenda.

- *POB Intern Program.* POB needed highly motivated individuals for their Intern Program to perform various acquisition related functions in support of rapidly growing requirements. Local colleges and universities were contacted for candidates who are excellent students, preferably with a business related major and strong computer and work experience. As the interns become acclimated to the acquisition processes and procedures, they are assigned more complex duties and responsibilities. POB now has a waiting list for Intern positions. This taste of Federal employment is meant to inspire strong candidates to apply for permanent employment after graduation.

- *Property Management System (PMS-NT).* The Windows NT Server based Property Management System is referred to as Property Management System – NT (PMS-NT). This property accountability system is the official Bureau property management system and contains data on all MMS system-controlled property.

- *Safety Management Program.* The PASSD provides policy and guidance for the Bureau Safety and Health Program. The policy of the MMS and PASSD is to provide safe and healthful work conditions; present information on injury- and work-related illness to its employees; protect MMS property from damage; and provide for the safety of the public while using MMS facilities. PASSD ensures program compliance and integration of safe and healthful practices into the day-to-day activities conducted within MMS. Annual facility inspections are conducted ensuring corrective action and abatement plans are established.

- *Continuity of Operations Program (COOP).* It is MMS policy to have in place a comprehensive and effective COOP that ensures continuity of essential MMS functions under all circumstances. The PASSD will continue leading the MMS COOP planning, training, and testing efforts to assure that the capability exists for continuing essential MMS functions. The MMS COOP objectives include: (1) ensuring the continuous performance of MMS essential functions/operations during an emergency; (2) protecting essential facilities, equipment, records, and other assets; (3) reducing or mitigating disruptions to operations; (4) reducing loss of life, minimizing damage and losses; and (5) achieving a timely and orderly recovery from an emergency and resuming full service to our customers.

Information Resources Management

Security. The IRM Division will continue to enhance the MMS IT security program in FY04. The Bureau IT Security Manger will continue to work closely with the IT Security Manager from the program areas to review and improve security plans, policies, procedures, standards, practices, and controls to reflect the technological changes. The efforts will be coordinated with the Department's CIO Office to ensure that the MMS IT security program is in compliance with the DOI IT Security Plan. Additionally, the MMS will complete certifying and accrediting all major applications and general support systems to ensure that these systems comply with OMB Circular A-130, Appendix III and NIST guidance. The MMS will be tracking IT security spending for reporting purposes. The IRM Division will continue to implement new technologies to improve security.

Capital Asset Planning. The IRM Division is engaged in an ongoing effort to establish, maintain, and support an IT investment analysis and decision-making environment to ensure that investments in IT are well thought out, cost effective, and support the missions and business goals of the bureau. As part of the effort, we participate in the Departmental IT Portfolio Management Coordination Group to develop and enhance capital planning and investment control guidance that adheres to both Office of Management and Budget (OMB) and General Accounting Office (GAO) guidance. The IRM Division is responsible for the coordination and submission to the Department of all MMS IT portfolios, including Exhibits 300s and 53s.

Departmental Initiatives. The IRM Division will play a lead role in contributing to important Departmental IT activities that are sponsored by the agency's CIO through the CIO Team and through a variety of working groups. These include participation in the development of the Department of the Interior Enterprise IT Architecture (ITA) and departmental capital asset management process. The MMS will also develop an MMS Enterprise Architecture and Strategic Plan that will be based upon the DOI Architecture and Strategic Plan currently in development.

The IRM Division will support the Department and OMB e-Gov initiatives. The IRM Division will work with the Offshore Minerals Management program as part of an integrated program team (IPT) to provide input and direction to the development and implementation of the e-Transformation project.

FTS2001 Data and Managed Services. In FY04, MMS will continue to outsource some of its network management and security requirements to utilize the MCI WorldCom managed services including network managed router service, maintenance for routers, firewall and other security management activities, and remote access dial-up service. MMS has been using UUNET managed firewalls as the first line of defense for the Bureau network. Additional firewalls are utilized behind the UUNET firewalls as an added security measure.

Intranet Improvements - Part of the Knowledge Management Structure. MMS Knowledge Pipeline intranet technology plays a vital role in maximizing the distribution and sharing of MMS corporate knowledge across the bureau. The Intranet enables MMS to comply with several legislative mandates, including: Section 508 of the Rehabilitation Act; Government Paperwork Elimination Act; Clinger-Cohen Act; Paperwork Reduction Act; and Executive Orders. The Intranet will continue to improve in design and functionality in FY04, providing both electronic search and retrieval of administrative and program-specific information, to include database collaboration and web-enabling many MMS business processes. These initiatives support the Administration and Budget long-range goal, to build an enterprise information knowledge management structure corporately managed for the benefit of MMS as a whole. The Intranet is an integral part of this knowledge management structure, supported by existing Microsoft Exchange infrastructure. With these tools, MMS will be well positioned to create a knowledge sharing community within a distributed work force, support collaborative work teams, and provide the right piece of information to make successful business decisions throughout the Bureau.

The support and maintenance of the MMS Knowledge Pipeline and its redesign effort not only involves long-term planning, but it also provides detailed guidelines using web technology to ensure that the MMS Pipeline continues to provide employees with information as quickly and efficiently as possible.

This fiscal year will usher in the redesign effort of the existing Pipeline and MMS.GOV business processes. This redesign effort will extend intelligent "data capture" capabilities to a wider audience, including remote users, intranet users, inter-bureau users and special needs users.

Infrastructure Support. The IRM Division will continue to support and maintain the Microsoft Exchange architecture taking advantage of new features and capabilities associated with software upgrades including web-based e-mail service. Other initiatives will include a migration to Microsoft Exchange 2000 and a potential migration of the MMS Active Directory (AD) domain to a Departmental AD forest. The IRM Division will continue to maintain and implement Commercial Off-the-Shelf (COTS) and web-based applications to satisfy requirements for administrative information.

Competitive Sourcing. The IRM Division will work with the Bureau and the Department's Competitive Sourcing Center for Excellence to meet the Administration's goals for competitive sourcing. This includes use of contracting staff for its operations and help desk functions and other previously identified non-inherently governmental functions.

Freedom of Information Act (FOIA) Initiative. The IRM Division will continue to work with the Department to implement the FOIA tracking system. MMS is continuing to implement the Department's revised FOIA regulations. The IRM Division will provide direction and coordination, through training, within the Bureau to ensure compliance with the revised FOIA regulations and knowledge of the FOIA tracking system.

Records Management Initiatives. The IRM Division will continue to review MMS records management policies, manuals, and directives to come into compliance with the Government Paperwork Reduction Act (GPRA), Government Paperwork Elimination Act (GPEA), and National Partnership for Reinventing Government (NPR). The IRM Division will investigate and evaluate records management technology to determine if new technologies and software can be utilized within MMS and the Department of the Interior.

Field Administrative Service Centers

Direct administrative support is provided to various MMS program managers through two Administrative Service Centers (ASCs).

The Southern Administrative Service Center (SASC), located in New Orleans, Louisiana, provides direct administrative support, direction, and coordination to programs in the Gulf of Mexico OCS Region (GOMR), Headquarters' Information Technology Division, and a resident Minerals Revenue Management (MRM) Metairie Compliance Office. Full support is also provided to 6 outlying District/Subdistrict GOMR offices.

The Western Administrative Service Center (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.

Justification of Program Change

Administrative Operations

Increase in Funding for Infrastructure Security

	2004 Budget Request	Program Change (+/-)
$(000)	16,827	+250
FTE	237	0

Relationship to Performance Goals

The Administrative Operations (ADOPS) provides budget, financial, personnel, equal employment and development, procurement, facilities, and information management services to the Offshore Minerals Management, Minerals Revenue Management, Policy and Management Improvement, and Executive Direction activities.

Justification of FY 2004 Program Change

An increase of $250,000 is requested for Administrative Operations in the security arena. This increase is imperative to address weaknesses identified following the September 11, 2001, tragedy. This funding will allow for the purchase and implementation of state-of-the-art smart card technology at all MMS locations. A single smart card can be used for: access control (controlled access to secure buildings); logical access (computer, authentication and data security), public key infrastructure (encryption); digital signature (secure internet transactions, secure contract signings), and biometrics (fingerprints, etc). The smart card technology vastly improves identification and information security by providing a mobile computing platform for identification and authentication.

Justification of Program Change
Administrative Operations
Reduction in Funding for Information Technology

	2004 Budget Request	Program Change (+/-)
$(000)	16,827	-380
FTE	237	0

Relationship to Performance Goals
The Administrative Operations (ADOPS) provides budget, financial, personnel, equal employment and development, procurement, facilities, and information management services to the Offshore Minerals Management, Minerals Revenue Management, Policy and Management Improvement, and Executive Direction activities.

Justification of FY 2004 Program Change
Information Technology Reduction (-$380,000). The Department is undertaking significant information technology reforms to improve the management of IT investments, to improve the security of systems and information, and to realize short and long-term efficiencies and savings. The Department is taking a corporate approach that will include consolidated purchases of hardware and software, consolidation of support functions including helpdesks and email support, and web services, and coordination of training.

A decrease of $0.380M is being diverted from ADOPS IT initiatives to cover other Bureau and Department priorities. Two initiatives being reduced are: IT modernization such as mass PC purchases, and IT infrastructure buys such as improved network capabilities. The MMS anticipates no real consequences as the result of this reduction for this particular fiscal year. However, the funding will need to be restored for subsequent years to ensure that updated systems software packages mandated by the Department will have an applicable platform on which to operate. More importantly, the infrastructure shortage could have an adverse impact on security measures should it not be restored in the future.

General Support Services

Justification of Program and Performance
Analysis by Subactivity

	2003 Request	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2004 Budget Request	Change From 2003 (+/-)
$(000)	20,862	+298	+645	21,805	+943
FTE	0	0	0	0	0

The General Support Services subactivity includes funding for fixed costs and related support services for the entire Bureau. Fixed costs include expenses such as rental of office space, workers' compensation, unemployment compensation, Federal Telecommunications System (FTS) Service/Commercial Communications, the Department's Working Capital Fund (WCF), annual building maintenance contracts, mail services, and necessary printing costs.

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 the operating programs.

Justification of Program Change

General Support Services

Increase in Funding for Information Technology Security

	2004 Budget Request	Program Change (+/-)
$(000)	21,805	+645
FTE	0	0

Relationship to Performance Goals

The General Support Services subactivity includes funding for fixed costs and related support services for the entire Bureau. Fixed costs include expenses such as rental of office space, workman's compensation, unemployment compensation, Federal Telecommunications System (FTS) Service/Commercial Communications, the Department's Working Capital Fund (WCF), annual building maintenance contracts, mail services, and necessary printing costs.

Justification of FY 2004 Program Change

Information Technology Security Increase (+$645,000). IT security is a major priority for the Department of the Interior. A certification and assessment program is a critical investment to create and maintain a secure environment for systems and data and is required by the Computer Security Act of 1987, Clinger-Cohen Act of 1996, and other legislative and administrative mandates. The 2004 budget includes $13 million overall of which $645,000 thousand is requested here for the first of a multi-year program to test, assess, and remediate systems in order to reach a goal for certification and accreditation of all high-risk systems by December 2005. A more detailed justification for this increase is included in the Working Capital section of the Departmental Management budget.

Interior Franchise Fund

Justification of Program and Performance
Analysis by Subactivity

	2003 Budget Request	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2004 Budget Request	Change From 2003 (+/-)
$000s	900,000	0	0	900,000	0
FTE	83	0	0	83	0

Activity in this account is entirely funded from offsetting collections (fees charged for services provided).

Program Overview

The Government Management Reform Act (GMRA) of 1994 authorized the establishment of franchise fund pilot programs. The Department of the Interior Franchise Fund (IFF) was specifically authorized by the Interior and Related Agencies Appropriations Act of 1997. With this action, the IFF became one of six franchise fund pilot programs within the federal government. The Consolidated Appropriations Resolution, 2003, P.L. 108-7, continues the pilot program until October 1, 2003. The President's 2004 budget proposes to reauthorize the franchise fund pilot program through FY 2004.

The objective of the franchise fund pilot program is to reduce the cost of government to the taxpayer by streamlining the acquisition of commonly required administrative products and services by federal agencies. The Interior Franchise Fund (IFF) has carried out this authority by creating an internal network of service providers. MMS's GovWorks operation is one of those providers; focused on providing procurement services to other federal agencies. Other IFF services included:

- administrative systems and systems support for financial management systems software, procurement systems software, property management software, and time and attendance systems software;
- administrative operations in the areas of accounting and personnel;
- independent verification and validation;
- electronic commerce;
- drug and alcohol testing services; and
- film and video productions.

Because of its pilot status, the Interior franchising operation was established as a virtual organization. Interior service providers were reimbursed from the income of the IFF, and the oversight of the IFF was also performed on a reimbursable basis by personnel from various parts of the Department – many on a part time basis. There were no actual employees on the rolls of an IFF organization. Any employees performing services for the IFF were treated as reimbursable positions on the rolls of the provider organization.

Transfer of IFF to MMS

Over time many of the service providers dropped out of the Interior Franchise Fund. As a result, MMS's GovWorks by 2002 had become the dominant service provider within the Interior Franchise Fund. Faced with this reality, beginning in FY 2003, the Department of the Interior transferred the IFF operations responsibility to MMS. The decision to transfer the Interior Franchise Fund came on the heels of a recommendation of the Interior Department's Office of the Inspector General to consolidate the Interior Franchise Fund under a single management structure to improve accountability.

A recent financial audit report noted:

> "Although several personnel are fully dedicated to working on IFF activity, there are several personnel who only spend part of their time working on IFF activity. As a result of utilizing personnel from different service organizations, IFF does not have clear lines of responsibility or reporting and IFF activity does not consistently receive the same priority as the other activity processed by the service providers."

The audit recommendation stated:

> "We understand that Interior is in the process of re-organizing responsibilities of IFF. We recommend that Interior complete this re-organization process, ensure there is appropriate staffing to complete the day-to-day accounting processing during the year, and establish internal controls to ensure transactions are recorded properly."

The Department concurred with this recommendation and by memorandum dated September 30, 2002, the Department of the Interior's Assistant Secretary for Policy, Management and Budget determined that MMS would be the sole service provider for Interior's Franchise Fund commencing October 1, 2002. The memorandum directed Interior's National Business Center to remove its agreements from the fund and gave financial management and reporting responsibilities to the MMS.

This responsibility includes providing oversight for IFF operations and performing all accounting and management duties to ensure that IFF activities are performed and recorded properly. By placing this responsibility within the organization responsible for all ongoing franchising activity in DOI, clear lines of responsibility and reporting will be assured.

Financial Operations of the IFF

MMS's GovWorks enterprise has grown dramatically in seven years, generating annual revenues of $900 million in FY 2004, almost four times the size of the MMS's mission related appropriations. The majority of MMS's customers are from other federal agencies. However, most DOI bureaus have used GovWorks services to assist them with a variety of information technology acquisitions and all Interior bureaus have benefited from GovWorks operations. GovWorks has developed a level of expertise needed to readily and efficiently complete these acquisitions.

The franchise fund is self-sustaining. Enabling legislation for the Interior Franchise Fund requires GovWorks' customers to pay in advance for any work performed. Therefore, GovWorks does not allow customers to pay after supplies or services have been furnished. The following tables summarize the IFF's program and financing, operations and balances, and balance sheet.

Department of the Interior
Minerals Management Service
Interior Franchise Fund
Program and Financing
dollars in millions

		FY 2002	FY 2003	FY 2004
Treasury Account ID: 14-4529		**Actual**	**Estimate**	**Estimate**
Obligations by program activity				
0000	Interior Franchise Fund Activities	520	926	1,025
1000	Total new obligations	520	926	1,025
Budgetary resources available for obligation				
2140	Unobligated balance, start of year	128	284	348
2200	New budget authority (gross)	677	990	990
2390	Total budgetary resources available for obligation	805	1,274	1,338
2395	Total new obligations	-520	-926	-1,025
2440	Unobligated balance carried forward, end of year	284	348	313
New budget authority (gross), detail				
	Mandatory			
6900	Offsetting collections (cash)	570	900	900
6910	Change in uncollected customer payments from Federal sources (unexpired)	107	90	90
6990	Spending authority from offsetting collections	677	990	990
Change in obligated balances				
7240	Obligated balance, start of year	92	143	137
7310	Total new obligations	520	926	1,025
7320	Total outlays (gross)	-362	-842	-891
7400	Change in uncollected customer payments from Federal sources (unexpired)	-107	-90	-90
7440	Obligated balance, end of year	143	137	181

Outlays (gross), detail				
8697	Outlays from new mandatory authority	312	792	792
8698	Outlays from mandatory balances	50	50	99
8700	Total outlays (gross)	362	842	891
Offsets against gross budget authority and outlays				
8800	Offsetting collections from Federal sources	570	900	900
8895	Change in uncollected customer payments from Federal sources (unexpired)	107	90	90
Net budget authority and outlays				
8900	Budget authority	0	0	0
9000	Outlays	-207	-58	-9

Note: Beginning with FY 2003, the Interior Franchise Fund (IFF) account was transferred to MMS.

Department of the Interior **Minerals Management Service** **Interior Franchise Fund** **Statement of Operations** ***dollars in millions***				
		FY 2002	FY 2003	FY 2004
Treasury Account ID: 14-4529		Actual	Estimate	Estimate
0101	Revenue	498	698	698
0102	Expense	-398	-598	-598
0105	Net income or loss (-)	100	100	100
0199	Total comprehensive income	100	100	100

Note: Beginning with FY 2003, the Interior Franchise Fund (IFF) account was transferred to MMS.

Department of the Interior **Minerals Management Service** **Interior Franchise Fund** **Balance Sheet** ***dollars in millions***				
		FY 2002	FY 2003	FY 2004
Treasury Account ID: 14-4529		Actual	Estimate	Estimate
ASSETS: Federal assets:				
1101	Fund balances with Treasury	241	241	241

	Investments in US securities:			
1106	Accounts Receivable: due from Federal Agencies	86	86	86
1999	Total assets	327	327	327
LIABILITES: Federal liabilities:				
2101	Accounts payable	99	99	99
2105	Deferred Revenue: Due to Federal Agencies	228	228	228
2999	Total liabilities	327	327	327
4999	Total liabilities and net position	327	327	327

Note: Beginning with FY 2003, the Interior Franchise Fund (IFF) account was transferred to MMS.

As shown in the Statement of Operations table above, the fund is expected to have a net income of $100 million in FY 2004 on a cash basis. Net income reflects the difference between revenues received during a year and the expenses of operations during that fiscal year. As such, net income includes revenues received for which expenses have not yet been incurred, e.g., advances from customers. In addition, net income includes the retention of up to four percent of the total annual income as provided by the enabling legislation. This retained income may be used for the acquisition of capital equipment, and for the improvement and implementation of Department financial management, ADP, and other support systems. At the end of a fiscal year, amounts in excess of this four percent limitation are to be transferred to the Treasury. To date, the IFF has not exceeded the limitation.

In line with guidance from the Office of Management and Budget, the IFF charges customers for the full cost of its operations. This includes not only the direct cost of staff involved in fulfilling customer requests, but also the cost of supporting these staff such as equipment; related travel; utilities; and applicable indirect costs, e.g., space, overhead, and reserves to assure effective operations. Among other things reserves have been established to mitigate cash flow concerns during annual operations and to fund an efficient shutdown of GovWorks operations should it ever be necessary to do so.

GovWorks has established a fixed service charge which is assessed at the time the customer places their request. This approach provides a more businesslike approach to providing services. Customers appreciate the fixed cost nature of this arrangement and appreciate the fact that they will avoid cost overruns. The GovWorks operation has demonstrated the ability to contain its costs within these fixed charge revenues.

Relationship of the IFF to MMS's Primary Mission

MMS and the Department are benefited by the GovWorks operations through the development of a high-quality professional acquisition core staff with the knowledge and expertise to support MMS and Departmental acquisition needs. Recently, GovWorks has been chartered by the Interior Acquisition Managers' Partnership and the Interior Procurement Executive to develop a long-term IT solution for the Department. This long-term solution may provide a seat management approach to the acquisition of IT desktop and network services through contract support. The benefits of this approach include:

- a single IT solution for the Department,
- cost containment, and
- lower IT investment costs.

GovWorks would provide acquisition management and implementation services to all Interior bureaus for this effort. GovWorks is also assisting the Department by developing the means to acquire E-Grant capabilities for Interior bureaus. E-Grants are a part of the President's E-Government agenda.

GovWorks experience supported the successful acquisition of reengineering services, software, and contract operators of the new MMS Minerals Revenue Management system. This expertise is also being applied to the acquisition of an e-Gov solution for the bureau's Offshore Minerals Management program.

GovWorks, a Procurement Service Provider

In the area of procurement support services, MMS provides a complete range of acquisition services from inception to closeout. GovWorks staff manage project planning, solicit and evaluate offers, as well as award and administer contracts and agreements. Clients also receive assistance with project management activities such as preparing statements of work through contract sources and expenditure tracking. GovWorks pays all contract related bills freeing the client's staff from this process.

GovWorks offers professional acquisition and Federal Assistance planning and strategy, with specialties in the following areas:

Advisory and Assistance Studies	**Information Technology, including Hardware, Software and Services**
Telecommunications	**Research and Development**
Engineering and Technical Studies	**Environmental Studies**
Consulting Studies	**Master and Enterprise Licensing Solutions**
Cooperative Agreements and Grants	**Architecture and Engineering**
Business Process Re-engineering	**Facilities Management Systems**
Integrated Logistics Support and Analysis	**Sustaining Engineering**
Joint Military Program Support	**Fleet/Field Support Analysis**
E-Health Portal and Web Site Development	**Engineering Change Proposals**

GovWorks operates in a business-like manner, consistent with OMB's “Twelve Business-like Operating Principles” and can rapidly assist other agencies with its customer-focused contracting staff. GovWorks began offering acquisition services to Federal agencies on a service-for-fee basis. GovWorks offers an alternative acquisition service to that which customers can obtain from their agency acquisition office or other sources. Customers are free to leave if not satisfied with the service and price offered by GovWorks.

The significance for the Government as a whole is enormous. If acquisition services are freely competed and cost effective, Government can continue to meet its obligations to citizens without increasing administrative overhead. In the end, the Federal Government would spend a greater share of tax dollars to support citizens and a smaller share to support government operating expenses.

Accomplishments

With six years of experience, GovWorks has made impressive progress towards meeting the objectives of the franchise pilot program with approximately 3,000 contracts awarded in FY 2002 totaling approximately $500 million for several hundred customers government-wide.

GovWorks has served all bureaus of the Department by buying mission essential services and products. GovWorks awarded the Department’s TrustNet contract to ensure the network’s design and implementation meets OMB Circular A-130 security compliance standards and to ensure compliance with the court ordered network security improvements. GovWorks also awarded Competitive Souring contracts to aid bureaus in implementing the President’s Management Agenda. In Fiscal Year 2003, MMS GovWorks will work with the Department of the Interior to develop a long-term Information Technology solution to improve service and lower costs.

MMS GovWorks’ contract awards have contributed to the Department’s goal of awarding contracts to small, minority, women and veteran-owned businesses. The Department received high marks for these accomplishments. Each year, OMB asks agencies to award a greater number of performance-based service contracts. GovWorks has been a PBSC leader within the Department for a number of years.

The acquisition methods developed by GovWorks’ professionals have been shared during training sessions at the annual Interior Acquisition Conference and through outreach training to the Federal acquisition community.

The list of contracts that MMS GovWorks has awarded on behalf of DOI bureaus over the years shows our direct support of the mission of the Department. Equally important is the professional resource that GovWorks is developing. GovWorks has an active professional career development program that will ensure the Department has a trained acquisition workforce capable of meeting the Department’s mission now as well as in the future.

Planned Activities for FY 2003

- Increase the number of customer orders by 10 percent per year.
- Obtain unqualified audit opinions on financial statements.
- Continue to maintain a competitive fee that will bring back past customers and attract new customers.

Planned Activities for FY 2004

- Increase the number of customer orders by 10 percent per year.
- Obtain unqualified audit opinions on financial statements.
- Continue to maintain a competitive fee that will bring back past customers and attract new customers.

MINERALS MANAGEMENT SERVICE PERFORMANCE SUMMARY

The Department of the Interior is taking a new approach in developing its Strategic Plan for 2004-2008. The draft plan uses an integrated, Department-wide approach, and sets consistent, multi-agency performance goals and measures. The Department's draft Strategic Plan revolves around four major mission components: Resource Protection, Resource Use, Recreation, and Serving Communities. The strategic framework for the plan consists of core missions, end outcome and intermediate outcome goals and companion performance measures. The draft plan is currently out for public comment.

Like the Department, MMS is undertaking a significantly different approach in its strategic planning efforts. We are developing a strategic operating plan that is modeled on and linked to the Department's draft Strategic Plan in two major mission component areas: Resource Use and Serving Communities. Once the Department's plan is finalized, the MMS plan will present end and intermediate outcome measures that tie directly to the Department's goals as well as set annual and five year targets for achieving goals.

The MMS plan will be a guidance document that clearly sets forth the MMS philosophy, containing performance measures that make sense – clear and useful to supervisors and managers at all levels of the organization. The plan will be updated annually so that it will be a timely corporate roadmap for MMS employees and other interested parties. It will contain measurable outputs of program activities that are tied to costs through the ABC system, making MMS more results-oriented and providing a mechanism to hold managers accountable for results.

Some of the goals and measures included in the earlier MMS plan are being carried forward into the new plan, while others are new based on the Department's plan and MMS priorities. Past performance is available for carry over goals and is shown in the following tables. MMS is developing baseline information for the new goals.

The tables below show how MMS contributes to several end and intermediate outcome goals in DOI's draft strategic plan, the first of which is "Manage or influence resource use to enhance public benefit, promote responsible use, and ensure optimal value." The following table presents MMS's end outcome measures that support this goal, including actual performance for the last 2 years (where applicable) and planned performance for FY 2003 and FY 2004.

DOI Mission Component: RESOURCE USE

These end outcome measures focus on influencing resource use to enhance public benefit and ensure optimal value. MMS is helping to implement the National Energy Policy (NEP) by holding offshore lease sales and providing royalty-in-kind oil to fill the Strategic Petroleum Reserve. In addition, MRM is striving to ensure optimal value through its compliance, asset management, and disbursement processes.

As the data in the table below show, MMS has been successful in its past NEP efforts. MMS also has been successful in meeting almost all of its compliance and asset management and disbursement goals in recent years. However, a court-ordered system shutdown from December 2001 through March 2002 and subsequent recovery efforts hindered the achievement of the FY 2002 disbursement goal because it prevented MRM from providing detailed supporting mineral revenue data along with mineral revenue payments to states. MRM is applying a concerted development effort to address system limitations that are preventing more timely disbursement of funds and expects to achieve significant improvement by the end of FY 2003.

Until the end of FY 2002, MMS used a compliance index as the measurement most closely aligning with our long-term goal supporting compliance. MRM had planned to develop a new compliance measurement methodology during FY 2002 to measure progress in meeting the long-term goal, but has not been able to do so because of the court-ordered system shutdown and recovery efforts mentioned above. MRM plans to develop the methodology in FY 2003 and establish an annual performance goal for FY 2004. Therefore, targets have not yet been established for FY 2003 and 2004 for one of the compliance goals. "N/A" is entered in those fields.

DOI Strategic Goal: Resource Use –Provide Access for Responsible Use and Optimal Value						
End Outcome Goal 2.1: Manage or Influence Resource Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value (Energy)						
End Outcome Measures	**FY 2001 Actual**	**FY 2002 Plan**	**FY 2002 Actual**	**FY 2003 Plan**	**FY 2004 Plan**	**Change in Performance —2003 to Planned 2004**
Implement National Energy Policy by holding 17 offshore sales consistent with the Secretary's 5-Year Program	3	5	3	3	6	6 sales on the 5-Year schedule, however two AK sales may be delayed.
Implement National Energy Policy by providing the Strategic Petroleum Reserve with 120 million barrels of oil by 2005.	0	10.9 million barrels	11.0 million barrels	42.1 million barrels	47.6 million barrels	5.5 million barrels
Royalties received for mineral leases are 98% of predicted revenues, based on market indicators, in the production year.	.9835	.9775	.9870	N/A	.98	N/A
Royalties received for mineral leases are 100% of value (determined by regulation) after verification and audit.	9.6% of 1999 royalties confirmed	10.3% of 1999 royalties confirmed	10.5% of 1999 royalties confirmed	46% of 2000 royalties confirmed	68% of 2001 royalties confirmed	20% (see related increase in covered universe below in 3 yr goal) (1999

						properties were "operational model" properties representing low dollars with multiple land categories and reporting issues)
Disburse 98% of revenues timely per regulation.	98%	98%	80%	92%	94%	2%

MMS also provides intermediate outcome measures designed to support the Department's strategies for achieving the Resource Use end outcome goal, which are: effectively manage and provide incentives for access and development; enhance responsible use management practices; effective lease and permit management; and improve information base, resource management, and technical assistance.

Offshore oil and gas resources are an important part of the Nation's energy future. Through its leasing program, OMM plays a vital role in support of the National Energy Policy by continuing the OCS leasing program on predictable schedules. Information in the table below demonstrates that MMS has been effective in its leasing efforts by holding offshore sales on time as scheduled in the Secretary's 5-Year Program. OMM plans to continue holding sales on schedule with timely decision making and full consultation and coordination with affected parties.

Several of MMS' intermediate outcome measures track our efforts to encourage development of minerals from offshore leases, in support of the NEP. We have been timely in our processing of plans and applications, and will continue to strive to facilitate responsible mineral production. For example, OMM plans to investigate the best tools to encourage exploration and development offshore Alaska, and will propose incentive options for upcoming OCS lease sales. In addition, OMM is in the process of developing a regulation that will provide royalty relief to encourage development of the rest of the deep gas potential on previously issued shallow water leases. This should help increase supply and alleviate potential natural gas shortages.

Intermediate Outcome: Effectively manage and provide incentives for access and development						
Intermediate Outcome Measures	**FY 2001 Actual**	**FY 2002 Plan**	**FY 2002 Actual**	**FY 2003 Plan**	**FY 2004 Plan**	**Change in Performance— 2003 to Planned 2004**
Hold 100% of offshore sales on time as scheduled in 5-Year Program	3 100%	3	3 100%	3	4	Plan on 4 sales being held on time. 6 sales planned but two may be delayed.
Process 75% of exploration plans in less than 30 days	449	391	391	401	401	No Change

Process 95% of development plans in less than 120 days.	449	300	300	353	353	No Change
Process 100% of right of way pipeline applications within 140 days* (MMS Measure)	133	New Measure	162	151	152	Activity expected to continue at these levels due to deepwater activities. The demand for pipelines is expected to decrease slightly.
Output Measures	**FY 2001 Actual**	**FY 2002 Projected**	**FY 2002 Actual**	**FY 2003 Projected**	**FY 2004 Projected**	**Change in Performance—2003 to Planned 2004**
# Acres Leased	38,559,700	39,560,700	39,569,304	40,600,000	41,203,745	Some continuation of FY 01 to FY 02 annual growth rate in the Gulf of Mexico Region. AK leases from 9/03 sale 186 and 5/04 sale 191.
# Leases Managed	7,538	7,629	7,629	7,669	7,780	AK-57 projected issued as a result of 2004 lease sales. GOMR averages 700-900 new leases per year and averages 700 relinquish-ments per yr.
# Plans Approved	1,107	New Measure	1,014	1,109	1,110	Increased activity due to higher oil and gas prices.
# Permit Applications Approved	11,451	New Measure	10,321	11,457	11,822	Increased activity due to higher oil and gas prices.

***Indicates intermediate outcome goals unique to the MMS operating plan.**

The second resource use strategy focuses on responsible use, improved use of conservation practices, and providing public benefit. OMM will continue to develop policies, regulations, and guidelines that provide clear direction to operators about what conservation actions MMS will require, what analysis we will undertake when evaluating requests, and what activities we will prohibit in order to avoid loss, and prevent waste. In addition, OMM will establish and implement an environmental monitoring policy to help evaluate the effectiveness of lease stipulations and environmental mitigation measures.

In response to a Presidential directive issued in November 2001, MMS, in partnership with DOE, launched the Strategic Petroleum Reserve (SPR) Fill Initiative. This Initiative provides public benefit and addresses security needs of the Nation by filling the remaining capacity of the SPR using Federal Gulf of Mexico royalty-in-kind (RIK) oil. MRM will continue the joint initiative until 120 million barrels of RIK oil have been delivered. We expect to complete the initiative in 2005, barring any unforeseen events or significant drawdowns from the SPR.

Intermediate Outcome: Enhance Responsible Use Management Practices						
Intermediate Outcome Measures	**FY 2001 Actual**	**FY 2002 Plan**	**FY 2002 Actual**	**FY 2003 Plan**	**FY 2004 Plan**	**Change in Performance —2003 to Planned 2004**
Maintain an oil spill rate for offshore development of no more than 10 barrels spilled per million barrels produced.	1	10	Expect Final in 5/03	10	10	No Change
Take in kind 130,000 barrels of oil per day for the Strategic Petroleum Reserve * (MMS Measure)	0	60K barrels a day by 4/02	60K barrels a day avg 04/02-09/02	100K barrels a day 10/02-03/03 130K barrels a day 04/03 forward	130,000 barrels a day	Avg 15,000 barrels/day increase
Less than 1% of total gas produced is approved to be flared offshore.* (MMS Measure)	0.7%	0.7%	Expect Final in 5/03	0.7%	0.7%	No Change
Annually inspect 66,000 production facility components for compliance with safety and pollution prevention guidelines, including efforts to minimize impacts on environmental resources.(Measure also supports DOI Strategic Goal “Protect Lives, Resources, and Property”) * (MMS Measure)	64,135	New Measure	67,608	66,560	66,560	No Change
Complete 75% of offshore environmental assessments for development plans within 8 months. * (MMS Measure)	15	New Measure	7	16	21	5 Continued increased interest in GOMR oil and gas prospects.

Output Measures	FY 2001 Actual	FY 2002 Projected	FY 2002 Actual	FY 2003 Projected	FY 2004 Projected	Change in Performance —-2003 to Planned 2004
# Production measurement plans approved	350	New Measure	359	362	372	10 Increased activity due to RIK program which includes filling SPR. Implement Gas Verification Sampling Program.
# Conservation actions processed	14,982	New Measure	15,286	16,786	17,886	1,100 Increased activity due to a combination of increase in deepwater development, increase in active leases, and implement new conservation initiatives.
# Oil spill or engineering research projects funded (measure also supports strategy "Improve Information Base")	65	60	59	60	60	No Change
# Seafloor assessments and monitoring activities	77	101	102	144	156	12 Possible change in archaeological historic block designations. In the Pacific, inspection of Exxon/Mobil power cable project.

Indicates intermediate outcome goals unique to the MMS operating plan.

MMS serves an integral role the Department's immediate outcome titled "Effective Lease and Permit Management." MRM is committed to managing the mineral revenue asset to enhance public and trust benefit and to ensure optimal value. MRM promotes realization of optimal value through the asset analysis process. If there is an economic advantage to the Government, either because of increased revenues, greater administrative efficiency, or security needs of the Nation, MRM will take royalties in kind. MRM also achieves optimal value by ensuring that all revenues from Federal and Indian mineral leases are efficiently, effectively, and accurately collected, accounted for, and disbursed to recipients. Additionally, MRM continues to expand compliance coverage, to ensure that the Government is realizing fair value, and that companies are in compliance with applicable laws, regulations, and lease terms.

When companies report royalties correctly when providing their initial royalty reports, it enhances MRM's ability to disburse revenues timely to the ultimate recipients – states, Tribes, and the U.S. Treasury. Timely disbursements coincide with reduced late-disbursement interest paid by the government to the ultimate recipients. By monitoring these measures – in addition to our timely disbursement percentage mentioned above – MRM is able to make course corrections to enhance its financial effectiveness and assist in achieving an unqualified audit opinion.

MRM's goal is to complete compliance work (verification and audit) within 3 years. The new Compliance and Asset Management (CAM) process leverages MRM's knowledge of the producing areas, and provides efficiencies that are assisting us in reducing the compliance cycle from the former 6 years to 3 years. In addition, we continue to increase the royalty dollars covered by our 3-year compliance cycle; our ultimate goal is to cover 95 percent of all royalties within 3 years.

MRM senior management established an RIK performance objective to confirm and reconcile within 90-120 days all production royalties taken in kind. The entire RIK process from asset analysis to final reconciliation requires less time than the in-value process requires and results in more certainty that proper payments were made. Therefore, any additional RIK operations enhance our ability to achieve our goal of ensuring compliance within 3 years.

An important facet of OMM's effective lease management is its efforts to maintain state-of-the-art computer models and interpretive technologies for resource assessment, oil and gas field evaluations, and evaluations of the adequacy of competitive bids received at OCS oil and gas lease sales. OMM measures its success in the bid evaluation process through the use of the ration mentioned in the table below. The ratio consistently has been within or slightly above the targeted range for the past several years.

Intermediate Outcome: Effective Lease and Permit Management						
Intermediate Outcome Measures	**FY 2001 Actual**	**FY 2002 Plan**	**FY 2002 Actual**	**FY 2003 Plan**	**FY 2004 Plan**	**Change in Performance—2003 to Planned 2004**
97% royalty information is reported accurately the first time.	96.2%	95%	86%	94%	95%	1% (In FY 2002, companies experienced a learning curve with the new MRM system)
Complete compliance work and issue necessary orders within 3 years of the due date for 95% of royalties.	Assured compliance for 89.2% of properties representing 11% of 1999 royalties	Assure compliance for 95% of properties representing 11% of 1999 royalties	Assured compliance for 97.2% of properties representing 11% of 1999 royalties	Assure compliance for 95% of properties representing 49% of 2000 royalties	Assure compliance for 95% of properties representing 70% of 2001 royalties	Royalty universe covered by compliance activities increase by 21%.

Increase royalty share taken in kind.(Goals based on Offshore oil in Gulf of Mexico and Pacific)	44% offshore oil; 15% offshoregas	45% offshore oil; 15% offshore gas	45% offshore oil; 15% offshore gas	60% offshore oil; 15% offshore gas	80% offshore oil; 30% offshore gas	20% offshore oil; 15% offshore gas
Obtain unqualified audit opinion on MMS Annual Financial Statement for Custodial Accounts. * (MMS Measure)	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	No Change
Maintain the ratio of 1.8 to 1 (+/- 0.4) of accepted high bids to MMS' estimated value.	2.26 to 1	1.8(+/- 0.4) to 1	2.4 to 1	1.8(+/- 0.4) to 1	1.8(+/- 0.4) to 1	Scheduled evaluation in CY 2004 for a somewhat frontier area sale (E. Gulf of Mexico) may influence result.
Output Measures	**FY 2001 Actual**	**FY 2002 Projected**	**FY 2002 Actual**	**FY 2003 Projected**	**FY 2004 Projected**	**Change in Performance— 2003 to Planned 2004**
# G&G permits issued	113	100	79	101	93	3 sales in the Gulf in FY 04
# Tracts assessed or evaluated	867	New Measure	982	887	941	3 sales in the Gulf in FY 04. AK: Norton, Cook, Inlet, Chuckchi/ Hope
# Reservoirs assessed or evaluated for resources	6,954	New Measure	9,230	6,390	5,775	In AK, 8 sales in current 5-year program vs 1 on the last. Workload shifts to more labor intensive tract evaluations.
# Federal Disbursements	12	12	12	12	12	No Change
# Properties reviewed for compliance	699 properties representing $ 416.5M total CY 99 royalties	699 properties representing $416.5M total CY 99 royalties	699 properties representing $416.5M total CY 99 royalties	1,500 properties representing $2.9 billion total CY 2000 royalties	1,352 properties representing appx. $6.1 billion (70%) of total CY 2001 royalties	148 less properties, $3.2 billion more royalties in 3-year compliance cycle.
# RIK MMBtu's sold	118.9M	118M	115.4M	154M	292M	138M
# RIK barrels sold	30.5 M	38M	36.1M	59M	59M	No change

***Indicates intermediate outcome goals unique to the MMS operating plan.**

OMM has two intermediate outcome measures to support the strategy "Improve information base, resource management, and technical assistance."

The National Oil Spill Response Test Facility (Ohmsett) provides testing and research capabilities to help the government fulfill its regulatory requirements and meet its goal of clean and safe operations. This unique facility is capable of replicating various conditions at sea. With offshore oil and gas operations moving into deeper waters, there are many questions about dealing with an oil spill or blowout in deep water. Ohmsett is the best place to test new equipment and ideas on cleaning up oil in deepwater. Tests can be conducted in a safe environment and are much less expensive than they would be in the open ocean.

The coordinated and collaborative efforts of OMM's Technology Assessment and Research, Environmental Studies Program, and Oil Spill Research Program in setting priorities and leveraging funds enable the conduct of the needed research that is essential to basing MMS decisions on sound science. OMM works with several several federal agencies with relevant mandates to meet its information requirements to support OCS development and resource management decisions.

Intermediate Outcome: Improve information base, resource management and technical assistance.						
Intermediate Outcome Measures	**FY 2001 Actual**	**FY 2002 Plan**	**FY 2002 Actual**	**FY 2003 Plan**	**FY 2004 Plan**	**Change in Performance— 2003 to Planned 2004**
Achieve a utilization rate of 83% at Ohmsett, the national oil spill response test facility.	74%	80%	88%	83%	83%	No change
Conduct Technology Assessment and Research (TAR) studies on 80% of high priority topics.* (MMS Measure)	TAR was not using same priority	75%	58%	75%	75%	No change
Output Measures	**FY 2001 Actual**	**FY 2002 Projected**	**FY 2002 Actual**	**FY 2003 Projected**	**FY 2004 Projected**	**Change in Performance— 2003 to Planned 2004**
# Oil spill or technology tests	65	60	59	60	60	No Change

Indicates intermediate outcome goals unique to the MMS operating plan.

OMM has a role in providing non-energy minerals to states and this aligns with the Department's Resource Use strategic goal. In FY 2002 and FY 2003, OMM vastly increased output of sand due to a project at Holley Beach, LA and levee projects. This project will be completed in FY 2003; therefore, the projected cubic yards of sand that OMM will provide in FY 2004 have been reduced to a rate more in line with FY 2002 figures.

However, increased demand for OCS sand for coastal restoration has raised concerns about frequent and long-term uses of OCS borrow areas. OMM plans to develop regional management strategies that address allocation of sand among multiple users and cumulative environmental impacts, and that identify opportunities for coordination to reduce costs and impacts.

DOI Strategic Goal: Resource Use – Provide Access for Responsible Use and Optimal Value.						
End Outcome Goal 2.1: Manage or Influence Non-Energy Mineral Use to Enhance Public Benefit, Promote Responsible Use, and Ensure Optimal Value. (Non-Energy)						
Intermediate Outcome: Provide access to and incentives for production.						
Intermediate Outcome Measures	**FY 2001 Actual**	**FY 2002 Plan**	**FY 2002 Actual**	**FY 2003 Plan**	**FY 2004 Plan**	**Change in Performance —2003 to Planned 2004**
Issue 100% of sand and gravel leases within 30 days of the formal request with final lease terms..	100% 3 leases	100% 2 leases	100% 2 leases	100% 3 leases	100% 3 leases	No change
Output Measures	**FY 2001 Actual**	**FY 2002 Projected**	**FY 2002 Actual**	**FY 2003 Projected**	**FY 2004 Projected**	**Change in Performance —2003 to Planned 2004**
# Cubic yards of sand	4,400,000	4,000,000	5,702,000	12-16 million	6,000,000	LA project in FY 03 will be completed

DOI MISSION COMPONENT: SERVING COMMUNITIES

OMM aligns with the DOI end outcome goal "Protect Lives, Resources and Property" in the end outcome measure of reducing fatalities and serious injuries. OMM continues to work with industry to reduce the number of accidents. The efforts to reduce the numbers include meetings with operators, new standards, performance measures, and accident investigations. In addition, OMM has a leadership role in the international regulatory community. OMM is actively involved in efforts to improve government regulatory regimes and to achieve better safety and environmental performance by worldwide offshore operators.

DOI Strategic Goal: Serving Communities – Protect Lives, Resources, and Property.						
End Outcome Goal 4.1: Protect Lives, Resources, and Property						
End Outcome Measures	**FY 2001 Actual**	**FY 2002 Plan**	**FY 2002 Actual**	**FY 2003 Plan**	**FY 2004 Plan**	**Change in Performance —2003 to Planned 2004**
# of fatalities and serious injuries among workers on DOI managed or influenced lands and waters.	6 fatalities/26 serious injuries	New Measure	7 fatalities/21 serious injuries	Reduce from 5-year avg(1998-2002) of 7 fatalities and 26 serious injuries	Reduce from 5-year avg(1998-2002) of 7 fatalities and 26 serious injuries	No change

OMM also has measures to support DOI's second Serving Communities strategy, which is "Improve Public Safety and Security and Protect Public Resources from Damage."

OMM plans to update the inventory of DOI regulated facilities within MMS designated as critical assets on the Outer Continental Shelf quarterly during FY 2003 and 2004. In addition, OMM will fulfill MMS plan objectives by conducting Coast Guard inspections of manned offshore facilities annually and also conducting unannounced audits of training programs annually. OMM will work with the Coast Guard to revise our existing Memorandum of Understanding to eliminate inconsistencies in regulatory enforcement, minimize duplicative work activities, and improve the overall safety of operations on the OCS.

Intermediate Outcome: Improve Public Safety and Security and Protect Public Resources from Damage.						
Intermediate Outcome Measures	**FY 2001 Actual**	**FY 2002 Plan**	**FY 2002 Actual**	**FY 2003 Plan**	**FY 2004 Plan**	**Change in Performance —2003 to Planned 2004**
Update annually or quarterly the inventory of DOI regulated facilities designated as critical assets on the Outer Continental Shelf.	New Measure	New Measure	New Measure	4	4	No Change
Participation (on a production basis) in Safety and Environmental Management Program (SEMP) measures is 70% or greater.	84.7%	New Measure	81.6%	70%	70%	No Change
Annually inspect 66,000 production facility components for compliance with safety and pollution prevention guidelines, including efforts to minimize impacts on environmental resources.* (MMS Measure) (Measure also supports DOI Strategic Goal 2.1, "Responsible Use")	64,135	New Measure	67,608	66,560	66,560	No Change Overall decrease due to POCSR downsizing.
Conduct full Coast Guard inspections on 10% of manned offshore facilities annually.* (MMS Measure)	New Measure	New Measure	New Measure	79	79	No Change
Conduct unannounced audits of training programs for 10% of operators annually.* (MMS Measure)	New Measure	New Measure	5%	17%	17%	No Change
Maintain an annual composite operator safety index of 0.2 or less.*	0.2	New Indicator Established	Data Available Feb '03	0.2	0.2	No Change
Output Measures	**FY 2001 Actual**	**FY 2002 Projected**	**FY 2002 Actual**	**FY 2003 Projected**	**FY 2004 Projected**	**Change in Performance —2003 to Planned 2004**
# DOI regulated facilities designated as critical assets	77	New Measure	77	79	79	No Change
# Annual Performance Reviews conducted	133	New Measure	137	137	137	No Change
# Accident investigations	52	Investigate as Necessary	52	Investigate as Necessary	Investigate as Necessary	Investigate as Necessary
# Civil penalty cases assessed	41	Assess as Necessary	54	Assess as Necessary	Assess as Necessary	Assess as Necessary
# Components inspected	64,135	New Measure	67,608	66,560	66,560	No Change Decrease due to POCSR Downsize.

***Indicates intermediate outcome goals unique to the MMS operating plan.**

MRM has measures that support three of the DOI strategies in the end outcome goal "Fulfill Indian Trust Responsibilities under "Serving Communities." The strategies are "Improve Indian Trust Beneficiary Services," Improve Management of Land and Natural Resource Assets," and "Support Indian Self-Governance and Self-Determination."

MRM is a steward of the royalty asset from Indian trust properties and serves as an advocate for the interests of Indian mineral owners, ensuring fulfillment of our Indian trust responsibility. MRM serves American Indian tribes and individual American Indian mineral owners by ensuring that they receive accurate returns for mineral production on their land. While working to protect American Indian mineral interests, MMS also emphasizes American Indian empowerment.

MRM encourages and promotes American Indian management of their mineral revenue assets, to the extent that they seek to do so. Through the Intergovernmental Personnel Act (IPA) program, MRM provides hands-on opportunities to give tribes knowledge and experience performing royalty management processes. In FY 2002, MRM entered into an IPA to provide an internship opportunity to the Chippewa-Cree Tribe. During FY 2003 and 2004, we plan to add the Hopi and Alabama Coushatta Tribes as two more participants in the IPA program, with the anticipating that these IPA's will eventually lead to additional cooperative agreements with the tribes to perform their own audits. Our 2008 goal is to expand to 95 percent, the amount of mineral revenues audited by tribes.

MRM disburses to OTFM into interest-bearing accounts on a daily basis for all funds identified as tribal and allotted lease revenues. The court-ordered system shutdown from December 2001 through March 2002 and the subsequent recovery efforts hindered our ability to gather and compile data for Indian disbursement timeliness. MRM is gathering data for this measure in FY 2003.

In Farmington, New Mexico, MRM participates in the Federal Indian Minerals Office (FIMO). This office unites oil and gas staff from the BIA, BLM, and MMS, under one director for outreach, inspection, enforcement, and mineral revenue compliance services to industry and American Indian allottees and their heirs. As a result of this office's success, Department officials are interested in adopting this approach in other geographic areas and are formalizing the FIMO concept for implementation in other areas.

MRM is committed to communicating and consulting with American Indian owners about issues related to Indian minerals. MRM provides outreach to approximately 20,000 individual Indian mineral owners through over 30 outreach meetings per year in various geographic locations. MRM also uses other innovative outreach methods, such as Navajo radio broadcasts and attending pow-wows, to reach our American Indian constituents.

DOI Strategic Goal: Serving Communities – Fulfill Indian Trust Responsibilities						
End Outcome Goal 4.3: Fulfill Indian Trust Responsibilities						
Intermediate Outcome: Improve Indian Trust Beneficiary Services						
Establish one additional Federal Indian Mineral Office by 2004. * (MMS Measure)	1	1	1	1	2	1
Conduct 40 or more Indian outreach sessions per year. * (MMS Measure)	67	60	62	57	58	1
Intermediate Outcome: Improve Management of Land and Natural Resource Assets						
Disburse 100% revenue to OTFM within 24 hours of receipt.	99%	99%	NA	99%	99%	No Change
Provide lease data to BIA for 98% of royalties within 21 days of receipt.	New Measure	New Measure	New Measure	New Measure	90% within 21 days	N/A
Tribes manage audit activities for 95% of Tribal mineral royalties	88%	88%	88%	88%	88%	No Change
Intermediate Outcome: Support Indian Self-Governance and Self-Determination						
Establish at least one Tribal internship per year. * (MMS Measure)	7	8	8	9	10	1
Output Measures	**FY 2001 Actual**	**FY 2002 Projected**	**FY 2002 Actual**	**FY 2003 Projected**	**FY 2004 Projected**	**Change in Performance—2003 to Planned 2004**
# Indian Inquiries Serviced	4,964	5,600	6,265	5,600	5,600	No change
# Indian 202 Cooperative Agreements	8	8	8	8	9	1
# Indian Distributions	24	24	28	36	36	0

***Indicates intermediate outcome goals unique to the MMS operating plan.**

Explanation of Authorizing Statutes

Outer Continental Shelf Lands

43 U.S.C. 1331, et seq.	The Outer Continental Shelf (OCS) Lands Act of 1953, as amended, extended the jurisdiction of the United States to the OCS and provided for granting of leases to develop offshore energy and minerals
43 U.S.C. 4321, 4331-4335, 4341-4347	The National Environmental Policy Act of 1969 required that Federal Agencies consider in their decisions the environmental effects of proposed activities and that Agencies prepare environmental impact statements for Federal actions having a significant effect on the environment.
16U.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 nonexcepted 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 and the Materials and Minerals 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.
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).

Royalty 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 1909authorizesoil and gas leases on American Indian allotted lands.
25 U.S.C. 396-396(g), et seq.	The Indian Mineral Leasing Act of 1938 authorizes oil and gas lease on American Indian Tribal lands and provides uniformity with respect to leasing of Tribal lands for mining purposes.
30 U.S.C. 181, et seq.	The Mineral Leasing Act of 1920 (MLA) provides for classification and leasing of coal, oil, oil shale, natural gas, phosphate, potassium, sulfur, and sodium and the payment of bonuses, rents, and royalties on such leases.
43 U.S.C. 1331, et seq.	The Outer Continental Shelf Lands Act of 1953 provides for granting of leases to develop offshore energy and minerals; provides for bonuses, rents, and royalties to be paid in connection with such leases; and calls for sharing certain revenues with coastal states.
30 U.S.C. 1001, et seq.	The Geothermal Stream Act of 1979 authorizes the Secretary to issue leases for the development of geothermal energy and

provides for receipt sharing with the States.

30 U.S.C. 181, et seq.	The Combined Hydrocarbon Leasing Act of 1981 provides for combined hydrocarbon leases and receipt sharing with the States for such leases within their boundaries.
25 U.S.C. 2101, et seq.	The Indian Minerals Development Act of 1982 provides that any American Indian Tribe may enter into lease agreements for minerals resources within their boundaries with the approval of the Secretary. Allotted landowners may join Tribal mineral agreements.
30 U.S.C. 1701, et seq.	The Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA) provides for comprehensive fiscal and production accounting and auditing systems to provide the capability of accurately determining oil and gas royalties, interest, fines, penalties, fees, deposits, and other payments owed and to collect for such amounts in a timely manner.
106 Stat. 1374	The FY 1993 Department of the Interior and Related Agencies Appropriations Bill requires the deduction of $68.2 million from mineral receipts before their distribution to States and Treasury to recover a portion of the Government's mineral leasing program costs.
110 Stat. 1700	The Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (P.L. 104-185) changes for royalty collection program by establishing a 7-year statute of limitations, limits of appeals, requires the government to pay interest on royalty overpayments, changes in definitions, and allows for delegation of certain functions. Omnibus Act of 1999 (P.L. 105-277) General Provisions Department of the Interior Sec. 130 Oil Valuation Rider Sec. 139 - Small Refiner Ratification of Payments
PL 106-393	Mineral Revenue Payments Clarification Act of 2000, Title V of the Secure Rural Schools and Community Self-Determination Act of 2000

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. 35128	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	The order 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 Land 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	E.O. 1277, 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).