



United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

MAR 27 1995

Dear Royalty Payor/Production Reporter:

On March 27, 1995, the President announced a number of actions that will occur in the Department of the Interior (DOI) as part of the Administration's National Performance Review initiative to streamline and "reinvent government." One of these actions is a proposal to abolish the Minerals Management Service (MMS) after consultation with States, Indian Tribes and Allottee Associations, targeting an implementation date of October 1, 1997. The abolishment of the MMS will further the Administration's efforts to reduce the size of the federal government, transfer responsibilities to state governments and accelerate transfer of the management of Indian mineral resources to Tribes.

Because you do business with the Minerals Management Service, I want to explain what the decision entails and how you may be affected. Though your interest may be predominantly on royalty management activities, the complete picture of what is occurring with all of the MMS functions is enclosed.

In summary, the Royalty Management Program responsibilities for onshore federal lands will be devolved to approximately 38 states; the offshore royalty responsibilities to another DOI agency; Indian Tribal royalty responsibilities to interested Tribes; and for Indian Allotted lands the royalty responsibilities will be transferred to another DOI agency. The Offshore Minerals Management Program will be transferred, intact, to another DOI agency after a sale of the offshore royalty stream has begun and the royalty gas marketing in-kind pilot has been expanded.

Also, for your information, the Bureau of Land Management's oil and gas inspection and enforcement responsibilities will be delegated to the Tribes and States. A joint task force consisting of State, Tribal, and federal representatives will be established to address how best to implement this initiative.

DEVOLUTION OF THE MINERALS MANAGEMENT SERVICE

In response to the President's National Performance Review, the Department of the Interior (DOI) proposes to abolish the Minerals Management Service (MMS) after consulting with the States and Indian Tribes and determining the best means to transfer its functions. This action will further the Administration's efforts to reduce the size of federal government, transfer responsibilities to state government, and accelerate transfer of the management of Indian mineral resources to Tribes. The target date for completion is October 1, 1997.

The Minerals Management Service consists of two major program areas--the Offshore Minerals Management program, responsible for managing the natural gas, oil, and other mineral resources on the Outer Continental Shelf and the Royalty Management Program, responsible for collecting, verifying, and disbursing royalties, rentals, bonuses and other payments associated with mineral on federal and Indian lands. The effects of this proposal on these programs are discussed below.

ROYALTY MANAGEMENT PROGRAM (RMP): After consultation with the States and development of a devolution strategy, the RMP responsibilities for onshore federal lands will be transferred to approximately 38 states.

The RMP responsibilities for offshore federal lands will be substantially streamlined through the royalty marketing in-kind program and/or royalty stream sales and then transferred to another DOI bureau.

In consultation with the Tribes and Allottees, Tribes will be encouraged to collect the royalty payments on their lands consistent with the Department's efforts to encourage self-determination and self-governance. Royalty responsibilities for 20,000 non-tribal Indian leases (and Tribal leases where Tribes have elected not to assume royalty collection responsibilities) will be transferred to the Bureau of Indian Affairs (BIA) or the bureau performing the offshore royalty collection responsibilities.

Within the implementation strategy developed in consultation with the States, inherently federal royalty functions, (adjudication, policy and regulatory development, valuation interpretations, and enforcement for onshore federal lands) and oversight of onshore royalty collections will be transferred to another DOI bureau.

The estimated costs associated with this proposal to transfer of royalty functions to onshore states are based on the Wyoming proposal dated July 1, 1993, to take over certain royalty collection activities. As part of the initial proposal, it is assumed that the States will contribute 50 percent of the cost of the onshore federal minerals program.

OFFSHORE MINERALS MANAGEMENT (OMM): The OMM Program will be transferred, intact, to another DOI bureau after the offshore royalty collection system has been streamlined.

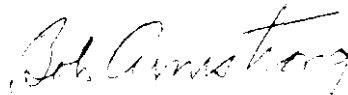
In order for the devolution of the royalty management functions to the states and the offshore royalty stream sales to lessees to occur, legislative changes to the Federal Oil and Gas Royalty Management Act and the Outer Continental Shelf Lands Act are required. We anticipate enactment of amended legislation before the end of this year.

In the interim there will be extensive outreach to discuss the devolution and answer any questions you may have. It is our intent that this transition will be as smooth as possible. We will be creating task groups on developing the requirements of a simplified royalty reporting system and associated reporting forms and identifying all the necessary actions that need to be undertaken. We will involve all affected parties as we move towards implementation of this plan.

Industry Washington, D.C. representatives have been invited to attend a briefing on the proposal this Thursday, March 30, 1995.

If you have specific questions, please contact the MMS Acting Deputy Director, Carolita Kallaur at 202-208-3500.

Sincerely,



Bob Armstrong
Assistant Secretary for Land
and Minerals Management

Enclosure