BUDGET JUSTIFICATIONS

The United States Department of the Interior

U.S. Department of the Interior 1849 • 1999

and Annual Performance Plan Fiscal Year 2000

MINERALS MANAGEMENT SERVICE

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ANNUAL PERFORMANCE PLAN FY 2000

Minerals Management Service
FY 2000 President's Budget

The Minerals Management Service (MMS) provides major fiscal and energy benefits to taxpayers, States, and the Indian community. The MMS's programs provide benefits of national significance. In FY 2000, the MMS will account for an estimated $4.0 billion in Federal receipts, including $2.8 billion from Outer Continental Shelf (OCS) rents, bonuses, and royalties, and $1.2 billion in onshore receipts. From a taxpayer's perspective, that converts to $1.9 billion deposited to the General Fund of the U.S. Treasury to pay for Federal programs. Of local significance are $611 million in mineral revenue payments made to onshore States, approximately $897 million transferred to the National Park Service for the Land and Water Conservation Fund, $479 million credited to the Bureau of Reclamation Fund, $150 million to Indian tribes and allottees. Additionally, coastal States will receive $106 million in shared mineral revenue receipts.

FY 2000 Proposed Operating Appropriations/Offsetting Collections
dollars in thousands

Royalty and Offshore Minerals Management	$110,082
Offsetting Collections	$124,000
Oil Spill Research	$6,118
Total	$240,200

The largest portion of the MMS operating budget is obtained from the Royalty and Offshore Minerals Management (ROMM) appropriation. This account is comprised of both direct appropriations and offsetting collections. Direct appropriations from ROMM have declined since FY 1993, while MMS's reliance on offsetting collections has grown significantly. Initially, these offsetting collections were only used in the OCS Lands program, however with progressively more of MMS's budget being received from offsetting collections, authority for use of these receipts is now bureau-wide. The MMS request proposes raising the cap on offsetting collections to $124 million..

In addition to appropriations for operations, the MMS receives appropriations for distribution of the States' share of onshore mineral receipts. Those permanent appropriations are:

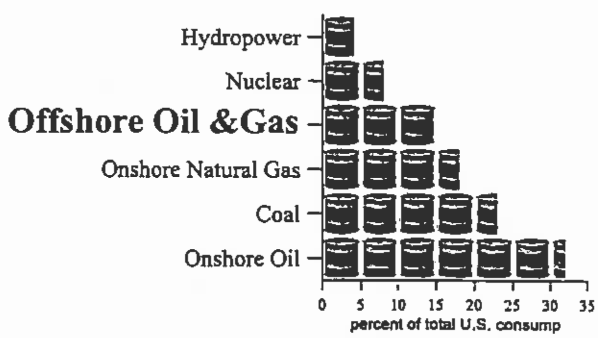
FY 2000 Proposed Permanent Appropriations
(dollars in thousands)

Mineral Leasing Associated Payments *(MLAP)*	606,581
National Forest Fund Payments to States *(Forest Fund)*	3,311
Payments to States from Lands Acquired for Flood Control, Navigation, and Allied Purposes *(Flood Control)*	756
Total	**$610,648**

The United States currently depends on natural gas and oil for nearly two-thirds of its energy consumption. Promising new sources of energy appear on the horizon, but our reliance on natural gas and oil is not likely to change dramatically over the next 2 to 3 decades. Because of this dependence, obtaining sufficient natural gas and oil supplies at reasonable prices is crucial to our security and the well-being of our economy. For this reason, MMS's OCS programs are vitally important to the Nation; they contribute to both its economic well-being and energy security.

While OCS mineral resource development is a major focus of its efforts, MMS places its highest priority on safety and environmental protection and devotes significant funding to it. The MMS strives for the proper balance between providing a domestic energy source for the American people and protecting sensitive coastal and marine environments.

U.S. Primary Energy Consumption



All other energy sources constitute less then 1 percent.

The Federal Government is the largest mineral royalty owner in the United States. The MMS is responsible for ensuring that on average $4 billion in annual revenues from Federal and Indian mineral leases is collected, accounted for, verified, and disbursed to appropriate recipients in a timely manner. In addition to a broad range of financial services, MMS also 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. Currently, MMS administers the rental, royalty, and other financial terms for approximately 26,053 producing and 54,674 non-producing mineral leases.

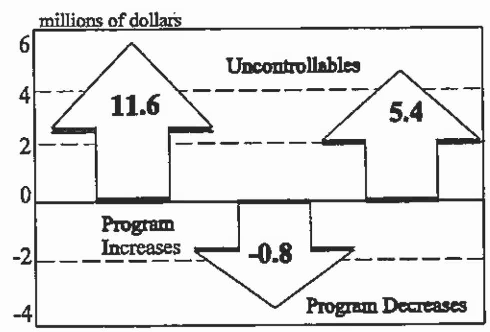
An MMS hallmark has been its ability to evolve in response to changing economic and business climates. Perhaps the best description of MMS's experience, especially during the last 4 years, would be learning to maintain high standards of customer service while ensuring safe OCS operations and collecting, distributing, and verifying mineral revenues. Tight budgets have challenged MMS to become more efficient while maintaining high quality service. The MMS is meeting this challenge with enthusiasm, dedication, and innovation throughout the bureau.

THE BUDGET REQUEST

FY 2000 Budget Request

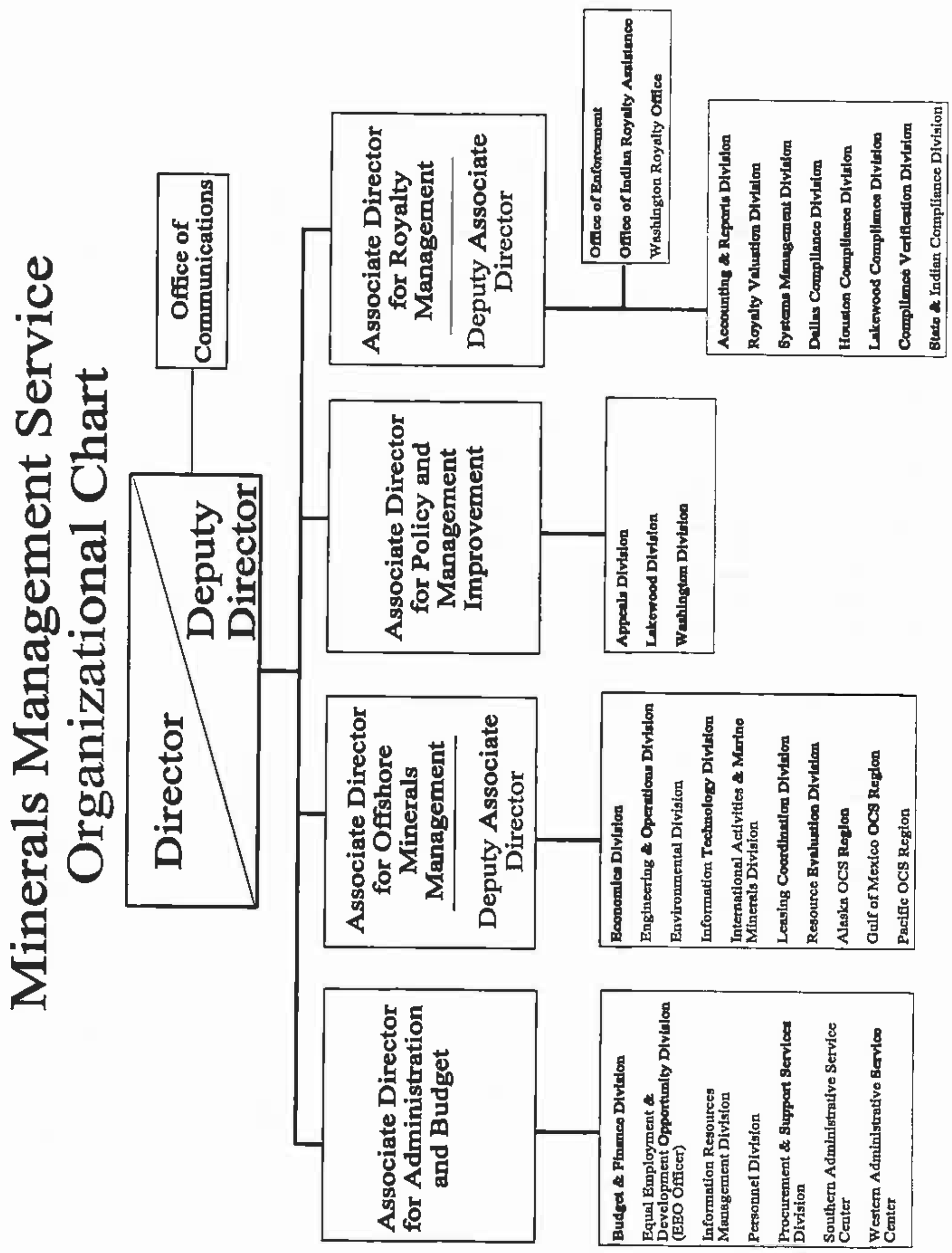
The MMS budget request is approximately $240.2 million, an increase of roughly $16.2 million above the 1999 enacted level of $224.0 million. The $16.2 million increase includes continuing the work provided by the $8.7 million increase for 1999 to meet legislative and workload increases. The proposed increases are covered by raising the cap on offsetting receipts from $100.0 million to $124.0 million. In turn, the request for direct appropriations is only $116.2 million, a decrease of $7.8 million from the 1999 level of $124.0 million. At the FY 2000 request level, offsetting collections would cover over 50 percent of MMS's operating budget. In addition to the current budget, three permanent appropriations totaling $610.6 million provide States their statutory shares of mineral leasing revenues generated on Federal lands.

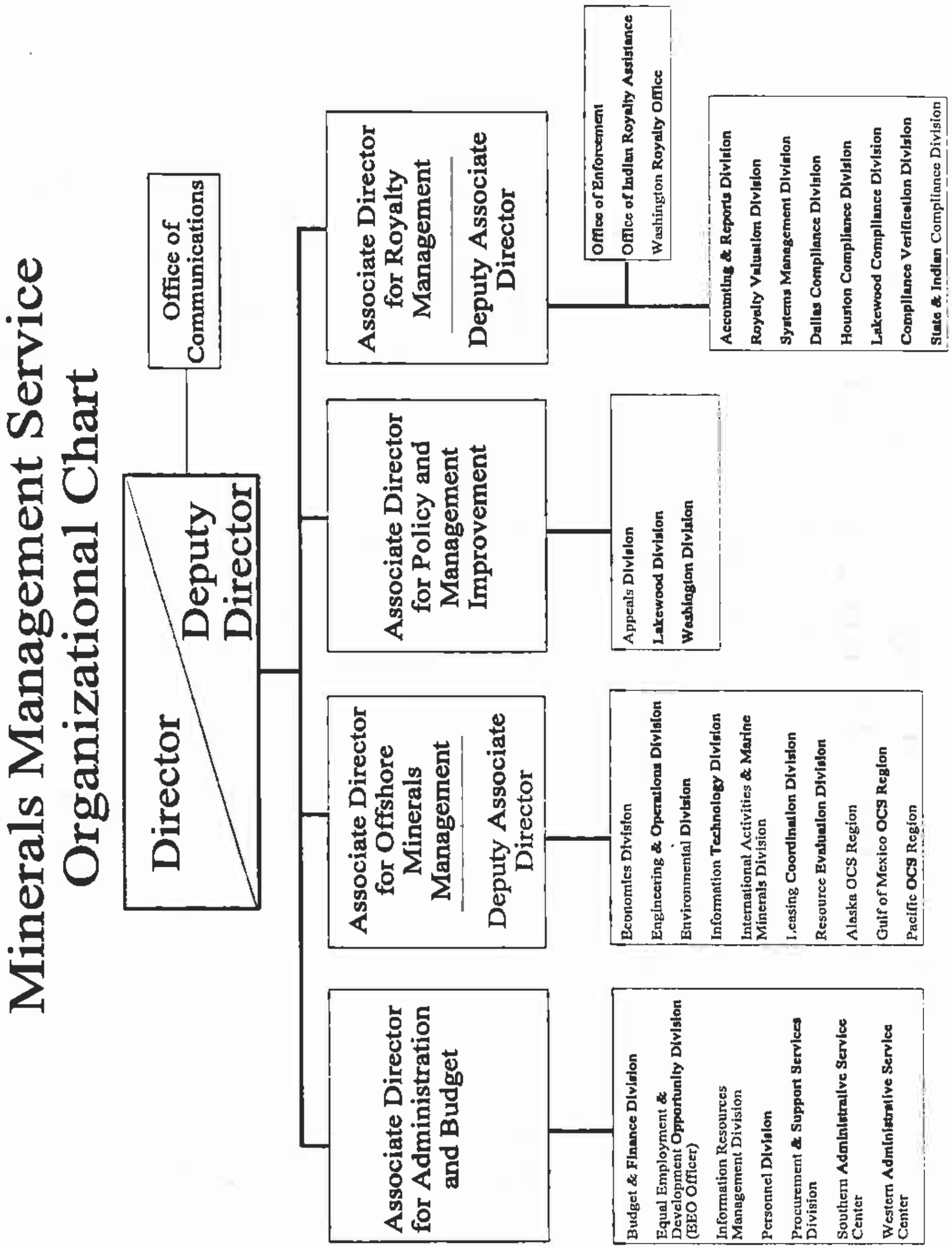
Minerals Management Service
Components of Proposed FY2000 Increase
Total Proposed Increase of $16.2 Million



The net increase of $16.2 million over the 1999 level will enable MMS to fully fund its $5.4 million in uncontrollable cost increases. The remaining $11.6 million programmatic increase, coupled with programmatic reductions of $0.8 million, will enable MMS to fund Gulf of Mexico workload requirements, participation in international standards setting activities, and funding to continue major reengineering efforts for the Royalty Management Program (RMP).

The $10 million proposed in 2000 for RMP reengineering will be used to implement new applications and technologies supporting RMP's future concept of operations. The RMP faces the dilemma of responding to new legislative requirements, most notably the Royalty Simplification and Fairness Act (RSFA), with aging systems that already exceed accepted life cycle standards. Without this investment, a major risk of system failure and operational instability exists. Furthermore, the RSFA-authorized delegation of royalty management functions to States cannot be accommodated with the current RMP systems configuration. The RMP modernization is also essential for MMS to continue fulfilling its basic goal of ensuring the timely collection, accounting, verification, and disbursement of mineral revenues.


Minerals Management Service
Organizational Chart
Director
Deputy Director
Office of Communications
Associate Director for Administration and Budget
Budget & Finance Division
Equal Employment & Development Opportunity Division (EEO Officer)
Information Resources Management Division
Personnel Division
Procurement & Support Services Division
Southern Administrative Service Center
Western Administrative Service Center
Associate Director for Offshore Minerals Management
Deputy Associate Director
Economics Division
Engineering & Operations Division
Environmental Division
Information Technology Division
International Activities & Marine Minerals Division
Leasing Coordination Division
Resource Evaluation Division
Alaska OCS Region
Gulf of Mexico OCS Region
Pacific OCS Region
Associate Director for Policy and Management Improvement
Appeals Division
Lakewood Division
Washington Division
Associate Director for Royalty Management
Deputy Associate Director
Office of Enforcement
Office of Indian Royalty Assistance
Washington Royalty Office
Accounting & Reports Division
Royalty Valuation Division
Systems Management Division
Dallas Compliance Division
Houston Compliance Division
Lakewood Compliance Division
Compliance Verification Division
State & Indian Compliance Division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Royalty Valuation Division
Systems Management Division
Dallas Compliance Division
Houston Compliance Division
Lakewood Compliance Division
Compliance Verification Division
State & Indian Compliance Division

Summary of Requirements
Royalty and Offshore Minerals Management
dollars in thousands

Comparison by Activity/Subactivity	FY 1998 Enacted		FY 1999 Enacted		Uncontrol. and Related Changes		Programmatic Changes		Approp To Collections		FY 2000 Request		Inc(+) Dec(-) from 1999	
	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt
OCS Lands														
Leasing & Environment														
Appropriations	122	13,830	124	12,087	0	537	0	0	0	-3,218	124	9,406	0	-2,681
Offsetting Collections	80	21,065	83	23,265	0	0	0	0	0	3,218	83	26,483	0	3,218
Supplemental [non-add]	[5]	[4,800]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]
Total	202	34,895	207	35,352	0	537	0	0	0	0	207	35,889	0	537
Resource Evaluation														
Appropriations	131	17,336	131	10,448	0	640	0	-850	0	-1,548	131	8,690	0	-1,758
Offsetting Collections	73	5,210	74	12,085	0	0	0	0	0	1,548	74	13,633	0	1,548
Supplemental [non-add]	[2]	[225]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]
Total	204	22,546	205	22,533	0	640	0	-850	0	0	205	22,323	0	-210
Regulatory														
Appropriations	208	28,270	206	17,283	0	1,068	5	1,250	0	-1,470	211	18,131	5	848
Offsetting Collections	127	9,657	136	22,907	0	0	0	0	0	1,470	136	24,377	0	1,470
Supplemental [non-add]	[9]	[1,650]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]
Total	335	37,927	342	40,190	0	1,068	5	1,250	0	0	347	42,508	5	2,318
Information Mgmt														
Appropriations	37	2,198	36	2,447	0	317	0	0	0	-2,764	36	0	0	-2,447
Offsetting Collections	72	11,743	72	11,743	0	0	0	0	0	2,764	72	14,507	0	2,764
Supplemental [non-add]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]
Total	109	13,941	108	14,190	0	317	0	0	0	0	108	14,507	0	317
Subtotal OCS Lands														
Appropriations	498	61,634	497	42,265	0	2,562	5	400	0	-9,000	502	36,227	5	-6,038
Offsetting Collections	352	47,675	365	70,000	0	0	0	0	0	9,000	365	79,000	0	9,000
Supplemental [non-add]	[16]	[6,675]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]
Total	850	109,309	862	112,265	0	2,562	5	400	0	0	867	115,227	5	2,962

Summary of Requirements
Royalty and Offshore Minerals Management
dollars in thousands

Comparison by Activity/Subactivity	FY 1998 Enacted		FY 1999 Enacted		Uncontrol. and Related Changes		Programmatic Changes		Approp To Collections		FY 2000 Request		Inc(+) Dec(-) from 1999	
	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt
Royalty Mgt. Prog.														
Valuation & Operations														
Appropriations	248	22,925	251	25,373	0	784	0	5,000	0	-5,000	251	26,157	0	784
Offsetting Collections	0	9,451	0	8,250	0	0	0	0	0	5,000	0	13,250	0	5,000
Total	248	32,376	251	33,623	0	784	0	5,000	0	0	251	39,407	0	5,784
Compliance														
Appropriations	333	26,820	333	28,218	0	971	0	5,000	0	-5,000	333	29,189	0	971
Offsetting Collections	0	6,799	0	8,250	0	0	0	0	0	5,000	0	13,250	0	5,000
Total	333	33,619	333	36,468	0	971	0	5,000	0	0	333	42,439	0	5,971
Indian/Allottee Refunds														
Appropriations	0	15	0	15	0	0	0	0	0	0	0	15	0	0
Offsetting Colletions	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	0	15	0	15	0	0	0	0	0	0	0	15	0	0
Late Disb. Interest														
Appropriations	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Offsetting Colletions	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Prog. Service Off.														
Appropriations	26	2,314	26	2,623	0	85	0	0	0	0	26	2,708	0	85
Offsetting Colletions	0	250	0	0	0	0	0	0	0	0	0	0	0	0
Total	26	2,564	26	2,623	0	85	0	0	0	0	26	2,708	0	85
Subtotal RMP														
Appropriations	607	52,074	610	56,229	0	1,840	0	10,000	0	-10,000	610	58,069	0	1,840
Offsetting Collections	0	16,500	0	16,500	0	0	0	0	0	10,000	0	26,500	0	10,000
Total	607	68,574	610	72,729	0	1,840	0	10,000	0	0	610	84,569	0	11,840

Summary of Requirements
Royalty and Offshore Minerals Management
dollars in thousands

Comparison by Activity/Subactivity	FY 1998 Enacted		FY 1999 Enacted		Uncontrol. and Related Changes		Programmatic Changes		Approp To Collections		FY 2000 Request		Inc(+) Dec(-) from 1999	
	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt
Gen. Administration														
Executive Direction														
Appropriations	20	1,815	20	1,870	0	55	0	0	0	-1,000	20	925	0	-945
Offsetting Collections	0	0	0	0	0	0	0	0	0	1,000	0	1,000	0	1,000
Total	20	1,815	20	1,870	0	55	0	0	0	0	20	1,925	0	55
Policy & Mgmt Impr														
Appropriations	36	3,628	36	3,740	0	130	0	0	0	-1,000	36	2,870	0	-870
Offsetting Collections	0	0	0	0	0	0	0	0	0	1,000	0	1,000	0	1,000
Total	36	3,628	36	3,740	0	130	0	0	0	0	36	3,870	0	130
Administrative Operations														
Appropriations	180	11,618	180	12,092	0	554	4	400	0	-1,055	184	11,991	4	-101
Offsetting Collections	0	500	0	500	0	0	0	0	0	1,055	0	1,555	0	1,055
Total	180	12,118	180	12,592	0	554	4	400	0	0	184	13,546	4	954
Gen. Support Services														
Appropriations	0	6,752	0	1,706	0	239	0	0	0	-1,945	0	0	0	-1,706
Offsetting Collections	0	7,000	0	13,000	0	0	0	0	0	1,945	0	14,945	0	1,945
Total	0	13,752	0	14,706	0	239	0	0	0	0	0	14,945	0	239
Subtotal Gen Admin														
Appropriations	236	23,813	236	19,408	0	978	4	400	0	-5,000	240	15,786	4	-3,622
Offsetting Collections	0	7,500	0	13,500	0	0	0	0	0	5,000	0	18,500	0	5,000
Total	236	31,313	236	32,908	0	978	4	400	0	0	240	34,286	4	1,378
Total ROMM														
Appropriations	1,341	137,521	1,343	117,902	0	5,380	9	10,800	-0	-24,000	1,352	110,082	9	-7,820
Offsetting Collections	352	71,675	365	100,000	0	0	0	0	0	24,000	365	124,000	0	24,000
Supplemental [non-add]	[16]	[6,675]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	[0]	0
Total	1,693	209,196	1,708	217,902	0	5,380	9	10,800	0	0	1,717	234,082	9	16,180

Summary of Requirements
Royalty and Offshore Minerals Management
dollars in thousands

Comparison by Activity/Subactivity	FY 1998 Enacted		FY 1999 Enacted		Uncontrollable and Related Changes		Programmatic Changes		FY 2000 Request		Inc(+) Dec(-) from 1999	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
Oil Spill Research												
Oil Spill Research	23	6,118	23	6,118	0	0	0	0	23	6,118	0	0
Total Oil Spill Research	23	6,118	23	6,118	0	0	0	0	23	6,118	0	0

All Appropriations

Justification of Uncontrollable Cost Changes *dollars in thousands*	FTE	Amount
Working Capital Fund Changes (ROMM; General Support Services)		-62
The change reflects expected changes in Departmental services and other services through the working capital fund.		
Workers Compensation Payments (ROMM; General Support Services)		-307
The adjustment is for changes in the costs of compensating injured employees and dependents of employees who suffered accidental deaths while on duty. Costs for 2000 are for 12-months ending June 1997 and are paid to the Department of Labor, Federal Employees Compensation Fund, pursuant to 5 U.S.C. 8147(b) as amended by Public Law 94-273.		
2000 Pay Raise (ROMM; all activities)		3,861
The amount displayed represents additional cost increases of 4.4 percent for the January 2000 pay increase for GS-series employees and the associated pay rate changes made in other pay series.		
1999 Pay Raise (ROMM; all activities)		1,053
The adjustment is for an additional amount needed for the remaining 3-months of fiscal year 1999 to fund the cost of the estimated average - 3.1 percent pay increases effective in January 1999.		
Unemployment Compensation (ROMM; General Support Services)		-16
The adjustment is for changes in the cost 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.		
Rental payments to GSA (ROMM; General Support Services)		424
The adjustment is for changes in the cost payable to GSA for office and non-office space.		
FTS 2000 Transition (ROMM; General Support Services)		200
The adjustment supports one time transition costs for fiscal year 2000.		
Retirement system charges (ROMM; all activities)		227
This adjustment reflects increased costs to the bureau for CSRS to FERS conversions, and new hires under FERS.		
Total Adjustments		5,380

Justification of Program Change

Increase in Funding for Gulf of Mexico Activities

(dollars in thousands)

OCS Lands Subactivity	FY 2000 Budget Request	Program Changes (+/-)
Leasing & Environment *FTE*	35,889 207	
Resource Evaluation *FTE*	22,323 205	
Regulatory *FTE*	42,508 347	+ 1,000 +5
Information Management *FTE*	14,507 108	
TOTAL **Offshore Minerals Management** ***FTE***	**115,227** **867**	**+ 1,000** **+5**
TOTAL General Administration **Administrative Operations** ***FTE***	**13,546** 184	**400** +4

In the FY 1998 and FY 1999 budgets, there were significant increases provided and proposed for MMS due to increased activities in the Gulf of Mexico OCS. The initial FY 1998 increase was requested after just one record-breaking oil and gas lease sale had been held. Three additional record breaking sales and a significant rise in deepwater activity necessitated an FY 1998 budget supplemental and a proposed FY 1999 increase to continue the additional resources provided in the supplemental.

Additionally, with a significant increase in personnel anticipated in the Gulf of Mexico Region for FY 1999 and FY 2000, it will be necessary to increase personnel for the Southern Administrative Service Center located in New Orleans to provide the necessary customer service.

Background

Activity on the areas under lease in the Gulf of Mexico OCS, although declining somewhat in the last half of FY 1998 (due to declining oil and gas prices) from the record levels in FY 1996 and FY 1997, are still at very high levels. . The oil and gas industry is filing a large number of plans proposing more exploration and development. Plans filed in this region are up 28 percent from two years ago. Many additional drilling ships are under construction by industry. About 20 are due to be delivered out of the construction yard in the next 18 months. This will add to the 25 already working. In early 1998, companies signed contracts for two additional deepwater rigs and are contemplating two more. These will allow yet more exploratory and development wells to be drilled, thus requiring more inspections and more technical reviews.

To accommodate some of this workload increase, the Gulf of Mexico Region received approval to convert the Lake Charles subdistrict to a full district and has been shifting the boundaries for all of its districts to make the workload more equitable. Even with this realignment, additional resources are needed for the Gulf's regulatory program. The boundary for the newly-formed Lake Charles District has increased as helicopter fuel restrictions for a neighboring district created the need to shift some platforms to Lake Charles. Lake Charles will now be the third largest district in the region. An increase of $1,000,000 is needed for Lake Charles -- $500,000 for 5 FTEs and $500,000 to lease an additional helicopter. In addition to four additional inspection personnel, one petroleum engineer is needed to review technological proposals and assure safe operations and conduct audits of operators' Safety and Environmental Management Plans. This increase should provide Lake Charles with the same level of resources per platform as the other districts.

Gulf of Mexico Region (GOMR) Administrative Support

By FY 2000, Offshore and Royalty will have substantially staffed their Regions. In order for Administration and Budget (A&B) to manage and effectively support the increased workload brought on by large staffing and contract increases in the program offices, it will be necessary to increase the GOMR Southern Administrative Service Center (SASC) by 4 FTE. The high tech expanding efforts and developments in the telecommunications functions must be managed and supported by A&B in the GOMR. The expanding efforts include complex voice and data networking controllers, operated via the new ROLM PBX Model 9751 telephone system. This system services over 700 personnel and is managed by the SASC. The connection and interface of this network includes all District offices in the GOMR and the possible sharing of these resources with other Interior offices.

The requested funds are necessary to support the anticipated growth in GOMR Offshore personnel which would significantly affect the quality of customer service that both Offshore and the Royalty program depend on.

Justification of Program Change

Increase in Funding for International Activities

(dollars in thousands)

OCS Lands Subactivity	FY 2000 Budget Request	Program Changes (+/-)
Leasing & Environment *FTE*	35,889 207	
Resource Evaluation *FTE*	22,323 205	
Regulatory *FTE*	42,508 347	+250 0
Information Management *FTE*	14,507 108	
TOTAL **Offshore Minerals Management** ***FTE***	**115,227** **867**	**+250** **0**

The increase for FY 2000 is necessary to allow MMS to participate in numerous international organizations and fora that now play a significant role in developing offshore oil and gas standards that directly impact operations in U.S. waters and worldwide. The MMS's participation in these types of exchanges will support U.S. policy objectives, assist U.S. industry interests, and advance the Nation's commitment to safe and environmentally sound offshore oil and gas management practices.

Background:

The MMS has a strong commitment to safety and environmental protection. The offshore oil and gas industry is international in scope and its activities in other parts of the world are having a growing effect on our domestic activities. Numerous international organizations and fora play a significant role in developing offshore oil and gas standards that directly impact operations in U.S. waters and worldwide. The worldwide scope of the offshore oil and gas industry and the growing interest in the global environment have created the tendency and opportunity for the internationalization of standards and regulations. In the increasingly interdependent global economy, more resources are needed to address the rapid evolution and internationalization of the offshore oil and gas industry and its regulation. Currently, the Bureau's international activities focus on:

- Technical assistance to the State Department in matters that have a bearing on MMS mission objectives and support for U.S. foreign policy objectives;
- Scientific information exchange, analysis, and cooperative research with other countries; and
- Technical assistance to foreign countries on a cost reimbursable basis.

The additional funds are crucial to enable MMS to apply adequate resources to monitor and participate in international working groups developing regional guidelines and standards that may directly affect the U.S. domestic offshore industry. To date, MMS has been involved with the American Petroleum Institute on domestic issues. However, we have not had funds available to participate in International Organization for Standardization committees or working groups and have not had available the appropriate resources to be fully involved with the development of international guidelines. Participation in workshops developing regional and international environmental standards is critical to assure safe and environmentally sound offshore oil and gas operations.

The additional funds are needed for MMS to participate fully in the deliberations of various international fora. Issues such as platform removal requirements are currently being discussed by such groups as the 20th Consultative Meeting of Contracting Parties, held under the auspices of the London Convention. MMS's monitoring of these types of issues is critical as they bear directly on U.S. offshore oil and gas operations.

Justification of Program Change
Reduction in Funding for Conversion of Data
(dollars in thousands)

OCS Lands Subactivity	FY 2000 Budget Request	Program Changes (+/-)
Leasing & Environment *FTE*	35,889 207	
Resource Evaluation *FTE*	22,323 205	-250
Regulatory *FTE*	42,508 347	
Information Management *FTE*	 14,507 108	
TOTAL **Offshore Minerals Management** ***FTE***	 **115,227** **867**	 **-250**

The MMS budget contains base funding for the ongoing conversion of various kinds of data. These conversion efforts are necessary to meet legislative requirements, manage the growing volume of data, and ensure the integrity of data. However, the pace of conversion has been slower than anticipated. In the meantime, support for international activities has also become a very high priority. In order to meet both pressing needs, MMS is proposing to extend the conversion of data over a longer period of time and use $250,000 of those funds for international activities.

The increase statement for international activities details the need for these funds.

Justification of Program Change

Reduction in Funding for Marine Minerals Research Centers

(dollars in thousands)

OCS Lands Subactivity	FY 2000 Budget Request	Program Changes (+/-)
Leasing & Environment *FTE*	35,889 207	
Resource Evaluation *FTE*	22,323 205	-600
Regulatory *FTE*	42,508 347	
Information Management *FTE*	14,507 108	
TOTAL **Offshore Minerals Management** *FTE*	**115,227** **867**	**-600**

The Marine Minerals Research Centers (MMRC's) were reauthorized under the Marine Minerals Resources Research Act of 1996, and placed under oversight of the Department of the Interior. The MMRC at the University of Mississippi was funded in the amount of $.6 million in FY 1999, and the Minerals Management Service is providing management of the program. The mission of the MMRC is to conduct research on the exploration and extraction of minerals from the seabeds of the continental shelves, deep ocean, and arctic regions.

The MMS recognizes the importance of the investigations and technological development that this center pursues, particularly the longer term research. However, due to priorities for oil and gas exploration and extraction oversight, MMS is proposing to eliminate MMRC funding in FY 2000.

Justification of Program Change
Increase in Funding for Reengineering Initiative

(dollars in thousands)

Royalty Management	FY 2000 Budget Request	Program Change
Valuation and Operations *FTE*	39,407 251	5,000
Compliance *FTE*	42,439 333	5,000
Indian allottee refunds *FTE*	15 0	
Program Service Office *FTE*	2,708 26	
TOTAL **Royalty Management** ***FTE***	**84,569** **610**	**10,000**

The principal objective of this initiative is to continue to design and implement new royalty management business processes and supporting information technology (IT) systems begun in FY 1999. Existing systems are simply too old and inflexible to efficiently support redesigned business processes or changing mission requirements such as RSFA delegations and to support expanded Royalty-in-Kind (RIK) programs.

The MMS is requesting a $10 million program increase in FY 2000. (This will fund year two of the three year reengineering project scheduled for completion at the end of FY 2001)

Consistent with OMB guidelines, project implementation has been divided into two modules reflecting the two reengineered core business processes of RMP: compliance and asset management and financial management. Supporting both modules is the underlying database design and technical architecture. The FY 2000 request will fund the financial management module and its associated IT architecture.

Background:

The reengineering initiative addresses all core RMP business processes including financial, accounting, compliance, and supporting computer systems. The reengineering team has developed design concepts that will produce new business processes and support systems that are:

- Highly integrated
- Process centered
- Focused on outcomes
- Less costly
- Well positioned to meet current and future mission requirements

The efficiencies achieved and capabilities acquired through reengineering will apply to all who do business with the RMP. Importantly, they will enhance RMP's ability to discharge Indian trust responsibilities and build upon the special policies and processes designed to serve the interests of Indian tribes and individual Indian mineral owners.

In FY1998, the reengineering team first examined the current RMP business environment. It also conducted extensive benchmark surveys to identify "best practices" for consideration in the design of future business processes. These efforts culminated in a new concept of operations. Prototyping and piloting activities further refined these concepts which feature improvements to:

- Reduce RMP's business cycle from 6 years to 3 years, consistent with expected industry standards.

- Align RMP's multiple functions into two core end-to-end business processes.

- Establish organizational accountability for compliance and asset management outcomes at the producing property level. This will make the RMP accountability methodology consistent with that employed within the oil, gas, and hard minerals industries.

- Simplify regulatory reporting requirements to reduce reporting burdens to both RMP and industry.

- Modernize RMP's IT environment.

The modernization of RMP's IT environment responds to oversight agency recommendations and reengineering team conclusions that existing systems cannot efficiently support reengineered business processes. Current systems were implemented in the early 1980's and have been subjected to thousands of changes to meet an ever expanding mission. Today's environment is complex, inefficient, difficult to change, and expensive to maintain. The mix of aging mainframe-based systems and substantial changes needed to support reengineered business processes represents a major risk to future systems reliability and operational stability. These factors could jeopardize RMP's ability to achieve GPRA-based performance objectives such as timely and accurate disbursement of receipts. Once implemented, the new systems will give MMS the flexibility to disburse funds throughout the month, thus increasing the timeliness of disbursement.

The recommended IT investments include implementation of a relational database management system, workflow/case management tools, and commercial off-the-shelf accounting products. A host of automated analytical tools and enhanced use of the capabilities of the World-Wide-Web for reporting and information exchange is also contemplated. The RMP is confident that the recommended reengineering improvements, coupled with a modernized IT environment, will dramatically improve the overall performance of its accounting and compliance-related business processes and ensure that future mission requirements are fulfilled at the lowest possible cost. (See below for a discussion of the anticipated quantifiable benefits.)

Justification of 2000 Program Change

The requested FY 2000 program increase of $10.0 million will enable development and implementation of RMP's new financial systems module. The reengineering changes will be phased in over a two to three year period, with the development and implementation of the compliance and asset management module scheduled for initiation in early Fall 2000. In addition to dividing implementation into distinct modules reflecting the two core business processes, the "Spiral Model" for software development will be employed. This incremental approach breaks implementation into smaller definable entities of short duration - typically an iterated cycle of 3 to 6 months. This responds to Clinger-Cohen guidelines calling for system development cycle times of no more than 18 months. With FY1999 funding design concepts will continue to be refined over the balance of the summer.

The design concepts that will move the RMP toward achieving its reengineering objectives are grouped into three areas: ***organization and business processes***, ***information need***, and ***automation infrastructure***.

Organization and Business Processes

Organize and manage work in end-to-end core business processes

Two end-to-end core business processes are planned for the future RMP. The financial management process, which involves receipt and processing of information and money, and the compliance and asset management process, which ensures that all revenues owed are accurately reported and paid.

Retain a centralized financial process

A commercial off-the-shelf (COTS) accounting package will be sought to replace the customized financial systems now used by RMP. End-to-end accountability for funds, integrated reporting, system generated financial statements, and more rapid and user friendly access to financial data is envisioned.

Institute regional basin groups that are accountable for the compliance and asset management process

The key concept is that basin groups will focus on defined producing areas and the properties located therein. This is a major departure from the current function based RMP approach and is in line with the way industry operates. The full range of compliance and asset management activities including product valuation, verification, majority price calculations, audit, etc., will be addressed on a property basis by basin groups. Business decisions whether to take royalties-in-kind will be based in part on the basin group's recommendations.

To refine and advance these concepts, RMP established teams to implement this model. Initially, team members manually replicated the compliance and asset management process using selected onshore, offshore, and solid mineral leases. Our vision for the future is that the three teams will assume responsibility for all compliance activities on selected properties. This involves a transition from a conceptual to an operational model and from a manual to an automated environment. These operational models will become the foundation for program-wide implementation of the reengineered compliance and asset management process.

Utilize performance based teams to the maximum extent possible to work the end-to-end core business processes

Teams are the typical means of implementing reengineered business processes. Teams will foster a more responsive organization and leverage the operational gains achieved through process reengineering.

Information Needs

Make changes to regulatory information reporting requirements of payors and operators to increase efficiency and reduce errors.

A series of recommendations is offered that collectively eliminates or consolidates reporting forms, simplifies reporting, or acquires and stores data from previously untapped sources.

Automation Infrastructure

Apply technology to new and existing business processes to achieve mission performance objectives.

The RMP must augment its existing information systems with new technology which allows it to implement new business processes. The following major components will be featured in RMP's future information systems environment:

- A relational database management system
- Workflow and case management systems
- Internet, World Wide Web, and intranet interfaces
- Imaging, optical/intelligent character recognition, and indexing and search tools
- Data warehouse and online analytical processing tools
- Interactive voice response systems

COTS products will be acquired whenever possible to minimize the amount of custom application code required to ensure these and other technologies effectively support RMP operational needs.

The key milestones for the project are as follows:

September - November 1998

– Document functional requirements and system performance expectations in sufficient detail to solicit capability statements and proposals from vendors.

– Prepare and issue a solicitation for capability statements.

Status: Achieved

December 1998 -June 1999

- Select vendors to respond to a request for proposals for a COTS based financial system, relational database management system, and a spiral development and component integration strategy.

Status: Vendor proposal review is in progress,

- Evaluate proposals and award contract.

July 1999 - September 2001

- The implementation of the compliance and financial modules will continue through FY 2000 and FY 2001, and are targeted for completion in September 2001.

EXPECTED BENEFITS

Current mineral revenues are over $4.5 billion per year and compliance related findings have averaged in excess of $100 million per year. Through reengineered processes, compliance personnel will be able to more quickly focus on areas with the greatest potential for underpayment. Better analytical tools and improved processes will allow greater compliance coverage which we estimate will yield increased compliance collections of $14.6 million per year. A more comprehensive review of allowances is anticipated to yield an additional $1 million per year. Recent Office of Inspector General (OIG) reports calling for modernization of RMP systems estimate that once fully implemented, annual operational savings of $2 million would be realized. Revised and simplified reporting recommendations will reduce reporting burdens on both industry and RMP. Incorporated in these changes are recommendations of the Royalty Policy Committee which, upon full implementation, by themselves were estimated to save $1.5 million annually. The reengineering team estimates that oil and gas royalty reporting alone will be reduced 40 percent. Furthermore, these simplified reporting schemes will save the minerals industry additional millions. Full operational implementation is anticipated in FY 2002. While these tangible benefits are significant, there are important intangible benefits as well such as:

- Increased confidence that royalties have been paid correctly
- A dramatic reduction in the RMP business cycle from 6 to 3 years
- Improved reporting accuracy
- Better understanding of properties, markets served, and the production environment. The RMP staff will become true resource managers and have the capability to make asset management decisions as to whether royalties should be taken in-kind or in-value.

The RMP must pursue modernization of its existing automated systems in order to realize the dramatic performance gains and benefit opportunities of the reengineered business processes. Modernization of RMP's automation infrastructure is not only a sound business decision, it is cost justified. Systems modernization is estimated to cost $26 million. An additional $3 million will be required to support contracted pilot operations and system integration activities. Training employees in subjects other than information technology will require an additional $500,000. This includes training about teams, managing change, customer relations, performance measurement and other skills required to ensure the success of the reengineered organization. Upon full implementation, annual operating cost savings of $3.5 million and revenue collection-related increases of $15.6 million are expected. Investment cost recovery will occur in two years.

Present value calculations of project costs and benefits yield a net present value of $91.7 million over the assumed ten year systems life cycle.

This funding will enable RMP to implement new applications and technologies supporting RMP's future concept of operations.

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; [$117,902,000]^of which [$72,729,000]^ shall be available for royalty management activities; and an amount not to exceed [$100,000,000] ^, 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 $3,000,000 for computer acquisitions shall remain available until September 30, [2000] ^: *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 provisions 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 concurred with the claimed refund due, to pay amounts owed to Indian allottees or Tribes, or to correct prior unrecoverable erroneous payments. (*Department of the Interior and Related Agencies Appropriations Act, 1999.*)

<u>$110,082,000</u>
<u>$58,069,000</u>
<u>$124,000,000</u>

<u>2001</u>

OIL SPILL RESEARCH

For necessary expenses to carry out title I, section 1016, title IV, sections 4202 and 4303, title VII, and title VIII, section 8201 of the Oil Pollution Act of 1990, $6,118,000, which shall be derived from the Oil Spill Liability Trust Fund, to remain available until expended. (*Department of the Interior and Related Agencies Appropriations Act, 1999.*)

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 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 the monthly mineral leasing payments to States. All States' monthly payments include late disbursement interest when appropriate. The Bureau of Land Management (BLM) disburses those payments which are made semi-annual or annually. The largest in this category (about $25 thousand/year) is the payment made by BLM 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 1998 Actual	FY 1999 Estimate	FY 2000 Estimate	Change from 1999 Estimate
Mineral Leasing Associated Payments (MLAP)	50%	545,561	586,327	606,581	20,254
National Forest Fund Payments to States (Forest Fund)	25%	3,346	3,233	3,311	78
Payments to States from Lands Acquired for Flood Control, Navigation, and Allied Purposes (Flood Control)	75%	751	726	756	30
Total		**549,658**	**590,286**	**610,648**	**20,362**

Note: For an explanation of how mineral leasing collections are distributed among the various Sates 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.

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 are determined by the total revenues collected from mineral leasing and production within its boundaries except for the Forest Fund payments. Law requires a States' payment be based on national forest acreage and where a national forest is situated in several States, an individual Sates' payment is proportionate to its area within that particular national forest.

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 are 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.

After a gross payment is estimated, the States' net receipts sharing (NRS) deductions are applied to arrive at the final fiscal year estimate. NRS refers to the recovery of approximately 50 percent of the Departments' of the Interior (Bureau of Land Management and MMS) and Agriculture (U.S. Forest Service) mineral leasing administrative program costs before statutory distribution of mineral revenues to States and Treasury. In the past, NRS was enacted through appropriations acts.

The Omnibus Reconciliation Act of 1993 (OBRA) amended the Mineral Leasing Act and other applicable statues to permanently provide for NRS. The OBRA adjusted the methodology for calculating a States's NRS deduction.

In the past, program costs were allocated to each State based on the monies disbursed to the State during the current fiscal year as compared to total disbursements (this is called the "Revenue-based method").

The OBRA changed the revenue-based approach by 1) recovering the prior year's enacted budget authority in the current year, and 2) prorating costs to States based on the previous year's disbursements. Additionally, OBRA added a ceiling to this calculation which provided that a State's NRS deduction cannot exceed the Secretary of the Interior's estimated cost to administer each State's onshore mineral leases (this is called the "Cost-based method").

In FY 1999, $40.5 million of program costs are to be recovered through NRS with the Federal share totaling $20.1 million and the States' shares totaling $20.4 million. The NRS deductions determined by the revenue-based method were used for all States except New Mexico and Wyoming which were computed under the cost-based method.

Receipts

The Minerals Management Service (MMS) is responsible for the collection of all mineral leasing receipts collected from Indian and Federal onshore and offshore Outer Continental Shelf lands. Mineral leasing receipts are derived from rents, bonuses, minimum royalties, royalties, and payor late payment interest. 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.).

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). As these collections are shared between the General Fund and counties (versus States), the policy has been to transfer them to the USDA for disposition. All monies collected on Indian lands are transferred to the Bureau of Indian Affairs for distribution 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 which arise from the Government's power to tax or fine. Offsetting receipts are further defined as: 1) Proprietary receipts which offset budget authority and outlays (most onshore receipts fall into this category), or 2) Undistributed proprietary receipts which are offsetting against 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 1999 and FY 2000 receipt estimates.
- A summary description of current onshore and offshore royalty and rental rates, bonus criteria, and other lease information.
- For FY 1999 - FY 2005, 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.)
    - 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 checks or electronic transfer 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 minerals 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% share of mineral leasing receipts.

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 (NPRA) lands from which Alaska and the General Fund receive 50 percent shares. Since there is no production from the NPRA, all the General Fund share is deposited into Account 1811 (rents and bonuses). MMS transfers Alaska's share (account 5045) to Bureau of Land Management for semi-annual disbursement.

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 (25 and 75 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). In the past MMS transferred these collections to USDA and the Corps of Engineers for annual disbursement to States and Treasury.

As required by the Omnibus Budget Reconciliation Act of 1993, the amount deducted from onshore mineral leasing receipts prior to the division and distribution of such receipts between the States and the Treasury (net receipts sharing) is credited to the miscellaneous receipts of the Treasury. For tracking purposes, this amount is deposited into the General Fund Account 2039. The previous section, Permanents, provides details on net receipts sharing.

OCS Accounts. OCS receipts are deposited into accounts depending on source: rents, bonuses, or royalties. Also, interest earned on collections held in escrow are 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), accruing 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).

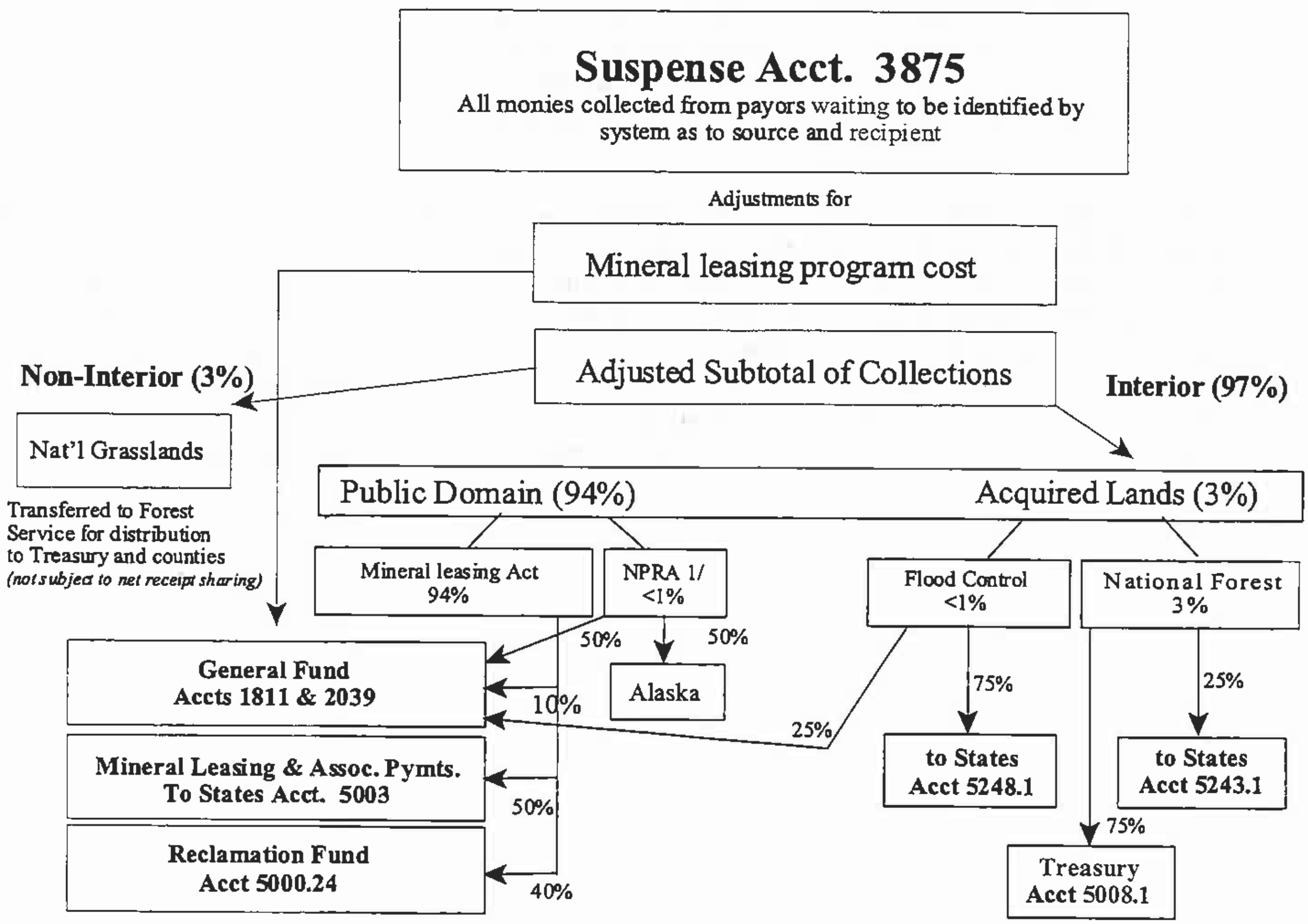
The payments made to coastal States for their 27 percent share of OCS collections within the 8(g) zone, the area approximately 3 miles seaward from the State/Federal boundary, flow through Escrow Account 6707. The last tab provides information as to actual and estimated payments for these States.

Deposits are also made into Escrow Account 6704 pending the resolution of a dispute between Alaska and the

Federal Government as to the location of the State/Federal boundary in the Beaufort Sea. Sale bonuses collected between 1979 and 1991, as well as rental payments, total over $443 million. The legal issues have been analyzed by a Special Master appointed by the United States Supreme Court. The Supreme Court reached a decision in FY 1997 and distribution instructions are expected by the end of FY 1999. The total estimated interest is approximately $1.272 billion and rents and bonuses total $443 million. Upon receipt of distribution instructions, an estimated $4 million will go to Alaska, $636.8 million will be deposited into a Treasury interest account (Account 1493), and the $221.3 million in principal will be deposited into the Treasury account for rents and bonuses (Account 1820) established for the Environmental Improvement and Restoration Fund, enacted November 14, 1997 (Title 4, Section 401) (5425.10, Court Award rents and bonuses; 5425.20 Interest earned on rents and bonuses; 5425.30 Court Award OCS escrow interest). Title 4 of the Department of the Interior and Related Agencies Appropriations Act, 1998 (P.L. 105-83) established the Environmental Improvement and Restoration Fund (account 5425),which will hold all remaining funds, and after December 15, 1999, the account balance will be applied to reduce the Federal deficit.

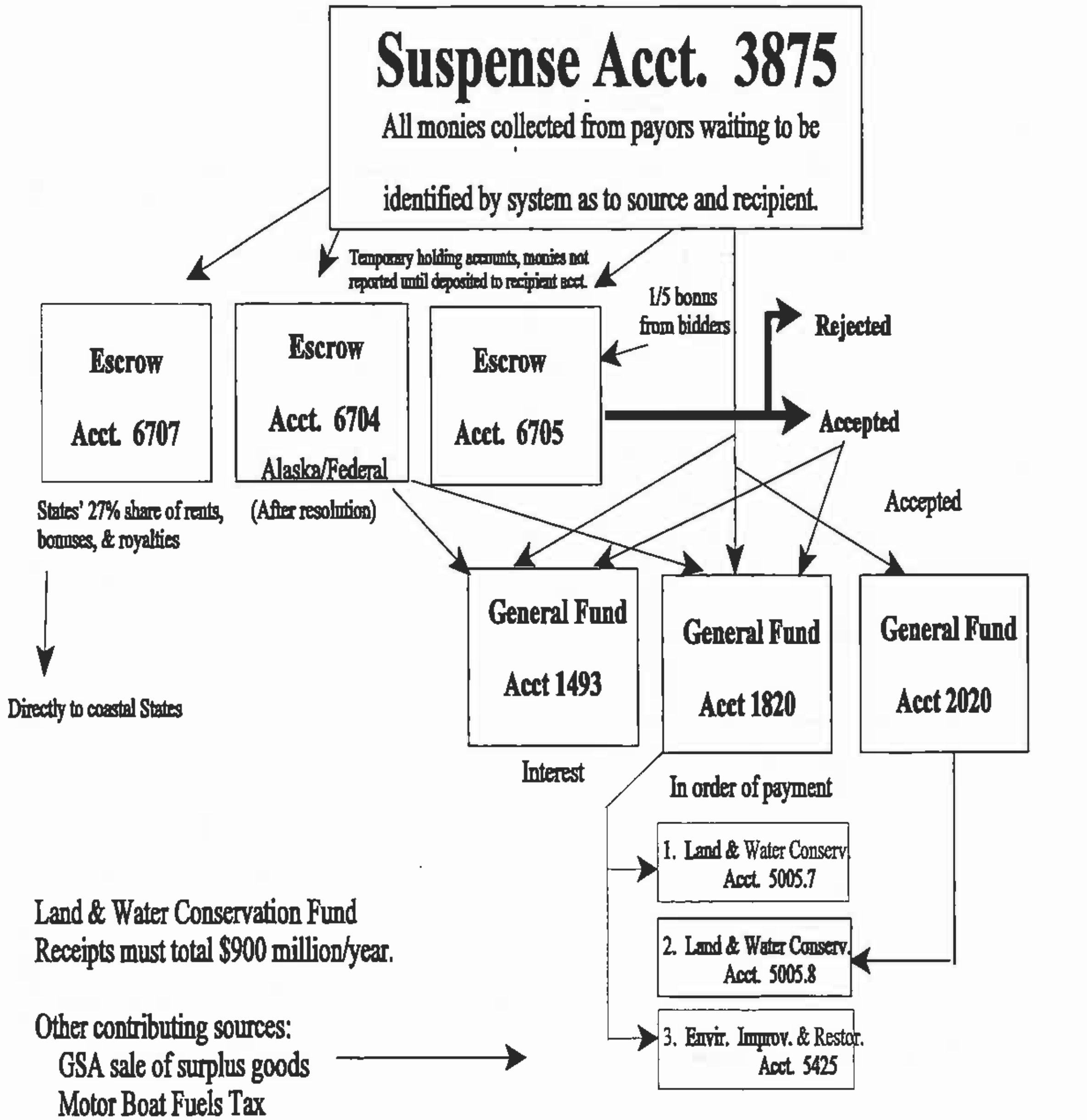
Most of the OCS receipts accumulated throughout the year in General Fund accounts is transferred at the end of the fiscal year to the National Park Service which administers the Land and Water Conservation Fund (LWCF) (accounts 5000.7 and 5000.8). OCS receipts are the main funding source of the mandated $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.

Distribution of Onshore Receipts



1/ National petroleum Reserve - Alaska Acct 5045

Distribution of Offshore (OCS) Receipt Accounts



After payments, any remaining monies are reported in Accts 1820 and 2020

Onshore Mineral Receipts
FY 1999 Estimates vs. FY 2000 Estimates
(Dollars in thousands)

	1999	2000	Change	Explanation
DOI Proprietary Onshore Mineral Receipts				
Rents & Bonuses				
Oil & Gas	92,622	58,103	-34,519	Reduction in leasing beginning in FY-99.
Coal	61,593	61,593	---	Continued leasing in Powder River Basin. Level rent
Geothermal	838	838	---	Level interest in leasing and rentals
Oil Shale	5	5	---	Expect constant rental level
All other	1,700	1,700	---	Anticipated level interest in leasing and rentals
R & B	*156,758*	*122,239*	*-34,519*	
Royalties				
Oil & Gas	819,758	775,453	-44,305	Decrease is due to reduced oil and gas prices.
Coal	331,997	318,441	-13,556	Decrease in production.
Geothermal	21,830	20,380	-1,450	Decrease based on reduced production at some locations.
All other	42,664	36,982	-5,682	Decreases expected in audit recoveries.
Royalties	*1,216,249*	*1,151,256*	*-64,993*	(Audit collections included in above figures)
TOTAL	**1,373,007**	**1,273,495**	**-99,512**	

Outer Continental Shelf Mineral Receipts
FY 1999 vs. FY 2000 Estimates
(Dollars in thousands)

	1999	2000	Change	Explanation
DOI Undistributed Propriety OCS Mineral Receipts				
Rents	23,500	20,800	-2,700	
Bonuses	380,000	320,000	-60,000	Despite new technology for locating oil and gas reserves, the bonus trend is slightly downward.
subtotal, R & B	403,500	340,800	-62,700	
Royalties				
Oil royalties	987,200	1,162,500	+175,300	Increase based on increased production.
Gas royalties	1,348,500	1,347,500	-1,000	Decrease based on decline in production (-1%).
Minimum royalties	35,000	35,000	----	
Other (audits, suspense, sulphur, etc.)	53,900	53,900	---	
subtotal, royalties	*2,376,090*	*2,598,900*	*+222,810*	
Escrow (principal & interest)	1,715,308	0	-1,715,308	Resolution of Alaska/Federal boundary dispute in FY 97, with expected disbursement to occur between July 1 and 30, 1999.
TOTAL	**4,494,898**	**2,939,700**	**-1,555,198**	

Mineral Leasing Receipts by Account

dollars in thousands

Account		FY 1999 Estimate	FY 2000 Estimate	FY 2001 Estimate	FY 2002 Estimate	FY 2003 Estimate	FY 2004 Estimate	FY 2005 Estimate
	Onshore Mineral Leasing							
1811	Rents and Bonuses	11,375	11,328	11,266	10,915	10,751	10,568	10,484
2039	MLR Royalties	104,389	108,496	109,212	111,615	113,767	115,214	117,733
	NRS - States share	22,058	22,058	22,058	22,058	22,058	22,058	22,058
	NRS - Federal share	21,683	21,683	21,683	21,683	21,683	21,683	21,683
	Total 2039	148,130	152,237	152,953	155,356	157,508	158,955	161,474
xxxxxx	Hardrock	0	0	8,000	26,000	26,000	26,000	26,000
5000.2	Reclamation Fund	462,318	478,521	481,143	489,330	497,261	502,306	512,026
5003	Payments to States	586,327	606,581	609,858	620,092	630,006	636,312	648,461
5243.1	Forest Fund, states share	3,233	3,311	3,294	3,341	3,379	3,401	3,445
5008.1	Forest Fund, Govt share	9,699	9,932	9,882	10,022	10,137	10,202	10,334
5248.1	Flood Control (States share)	726	756	749	766	781	789	807
	Subtotal, Onshore	1,221,806	1,262,667	1,277,146	1,315,821	1,335,824	1,348,533	1,373,030
2419.1	Royalty-in-kind fees	400	400	400	400	400	400	400
2259	Sale of publications	100	100	100	100	100	100	100
	Outer Continental Shelf							
1820	OCS Rents and Bonuses	0	0	0	0	0	0	0
2020	OCS Royalties	2,376,075	1,881,692	1,901,108	1,908,900	1,775,900	1,710,900	1,636,900
5005.7	LWCF (OCS R&B)	846,175	326,792	324,208	248,000	194,000	194,000	194,000
5005.8	LWCF (OCS royalties)	50,825	570,208	572,792	649,000	703,000	703,000	703,000
5140	Historic Preservation (OCS R&B)	-150,000	0	0	0	0	0	0
5140	Historic Preservation (OCS Royalties)	0	0	0	0	0	0	0
5160	Everglades Restoration Fund	0	0	0	0	0	0	0
1493	OCS Escrow Interest	631,806	640,827	0	0	0	0	0
5425.1	Court award, OCS rent and bonuses	221,338	-221,338					
5425.2	Interest earned, environmental improvement	9,022	-9,022					
5425.3	Court award, OCS escrow account	631,806	-631,806					
	Subtotal, OCS	4,395,708	2,778,692	2,798,108	2,805,900	2,672,900	2,607,900	2,533,900
	TOTAL, Mineral Receipts	5,618,014	4,041,859	4,075,754	4,122,221	4,009,224	3,956,933	3,907,430

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

		FY 1999 Estimate	FY 2000 Estimate	FY 2001 Estimate	FY 2002 Estimate	FY 2003 Estimate	FY 2004 Estimate	FY 2005 Estimate
	Onshore Mineral Leasing							
Rents and Bonuses								
	Oil and Gas	56,757	56,096	55,367	54,571	53,774	52,796	51,819
	Coal	61,593	61,593	61,593	58,598	57,600	56,602	56,602
	Geothermal	838	838	838	838	838	838	838
	Oil Shale	5	5	5	5	5	5	5
	All Other	1,700	1,700	1,700	1,700	1,700	1,700	1,700
	Subtotal, Rents and Bonuses	120,893	120,232	119,503	115,712	113,917	111,941	110,964
Royalties								
	Oil and Gas	736,818	771,779	765,850	786,872	805,324	816,663	838,704
	Coal	305,830	313,441	323,127	326,472	329,819	333,165	336,599
	Geothermal	21,830	20,380	23,780	23,480	23,180	22,880	22,580
	Oil Shale	0	0	0	0	0	0	0
	All Other	36,436	36,836	36,885	37,285	37,585	37,884	38,184
	Hardrock	0	0	8,000	26,000	26,000	26,000	26,000
	Subtotal, Royalties	1,100,914	1,142,436	1,157,642	1,200,109	1,221,908	1,236,592	1,262,067
	Subtotal, Onshore	1,221,807	1,262,668	1,277,145	1,315,821	1,335,825	1,348,533	1,373,031
2419.10	Royalty-in-kind fees	400	400	400	400	400	400	400
2259.00	Sale of publications	100	100	100	100	100	100	100
		1,222,307	1,263,168	1,277,645	1,316,321	1,336,325	1,349,033	1,373,531
	Outer Continental Shelf							
1820	OCS Rents and Bonuses	403,500	326,792	324,208	248,000	194,000	194,000	194,000
	OCS Royalties	2,276,900	2,451,900	2,473,900	2,557,900	2,478,900	2,413,900	2,339,900
	OCS Escrow Payout	442,675	0	0	0	0	0	0
	OCS Escrow Interest	1,272,633	0	0	0	0	0	0
	Interest Earned; Environ Improv		0	0	0	0	0	0
	Subtotal, OCS	4,395,708	2,778,692	2,798,108	2,805,900	2,672,900	2,607,900	2,533,900
	TOTAL, Mineral Receipts	5,618,015	4,041,860	4,075,753	4,122,221	4,009,225	3,956,933	3,907,431

Onshore Rents and Bonuses

dollars in thousands

		FY 1999 Estimate	FY 2000 Estimate	FY 2001 Estimate	FY 2002 Estimate	FY 2003 Estimate	FY 2004 Estimate	FY 2005 Estimate
	Oil and Gas							
Rents								
	NPRA	0	0	0	0	0	0	0
	Lower 48	24,079	24,402	24,656	24,842	25,026	25,026	25,026
	ANILCA	0	0	0	0	0	0	0
Bonuses	NPRA	0	0	0	0	0	0	0
	Lower 48	34,000	33,000	32,000	31,000	30,000	29,000	28,000
	ANILCA	0	0	0	0	0		
	Subtotal, O&G	58,079	57,402	56,656	55,842	55,026	54,026	53,026
	Coal							
	Bonuses	60,000	60,000	60,000	57,000	56,000	55,000	55,000
	Rents	1,700	1,700	1,700	1,700	1,700	1,700	1,700
	Subtotal, Coal	61,700	61,700	61,700	58,700	57,700	56,700	56,700
	Geothermal							
	Rents and Bonuses	838	838	838	838	838	838	838
	Oil Shale							
	Rents and Bonuses	5	5	5	5	5	5	5
	Other Minerals							
	Rents and Bonuses	1,700	1,700	1,700	1,700	1,700	1,700	1,700
	Total, R&B	**122,322**	**121,645**	**120,899**	**117,085**	**115,269**	**113,269**	**112,269**

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

Sale Number	Sale Date	Sale Area	High Bids	% in FY	Total 8(g)	8(g) to States	Receipt Estimate
168	late 97	Western Gulf of Mexico	610	88	8	3	534
169	mid 98	Central Gulf of Mexico	804	100	21	5	799
170	late 98	Beaufort Sea	6	100	0	0	6
171	late 98	Western Gulf of Mexico	546	12	0	0	66
		Bonus Total					1,405
		Rents for non-producing leases					96
		Total - Actual FY 1998 Receipts					1,501
171	late 98	Western Gulf of Mexico	546	88	7	1	479
172	mid 99	Central Gulf of Mexico	230	100	6	2	228
174	late 99	Western Gulf of Mexico	150	12	0	0	18
		Bonus Total					725
		Rents for non-producing leases					24
		Total - Estimate FY 1999 Receipts					749
174	late 99	Western Gulf of Mexico	150	88	6	2	130
175	mid 00	Central Gulf of Mexico	200	100	0	0	200
177	late 00	Western Gulf of Mexico	120	12			14
		Bonus Total					330
		Rents for non-producing leases					21
		Total - Estimate FY 2000 Receipts					351
177		Western Gulf of Mexico	120	88	5	1	105
178		Central Gulf of Mexico	170	100	0	0	170
180		Western Gulf of Mexico	100	12	0	0	12
		Eastern Gulf of Mexico	20	100	0	0	20
		Bonus Total					287
		Rents					19
		Total - Estimate FY 2001 Receipts					305
		Western Gulf of Mexico	100	88	8	2	86
		Eastern Gulf of Mexico	20	100	5	1	19
		Central Gulf of Mexico	150	100	0	0	150
		Western Gulf of Mexico	80	12	0	0	10
		Bonus Total					265
		Rents					17
		Total - Estimate FY 2002 Receipts					282
		Western Gulf of Mexico	80	88	4	1	69
		Central Gulf of Mexico	130	100	0	0	130
		Western Gulf of Mexico	70	12	0	0	8
		Bonus Total					208
		Rents					16
		Total - Estimate FY 2003 Receipts					223

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

Sale Number	Sale Date	Sale Area	High Bids	% in FY	Total 8(g)	8(g) to States	Receipt Estimate
		Western Gulf of Mexico	70	88	7	2	60
		Central Gulf of Mexico	120	100	0	0	120
		Western Gulf of Mexico	60	12	0	0	7
		Bonus Total					187
		Rents					14
		Total - Estimate FY 2004 Receipts					201
		Western Gulf of Mexico	60	88	5	1	52
		Central Gulf of Mexico	120	100	0	0	120
		Western Gulf of Mexico	60	12	0	0	7
		Bonus Total					179
		Rents					14
		Total - Estimate FY 2005 Receipts					193
		Western Gulf of Mexico	60	88	5	1	52
		Central Gulf of Mexico	120	100	0	0	120
		Western Gulf of Mexico	60	12	0	0	7
		Bonus Total					179
		Rents					14
		Total - Estimate FY 2006 Receipts					193
		Western Gulf of Mexico	60	88	5	1	52
		Central Gulf of Mexico	120	100	0	0	120
		Western Gulf of Mexico	60	12	0	0	7
		Bonus Total					179
		Rents					14
		Total - Estimate FY 2007 Receipts					193
		Western Gulf of Mexico	60	88	5	1	52
		Central Gulf of Mexico	120	100	0	0	120
		Western Gulf of Mexico	60	12	0	0	7
		Bonus Total					179
		Rents					14
		Total - Estimate FY 2008 Receipts					193

Offshore Royalties

dollars in thousands

	FY 1999 Estimate	FY 2000 Estimate	FY 2001 Estimate	FY 2002 Estimate	FY 2003 Estimate	FY 2004 Estimate	FY 2005 Estimate
Oil (mil.bbls.)							
Alaska			4	25	25	20	17
POCS	46	41	36	32	28	25	22
Total GOM	510	560	580	595	615	630	650
GOM Royalty Production	505	540	540	540	535	525	510
Total Royalty Production	551	581	580	597	588	570	549
Royalty Rate	0.1446	0.1417	0.1396	0.1392	0.1381	0.1375	0.1368
Est./OMB Price per barrel	12.39	14.12	15.09	15.42	15.74	16.08	16.43
Royalty Receipts ($MM)	**987.2**	**1,162.5**	**1,221.8**	**1,281.4**	**1,278.1**	**1,260.3**	**1233.9**
Gas (mil.Mcf)							
POCS	35	31	27	24	21	19	17
Total GOM	4,900	4,900	4,800	4,650	4,550	4,650	4700
GOM Royalty Production	4,880	4,850	4,700	4,400	4,100	3,900	3700
Total Royalty Production	4,915	4,881	4,727	4,424	4,121	3,919	3717
Royalty Rate	0.1568	0.1551	0.1524	0.1486	0.1465	0.1447	1.143
Actual/OMB Price	1.75	1.78	1.82	1.86	1.90	1.94	1.98
Royalty Receipts ($MM)	**1,348.5**	**1,347.5**	**1,311.1**	**1,222.8**	**1,147.1**	**1,100.1**	**1,052.3**
Total Oil and Gas Royalty	**2,336**	**2,510**	**2,533**	**2,504**	**2,425**	**2,360**	**2,286**
Minimum Royalty	35	35	35	35	35	35	35
Audit Settlements	53.9	53.9	53.9	53.9	53.9	53.9	53.9
Other Suspense	0	-258	0	258	0	0	0
State's Share 8(g)	-105.3	-105.8	-105.8	-41.0	-41.0	-41.0	-41.0
Total	**2,319.3**	**2,235.1**	**2,516.0**	**2,810.1**	**2,473.1**	**2,408.3**	**2,334.1**

Note: Due to rounding formulas may not add.

Actual and Estimated Payments to Coastal States
Under Section OCSLA 8(g)
(actual dollars)

State	Royalties & Rents	Sale Bonuses	Mandated Payment	Section 7 Rents	Total
FY 1998 Actual Payments					
Alabama	13,006,439	209,450	700,000		13,915,889
Alaska	123,556	3,137	13,400,000	33,471	13,560,164
California	2,268,702		28,900,000		31,168,702
Florida	1,775				1,775
Louisiana	10,034,089	1,744,928	8,400,000		20,179,017
Mississippi	678,799	746,856	200,000		1,625,655
Texas	10,788,583	1,885,989	13,400,000		26,074,572
Total	**36,901,943**	**4,590,360**	**65,000,000**	**33,471**	**106,525,774**
FY 1999 Estimated Payments					
Alabama	12,729,472		700,000		13,429,472
Alaska	123,556		13,400,000		13,523,556
California	2,223,328		28,900,000		31,123,328
Florida	1,793				1,793
Louisiana	10,141,976	1,692,580	8,400,000		20,234,556
Mississippi	680,835	0	200,000		880,835
Texas	10,836,099	1,857,700	13,400,000		26,093,799
Total	**36,737,059**	**3,550,280**	**65,000,000**		**105,287,339**
FY 2000 Estimated Payments					
Alabama	12,894,955		700,000		13,594,955
Alaska	123,556		13,400,000		13,523,556
California	2,252,231		28,900,000		31,152,231
Florida	1,816				1,816
Louisiana	10,273,822	1,714,584	8,400,000		20,388,405
Mississippi	689,686	0	200,000		889,686
Texas	10,976,968	1,881,850	13,400,000		26,258,818
Total	**37,213,034**	**3,596,434**	**65,000,000**		**105,809,468**

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	Rents	Lease Duration	Bonus
Is set for each sale area in its Final Notice of Sale. It may be: 1. Based on water depth-- **Leases issued after 1/93 on a sale by sale basis**: 12.5% for Gulf water depths > 200m or 16.66% for water depths < 200m. **Issued before 1/93**: 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 only after certain expenditures are recovered	Pre-1993: $3/acre/year with a few $10/acre/yr for drainage sales. Post-1993: on a-sale-by -sale basis, the Secretary may charge $5/acre with $2/acre transferred to OCS or $7.50/acre with $4.50/acre transferred to OCS for deepwater tracts. Most post Minimum royalty at above rate after lease deemed capable of commercial production.	5 years (not to exceed 10 yrs). Continued if capable of commercial production.	Based on fair market value. Minimum bid of $25 to $150/acre subject to sale by sale review.

For both onshore and OCS leases, once a lease has been drilled and a commercial discovery been made, a minimum royalty is paid until production actually begins. The minimum royalty rate is the same as the rental rate.

Department of the Interior
Minerals Management Service
Royalty and Offshore Minerals Management
Program and Financing
dollars in millions

Treasury Account ID: 14-1917		FY 1998 Actual	FY 1999 Estimate	FY 2000 Estimate
Obligations by program activity				
	Direct program			
0001.00	Outer Continental Shelf Lands	61	37	35
0002.00	Royalty Management	50	56	50
0003.00	General Administration	24	25	25
0900.01	Reimbursable program	72	100	124
1000.00	Total obligations	207	218	234
Budgetary resources available for obligation				
2140.01	Unobligated balance available, start of year	3	5	5
2200.00	New budget authority	209	218	234
2390.00	Total budgetary resources available for obligations	212	223	239
2395.00	New obligations	-207	-218	-234
2440.01	Unobligated Balance Available, End of Year	5	5	5
New budget authority (gross), detail				
4000.01	Appropriation	137	118	110
6800.01	Spending authority from offsetting collections	72	100	124
7000.00	Total new budget authority (gross)	209	218	234
Change in unpaid obligations				
7240.01	Obligated balance, start of year	64	65	87
7310.00	New obligations	207	218	234
7320.00	Total outlays (gross)	-205	-196	-197
7440.01	Obligated balance, end of year	65	87	124
Outlays (gross), detail				
8690.01	Outlays from new current authority	120	83	77
8693.01	Outlays from current balances	15	42	26
8697.01	Outlays from new permanent authority*	37	51	63
8698.01	Outlays from permanent balances*	33	20	31
8700.00	Total outlays (gross)	205	196	197
Offsets				
8840.01	Offsetting collections from non-Federal sources	-72	-100	-124
Net budget authority and outlays				
8900.00	Budget authority	137	118	110
9000.01	Outlays (net)	133	96	73

*Note: Offsetting collections reported by MMS are not permanent authority but are categorized under this heading in accordance with OMB instructions (Circular A-11).

Department of the Interior
Minerals Management Service
Royalty and Offshore Minerals Management
Object Classification

dollars in millions

Treasury Account ID: 14-1917		FY 1998 Actual	FY 1999 Estimate	FY 2000 Estimate
Direct Obligations				
1111.01	Personnel compensation: Full-time Permanent	91	86	96
1121.01	Civilian personnel benefits	18	14	14
1210.01	Travel and transportation of person	3	3	0
1230.01	Rent, communications, utilities & misc. charges	7	7	0
1252.01	Other services	10	2	0
1260.01	Supplies and materials	2	2	0
1310.01	Equipment	4	4	0
1990.00	Subtotal, Direct obligations	135	118	110
Reimbursable Obligations				
2111.01	Personnel compensation: Full-time permanent	9	17	20
2115.01	Other personnel compensation	1	5	5
2210.01	Travel and transportation of persons	-	-	3
2233.01	Communications, utilities, and Miscellaneous charges	6	7	15
2252.01	Other services	50	65	69
2260.01	Supplies and materials	-	-	2
2310.01	Equipment.	6	6	10
2990.00	Subtotal, Reimbursable obligations	72	100	124
9999.00	Total Obligations	207	218	234

Department of the Interior
Minerals Management Service
Royalty and Offshore Minerals Management
Account Object Class Information

dollars in millions

	1999 Estimate Amount		Uncontrollable and Related Changes		Programmatic Changes		2000 Budget Request	
Object Class	**FTE**	**AMT**	**FTE**	**AMT**	**FTE**	**AMT**	**FTE**	**AMT**
Total Appropriation and Offsetting Collections	1,731	$218	0	$6*	9	$7	1,740	$234
Personnel compensation		$108		$10		$3		$121
Civilian personnel benefits		$14		0		0		$14
Travel & transportation of persons		$3		0		0		$3
Rents, communication, utilities & misc charges		$14		1		0		$15
Other services		$67		2		0		$69
Supplies & materials		2		2		0		$2
Equipment		$10		0		0		$10

***Note:** Amount reflected includes Uncontrollables ($5M) and an additional estimate of $1M to cover within-grade increases and other pay increases.

Department of the Interior
Minerals Management Service
Oil Spill Research
Program and Financing

dollars in millions

Treasury Account ID: 14-8370		FY 1998 Actual	FY 1999 Estimate	FY 2000 Estimate
Obligations by program activity				
0001.00	Oil spill research	6	6	6
1000.00	Total obligations	6	6	6
Budgetary resources available for obligation				
2140.01	Unobligated balance available, start of year	1	1	1
2200.00	New budget authority	6	6	6
2390.00	Total budgetary resources available for obligations	7	7	7
2395.00	New obligations	-6	-6	-6
2440.01	Unobligated Balance Available, End of Year	1	1	1
New budget authority (gross), detail				
4000.01	Appropriation	6	6	6
Change in unpaid obligations				
7240.01	Obligated balance, start of year	6	6	5
7310.00	New obligations	6	6	6
7320.00	Total outlays (gross)	-6	-5	-5
7440.01	Obligated balance, end of year	6	5	5
Outlays (gross), detail				
8690.01	Outlays from new current authority	5	4	4
8693.01	Outlays from current balances	1	1	1
8700.00	Total outlays (gross)	6	5	5
Net budget authority and outlays				
8900.00	Budget authority	6	6	6
9000.01	Outlays (net)	6	5	5

Department of the Interior
Minerals Management Service
Oil Spill Research
Object Classification

dollars in millions

Treasury Account ID: 14-8370		FY 1998 Actual	FY 1999 Estimate	FY 2000 Estimate
Direct Obligations				
1111.01	Total personnel compensation	1	1	1
1252.01	Other services	5	5	5
1990.00	Subtotal, Direct obligations	6	6	6

Department of the Interior
Minerals Management Service
Oil Spill Research
Account Object Class Information

dollars in millions

	1999 Estimate Amount		Uncontrollable and Related Changes		Programmatic Changes		2000 Budget Request	
Object Class	FTE	AMT	FTE	AMT	FTE	AMT	FTE	AMT
Total Appropriation	23	$6	0	0	0	0	23	$6
Total personnel compensation		$1		0		0		$1
Other Services		$5		0		0		$5

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

	FY 1998 Actual	FY 1999 Estimate	FY 2000 Estimate
ES-6	2	2	2
ES-5	5	5	5
ES-4	2	2	2
ES-3	0	0	0
ES-2	3	3	3
ES-1	1	1	1
Subtotal	13	13	13
GS-15	71	71	71
GS-14	158	149	149
GS-13	410	414	416
GS-12	510	518	520
GS-11	130	135	135
GS-10	5	5	5
GS-9	63	66	66
GS-8	45	45	45
GS-7	82	95	95
GS-6	75	77	80
GS-5	79	93	95
GS-4	33	33	33
GS-3	6	4	4
GS-2	7	7	7
GS-1	6	6	6
Subtotal	1,680	1,718	1,727
Total	1,693	1,731	1,740

MINERALS MANAGEMENT SERVICE

Annual Performance Plan for Fiscal Year 2000

February 1999

Minerals Management Service
Fiscal Year 2000 Annual Performance Plan

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Organization of the Annual Performance Plan

The organization of the Mineral Management Service's FY 2000 Annual Performance Plan reflects the Department of the Interior's approach to improve and streamline the Annual Plan and to better link the plan with the budget. The revised Annual Plan presents our goals and measures, and identifies the FY 2000 strategies and resources needed to achieve them, consistent with the Strategic Plan and budget proposal.

By following this presentation framework, MMS will be able not only to meet the requirements of the Government Performance and Results Act but also to promote managerial accountability through a direct connection with the Strategic Plan, resources, and outcomes. The Annual Plan links coherently with goals contained in the Strategic Plan. The Annual Plan sets forth in measurable and quantifiable form the levels of performance for each goal in the budget year. The Annual Plan also links to MMS's budget request to Congress for FY 2000. This presentation provides the decision maker a context by which to make informed decisions on the allocation or reallocation of resources to better accomplish the mission of the organization.

The Annual Performance Plan for FY 2000 is divided into four sections:

Section I — *Introduction and Overview* states MMS's mission and addresses additional Government Performance and Results Act (GPRA) requirements.

Section II — *Mission-Related Goals* includes Annual Performance Plan summary and descriptive goal narrative covering FY 1998, FY 1999, and FY 2000.

Section III — *Means Goals* discusses how means goals should be presented.

Section IV — *Performance Measures and Verification* provides a simple presentation of MMS's methods to verify and validate the measured values of actual performance.

Section I - Introduction and Overview

I.1 Introduction

The Minerals Management Service manages the Nation's natural gas, oil, and other mineral resources on the Outer Continental Shelf (OCS), and collects, accounts for, and disburses revenues from offshore Federal mineral leases and from onshore mineral leases on Federal and Indian lands. The MMS was established by the Secretary of the Department of the Interior in 1982 following the Independent Commission on Fiscal Accountability's recommendation that proper fiscal accountability and management of the public's mineral resources would best be served by an agency devoted solely to minerals management. The Federal Oil and Gas Royalty Management Act, passed in 1982, established a framework to improve management of Federal and Indian mineral royalties.

Although a relatively small bureau (approximately 1,700 employees located in 20 cities across the United States), MMS activities provide major economic and energy benefits to the Nation, taxpayers, States and the Indian community -- benefits that have both national and local significance.

Since 1982, over $98 billion in revenues from mineral activities on Federal lands administered by MMS, the Bureau of Land Management (BLM), and the United States Forest Service (USFS) have been distributed by MMS to the Federal Treasury, States, tribes, and individual Indian mineral owners (allottees). A portion of the revenue distributed to the Treasury goes into accounts that support the Reclamation Fund and the Land and Water Conservation Fund. Approximately $900 million in OCS revenues is deposited each year into trust funds to acquire, restore, and create parks, wildlife preserves, wilderness areas, and recreational facilities.

The OCS continues to play a significant role in our Nation's energy picture. Currently, MMS administers nearly 42 million acres of the OCS under lease, which supplies more than 27 percent of the natural gas and 20 percent of the oil produced in the United States. Since 1954, the OCS produced some 135 trillion cubic feet of natural gas and 12 billion barrels of oil. While development of offshore mineral resources has already meant billions of dollars in revenues to the United States, MMS is especially mindful of safety and environmental concerns -- striving for the proper balance between providing a domestic energy source and protecting sensitive coastal and marine environments.

The MMS comprises two specialized operating programs, Offshore Minerals Management and the Royalty Management Program. The Associate Directorates of Policy and Management Improvement and Administration and Budget and the Office of Communications provide support for the programs.

I.2 Mission Statement

To manage the mineral resources on the Outer Continental Shelf in an environmentally sound and safe manner and to timely collect, verify, and distribute mineral revenues from Federal and Indian lands.

The MMS mission statement is based on the Department's mission statement and on mandates from our enabling statutes using the experience and program knowledge of MMS senior executives and managers.

Two principles guide us as we fulfill our mission: 1) Be responsive to the public's concerns and interests; and 2) Work to enhance the quality of life for all Americans.

Our vision is to be recognized as the best minerals resource manager.

Several bureaus both within and outside the Department manage mineral resources. We want to set the standard for others to follow. Already recognized as a progressive and effective bureau, we want to be recognized as "the best in business." We intend to realize our vision through high quality service and information, reduced costs, effective use of automation, and innovation.

The MMS has two broad goals based on legislated mandates:

- Provide for safe and environmentally sound mineral development on the Outer Continental Shelf and ensure the public receives fair value.

- Provide timely, accurate, and cost-effective mineral royalty collection and disbursement services.

I.3 Relationship to Departmental Goals

The Department has developed five broad goals to provide a framework for the numerous and diverse responsibilities of the Department's bureaus.

- ***Protect the Environment and Preserve Our Nation's Natural and Cultural Resources.***
- ***Provide Recreation for America.***
- ***Manage Natural Resources for a Healthy Environment and a Strong Economy.***
- ***Provide Science for a Changing World.***
- ***Meet our Responsibilities to American Indians.***

The individual bureaus' performance management strategies and performance goals contribute to the underlying foundation to achieve the Department's broad goals. The MMS's activities support all departmental goals. For example, our "Rigs to Reef" program provides recreational opportunities for sport fisherman; the mineral revenues generated by the OCS and collected by MMS's RMP provide funds for land acquisition programs; and our environmental research is made widely available and used by coastal States and other agencies. Our mandated mission and performance measures contribute most strongly to the following two departmental goals:

- ***Manage Natural Resources for a Healthy Environment and a Strong Economy***

The MMS's Mission Goals that support this goal are:

- Ensure safe OCS mineral development.
- Ensure environmentally sound OCS mineral development.
- Ensure that the public receives fair value for OCS mineral development.
- Provide for mineral development on the OCS.
- Improve the timeliness and accuracy of payments to States, Indian tribes, BIA offices, and other Federal agencies.
- Improve the cost effectiveness of mineral royalty collection and disbursement services.
- Improve reporters' compliance with lease terms, rules, regulations, and laws.

Our inspection and oversight of industry activities on the OCS have helped to ensure an outstanding safety and environmental record. During the last 25 years, the OCS has produced nearly 9 billion barrels of oil with spillage amounting to a fraction of a percent (<0.002 percent). Our mission goals are to continually improve upon this excellent record.

In addition to over $79 billion in revenue collections from OCS activities, since 1982 MMS has collected over $19 billion from Federal onshore leasing activities administered by BLM. These revenues provide economic benefits to the States, tribes, Land and Water Conservation Fund land acquisition, and Reclamation Fund water projects as well as the General Treasury. Revenue-related mission goals focus on accuracy and timeliness of collections and disbursement and industry compliance.

- ***Meet our Responsibilities to American Indians***

The RMP Goals that help the Department achieve its overarching goal of trust responsibility are:

- Provide timely, accurate, and cost-effective mineral royalty collection and disbursement services.

- Provide Indian tribes with increased opportunities for education and for assuming functional responsibilities with respect to the Royalty Management Program.

Since its inception, MMS has collected and distributed over $2 billion in mineral revenues to Indian tribes and allottees. Our mission goals focus on accuracy and timeliness of collections and disbursement and industry compliance to ensure tribes and allottees receive all monies due to them.

The MMS offers a number of opportunities to tribes, including on-line monitoring of royalties and accounts, learning the royalty collection processes through a new internship program for tribal employees, and handling royalty audit work through cooperative agreements. These efforts will assist the tribes in assuming royalty functions.

I.4 Linkage to Strategic Plans and Budget

This Annual Plan is linked directly to the Strategic Plan through the mission goals and long-term performance goals. The MMS Strategic Plan consists of broad mandated strategic goals that are defined by qualitative mission goals, which then are quantified by outcome-oriented, long-term performance goals. The Annual Plan links to the Strategic Plan by determining the annual target of performance to meet the long-term performance goals used to determine mission goal achievement.

The target percentages and numbers in these bureau-wide goals were developed by technical and program experts at various levels throughout the organization based on guidance provided by MMS senior officials. Senior officials identified and prioritized the results to be achieved during FY 2000 in order to achieve the longer-term strategic goals. Technical and program experts identified the resources and specific actions needed to achieve these results. Resource allocations and workplans for each organizational unit will be tied to this plan.

In accordance with the Office of Management and Budget's (OMB) Circular A-11, section 220.8, the budget figures presented in this document are at the mission goal[1] level. The budget figures for mission goals are smaller, re-aggregated components of the subactivities and program activities presented in the Summary of Requirements tables and Programming and Financing Schedules based on workload and other allocation methods.

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1 OMB Circular A-11 requires that each program activity in an agency's Program and Financing Schedule (P&F) be covered by a performance goal or indicator. An agency may choose to substitute a "GPRA program activities structure," which is developed by "consolidating, aggregating, or disaggregating the program activities included in the P&F schedules". For MMS, our mission goals equate to the GPRA program activities.

I.5 Additional Annual Performance Plan Requirements

I.5.1 Customer Service Standards

The MMS is guided by four Customer Service Standards to ensure quality service to our customers. We have made significant contributions to our customers under each of these standards.

* **We will focus on providing you excellent service.**

Electronic Commerce -In response to many in industry who want to move away from paper reporting, MMS is making substantial progress toward our goal of receiving all incoming production and royalty reports in electronic form. The MMS also is applying electronic commerce to the bid submission process for oil and gas lease sales and current operations reports. We also provide a great deal of information via the Internet.

Plain Language initiatives -Since our business is regulation-based, our customers must understand regulations. We have committed to developing clearer "plain language" regulations.

* **We will consult with you as we address issues that affect you.**

Outreach Workshops - The RMP has held more than 40 outreach workshops with our constituents over the last 2 years to move from conflict toward consensus on many different issues, including implementation of the Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (RSFA), reengineering, Royalty-In-Kind (RIK), and oil and gas valuation. The RMP also joins the Indian Minerals Steering Committee (IMSC) in sponsoring ongoing "listening conferences," where allottees and tribal representatives can ask questions and voice concerns.

The MMS's OMM also has conducted workshops on deep water development issues, has instituted an annual Environmental Forum to open channels of dialogue between MMS and other members of the ocean community, and has organized an Offshore Regulator's Forum at the 1998 Offshore Technology Conference, which proved to be very productive.

Partnerships - Partnerships provide an avenue for State, Indian, industry, and other constituency involvement in refining RMP's future business processes, delineating reporting requirements, and leveraging information technology to achieve 21st century business goals and objectives. The RMP regularly participates in quarterly meetings of the State and Tribal Royalty Audit Committee, providing information and receiving input on policy formulation and regulatory development.

The OMM likewise has pursued numerous partnerships to facilitate the successful implementation of its mission goals and improve its relationships and communication with its constituents and sister agencies. For example, MMS has engaged in a number of cooperative agreements with coastal States for the purpose of determining the need for OCS sand resources to combat severe coastal erosion. These partnerships have involved States from the Atlantic northeast to the Gulf Coast.

Minerals Management Advisory Board - To obtain timely and constructive advice on policies, procedures and issues affecting MMS royalty and offshore programs, the Department established the Minerals Management Advisory Board, comprising four committees:

- OCS Policy Committee
- Royalty Policy Committee
- OCS Scientific Committee
- Alaska OCS Region Offshore Committee

These committees include representatives from States, tribes, Indian allottees, industry, Federal agencies and the public. The committees provide advice to the Secretary or other departmental officials in implementing the laws, rules, leases, and agreements that MMS administers. The committees also conduct open public meetings, workshops, and conferences throughout the year.

Alternative Dispute Resolution - The MMS is using ADR to support key functions by improving communications and developing better relationships with employees, customers, and constituents; creating opportunities to resolve disputes using a wide range of solutions; and reducing costs and processing times associated with litigation and appeals.

*** We will actively seek opportunities to coordinate with other government entities to provide better service to you.**

The MMS coordinates with the Bureau of Indian Affairs (BIA), BLM, the Office of the Special Trustee, USFS, the Army Corps of Engineers, the U.S. military, the U.S. Coast Guard, State governments, Indian tribes and allottees, and industry to improve overall MMS performance.

*** We will improve our information technology infrastructure to increase your access to MMS information.**

Automated Data Access - The MMS manages and maintains a sophisticated configuration of automated systems to ensure that the large volume of data collected by MMS is accurately processed, maintained, and made readily available for internal use and for the States, tribes, BIA, BLM, and other agencies.

Wide Area Network Links to States and tribes - The MMS has completed a 2-year project to expand its Wide Area Network to the offices of 17 States and tribes that have entered into cooperative audit agreements with MMS. These offices now can effectively access MMS E-mail, bulletin boards, and computer applications. This provides the State and tribal auditors with faster and more effective access to the data they need, and provides for better communications with each other and with MMS staff.

I.5.2 Use of Non-Federal Parties in Preparing this Annual Performance Plan

This Annual Performance Plan was prepared solely by MMS employees.

I.5.3 Crosscut Issues

The portion of the royalty management reengineering initiative that impacts Indian programs and contributes to trust management improvements has been designated as one of 13 major sub projects in the Office of the Special Trustee High Level Implementation Plan. The MMS is fully aware of its Indian trust responsibilities and through implementation of its reengineering design concepts will better be able to effectively discharge these responsibilities and support the Secretary's Indian trust management improvement goals.

The MMS is part of the Department's IMSC, which acts as a forum to facilitate the resolution of Indian mineral resources and royalty management issues.

In 1992, the Department created a tri-agency office in Farmington, New Mexico, to coordinate the mineral activities of BIA, BLM, and MMS. The objectives were:

- Ensure that the Secretary's legal responsibilities as a trustee are performed and that the Department's statutory requirements in mineral lease management are met for individual Indian mineral owners in the four corners region.

- Provide a mechanism to increase and otherwise improve communication with and between the four corners individual mineral owners and the Department regarding mineral leases, production, and royalties.

We currently are evaluating the success of the Farmington pilot project to determine whether to expand the concept to other locations.

Additionally, MMS coordinates and prioritizes research needs with the U.S. Geological Survey and participates on various mapping standardization committees to ensure data and information can be shared across all bureaus.

Many offshore activities are coordinated with agencies such as the Environmental Protection Agency, National Oceanic and Atmospheric Administration, and the Coast Guard. These efforts have streamlined reporting requirements for the regulated community, and avoided duplication of workload by Federal staff.

Our coordination with the Coast Guard is an excellent example. Operators used to report oil spill data to both the Coast Guard and MMS. To eliminate this duplicative reporting, industry now reports only to the Coast Guard, whose regulations require that all spill data be reported. The Coast Guard furnishes to MMS only the spill data that is needed to meet our requirements.

Additionally, MMS and the Coast Guard have just completed a Memorandum of Understanding that clearly defines which agency is responsible for the oversight and inspection of the numerous offshore pipelines. In the past, the MMS/Coast Guard regulatory boundary was the point at which control passed from the producer to the transporter. Recent changes in corporate structure and marketing conditions have made it difficult to determine this transfer point. A workgroup of industry, MMS, and Coast Guard staff decided that the offshore producers and transporters were in the best position to determine this transfer point, report the location to the agencies, and visibly mark the transfer points. The MMS and Coast Guard will apply their respective regulations to the appropriate pipeline segment. This will eliminate conflicting or confusing requirements on the regulated community.

I.5.4 Management Issues

By continually reviewing and adjusting to changes in the oil and gas industry or to new legislation, MMS has addressed and resolved management issues as they have developed. Over the years, MMS has found ways to simplify and streamline our processes and reengineer others and will continue to do so. As we move to implement the goals we have established, MMS will incorporate a variety of approaches and strategies. We will improve our decision making process, apply modern information systems to improve work quality and service, maintain a high level of scientific expertise, base decisions on high quality science, issue regulations that focus on results rather than processes, and reward innovation.

The Department's Office of the Inspector General (OIG) is working with bureaus to improve management in many areas. Pertinent to MMS is the OIG's past and current work related to revenue collections. The MMS has completed all recommendations in the Negotiated Royalty Settlements audit (No. 96-1-1264). By FY 2002 with the resources requested in this Plan, MMS's reengineering initiative will have addressed all recommendations in the RMP Automated Information Systems audit (No. 97-I-1042). The MMS has completed part of the Selected Aspects of the RMP, MMS audit (No. 96-1-1255); though we agree in principal with the remaining portion of this audit, we are unable to implement these recommendations at this time. Two OIG audits included no recommendations:

- Biennial Report on the Federal Royalty Management System for FY 1994-1995 (No. 97-10-408)
- Royalty Gas Marketing Pilot, MMS (No. 96-1-786).

In 1998, MMS completed its response to three remaining items contained in an OIG report that audited the agency's inspection and enforcement practices. The first item dealt with the documentation of procedures used for dealing with potentially dangerous working situations involving offshore operations. The MMS turned to its Safety and Environmental Management Program (SEMP) process and industry Recommended Practices (RP) 75, which provide for a performance based system for ensuring that safe working conditions and practices are established. The MMS also initiated a system for tracking performance that will help the agency determine whether frequent violators should be disqualified from operating on the OCS.

The OIG report also recommended that MMS require that inspection documents leave a clear record of inspection results and that these documents receive supervisory review before being entered into the MMS information management system. The MMS has established guidelines for inspector reports and requirements for supervisory approval of those reports that fully address the OIG recommendations.

The MMS has published a Y2K readiness statement on the Internet. The MMS has four mission critical systems. The MONTCAR and PRESTO systems were designed to be Y2K compliant. The TIMS and RMP systems were renovated with work completed 1 month ahead of schedule and 28 percent under original cost estimates of $2.1 million. Implementation of the renovations to the TIMS and RMP systems occurred in the latter part of 1998 - as was independent verification and validation of Y2K compliance for these systems.

The RMP has completed the mission critical systems portion of the Year 2000 project. Testing was completed in October 1998, implementation was completed in November 1998, and an independent validation and verification was completed in December 1998. These systems comprise approximately 1.3 million lines of COBOL code and over one-half million lines of ADS/Online code. The RMP has completed the evaluation of hardware and vendor software on both client/server and mainframe platforms for Year 2000 compliance. Necessary remediation is on schedule.

The MMS is now dealing with embedded and telecommunication system compliance with Y2K. With respect to telecommunications, about 80 percent of MMS routers and telephone exchanges are compliant and the remainder will be compliant by March 1999. Embedded systems require more work; renovations time frames and costs are being finalized. The MMS now will give greater attention to business continuity plans and take steps to work with Offshore operators to ensure that their Y2K programs are sufficient to prevent potential safety concerns or oil spill hazards.

I.5.5 Adjustments to the Strategic Plan

The MMS is making the following minor adjustments to its Strategic Plan through this document:

1. To improve the correlation between the its bureaus' Strategic and Annual Plans, the Department has set and defined common terms to be used in GPRA plans. The MMS is revising the terminology in its Strategic Plan to match the Department's model. The following crosswalk briefly describes the terms and hierarchy used in this Annual Plan as compared to the current Strategic Plan.

Terms		Definitions and Examples
Used in this FY 2000 Annual Plan	Used in MMS's Strategic Plan for 1997-2002	
Goal Categories	Mission Goals	Broad, permanent goals based on MMS' legislated mandates. *Example: Provide for safe and environmentally sound mineral development on the OCS and ensure the public receives fair value.*
Mission Goals	Performance Objectives	The consolidation, aggregation or disaggregation of program activities that are covered or described by a set of performance goals. Defines how a bureau will carry out its mission and are usually outcome oriented. *Example: Provide for mineral development on the OCS.*
Long term goal	Measurement Indicator	A description of the intended result, effect, or consequence of a program. Provides a measurable indication of future success. *Example: By 2002, show a reduction in the rate of decline in the reserves-to-production ratio below the 1990-95 rates of 0.84/year and 0.32/year for oil and gas, respectively.*
Annual Performance Goal	Not applicable	The annual increment of the longer term goals. Contains a target level of performance to be achieved in a particular year. *Example: In 2000, the rate is estimated to decline to 0.82/year and to 0.31/year, for oil and for gas, respectively.*

2. The MMS will be removing the administrative and human resources goals in the next formal revision to the Strategic Plan. In the interim, these goals will no longer be considered part of the Strategic Plan and will not be included in the Annual Plan or in the annual report. (See Section III.)

3. The RMP customer service and communication mission goal is being deleted at this time because we will have no data to report until after 2002. The MMS has suspended changes to current processes and systems in order to focus resources on our long-term reengineering efforts. We do not plan to do another formal customer survey until after 2002, when reengineering processes and systems have been implemented and customers have had an opportunity to know how well they serve their needs. However, as we reengineer, MMS is incorporating information from previous customer surveys and continuing outreach sessions.

4. The MMS is changing the goal relating to electronic reporting (see Sections II.1F and II.2F) from increasing the percentage of royalty reports, production reports, and dollars received electronically to 100 percent to increasing the percentage of royalty reports, production reports, and dollars received electronically to 99 percent for royalty reporting, 99 percent for production reporting, and 96 percent for dollars received. We also changed the target date from FY 1999 to FY 2000.

As discussed in detail under Section II.1F, about 50 percent of our production and 80 percent of our royalty data lines are submitted electronically. The MMS published a proposed rule in April 1998, mandating 100 percent electronic reporting. We plan to issue the final rule in 1999. It will include hardship exclusions and/or exclude companies based on the number of lines they report annually. The 100 percent target was adjusted because of these exclusions.

The MMS has committed to a FY 1999 and 2000 project, outsourcing the conversion and ongoing support of the required electronic infrastructure and contracting with industry experts in electronic commerce. This plan provides for the remaining companies to be converted by FY 2000. Based on this plan, we extended the deadline for companies to report electronically to 2000.

I.5.6 Capital Assets/Capital Programming

The MMS submitted a Capital Asset Plan and Justification to OMB in 1998 for its major reengineering project, which will enable RMP to implement new applications and technologies supporting its future concept of royalty collection and disbursement operations. The modernization of RMP's information technology environment responds to oversight agency recommendations and the reengineering team's conclusions that existing systems cannot efficiently support reengineered business processes.

Current systems were implemented in the early 1980's and have been subjected to thousands of changes to meet an ever expanding mission. Today's environment is complex, inefficient, difficult to change, and expensive to maintain. The mix of aging mainframe-based systems and substantial changes needed to support reengineered business processes represents a major risk to future systems reliability and operational stability. These factors could jeopardize RMP's ability in the future to achieve GPRA-based performance objectives such as timely and accurate disbursement of receipts. Once implemented, the new systems will give MMS the flexibility to disburse funds throughout the month, thus increasing the timeliness of disbursement.

In addition to dividing implementation into distinct modules reflecting the two core business processes---finance and compliance and asset management--the "Spiral Model" for software development will be employed. This incremental approach breaks implementation into smaller definable entities of short duration--typically an iterated cycle of 3 to 6 months. This responds to Clinger-Cohen guidelines calling for system development cycle times of no more than 18 months.

The recommended IT investments include implementation of a relational database management system, workflow/case management tools, and commercial off-the-shelf accounting products. The introduction of a host of automated analytical tools and enhanced use of the capabilities of the world-wide web for reporting and information exchange also is contemplated. The RMP is confident that the recommended reengineering improvements, coupled with a modernized IT environment, will dramatically improve the overall performance of its accounting and compliance-related business processes and ensure that future mission requirements are fulfilled at the lowest possible cost.

Recent OIG reports calling for modernization of RMP systems estimate that, once implemented, annual operational savings of $2 million will be realized. Revised and simplified reporting recommendations will reduce reporting burdens on both industry and RMP. Incorporated in these changes are recommendations of the Royalty Policy Committee, which by themselves were estimated to save $1.5 million annually. The reengineering team estimates that oil and gas royalty reporting alone will be reduced 40 percent. Furthermore, these simplified reporting schemes will save the minerals industry additional millions.

While these tangible benefits are significant, there are important intangible benefits as well. This project will produce significant improvements to RMP's outputs and operational benchmarks that support its mission goals. Without a reengineered system, RMP cannot readily meet all RSFA requirements; particularly the delegation of functions to States. The modernization also will allow RMP to disburse funds earlier than the law requires, thus increasing the timeliness of payments.

The MMS is requesting a total increase of $10 million for royalty management reengineering in FY 2000, which will enable development and implementation of RMP's new financial systems module. The reengineering changes will be phased in over a 2- to 3-year period, with the development and implementation of the compliance and asset management module scheduled to begin in October 2000. The implementation of the new compliance and financial modules will continue through FY 2000 and FY 2001, and are targeted for completion in September 2001. Following final implementation, we anticipate this effort will produce significant improvements to RMP's outputs and operational benchmarks and significantly impact all of RMP's mission goals and measures.

I.5.7 Waivers for Managerial Accountability and Flexibility

No requests for waivers of administrative requirements to provide managerial flexibility are being requested in this plan.

Section II - Mission-Related Goals

This section provides MMS's Annual Performance Plan for the budget year FY 2000, presents the current year FY 1999 targets, and provides prior year FY 1998 and FY 1997 baseline data, if applicable. The format for the goal section consists of narrative and Exhibit A for each mission goal. Exhibit A displays the relationship of the mission Goal, long-term goals, annual goals, and supporting performance measures.

It is important to note that several of the goals contained in this plan rely heavily on the actions of other parties, including industry, States, and tribes. While MMS may not have direct control of all factors that contribute to the achievement of these goals, it can and does exert significant influence through its programs to cause improvement in these important outcomes.

II.1 GPRA Program Activities

II.1A Mission Goal: *Ensure safe OCS mineral development.*

II.1.1A Description

This goal pertains to MMS efforts to reduce to the lowest possible level offshore accidents that impact the people, facilities, and environment involved in OCS activities. The MMS has developed an index that takes into account various types of accidents and their relative severity to help determine how well this goal is being met.

II.1.2A Strategic Issues

By 2002, show a decrease in the accident index below the 1996 level of 0.612 with an FY 2000 annual goal of 0.588. The accident index takes into account the severity and risk of various OCS activities. In the extreme, if each activity had resulted in the most severe type of accident, the 1996 index would have been 298. This measure indicates whether offshore operators, and MMS oversight, are improving upon an already excellent safety record.

Significant factors: Factors having an impact on this mission goal include: a) the rapid evolution of new technology to meet the challenge of offshore deepwater exploration and development, b) the changing face of the offshore industry and labor pools - mergers and downsizing that preceded recent activity upturns resulted in the loss of experience, and c) petroleum price fluctuations that may result in company decisions to reduce operational overhead expenditures, which could include maintenance schedules and related staff. These factors place an additional burden on the MMS inspection and compliance program.

Operational processes: The primary procedures used by MMS to ensure safe mineral development on the OCS include a) inspections of drilling and production facilities, b) co-development and improvement of a voluntary safety and environmental management plan with industry, c) ensuring effective training programs for safety and pollution prevention, and d) enforcing civil penalties program for non-compliance.

Resources: To fund the numerous activities required to maintain the excellent offshore safety record, in FY 2000 MMS is requesting $45.469 million and 338 FTE with backgrounds in petroleum engineering, offshore production and operations, geology, computer and statistical analysis, management, and various support services. These figures include a pro rata share of General Administration Activity support costs.

II.1.3A Related Budget Accounts, Budget Activities, Subactivities

1. Account: Royalty and Offshore Minerals Management, OCS Lands, Leasing & Environment
2. Account: Royalty and Offshore Minerals Management, OCS Lands, Regulatory

3. Account: Royalty and Offshore Minerals Management, OCS Lands, Information Management
4. Account: Oil Spill Research, Oil Spill Research

II.1.4A Proposed Legislation

No legislation is proposed at this time.

II.1.5A Impact of FY 2000 Budget Changes

International Activities: The MMS will direct $0.125 million to participate in international fora such as the efforts of the International Standardization Organization (ISO) to develop regional guidelines and standards that may impact the domestic oil and gas industry. A similar amount will be redirected to support our mission goal to ensure environmentally sound OCS mineral development. This is discussed in the II.1.B goal section. The allocation is not for technical assistance for foreign governments — it is only for participation in international groups focused on standard setting, such as the ISO and International Maritime Organization.

The MMS's participation in these international efforts will improve the likelihood that the high safety and environmental standards used domestically may be adopted with appropriate regional variations worldwide. The U.S. is bordered by oil and gas producing countries whose activities impact our marine and coastal environments. By encouraging standardization throughout the industry, information and data pertaining to safe operations can be more readily shared between countries, safety equipment can be built and operated to common (and higher) standards, etc. These outputs will improve our understanding of safety factors and will also decrease the potential for negative impacts to the OCS environment. The knowledge gained from these international efforts will help to ensure that the number and severity of OCS accidents will continue to decline in the outyears. The effect of the proposed increase will be reflected in outyear annual performance goal targets.

In addition, these funds will enable MMS to respond to increasing requests from the Department of State to provide technical input and monitoring of instruments of international law and organizations that bear upon MMS's domestic regulatory authority/domain. The MMS will continue to assist and monitor the activities of the Convention on the Law of the Sea, the London Convention 1972, the International Convention for the Prevention of Pollution from Ships, and the Gore-Primakov Commission. Of particular note are the issues of drilling mud discharges and platform removal requirements that are being discussed in international fora. These issues bear directly on U.S. offshore oil and gas operations.

Gulf of Mexico Activities: The MMS is requesting $1.4 million and 9 FTE to increase staffing in the newly formed Lake Charles District ($0.5 million and 5 FTE), which already has exceeded its planning target of 70 production platforms, and administrative support staff ($0.4 million and 4 FTE). The request also includes additional helicopter leasing costs ($0.5 million). This increase will allow MMS to maintain an optimum inspection strategy, meet with operators on a regular basis to perform annual safety performance reviews, and collect and analyze safety data to identify and resolve potential problems. These actions will ensure that this newer District achieves the same high safety record as the OMM's Gulf of Mexico Region has historically maintained.

The proposed increase will help maintain the high level of annual performance in the outyear goal targets. Although this request also supports our mission goals to ensure environmentally sound OCS mineral development and to provide for mineral development on the OCS, the proposed increase most directly supports, and funding has been attributed to, this mission goal.

Marine Minerals Research Centers (MMRC) were reauthorized under the Marine Minerals Resources Research Act of 1996 and placed under the Department's oversight. The MMRC at the University of Mississippi was funded in the amount of $0.6 million in FY 1999 and MMS is managing the program. The MMRC mission is to conduct research on the exploration and extraction of minerals from the seabeds of the continental shelves, deep ocean, and arctic regions.

The MMS recognizes the importance of the investigations and technological development that this center pursues, particularly the longer term research. However, due to priorities for oil and gas exploration and extraction oversight, MMS is proposing to eliminate MMRC funding in FY 2000. Of the $0.6 million, $0.3 million is apportioned to this goal.

The proposed reduction will not impact our goal achievement.

II.2A FY 2000 Annual Performance Goal Detail and Narrative

Exhibit A - Performance Plan Detail and Narrative

Exhibit A displays the relationship of the mission goal, long-term goals, annual goals, and supporting performance measures.

	FY 1999 Enacted (000's)	FY 2000 Proposed BA (000's)
Mission Goal: **A. Ensure safe OCS mineral development.**	$43,024	$45,469

Long-term Goal

- *By 2002, show a decrease in the accident index below the 1996 level of 0.612.*

FY 2000 Annual Performance Goal:

- *Achieve an accident index not greater than 0.588. (01.01.01.01.00)*

Performance Measure	FY 1997 Actual	FY 1998		FY 1999 Plan to Congress	FY 2000 Proposed
		Plan	Actual		
1. Accident rate (ratio)	n/a	0.600	0.583	0.594	0.588

Note: All figures include amounts from annual appropriations and offsetting collections and include a prorata share of General Administration support costs.

Goal Purpose:

The Outer Continental Shelf Lands Act (OCSLA) requires that "operations on the Outer Continental Shelf should be conducted in a safe manner by well-trained personnel using technology, precautions, and techniques sufficient to prevent or minimize the likelihood of blowouts, loss of well control, fires, spillages, physical obstruction to other users of the waters or subsoil and seabed, or other occurrences that may cause damage to the environment or to property, or endanger life or health". The Mission and annual goal for 2000 directly addresses this aspect of the law by employing a performance based approach to industry regulation rather than relying on more prescriptive rules. Through this approach MMS has been able to work more effectively with industry to reduce accidents and improve the safety of offshore operations. Other Federal legislation applies to this aspect of MMS regulatory responsibilities such as the Occupational Safety and Health Act of 1970.

Status:

The move into deep water and overall heightened industry activity have increased both the level and complexity of monitoring OCS operations. The number of operators has grown over the past several years from approximately 100 to over 130. Some of these operators are not as experienced as the more tempered operators and require more oversight. This is coupled with the fact that the offshore industry downsized significantly before the recent increase in activity, which reduced the skilled labor pool. The presence of workers without much offshore experience is placing an added burden on the inspection and compliance program. However, the development of the Safety and Environmental Management Program (SEMP), which gives companies more latitude in the manner in which they meet safety targets, is designed to cope with changing conditions in industry and is expected to produce the desired performance outcomes for the annual goal for 2000.

Goal Achievement:

The performance achieved for FY 1998 surpassed the targeted level by .017. The MMS has not yet determined what conditions contributed to exceeding projections; therefore, MMS has retained outyear targets that are above the 1998 performance level, but continue to reflect projected improvements upon the base year.

To meet the year 2000 annual target of decreasing the accident index to no greater than .588, MMS will inspect drilling and production facilities using both annual and unannounced inspections, require that offshore workers receive effective training on safety and pollution prevention operations, participate as a member of an industry effort to promote voluntary use of SEMP, participate in the International Regulators Forum, hold Annual Performance Reviews with offshore industry operators, and review and approve many of the actions required by industry to explore and develop resources. The MMS will continue to operate its civil penalty program to deal with operators who do not comply with safety requirements. Our Technology Assessment and Research Program will assess the current, safety-related technologies used by the oil and gas industry and research improvements. The FY 2000 measure also reflects the outcome of previous years' efforts to improve safety.

The OCS program will continue to focus on safety issues related to: the increased exploration and development activity in the Gulf of Mexico (the number of leases has grown by 800 to 7,855 in 1998), and activity in deepwater (400-800 meters) and ultra deep water (> 800 meters). It is anticipated that the following actions will ensure the accident index continues to decrease in the future:

- a proposed rule to implement a performance based training program for industry employees rather than the current prescriptive type program where industry staff attend MMS-certified schools;

- a proposed rule to provide MMS with the ability to disqualify an operator upon sustained poor performance;

- team inspections with members from industry, MMS, Coast Guard, and State and local agencies (this approach pools resources and maximizes expertise); and

- MMS assistance to operators involved in a Performance Measures Pilot Project to improve operator's audits of their own SEMP plans.

To fund the numerous activities required to maintain the excellent offshore safety record, in FY 2000 MMS is requesting $45.469 million and 338 FTE with backgrounds in petroleum engineering, offshore production and operations, geology, computer and statistical analysis, management, and various support services. These figures include a pro rata share of General Administration Activity support costs.

Benefits Derived:

By achieving 2000 annual targets, MMS will provide benefits that include protection of human and natural resources and cost savings realized from avoidance of injury, property damage, environmental pollution, loss of resources and revenues and other associated impacts. This goal provides benefits to commercial and recreational users of the ocean and coastal environments in or adjacent to OCS operational areas. The MMS aims to improve the offshore safety record and increase public confidence that OCS activities can and will continue to operate in the safest manner possible.

II.1B Mission Goal: ***Ensure environmentally sound OCS mineral development.***

II.1.1B Description

This goal is focused on meeting an important mandate of the OCSLA - to provide environmental safeguards on the orderly development of resources on the OCS. The MMS is nearing completion of a strategy for assessing the degree of impact that may occur from mineral developmental activities on the OCS. The methodology under development will help MMS determine how effective its mitigating measures and other actions are in preventing adverse environmental impacts. The MMS also is monitoring oil spills from OCS activities and devising ways to reduce the incidents of pollution accidents.

II.1.2B Strategic Issues

By 2002, show a decrease in the number of environmental impacts per OCS mineral development activity below the 1998 baseline level. This goal will determine how effective MMS-imposed mitigation measures are in preventing environmental impacts. To produce in certain environmentally sensitive areas, MMS requires industry to use special operating procedures to prevent environmental degradation. Staff are finalizing methods to measure these environmental impacts. The FY 2000 goal is to reduce impacts below a soon to be developed baseline. Since it is not feasible to quantify all potential impacts in the marine environment, this measure serves as an indicator, not an absolute measurement, of environmental impacts and should be used only for comparative purposes between years.

By 2002, show a decrease in the amount of oil spilled below the 1992-1996 average level of 5.09 barrels spilled per million barrels produced with an FY 2000 annual goal of 5.06 barrels. This long term goal was established to serve as a provisional indicator until a more comprehensive indicator, covering a broader range of potential environmental impacts, could be developed (see discussion immediately above). Incremental improvement in this indicator is difficult to obtain owing to increasing production levels in the OCS, and the major oil spill reductions that have been achieved. Since 1975, average annual spill levels have been reduced by more than 90 percent. Nevertheless, MMS is continuing to work with industry to keep OCS oil spills at these low levels and to find ways to improve on each prior year's record.

Significant factors: The MMS has amassed a tremendous volume of scientific data and analysis that is used to make decisions on the location and extent of petroleum exploration and development on the OCS and to establish mitigation measures specific to certain leases. The preponderance of information is pertinent to the widely explored areas outside of the new deepwater trend. The success of exploration and production in the deep water points to continuing interest in this new frontier and to the need for additional information to adequately assess the impacts of deep and ultra deep water activities on that environment.

Operational processes: Through 1998, the MMS Environmental Studies Program has expended almost $650 million for needed studies. These studies are an integral part of the MMS decision-making process, as is the preparation of environmental impact statements and environmental assessments. The MMS also conducts post-lease studies and established mitigation measures to minimize adverse impacts.

Resources: To fund the necessary operations required to maintain the excellent OCS environmental safety record, in FY 2000 MMS is requesting $48.966 million and 238 FTE with backgrounds in marine and biological sciences, computer and statistical analysis, socioeconomics, management, and support services. These figures include a pro rata share of General Administration support costs.

II.1.3B Related Budget Accounts, Budget Activities, Subactivities

1. Account: Royalty and Offshore Minerals Management, OCS Lands, Leasing & Environment
2. Account: Royalty and Offshore Minerals Management, OCS Lands, Regulatory
3. Account: Royalty and Offshore Minerals Management, OCS Lands, Information Management
4. Account: Royalty and Offshore Minerals Management, OCS Lands, Resource Evaluation
5. Account: Oil Spill Research, Oil Spill Research

II.1.4B Proposed Legislation

No legislation is proposed at this time.

II.1.5B Impact of FY 2000 Budget Changes

International Activities: The MMS will redirect $0.125 million to participate in the International Standardization Organization efforts to develop regional guidelines and standards that may impact the domestic oil and gas industry, and to provide further technical assistance to foreign countries in support of U.S. policy objectives. A similar amount will be used to support our mission goal to ensure safe OCS mineral development, as discussed in the previous goal section. The international increase is not for technical assistance for foreign governments - it is only for participation in international groups focused on standard setting, such as IMO and ISO.

MMS participation in these international efforts will improve the likelihood that the high safety and environmental standards used domestically may be adopted with appropriate regional variations worldwide. The U.S. is bordered by oil and gas producing countries whose activities impact our marine and coastal environments. By encouraging standardization throughout the industry, information and data pertaining to safe operations can be more readily shared between countries, safety equipment can be built and operated to common (and higher) standards, etc. These outputs will improve our understanding of safety factors and will also decrease the potential for negative impacts to the OCS environment. The effect of the proposed increase will be reflected in outyear annual performance goal targets.

II.2B FY 2000 Annual Performance Goal Detail and Narrative

Exhibit A - Performance Plan Detail and Narrative

Exhibit A displays the relationship of the mission goal, long-term goals, annual goals, and supporting performance measures.

	FY 1999 Enacted (000's)	FY 2000 Proposed BA (000's)
Mission Goal: **B. Ensure environmentally sound OCS mineral development.**	$48,364	$48,966

Long-term Goal

- *By 2002, show a decrease in the number of adverse environmental impacts per OCS mineral development activity below the 1998 baseline level.*

FY 2000 Annual Performance Goal:

- *Show a decrease in the number of adverse environmental impacts per OCS mineral development activity below the 1998 baseline. (01.02.01.01.00)*

Performance Measure	FY 1997 Actual	FY 1998 Plan	FY 1998 Actual	FY 1999 Plan to Congress	FY 2000 Proposed
1. Environmental impacts	n/a	1/	n/a	less 0.5-1%	TBD

Long-term Goal

By 2002, show a decrease in the amount of oil spilled below the 1992-1996 average level of 5.09 barrels spilled per million barrels produced.

FY 2000 Annual Performance Goal:

- *Show a 0.01 barrel decrease each year in the amount of oil spilled below the 1992-1996 average 5.09 barrels spilled per million barrels produced.(01.02.02.01.00)*

Performance Measure	FY 1997 Actual	FY 1998 Plan	FY 1998 Actual	FY 1999 Plan to Congress	FY 2000 Proposed
2. Decrease amount of oil spilled	n/a	5.08	4.70	5.07	5.06

Note: All figures include amounts from annual appropriations and offsetting collections and include a pro rata share of General Administration support costs.

1/ Baseline will be established by March 1999.

Goal Purpose:

The OCSLA directs that mineral resources of the OCS "be made available for expeditious and orderly development, subject to environmental safeguards." The law also recognizes the risks that are posed from such development and directs that operations should be conducted so as to avoid environmental damage. This goal addresses environmental protection. The long term goal and related FY 2000 annual goal focus on one aspect of potential environmental impact, oil spills. The MMS is considering a wider array of potential environmental impacts that will supplement or replace this measure in the agency's next strategic plan.

Status:

As was the case for the previous goal, MMS does not have primary control over the desired outcome. For example, some spill incidents are caused by commercial vessel activity; e.g., anchor dragging that may perforate a pipeline. Regulation of such commercial vessels is not under the purview of MMS. Neither can MMS ensure that proper practices and procedures are followed on every petroleum facility operating on the OCS at all times. The MMS does impose regulations, sanctions, and civil penalties and encourages the cooperative development of practices that will result in the fewest possible incidents and lowest possible severity of environmental harm. This combined approach has been successful.

In fact, during the past 30 years, MMS has worked hand and hand with industry to realize a tremendous reduction in the amounts and number of incidents of spilled oil products. Between 1969 and 1975 OCS spillage rates were on the order of 200 barrels per million barrels produced. The MMS and industry working together have seen those rates plummet to an average range of about 5-20 barrels per million barrels produced. We are now looking at spillage on the order of drops per barrel produced. The MMS will to do its utmost to keep these rates at extremely low levels. Achieving a zero level of incidents would be extraordinary, given the improbability of avoiding every human error, mechanical failure, or natural disaster that may contribute to a spill. Consequently, annual goals do not aim at improbable targets, but at persistent and incremental improvements.

Goal Achievement:

Performance results for the MMS oil spill indicator exceeded, for the better, the targeted level by 8 percent in 1998. Annual rates are strongly affected by a single large spill. Even though total spill incidents decline significantly, a single large spill can skew what would otherwise have been an exceptionally good annual record. In 1998 there were no large spills that would have pushed the performance result up to or beyond the 1998 target. There may be other factors outside of MMS control that may have contributed to the positive outcome, but such factors have not yet been isolated. Because of these kinds of uncertainties and variables, MMS has retained its prior outyear target for the FY 2000 annual plan, but may revise targets if appropriate in the next revision of the Strategic Plan.

To meet the annual goal for 2000 of decreasing the spill rates to no greater than 5.06 barrels spilled per million barrels produced, MMS will contract for studies and research needed to make informed environmental decisions about OCS activities. To leverage funds, MMS will coordinate research with others involved or impacted by OCS activities (coastal States, U.S. Geological Survey, U.S. Fish and Wildlife Service, NOAA, and National Marine Fisheries

Service). Staff will perform environmental assessments at both pre-lease and post-lease stages. Pre-lease activities will include sale-specific Environmental Impact Statements (EIS), which develop lease stipulations. Some lease stipulations constrain the lessees activities in certain areas to prevent undue environmental harm. Post-lease assessments will be performed on all plans (of exploration, development, production, etc.) submitted by OCS operators, and appropriate mitigations will be applied to prevent undue environmental harm. Examples of these mitigations include: seasonal limitations on certain activities in Arctic waters to avoid impact on bowhead whale migrations; environmental surveys and charge limitations for explosive platform removals to avoid injury to sea turtles or marine mammals; and requirement for surveys of benthic environments in some areas to avoid harm caused by facility emplacement or anchoring during emplacement.

The Gulf of Mexico Region has developed a suite of studies to better understand the deep water environments of the Gulf and the impact of anticipated deep water activities on those environments. Also, we have developed an overall "Deepwater Strategy" to coordinate study planning, environmental analyses, engineering requirements, and other responses to the challenges of prudent approval of deepwater operations. This information and approach will be integrated and used collectively to help meet year 2000 annual goal targets.

We also will continue to support moratoria for environmentally sensitive areas offshore California, Alaska, Florida, and the East Coast.

Additionally, many of the activities that MMS performs to achieve its mission goal of safe OCS mineral development contribute to environmentally sound OCS mineral development.

To fund the necessary operations required to maintain the excellent OCS environmental safety record, in FY 2000 MMS is requesting $48.966 million and 238 FTE with backgrounds in marine and biological sciences, computer and statistical analysis, socioeconomics, management, and support services. These figures include a pro rata share of General Administration support costs.

Benefits Derived:

The benefits of a successful environmental protection strategy are many. Avoiding or minimizing environmental damage preserves valuable or irreplaceable resources and saves the cost of expensive cleanup operations. It also avoids the disruption of other activities and uses of the OCS of both a commercial and recreational nature. In terms of projected oil production and the annual spill reduction target for the year 2000, the MMS goal means that about 750 fewer gallons of oil will be spilled compared to spill rates in the baseline years. An exemplary record of environmental protection instills confidence in the industry operating on the OCS and in MMS as a regulator of OCS activities.

II.1C Mission Goal: ***Ensure that the public receives fair value for OCS mineral development.***

II.1.1C Description:

Mineral resources of the OCS are held in trust by the Federal government. Sale of the resources, to provide for expeditious and orderly development of those resources, requires a fair return to the public.

II.1.2C Strategic Issues:

From 1997-2002, the ratio of the high bids received for OCS leases to the greater of MMS's estimate of value on those tracts or the minimum bid does not decrease below the 1989-1995 average level of 1.8 to 1. If industry and MMS had the exact same data and used the same assumptions, both would determine the same high bid value, or a ratio of 1:1. However, given the uncertainty over how much oil and gas exist under a lease and what future prices may be, estimates of a tract's value can vary substantially. Internal and external reviews of MMS fair value evaluations have concluded they are effective. Therefore, the current ratio of 1.8 to 1 indicates a reasonable assurance that the Government is receiving fair value.

By 2002, decrease below the 1989-1996 average level of 7 percent the tracts classified as nonviable but on which a lessee makes a discovery within 5 years that a well is capable of producing in paying quantities. The FY 2000 annual goal is to improve this percent to 6.7 percent of tracts rather than 7 percent. Usually a tract that MMS has determined to be nonviable and which later proves to be economically viable is due to industry having a unique geologic or geophysical interpretation that proves correct or is due to changes in market conditions between sale date and drilling start-up. With the improved geologic/geophysical analytical tools acquired recently, MMS hopes to continually improve this measure.

Significant factors: Technologic advances in deepwater production technology have been accompanied by an equally rapid increase in resource assessment technology. Industry has embraced or developed this new technology to meet the increasing challenge and competition of exploring for petroleum resources in deep water areas. The cost of keeping pace with industry methodology to generate equivalent offshore resource appraisals is significant. Costs of acquiring comparable technology and data continue to rise with no plateau clearly in sight. The large data and analytical requirements have resulted in several situations in which MMS has experienced delays in evaluating bids in OCS lease sales. To avoid lost revenue from interest payments and from delayed production (assuming some of the leased tracts would eventually produce and pay royalties), MMS has acquired additional data storage capability and received a recent budget to help offset this problem for the near term. The MMS also is conducting a reengineering study to identify additional functional improvements for expediting sale evaluations.

Operational processes: The process of determining fair value begins with acquisition and analyses of geologic, geophysical, geochemical, economic, and engineering data. This involves the identification of areas of petroleum potential through subsurface mapping efforts and determining the conditions under which development of a prospect would be commercial. These various parameters are then incorporated into sophisticated modeling programs to arrive at the value of each OCS tract in a lease sale.

Resources: To meet these goals and fund the activities necessary to ensure fair value for OCS resources, in FY 2000 MMS is requesting $23.511 million and 211 FTE with backgrounds in geology, geophysics, petroleum engineering, economics, computer and statistical analysis, management and support services. These figures include a pro rata share of General Administration support costs.

II.1.3C Related Budget Accounts, Budget Activities, Subactivities

1. Account: Royalty and Offshore Minerals Management, OCS Lands, Resource Evaluation
2. Account: Royalty and Offshore Minerals Management, OCS Lands, Information Management
3. Account: Royalty and Offshore Minerals Management, OCS Lands, Regulatory

II.1.4C Proposed Legislation

No legislation is proposed at this time.

II.1.5C Impact of FY 2000 Budget Changes

Data Conversion Project: The FY 2000 budget incorporates a reduction of $0.25 million, of which $0.190 million has been apportioned to this goal. The reduction is achieved by extending the completion of the data conversion project, creating near term savings that are needed to address the pressing needs in international activities. The remaining reduction is apportioned to the following mission goal. The proposed reduction will not impact our goal achievement.

II.2C FY 2000 Annual Performance Goal Detail and Narrative

Exhibit A - Performance Plan Detail and Narrative

Exhibit A displays the relationship of the mission goal, long-term goals, annual goals, and supporting performance measures.

	FY 1999 Enacted (000's)	FY 2000 Proposed BA (000's)
Mission Goal: **C. Ensure that the public receives fair value for OCS mineral development.**	$22,811	$23,511

Long-term Goals

From 1997-2002, the ratio of the high bids received for OCS leases to the greater of MMS's estimate of value on those tracts or the minimum bid does not decrease below the 1989-1995 average level of 1.8 to 1.

FY 2000 Annual Performance Goals:

- *Maintain the ratio of the high bids received for OCS leases to the greater of MMS's estimate of value or the minimum bid at the 1989-1995 average level of 1.8 to 1. (01.03.01.01.00)*

Performance Measure	FY 1997 Actual	FY 1998		FY 1999 Plan to Congress	FY 2000 Proposed
		Plan	Actual		
1. Ratio maintained at 1.8 to 1.	n/a	1.8	2.73	1.8	1.8

Long-term Goal

- *By 2002, decrease below the 1989-1996 average level of 7 percent the tracts classified as nonviable but on which a lessee makes a discovery within 5 years that a well is capable of producing in paying quantities.*

FY 2000 Annual Performance Goals:

- *Decrease 0.1 percent each year below the 1989-1996 average level of 7 percent the tracts classified as nonviable but on which a lessee makes a discovery within 5 years that a well is capable of producing in paying quantities. (01.03.02.01.00)*

Performance Measure	FY 1997 Actual	FY 1998		FY 1999 Plan to Congress	FY 2000 Proposed
		Plan	Actual		
1. Discoveries in no more than 6.7 percent of tracts classified as nonviable.	n/a	6.9%	6.5%	6.8%	6.7%

Note: All figures include amounts from annual appropriations and offsetting collections and include a pro rata share of General Administration support costs.

Goal Purpose:

The purpose of this goal is to fulfill the statutory requirement that the Federal government receive fair value for resources it leases to qualified bidders. The 2000 annual goal relating to the ratio of high bids to MMS tract values aims at striking the proper balance between industry and agency appraisals of a specific lease property. It takes into account that industry bidding will factor in the effects of competition. Too wide a margin, e.g. a ratio of 10:1 would suggest that MMS is undervaluing its tracts. If the ratio were reversed, MMS would be too optimistic in its appraisals and would likely reject all bids. A ratio of 1:1 would occur only if all parties had identical information and essentially identical evaluations of value, which is virtually impossible. A ratio of 1.8 to 1 provides a reasonable assurance that fair value is being received and MMS is not undervaluing its lease tracts.

Status:

Geologic and geophysical (G&G) permits allow MMS to acquire data over Federal lands for the cost of reproduction. This data is the basis for resource assessments, royalty relief determinations, EIS preparation, and other management decisions. A major effort has been to convert older G&G data into digital format in order to be usable with the new 3-D seismic workstations. The MMS also incorporates into its mathematical and statistical models, which determine fair market value, information on economics, petroleum engineering, and improvements in development technologies.

After each lease sale, MMS geoscientists and engineers analyze tremendous volumes of data to ensure the MMS receives fair value for each tract. Data loading problems (due to severely limited computer disk space), combined with the large number of bids received in recent sales, precipitated extensions of 2 to 6 weeks beyond the normal 90-day evaluation period. Each day delay resulted in a direct loss to the U.S. Treasury and also delayed hydrocarbon exploration and production.

Price volatility also can have an impact on total return to the government. In periods of declining prices or highly unpredictable price trends, industry may opt to restrain its plans for offshore exploration or acquisition of new leases resulting in lower total bonus bids and potentially lower rentals and royalties.

Goal Achievement:

In 1998, the ratio of high bids for OCS leases versus MMS value for the leases was 2.73. The MMS ratio of 1.8 is the average ratio from 1989 to 1995 and is the base we use to compare results at this time. The 2.73 result indicates that industry generally was assessing higher values to lease tracts than MMS. The ratio is a relative factor. As it drifts above 1.8, there is an increasing chance that MMS may be undervaluing its prospects. A figure of 2.73 suggests a margin of divergence between industry and government evaluations, but one that suggests that industry is more optimistic and that the government still is receiving fair value.

This figure may be due to increasing competition in the deep water, which is forcing industry to evaluate its bids accordingly. However, softer oil prices may result in some slackening of activity that, in FY 1999 or FY 2000, may result in less competition and bidding that falls closer to MMS valuation. Finally, significant and unforeseen changes in oil prices are not factored into outyear targets. Because the 1.8 ratio is considered a benchmark level, MMS retains this number for its outyear projections.

To address this situation and to achieve the FY 2000 annual targets described above, MMS chartered a team with the goal of improving the overall quality of lease sale prospect evaluations, while at the same time eliminating or reducing lease sale extensions. The proposed lease sale evaluation process includes more intensive application of sophisticated workstation technology, and more thorough prospect analyses prior to the lease sale date.

The team's recommendations, especially loading and maintaining all seismic data online year around, will enable MMS to evaluate tracts more thoroughly and faster and to prioritize tract evaluations. These steps will move significant funds into the U.S. Treasury sooner, thereby increasing interest accrual. These recommendations will assist MMS to ensure fair value is received for OCS resources. In addition, lessees will be awarded leases sooner, thereby expediting hydrocarbon exploration and development.

The MMS also has established a study team to better evaluate the potential impacts of oil and gas price volatility and to consider actions or policy changes that may be required, if any.

To meet these goals and fund the activities necessary to ensure fair value for OCS resources, in FY 2000 MMS is requesting $23.511 million and 211 FTE with backgrounds in geology, geophysics, petroleum engineering, economics, computer and statistical analysis, management and support services. These figures include a pro rata share of General Administration support costs.

Benefits Derived:

Offshore revenues collected by MMS are deposited in the U.S. Treasury. Revenues from the "8(g)" zone - a seaward band adjacent to the limits of State waters - are shared with States. The 8(g) zone was established to compensate for possible drainage situation from petroleum reservoirs that straddle Federal/State boundaries. Funds deposited in the U.S. Treasury as miscellaneous receipts are redirected to uses that benefit the public. Portions of receipts are also used to fund the Land and Water Conservation Fund. The MMS estimates that total receipts from all sources, onshore and offshore, will be $4 billion in FY 2000.

II.1D Mission Goal: ***Provide for mineral development on the OCS.***

II.1.1D Description:

The OCSLA directs the Department of the Interior (delegated authority to MMS) to provide for the expeditious and orderly development of mineral resources on the OCS. Oil and gas development follows a multi-year leasing strategy produced with public and governmental involvement. Other minerals such as sand, gravel, salt, and sulphur do not required an extensive advance process and are handled on a case-by-case basis. The OCSLA also requires that decisions regarding the timing and location of leasing be based on a consideration of "an equitable sharing of developmental benefits and environmental risks" so as to "obtain a proper balance between the potential for environmental damage, the potential for discovery of oil and gas, and the potential for adverse impact on the coastal zone".

II.1.2D Strategic Issues:

Although the following performance goals are greatly influenced by external factors, these goals are the best indicators that the mandated mission to provide for mineral development on the OCS is being achieved. Things that are under MMS's jurisdiction, such as lease sale schedules, royalty and rental rates, etc., all exert significant influence on the performance measures. The MMS weighs its actions against external factors to determine if changes in MMS strategies, actions, and plans need to be adjusted to ensure performance goals are met.

By 2002, show an increase in the annual number of leases on which exploratory wells are drilled above the 1992-96 average level of 250 leases. In FY 2000, show an increase in the annual number of leases on which exploratory wells are drilled to 265. This measure is an indicator of operators' interest and ability to evaluate their lease inventory. Market prices, industry's reserve balances, rig availability, and the Government's tax and other regulations can influence this indicator. The FY 2000 measure is the same as the 1999 measure but a 6 percent increase over the 1992-96 average. Although the OCS has recently experienced a leasing boom (leases in existence have grown by 800 to 7,855 in just the last year), there is always a time delay between the sale date and when an operator spuds an exploratory well. After a sale, a company performs additional G&G and engineering analysis to pinpoint a drilling location and to develop an exploration plan, which must be approved by MMS.

By 2002, show an increase in annual OCS production above the 1996 level of 429 million barrels of oil, 5.0 trillion cubic feet of gas, 2.1 million long tons of sulphur, and .81 million cubic yards of sand and gravel. In FY 2000, show an increase in production to: 601 million barrels of oil, no less than 4.9 trillion cubic feet of natural gas, no less than 2.1 million long tons of sulphur, and 21.5 million cubic yards of sand and gravel. As explained in the reserves measure discussion, the oil and gas production measures reflect the length of time needed to bring production on line and influence the trend in OCS production levels. Sulphur figures reflect a steady market for this product. The sand and gravel figures reflect the great variability in the timing and amount of material needed for beach replenishment and repair projects. One large project, necessitated by unanticipated and severe winter storms or summer hurricanes, can greatly skew future production estimates.

By 2002, show a reduction in the rate of decline in the oil and gas reserves-to-production ratio that occurred from 1990-95, which was 11.5 to 7.3 for oil (0.84 per year) and 7.6 to 6.0 for gas (0.32 per year). In FY 2000, show a reduction in the rate of decline in the reserves-to-production ratio to 0.82 per year for oil and to 0.31 per year for gas. The annual measures reflect the time delay between sale date and production. The full impact of the recent leasing boom will not be fully apparent until 5 to 10 years from now. This is indicated by the flat

FY 1998 through 2000 measures.

Significant factors: Declining oil production onshore is placing increasing emphasis on the contribution of the Federal OCS to meet domestic demand. The OCS currently supplies 20 percent of the total domestic oil production, as well as 27 percent of natural gas production, the demand for which will continue to increase well into the next century. Oil price volatility could significantly affect offshore production. During low price periods, industry may tend to cut back on exploration expenditures, including new lease acquisitions.

Operational process: The MMS continuously assesses the offshore acreage under its jurisdiction to identify prospective resource trends. We also rely on industry to signal areas they consider of prime interest. This information is coupled with current lease map data, environmental data, pipeline infrastructure, economic and other related information, issues, and restrictions to determine appropriate leasing and development proposals and strategies. The result is a 5-year plan comprising individual lease sales that each have a separate process for determining which OCS tracts will be made available for leasing.

Resources: To meet this goal, in FY 2000 MMS is requesting $22.599 million and 237 FTE with backgrounds in geology, geophysics, petroleum engineering, economics, computer and statistical analysis, and management and support services. These figures include a prorata share of General Administration support costs.

II.1.3D Related Budget Accounts, Budget Activities, Subactivities

1. Account: Royalty and Offshore Minerals Management, OCS Lands, Leasing & Environment
2. Account: Royalty and Offshore Minerals Management, OCS Lands, Resource Evaluation
3. Account: Royalty and Offshore Minerals Management, OCS Lands, Information Management
4. Account: Royalty and Offshore Minerals Management, OCS Lands, Regulatory

II.1.4D Proposed Legislation

No legislation is proposed at this time.

II.1.5D Impact of FY 2000 Budget Changes

Data Conversion Project: The FY 2000 budget incorporates a reduction of $0.25 million, of which $0.06 million has been apportioned to this goal. The reduction is based on extending the completion of the data conversion project with savings redirected to the pressing needs in international activities. The remaining reduction is apportioned to the previous mission goal.

The proposed reduction will not impact our goal achievement.

Marine Minerals Research Centers (MMRC) were reauthorized under the Marine Minerals Resources Research Act of 1996 and placed under the Department's oversight. The MMRC at the University of Mississippi was funded in the amount of $0.6 million in FY 1999 and MMS is managing the program. The MMRC's mission is to conduct research on the exploration and extraction of minerals from the seabeds of the continental shelves, deep ocean, and arctic regions.

The MMS recognizes the importance of the investigations and technological development that this center pursues, particularly the longer term research. However, due to priorities for oil and gas exploration and extraction oversight, MMS is proposing to eliminate MMRC funding in FY 2000. Of the $0.6 million, $0.3 million is apportioned to this goal.

II.2D FY 2000 Annual Performance Goal Detail and Narrative

Exhibit A - Performance Plan Detail and Narrative

Exhibit A displays the relationship of the mission goal, long-term goals, annual goals, and supporting performance measures.

	FY 1999 Enacted (000's)	FY 2000 Proposed BA (000's)
Mission Goal: **D. Provide for mineral development on the OCS.**	$22,613	$22,599

Long-term Goal • *By 2002, show an increase in the annual number of leases on which exploratory wells are drilled above the 1992-96 average level of 250 leases.*
FY 2000 Annual Performance Goal: *Increase in the annual number of leases on which exploratory wells are drilled to 265. (01.04.01.01.00)*

Performance Measure	**FY 1997 Actual**	**FY 1998**		**FY 1999 Plan to Congress**	**FY 2000 Proposed**
		Plan	**Actual**		
1. Leases with a new exploratory well drilled	n/a	260	323	265	265

Long-term Goal • *By 2002, show a reduction in the rate of decline in the oil and gas reserves-to-production ratio that occurred from 1990-95, which was 11.5 to 7.3 for oil (0.84 per year) and 7.6 to 6.0 for gas (0.32 per year).*

FY 2000 Annual Performance Goal:

- *Reduce the rate of decline in the reserves-to-production ratio to 0.82 per year for oil (01.04.02.01.00) and to 0.31 per year for gas. (01.04.02.02.00)*

Performance Measure	FY 1997 Actual	FY 1998		FY 1999 Plan to Congress	FY 2000 Proposed
		Plan	Actual		
1. Oil reserves to production ratio	n/a	0.82	0.63	0.82	0.82
2. Gas reserves to production ratio	n/a	0.31	0.26	0.31	0.31

Long-term Goals

- *By 2002, show an increase in annual OCS production above the 1996 level of 429 million barrels of oil, 5.0 trillion cubic feet of gas, 2.1 million long tons of sulphur, and .81 million cubic yards of sand and gravel.*

FY 2000 Annual Performance Goals:

- *Increase production to: 601 million barrels of oil (01.04.03.01.00), no less than 4.9 trillion cubic feet of natural gas (01.04.03.02.00), no less than 2.1 million long tons of sulphur (01.04.03.03.00), and 21.5 million cubic yards of sand & gravel. (01.04.03.04.00)*

Performance Measure	FY 1997 Actual	FY 1998		FY 1999 Plan to Congress	FY 2000 Proposed
		Plan	Actual		
1. Oil production (million barrels)	453	481	485	554	601
2. Gas production (trillion cubic feet)	5.2	4.9	5.1	4.9	4.9
3. Sulphur (million long tons)	1.9	2.1	2.1	2.1	2.1
4. Sand & Gravel (mil cubic yards)	0	3.9	1.3	25.4	21.5

Note: All figures include amounts from annual appropriations and offsetting collections and include a prorata share of General Administration support costs.

Goal Purpose:

The mission and annual goals are intended to meet the requirements of the OCSLA, which direct the Executive Branch of the Federal Government to provide for the expeditious and orderly development of mineral resources on the OCS. The production targets set for FY 2000 are based on projected national need and economic conditions, on the effect of MMS policies, and on the need to set aside areas from development on the basis of environmental information.

Status:

Natural gas consumption is projected to increase by an average of 1.7 percent per year while oil demand will rises 1.2 percent annually. Currently, OCS combined oil and gas production accounts for about one-fourth of domestic production. United States production is not expected to keep pace with demand, driving import dependence up to the 65 percent level by the year 2020. The decline in conventional oil production in the lower 48 States and Alaska is projected to continue at rates of nearly 1 percent and 4 percent annually, respectively. OCS areas, particularly the deep water trend, will be expected to cover these declines, but are unlikely to keep pace with rising demand.

Coastal erosion on all coasts of the lower 48 States and Hawaii has continued at an alarming rate. Erosion brought on by changing sea level, severe tropical and winter storms, and human factors threatens property and diminishes recreational opportunities. Nearly half of the U.S. population resides within fifty miles of the coast, and that figure is expected to rise to nearly 75 percent early in the next century. The demand for sand resources is consequently climbing steadily while suitable nearshore sources of sand are diminishing. Dependence on OCS sources is on the rise.

The sand and gravel performance goal is particularly difficult to estimate due to the great variability in the timing and amount of material needed for beach replenishment and repair projects. One large project, such as may arise following major hurricane damage, can greatly skew future production estimates. The FY 1999 and 2000 performance goals reflect the fruition of contract negotiations begun in prior years.

Goal Achievements:

Major discoveries in the deepwater area of the Gulf of Mexico OCS, and the long lead time required to develop them, likely drove up exploration activities in 1998, resulting in a larger increase in drilling than anticipated for the year. However, increasing oil price volatility during the year resulted in a declining activity trend toward year's end, primarily in areas outside the Gulf of Mexico deep water. This kind of external factor makes it very difficult to peg performance in out years based on a single year's performance. For this reason, MMS has opted to target progressive, rather than dramatic, performance improvements that reflect an overall strategy for success.

A similar situation applies to the reserves-to-production ratio indicator, which relies on oil prices and increases in successful drilling in the OCS. Increased activity and success in the high production deep water area contributed to exceeding the targeted reserve/production ratio of .82 for oil and .31 for gas in FY 1998. But significant shifts in activity that are due to uncontrollable external factors such as oil prices cannot be projected with much confidence. Consequently, MMS cannot shift its future performance targets in response to the results of a single year.

To meet our mandated mission and to achieve FY 2000 annual targets (described in Exhibit A) of contributing to domestic energy production, MMS will continually monitor oil and gas production and update offshore reserves estimates. This data will be provided to the Department of Energy for its use. The MMS will change its sale and royalty requirements (such as deepwater royalty rate relief) as necessary to ensure a sufficient level of oil and gas reserves to meet national needs. In striving to achieve its annual production targets, MMS will balance energy needs against the need to protect sensitive coastal and marine environments. It will accomplish this through the Administration's Five Year Leasing Program, which sets aside from leasing certain environmentally sensitive areas.

Deepwater royalty relief was initiated to encourage development in the frontier deepwater areas of the Gulf of Mexico. In November 1995, the DWRRA became public law. Interim deepwater rules were in effect from July 1996 until February 1998. Final rules for the DWRRA, both for new leases and for existing leases, were published in January 1998. The MMS evaluated many industry suggestions to improve the workability of the system for implementing DWRRA and incorporated some in the final rules. As a result, the case load of royalty relief applications is expected to increase. This in turn should contribute to the development of deep water resources.

The MMS also has developed additional rules to grant royalty relief under the OCSLA to encourage production on existing leases. Increased recovery may be achieved by reducing royalties on producing leases approaching the end of their economic lives, thereby enabling them to extend operations beyond the point where they would shut down under full royalties.

To meet this goal, in FY 2000 MMS is requesting $22.599 million and 237 FTE with backgrounds in geology, geophysics, petroleum engineering, economics, computer and statistical analysis, and management and support services. These figures include a prorata share of General Administration support costs.

Benefits Derived:

Without OCS oil production at levels targeted in the 2000 annual goal, import dependence would be on the order of 60 percent today and would surpass 75 percent by 2020 based on the projected decline in conventional onshore production in the lower 48 States and Alaska. The offshore industry also is a major employer, particularly in the Gulf Coast, and has a significant multiplier effect on regional economies where it operates. Revenues derived from offshore production support local projects such as parkland acquisition and recreational facilities through contributions to the Land and Water Conservation Fund. Contributions to these funds are in excess of $15 billion to date. Gas and oil products are critical to the transportation sector, are used to heat homes, schools, factories and office buildings, to generate electricity, to operate industrial generators, and to manufacture plastic and pharmaceutical products. They also are used in thousands of other applications from the production of rubbing alcohol to sweaters.

The need for Federal offshore sand has escalated in recent years owing to the declining availability of sand from State waters areas. MMS studies and needs assessments over the past several years have resulted in State and local government requests for use of Federal sand. Year 2000 sand production targets were set based on the expectation that several projects would culminate in the dredging and placement of OCS sand on coastal areas to help abate the effects of erosion. Achievement of 2000 targets will provide the benefit of increased protection for coastal property and restoration of recreational beaches. The Federal OCS also contributes an appropriate level of sulphur production. Sulphur is used extensively in the manufacture of paper, fertilizer, chemicals and medicines.

II.1E Mission Goal: ***Improve the timeliness and accuracy of payments to States, Indian tribes, BIA offices, and other Federal agencies.***

II.1.1E Description:

This goal is focused on providing money due recipients accurately and timely. We have identified two long-term goals to provide indications of how well we are achieving this goal:

- *increasing or maintaining our high percentage of collected dollars and accompanying information that is provided timely to States and Indians*
- *reducing late disbursement interest costs, indicating that we disbursed timely and were not required to pay States or tribes interest on late disbursements.*

Primarily, resources in the MMS Valuation and Operations Budget Subactivity ensure that we meet this goal.

II.1.2E Strategic Issues

Through 2002, maintain or increase the percentage of the collected dollars and accompanying information that is provided timely to States and Indians.

By 2002, decrease the late disbursement interest costs to $30,000 per year.

The Federal Oil and Gas Royalty Management Act (FOGRMA) requires MMS to disburse by the end of the month following the month of receipt. The law requires MMS to pay interest to recipients for late disbursements.

Significant factors: The primary factor impacting our ability to achieve this goal is accuracy and timeliness of royalty and production reporting by industry. Electronic submissions increase reporting accuracy, thereby increasing timeliness of disbursements to recipients. Most of our large royalty payors report electronically; however, 80 percent of our smaller royalty and production reporters are not yet converted to electronic formats.

Operational process: Revenue receipt and disbursements, data collection and reporting, information technology, regulations, and training royalty and production reporters.

Resources: To meet this goal, in FY 2000 MMS estimates it will need $8.578 million and

76 FTE with backgrounds in accounting, computing, and management and support services. The MMS also contracts for accounting and ADP support services. These figures include a prorata share of General Administration support costs.

II.1.3E Related Budget Accounts, Budget Activities, Subactivities

1. Account: Royalty and Offshore Minerals Management, Royalty Management, Valuation and Operations,
2. Account: Royalty and Offshore Minerals Management, Royalty Management, Late Disbursement Interest

II.1.4E Proposed Legislation

No legislation is proposed at this time.

II.1.5E Impact of FY 2000 Budget Changes

Royalty Management Reengineering: The MMS is requesting a total increase of $10 million, of which $.85 million has been applied to this goal to design, develop, and implement new royalty management business processes and supporting information technology (IT) systems for the 21st century. See Section 1.5.6 (Capital Assets/Capital Programming) for a full explanation. Once implemented, the new systems will give MMS the flexibility to disburse funds throughout the month, thus increasing the timeliness of disbursement.

II.2E FY 2000 Annual Performance Goal Detail and Narrative

Exhibit A - Performance Plan Detail and Narrative

Exhibit A displays the relationship of the mission goal, long-term goals, annual goals, and supporting performance measures.

	FY 1999 Enacted (000's)	FY 2000 Proposed BA (000's)
Mission Goal: **E. Improve the timeliness and accuracy of payments to States, Indian tribes, BIA offices, and other Federal agencies.**	$ 7,503	$8,578

Long-term Goal

- *Through 2002, maintain or increase the percentage of the collected dollars and accompanying information that is provided timely to States and Indians.*

FY 2000 Annual Performance Goal:

- *In 2000, the percentage of the collected dollars and accompanying information that is provided timely to States and Indians is 98.7 percent.(02.05.01.01.00)*

Performance Measure	FY 1997 Actual	FY 1998		FY 1999 Plan to Congress	FY 2000 Proposed
		Plan	Actual		
Percentage $ disbursed timely	98.6	98.25	98.7	98.7	98.7

Long-term Goal

- *By 2002, decrease the late disbursement interest costs to $30,000 per year.*

FY 2000 Annual Performance Goal:

- *In 2000, the late disbursement interest costs are targeted at $40,000 per year. (02.05.02.01.00)*

Performance Measure	FY 1997 Actual	FY 1998[1]		FY 1999 Plan to Congress	FY 2000 Proposed
		Plan	Actual		
Interest Paid (Dollars)	$62,000	$60,000	35,800	$45,000	$40,000

[1] *FY 1999 and 2000 targets for interest paid are not adjusted downward based on the 1998 actual. We will continue to monitor and make adjustments later, if we learn that this low dollar amount is reflecting a trend rather than an unusual event.*

Note: All figures include amounts from annual appropriations and offsetting collections and include a prorata share of General Administration support costs.

Note: The $10 million increase for reengineering will be utilized for system development in FY 2000 and will begin to reflect in our performance during FY 2001 and beyond.

Goal Purpose:

Using sophisticated, computerized accounting systems, RMP collects and processes more than $300 million (mostly via electronic funds transfers) each month. Bonuses, rents and royalties from nearly 70,000 leases can amount to several billion dollars each year--an amount that peaked to more than $10 billion in 1983, but averages about $4 billion in recent years. Totals fluctuate with market prices, amount of production and number of lease sales.

The FOGRMA requires monthly distribution of payments to the States for their share of mineral leasing revenues. For States, payments must be made by the last business day of the month in which receipts are warranted by the U.S. Treasury. In addition, FOGRMA provides that deposits of any royalty funds from oil or gas production on Indian lands must be made to the appropriate Indian account at the earliest practicable date, but in no case later than the last business day of the month in which such funds are received. Sections III (b) and (d) of the Act provide that interest computed at a rate applicable under section 6621 of the Internal Revenue Code of 1954 is owed if the payment schedules listed above are not met.

The MMS typically incurs a late disbursement interest liability when disbursements to State accounts are delayed pending a proper determination of the lease source of the royalties. For example, a payor error may prevent MMS from determining to whom the revenue belongs until the error is corrected. By the time this error is resolved in the system, MMS may be liable to pay interest. Examples of causes that we have discovered in the past include:

- Significant errors by a specific payor during the month requiring MMS intervention and coordination with the payor to correct so that we could disburse funds accurately.

- A computer programming error that inadvertently disabled the capability to automatically match payments with reports, requiring significant manual intervention and slowing revenue disbursement until the programming was fixed.

In contrast to money due the States, interest earning authority has been granted to the Office of the Special Trustee/Office of Trust Funds Management (OST/OTFM); thus, Indian lease revenues begin earning interest in the appropriate OTFM accounts the day after receipt at MMS. Earned interest is then paid out to the eventual recipients by BIA, making it rare that late-disbursement interest is accrued on Indian lease revenues received at MMS.

Though the interest dollars are low relative to the total dollars disbursed, this long-term goal provides an indicator of how well we are achieving this goal. We monitor this measure monthly and if the dollars paid are higher than anticipated, we are able to immediately discover and correct the cause so that disbursements become more timely the following month.

Status:

In FY 2000 our goals are to provide collected dollars and accompanying information timely to States and Indians at least 98.7 percent of the time and to keep late disbursement interest costs to $40,000 or less.

The MMS is consistently achieving high performance toward these annual goals. However, we believe it is important to maintain our focus on this important mission goal. The RMP will aim to provide revenue recipients with access to their money much more timely than is currently required by FOGRMA.

Timeliness and accuracy of royalty and production reporters' submissions affects how well we achieve this goal. Error-free reporting allows RMP to timely disburse revenues to ultimate recipients (States, Indians, other Federal agencies, and the General Fund of the U.S. Treasury). This in turn reduces the amount of interest paid on late disbursements.

Increased accuracy has correlated with increased electronic reporting. However, as discussed in detail under Mission Goal II.1F, we have encountered obstacles in converting reporters to electronic formats.

In FY 1998, we paid an unusually low amount of interest. However, we did not adjust FY 1999 and 2000 targets for this goal based on the 1998 actual. We will continue to monitor and make adjustments later, if we learn that this low dollar amount is reflecting a trend rather than an unusual event.

Goal Achievement:

Reengineering recommendations and process improvements are aimed at advancing this goal. The MMS has spoken to customer groups and has determined methods to reengineer the processes and systems to achieve their needs. Money movement and funds availability will be tracked and monitored both before and after reengineering processes are implemented.

We do not anticipate changes in base funding for FY 2000 to achieve this goal. The FY 2000 requested budget increase will enable development of RMP's new financial systems and its associated IT architecture. Implementation of these systems in FY 2001 will impact performance toward this goal after 2000 by giving MMS the flexibility to disburse funds throughout the month, thus increasing the timeliness of disbursement and reducing interest costs.

Electronic reporting allows MMS to process reports faster, thereby increasing timeliness of disbursements and reducing the amount of interest paid on late disbursements. As discussed in detail under Mission Goal II.1F, we are focusing on ways to assist royalty and production reporters in making the transition to electronic reporting by contracting with industry experts in electronic commerce. This outsourcing initiative will enable MMS to convert the remaining royalty and production reporters, excluding hardship cases, to electronic formats by the end of FY 2000.

Benefits Derived:

Revenues directed to the Federal Treasury fund appropriations for programs approved by Congress. Monies that go to the States are used as the States deem necessary, oftentimes for schools, roads, libraries, public buildings, and general operations. Revenues generated from mineral production on Indian lands go directly to those tribes and allottees, meeting a wide variety of needs.

II.1F Mission Goal: *Improve the cost effectiveness of mineral royalty collection and disbursement services.*

II.1.1F Description:

This goal is focused on increasing electronic transmission of information, which improves cost effectiveness by eliminating data entry. Both industry and RMP save time and resources when manually completed and keyed reports are eliminated.

Primarily, resources in the MMS Valuation and Operations Budget Subactivity ensure that we meet this goal.

II.1.2F Strategic Issues

By 2000, increase the percentage of royalty reports, production reports, and dollars received electronically to 99 percent for royalty reporting, 99 percent for production reporting, and 96 percent for dollars received.

The MMS is aggressively pursuing more electronic reporting. We anticipate a continual increase in electronic transmittals. Based on experience to date, we expect a corresponding decrease in reporting errors. Error-free reporting allows RMP to timely disburse revenues to States, Indians, other Federal agencies, and the General Fund of the U.S. Treasury.

The MMS published a final rule on April 22, 1997, to incorporate U.S. Treasury requirements that payments and collections be made by Electronic Funds Transfers (EFT). The MMS also is looking to expand the universe of payments made by electronic funds transfer through Automated Clearing House (ACH) or Fedwire payment.

Significant factors: Some of the factors impacting our ability to achieve this goal are rapidly changing technology and a lack of infrastructure to support the nearly 3,500 companies that ultimately will be reporting electronically to RMP.

Operational process: Information technology, data collection and reporting, revenue receipt and disbursement, regulations, and training royalty and production reporters.

Resources: To meet this goal, in FY 2000 MMS estimates it will need $4.586 million and 48 FTE with backgrounds in accounting, computing, auditing, geology, petroleum engineering, and management and support services. The MMS also contracts for accounting and ADP support services. These figures include a prorata share of General Administration support costs.

II.1.3F Related Budget Accounts, Budget Activities, Subactivities:

1. Account: Royalty and Offshore Minerals Management, Royalty Management, Valuation and Operations

II.1.4F Proposed Legislation

No legislation is proposed at this time.

II.1.5F Impact of FY 2000 Budget Changes

Royalty Management Reengineering: The MMS is requesting a total increase of $10 million, of which $.45 million has been applied to this goal to design, develop, and implement new royalty management business processes and supporting information technology (IT) systems for the 21st century. See Section 1.5.6 (Capital Assets/Capital Programming) for a full explanation. Once implemented, the new systems will increase operating efficiencies.

II.2F FY 2000 Annual Performance Goal Detail and Narrative

Exhibit A - Performance Plan Detail and Narrative

Exhibit A displays the relationship of the mission goal, long-term goals, annual goals, and supporting performance measures.

	FY 1999 Enacted (000's)	FY 2000 Proposed BA (000's)
Mission Goal: **F. Improve the cost effectiveness of mineral royalty collection and disbursement services.**	$ 4,016	$4,586

Long-term Goal

- *By 2000[1], increase the percentage of royalty reports, production reports, and dollars received electronically to 99 percent for royalty reporting, 99 percent for production reporting, and 96 percent for dollars received.*

FY 2000 Annual Performance Goal:

- *By 2000[1], increase the percentage of royalty reports, production reports, and dollars received electronically to 99 percent for royalty reporting (02.06.01.01.00), 99 percent for production reporting (02.06.01.02.00), and 96 percent for dollars received. (02.06.01.03.00)*

Performance Measure	**FY 1997 Actual**	**FY 1998 Plan**	**FY 1998 Actual**	**FY 1999 Plan to Congress**	**FY 2000 Proposed**
Percent royalty reports received electronically	78%	90%	79%	96%	99%
Percent production reports received electronically	54%	90%	52%	95%	99%
Percent dollars received electronically	92%	95%	94%	95%	96%

[1] *Our recent technology analysis provided an MMS plan for converting the remaining royalty and production reporters. Based on this plan, we are extending our initial 1999 target to 2000. The previous target of 100 percent has been adjusted to exclude small reporters for which electronic reporting would be a hardship.*

Note: All figures include amounts from annual appropriations and offsetting collections and include a prorata share of General Administration support costs.

Note: The $10 million increase for reengineering will be utilized for system development in FY 2000 and will begin to reflect in our performance during FY 2001 and beyond.

Goal Purpose:

Congress and the President have mandated that Federal agencies use new technologies to improve Government operations. For example, the Paperwork Reduction act of 1995, Public Law 104-13, and the Information Technology Management Reform Act of 1996, Public Law 104-106, authorize the use of new technologies to improve the productivity, efficiency, and effectiveness of Government programs. Executive Order 13011 requires Government agencies to use information technology to improve productivity and increase efficiencies. To meet these legislative and executive mandates and take advantage of rapidly improving technologies, MMS has published proposed rules and set aggressive goals to implement full electronic reporting and payments.

Status:

In FY 2000 our goal is to achieve 99 percent of royalty reporting, 99 percent of production reporting, and 96 percent of dollars collected electronically, excluding hardship cases.

The MMS published a proposed rule in April 1998, mandating 100 percent electronic reporting. The proposed rule requires electronic reporting by December 31, 1999, an extremely ambitious deadline. Currently, about 50 percent of our production and 80 percent of our royalty data lines are submitted electronically. This percentage has not increased significantly in the last year. Most of the major royalty and production reporters are submitting their monthly data electronically. This volume constitutes the majority of our lines. However, some major reporters continue to submit amended reports on paper (more so in 1998 with all the RSFA-required Auditing and Financial System (AFS) and Production Accounting and Auditing System (PAAS) resolutions and majority price adjustments) thereby decreasing the percentage of lines submitted electronically. More than 80 percent of all our production and royalty companies still submit paper reports.

We do not currently have a system infrastructure (E-mail receipt capabilities, 24 hour help desk, web-based reporting solutions, etc.) to support the nearly 3,500 companies that will ultimately be reporting electronically to RMP. If we continue to implement this effort in-house, we would need to acquire additional in-house electronic commerce skills to build an in-house system. This process would include personnel with knowledge of client-server development, browsers, and other programming expertise. This knowledge would need to be maintained for ongoing maintenance and support.

Goal Achievement:

The MMS has committed to an FY 1999 and 2000 project, outsourcing the conversion and ongoing support of the required electronic infrastructure, contracting with industry experts in electronic commerce. This option will allow RMP to consolidate and streamline its existing infrastructure, thereby eliminating multiple input processes and the associated maintenance of changing and obsolete technology. This plan provides for the remaining companies to be converted by FY 2000. Based on this plan, we extended the deadline for companies to report electronically to the year 2000. We do not anticipate changes in base funding for FY 2000 to achieve this goal.

We plan to issue the final rule in early 1999. It will include hardship exclusions and/or exclude companies based on the number of lines they report annually. However, we will continue to convert the hardship and marginal property companies after the year 2000.

Benefits Derived:

Electronic reporting, along with other streamlining and process improvements, has reduced our error correction costs by 20 percent, our manual data entry costs by 60 percent, and our file maintenance costs by 24 percent. Many royalty and production reporters using an electronic reporting option have experienced up to a 50 percent reduction in resources needed to comply with our reporting requirements.

An additional advantage of electronic reporting is the expanded time to report. If a reporter uses E-mail or Electronic Data Interchange, they can transmit reports to us on the due date rather than several days before the due date to allow for manual delivery. This additional time allows a reporter to collect more accurate and complete data, thereby reducing the need for amended reports. The MMS can also process the reports faster because electronic reports do not require manual entry.

II.1G Mission Goal: ***Improve reporters' compliance with lease terms, rules, regulations, and laws.***

II.1.1G Description:

This goal is focused on ensuring compliance with lease terms, rules, regulations, and laws. We have identified two long-term goals to provide indications of how well we are achieving this goal:

- *Ensuring accuracy of royalty and production reports submitted by royalty and production reporters.*
- *Achieving a favorable compliance index.*

Primarily, resources in the MMS Compliance Budget Subactivity ensure that we meet this goal. However, resources in the Valuations and Operations Subactivity also heavily contribute.

II.1.2G Strategic Issues

Through 2002, maintain or increase the percentage of royalty and production reports submitted by reporters without fatal errors. Fatal errors are those that would prevent the disbursement of funds or further processing. We calculate the percentage of royalty and production report data lines submitted by industry that clear fatal computer edits during initial processing. An increase in percentage from the previous FY to the current FY would indicate that reports are more accurate.

By 2002, achieve a Compliance Index (Actual Voluntary Royalty Payments/Expected Royalty Payments) of .98. The MMS began using an overall outcome measure called a compliance index. The index is summarized by the following formula:

$$\frac{\text{actual voluntary royalty payments}}{\text{expected royalty payments}}$$

Significant factors: The primary factors impacting our ability to achieve this goal are:
a) Congress has prohibited MMS from finalizing new Federal and Indian oil valuation regulations, which would replace out-dated rules, until June 1, 1999, or until a negotiated agreement is reached; b) current information systems are old and inflexible.

Operational process: Audit, manual and system verification, collection and enforcement, Indian royalty compliance, regulations, and training royalty and production reporters.

Resources: To meet this goal, in FY 2000 MMS estimates it will need $84.488 million and 578 FTE with backgrounds in accounting, auditing, geology and petroleum engineering, computing, and management and support services. The MMS also contracts for accounting and ADP support services. These figures include a pro rata share of General Administration support costs.

II.1.3G Related Budget Accounts, Budget Activities, Subactivities:

1. Account: Royalty and Offshore Minerals Management, Royalty Management, Compliance, Valuation and Operations

II.1.4G Proposed Legislation

No legislation is proposed at this time.

II.1.5G Impact of FY 2000 Budget Changes

Royalty Management Reengineering: The MMS is requesting a total increase of $10 million, of which $8.5 million has been applied to this goal to design, develop, and implement new royalty management business processes and supporting information technology (IT) systems for the 21st century. See Section 1.5.6 (Capital Assets/Capital Programming) for a full explanation. Once new systems are implemented, we will evaluate and measure the compliance cycle and document trends.

II.2G FY 2000 Annual Performance Goal Detail and Narrative

Exhibit A - Performance Plan Detail and Narrative

Exhibit A displays the relationship of the mission goal, long-term goals, annual goals, and supporting performance measures.

	FY 1999 Enacted (000's)	FY 2000 Proposed BA (000's)
Mission Goal: **G. Improve reporters' compliance with lease terms, rules, regulations, and laws.**	$73,939	$84,488

Long-term Goal

- *Through 2002, maintain or increase the percentage of royalty and production reports submitted by reporters without fatal errors.*

FY 2000 Annual Performance Goal:

- *In 2000, increase the percentage of royalty and production reports submitted by reporters without fatal errors to 98 percent. (02.07.01.01.00)*

Performance Measure	**FY 1997 Actual**	**FY 1998**		**FY 1999 Plan to Congress**	**FY 2000 Proposed**
		Plan	**Actual**		
Percent received without fatal errors	97.5	97.75	96.8	97.5	98

Long-term Goal

- *By 2002, achieve a Compliance Index (Actual Voluntary Royalty Payments/Expected Royalty Payments) of .98.*

FY 2000 Annual Performance Goal:

- *In 2000, achieve a Compliance Index (Actual Voluntary Royalty Payments/Expected Royalty Payments) of .9775 (02.07.02.01.00)*

Performance Measure	FY 1997 Actual	FY 1998		FY 1999 Plan to Congress	FY 2000 Proposed
		Plan	Actual		
Compliance Index	.975	.9725	n/a	.975	.9775

Note: Before MMS calculates this index, we wait one year for industry to make adjustments to their royalty and production reports and payments. In 1997 we calculated the 1995 index. We show the projection for the 1997 index in 1999 and the 1998 index in 2000. The RMP is in the process of calculating the 1996 and 1997 indices.

Note: All figures include amounts from annual appropriations and offsetting collections and include a prorata share of General Administration support costs.

Note: The $10 million increase for reengineering will be utilized for system development in FY 2000 and will begin to reflect in our performance during FY 2001 and beyond.

Goal Purpose:

The RMP's compliance efforts have resulted in collections over $2 billion since fiscal year 1982. Compliance efforts are responsible for the resolution of instances of noncompliance, resulting in the collection of additional royalties, and are based on a cooperative effort involving States, Indians, and the industry. The compliance process encompasses verification, audit, collection and enforcement, and Indian royalty assistance.

The RMP uses a variety of automated and manual verification activities to ensure that companies comply with several aspects of royalty reporting and paying and that volumes reported for royalty purposes match reported sales and transfer volumes on production reports.

With auditors located primarily in Colorado, Oklahoma, and Texas, RMP develops, directs, and conducts a comprehensive compliance audit program for royalty management activities. The RMP also provides direction, guidance, and support to State and Indian auditors.

Status:

In FY 2000 our goals are to achieve 98 percent of royalty and production reports submitted by reporters without fatal errors (those errors that would prevent the disbursement of funds or further processing) and a compliance index of .9775.

Organization and Processes - The RMP of today is function-based in terms of its business processes and organizational structure, often constraining RMP employees from timely and effectively coordinating or sharing the results of efforts to address and correct royalty reporting and payment problems. The RMP must overcome existing functional constraints and align ourselves with the public sector by pursuing modernization of its existing automated systems to implement new processes, applications and technologies supporting RMP's future concept of operations.

Systems - The RMP's systems are too old and inflexible to efficiently support redesigned business processes or changing mission requirements such as RSFA delegations and to support expanded RIK programs. The mix of aging mainframe-based systems and substantial changes needed to support reengineered business processes represents a major risk to future systems reliability and operational stability. These factors could jeopardize RMP's ability to achieve GPRA-based performance objectives such as timely and accurate disbursement of receipts.

Valuation - A major component of RMP's compliance effort is devoted to determining whether the lessee has valued its production for royalty purposes in compliance with the appropriate regulations. In recent years, energy markets have undergone a significant transformation, outdating our regulations. This has created a need for new MMS valuation regulations that more accurately reflect market conditions and provide greater certainty to royalty payors, the Federal Government, and other Federal mineral revenue recipients. However, Congress has prohibited MMS from finalizing new Federal and Indian oil valuation regulations, which would replace out-dated rules, until June 1, 1999, or until a negotiated agreement is reached. If not published and implemented, we will not be able to make significant improvements in our compliance index.

Audit - Currently, RMP operates on a compliance/audit 6-year cycle and is focused on payors rather than on properties. Reengineering efforts are focused on assuring compliance for all leases in the shortest possible time, but not later than 3 years from the due date. Accomplishing lease compliance within three years is not possible in a "business as usual" environment of an audit strategy based primarily on company audits. Providing this earlier certainty will necessitate a radical change in audit strategy.

Compliance Index - The current methodology for calculating the compliance index requires a great deal of manual intervention; therefore, the index is calculated only once per year after waiting several months for final reporting adjustments.

Accurate Reporting - Accuracy in reporting has slightly decreased in FY 1998. In FY 1998 we received an increase in amended reports containing errors, as a result of RSFA requirements to resolve AFS/PAAS exceptions and as a consequence of our focus on major portion adjustments. Additionally, many companies are upgrading to new systems in an effort to become Y2K compliant, and new company systems often result in initial errors. We anticipate that many of these issues will be mitigated by FY 2000, enabling us to achieve our target of 98 percent of royalty and production reports received without fatal errors.

Solid Minerals - Solid minerals industries have become more complex than in past years. Products now produced from the ores involve extensive additives and refining to ready products for sale. Significant sales volumes now involve foreign buyers under both arm's-length and non-arm's-length situations. Current regulations provide little guidance for valuing production under these varied situations. If not addressed, these issues could impact our achievement of our target for the compliance index in FY 2000.

Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 Implementation - Enacted August 13, 1996, RSFA significantly changed many of MMS's historical operating assumptions and revenue processing methods. Implementation continues to be a very complex process involving numerous rulemakings, computer system modifications, reporting changes with accompanying payor guidance and new operational processes.

Goal Achievement:

We do not anticipate changes in base funding for FY 2000 to achieve the annual goals. The $10 million requested for royalty management reengineering will be utilized for system development in FY 2000 and will begin to reflect in our performance during FY 2001 and beyond. Following final implementation, we anticipate this effort will produce significant improvements to RMP's outputs and operational benchmarks and significantly impact all of RMP's mission goals and measures.

Organization and Processes - The key reengineering design concept for 2001 is that work will focus around defined producing areas and properties. This is a major departure from the current function based RMP approach and is in line with the way industry operates. The full range of compliance and asset management activities including product valuation, verification, majority price calculations, audit, etc., will be addressed on a property basis by basin groups. To refine and advance these concepts, RMP established teams to implement this model in 1998. Our vision for the future is that the three teams will assume responsibility for all compliance activities on selected properties. This involves a transition from a conceptual to an operational model and from a manual to an automated environment. These operational models will become the foundation for program-wide implementation of the reengineered compliance and asset management process. In FY 2000, we anticipate expanding operational model teams.

Systems - The recommended IT investments include implementation of a relational database management system, workflow/case management tools, and commercial off-the-shelf accounting products. A host of automated analytical tools and enhanced use of the capabilities of the world-wide web for reporting and information exchange also is contemplated. The RMP is confident that the recommended reengineering improvements, coupled with a modernized IT environment, will dramatically improve the overall performance of its accounting and compliance-related business processes and ensure that future mission requirements are fulfilled at the lowest possible cost. The FY 2000 budget increase will fund year two of the three year reengineering project. Changes that will impact the compliance index are scheduled for completion by the end of FY 2001.

Valuation - The MMS has worked diligently over the last three years to produce valuation rules that are fair to all parties--lessees and the public alike. We will publish the final rule for Indian gas during the first quarter of 1999. We expect to publish the final rules for Federal and Indian oil June 1, 1999, once the Congressional prohibition is lifted. Once published, we anticipate positive impacts to the compliance index for FY 2000 because of greater certainty for payors and MMS. The MMS cannot and will not compromise on a fair return for the American people, but we will continue to maintain an open door to companies that want to settle past differences or clarify issues for the future. In addition, MMS is partnering with the States of Wyoming and Texas to test the circumstances under which royalties could best be taken in kind. In the fall of 1999, MMS will begin an RIK pilot in Federal waters in the Gulf of Mexico. As the steward for mineral assets on Federal public lands, we are determined to achieve a fair value. Our reengineered business processes and systems for the 21st century will give us the capability to make good business decisions about whether it makes the best business sense to take production in value or in kind.

Audit - A new approach, the Transition Audit Strategy for 1999 and Beyond, concentrates on a property rather than a company basis. It is designed to be scaled to maximize coverage while minimizing resource requirements and maintaining integrity and accountability. It also is designed to refine the audit portion of the compliance process so it can be efficiently transitioned into the reengineered RMP compliance and asset management process by 2001. Over the following 2 years, MMS will wrap up residual audits for past periods and will be fully transitioned by the end of CY 2003. The new strategy is an integrated plan that incorporates audit activities performed by MMS, State, and Indian tribal auditors. As this is an evolutionary and transition strategy that is highly integrated with reengineered compliance processes currently being developed and tested in reengineering operational models, its implementation will be closely and frequently monitored. This will allow for needed adjustments based on lessons learned through implementation and incorporation of reengineered compliance verification processes and technology.

Compliance Index - We will revise the compliance index as we reengineer RMP processes and systems, and request system design to make the calculation less resource-intensive and more timely. The goal for the reengineered compliance index is to evaluate and measure the compliance cycle and document trends both before and after reengineering processes are implemented.

Reporting Accuracy - We are closely monitoring the accurate reporting measure to determine what actions may be necessary to improve compliance. In FY 2000, as we complete conversion of reporters to electronic format, we anticipate increased reporting accuracy. The royalty error rate for electronically reported lines was 2 percent, compared with a 8 percent error rate on the paper reports. Electronic reports produce more timely and accurate reporting at significantly less cost than paper reports. Electronic reports also streamline the error correction process because the reporter can make their own corrections and quickly resubmit the reports to us.

Solid Minerals - The Royalty Policy Committee (RPC), an advisory committee made up of our stakeholders, will soon make substantial recommendations to revise existing rules. Additionally, MMS must improve several solid minerals revenue collections processes to ensure accuracy of collected revenues. New rules, if published by FY 2000, could impact the compliance index.

Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 Implementation - Using insight gained from outreach sessions and issue-specific workshops with our State and industry constituents, MMS has made significant progress in implementing RSFA:

- We published the final rule for delegating functions to States on August 12, 1997.
- With new software, we began paying overpayment interest in April 1997 and accepting interest reporting in September 1977.
- We published an Interim Rule on August 5, 1997, to match lessees and designated royalty payors, and established an RPC subcommittee to address related issues.
- We also resolved the 14,500 pre-RSFA cases involving discrepancies in royalty and production volume within the RSFA 2-year mandate.
- We published a new proposed rule on Appeals on January 12, 1999 incorporating RSFA requirements.
- We published the Marginal Properties Relief proposed rule on January 21, 1999.

Over FY 1999 and 2000, we plan to publish more rulemakings that will contribute to our success in this effort, including Revised State Delegation rule, Takes/Entitlements, and Chronic Erroneous Reporting. As new regulations are published to implement RSFA changes, there will be potential impacts on the compliance index in FY 2000.

Benefits Derived:

In 1982, the Federal Government created MMS, establishing a comprehensive, consolidated system for collecting, accounting for, and disbursing these revenues. Since that time, RMP has provided more than $98 billion to Federal, State, and Indian accounts, including over $2 billion from compliance activities. Roughly $60 billion has gone to the U.S. Treasury and $14 billion to the Land and Water Conservation Fund, the National Historic Preservation Fund, and the Reclamation Fund. In addition, over $10.9 billion has been distributed to 38 States and $2.5 billion has gone to 41 Indian tribes and 20,000 individual Indian mineral owners (allottees). In FY 2000, we anticipate collections of approximately $4 billion with approximately 86 percent going to the U.S. Treasury, 11 percent to States, and 3 percent to Indian tribes and allottees.

II.1H Mission Goal: ***Provide Indian tribes with increased opportunities for education and for assuming functional responsibilities with respect to the Royalty Management Program.***

II.1.1H Description:

The Secretary of the Interior supports facilitating the efforts of Indian tribes and tribal organizations to plan, conduct, and administer such programs, functions, services, and activities, or portions thereof, which the Department is authorized to administer on behalf of Indian tribes and individual Indian mineral owners.

This goal focuses on increasing the number of Indian tribes that take part in one or more educational opportunities or that assume one or more functional responsibilities

Primarily, resources in MMS's Compliance Budget Subactivity ensure that we meet this goal.

II.1.2H Strategic Issues

By 2002, increase the number of Indian tribes that take part in one or more educational opportunities or that assume one or more functional responsibilities. Educational opportunities include participating in the royalty internship program, taking part in joint audit work, or accessing online royalty data. Assumption of functional responsibilities include participation in the co-op audit program, and entering into self-determination contracts or self-governance contracts.

Significant factors: The primary factor impacting achievement of this goal is locating tribal employees who meet or exceed the basic qualifications for the prospective work, and who are willing to relocate for up to two years.

Operational process: Indian royalty assistance, Indian audit, and training tribal employees on all other aspects of royalty management.

Resources: To meet this goal, in FY 2000 MMS estimates it will need $2.0 million and 19 FTE with backgrounds in accounting, auditing, geology and petroleum engineering, computing, and management and support services. The MMS also contracts for accounting and ADP support services. These figures include a prorata share of General Administration support costs.

II.1.3H Related Budget Accounts, Budget Activities, Subactivities:

1. Account: Royalty and Offshore Minerals Management, Royalty Management, Compliance

II.1.4H Proposed Legislation

No legislation is proposed at this time.

II.1.5H Impact of FY 2000 Budget Changes

Royalty Management Reengineering: The MMS is requesting a total increase of $10 million, of which $.2 million has been applied to this goal to design, develop, and implement new royalty management business processes and supporting information technology (IT) systems for the 21st century. See Section 1.5.6 (Capital Assets/Capital Programming) for a full explanation. Once implemented, new MMS system features will be available to our Indian constituents.

II.2H FY 2000 Annual Performance Goal Detail and Narrative

Exhibit A - Performance Plan Detail and Narrative

Exhibit A displays the relationship of the Mission Goal, long-term goals, annual goals, and supporting performance measures.

	FY 1999 Enacted (000's)	FY 2000 Proposed BA (000's)
Mission Goal: **H. Provide Indian tribes with increased opportunities for education and for assuming functional responsibilities with respect to the Royalty Management Program.**	$ 1,751	$ 2,000

Long-term Goal

- *By 2002, increase the number of Indian tribes that take part in one or more educational opportunities or that assume one or more functional responsibilities.*

FY 2000 Annual Performance Goal:

- *In 2000, increase the number of Indian tribes having system access to 16 (02.08.01.01.00)*, taking part in training IPA's or internships to 5 (02.08.01.02.00), and assuming functions (audits, etc.) to 9 (02.08.01.03.00).

Performance Measure	**FY 1997 Actual**	**FY 1998**		**FY 1999 Plan to Congress**	**FY 2000 Proposed[1]**
		Plan	**Actual**		
Tribes with System (BIS) Access	13	15	14	15	16
Tribes Training IPA's or Internships	3	4	4	5	5
Tribes Assuming Functions (audits, etc.)	8	8	8	8	9

[1] *All tribes assuming functions (audits or self-governance agreements), or who are involved in the internship programs, already have system access; therefore the System Access measure states the total tribes cumulatively.*

Note: All figures include amounts from annual appropriations and offsetting collections and include a prorata share of General Administration support costs.

Note: The $10 million increase for reengineering will be utilized for system development in FY 2000 and will begin to reflect in our performance during FY 2001 and beyond.

Goal Purpose:

Under the Secretary's American Indian trust responsibilities, MMS is responsible for Indian mineral royalty collection and disbursement functions. We are also responsible for assisting tribes in assuming functions performed on their behalf because of their status as Indians, as provided by the Indian Self-Determination and Education Assistance Act, P.L. 93-638, as amended. The goal is to facilitate tribal assumption of the work MMS does on Indian trust resources.

To help tribes prepare to assume royalty management services, MMS offers a number of opportunities, including on-line monitoring of royalties and accounts, learning our royalty collection processes through a new internship program for tribal employees, and handling royalty audit work through cooperative agreements.

Status:

In FY 2000, our goal is to increase to 16 the number of Indian tribes that take part in one or more educational opportunities or that assume one or more functional responsibilities.

The Royalty Internship Program is intended for mineral producing tribes desiring to increase their royalty management expertise. Candidates must be permanent tribal employees. If the tribe seeks training beyond the "awareness" level, the candidate needs to meet or exceed the basic qualifications for the prospective work. The candidate may need to devote one-half to full time to this program for several months, possibly up to two or more years. The candidate is expected to continue as a tribal employee upon completion.

We expect that tribes with larger annual mineral royalties (12 of the 41 tribes we currently serve receive mineral royalties in excess of $1,000,000 annually) will have greater interest in the assumption of royalty management functions. However, our efforts to educate and encourage the assumption of our functions will span all tribes that we serve.

Goal Achievement:

We do not anticipate changes in FY 2000 base funding to achieve this goal. We have eight tribes that have assumed royalty audit work under seven cooperative audit agreements pursuant to Section 202 of the Federal Oil and Gas Royalty Management Act. We have not had any formal proposals from tribes for Self-Determination or Self-Governance contracts.

In FY 2000, we anticipate one additional tribe will assume royalty audit work. We also anticipate that in FY 1999 and FY 2000 we will provide system access to one additional tribe each year. We anticipate one additional tribe participating in an internship in FY 1999, but because earlier internships will be phasing out, we do not anticipate the total tribes involved in internships to increase in FY 2000.

We are working with tribes to let them know of our interest in them successfully assuming functions if they wish. We recommend they get involved in our work, at least by accessing our databases so they can independently review the mineral royalty information we have. If they would like to get more involved, but lack the expertise, we have a program called the Royalty Internship Program.

Considering customer needs, we designed a flexible training program, built around on-the-job training and customized to the tribe's needs for their intern. Interns will receive desired training in RMP's mineral revenue management activities, which can include royalty accounting, report processing, exception resolution, audit, and valuation. We use Intergovernmental Personnel Act Agreements similar to those used for FOGRMA Section 202 cooperative agreement internships. We negotiate reimbursement to the tribe for much of the cost for a participant.

We coordinate transfer of Federal programs with other agencies through our participation in IMSC. The IMSC comprises representatives from BIA, BLM, the Department's Office of Policy, Management and Budget, the Office of Trust Funds Management, MMS, and the Office of the Secretary, and acts as a forum to facilitate the resolution of Indian mineral resources and royalty management issues.

The newest royalty intern is from the Crow Tribe in Montana. The intern will spend a year with MMS employees receiving hands-on experience in coal valuation. The second year, the Colorado 205 delegation will train this intern as she learns about coal auditing. This is a unique partnering between Indian leases and Colorado Federal leases -- it should prove to be win/win for all.

Benefits Derived:

Our goal is to facilitate tribal assumption of the work MMS does on Indian trust resources. The Royalty Internship Program is intended for mineral producing tribes desiring to increase their royalty management expertise. Increased system access also provides tribes with the necessary link to MMS.

Section III - Means Goals

Based on the response and direction of OMB, the General Accounting Office, and Congress to focus on programmatic goals and to keep management and means type goals to a minimum, MMS will remove the administrative and human resources goals in the next formal revision to the Strategic Plan. In the interim, these goals will no longer be considered part of the Strategic Plan and will not be included in the Annual Plan or in the annual report. Support documents are being developed and will be available for the following administrative and human resource goals that were previously contained in the Strategic Plan.

- Ensure continuous development and growth of MMS employees.
- Increase employee innovation, involvement, and decision making.
- Provide timely recognition and reward for contributions that support the MMS mission.

The MMS also will implement and respond to the Department's human resource goals.

Exhibit B

Section IV - Performance Measures and Verification

Goal Code	Annual Performance Goal	Performance Measure and Definition	Baseline	Data Collection Strategy	Validation
01.01.01.01.00	In FY 2000, achieve an accident index not greater than 0.588.	Ratio: <u># incidents x severity factor</u> # activities x complexity/risk factor	In 1996, the baseline year, the accident index ratio was 0.612	Information and data is reported by industry, the Coast Guard, MMS inspectors, and other authorities. The filed report data is entered into the MMS Technical Information Management System (TIMS).	Information is validated through on-site inspections, interviews, discussions with reporting officials. Information from other Federal reporting agencies may be presumed to be accurate due to their position as office of record.
01.02.01.01.00	In FY 2000, show a decrease in the number of adverse environmental impacts per OCS mineral development activity below the 1998 baseline.	Ratio: <u># incidents</u> # of mineral development activities [To be more fully developed]	Methodology is being determined. Data gathering has begun. Baseline will be determined by 3/99.	Information and data is reported by industry, the EPA, MMS, and others. Calculation will be PC-based and measure will then be entered in performance matrix.	

Goal Code	Annual Performance Goal	Performance Measure and Definition	Baseline	Data Collection Strategy	Validation
01.02.02.01.00	In FY 2000, show a 0.01 decrease in the amount of oil spilled below the 1992-96 average level of 5.09 barrels spilled per million barrels produced.	Ratio: <u>Amount of oil spilled</u> Amount of oil produced	The baseline is the 1992-1996 average of 5.09 barrels spilled per million barrels of oil produced	• Operators report all spills to the to Coast Guard's National Response Center (NRC) and report all spills > 1 bbl to MMS. NRC sends MMS a daily set of reports that fall within MMS specifications. This information is downloaded into the (TIMS). • Production data is measured from OCS meter readings. Production is reported by royalty payors to RMP where it is inputted into the Audited Financial System (AFS) and by offshore operators to RMP where it is inputted into the Production Accounting and Auditing System.	• OMM inspects meters for reliability. The production data in the AFS and PAAS systems is cross checked and any discrepancies are researched, audited, and corrected by RMP to ensure royalties are paid on the correct production amounts.

Goal Code	Annual Performance Goal	Performance Measure and Definition	Baseline	Data Collection Strategy	Validation
01.03.01.01.00	In FY 2000, maintain the ratio of high bids received for OCS leases to the greater of MMS's estimate of value or the minimum bid at the 1989-1995 average of 1.8 to 1.	Ratio: Value of high bids received versus the greater of MMS estimate of value or the minimum bid.	The 1989-1995 average was 1:8 to 1.	Data extracted from TIMS, manually calculated, and manually entered into a performance matrix.	Data is cross checked against related information submitted to RMP or independently acquired to assess accuracy or consistency.
01.03.02.01.00	In FY 2000, decrease below the 1989-96 average level to no more than 6.7 percent of tracts classified as non-viable at time of sale but on which a lessee makes a discovery within 5 years that a well is capable of producing in paying quantities.	# of commercial discoveries on "non-viable" tracts divided by the # of leased tracts classified as "non-viable"	Baseline is 7 percent based on 1989-1996 average. Because the factors that determine the economic viability of lease can change over time, many years of data should be used to determine a baseline. The 1989-1996 period represents most current data when baseline was established.	Data extracted from MONTCAR runs, company notifications of discovery, and MMS determinations of producing in commercial quantities. Percent calculated manually and entered in performance matrix.	
01.04.01.01.00	In FY 2000, show an increase in the annual number of leases on which exploratory wells are drilled to 265	Increase, by a specific amount, the number of leases on which exploratory wells are drilled	Baseline is 250 leases annually, based on 1992-1996 average. Because many factors affect drilling decisions on a lease, a recent five- year period was averaged.	Data is obtained from Permit to Drill applications and approval forms and from completion reports.	Data is cross checked against related information submitted or independently acquired to assess accuracy or consistency.

Goal Code	Annual Performance Goal	Performance Measure and Definition	Baseline	Data Collection Strategy	Validation
      01.04.02.01.00 01.04.02.02.00	In FY 2000, reduce in the rate of decline in the oil and gas reserves-to-production ratio that occurred from 1990-1995, which was: * .82/year for oil and * .31/year for gas	Annual change in the ratio of: <u>Level of proved reserves</u> Annual OCS production	The baseline for oil is .84 per year and for gas the average is .32 per year for the period 1990-95.	• Reserves data is submitted by the companies and independently calculated by MMS reserve specialists. • Production data is measured from OCS meter readings. Production is reported by royalty payors to RMP where it is inputted into the Audited Financial System (AFS) and by offshore operators to RMP where it is inputted into the Production Accounting and Auditing System (PAAS). RMP validates data and then sends to OMM for downloading into TIMS.	• The production data in the AFS and PAAS systems is cross checked and any discrepancies are researched, audited, and corrected by RMP to ensure royalties are paid on the correct production amounts.

Goal Code	Annual Performance Goal	Performance Measure and Definition	Baseline	Data Collection Strategy	Validation
	In Calendar Year 2000, show annual OCS production of:	Increase in total OCS calendar year production	In 1996, Baseline annual production:	• Oil and gas production -see above. • Salt and sulphur production, on which royalties are also owed, is handled in the same manner as oil and gas. • For sand and gravel, production may be determined by the US Army Corps of Engineers for projects in which they play a significant role.	• Oil and gas production - see above. • Salt and sulphur is verified and validated in the same manner as oil and gas production. • Sand and gravel reports can be checked against volume determinations made from acoustic soundings of the sea floor.
1.04.03.01.00	* 601 million barrels of oil		429 (oil)		
01.04.03.02.00	* 4.9 trillion cubic feet of gas		5.0 (gas)		
01.04.03.03.00	* 2.1 million long tons of sulphur		2.1 (sulphur)		
01.04.03.04.00	* 21.5 million cubic yards of sand and gravel		.81 (sand & gravel)		
02.05.01.01.00	In FY 2000, the percentage of the collected dollars and accompanying information that is provided timely to States and Indians is 98.7 percent.	Percentage of dollars disbursed timely to States and Indians.	In 1996: 93 %	Mainframe application - dollars disbursed to States or distributed to Indians are compared with later of the royalty receipt date or the payment receipt date	Verified by employees in conjunction with late disbursement interest.

Goal Code	Annual Performance Goal	Performance Measure and Definition	Baseline	Data Collection Strategy	Validation
02.05.02.01.00	In FY 2000, late disbursement interest costs are targeted at $40,000.	Amount of late disbursement interest paid to States.	In 1996: $164,000	Mainframe application that shows actual dollars disbursed to States and Indians for late disbursement interest.	Verified by employees manually reviewing reasons for interest being paid.
   02.06.01.01.00 02.06.01.02.00 02.06.01.03.00	In FY 2000, increase the percentage received electronically for: * royalty reports to 99 percent * production reports to 99 percent * dollars to 96 percent	Percentage of royalty and production reports and dollars submitted electronically.[2]	In 1996: Royalty reports . . . . 72% Production reports . . . . . 47% Dollars 92%	Mainframe data download to PC-based calculation; manually entered into performance matrix..	Verified by employees manually reviewing reporters and payors filing electronically to total universe of reporters and payors.
02.07.01.01.00	In FY 2000, increase the percentage of royalty and production reports submitted by reporters without fatal errors to 98 percent.	Percentage of royalty and production report lines submitted correctly the first time by industry.	In 1996: 97.5%	Mainframe application that shows which lines on reports reject	Verified by employees manually working to have the reporters correct the rejected lines.

[2] Our recent technology analysis provided an MMS plan for converting the remaining reporters. Based on this plan, we are extending our initial 1999 target to 2000. The previous target of 100 percent has been adjusted to exclude small reporters for which electronic reporting would be a hardship.

Goal Code	Annual Performance Goal	Performance Measure and Definition	Baseline	Data Collection Strategy	Validation
02.07.02.01.00	In Calendar Year 2000, achieve a compliance index (calculated on the year 1998) of .9775	Ratio: Actual voluntary royalty payments/ Expected royalty payments	In 1996: .95 (calculated on the year 1994)	PC-based application gathering and manipulating data from the mainframe	Verified by employee using documented procedures
	In FY 2000, increase the number of Indian tribes:	Numeric count: Number of Indian tribes that take part in one or more educational opportunities or that assume one or more functional responsibilities.	At end of 1996:	Numerical Count of Tribes	Manual
02.08.01.01.00	* having system access to 16		11 tribes w/ access to databases (Business Information System);		
02.08.01.02.00	* training IPA's or Internships to 5		7 tribes participate in FOGRMA sect. 202 audit agreements;		
02.08.01.03.00	* assuming functions (audits, etc.) to 9		2 tribes had Internships.		

Appendix

Index of Common Terms

Goal Category, this optional classification exists only to provide a common way of grouping the major themes of an organization.

Mission Goal is a classification identifying outcome-oriented goal that defines how an organization will carry out its mission. For MMS, a mission goal is also a GPRA Program Activity.

Long-Term Goals are the "general performance goals and objectives" identified in the Government Performance and Results Act (GPRA). They define the intended result, effect, or consequence for what the organization does. They provide a measurable indication of future success by providing target levels of performance and a time frame for accomplishment. Long-term goals should focus on outcomes rather than outputs (products and services).

Annual Goal is a 1-year increment of the long-term goal. It contains a targeted level of performance to be achieved for a particular year. It is to be expressed in an objective, quantifiable, and measurable form. The Office of Management and Budget's approval of an alternative form of evaluating the success of a program is required if the annual goal cannot be expressed in an objective or quantifiable manner.

GPRA Program Activity is described as the consolidation, aggregation or disaggregation of program activities that are covered or described by a set of performance goals, provided that any aggregation or consolidation does not omit or minimize the significance of any program constituting a major agency function or operation. For MMS, it is the same as a Mission Goal.