



BUDGET The United States
Department of the Interior

JUSTIFICATIONS

and Annual Performance Plan
Fiscal Year 2003

Annual Performance Report
Fiscal Year 2001

MINERALS MANAGEMENT SERVICE

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Minerals Management Service

FY 2003 President's Budget

The Minerals Management Service (MMS) is responsible for managing the Nation's Outer Continental Shelf (OCS) mineral resources in a safe and environmentally sound manner and ensuring that revenues from Federal and Indian mineral leases are collected, accounted for, verified, and disbursed to appropriate recipients in a timely manner. To ensure OCS development is being carried out in an environmentally responsible manner, MMS inspects all offshore facilities, reviews plans of exploration and development, analyzes statements of financial responsibility, and funds scientific and engineering research related to OCS mineral development. To ensure proper revenues are collected and disbursed, MMS utilizes a broad range of financial services, and pursues a comprehensive compliance strategy that includes an automated compliance verification program to validate the accuracy and timeliness of revenues paid and an audit program staffed by MMS, States 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 26,000 producing and 54,500 non-producing mineral leases.

The MMS provides major fiscal and energy benefits to taxpayers, States, the American Indian community and the Nation. In FY 2003, MMS will account for an estimated \$4.2 billion in Federal receipts, including \$2.8 billion from OCS rents, bonuses and royalties, and \$1.4 billion from onshore rents, bonuses, and royalties. Another \$0.2 billion will be collected from Indian leases.

MMS

Benefits Everyone

National Energy Supply

The OCS is projected to account for over 25 percent of both the Nation's oil and natural gas production in 2003.

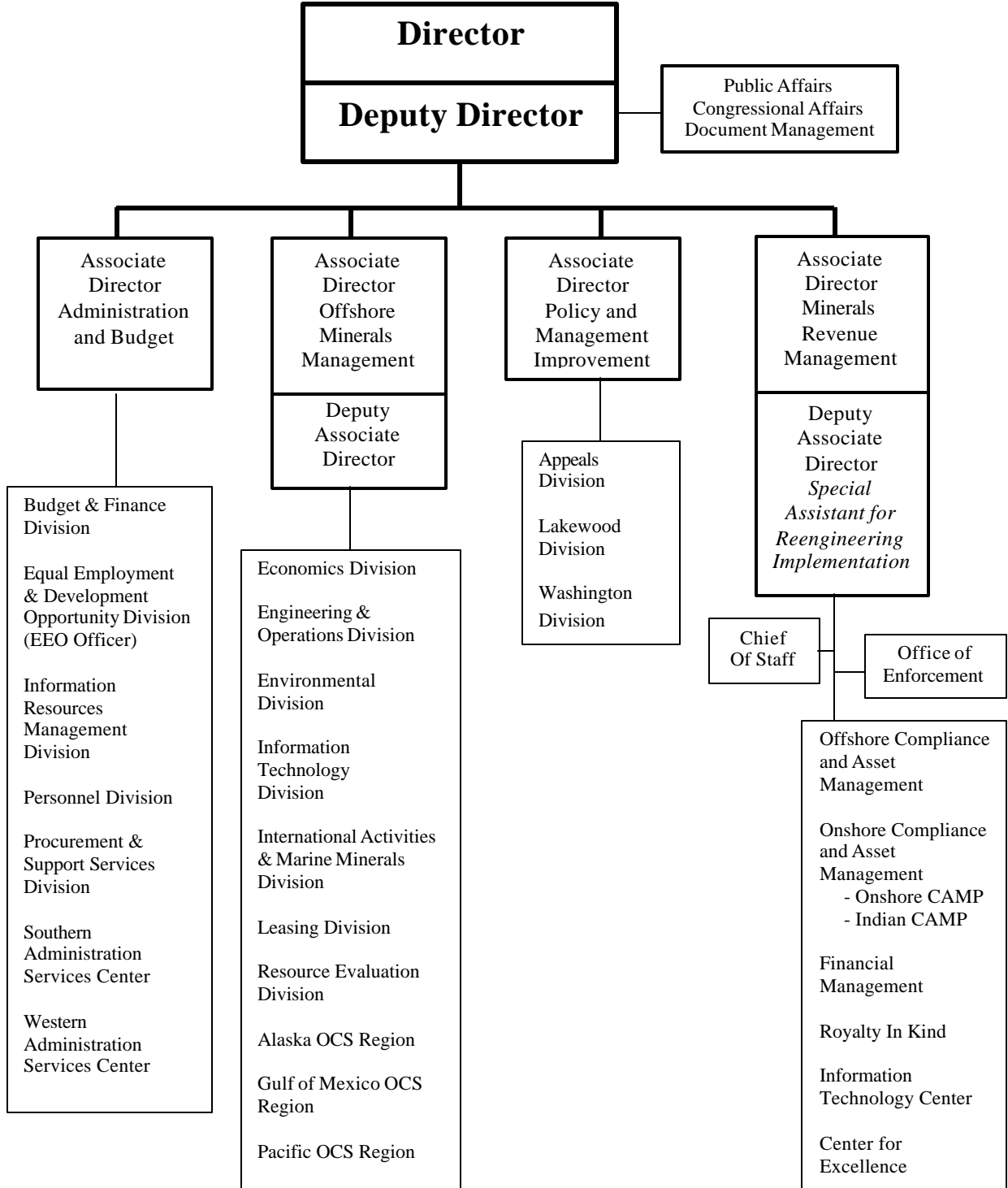
The Federal Treasury

In FY 2003, MMS is projected to collect approximately \$4.2 billion in OCS rents, bonuses, and OCS and onshore Federal and Indian royalties.

State Treasuries and Other

The MMS will disburse almost \$700 million to States in FY 2003. This money is used by the States for schools, roads, and public works projects, or placed in the general fund and used as needed. Another \$900 million from OCS receipts is deposited into the Land and Water Conservation Fund to acquire, restore, and create parks, wildlife preserves, wilderness areas, and recreational facilities. In addition, \$150 million is deposited to the Historic Preservation Fund to fund grants to States and certified local governments and Historically Black Colleges and Universities for preservation and restoration projects.

Minerals Management Service Organizational Chart



The \$4.2 billion will be distributed as follows: approximately \$1.9 billion will be deposited to the General Fund of the U.S. Treasury to pay for Federal programs; approximately \$674 million in mineral revenue payments will be made to onshore States; approximately \$900 million will be transferred to the Land and Water Conservation Fund; \$150 million will be deposited to the Historic Preservation Fund; and approximately \$536 million will be credited to the Reclamation Fund. In addition to the \$4.2 billion in Federal Receipts, approximately \$200 million will be transferred to the Office of Trust Fund Management for distribution to American Indian tribes and allottees, and coastal States will receive an estimated \$39 million in shared mineral revenue receipts.

The MMS has three major budget activities; Offshore Minerals Management (OMM), Minerals Revenue Management (MRM), and General Administration. The OMM Program oversees all OCS mineral activities from initial lease offerings through exploration, development, production, and lease closure. Approximately 40 million acres (an area larger than the states of Virginia, Maryland, and Delaware combined) on the OCS are under lease. The MRM, formerly known as the Royalty Management Program, collects and disburses bonuses, rents, and royalties paid on Federal (onshore and on the OCS) and Indian mineral leases. The MRM processes more than 250,000 transactions each month (involving over \$400 million per month) from over 26,000 producing Federal and Indian leases. General Administrative functions are provided by the offices of the Director, Administration and Budget, Policy and Management Improvement, Public Affairs and Congressional Affairs. These offices provide guidance, support and coordination on such functions as budget and finance, personnel, equal employment and development opportunity, procurement, and information technology; and coordination of public affairs and Congressional relations.

The Budget Request

The MMS budget request, including amounts retained from rents as offsetting collections, totals \$281.0 million, a net increase of \$21.5 million or slightly more than eight percent above the 2002 enacted level of \$259.5 million. The \$21.5 million net increase, combined with program decreases of \$14.3 million, will fund :

- \$3.6 million for uncontrollable cost changes (mostly pay raises and GSA rent increases) and related changes,
- \$21.8 million for programmatic increases, and
- \$10.4 million for a governmentwide legislative proposal to shift to agencies the full cost of the Civil Service Retirement System (CSRS) and the Federal Employee Health Benefits program for current CSRS employees. Agencies currently pay a portion of these costs, with the balance funded in central, mandatory accounts. Full funding of these programs in agency accounts will more nearly show the true cost of Federal programs allowing managers to make decisions based on better cost information.

In addition the budget request includes a shift of \$2.5 million in funding from offsetting collections to appropriations. This shift has no impact on MMS's total funds but is necessary to offset an expected decrease in offsetting collections. The table below summarizes the proposed programmatic increases and decreases.

Program Change	Amount (in millions)	FTE
E-Government Initiative	+\$8.742	0
During FY 2003, MMS will continue efforts to transform business processes for the OMM program. Working in partnership with stakeholders, MMS will develop a system to deliver web-based, paperless transactions and better manage data, reduce future costs and deliver information and services to citizens.		
Gulf of Mexico Workload	+\$5.000	+21
The MMS's Gulf of Mexico OCS Region is facing a steep increase in the level and complexity of work associated with offshore oil and gas activity. Near record numbers of deepwater rigs (44) are now drilling in the Gulf; in FY 2001 a total of 277 deepwater wells were drilled; up 22 percent in one year and up 85 percent in two years. The total number of all wells drilled in the Gulf rose to 1,408 in FY 2001; yet another new record.		
Royalty-in-Kind	+\$6.015	0
Provides funds to purchase liquids management systems in support of continuing RIK pilots and longer-term projects.		
System Operation and Support	+\$2.000	0
As a result of its reengineering project, MRM modernized its automated systems and business processes and added significant functionality and a variety of new tools. Additional resources are needed to keep pace with the increased demand on MRM's networks and enterprise systems, which requires continuous upgrades to ensure a steady and secure operating environment.		
Center for Marine Resources and Environmental Technology	-\$0.800	0
The MMS recognizes the importance of the investigations and technological development that this Center pursues, particularly the longer term research. However, due to higher research priorities for oil and gas exploration and extraction, MMS is proposing to eliminate CMRET funding in FY 2003.		
Marine Minerals Technology Center	-\$0.800	0
The MMS recognizes the importance of the investigations and technological development that this Center pursues, particularly the longer term research. However, due to higher research priorities for oil and gas exploration and extraction, MMS is proposing to eliminate MMTC funding in FY 2003.		
Offshore Technology Research Center	-\$0.499	0
The MMS recognizes the importance of the investigations and technological development that this Center pursues, particularly the longer-term research. However, due to higher research priorities for oil and gas exploration and extraction, MMS is proposing to reduce OTRC funding in FY 2003 to \$0.9 million.		
Royalty Legacy System	-\$3.003	0
Under the Royalty Reengineering Initiative begun in 1999 virtually every aspect of MRM operations has changed, including interfaces between MMS, other Federal and State agencies, industry and contractors; as well as reports, procedures, systems and processes. The Legacy systems were replaced by the reengineered system in FY 2002.		
Environmental Studies	-\$2.200	0
The MMS recognizes the importance of conducting environmental studies in support of its goal to ensure environmentally sound OCS mineral development. The decreased funding level will still allow for the continuation of existing projects and starts for limited but critical new projects.		
California Office	-\$1.000	-48
The MMS recognizes the importance of the oversight of development and production operations in the Pacific Region. However, MMS is committed to the spirit of the President's Management Agenda and believes that it can benefit from a review of its operations in the Pacific without jeopardizing current operational needs.		
Royalty-In-Kind	-\$6.015	0
The purchase of the gas management systems in support of continuing RIK pilots and longer-term projects will be completed in FY 2002.		

FY 2003 Proposed Operating Appropriations/Offsetting Collections

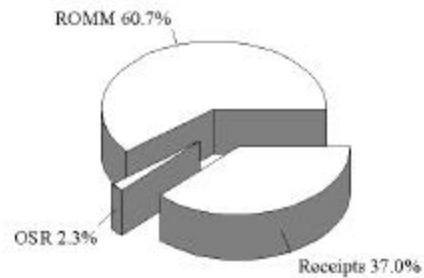
dollars in thousands

Royalty and Offshore Minerals Management	\$174,640
Offsetting Collections	\$100,230
Oil Spill Research	\$6,105
Total	\$280,975

The MMS receives funding for operations from three sources: the Royalty and Offshore Minerals Management (ROMM) appropriation, Oil Spill Research (OSR) appropriation, and offsetting collections (primarily from rental receipts from offshore leases). The largest portion (97.7 percent) of the MMS operating budget is the ROMM appropriation. This account is comprised of both direct appropriations and offsetting collections.

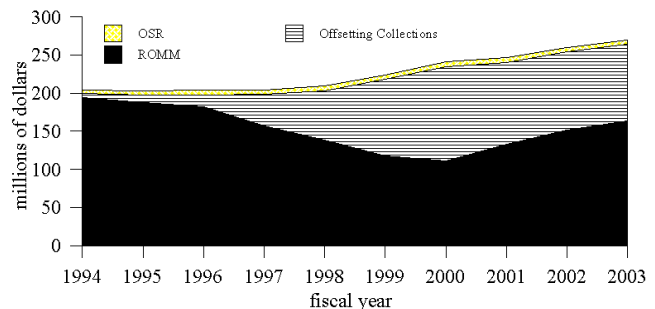
Since 1994, when MMS first received authority to retain a portion of OCS rental receipts¹ (offsetting collections), over \$676 million has been made available to fund MMS operations. At the same time, this authority freed a like amount of appropriated dollars to fund other critical needs of the Department. In FY 2003, approximately 37 percent of MMS's funding is proposed to come from offsetting collections.

**Minerals Management Service
FY 2003 Sources of Funding**



The dramatic increase in leasing activity in the Gulf of Mexico (GOM) made it possible to shift a larger portion of MMS funding from direct appropriations to offsetting collections. The increased GOM activity was made possible by new technologies that allowed exploration and development in very deep water. Examples of these new technologies included the rapid expansion in the

**Minerals Management Service
Sources of Funding**

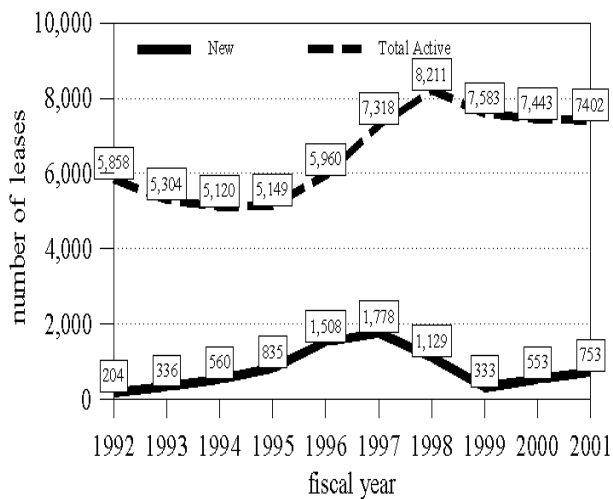


¹ Offsetting collections are receipts scoreable to the ROMM appropriation from an increase in the offshore natural gas and oil lease rental rates. The ability of MMS to collect and retain these receipts has been a significant benefit in that it has enabled MMS costs to be paid from revenues instead of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

availability of high quality 3-dimensional seismic data, inexpensive geo-science workstations, and seismic processing advances that allowed geo-scientists to look below the previously impenetrable layers of salt. New advances in drilling technology helped energize deepwater exploration and development in the GOM during the mid-to-late 1990s. One factor in this new technology was the development of new synthetic drilling fluids. These new fluids enabled operators to drill difficult deepwater formations faster, safer and less expensive than with water-based drilling fluids. The synthetic-based fluids also resulted in less environmental impact than the water-based fluids because they could be recycled. The introduction of new drilling rigs in the deepwater GOM over the past several years also boosted deepwater drilling activity. These new drillships and fifth-generation semisubmersibles greatly expanded the number of rigs that could drill in ultra-deepwaters in the GOM thus allowing increased exploration and development. These rigs drill wells faster and more efficiently than previous rigs and are capable of delivering a larger borehole, which is necessary to obtain high production rates to make deepwater development economical. In addition to the technological advances, Congress enacted legislation (OCS Deep Water Royalty Relief Act) that encouraged deepwater exploration. The combination of very favorable geologic characteristics, technological advances, and economic incentives caused leasing in the GOM to increase almost ten-fold between 1992 and 1997.

Gulf of Mexico Leasing Activity

Fiscal Years 1992 - 2001



In 1998, however, the number of tracts leased in the two GOM sales declined by 37 percent from the record levels of 1997. While 1998 marked the first time that the number of tracts leased in the GOM had declined in the past several years, the number of total active tracts actually increased in 1998 by over 12 percent. In 1999, the number of new tracts leased (333) fell 71 percent below the 1998 level and 81 percent below the peak level reached in 1997. In FY 2000, the number of tracts leased (553) in the GOM increased by almost 70 percent over FY 1999. In FY 2001, the number of tracts leased grew again as 753 new leases were issued.

While FY 2000 and FY 2001 saw the number of tracts leased increase, MMS does not expect new leasing activity to return to the FY 1996 – 1998 level in the near future. Because of this lower level of new leasing activity, MMS is requesting the cap on currently authorized offsetting collections be lowered to \$100.230 million in FY 2003.

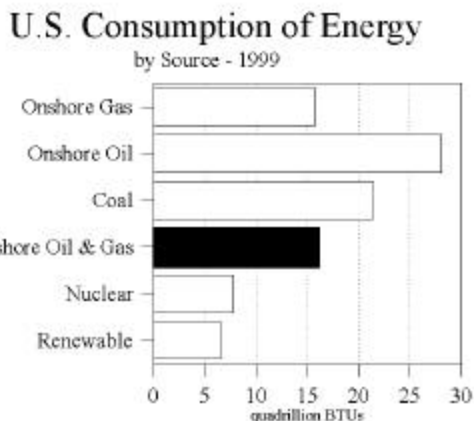
In addition to appropriations for operations, the MMS receives appropriations for distribution of the States' share of onshore mineral receipts. In FY 2003, MMS estimates that the States share of these onshore mineral receipts will be approximately \$674.3 million. This amount represents a modest increase (\$3.9 million) over the estimate for FY 2002.

FY 2003 Proposed Permanent Appropriations (dollars in thousands)	
Mineral Leasing Associated Payments (MLAP)	669,880
National Forest Fund Payments to States (Forest Fund)	3,475
Payments to States from Lands Acquired for Flood Control, Navigation, and Allied Purposes (Flood Control)	951
Total	\$674,306

External Influences

Domestic Oil and Gas Prospects -- The U.S. is the most mature petroleum-producing region in the world. Much of the Nation's easily located oil and gas has already been extracted. Despite this, domestic discoveries and reserve additions over the past decade have replaced 100 percent of the natural gas and 79 percent of the crude oil produced during this period. The overall replacement rate for hydrocarbons in the U.S. over the past decade is 92 percent, despite high rates of production. In fact, during the past few years, total hydrocarbon reserves additions have exceeded production. Advanced technologies have allowed economic access to domestic resources that are concentrated in deeper formations, tighter zones, deeper water, more sensitive environments, and increasingly more unconventional settings. In 1998, the U.S. Department of Energy estimated that two-thirds of the 603 billion barrels of known oil reserves in the U.S. remained untapped.

U.S. Dependence on Oil and Gas -- The lifestyle U.S. citizens enjoy has been built in large measure on reliable, affordable oil and natural gas supplies. Energy is critical to the economy, supplying power for factories and cities, heating and cooling homes, and



moving people and goods. The United States now depends on oil and natural gas for more than 60 percent of its energy needs.

While new sources of energy may be on the horizon, oil and gas will continue to be important during the next 20 to 30 years. The Department of Energy (DOE) estimates that dependence on oil and gas will increase significantly over the next

20 to 30 years. Because of this dependence, MMS programs are vitally important to the security of the Nation and the well being of the national economy.

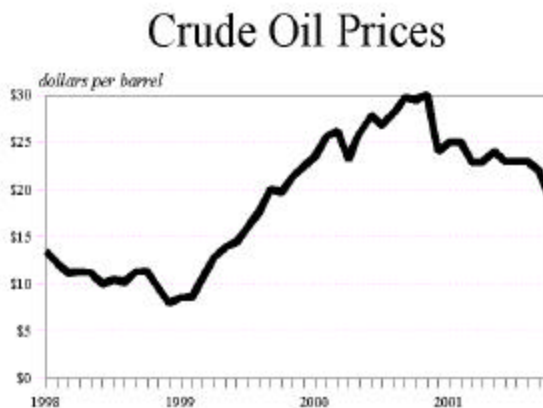
Demand for oil and gas was impacted by the events of September 11, 2001. While declines in the demand for jet fuel were dramatic, demand for motor gasoline actually grew after September 11th. Although the estimate is subject to revisions, DOE notes that 2001 appears to be the first year since 1991 in which total petroleum products demand has fallen. Nevertheless, demand for oil is expected to increase once again in 2002 with recovery beginning in the second half of the year. By 2003, DOE projects annual average petroleum demand to exceed 20 million barrels per day for the first time.

For all of 2001, natural gas demand is estimated by DOE to have declined by 5.3 percent. Residential demand declined in the fourth quarter due to above normal seasonal temperatures. DOE projects that demand for gas will decline further in 2002, but recover to 2001 levels in 2003.

For the longer term, U.S. oil production is projected to decline at an average annual rate of 0.7 percent between 1999 and 2020, to 5.1 million barrels per day. This forecast is 0.2 million barrels per day lower than was estimated last year. The share of U.S. oil demand met by net imports is projected to increase from 56 percent in 1999 to 70 percent in 2020, an average annual increase of 2.5 percent

U.S. demand for natural gas is projected to increase from 22 trillion cubic feet (tcf) in 1998 to as high as 29 tcf by the year 2010 and 31.3 tcf by 2015. This is a 50 percent increase over what the Nation consumes today. If the offshore is expected to maintain the same percentage contribution towards future U.S. gas consumption, the annual gas production from federal waters will have to increase 7 to 8 tcf. Natural gas is clearly the fuel of choice for the Nation's future energy use because it is a cleaner burning fuel.

Price Fluctuations -- In 1999, oil prices were beginning to rise from some of the lowest levels of the past 50 years. The price of oil increased steadily, hitting \$31 per barrel in November of 2000. During 2001, prices declined on weakening demand. Following the September 11 terrorist attacks, prices declined further. Most recently, prices have begun to rise again and the Department of Energy in its forecasts sees the price of oil moving up gradually over the course of 2002. "The West Texas Intermediate price, which stood at \$19.40 per barrel in December, is expected to move to about the \$25-\$26 range by the end of 2002 and to remain at about that level through 2003."



It is difficult to establish a long-term trend in gas prices based on today's prices. Price volatility of natural gas is extremely high and seasonally dependent. While the price hovered around \$2/mcf for the last decade, in early 2001 it spiked to over \$10/mcf. Gas is a commodity, and the price of a commodity is the most critical factor in controlling reserve and production levels.

Changes in the Oil and Gas Industry -- Mergers, acquisitions, partnerships, and revolving lease ownership have become common in the oil and gas industry. This restructuring of the oil and gas industry has and will continue to challenge MMS's ability to ensure that correct royalty payments are received, and that industry's demands for permitting and approvals are processed in a timely manner. MMS believes that the newly reengineered royalty business system will enable MMS to continue to meet its goals of ensuring proper revenues are collected and disbursed in a timely manner, while the proposed increase for the GOM will allow MMS to meet the increased demands of the offshore oil and gas industry.

New Since Last Year

Deep Water Royalty Relief for New Leases in Sales After 2000 -- Revisions to parts of the regulations affecting royalty relief and bidding systems were published in the Federal Register on February 23, 2001, as a final rule. The comment period on the proposed rule closed on October 16, 2000. Comments were received from six industry associations, ten oil companies, and one government agency. The comments were considered in preparing the final rule, which applies to OCS oil and gas lease sales held in 2001 and thereafter.

The Deep Water Royalty Relief Act of 1995 (DWRRA) sought to encourage new technological development and increased exploration and production in deepwater areas of the Gulf of Mexico. To do so, it specified mandatory royalty suspension volumes (RSVs) for new leases in water depths of 200 meters or more in the Central and Western Gulf of Mexico. The RSV's applied to all sales held in these areas from 1996 through 2000. During this time period, MMS also considered applications for royalty relief for leases that were awarded prior to the passage of the DWRRA.

An important change in the new rule is that it allows the RSV's to be set on a sale-specific basis rather than for a multi-year period as was the case under the DWRRA. In this way, MMS can respond to changes in technology by reviewing RSV's annually. In addition, under the final rule, a lessee receiving a RSV could apply for supplemental royalty relief if it was needed to make production from a lease economical.

Central and Western Gulf of Mexico Sales -- Through August 2001, MMS conducted two highly successful oil and gas lease sales in the Gulf of Mexico. Central Gulf of Mexico Sale 178 was held on March 28, 2001, and August 22, 2001 (Parts 1 and 2). Sale 178 attracted \$505 million in high bids from 90 companies. On August 22, 2001, Western Gulf of Mexico Lease Sale 180 received \$166 million in high bids from 50

companies. Based on bids received, this was the fourth largest Western Gulf of Mexico Lease Sale held in the last 10 years.

Eastern Gulf of Mexico Sale 181 -- In FY 2001, a major MMS Gulf of Mexico Region (GOMR) accomplishment regarding Eastern Gulf of Mexico (EGOM) Sale 181 was the successful completion of negotiations with the U.S. military regarding joint use of the Outer Continental Shelf in the EGOM Planning Area. Those negotiations occurred between the MMS GOMR on behalf of the U.S. Department of the Interior (DOI) and Eglin Air Force Base (AFB) on behalf of the U.S. Department of Defense (DOD). Significant contributions were made by both parties towards a final consensus, which included a variety of measures that served both the interests of the U.S. government (DOI and DOD) as well as potential offshore oil and gas lessees and operators relative to EGOM Sale 181.

Sale 181 was held on December 5, 2001, for offshore oil and natural gas leases in the EGOM, attracting \$340,474,113 in high bids from 17 companies. The 233 tracts comprised approximately 1.3 million acres and are located offshore Alabama adjacent to the Central Gulf of Mexico planning area. The MMS received 190 bids on 95 tracts or about 547,000 acres.

It is projected that the Sale area contains 1.25 trillion cubic feet of natural gas and 185 million barrels of oil. This is the first time tracts have been offered in the Eastern Gulf since 1988.

Deepwater Production -- Recent exploration successes in deepwater fields in the Gulf of Mexico are of critical importance in providing a vital new domestic source of oil and natural gas. Technological advances are increasing operators' abilities to take advantage of these finds, while reducing the danger and uncertainty in deepwater operations. The Gulf of Mexico's deepwater reservoirs have become America's new frontier for oil and gas exploration. Production potential from proved reserves in deepwater areas is

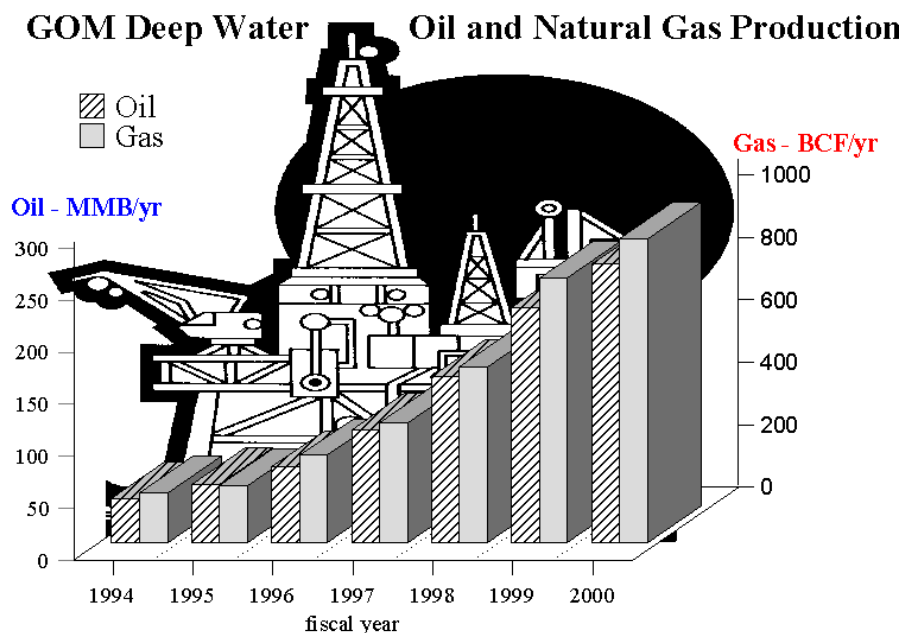


On January 19, 1982, MMS was created – a response to the Independent Commission on Fiscal Accountability's recommendations that proper fiscal accountability and management of public mineral resources would be best served by an agency devoted solely to minerals management.

During that time, MMS has become a leader in revenue management, environmental responsibility, and operational safety. An agency born of reinvention, MMS's commitment to this philosophy has allowed it to evolve in response to changing economic and business climates.

Today, MMS stands ready to continue this outstanding record. The Minerals Revenue Management program is now implementing a reengineered process and systems that improve interactions with stakeholders and speed the processing of revenues to their ultimate recipients. The Offshore Minerals Management program is embarking on a similar reengineering process aimed at improving its operations and making the resulting organization an example of good citizen-centered government.

estimated to be roughly 1.8 billion barrels of oil and 5.8 trillion cubic feet of natural gas. Consequently, drilling in the Gulf's Outer Continental Shelf has increased greatly over



the last 10 years. Today, deepwater drilling from permanent structures and wildcat wells is at an all-time high. In November 2001, a record 47 temporary and permanent deepwater rigs were drilling in water depths greater than 1,000 feet, as compared to only nine in 1990 and 26 in 1999. The number of wells being drilled in the so called ultra-deep water – those in 5,000 feet of water or greater – continues to grow significantly. In FY 2001, there were ten wells being drilled in ultra deep water. The companies operating the ten wells and the water depths were:

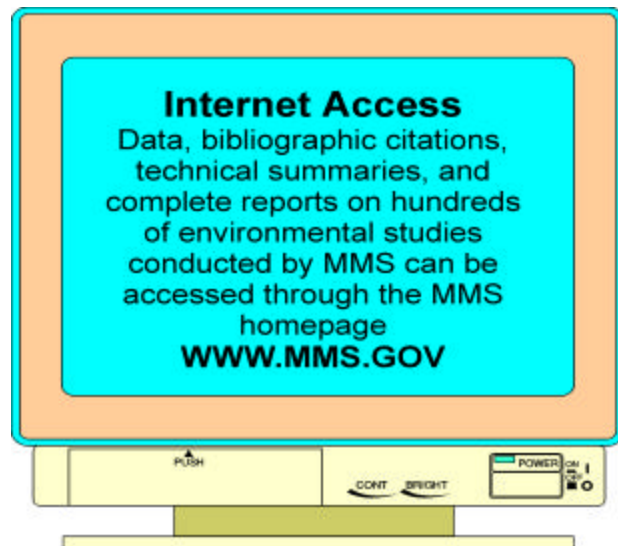
<i>Operator</i>	<i>Water-depth (feet)</i>
Union Oil Co. of California	9,743
Marathon Oil Company	7,742
BP Exploration & Oil Inc.	6,960
BP Exploration & Oil Inc.	6,612
Burlington Resources Offshore	6,308
Murphy Exploration & Production	5,881
Dominion Exploration & Production	5,610
Vastar Resources Inc.	5,422
Amoco Production Company	5,180
Shell Deepwater Production Inc.	5,150

Production from deepwater wells is increasing as compared to prior years. In 1985, for example, only six percent of the Gulf's oil production came from deepwater wells as compared to over 50 percent in FY 2001. Natural gas production from deepwater areas in the Gulf has also increased—from less than 1 percent of total production in 1985 to over 20 percent in FY 2001.

Northstar Oil and Gas Development Project in the Beaufort Sea -- The Northstar reservoir is managed under a joint Federal/State unit located about six miles offshore of Pt. Storkerson and 12 miles northwest of Prudhoe Bay. The unit includes three federal and five state leases. During the winter of 2001, BP Exploration (Alaska) constructed rig and pipeline facilities, and commenced drilling operations. BPXA began production of oil from the facility on October 31, 2001, and recently estimated that the Northstar reserves could be as high as 175 million barrels of recoverable oil. This is the first production from Federal waters offshore Alaska.

Marine Science -- Since 1973, the Environmental Studies Program has funded over \$712 million in scientific research. This research encompasses biological, physical oceanographic, ecological, and socioeconomic issues associated with offshore mineral leasing and development. During FY 2001 research activities were underway on more than 200 different projects, and more than 30 new projects were started.

MMS has established Coastal Marine Institutes (CMIs) in Alaska, California, and Louisiana. Through these CMIs, MMS can leverage its financial resources with those of the States. This arrangement helps both MMS and the States address mutually agreed upon scientific needs regarding the impacts of OCS activities. All research is funded on a 50/50 matching basis. In FY 2001 the CMI partnerships resulted in research awards which matched MMS funds with \$3,000,000 of non-Federal funds.



MMS is also one of the Federal government's leading agencies for oil spill research. On average, MMS spends more than \$6 million per year on research into oil spill protection, prevention, response technologies, and managing the National Oil Spill Response Test Facility.

Most scientific research conducted in FY 2001 was related to deepwater activities in the GOM and included studies on:

- Deepwater Habitats and Benthic Ecology
- OCS Deepwater Related Infrastructure in the GOM
- Effects of Oil and Gas Exploration and Development at Deepwater Sites
- Gulf of Mexico Sperm Whale Distribution, Abundance, and Behavior Study
- Economic Factors Associated with Offshore Development

Other major MMS studies addressing critical issues to offshore oil and gas leasing, exploration, and development, as well as non-energy minerals during FY 2001 include:

- Arctic Nearshore Impact Monitoring
- Santa Maria Basin Ocean Circulation Studies
- Environmental Surveys of Potential Borrow Areas on the Offshore Northern New Jersey and Southern New York Shelf and the Environmental Implications of Sand Removal for Coastal and Beach Restoration
- Air Quality Model Development for OCS Applications.

Proposed Five Year Plan – As required by law, during FY 2001, the MMS prepared a new 5-year program to succeed the current one that ends June 30, 2002. The draft proposed program is the second step in a lengthy planning process. The first step began in December 2000 with a request for comments and information. After considering more than 10,000 comments that were received, and analyzing the available areas of the OCS, the MMS developed the draft proposed schedule of lease sales for 2002-2007.

The Minerals Management Service proposed to hold 20 oil and natural gas lease sales in the Federal Outer Continental Shelf between 2002 and 2007. The proposal, entitled Draft Proposed Outer Continental Shelf Oil & Gas Leasing Program 2002-2007, was published in the Federal Register in July 2001. The proposed Plan included sales in the Gulf of Mexico's Western, Central and part of the Eastern planning areas; and Alaska's Beaufort Sea, Norton Basin, Cook Inlet/Shelikof Strait and the Chukchi Sea/Hope Basin. The draft proposal did not include any areas currently under moratoria or presidential withdrawal.

The public comment period on the draft proposed program ran for 60 days and ended in September 2001. The second proposal – proposed program – was issued along with a draft EIS for 90-day comment period beginning on October 26, 2001 and ending in January 2002. The second proposal was essentially identical to the draft proposed program. Subsequent steps in the preparation process include issuance of a final EIS and submission of a proposed final program to the President and Congress for a 60-day waiting period in the Spring of 2002. Finally, the Secretary of the Interior must review and approve the final 5-year leasing program which is scheduled to become effective July 1, 2002.

MMS Ensures Nation's Historic Shipwrecks are Protected as Archaeologists Share in U-Boat Discovery -- A highly sought-after World War II German submarine, the U-166, was recently discovered 45 miles from the mouth of the Mississippi River through the joint efforts of the Minerals Management Service and BP and Shell Oil companies. The U-166, the only German submarine sunk in the Gulf of Mexico, rests in the crater it



created when it was sent to the bottom by a depth charge in the summer of 1942, shortly after the U-166 torpedoed and sank the passenger freighter S.S. Robert E. Lee. The wreckage of the submarine was found in 5,000 feet of water. The U-boat's whereabouts had long been disputed and it was thought to lie far from its actual resting place. MMS archaeologists were part of the scientific team that was instrumental in locating and identifying the WWII U-

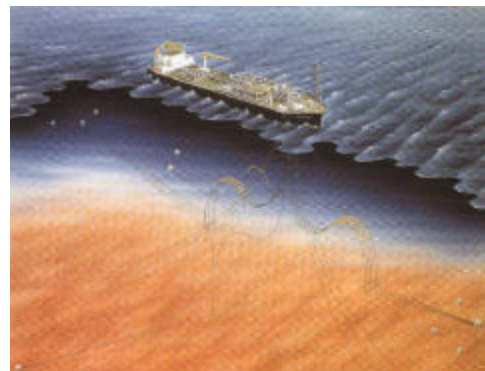
boat. The news of the discovery solved a 59-year old mystery and ended decades of fruitless searching.

MMS requires the oil industry to file detailed plans for pipelines and platforms before they can construct them. Part of these plans involves detailed surveys of the Gulf floor along the construction site. It was in doing this survey that the U-boat was found. Its discovery and confirmation came as a result of an MMS-required shallow-hazard and archaeological survey of the seafloor prior to construction of a proposed gas pipeline by BP and Shell Oil. The gas pipeline survey employed a high-tech, mini-submarine, remote-sensing instrument developed by C&C Technologies, Inc. of Lafayette, La., and had never before been used in the Gulf of Mexico. It is unlikely that this discovery, or many others that have been made in the waters of the Outer Continental Shelf (OCS), would have occurred without the regulation and oversight of MMS. As a result of this important discovery, BP and Shell have re-routed their proposed pipeline around the site, a standard means of preserving historic sites from harm during construction.

The MMS considers the effect of all its actions, including lease sales, studies and permits, on the cultural heritage of the United States. To meet this responsibility, it requires the oil and gas industry to conduct marine remote-sensing surveys that may identify shipwrecks. The MMS has staff archaeologists trained to review the geophysical reports submitted by the oil and gas industry. As a result, when BP and Shell first realized the significance of what they had discovered, their first report was made to MMS for direction on how to proceed. Two weeks later, MMS archaeologists accompanied BP and Shell personnel and their own contract archaeologists from C&C Technologies on a research mission for the first glimpse of the U-boat by using a camera aboard a remotely operated vehicle.

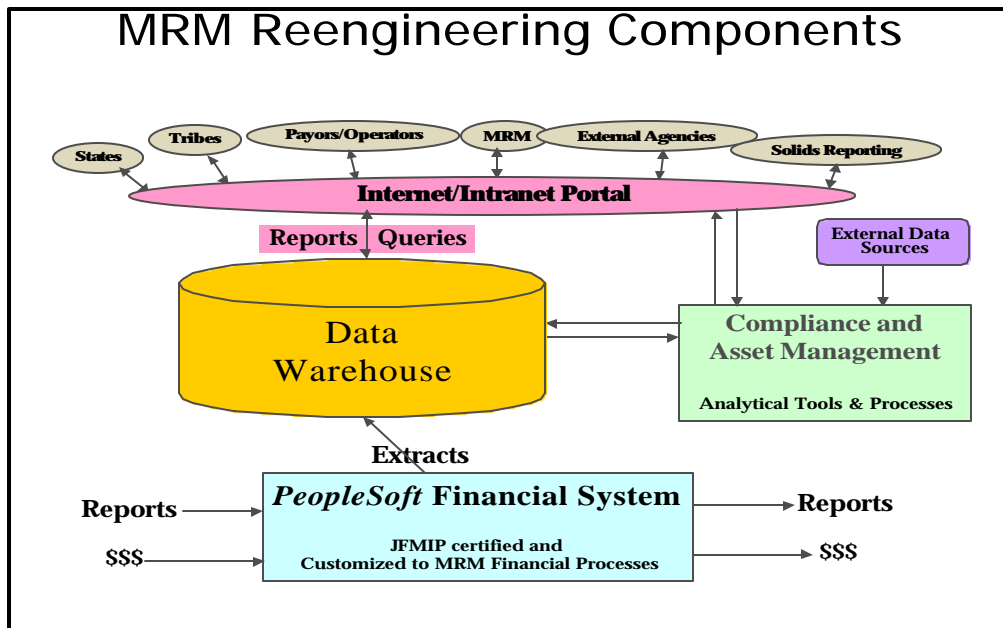
The MMS reviews nearly 1,700 planned wells and pipelines every year for their potential effect on archaeological sites on the OCS. Because of this regulatory requirement, more than 100 shipwrecks have been discovered on the floor of the Gulf of Mexico. While many of the wrecks are either local fishing or shrimp boats, crewboats, and other modern vessels, over a dozen World War II casualties of the six U-boats known to have patrolled the Gulf have been found. Older shipwrecks have also been identified and studied, including the passenger steamer New York, sunk in 1846, and the Civil War Union gunboat USS Hatteras. Just last year, the MMS listed the well-preserved side-wheel steamer Josephine to the National Register of Historic Places, an official list maintained by the Federal government of the nation's most important historical sites.

Floating Production Storage and Offloading Systems (FPSOs) in the Gulf of Mexico – On January 2, 2002, the MMS announced its decision to accept applications for the use of FPSOs in the Gulf of Mexico. FPSOs, currently in use around the world, offer an option to develop areas in the Gulf that challenge or exceed current infrastructure or technologies and to help meet the Nation's growing need for energy resources.



The MMS completed a rigorous environmental and safety review of FPSO's for use in the deepwater areas of the Central and Western GOM. The environmental risks were examined and found comparable to other types of production systems currently accepted for use in these deepwater areas. Therefore, it was concluded not to categorically exclude them from use as an offshore production system. While applications will be accepted for the use of FPSO's, each will be considered on a case-by-case basis.

Reengineering Initiative – During FY 2001, MRM developed a new systems infrastructure to support its reengineered business processes. The build phase included substantial testing, training, and conversion activities. MRM engaged Accenture to develop a new integrated royalty management system consisting of a PeopleSoft-based financial module, a Compliance and Asset Management (CAM) module, a robust relational database environment, a data warehouse, and a variety of technology tools. MMS implemented the PeopleSoft core software for the new financial system on November 1, 2001 and will phase in other components in FY 2002.



The reengineered end-to-end business processes helps MRM to achieve its goals while supporting a strong emphasis on Indian trust responsibilities.

- The financial management process greatly enhances MRM's ability to provide recipients access to their mineral revenues within one business day of MRM receipt.
- The compliance and asset management process helps MRM reduce the business cycle time by 50 percent.

In a number of respects the new Financial and CAM systems delivers common functionality or capabilities that can be utilized to further support future royalty-in-kind

(RIK) activity. However, MRM still needs specialized technology investments to transition from pilot projects to full integration of RIK into its financial and CAM processes.

The Royalty Reengineering initiative with its redesigned work processes and continued use of technology to achieve program efficiencies and attain goals has challenged MMS to develop new skill mixes in the Minerals Revenue Management staff. In October 2000, MRM realigned their workforce to support two reengineered end-to-end core business processes -- financial management and CAM. Further detail is found in the Royalty Management section of this budget.

Indian Trust Responsibilities - The MMS serves American Indian tribes and individual American Indian mineral owners by ensuring that they receive accurate returns for mineral production on their lands. While working to guard American Indian mineral interests, MMS also emphasizes American Indian empowerment through government to government relationships. We coordinate with eight tribes that choose to handle their own royalty audit work through cooperative agreements.

How Does MRM Fulfill Indian Trust Responsibilities?

- *A dedicated Indian Compliance and Asset Management office.*
- *Walk-in customer service in Oklahoma and New Mexico.*
- *Emphasis on government to government relationships, by coordinating with eight tribes that choose to handle their own audits of mineral revenues from their lands.*

When its organization was restructured in October 2000, MRM reemphasized the focus on Indian Trust responsibilities by establishing the Indian Compliance and Asset Management section, specifically dedicated to serving mineral producing tribes and individual Indian mineral owners (allottees). Based at the Denver offices of the MMS's MRM, this service organization is augmented by team sites in New Mexico and Oklahoma. It serves as a focal point for both Indian mineral issues and contact with the Indian community, allottees, and involved federal agencies to resolve Indian mineral related issues.

improved accuracy and timeliness of royalty revenues for Indian tribes and allottees because of increased industry certainty for computing gas-related royalties. In response to feedback from the Indian community, MRM proposed a separate royalty valuation rule for crude oil produced from Indian leases.

In January 2000, MRM implemented the new Indian valuation gas rule, which

In Farmington, New Mexico, MMS has been participating in a Departmental pilot, implementing a new concept in serving our Indian constituents. This office unites employees from the Bureau of Indian Affairs, Bureau of Land Management, and MMS, under one director for outreach, inspection, enforcement and mineral revenue compliance services to industry and American Indian allottees and their heirs. With this Department-

wide trust focus, the Farmington Indian and Minerals Office (FIMO) has been instrumental in reengineering its processes and services. In FY 2001, the Department deemed the pilot a success and made the FIMO permanent.

Royalty-in-Kind (RIK) – MRM’s Reengineering Initiative established core business processes and organizational structures to support its future asset management approach for administering Federal oil and gas royalties. RIK is a critical component of this strategy. Although MMS has had the authority to collect oil and gas royalties either in-value or in-kind, it historically focused on the in-value approach. One exception has been the long-standing Small Refiner Program. However, significant advances have been made by MMS since 1997 in evaluating the feasibility of competitive RIK strategies, and developing and successfully operating a series of RIK pilot projects to test the viability of the approach. Through the operation of the pilot projects and the Small Refiner Program, MMS has well positioned itself to take the next step in the development of RIK if it is determined by the Administration that RIK is a viable minerals revenue management approach.

In January 2001, the MMS published its RIK Road Map to the Future. The Road Map is a three-year implementation plan designed to evolve and integrate the RIK option into MMS’s asset management strategy. The key focus areas of the Road Map include development of business processes and organization; acquisition of enabling technology to support RIK activities; and definition of future information reporting requirements. The MRM is utilizing the Operational Model approach to support and manage the Road Map implementation as well as the continued operation of the RIK pilots and Small Refiner Program. The RIK pilots for FY 2001-2002 include competitive sales of oil production in Wyoming and the Gulf of Mexico, and natural gas in the Gulf of Mexico. MMS is continuing to assess the results of these pilots and incorporating the findings in the further evolution of RIK business strategies. In March 2001, MMS published its draft assessment report on the Wyoming Pilot. The draft report concluded that the RIK approach used in Wyoming was a viable option in managing the royalty asset. MMS is completing its assessment of the first RIK gas pilot in the Gulf of Mexico and will be publishing the results in FY 2002. Additional evaluations of Gulf of Mexico oil and gas pilots will be conducted in FY 2002.

RIK and the Strategic Petroleum Reserve (SPR) -- On November 13, 2001, the President made the decision to proceed with the utilization of Gulf of Mexico royalty oil to fill the remaining storage capacity of the SPR. The SPR is the Nation’s emergency stockpile for oil. This initiative will involve the delivery of approximately 120 million barrels of RIK oil to the Department of Energy (DOE) for use in filling the SPR. The President’s action will enhance the energy security of the United States by strengthening the Nation’s capability to respond to potential oil supply disruptions. Delivery of RIK oil is expected to begin in April 2002.

The President’s decision will expand the ongoing RIK program of MMS, adding oil to the SPR in a deliberate and cost-effective manner at a rate of 60,000 barrels per day beginning in April 2002. MMS and DOE hope to increase the delivery rate later in the

year. With the MMS projecting increasing oil production from the GOM, transferring Federal royalty oil to the SPR is not expected to affect oil prices or privately held stocks.

\$65 Million Goes To Six Coastal States In Final 8(g) Settlement Payment -- The MMS disbursed \$65 million to six coastal states: Alabama, Alaska, California, Louisiana, Mississippi and Texas in April 2001. This was the final of 15 annual payments based on settlement legislation regarding the allocation of royalties, rents and bonuses from certain federal offshore oil and gas leases.

The 1978 Outer Continental Shelf (OCS) Lands Act Amendments provided for certain coastal states and the Federal government to share revenues earned from OCS leases, generally, three to six miles beyond a state's coastal boundary. This area, known as the 8(g) zone, is named after the enabling paragraph of that legislation. Between 1978 and 1986, revenues earned in the 8(g) zone were placed in escrow, pending agreement on a formula for dividing those earnings. In 1986, the U.S. Congress determined that coastal states would receive 27 percent of the 8(g) income held in escrow, with the remaining 73 percent going to the federal government. At that time, the escrow account contained about \$6 billion, about \$1.5 billion of which was paid to the states. The remaining \$4.5 billion went into the U.S. Treasury General Fund.

The settlement also identified an additional \$650 million to be paid to the states, incrementally, over a 15-year period: three percent of their share for each of the first five years, seven percent annually for the second five years, and ten percent annually for the final five years. In this last year, one of the "ten percent years" of the agreement, the states received \$65 million. The final installment to individual states was:

<i>State</i>	<i>\$Millions</i>
California	\$28.9
Alaska	13.4
Texas	13.4
Louisiana	8.4
Alabama	0.7
Mississippi	<u>0.2</u>
Total	\$65.0

GovWorks -- In 1996, the Department of the Interior was authorized by OMB to establish, pursuant to the Government Management Reform Act (GMRA) of 1994, one of six franchise fund pilot programs within the federal government. The objective of the franchise fund pilot program is to ultimately reduce the cost of government to the taxpayer by providing commonly required administrative products and services to other federal agencies on a competitive, fee-for-service basis. The Interior Franchise Fund (IFF) carries out this responsibility by relying upon a network of service provider organizations.

The Minerals Management Service GovWorks operation is one of those providers. In the area of procurement support services, MMS provides a complete range of acquisition services from inception to closeout (i.e., project planning, request for proposals, awards, and closeout of contracts). GovWorks operates in a business-like manner, consistent with OMB's "Twelve Business Principles" and can rapidly assist other agencies with its customer-focused contracting staff. With four years of experience, GovWorks has made impressive progress towards meeting the objectives of the franchise pilot program having awarded contracts totaling \$19 billion for over 300 government-wide customers.

GovWorks offers professional acquisition and Federal Assistance planning and strategy, with specialties in the following areas:

Advisory and Assistance Studies	Information Technology, including Hardware, Software and Services
Telecommunications	Research and Development
Engineering and Technical Studies	Environmental Studies
Consulting Studies	Master and Enterprise Licensing Solutions
Cooperative Agreements and Grants	Architecture and Engineering
Business Process Re-engineering	Facilities Management Systems
Integrated Logistics Support and Analysis	Sustaining Engineering
Joint Military Program Support	Fleet/Field Support Analysis
E-Health Portal and Web Site Development	Engineering Change Proposals

GovWorks has earned the following special awards and recognition:

- Excellence in Partnership Award given to GovWorks for the 'GSA Customer Agency Most Innovative Use of Schedules Award', 2001.
- Industry Advisory Council Award for Leadership and Achievements in Promoting Business Process Reengineering.
- Vice President Gore's Hammer Award.
- Department of the Interior's Kelman Award for Outstanding Achievement in Procurement.
- Publication in the Federal Procurement Policy's "Best Practices" Guide.

President's Management Agenda

Management reform is, and will continue to be, an integral part of MMS operations. Established out of an effort to improve the manner in which proper fiscal accountability and management of the Nation's mineral resources were handled, the Minerals Management Service has always sought to increase the efficiency and effectiveness of its operations. By listening closely and working cooperatively with local citizens, tribal

leaders, States, and industry, MMS has been able to achieve many improvements. However, there will always remain challenges and opportunities for further growth.

Strategic Management of Human Capital -- The MMS has, from its inception, focused on the strategic management of staff. Not only has the MMS been concerned about the development of current and future staff, but has also been a major user of outside sourcing for the conduct of its programs. Even while undergoing significant downsizing over the past decade (2,089 FTE in FY 1991 to 1,743 FTE in FY 2001), the MMS has been cognizant of the need to align its staffing resources with the bureau's missions and objectives.

The MMS has analyzed its workforce to assess the impacts of technology, changes in missions/goals, and the importance of competitive sourcing. In each of these areas, MMS has already experienced changes and expects to see more. The Royalty Reengineering initiative with its redesigned work processes and continued use of technology to achieve program efficiencies and attain goals has challenged MMS to develop new skill mixes in the Minerals Revenue Management (MRM) staff. These retrained, redirected staffs are ready to carry out operations under the reengineered MRM programs beginning in FY 2002. Plans to initiate an E-Gov improvement for the Offshore Minerals Management (OMM) program will bring about significant changes in work processes demanding a new set of skills for current and future OMM employees. Similar to the MRM staff, OMM personnel will be retrained and redirected to meet the new requirements. In addition, based on the reviews of retirement eligible staff, MMS also anticipates the opportunity to hire new staff and will do so based on the revised program needs.

The bureau goal has been, and will continue to be, to develop and maintain a workforce that is diverse, skilled and flexible. To this end, MMS recruits capable individuals by identifying its needs first and then participating in college recruiting initiatives that attract quality young people with the desired skills. The retention of quality staff remains an important issue for MMS. The use of family friendly initiatives, providing rotational assignments, mentoring of individuals, telecommuting opportunities, cross training and other efforts all contribute to success in retaining quality staff. However, even with these efforts, MMS continues to review current staff, refine succession plans, and adjust for expected changes in programs and staff needs. The President's workforce restructuring effort is one that will help MMS meet its human capital needs for the future.

Competitive Sourcing -- As discussed above, MMS believes in a mix of Federal and contract staff. Maintenance of the optimal mix requires an ongoing evaluation of the costs and benefits of Federal versus contract staff. As requirements change, functions may be shifted back and forth between contractor and in-house staff. MMS depends heavily on contract staff to operate the Minerals Revenue Management (MRM) program's automated financial management and compliance systems. While maintaining a staff of in-house auditors, MRM also contracts with States and Tribes to audit Federal and Indian leases on their lands. The Offshore Minerals Management (OMM) program contracts out to the private sector, as well as State universities, its environmental and other studies. Operation of the OHMSETT (Oil and Hazardous Materials Simulated Environmental Testing) facility in Leonardo, New Jersey, is also a contracted-out

function. Competitive sourcing is in use throughout the bureau for some of our ADP support functions. On the receiving side, MMS is a leader in the area of franchising, providing administrative services on a competitive basis to other Federal agencies through its GovWorks initiative.

As a part of the competitive sourcing initiative, agencies are required to survey their operations to identify those functions that are commercial in nature, i.e., a recurring activity that could be obtained from a private sector source. Guided by the Federal Activities Inventory Reform Act of 1998 (FAIR Act) and the Administration's guidelines, MMS will compete five percent of its commercial activities in FY 2002 and an additional 10 percent in FY 2003. MMS is currently developing appropriate Most Efficient Organizations for the competition process. MMS will also apply competitive sourcing practices to the FY 2003 budget increases proposed for the Gulf of Mexico.

Financial Performance -- MMS has an excellent record of financial performance in the area of royalty collections and disbursements and has consistently received unqualified audit opinions in this area. Responding to recommendations made by the Inspector General, MMS has moved aggressively during the past two years to improve the Bureau's administrative financial performance. Much has been accomplished including: a complete reconciliation of cash accounts to bring us fully in line with Treasury; the hiring of a new financial management chief; a reorganization of financial management staff as recommended by an outside accounting firm; improved definition of staff responsibilities and functions; improvements in internal controls; and expanded training for all staff to assure better compliance with rules and regulations.

Expanding Electronic Government -- Electronic Government is essential to bureau operations. As such, MMS welcomes the President's initiative for E-Government and believes that its goals are consistent with the Administration's focus on the use of E-government to improve delivery on mission:

"I will expand the use of the Internet to empower citizens, allowing them to request customized information from Washington when they need it, not just when Washington wants to give it to them. True reform involves not just giving people information, but giving citizens the freedom to act upon it."

-George W. Bush

Since its formation, MMS has sought to find easier, faster, more reliable means of exchanging information with its constituents. The bureau uses its Internet web page as a portal to all interested parties and the Internet itself as a means of moving information back and forth between MMS and its constituents. More importantly, MMS views E-Government as integral to transforming the way it does business. Rather than moving the existing bureaucracy on-line, MMS will reengineer and redesign processes to make them more efficient and effective in the E-Government arena.

During the past several years, the MRM program has undertaken a major reengineering effort. This included a review and revision of operating processes as well as the design and development of new systems. While some aspects of this effort are already visible in

the reorganization of the old Royalty Management Program into the current Minerals Revenue Management program, it will become more apparent in FY 2002 when the new financial and compliance systems are implemented. Constituents, including payors, States, Tribes and allottees, and the public will all have improved access to the MRM activities through the Internet.

Currently, MMS has begun a similar process for the Offshore Minerals Management (OMM) program. Customers drive improvements and the redesign of business processes. To capture the needs and concerns of its customers and to assist us in presenting a business case for change, MMS contracted with Booz-Allen & Hamilton. They have provided recommendations on changes to make and worked with MMS to develop a successful E-Government proposal to reengineer OMM's business processes. As a result, the FY 2003 request includes \$8.7 million to continue this effort.

MMS recognizes that a change in culture often accompanies application development. This factor will be considered in the strategic management of human resources.

Linking Budget and Performance -- In accord with Office of Management and Budget Circular A-11, MMS is committed to the integration of budget and performance data. To that end the MMS Annual Performance Plan includes figures for its mission goals that were determined by evaluating the contributions of the various parts of the organization toward each of the goals. The entire cost for the MMS, including general and administrative costs, is allocated to the mission goals. The total for all mission goals matches the MMS totals in its budget submission. While MMS currently tracks outputs and costs on a manual basis, it is studying the development of an automated means of tracking and analyzing this information. MMS is one of two bureaus tasked with applying activity based costing (ABC) methods to its operations. Efforts are currently underway to identify appropriate outputs to be measured by ABC methods. By FY 2003, MMS will have an ABC system in place.

Government Performance and Results Act

MMS is committed to measuring its performance and managing for results as required by the Government Performance and Results Act. As stewards of the mineral resources of the Outer Continental Shelf (OCS), the MMS Offshore Minerals Management program (OMM) provides leadership in the areas of offshore safety, science, and the environment. The Minerals Revenue Management program (MRM) ensures the timely and accurate collection, verification, and disbursement of mineral revenues from Federal and Indian lands.

The Department of the Interior has five broad goals that provide a framework for the numerous and diverse responsibilities of Interior's bureaus.²

² Department of the Interior, Strategic Plan FY 2000-2005.

- 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 trust responsibilities to American Indian tribes and our commitments to island communities.

The breadth of MMS activities needed to effectively fulfill the MMS mission generally support all of the departmental goals. For example, our "Rigs to Reef" program provides recreational opportunities for sport-fishing enthusiasts; the mineral revenues generated from the OCS and collected by MMS provide funds for land acquisition programs; and our environmental research is made widely available and used by coastal States and other agencies.

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.

However, our mandated mission and long-term goals contribute most strongly to the departmental goals to manage natural resources for a healthy environment and a strong economy and to meet our trust responsibilities to American Indian tribes and our commitments to island communities.

Manage Natural Resources for a Healthy Environment and a Strong Economy

The MMS mission goals that support this Departmental goal are:

- Ensure safe OCS mineral development.
- Ensure environmentally sound OCS mineral development.
- Ensure that the public receives fair market value for OCS mineral development.
- Provide revenue recipients with access to their money within 24 hours of the due date.
- Assure compliance with applicable laws, lease terms, and regulations for all leases in the shortest possible time, but no later than 3 years from the due date.
- Interact with our customers in an open and constructive manner to ensure that we provide quality services that satisfy our customers' needs.

Our inspection and oversight of industry activities on the OCS have helped achieve an outstanding safety and environmental record. Our mission goals are designed to continually improve upon this excellent record. In addition, the evolution of the oil and gas industry in recent years as a result of new technologies, consolidations, and mergers has presented us with new challenges to improve the accuracy and timeliness of mineral revenue collections and disbursement and to improve industry compliance with our

regulations. MMS is meeting those challenges by implementing new business processes for managing mineral assets.

Meet our trust responsibilities to American Indian tribes and our commitments to island communities

The MMS supporting mission goals are:

- Fulfill our mineral revenue Indian trust responsibilities.
- Interact with our customers in an open and constructive manner to ensure that we provide quality services that satisfy our customers' needs.

The objective of these goals is to provide the highest possible Indian trust protection relative to our role in collecting and disbursing royalties on Indian lands. We are focusing our efforts on the accuracy and timeliness of collections and disbursement and industry compliance to ensure that Indian tribes and allottees receive all monies due to them.

MMS offers a number of opportunities to tribes, including access to automated systems, an Indian internship program for on-the-job-training, and handling royalty audit work through cooperative agreements. These efforts will assist the tribes in assuming royalty functions and further improve the government to government relationship with the tribes.

MMS had ten FY 2001 annual goals to measure its progress toward achieving its mission and long-term goals. They are discussed more fully in the Annual Performance Plan found later in this document.

Summary of Requirements
Royalty and Offshore Minerals Management

dollars in thousands

	FY 2001 Actual		FY 2002 Enacted		Uncontrollable and Related Changes		Programmatic Changes		Collections to Appropriation		FY 2003 Request		Inc(+) Dec(-) From 2002	
	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt
OCS Lands														
Leasing/Environment														
Appropriation	207	15,049	220	18,238	0	320	7	-1,260	0	0	227	17,298	7	-940
Offsetting Collections	0	21,462	0	20,335	0	0	0	0	0	0	0	20,335	0	0
Total	207	36,511	220	38,573	0	320	7	-1,260	0	0	227	37,633	7	-940
Resource Evaluation														
Appropriation	169	13,460	168	16,086	0	339	4	20	0	0	172	16,445	4	359
Offsetting Collections	54	10,116	54	8,903	0	0	0	0	0	0	54	8,903	0	0
Total	223	23,576	222	24,989	0	339	4	20	0	0	226	25,348	4	359
Regulatory														
Appropriation	342	26,686	360	35,129	0	549	-39	391	0	0	321	36,069	-39	940
Offsetting Collections	25	16,436	25	14,443	0	0	0	0	0	0	25	14,443	0	0
Total	367	43,122	385	49,572	0	549	-39	391	0	0	346	50,512	-39	940
Information Mgmt														
Appropriation	5	380	5	845	0	164	0	8,992	0	0	5	10,001	0	9,156
Offsetting Collections	59	14,396	59	14,049	0	0	0	0	0	0	59	14,049	0	0
Total	64	14,776	64	14,894	0	164	0	8,992	0	0	64	24,050	0	9,156
Total OCS Lands														
Appropriation	723	55,575	753	70,298	0	1,372	-28	8,143	0	0	725	79,813	-28	9,515
Offsetting Collections	138	62,410	138	57,730	0	0	0	0	0	0	138	57,730	0	0
Total	861	117,985	891	128,028	0	1,372	-28	8,143	0	0	863	137,543	-28	9,515

Summary of Requirements
Royalty and Offshore Minerals Management

dollars in thousands

	FY 2001 Actual		FY 2002 Enacted		Uncontrollable and Related Changes		Programmatic Changes		Collections to Appropriation		FY 2003 Request		Inc(+) Dec(-) From 2002	
	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt
MRM														
Compliance & Asset Mgmt														
Appropriation	390	34,842	389	34,871	0	618	0	0	0	0	389	35,489	0	618
Offsetting Collections	0	13,235	0	13,235	0	0	0	0	0	0	0	13,235	0	0
Total	390	48,077	389	48,106	0	618	0	0	0	0	389	48,724	0	618
Revenue & Operations														
Appropriation	185	24,784	184	21,973	0	325	0	-1,003	0	0	184	21,295	0	-678
Offsetting Collections	0	13,250	0	13,250	0	0	0	0	0	0	0	13,250	0	0
Total	185	38,034	184	35,223	0	325	0	-1,003	0	0	184	34,545	0	-678
Indian/Allottee Refunds														
Appropriation	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Offsetting Collections	0	15	0	15	0	0	0	0	0	0	0	15	0	0
Total	0	15	0	15	0	0	0	0	0	0	0	15	0	0
Total MRM														
Appropriation	575	59,626	573	56,844	0	943	0	-1,003	0	0	573	56,784	0	-60
Offsetting Collections	0	26,500	0	26,500	0	0	0	0	0	0	0	26,500	0	0
Total	575	86,126	573	83,344	0	943	0	-1,003	0	0	573	83,284	0	-60

Summary of Requirements

Royalty and Offshore Minerals Management

dollars in thousands

	FY 2001 Actual		FY 2002 Enacted		Uncontrollable and Related Changes		Programmatic Changes		Collections to Appropriation		FY 2003 Request		Inc(+) Dec(-) From 2002	
	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt
	Administration													
Executive Direction														
Appropriation	20	982	20	1,003	0	27	0	0	0	0	20	1,030	0	27
Offsetting Collections	0	1,000	0	1,000	0	0	0	0	0	0	0	1,000	0	0
Total	20	1,982	20	2,003	0	27	0	0	0	0	20	2,030	0	27
Policy & Mgmt Improv														
Appropriation	33	2,981	33	3,036	0	59	0	0	0	0	33	3,095	0	59
Offsetting Collections	0	1,000	0	1,000	0	0	0	0	0	0	0	1,000	0	0
Total	33	3,981	33	4,036	0	59	0	0	0	0	33	4,095	0	59
Admin Operations														
Appropriation	231	12,607	236	14,415	0	368	1	300	0	0	237	15,083	1	668
Offsetting Collections	0	1,555	0	1,555	0	0	0	0	0	0	0	1,555	0	0
Total	231	14,162	236	15,970	0	368	1	300	0	0	237	16,638	1	668
Gen Support Services														
Appropriation	0	1,345	0	5,071	0	846	0	0	0	2,500	0	8,417	0	3,346
Offsetting Collections	0	14,945	0	14,945	0	0	0	0	0	-2,500	0	12,445	0	-2,500
Total	0	16,290	0	20,016	0	846	0	0	0	0	0	20,862	0	846
Total Administration														
Appropriation	284	17,915	289	23,525	0	1,300	1	300	0	2,500	290	27,625	1	4,100
Offsetting Collections	0	18,500	0	18,500	0	0	0	0	0	-2,500	0	16,000	0	-2,500
Total	284	36,415	289	42,025	0	1,300	1	300	0	0	290	43,625	1	1,600
Total ROMM														
Appropriation	1,582	133,116	1,615	150,667	0	3,615	-27	7,440	0	2,500	1,588	164,222	-27	13,555
Offsetting Collections	138	107,410	138	102,730	0	0	0	0	0	-2,500	138	100,230	0	-2,500
Total W/O Legislative Proposal														
CSRS/FEHB	1,720	240,526	1,753	253,397	0	3,615	-27	7,440	0	0	1,726	264,452	-27	11,055
Legislative Proposal CSRS/FEHB		9,835		10,119								10,418		299
Total With Legislative Proposal														
CSRS/FEHB	1,720	250,361	1,753	263,516	0	3,615	-27	7,440	0	0	1,726	274,870	-27	11,354

The CSRS/FEHB amounts for FY 2001 and FY 2002 are illustrated for comparative purposes only. These amounts were not funded.

Summary of Requirements
Oil Spill Research
dollars in thousands

	FY 2001 Actual		FY 2002 Enacted		Uncontrollable and Related Changes		Programmatic Changes		Collections to Appropriation		FY 2003 Request		Inc(+) Dec(-) From 2002	
	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt
OSR														
OSR														
Appropriation	23	6,105	23	6,105	0	0	0	0	0	0	23	6,105	0	0
Offsetting Collections	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	23	6,105	23	6,105	0	0	0	0	0	0	23	6,105	0	0

Uncontrollable and Related Cost

dollars in thousands

Additional Cost in 2003 of January Pay Raises

	2002 Estimate	2003 Change
2002 Pay Raise	NA	+\$1,875

The additional cost of funding an estimated 4.6 percent January 2002 pay increase for GS-series employees and the associated pay rate changes made in other pay series.

	2002 Estimate	2003 Change
2003 Pay Raise - Budgeted	NA	+\$482
2003 Pay Raise – Absorbed	NA	[\$2,727]

The additional cost of funding an estimated 2.6 percent January 2003 pay increase for GS-series employees and the associated pay rate changes made in other pay series. Total estimated increase +\$3,209 of which \$2,727 is absorbed.

Other Uncontrollable Cost Changes

	2002 Estimate	2003 Change
Workers Compensation Payments	\$706	+\$166

This adjustment is for actual charges from 2001 in the cost of compensating injured employees and dependents of employees who suffer accidental death while on duty. Cost for 2003 are for the 12-months ending June 2001 and will reimburse the Department of Labor, Federal Employees Compensation Fund, pursuant to 5 U.S.C. 8147 (b) as amended by Public Law 94-273.

	2002 Estimate	2003 Change
Unemployment Compensation Payments	\$7	+\$3

The adjustment is for changes in the costs of unemployment compensation claims to be paid to the Department of Labor, Federal Employees Compensation Account, in the Unemployment Trust Fund, pursuant to Public Law 96-499

	2002 Estimate	2003 Change
Rental Payments to GSA	\$15,624	+\$391

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

	2002 Estimate	2003 Change
CSRS/FERS Retirement Costs	\$763	+\$273

The adjustment is for changes in estimated retirement costs paid by the bureau. It results from changes in the relative proportion of FERS employees in the work force.

Budget Estimate

	2002 Estimate	2003 Change
Department Working Capital Fund	\$1,344	+\$286

The change reflects expected changes in the charges for Department services and other services through the working capital fund. This amount includes \$58 for the Department's Enterprise Architecture.

	2002 Estimate	2003 Change
Employer Share of Federal Health Benefit Plans	\$6,018	+\$439

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

Total Uncontrollable Costs - Budgeted **+\$3,915**

Related Costs

Travel and Transportation **-\$300**

Reductions taken in various MMS subactivities to reflect savings in travel and transportation.

Total Uncontrollable and Related Costs - Budgeted **+\$3,615**

Summary of Programmatic Changes

dollars in millions

Electronic Government **+\$8.742** **0 FTE**

During FY 2003, MMS will continue efforts to transform business processes for the Offshore Minerals Management program. Working in partnership with stakeholders, MMS will develop a system to deliver web-based, paperless transactions and better manage data, reduce future costs and deliver information and services in near real time.

Gulf of Mexico Workload **+\$5.000** **+21 FTE**

The MMS's Gulf of Mexico OCS Region is facing a steep increase in the level and complexity of work associated with offshore oil and gas activity. Near record numbers of deepwater rigs (44) are now drilling in the Gulf; in FY 2001 a total of 277 deepwater wells were drilled; up 22 percent in one year and up 85 percent in two years. The total number of all wells drilled in the Gulf rose to 1,408 in FY 2001; yet another new record. While there has been some fluctuation in the price of oil and some moderation in the pace of oil and gas activity, principally in shallow water, deepwater exploration has increased dramatically and is expected to remain at high levels and generate additional workload for the Minerals Management Service.

Leasing and Environmental Assessment - \$0.940M and 7 FTEs are requested in the leasing and environmental assessment program. Of this amount, \$0.840M is for personnel related costs and \$0.100M will be used to develop and print a periodic journal of the results from environmental studies in the Gulf. Included are two FTE for lease administration and five FTE to prepare environmental reviews.

Resource Evaluation - \$1.620M, 4 FTEs and 5 competitively sourced positions are being requested in the resource evaluation program. Of this amount, \$1.080M is for personnel-related costs; \$0.290M is to contract out the work of digitizing well logs; and \$0.250M is for regional sand resource identification for the sand and gravel program. Included are 5 equivalent FTEs that will work on field determinations to ensure receipt of proper royalties; and 4 equivalent FTEs to collect, process, distribute, and archive technical data and records from industry exploration and production activities.

Regulation of Operations - \$1.890M and 9 FTEs are requested in the regulation of operations program. Of this amount, \$1.080 is for personnel-related costs; \$0.150M is for engineering and technical training; \$0.075M is for additional accident analysis capability; and \$0.585M is requested to fund increased helicopter costs. The FTEs represent a number of disciplines, including engineering, inspection, and production and deepwater operation plan reviewers.

Information Management Program - \$0.250 is requested for technical computer support for the growing IT demands of the Gulf of Mexico user community.

Administrative Operations - \$0.300M, 1 FTE and one competitively sourced position is requested for the Administrative Operations program in the General Administration subactivity to support GOM activity.

Royalty-in-Kind **+\$6.015** **0 FTE**
Provides funds to purchase liquids management system in support of continuing RIK pilots and longer-term projects.

System Operation and Support **+\$2.000** **0 FTE**
As a result of its reengineering project, MRM modernized its automated systems and business processes and added significant functionality and a variety of new tools. Additional resources are needed to keep pace with the increased demand on MRM's networks and enterprise systems, which requires continuous upgrades to ensure a steady and secure operating environment.

Center for Marine Resources and Environmental Technology **-\$0.800** **0 FTE**
The MMS recognizes the importance of the investigations and technological development that this Center pursues, particularly the longer-term research. However, due to higher research priorities for oil and gas exploration and extraction, MMS is proposing to eliminate CMRET funding in FY 2003.

Marine
Minerals Technology Center **-\$0.800** **0 FTE**
The MMS recognizes the importance of the investigations and technological development that this Center pursues, particularly the longer-term research. However, due to higher research priorities for oil and gas exploration and extraction, MMS is proposing to eliminate MMTC funding in FY 2003.

Offshore
Technology Research Center **-\$0.499** **0 FTE**
The MMS recognizes the importance of the investigations and technological development that this Center pursues, particularly the longer-term research. However, due to higher research priorities for oil and gas exploration and extraction, MMS is proposing to reduce OTRC funding in FY 2003 to \$0.9 million.

Royalty Legacy System **-\$3.003** **0 FTE**
Under the Royalty Reengineering Initiative begun in 1999 virtually every aspect of operations has changed, including interfaces between MMS, other Federal and State agencies, industry and contractors; as well as reports, procedures, systems and processes. The Legacy systems were replaced by the reengineered system in FY 2002.

Environmental Studies **-\$2.200** **0 FTE**

The MMS recognizes the importance of conducting environmental studies in support of its goal to ensure environmentally sound OCS mineral development. The decreased funding level will still allow for the continuation of existing projects and starts for limited but critical new projects.

California Office **-\$1.000** **-48 FTE**

The MMS recognizes the importance of the oversight of development and production operations in the Pacific Region. However, MMS is committed to the spirit of the President's Management Agenda and believes that it can benefit from a review of its operations in the Pacific without jeopardizing current operational needs.

Royalty-In-Kind **\$-6.015** **0 FTE**

The purchase of the gas management systems in support of continuing RIK pilots and longer-term projects will be completed in FY 2002.

Appropriation 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, [\$150,667,000], of which [\$83,344,000] shall be available for royalty management activities; and an amount not to exceed [\$102,730,000], to be credited to this appropriation and to remain available until expended, from additions to receipts resulting from increases to rates in effect on August 5, 1993, from rate increases to fee collections for Outer Continental Shelf administrative activities performed by the Minerals Management Service over and above the rates in effect on September 30, 1993, and from additional fees for Outer Continental Shelf administrative activities established after September 30, 1993: *Provided*, That to the extent [\$102,730,000] in additions to receipts are not realized from the sources of receipts stated above, the amount needed to reach [\$102,730,000] shall be credited to this appropriation from receipts resulting from rental rates for Outer Continental Shelf leases in effect before August 5, 1993; *Provided further*, That \$3,000,000 for computer acquisitions shall remain available until September 30, [2003]; *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

\$174,640,000 \$83,284,000

\$100,230,000

\$100,230,000

\$100,230,000

2004

promoting volunteer beach and marine cleanup activities: *Provided further*, That notwithstanding any other provision of law, \$15,000 under this heading shall be available for refunds of overpayments in connection with certain Indian leases in which the Director of the Minerals Management Service (MMS) concurred with the claimed refund due, to pay amounts owed to Indian allottees or tribes, or to correct prior unrecoverable erroneous payments. *Provided further*, That MMS may under the royalty-in-kind pilot program use a portion of the revenues from royalty-in-kind sales, without regard to fiscal year limitation, to pay for transportation to wholesale market centers or upstream pooling points, and to process or otherwise dispose of royalty production taken in kind: *Provided further*, That MMS shall analyze and document the expected return in advance of any royalty-in-kind sales to assure to the maximum extent practicable that royalty income under the pilot program is equal to or greater than royalty income recognized under a comparable royalty-in-value program.

Oil Spill Research

For necessary expenses to carry out title I, section 1016, title IV, sections 4202 and 4303, title VII, and title VIII, section 8201 of the Oil Pollution Act of 1990, \$6,105,000, which shall be derived from the Oil Spill Liability Trust Fund, to remain available until expended.

Permanent Appropriations

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

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

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

Included under this heading are the following permanent appropriations:

Permanent Appropriations <i>dollars in thousands</i>					
Appropriation	States Share	FY 2001 Actual	FY 2002 Estimate	FY 2003 Estimate	Change from 2002 Estimate
Mineral Leasing Associated Payments (<i>MLAP</i>)	50%	1,044,930	666,109	669,880	+3,771
National Forest Fund Payments to States (<i>Forest Fund</i>)	25%	3,749	3,416	3,475	+59
Payments to States from Lands Acquired for Flood Control, Navigation, and Allied Purposes (<i>Flood Control</i>)	75%	2,034	924	951	+27
Total		1,050,713	670,449	674,306	+3,857
<p>Note: For an explanation of how mineral leasing collections are distributed among the various States and Federal accounts, please refer to the following section titled Receipts. This section also includes details on the assumptions used to develop the gross mineral receipt estimates such as additional amounts due to the audit of contract settlements, and production and price forecasts. The amounts shown above do not include late interest payments made by MMS to the states, or estimated receipts for sales in the National Petroleum Reserve – Alaska or the Arctic National Wildlife Refuge (ANWR).</p>					

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 25 percent of revenues collected from mineral leasing and production from Forest Fund mineral leases. A State's payment is based on national forest acreage and where a national forest is situated in several States, an individual State's payment is proportionate to its area within that particular national forest.

Flood Control payments to States are shared according to the Flood Control Act of 1936 (33 U.S.C. 701 et seq.) which provides that 75 percent of revenue collected be shared with the State in which it was collected. These funds are to be expended as the State legislature may prescribe for the benefit of the public schools and roads in the county from which the revenue was collected or for defraying any of the expenses of county government. These types of expenses include public obligations of levee and drainage districts for flood control and drainage improvements.

Calculation of States' Payments

- The total amount for each of the three appropriations is calculated as follows: For each land category - public domain, Forest Fund, Flood Control and National Grasslands administered and distributed by the Forest Service, a three-year average for each source type (oil and gas, coal, other mineral royalties, etc.) is developed.
- Within each land category, each source type's three-year average is applied to the three-year average for all source types to determine the percent that each source type within each land category contributes to total collections.
- This percent is applied to the gross revenue estimate for each source type to determine, for each land category, its share of the gross revenue estimated for that source. This ensures that the source type revenue estimates are distributed to the correct land category and therefore to the proper accounts.
- For each land category, the appropriate distribution formula is applied to each source type and summed into the various account totals. For example, Public domain lands: the MLAP Account 5003 (States share) calculates and sums 50 percent from all source types; the General Fund Account 1811 (Federal share of rent and bonuses) calculates and sums 10 percent of all rents and bonuses, and the General Fund Account 2039 (Federal share of royalties) calculates and sums 10 percent of all royalties.

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

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

Mineral Revenue Payments To States*

(in thousands of dollars)

<u>State</u>	FY 2001 Actual <u>Payments</u>	FY 2002 Estimated <u>Payments</u>	FY 2003 Estimated <u>Payments</u>
Alabama	428	273	275
Alaska	6,487	4,139	4,163
Arizona	123	78	79
Arkansas	2,154	1,374	1,382
California	28,664	18,290	18,396
Colorado	68,238	43,542	43,793
Florida	3	2	2
Idaho	4,452	2,841	2,857
Illinois	127	81	81
Kansas	2,359	1,505	1,514
Kentucky	85	55	55
Louisiana	1,481	945	950
Michigan	562	359	361
Minnesota	13	8	8
Mississippi	710	453	456
Missouri	791	505	508
Montana	30,876	19,702	19,815
Nebraska	15	10	10
Nevada	3,502	2,235	2,248
New Mexico	385,015	245,675	247,088
N. Dakota	6,556	4,183	4,207
Ohio	218	139	140
Oklahoma	3,539	2,258	2,271
Oregon	36	23	23
Pennsylvania	27	17	18
S. Dakota	559	357	359
Texas	1,534	979	984
Utah	50,302	32,097	32,282
Virginia	208	132	133
Washington	2,610	1,666	1,675
West Virginia	327	209	210
Wyoming	<u>448,709</u>	<u>286,317</u>	<u>287,964</u>
TOTAL	1,050,712	670,449	674,307

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

Receipts

The Minerals Management Service (MMS) is responsible for the collection of all mineral leasing receipts collected from Federal onshore and offshore Outer Continental Shelf lands and most Indian lands. Mineral leasing receipts are derived from royalties, rents, bonuses, and other revenues, including minimum royalties, late payment interest, settlement payments, gas storage fees, estimated royalty payments, and recoupments. The disposition of these collections between the General Fund of the U.S. Treasury, other Federal funds, and the States and counties is determined by statute which, in most part, is based on land category (various types of public domain and acquired lands) and source type (oil and gas, coal, and other mineral royalties, etc.).

MMS is responsible for the disposition of all OCS collections and about 97 percent of all Federal onshore collections into receipt accounts. The remaining 3 percent of collections are from acquired national grasslands administered by the Department of Agriculture (USDA). These collections are shared between the General Fund and counties (versus States). Since MMS does not have the authority to disburse these funds to counties, the funds are transferred to the USDA for disposition. All monies collected on Indian lands 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 that arise from the Government's power to tax or fine. Offsetting receipts are further defined as: 1) Proprietary receipts which offset Department of the Interior budget authority and outlays (most onshore receipts fall into this category), or 2) Undistributed proprietary receipts which offset total Federal budget authority and outlays as a bottom-line adjustment (currently, all OCS receipts fall into this category).

This Receipts section includes:

- An explanation as to the distribution of onshore and offshore royalty revenues into receipt accounts.
- A discussion of the changes between the FY 2002 and FY 2003 receipt estimates.
- A summary description of current onshore and offshore royalty and rental rates, bonus criteria, and other lease information.

For FY 2002 - FY 2008, tables of the:

- estimated receipts by source type and by account;

- detailed backup information from which the gross estimates are developed (estimated price, production, etc.); and
- transfer payments made to coastal states under section 8(g) of the Outer Continental Shelf Lands Act (OCSLA) (payments to onshore States are provided in the Permanents section).

Distribution of Receipt Accounts

The following flowcharts describe the flow of Onshore (Diagram 1) and OCS (Diagram 2) mineral leasing collections into receipt accounts. First, as 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 mineral royalties, etc);

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

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

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

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

The collections from public domain lands leased under Mineral Leasing Act (MLA) authority are shared 50% with the States (Account 5003), 40% with the Reclamation Fund (Account 5000.24) which funds western water projects, and 10% with the General Fund. The General Fund share is deposited into two accounts depending on whether the collections are from rents and bonuses (Account 1811) or from royalties (Account 2039). By law, Alaska receives no funds from the Reclamation Fund, but receives a 90% share of mineral leasing receipts except for lands located within the National Petroleum Reserve – Alaska (NPRA).

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

The Energy Policy Act of 1992 requires the Secretary of the Interior to disburse monthly to States all mineral leasing payments authorized by Section 6 of the Mineral Leasing Act for Acquired Lands. Therefore, MMS also reports the following accounts: Accounts

5008.1 and 5243.1 are the Federal and States' shares (75 and 25 percent respectively) of receipts collected from National Forest lands, and Account 5248.1 is the States' 75 percent share of receipts collected from Lands Acquired for Flood Control, Navigation and Allied Purposes. The Government's 25 percent share of these collections will be deposited to the General Fund (either Account 1811 or 2039).

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

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

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

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

Recent Changes

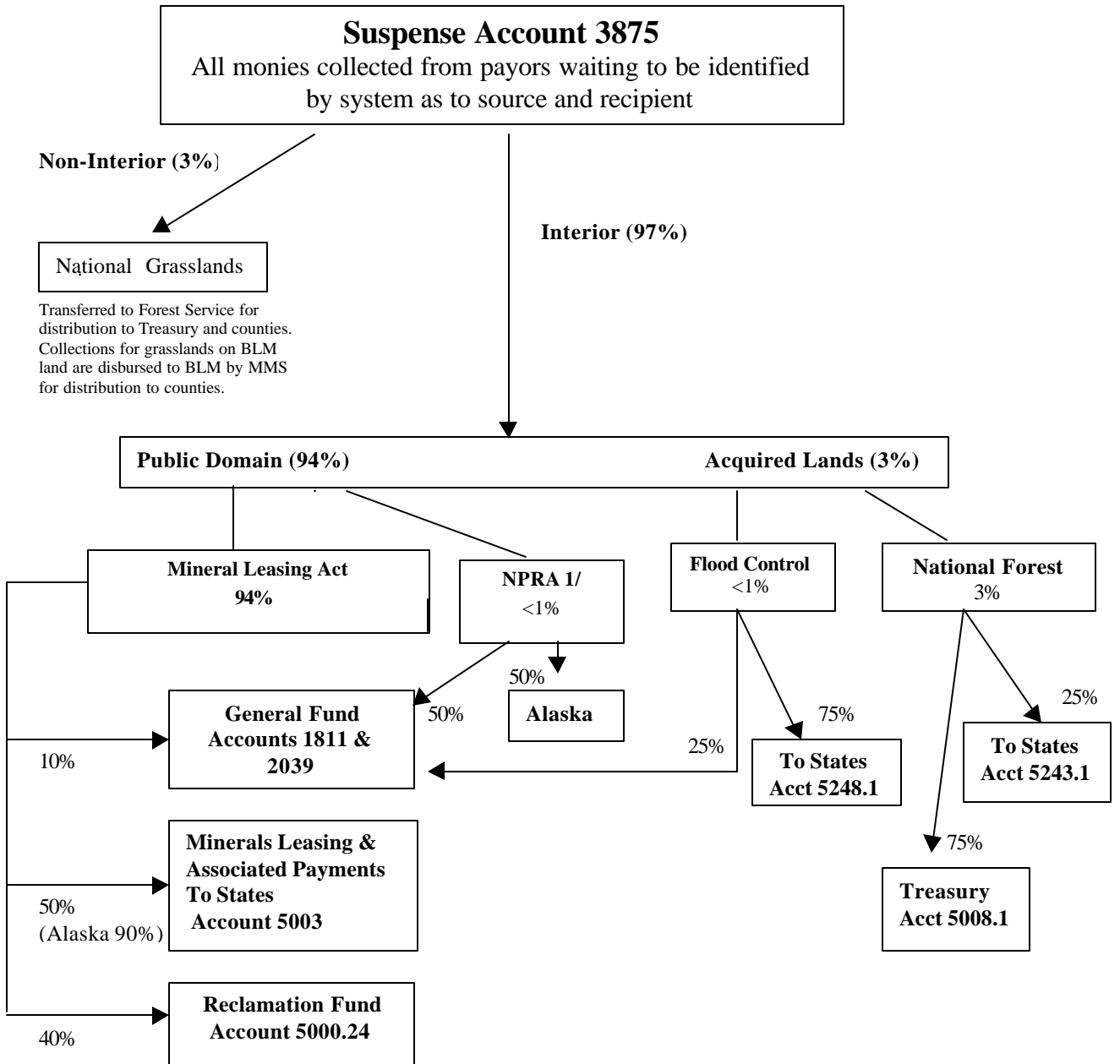
Net Receipt Sharing. From FY 1991 through FY 2000, States paid for a portion of the Federal cost to administer the Federal Onshore mineral leasing program. This requirement was referred to as "Net Receipts Sharing" and mandated by language in the FY 1991 and FY 1992 Interior Appropriations Acts. In FY 1993, Congress passed the Omnibus Budget Reconciliation Act, which made Net Receipt Sharing (NRS) permanent. Net receipt sharing was subsequently repealed by Public Law 106-393, signed by the

President on October 30, 2000. No further administrative costs were withheld from payments to states beginning in October 2000 (FY 2001).

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

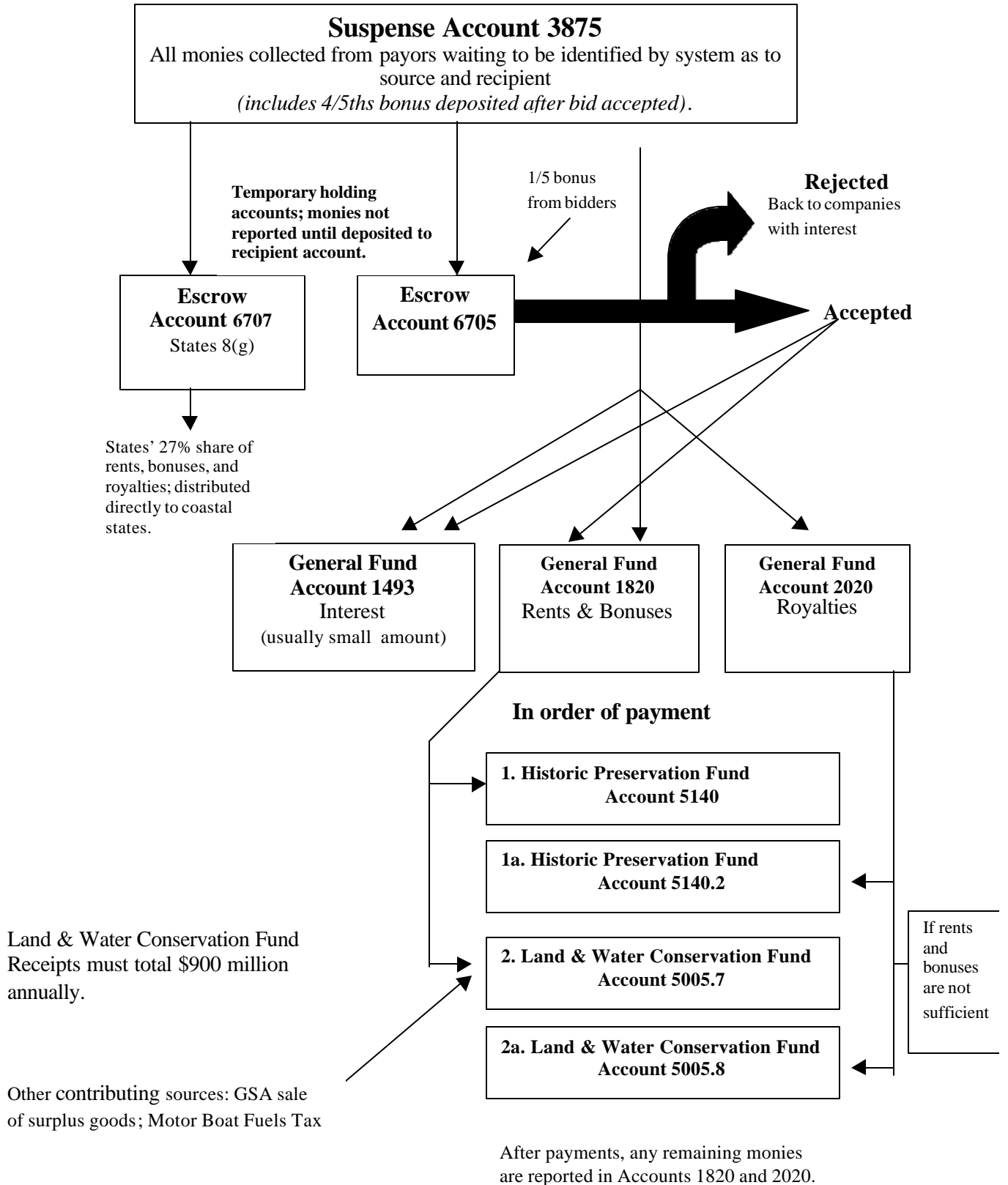
As required by Public Law 105-83, as amended, one-half of the principal and one-half of the interest were deposited into the Environmental Improvement and Restoration Fund. The law requires that the corpus of the Fund be invested. Twenty percent of the interest earned by the Fund is permanently appropriated to the Department of Commerce. Commerce received \$10.3M from this account in FY 2002. Congress can appropriate the remaining 80 percent by annual appropriations, for specific purposes as outlined in the law. MMS administers the fund. The remaining one-half principal and interest was deposited into the General Funds of the United States Treasury.

Distribution of Onshore Receipts



1/ National Petroleum Reserve – Alaska Acct 5045

Distribution of Offshore (OCS) Receipt Accounts



Onshore Mineral Receipts
FY 2002 Estimates vs. FY 2003 Estimates
(Dollars in thousands)

DOI Proprietary Onshore Mineral Receipts

	Fiscal Year		Change	Explanation
	2002	2003		
Rents & Bonuses				
Oil & Gas	85,020	86,974	+1,954	Slight decrease in rents(-\$1M); slight increase in bonuses (+\$3M).
Coal	124,983	110,209	-14,774	Payment of higher deferred bonus bids are dropping out (bonuses can be paid out in equal installments over a 5-year period) and replaced by more recent, lower bonus bids.
Geothermal	860	1,100	+240	A competitive lease sale and an increase in new lease approvals is anticipated in FY 2003.
Oil Shale	15	15	0	Expected to remain level
All Other	21	21	0	Expected to remain level
Subtotal	210,899	198,319	-12,580	
Royalties				
Oil & Gas	777,762	801,988	+24,226	Oil production decreases slightly in FY 2003; prices rise. Gas production increases but prices remain stable. Both oil and gas revenue receipts projected to increase.
Coal	317,174	313,722	-3,452	Coal production projected to increase, but prices will decrease resulting in lower revenues.
Geothermal	15,681	15,681	0	Expected to remain level.
All Other	25,599	25,220	-380	Expected to remain relatively level.
Subtotal	1,136,216	1,156,610	+20,394	
Total	1,347,115	1,354,929	+7,815	

Outer Continental Shelf Mineral Receipts

FY 2002 Estimates vs. FY 2003 Estimates

(Dollars in thousands)

DOI Undistributed Proprietary OCS Mineral Receipts

	<u>Fiscal Year</u>		Change	Explanation
	2002	2003		
Rents and Bonuses				
Rents	91,970	82,660	-9,310	Decline in rents due to natural progression of resource development, leases going into production (non-rent paying), and smaller size inventories held by industry.
Bonuses	742,000	383,000	-359,000	Three large sales in FY 2002 (Western, Central, and Eastern GOM). Two large and one small Alaska sale to be held in FY 2003 (Western and Central GOM and Beaufort Sea, Alaska).
Subtotal	833,970	465,660	-368,310	
Royalties				
Oil	1,148,667	577,658	-571,009	Increased revenue receipts from modest increase in production and oil prices offset by diversion of oil to the Strategic Petroleum Reserve.
Gas	1,773,567	1,769,160	-4,407	Modest increase in production offset by lower royalty rate.
Negotiated Settlements	50,000	20,000	-30,000	Several ongoing negotiations are projected to be finalized in FY 2002.
Subtotal	2,972,234	2,366,818	-605,416	
Total	3,806,204	2,832,478	-973,726	

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

By Source - President's Policy

	FY 2002 Estimate	FY 2003 Estimate	FY 2004 Estimate	FY 2005 Estimate	FY 2006 Estimate	FY 2007 Estimate	FY 2008 Estimate
Onshore Mineral Leasing							
Rents and Bonuses							
Oil and Gas	85,020	86,974	93,815	96,747	98,701	97,724	95,770
Coal	124,983	110,209	134,666	131,971	160,921	165,912	163,716
Geothermal	860	1,100	1,050	1,000	1,000	1,200	1,000
Oil Shale	15	15	15	15	15	15	15
All Other	21	21	21	21	21	21	21
Subtotal, Rents and Bonuses	210,899	198,319	229,568	229,754	260,658	264,872	260,522
Royalties							
Oil and Gas	777,762	801,988	821,007	828,755	868,775	905,900	949,078
Coal	317,174	313,722	310,172	308,080	303,018	301,405	299,466
Geothermal	15,681	15,681	15,781	15,781	15,781	15,781	15,781
All Other	25,599	25,220	24,800	24,381	23,961	23,542	27,322
Subtotal, Royalties	1,136,216	1,156,610	1,171,761	1,176,997	1,211,534	1,246,627	1,291,647
Subtotal, Onshore	1,347,115	1,354,930	1,401,328	1,406,751	1,472,193	1,511,500	1,552,168
Royalty-in-Kind fees	3	3	3	3	3	3	3
Sale of publications	149	149	149	149	149	149	149
Subtotal, Other	152	152	152	152	152	152	152
Total, Onshore and Other	1,347,267	1,355,082	1,401,480	1,406,903	1,472,345	1,511,652	1,552,320
Outer Continental Shelf							
OCS Rents and Bonuses	833,970	465,660	508,860	426,720	396,090	346,660	320,020
OCS Royalties	2,972,234	2,366,818	2,443,565	3,243,313	3,572,793	3,670,900	3,757,711
Total, OCS	3,806,204	2,832,478	2,952,425	3,670,033	3,968,883	4,017,560	4,077,731
TOTAL, Mineral Receipts	5,153,471	4,187,560	4,353,905	5,076,936	5,441,228	5,529,212	5,630,051

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

By Account - President's Policy

		FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
		Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
Onshore Mineral Leasing								
1811.00	Rents and Bonuses	20,669	19,402	22,493	22,497	25,577	26,003	25,578
2039.00	MLR Royalties	112,860	114,891	116,405	116,931	120,367	123,857	128,285
5000.24	Reclamation Fund	532,887	535,904	554,277	556,380	582,387	598,009	613,972
5003.02	Payments to States	666,109	669,880	692,846	695,476	727,984	747,512	767,466
5243.10	Forest Fund, states share	3,416	3,475	3,581	3,617	3,709	3,761	3,940
5008.10	Forest Fund, Govt share	10,249	10,426	10,742	10,850	11,128	11,284	11,820
5248.10	Flood Control (States shares)	924	951	986	1,000	1,041	1,073	1,107
Subtotal, Onshore		1,347,115	1,354,930	1,401,328	1,406,751	1,472,193	1,511,500	1,552,168
2419.1	Royalty-in-kind fees	3	3	3	3	3	3	3
2259.0	Sale of publications	149	149	149	149	149	149	149
Subtotal, Other		152	152	152	152	152	152	152
Total, Onshore and Other		1,347,267	1,355,082	1,401,480	1,406,903	1,472,345	1,511,652	1,552,320
Outer Continental Shelf								
1820.00	OCS Rents and Bonuses	-	-	-	-	-	-	-
2020.00	OCS Royalties	2,759,204	1,785,478	1,905,425	2,623,033	2,921,883	3,120,560	3,180,731
5005.70	LWCF (OCS R & B)	683,970	315,660	358,860	276,720	246,090	346,660	320,020
5005.80	LWCF (OCS royalties)	213,030	581,340	538,140	620,280	650,910	550,340	576,980
5140.00	Hist. Pres. (OCS R & B)	150,000	150,000	150,000	150,000	150,000	-	-
Total, OCS		3,806,204	2,832,478	2,952,425	3,670,033	3,968,883	4,017,560	4,077,731
Total, Mineral Receipts		5,153,471	4,187,560	4,353,905	5,076,936	5,441,228	5,529,212	5,630,051

Onshore Rents and Bonuses

dollars in thousands

	FY 2002 Estimate	FY 2003 Estimate	FY 2004 Estimate	FY 2005 Estimate	FY 2006 Estimate	FY 2007 Estimate	FY 2008 Estimate
Oil and Gas							
Rents							
Lower 48	31,000	30,000	32,000	33,000	34,000	35,000	35,000
Bonuses							
Lower 48	56,000	59,000	64,000	66,000	67,000	65,000	63,000
Subtotal, Oil and Gas	87,000	89,000	96,000	99,000	101,000	100,000	98,000
Coal							
Rents	1,400	1,400	1,400	1,400	1,400	1,400	1,400
Bonuses	123,800	109,000	133,500	130,800	159,800	164,800	162,600
Subtotal, Coal	125,200	110,400	134,900	132,200	161,200	166,200	164,000
Geothermal							
Rents and Bonuses	860	1,100	1,050	1,000	1,000	1,200	1,000
Oil Shale							
Rents and Bonuses	15	15	15	15	15	15	15
Other Minerals							
Rents and Bonuses	21	21	21	21	21	21	21
TOTAL, Rents & Bonuses	213,096	200,536	231,986	232,236	263,236	267,436	263,036

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

OCS Rents and Bonuses
January 2002
 Bonus Revenue Estimates
 (dollars in millions)

Sale Number	Sale Date (FY)	Sale Area	High Bids	% in FY	Total 8(g) to 8(g) States	Receipt Estimate
180	late 01	*Western Gulf of Mexico	164	100%	2 1	163
181	early 02	Eastern Gulf of Mexico	340	100%	0 0	340
182	mid 02	Central Gulf of Mexico	240	100%	3 1	239
184	late 02	Western Gulf of Mexico	140	0%	3 1	0
		Bonus Total				742
		Rents				92
		Total - Estimate FY 2002 Receipts				834
184	late 02	Western Gulf of Mexico	140	100%	3 1	139
185	mid 03	Central Gulf of Mexico	230	100%	2 1	229
186	mid 03	Beaufort Sea	15	100%	1 0	15
187	late 03	Western Gulf of Mexico	140	0%	2 1	0
		Bonus Total				383
		Rents				83
		Total - Estimate FY 2003 Receipts				466
187	late 03	Western Gulf of Mexico	140	100%	2 1	139
188	early 04	Norton Basin	0.1	100%	0 0	0
189	early 04	Eastern Gulf of Mexico	50	100%	0 0	50
190	mid 04	Central Gulf of Mexico	240	100%	1 0	240
191	mid 04	Cook Inlet	1	100%	0 0	1
192	late 04	Western Gulf of Mexico	130	0%	1 0	0
		Bonus Total				430
		Rents				79
		Total - Estimate FY 2004 Receipts				509
192	late 04	Western Gulf of Mexico	130	100%	1 0	130
193	early 05	Chukchi	5	100%	0 0	5
194	mid 05	Central Gulf of Mexico	210	100%	1 0	210
195	mid 05	Beaufort	10	100%	1 0	10
196	late 05	Western Gulf of Mexico	110	0%	1 0	0
		Bonus Total				355
		Rents				72
		Total - Estimate FY 2005 Receipts				427
196	late 05	Western Gulf of Mexico	110	100%	1 0	110
197	early 06	Eastern Gulf of Mexico	30	100%	0 0	30
198	mid 06	Central Gulf of Mexico	200	100%	1 0	200
199	mid 06	Cook Inlet	1.0	100%	0 0	1
200	late 06	Western Gulf of Mexico	100	0%	1 0	0
		Bonus Total				341
		Rents				55
		Total - Estimate FY 2006 Receipts				396

OCS Rents and Bonuses
January 2002
 Bonus Revenue Estimates
 (dollars in millions)

Sale Number	Sale Date (FY)	Sale Area	High Bids	% in FY	Total 8(g) to 8(g) States	Receipt Estimate
200	late 06	Western Gulf of Mexico	100	100%	1 0	100
201	mid 07	Central Gulf of Mexico	200	100%	1 0	200
202	mid 07	Beaufort Sea	10	100%	1 0	10
203	late 07	Chukchi	2	0%	0 0	0
	late 07	Western Gulf of Mexico	100	0%	0 0	0
		Bonus Total				310
		Rents				37
		Total - Estimate FY 2007 Receipts				347
203	late 07	Chukchi	2	100%	0 0	2
	late 07	Western Gulf of Mexico	100	100%	0 0	100
	mid 08	Central Gulf of Mexico	200	100%	0 0	200
	late 08	Western Gulf of Mexico	100	0%	0 0	0
		Bonus Total				302
		Rents				18
		Total - Estimate FY 2008 Receipts				320
	late 08	Western Gulf of Mexico	100	100%	0 0	100
	mid 09	Central Gulf of Mexico	200	100%	0 0	200
	late 09	Western Gulf of Mexico	100	0%	0 0	0
		Bonus Total				300
		Rents				14
		Total - Estimate FY 2009 Receipts				314
	late 09	Western Gulf of Mexico	100	100%	0 0	100
	mid 10	Central Gulf of Mexico	200	100%	0 0	200
	late 10	Western Gulf of Mexico	100	0%	0 0	0
		Bonus Total				300
		Rents				15
		Total - Estimate FY 2010 Receipts				315
	late 10	Western Gulf of Mexico	100	100%	0 0	100
	mid 11	Central Gulf of Mexico	200	100%	0 0	200
	late 11	Western Gulf of Mexico	100	0%	0 0	0
		Bonus Total				300
		Rents				13
		Total - Estimate FY 2011 Receipts				313
	late 11	Western Gulf of Mexico	100	100%	0 0	100
	mid 12	Central Gulf of Mexico	200	100%	0 0	200
	late 12	Western Gulf of Mexico	100	0%	0 0	0
		Bonus Total				300
		Rents				0
		Total - Estimate FY 2012 Receipts				300

Notes:

*Western Gulf Sale 180 attracted \$166M in high bids; \$164M represents accepted high bids after results of bid evaluation (\$2M in high bids were rejected).

Sales 179 and 183 were deferred Alaska sales.

Dates given for lease sales 184 and beyond are preliminary and are subject to change as the proposed 5-year lease plan (2002-2007) is finalized.

FY 2003 President's Budget
Federal Onshore Royalty Estimates
FY 2002-2008
(dollars in millions)

Federal Onshore		FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Oil								
Oil (mil. bbls.)		96.487	96.009	91.949	88.366	86.455	84.545	82.395
Actual/OMB Price		17.39	19.30	19.94	20.60	21.28	21.98	22.71
Royalty Rate		0.094	0.0937	0.0937	0.0937	0.0937	0.0937	0.0937
Oil Royalty		157.7	173.6	171.8	170.6	172.4	174.1	175.3
Oil Min. Royalty		2.0	2.0	2.0	2.0	2.0	2.0	2.0
Subtotal Oil (\$MM)	\$	159.7	\$ 175.6	\$ 173.8	\$ 172.6	\$ 174.4	\$ 176.1	\$ 177.3
Gas								
Gas (bill. of cubic feet)		2.089	2.157	2.179	2.189	2.242	2.282	2.337
Actual/OMB Price		2.31	2.31	2.39	2.47	2.56	2.65	2.74
Royalty Rate		0.1155	0.1155	0.1155	0.1155	0.1155	0.1155	0.1155
Gas Royalty	\$	557.4	\$ 575.5	\$ 601.5	\$ 624.5	\$ 662.9	\$ 698.5	\$ 739.6
CO2								
CO2 (mil. Mcf)		273	270	270	270	270	270	270
Estimated Price		0.58	0.58	0.58	0.58	0.58	0.58	0.58
Royalty Rate		0.06	0.06	0.06	0.06	0.06	0.06	0.06
CO2 Royalty		9.5	9.4	9.4	9.4	9.4	9.4	9.4
Gas Plant Products		25.8	26.6	26.9	28.1	28.7	29.4	31.2
Gas Min. Royalties		6	6	6	6	6	6	6
Subtotal Gas (\$MM)		\$598.64	\$617.51	\$643.79	\$667.94	\$707.04	\$743.27	\$786.22

FY 2003 President's Budget
Federal Onshore Royalty Estimates
FY 2002-2008
(dollars in millions)

Federal Onshore	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Total, Oil & Gas (\$MM)	\$758.4	\$793.1	\$817.6	\$840.5	\$881.4	\$919.4	\$963.6

**FY 2003 President's Budget
Federal Offshore Royalty Estimates
FY 2002-2008
(dollars in millions)**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Oil (Million Barrels)							
Alaska ¹	2	5	5	4	14	18	15
POCS	30	26	23	20	17	15	13
Total GOM	543	557	568	579	589	597	605
GOM Royalty Production ²	537	547	553	560	566	571	577
Total Royalty Production	570	577	581	584	598	603	605
Royalty Rate	0.1417	0.1396	0.1392	0.1381	0.1375	0.1368	0.1361
OMB Price per Barrel	17.97	18.63	19.27	19.93	20.61	21.31	22.04
Royalty Receipts (\$MM)	1,450.7	1,501.7	1,557.9	1,607.1	1,693.3	1,759.2	1,814.4
Gas (Billion Cubic Feet)							
POCS	37	32	28	24	21	18	16
Total GOM	4,980	5,050	5,100	5,125	5,120	5,100	5,075
GOM Royalty Production ²	4,942	4,985	5,007	5,004	4,973	4,934	4,895
Total Royalty Production	4,979	5,017	5,035	5,028	4,994	4,952	4,911
Royalty Rate	0.1542	0.1527	0.1514	0.1501	0.1488	0.1475	0.1462
OMB Price per Mcf	2.31	2.31	2.39	2.47	2.56	2.65	2.74
Royalty Receipts (\$MM)	1,773.6	1,769.2	1,821.7	1,864.2	1,902.5	1,935.7	1,967.3
Adjustments							
Strategic Petroleum Reserve ³	-262	-885	-915	-207			
State's Share (8G)	-40	-39	-41	-41	-43	-44	-44
Negotiated Settlement	50	20	20	20	20	20	20
Total Adjustments	-252	-904	-936	-228	-23	-24	-24
Total	2,972.2	2,366.8	2,443.6	3,243.3	3,572.8	3,670.9	3,757.7

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

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

³ Approximately 14.6M, 47.5M, 47.5M, and 10.4M barrels of RIK oil are targeted for transfer to the SPR in FY 2002, 2003, 2004, and 2005, respectively.

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

State	Royalties & Rents	Sale Bonuses	^{1/} Mandated Payment	Total
FY 2001 Actual Payments				
Alabama	20,240,499	6,116	700,000	20,946,614
Alaska	213,542	-	13,400,000	13,613,542
California	3,516,424	-	28,900,000	32,416,424
Florida	1,870	-	-	1,870
Louisiana	30,093,674	2,148,111	8,400,000	40,641,784
Mississippi	748,965	207,465	200,000	1,156,430
Texas	18,123,511	1,087,769	13,400,000	32,611,281
Total	72,938,485	3,449,461	65,000,000	141,387,946
FY 2002 Estimated Payments				
Alabama	10,365,733	-	-	10,365,733
Alaska	109,361	-	-	109,361
California	1,800,861	-	-	1,800,861
Florida	958	-	-	958
Louisiana	15,611,823	1,600,000	-	17,211,823
Mississippi	383,566	-	-	383,566
Texas	9,281,564	800,000	-	10,081,564
Total	37,553,866	2,400,000	-	39,953,866
FY 2003 Estimated Payments				
Alabama	10,445,226	-	-	10,445,226
Alaska	110,200	-	-	110,200
California	1,814,671	-	-	1,814,671
Florida	965	-	-	965
Louisiana	15,231,548	1,400,000	-	16,631,548
Mississippi	386,508	-	-	386,508
Texas	9,352,743	600,000	-	9,952,743
Total	37,341,861	2,000,000	-	39,341,861

Notes:

^{1/} Mandated payments ended in FY 2001 (P.L. 99-272).

Summary Description - Federal Onshore Leases

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

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

Summary Description - Federal OCS Leases

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

Royalty Rates Under the Deepwater Royalty Relief Act (DWRRRA)

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

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

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

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

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

Minimum royalties

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

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

Treasury Account ID: 14-1917	FY 2001	FY 2002	FY 2003
	<u>Actual</u>	<u>Estimate</u>	<u>Estimate</u>
Obligations by program activity			
Direct program			
0001 OCS Lands	55	69	78
0002 Minerals Revenue Management	60	58	60
0003 General Administration	18	24	26
0192 Total direct program	133	151	164
Reimbursable program			
0901 OCS Revenue Receipts	111	107	101
0902 Franchise Activities	307	209	210
0903 ROMM	2	2	2
0999 Total reimbursable program	420	318	313
1000 Total new obligations	553	469	477
Budgetary resources available for obligation			
2140 Unobligated balance, start of year	9	11	10
2200 New budget authority (gross)	537	456	466
2210 Resources available from recoveries of prior year obligations	18	12	10
2390 Total budgetary resources available for obligation	564	479	486
2395 Total new obligations	-553	-469	-477
2440 Unobligated balance carried forward, end of year	11	10	9
New budget authority (gross), detail			
Discretionary			
4000 Appropriation	133	151	164
Spending authority from offsetting collections			
Discretionary			
6800 Offsetting collections (cash)	107	103	100
6800 Offsetting collections (cash)	2	2	2
6890 Spending authority from offsetting collections (total discretion)	109	105	102
Mandatory			
6900 Offsetting collections (cash)	229	200	200
6910 Change in uncollected customer payments from Federal sources (unexpired)	66	0	0
6990 Spending authority from offsetting collections (total mandatory)	295	200	200
7000 Total new budget authority (gross)	537	456	466

Budget Estimate

Change in obligated balances

7240	Obligated balance, start of year	73	69	73
7310	Total new obligations	553	469	477
7320	Total outlays (gross)	-470	-453	-464
7340	Adjustments in expired accounts (net)	-2	0	0
7345	Recoveries of prior year obligations	-18	-12	-10
7400	Change in uncollected customer payments from Federal sources (unexpired)	-66	0	0
7410	Change in uncollected customer payments from Federal sources (expired)	-1	0	0
7440	Obligated balance, end of year	69	73	76

Outlays (gross), detail

8690	Outlays from new discretionary authority	174	188	197
8693	Outlays from discretionary balances	67	65	67
8697	Outlays from new mandatory authority	229	200	200
8700	Total outlays (gross)	470	453	464

Offsets against gross budget authority and outlays

8800	Offsetting collections from Federal sources	229	200	200
8840	Offsetting collections from Non-Federal sources	109	105	102
8890	Total, offsetting collections	338	305	302

Offsets against gross budget authority only

8895	Change in uncollected customer payments from Federal sources (unexpired)	66	0	0
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Net budget authority and outlays

8900	Budget authority	132	148	162
9000	Outlays			

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

Treasury Account ID: 14-1917	FY 2001 <u>Actual</u>	FY 2002 <u>Estimate</u>	FY 2003 <u>Estimate</u>
Direct obligations			
1111 Full-time permanent	108	113	114
1121 Civilian personnel benefits	20	26	27
1210 Travel and transportation of persons	2	3	3
1233 Communications, utilities, and miscellaneous charges	2	3	3
1252 Other services	0	3	14
1310 Equipment	1	3	3
1990 Subtotal, obligations, Direct obligations	133	151	164
Reimbursable obligations			
2111 Full-time permanent	4	4	4
2210 Travel and transportation of persons	1	1	1
2233 Communications, utilities, and miscellaneous charges	13	13	13
2252 Other services	394	292	287
2260 Supplies and materials	2	2	2
2310 Equipment	6	6	6
2990 Subtotal, obligations, Reimbursable obligations	420	318	313
9999 Total new obligations	553	469	477

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

Treasury Account ID: 14-1917

Object Class	FY 2002 Estimate Amount		Uncontrollable & Related Changes		Programmatic Changes		FY 2003 Budget Request	
	FTE	AMT	FTE	AMT	FTE	AMT	FTE	AMT
Total Appropriation & Offsetting Collections	1753	253	0	4	-27	7	1726	264
Total personnel compensation		117		3		1		121
Civilian personnel benefits		26		0		0		26
Travel and transportation of persons		4		0		0		4
Rents, communications utilities, and misc. charges		16		1		0		17
Other services		79		0		6		85
Supplies and materials		2		0		0		2
Equipment		9		0		0		9

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

Treasury Account ID: 14-8370		FY 2001	FY 2002	FY 2003
		<u>Actual</u>	<u>Estimate</u>	<u>Estimate</u>
Obligations by program activity				
1000	Total new obligations	6	6	6
Budgetary resources available for obligation				
2140	Unobligated balance carried forward, start of year	0	1	0
2200	New budget authority (gross)	6	6	6
2210	Resources available from recoveries of prior year obligations	1	0	0
2390	Total budgetary resources available for obligation	7	7	6
2395	Total new obligations	-6	-6	-6
2440	Unobligated balance carried forward, end of year	1	0	0
New budget authority (gross), detail				
Discretionary				
4026	Appropriation (trust fund)	6	6	6
Change in obligated balances				
7240	Obligated balance, start of year	6	4	6
7310	Total new obligations	6	6	6
7320	Total outlays (gross)	-7	-6	-6
7345	Recoveries of prior year obligations	-1	0	0
7440	Obligated balance, end of year	4	6	6
Outlays (gross), detail				
8690	Outlays from new discretionary authority	5	5	5
8693	Outlays from discretionary balances	1	1	2
8700	Total outlays (gross)	7	6	6
Net budget authority and outlays				
8900	Budget authority	6	6	6
9000	Outlays	7	6	6

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

Treasury Account ID: 14-8370		FY 2001	FY 2002	FY 2003
		<u>Actual</u>	<u>Estimate</u>	<u>Estimate</u>
	Direct obligations			
1111	Full-time permanent	2	2	2
1252	Other services	4	4	4
9999	Total new obligations	6	6	6

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

Treasury Account ID: 14-8370

Object Class	FY 2002 Estimate Amount		Uncontrollable & Related Changes		Programmatic Changes		FY 2003 Budget Request	
	FTE	AMT	FTE	AMT	FTE	AMT	FTE	AMT
Total Appropriation	23	6	0	0	0	0	23	6
Total personnel compensation		2		0		0		2
Other services		4		0		0		4

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

	FY 2001 Actual	FY 2002 Estimate	FY 2003 Estimate
Executive Level 5	1	1	1
ES-5	4	4	4
ES-4	4	4	4
ES-3	0	0	0
ES-2	1	1	1
ES-1	0	0	0
Subtotal	10	10	10
GS-15	55	55	55
GS-14	192	192	182
GS-13	470	470	451
GS-12	468	474	472
GS-11	137	146	149
GS-10	5	5	5
GS-9	73	82	87
GS-8	71	71	71
GS-7	100	109	113
GS-6	70	70	65
GS-5	75	75	74
GS-4	25	25	23
GS-3	5	5	5
GS-2	4	4	4
GS-1	6	6	6
Subtotal	1,756	1,789	1,762
Total	1,766	1,799	1,772

Outer Continental Shelf Lands Activity

Analysis by Subactivity

dollars in thousands

Subactivity		2002 Enacted	Uncontrollable And Related Changes	Programmatic Changes	2003 Budget Request	Change From 2002
Leasing & Environment	\$	38,573	+320	-1,260	37,633	-940
	FTE	220	0	+7	227	+7
Resource Evaluation	\$	24,989	+339	+20	25,348	+359
	FTE	222	0	+4	226	+4
Regulatory	\$	49,572	+549	+391	50,512	+940
	FTE	385	0	-39	346	-39
Information Management	\$	14,894	+164	+8,992	24,050	+9,156
	FTE	64	0	0	64	0
Total, OMM	\$	128,028	+1,372	+8,143	137,543	+9,515
	FTE	891	0	-28	863	-28

Does not include a government-wide legislative proposal to transfer to agencies the full costs of the Civil Service Retirement System and the Federal Employees Health Benefits program.

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

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

Offshore oil and gas resources will play an increasingly pivotal role in the Nation's future domestic energy supplies with the potential for significant energy, economic, and environmental benefits. The MMS is continuously striving to develop ways to ensure that safe and environmentally sound development is achieved in a cost-efficient manner. A current effort to lower costs is the use of electronic data submissions. The MMS is working with representatives from the petroleum industry, independent IT contractors, and other affected parties to develop an electronic business plan. Preliminary efforts have been undertaken in a number of areas. For example, production reports and seismic navigation data are being received in digital formats. Other reports, such as well test data, pipeline location data, well logs, etc., are being received as part of MMS pilot projects.

Requests for OCS sand have increased significantly since the 1999 amendment to Section 8(k) of the Outer Continental Shelf Lands act eliminated fees for State and local communities' use of OCS sand for hurricane and shore protection projects. Consequently, the need to identify OCS sand sources that may be accessed in an environmentally sound manner has also increased significantly.

From 1995 to 2001, MMS conveyed 13.2 million cubic yards of OCS sand for shore protection projects. In FY 2002, based on requests for OCS sand from the States of Virginia and Louisiana, MMS anticipates conveying up to 19 million cubic yards of OCS sand. The MMS continues to work through the State Cooperatives to leverage available funds to identify OCS sand resources for priority shore and wetlands protection projects. In particular, the States of North Carolina and Florida have indicated a need to identify and evaluate OCS sand resources for several projects along their coasts for which insufficient sand in State waters exists.

The MMS, the State of Florida, and Florida State University signed a memorandum of agreement in March 2001, to establish a Coastal Marine Institute (CMI). The CMI will conduct sand source investigations and environmental studies of sites offshore Florida as potential sources of hurricane protection material. This is the first CMI specifically focused on the unique issues surrounding the use of OCS sand resources.

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

The MMS has a strong commitment to safety and environmental protection. OCS management activities span drastically different physical and sociological environments, in addition to relationships with an exceptionally diverse group of stakeholders. The offshore industry in the U.S. ranges from mega-national corporations with worldwide operations to small independents with operations in only one region or state. The move into deep water and the resulting activity have increased both the level and complexity of monitoring OCS operations. The MMS offshore program continues to seek ways to accomplish its goal of safe operations with minimal environmental impact in the most cost-effective way. The MMS is increasing its focus on performance rather than prescriptive requirements and in finding ways to provide strong incentives for good performance while preventing those operators with poor records from participating. The program is also seeking ways to lower costs by reducing submission requirements, utilizing electronic business for submission of industry reports, and avoiding overlap with other agencies. As part of its environmental mission, MMS must bring to bear a worldwide library of data and information about environmental effects of drilling and site specific knowledge of ocean currents, biology, marine mammals, and many other fields. This

environmental analysis is part of the review of 1,300 wells drilled and the approval of 800 plans each year. The Nation has much to gain from excellent safety and environmental performance in terms of economic, energy, and environmental benefits.

The MMS's offshore program contributes to a sustainable future in several ways. Environmental benefits are obtained from providing access to clean-burning natural gas, which is increasingly being used nationwide to power electric generating stations and in the transportation sector. In fact, the use of natural gas is expected to provide a bridge to the Nation's future use of cleaner and, eventually, renewable energy sources. Obtaining sufficient supplies of oil and gas at reasonable prices will continue to be crucial to our energy security and economic strength until alternative energy sources become viable. The MMS's offshore program creates wealth and contributes to a higher standard of living. Corporate profits have added to corporate investment and stockholder wealth. The offshore industry has paid billions of dollars in labor, goods, and services to other industries as well as its own. Coastal states have received billions in Federal offshore revenues, providing needed funds for investment in technology, safety, infrastructure, research, development, education, and social programs.

Overview of Deepwater Activity

In 2000, oil production in the Gulf of Mexico (GOM) reached 521 million barrels (MMbbl), an increase of 5.5 percent from the 1999 total of 494 MMbbl and up 26 percent from the 1997 total of 412 MMbbl. The net increase of 109 MMbbl between 1997 and 2000 is providing approximately \$287 million a year in additional royalty payments to the U.S. Treasury (assuming \$22/bbl. of oil and 1/8 royalty). The 26 percent rise in oil production from 1997 to 2000 has been driven by the dramatic increase of 150 percent in deepwater oil production.

Oil royalties increased 78 percent from 1999 to 2000. This dramatic increase was fueled partly by the 5.5 percent increase in oil production but mostly by the nearly 65 percent increase in oil prices from 1999 to 2000. In 2000, \$1.643 billion in oil royalties were collected versus \$923 million in 1999.

Although total gas production in the GOM has remained fairly steady from 1997 to 2000, at about 5 trillion cubic feet (Tcf), it is important to note that deepwater gas production has risen some 158 percent during that same timeframe. In 1997, GOM deepwater gas production was 0.382 Tcf; in 2000, it was 0.999 Tcf. Shallow water GOM gas production has declined nearly 17 percent since 1997 and consistently about 6 percent per year over that time. Fortunately, deepwater gas production has served to somewhat offset this decline.

Despite a 2 percent overall decrease in total GOM gas production between 1999 and 2000, gas royalties increased 45 percent. A nearly 50 percent increase in gas price was responsible for this increase. In 2000, \$2.452 billion in gas royalties were collected versus \$1.689 billion in 1999.

It is important to note that, despite passage of the Deep Water Royalty Relief Act (DWRRA) in 1995 and the subsequent record breaking lease sales in 1997 and 1998, royalties are still being collected on the majority of the production in the GOM deepwater. This is because these leases were either sold prior to the DWRRA or production is from leases sold under the DWRRA that

do not qualify for relief because they are part of a field that produced prior to the Act. In fact, because of the long lead times required for exploration and development activity in deep water, only 7 of the 3,400 leases issued under the provisions of the DWRRA from 1996 through 2000 have produced royalty free. As of late 2001, only 272 of the 3,400 leases sold in greater than 200 meters of water have been explored. More significantly, only 127 of the 2,914 leases issued in water depths greater than 800 meters have been drilled.

In addition to production increases, high prices for oil and gas in 2000 and 2001 have led to a significant increase in activity in the deep water GOM. Even though recent prices have dropped to more normal levels, because of the long-term nature of deep water drilling contracts, the GOM Region expects this activity to remain high for some time. In December 2000, natural gas prices reached \$10 per thousand cubic feet (Mcf). By contrast, gas prices receded to between \$2.50 and \$3.00 per Mcf for much of the second half of 2001.

The GOM set drilling activity records in 2001. In May 2001, a record high 45 rigs were drilling in water deeper than 1,000 feet in the GOM. With records for 2001 yet incomplete, already 88 wells were drilled in greater than 200 meters in the GOM between January 1 to December 2001. This is the most wells drilled in a single year in the GOM at these water depths. Announcements by operators of significant discoveries, and commitments to explore and develop in deep water continue to signal the growth of activity in this area.

The National Petroleum Council (NPC), in a study issued in late 1999, expects the consumption of natural gas in the United States to increase from 22 Tcf of gas per year in 1999 to 29 Tcf of gas per year by 2010. The latest analyses by NPC, the Gas Research Institute, and MMS, while differing in the details, all forecast significant increases in gas production from the GOM. The consensus is that, for the early part of the century, the GOM will represent the single largest source of incremental gas supply in North America. As industry strives to meet this supply challenge, we anticipate that gas and oil leases in both deep water and on the shelf (the most prolific producing area in the U.S.) will continue to experience activity levels at historical highs.

Again in 2001, the GOMR received large numbers of deepwater operating plans. Each of these deepwater plans requires a focused environmental analysis, complex technical review, reservoir management review for the conservation of resources, platform approval, visits to construction yards for onsite inspections, and safety inspections of development operations. An increased emphasis on deepwater leasing, exploration, and development and the associated innovative technology for drilling and production, as well as the need to address conservation, engineering, safety, and unique supplemental bonding issues, continue to present new challenges for both industry and MMS.

Record Setting Gulf of Mexico Activity

In FY 2001, there was an all time high of 1,408 wells spudded in the GOM. This is approximately a 51% increase over the 928 wells spudded in FY 1995.

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

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

A deepwater pipeline system named the Canyon Express was approved by MMS and is scheduled to be in production in 2001. This pipeline system will service several deepwater discoveries to be developed subsea in the Mississippi Canyon area in water depths up to 7,250 feet.

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

Major new discoveries announced in 2001 include Magnolia, Mad Dog, Trident, and Front Runner.

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

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

Performance Measurement under the Government Performance and Results Act (GPRA)

The Offshore Minerals Management (OMM) Program has three mission goals. Each of the mission goals contains a long-term goal, FY 2003 annual performance goal, and a performance measure, as follows:

Mission	Ensure safe OCS mineral development.
Long-Term	Maintain or show a decrease in the safety index of 0.594.
FY 2003	Achieve a safety index not greater than 0.594.

Measure	Ratio of the number of incidents (times the severity factor) to the number of activities (times the complexity/risk factor).
Mission	Ensure environmentally sound OCS mineral development.
Long-Term	By 2005, show a decrease in the environmental impact indicator from the 1999 baseline.
FY 2003	Show a decrease in the environmental impact indicator below the FY 1999 level of 8.10 and maintain an oil spill rate of no more than 10 barrels spilled per million barrels produced.
Measure	Ratio of the number of adverse environmental impact incidents observed during the review of a specified number of mineral development activities.
Mission	Ensure that the public receives fair market value for OCS mineral development.
Long-Term	From 2000-2005, the ratio of high bids accepted for OCS leases to the greater of MMS's estimate of value or the minimum bid is maintained at the 1989-95 average level of 1.8 (+/-0.4) to 1.
FY 2003	In 2003, we will maintain the current high bids accepted for OCS leases to MMS's estimated value ratio of 1.8 (+/-0.4) to 1.
Measure	Ratio of the value of high bids accepted to the greater of MMS's estimate of value or the minimum bid.

A discussion of these goals and measures is contained in the Consolidated GPRA Report included in this document.

Leasing and Environmental Programs

Justification of Program and Performance

Analysis by Subactivity

dollars in thousands

	2002 Estimate	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2003 Budget Request	Change From 200 (+/-)
\$(000)	38,573	+320	-1,260	37,633	-940
FTE	220	0	+7	227	+7

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

Leasing and Environmental Assessment

	2002 Estimate	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2003 Budget Request	Change From 2002 (+/-)
\$(000)	20,202	+320	+940	21,462	+1,260
FTE	220	0	+7	227	+7

Leasing

5-Year Program Planning - Section 18 of the OCS Lands Act (OCSLA) requires the Secretary of the Interior to prepare and maintain an oil and gas leasing program that indicates the size, timing, and location of leasing activity determined to best meet national energy needs for the 5-year period following its approval.

Preparation of each 5-year program must comply with the substantive and procedural requirements of Section 18, which prescribes a multi-step process of consultation and analysis. The current program expires in June 2002, and MMS is developing the new program, which will cover the period July 2002 to July 2007. The Draft Proposed Program for the new

program was issued in July 2001, and the Proposed Program was issued in October 2001. The final step of the process, issuance of the Proposed Final Program, is scheduled for April 2002. Once issued, Congress has a 60-day period in which to comment. If Congress has no objections

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

* This is a proposed “special-interest” sale. There will only be leasing consideration in FY 2003 if there is adequate industry interest.

to the Proposed Final Program, the Secretary is expected to approve it in June 2002. Section 18(e) requires an annual review of the current program; MMS will complete the required review of the 2002-2007 program by July 1, 2003.

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

The pre-lease planning and decision process has been modified to reflect the different leasing circumstances in the Central and Western Gulf of Mexico (GOM) as well as select planning areas in the Alaska OCS. Prior to sales held in 1998 in the Central and Western GOM, a separate Call for Information and Nominations, and Environmental Impact Statement (EIS) were prepared for each planned sale. Starting with the 1998 sales, a single multi-sale Call for Information and Nominations was issued for all sales in the Central and Western GOM. Individual EIS's were replaced with a multi-sale Area Identification and EIS, enabling MMS to conduct the pre-lease decision processes for subsequent GOM sales more efficiently. After the multi-sale EIS and Consistency Determination (CD) for the first GOM sale, there is complete National Environmental Policy Act (NEPA) and Coastal Zone Management Act (CZMA) coverage for each subsequent GOM sale (an Environmental Assessment (EA) or Supplemental EIS and a CD). The pre-lease process for the first sale took about two years; the pre-lease process for subsequent sales identified in the multi-sale process takes only about 11 months. We plan to use the multi-sale process for all Central and Western GOM sales in the 2002-2007 program.

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

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

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

-
- Consistency Determination -- Documents Federal determination on whether the proposed sale is consistent to the maximum extent practicable with federally approved State CZM plan.
 - Proposed Notice of Sale -- Provides information to the States and the public on the proposed size, timing, and location of the proposed lease sale.
 - Letters to the Governors -- Governors of the affected States are sent copies of the proposed Notice for their review as required under Sec. 19 of OCSLA.
 - Balancing Letters -- Informs Governors on final sale decisions and responds to comments.
 - Final Notice of Sale -- Published a minimum of 30 days before the sale is held. Includes date, time and location of the bid opening, blocks offered, and terms and conditions of the sale.
 - Sale

Major Mapping and Surveying Activities

- Continue working with California and Florida to finalize submerged lands jurisdictions. Both States are considering fixing their Submerged Lands Act boundaries through the United States Supreme Court. Both projects are hampered with issues surrounding the development of National Marine Sanctuaries by the Department of Commerce and higher priorities within the Justice Department;
- Work with the Commonwealth of Puerto Rico on Submerged Lands Act boundary issues;
- Work with the State of Hawaii on jurisdictional and boundary issues;
- Provide technical assistance to the Department of Justice for United States Supreme Court case, No. 128, State of Alaska v. United States, in southeast Alaska, the Alexander Archipelago, and in Glacier Bay National Park;
- Continue working with the National Ocean Service and the Department of State on the Baseline/Boundary Development Project under the Memorandum of Understanding signed September 26, 1996;
- The Mapping and Boundary Branch is converting all Leasing Maps, Official Protraction Diagrams and Supplemental Official OCS Block Diagrams to digital format and making these products available to our stakeholders through an MMS website. In addition, a project has been established with the Information Technology Division to produce and maintain Planning Area coverage along with supporting metadata files; and

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

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

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

- OCS Policy Committee, which advises the Secretary on the national policy implications of managing the OCS oil, gas, and mineral resources;
- OCS Scientific Committee, which advises MMS on the feasibility, appropriateness, and scientific value of the Environmental Studies Program; and
- Royalty Policy Committee, which advises MMS on royalty management related policies.

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

Planned Activities for FY 2003

- Implement pre-lease steps for the remaining sales scheduled in the 5-Year OCS Oil and Gas Leasing Program for 2002-2007.
- Conduct annual review of the 5-Year OCS Oil and Gas Leasing Program for 2002-2007 by July 1, 2003, as mandated by section 18(e) of the OCS Lands Act.
- Continue to improve the bidding and leasing process for OCS lease sales through the use of electronic technology.
- Complete the revisions of the Code of Federal Regulations Part 256--Leasing of Sulfur or Oil and Gas in the Outer Continental Shelf, into plain English to better reflect current processes and practices.
- Continue determinations and depictions of U.S. offshore leasing boundaries and coordination

with the Department of State on depiction of international boundaries.

- Continue to review the financial strength of oil companies to ensure abandonment liabilities can be met.

Environmental Assessment

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

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

Arctic activities are increasing. The MMS approved the development and production plan for the Northstar project in Alaska's Beaufort Sea. This joint State-Federal project produced the first oil from the Federal OCS off Alaska, in October 2001. Also in Alaska, MMS is reviewing the development plan and is the lead agency for the preparation and analysis of the EIS for the Liberty prospect. The MMS expects additional OCS exploration and development in the central Beaufort Sea on existing and future leases.

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

The pre-lease phases of the offshore production process consist of developing the 5-Year Program and holding competitive lease sales. An EIS is written for each of these phases. Work on lease sale EIS's has become more challenging because of the ongoing technological changes that must be analyzed.

In the post-lease phase, MMS requires permits at five different steps in the exploration, development, and production processes. Due to the complexity of new technology, permits that traditionally required less resource-intensive Categorical Exclusion Reviews will begin to require

more extensive EA's. The EA's performed on an increasing number of technologically complex projects, such as those in ultra deep water, tax the resources MMS can dedicate to any one assignment. In the Pacific Region, EA's will be prepared for proposed extended-reach drilling projects and revisions to development plans for existing leases off southern California.

Some changes to existing operations on Pacific OCS leases, such as replacing pipelines and power cables from shore, require extensive coordination with State, local, and Federal agencies and detailed environmental review. As appropriate, MMS prepares EA's for such projects to satisfy NEPA and State and local concerns. Joint State/Federal environmental documents will be considered on a case-by-case basis.

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

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

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

The CZMA consistency reviews for proposed projects in the Eastern GOM and offshore southern California have been particularly controversial. Completion of these reviews continues to demand a considerable commitment of MMS resources.

Pre- and post-lease environmental analyses have resulted in the following mitigating measures that, among others, allow OCS oil and gas development to continue, while protecting the marine environment:

- ***Chemosynthetic Communities*** — Chemosynthetic communities are groups of interrelated invertebrates dependent on deepwater hydrocarbon (usually methane) seeps. To protect these unusual communities, MMS requires exploration or development plans in water depths greater than 400 meters to include data to assess their likely presence. The MMS carefully examines all pertinent geophysical data to determine if the project area could be conducive to chemosynthetic community growth. If so, mitigation to protect these communities may include relocating proposed operations, conducting photo-surveys, and controlling anchor placement. In recent years, MMS reviewed about 75 plans each year on tracts likely to harbor chemosynthetic communities. Increased interest in deepwater exploration will lead to an increase in the number of plans reviewed each year for potential harm to chemosynthetic communities.

- ***Air Quality Improvements*** — The MMS continues to pursue coordination efforts with Federal and State agencies aimed at improving or maintaining air quality in the face of increased OCS activity. Proposed revisions to regulations (30 CFR 250) regarding pollution prevention and control (Subpart C) and plan and permit approvals (Subpart B) are important steps in this effort. In response to the Environmental Protection Agency's (EPA) implementation of the new eight-hour ozone standard, MMS is reevaluating the effects of OCS emissions on levels of this pollutant. Some air sheds adjacent to active OCS operations may not meet the new eight-hour ozone standard even though they met the old one-hour standard. The MMS is initiating a modeling study to estimate air quality impacts to the Breton (National Wildlife Refuge) Class I area. Other future efforts include modeling for regional haze regulations and a new fine particulate matter standard.
- ***GOM Platform Decommissioning*** — During offshore facility decommissioning activities, MMS assigns a high priority to the safety of sea turtles, protected under the Endangered Species Act (ESA), and marine mammals, protected under the Marine Mammal Protection Act (MMPA). MMPA regulations governing the removal of offshore structures by the use of explosives expired in November 2000. The MMS has agreed to prepare a petition and submit it to NMFS for new rulemaking under the MMPA. The MMS has also reinitiated ESA consultation on platform removals, and is examining data to support the analysis required for the consultation. The industry removes about 100 facilities a year under MMS oversight. To date, the NMFS observer program has documented two turtle injuries, one turtle death, and no dolphin mortality.
- ***Bowhead Whale Protection and Monitoring*** — The bowhead whale is a listed endangered species. Under International Whaling Commission authority, Inupiat hunters harvest some of the whales as an essential element of their food supply and culture. The MMS requires that industry operators coordinate their activities with the Inupiat to prevent conflict with the subsistence hunt. The Alaska Region conducts aerial surveys of bowhead whale migrations. The resulting reports provide data to MMS, the Inupiat, industry, and NMFS on bowhead whale distribution, abundance, habitat, and behaviors. This information helps MMS set the timing for drilling and geological/geophysical exploration to minimize impacts on migrating whales and the subsistence harvest. In addition, MMS is incorporating traditional knowledge into Alaska Region EIS's.
- ***Essential Fish Habitat*** — The 1996 amendment to the Magnuson-Stevens Fishery Conservation and Management Act, also known as the Sustainable Fisheries Act, requires each Federal agency to consult with NMFS on any action authorized, funded, or undertaken by that agency that may adversely affect any essential fish habitat (EFH). The MMS is integrating the essential fish habitat consultation with NMFS into the NEPA process. Each Region is preparing new essential fish habitat analyses for its EIS's and EA's. The MMS and NMFS are working together to develop a National Finding which will allow for the use of the NEPA process for EFH consultations.
- ***Arctic Near-Shore Impact Monitoring in Development Areas*** — This multi-year effort monitors for potential impacts associated with the development and production of oil from

the Northstar project, which produced the first oil from the Federal OCS off Alaska in October 2001, and the Liberty project. Phase I, completed in 2000, included an environmental literature review and some initial field monitoring, and resulted in the design of the comprehensive Phase II studies. Phase II, which began in the summer of 2000, is a four-year monitoring program that provides a continuous, consistent basis for evaluating impacts from development and production in the Beaufort Sea. Phase II components include such items as:

- hydrocarbon and metal characterization of sediments, bivalves, and amphipods;
 - assessment of subsistence whaling near the important Cross Island area;
 - characterization of sources, concentrations and dispersion pathways for suspended sediments;
 - monitoring the ecologically important Boulder Patch area; and
 - the baseline characterization of anthropogenic contaminants in biological organisms.
- ***Archaeological Resources*** — Laws and regulations protect both historic resources (such as shipwrecks) and prehistoric sites (such as early-man activity sites). The MMS funds archaeological studies to identify areas of high probability for shipwrecks and submerged prehistoric sites. These studies identify lease tracts where MMS requires industry to conduct archaeological surveys that must be submitted along with operating plans. The MMS reviews about 900 archaeological surveys annually prior to approval of offshore operations. When surveys indicate the potential presence of archaeological resources within the proposed tract, MMS requires industry to undertake specific measures, such as platform relocation, to avoid damage to the resources.

Planned Activities for FY 2003

- Work will continue on the Arctic Near-Shore Impact Monitoring in Development Areas.
- Work will continue on Bowhead Whale protection and monitoring activities.
- Work will continue on EIS's required for proposed sales in the 2002-2007 5-Year Program.
- EA's will continue to be prepared for Pipeline Applications, Exploration Plans, and Development Operations Coordination Documents for proposed activities on the OCS in the Eastern, Central, and Western GOM Planning Areas.
- Comprehensive (or Grid) EA's will be prepared for certain major surface facilities proposed in water depths greater than 400 meters in the Central and Western Planning Areas in the GOM.
- Studies of chemosynthetic communities and application of mitigating measures will continue.
- EA's will continue to be prepared on proposed extended-reach exploration and development drilling from existing facilities, revisions to development plans, as appropriate, and pipeline and power cable replacements on existing leases in southern California.
- An EA could be prepared in the Pacific Region for development of State reserves from Federal platforms. Two such projects are being pursued.

Environmental Studies

	2002 Estimate	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2003 Budget Request	Change From 2002 (+/-)
\$(000)	18,371	0	-2,200	16,171	-2,200
FTE	0	0	0	0	0

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

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

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

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

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

Planned Activities for FY 2003

Gulf of Mexico Region - Rapid technological advances and recently passed legislation have resulted in a rush to develop both deepwater and subsalt oil and gas resources. Historically, OCS studies were focused on the continental shelf out to about 300 meters of water and much information on that area is available. In 1998, a significant effort was undertaken to initiate studies that focus on some of the most pressing deepwater (beyond 300 meters) information needs. Because the cost of working in deep water is significantly higher than research on the continental shelf, the ESP is joining with other Federal, State, and academic institutions, and industry, in an attempt to provide the information needed in the most cost-effective manner.

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

- *Air Quality Modeling for Breton National Wilderness Area and Gulfwide Air Emissions Inventory.* These studies will collect needed environmental data and model the environment to ensure that mitigating measures are implemented when necessary.
- *Study of Physical Processes in the Slope and Rise Using Numerical Models.* This study will adapt numerical models to reflect the unique topography and physical processes of the slope and rise.
- An ongoing study, the *Northern Gulf of Mexico Continental Slope Habitats and Benthic Study*, will refine our understanding of benthic communities and habitats from a regional perspective.
- *Exploratory Current Study of the Slope and Rise.* This study will provide temporal and spatial scales of motion and the strength and frequency of deepwater currents. This information is important in understanding the strong currents recently discovered in deep water.
- *Marine Mammal and Sea Turtle Observations and Acoustic Studies.* Building upon the results of the ongoing *Mammals and Sea Turtle Observations* made for MMS during NMFS annual ichthoplankton cruises, these studies will define the range of, and shifts in, marine mammal and sea turtle populations and estimate the effects of industry noise on them.

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

activities will be an increasingly important part of the Pacific Region's focus relative to offshore platforms, associated pipelines, and onshore facilities.

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

- *Monitoring the Distribution of Arctic Whales.* This ongoing effort provides the only long-term database for evaluating potential cumulative effects of OCS activities on the entire bowhead migration corridor across the Beaufort Sea.
- *Arctic Nearshore Impact Monitoring in Development Area (ANIMIDA).* This suite of studies is oriented towards gathering long-term monitoring data to provide a basis of continuity and consistency in the evaluation of potential impacts of development. Baseline characterizations of contaminants in the sediments and biota in the area will be generated; subsistence whaling will be assessed annually; the boulder patch area will be monitored; and the sources, concentrations and dispersion pathways of suspended sediments will be determined.
- *Analysis of Covariance of Human Activities and Sea Ice in Relation to Fall Migrations of Bowhead Whales.* This project will determine the significance of hypothesized relationships of previous oil-industry activity and sea ice on the Beaufort Sea distribution and behavior of bowhead whales.
- *Quantitative Description of Potential Impacts of OCS Activities on Bowhead Whale Hunting and Subsistence Activities in the Beaufort Sea and Recommended Mitigation including Compensation.* This study will quantitatively estimate the social and cultural impacts of OCS activities on selected communities and recommend mitigation measures.

Sand and Gravel - The rapidly expanding interest by coastal States for using sand located in Federal waters as material for beach and coastal restoration purposes will require environmental studies to assess the impacts of dredging before material is actually removed. Studies will include site-specific biological and physical environmental surveys in potential borrow areas identified in advance through MMS/State Cooperative geological investigations. The MMS is

investigating the implementation of environmental monitoring to assess impacts from dredging on a long-term basis at areas that are expected to undergo multiple extraction operations. Since many of the shoals located on the Federal OCS are expected to serve as long-term sources of sand, resources must be managed on a long-term, system-wide basis to ensure that environmental damage will not occur. The MMS intends to employ a region-wide management approach to implement cost effective and environmentally sound procedures for managing the resources on a long-term basis and for identifying needed environmental studies.

Justification of Program Change
Leasing & Environmental Assessment
Increase in Funding for Gulf of Mexico Workload

	2003 Budget Request	Program Change (+/-)
\$(000)	21,462	+940
FTE	227	+7

Relationship to Performance Goals:

Ensure safe OCS mineral development
 Ensure environmentally sound OCS mineral development

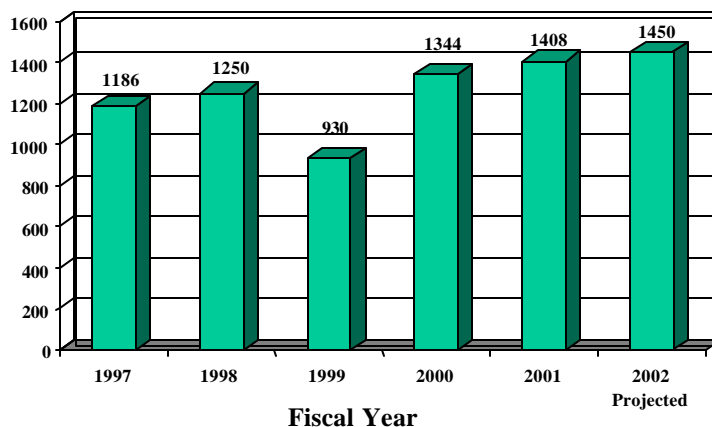
Narrative Justification:

The MMS's Gulf of Mexico OCS Region is confronted with a steep increase in the level and complexity of work associated with offshore oil and gas activity. Many recent events serve as indicators of this workload. Near record numbers of deepwater rigs (44) are now drilling in the Gulf and have been for all of 2001. In FY 2001 a total of 277 deepwater wells were drilled; up 22 percent in one year and up 85 percent in two years. The total number of all wells drilled in the Gulf rose to 1,408 in FY 2001; yet another new record. Sustained levels of new deepwater production facilities are being planned by many companies. A new platform fabrication yard just opened in Ingleside, Texas, because there is not enough capacity to build all the production platforms that industry is proposing. After three years of having only one deepwater port in Louisiana equipped with massive state-of-the-art turnaround capability (C-Port) for deepwater supply boats (i.e., Port Fourchon), there is now a second one under construction in Texas at Galveston. Industry also continues to expand the accessory equipment necessary to do heavier deepwater work with more new large supply boats and more anchor handling tugs. These and new production platforms represent tens of billions of dollars in capital expenditures.

While there has been some fluctuation in the price of oil and some moderation in the pace of oil and gas activity (principally in shallow water), all signs point to a sustained near frenzied pace of offshore development and production activity in the next several years. The total number of wells is at a record; so are deepwater development projects and miles of pipeline installed.

The Gulf of Mexico plays a pivotal role in U.S. energy policy. The areas of the Central and Western Gulf produce about 30 percent of all the natural gas consumed in the Nation, and their contribution to U.S. oil production has grown steadily. The energy resources located in the Gulf of Mexico are key components of the President's National Energy Plan.

Well Drilling Activity in the Gulf of Mexico



Leasing and Environmental Assessment

The MMS is requesting seven additional FTE and \$0.940M in the Gulf of Mexico as a base increase in the leasing and environmental assessment program.

Two FTE are requested for lease administration. Workload demands for MMS in lease administration and financial analyses continue to grow. Besides issuing all new leases, there are thousands of legal documents affecting existing leases filed each year that must be adjudicated as to their legality and correctness. This adds to the lease administration function. A large inventory of leases continues to overwhelm the office. At the end of FY 2000, the number of leases monitored and maintained grew 43 percent, to 7,355, from the 5,119 at the end of FY 1995. More than 5,000 legal documents are approved each year as part of lease administration. We believe this will grow 10 percent in FY 2002, with an expected annual increase of 5 to 10 percent for the next several years.

The lease administration workload has also grown because of increasingly complex lease sales. The leasing function has been given new assignments to draft complex negotiation and operating stipulations (such as with the Department of Defense) and financial incentives. These are part of the lease contract offered at sale. These have doubled or tripled the staff work in this area.

In addition, the Gulf of Mexico OCS Region administers and tracks all bonding requirements. This includes tracking companies whose financial status exempts them from posting supplemental bonds for plugging and abandonment operations. This is extremely important as some companies (operators of oil and gas leases) may become financially insecure and potentially default on their obligations to control wells, abandon and remove wells, and keep production facilities in safe working order. The Gulf Region closely monitored 22 bankrupt companies in FY 2001. The posting of general and supplemental bonds by companies operating in the Gulf for obligations such as royalties, civil penalties, and plugging and abandonment are closely tracked. Also tracked and analyzed are important financial data of companies and their

monetary obligations concerning plugging and abandonment. Currently, there are 185 operators posting approximately 975 general and supplemental bonds totaling \$1.1B. Because the ownership of leases changes rapidly, MMS's workload to cancel bonds and approve replacements has grown 60 percent in the last two years.

The Gulf of Mexico OCS Region faces ever-increasing workloads across the board in environmental assessment. These include areas of environmental review, coastal zone management review, and management of environmental studies.

The MMS is facing totally unforeseen workload increases in environmental assessments (EA). Five additional FTE are requested to prepare environmental reviews. Historically, our EAs have dealt closely with planned oil and gas extraction activity. The MMS has received many applications that do not fit this mold and involve new and technically challenging areas. These include EAs on Atlantic area gas pipelines (regassification of LNG), commercial waste disposal into salt caverns, and complex pipeline scenarios involving multiple projects and platforms. Future applications are strongly anticipated in this area and involve permitting of LNG facilities, establishing offshore support bases that are 50 miles offshore (mud supply, supply boats, helicopter support), and proposals to build offshore hospitals. Filings for special projects such as rights of use and easement (RUE's) have increased 90 percent over the last two years. These workloads have overwhelmed the environmental review staff.

The number of environmental reviews of plans to drill and produce that are required in order to ensure that activities take place in accordance with the National Environmental Policy Act (NEPA) requirements also continues to grow in the Gulf Region. Meeting this responsibility has become increasingly complex over the years, requiring the expertise of specialists in a wide variety of scientific disciplines.

The increasing environmental complexity of the work is related to the changing nature of the oil and gas industry in the Gulf of Mexico. During the decade or so prior to the mid- to late-1990's, OCS activities in the Gulf of Mexico had become very routine and most of the potentially vulnerable environmental resources were fairly well known. With the move into deeper water, the technological challenges to industry have increased considerably while the environmental considerations are less well understood.

Industry has recently acquired oil and gas leases in five new major deepwater map areas. Each of these is 150 – 200 miles offshore and is an area where activity is brand new. Each of these map areas encompass about 5.7 million acres, or 8,500 square miles, each equaling an area roughly the size of the State of New Jersey. The MMS has never done environmental reviews for these areas and in early 2001 was proceeding to begin the preparation of 17 grid-area Environmental Assessments over the next five years to cover the five map areas. Each of these sizable documents will require input from several different types of environmental scientists. The MMS requested increased funds in FY 2002 to address this increasing workload. However, since that time, this issue has continued to unfold and it has been found to be more complicated than originally anticipated. Additional resources are needed to adequately conduct the environmental reviews required to approve oil and gas drilling and production plans. Industry is drilling record numbers of wells in deepwater and is proceeding with a massive pace of deepwater development.

In addition, new regulations issued by the National Oceanographic and Atmospheric Administration concerning the consistency of oil and gas lease sales and drilling plans, and possibly many lesser activities with coastal zone management plans, will dramatically increase workload.

The Gulf Region's workload has also grown in environmental studies contracts. There are currently 111 studies contracts being actively managed, representing almost 55 percent of the total number of studies completed during the last three decades of the MMS National Environmental Studies Program.

Of the \$0.940M increase, \$0.100M will be used to develop and print a periodic journal of the results from environmental studies in the Gulf. A fundamental weakness in the program is the paucity of distribution of environmental studies results to the public so that they have confidence in the program. Funds will be used for contracting for printing including some color and layout/design work. Even though MMS makes extensive use of the Internet for distribution of information to citizens, there is need to distribute paper materials to a broader audience.

Justification of Program Change
 Leasing and Environment
Reduction in Funding for the Environmental Studies Program

	2003 Budget Request	Program Change (+/-)
\$(000)	16,171	-2,200
FTE	0	0

Relationship to Performance Goals

Ensure environmentally sound OCS mineral development.

Narrative Justification

The Environmental Studies Program (ESP) provides sound scientific data required for critical program decisions that accommodate the delicate balance between the Nation's exploration, development, and production of petroleum energy resources and other marine minerals with the protection of the human, marine, and coastal environments. Studies are designed to address specific information needs concerning the environmental and socioeconomic state of a region both before and after OCS activity, and they provide the information necessary to develop measures to minimize adverse impacts on the environment. The MMS recognizes the importance of conducting environmental studies in support of its goal to ensure environmentally sound OCS mineral development. The decreased funding level will still allow for the continuation of existing projects and starts for limited but critical new projects. The Environmental Studies Program was funded in the amount of \$18,371,000 in FY 2002. The proposed funding level for FY 2003 is \$16,171,000.

The MMS must initiate new research to support deepwater natural gas and oil development decisions in the deep and ultra deepwaters of the Gulf of Mexico. Research initiatives will include investigations of deepwater currents and deepwater marine ecosystems, protected and endangered species, and socioeconomic concerns associated with the activities occurring in deepwater. In the arctic Alaska, the Northstar and Liberty Developments will require investigations pertaining to the physical interactions of oil and ice, protected and endangered species, and native subsistence lifestyles.

Resource Evaluation
 Justification of Program and Performance
 Analysis by Subactivity
dollars in thousands

	2002 Estimate	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2003 Budget Request	Change From 2002 (+/-)
\$(000)	24,989	+339	+20	25,348	+359
FTE	222	0	+4	226	+4

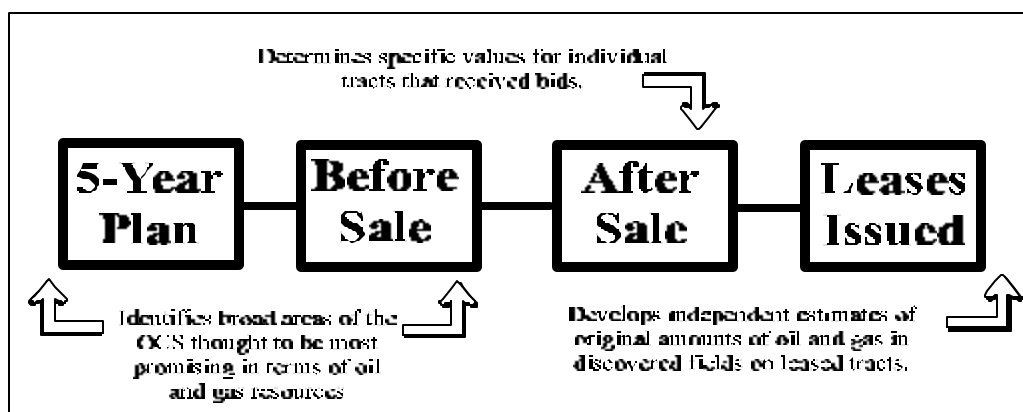
Resource Evaluation Program

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

Resource Evaluation

Elements of Resource Evaluation (RE) include:

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



The RE Program is involved in all phases of OCS program activities. For the 5-Year Program, RE identifies broad areas of the OCS most promising for oil and gas development. For

individual lease sales, RE estimates the resources likely to be discovered and produced and the associated development activities. When a sale is held, RE determines fair market values for individual tracts receiving bids. Once leases are issued, RE works with regulatory personnel to ensure that discoveries are developed and produced in accordance with the goals and provisions of the OCSLA.

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

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

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

The RE Program is converting its seismic database into a digital form usable by its computer workstations, a project that will take several years at current funding levels. Digital seismic data are now the industry state-of-the-art, and upgrading the MMS database to this form will allow the Bureau to achieve the seismic interpretation capabilities now common within the oil and gas industry. In the case of digital well logs, a private contractor is converting paper well logs in the GOM into digital format.

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

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

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

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

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

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

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

The high bids not accepted in Phase 1 receive further evaluation in Phase 2. MMS geoscientists conduct detailed geologic analyses, including reservoir studies, seismic stratigraphy, and prospect mapping, which support economic evaluations of oil and gas production from these

tracts. The high industry bids are then compared to MMS estimates of Net Present Value (NPV) based on engineering simulation and discounted cash flow modeling.

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

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

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

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

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

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

Planned Activities for FY 2003

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

- Offshore acreage will be evaluated for Fair Market Value determination for two sales in the Gulf of Mexico and two possible sales offshore Alaska.
- The Pacific and Gulf of Mexico Regions will report on the development of independent estimates of proved oil and natural gas reserves in discovered fields.
- The Alaska Region will conduct field studies regarding the federal portion of the Northstar Field, offshore Beaufort Sea.
- The resource evaluation and assessment models will be refined and modified to better model future royalty suspension programs.

Economic Analysis

The MMS:

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

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

Economic Analysis Priorities

Design financial terms for lease sales.

Develop and implement royalty relief regulations and programs.

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

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

Provide economic analysis to other MMS program offices and activities.

Design and study alternative auction and leasing arrangements.

Marine Mineral Activities

The Marine Minerals Program is responsible for all minerals on the OCS other than oil, gas, or sulfur. Currently, that responsibility is focused on Federal sand and gravel resources. Requests

for OCS sand have increased significantly since the 1999 amendment to Section 8(k) of the Outer Continental Shelf Lands act eliminated fees for State and local communities' use of OCS sand for hurricane and shore protection projects. Consequently, the need to identify OCS sand sources that may be accessed in an environmentally sound manner has also increased significantly.

From 1995 to 2001, MMS conveyed 13.2 million cubic yards of OCS sand for shore protection projects. In FY 2001 alone, we conveyed over 4.7 million cubic yards of sand. In FY 2002, based on requests for OCS sand from the States of Virginia and Louisiana, we anticipate conveying up to 19 million cubic yards of OCS sand. In FY 2003, we expect to convey federal sand to coastal communities in New Jersey and North Carolina, and to the Dam Deck Naval Facility in Virginia, based on discussions with those officials and information gathered through our State partnerships. Requests come in throughout the year that are not anticipated and they need to be addressed when they are received.

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

The MMS will continue to work through the State Cooperatives to leverage the additional funding provided to the sand and gravel program in FY 2003 to identify OCS sand resources for priority shore and wetlands protection projects. In particular, the States of North Carolina and Florida have indicated a need to identify and evaluate OCS sand resources for several projects along their coasts for which insufficient sand in State waters exists. In addition, the State of California has expressed a preliminary interest in working with MMS to identify OCS sand resources off its shores.

The MMS, the State of Florida, and Florida State University signed a memorandum of agreement in March 2001, to establish a Coastal Marine Institute (CMI) to conduct sand source investigations and environmental studies of sites offshore Florida as potential sources of hurricane protection material. This is the first CMI specifically focused on the unique issues surrounding the use of OCS sand resources. When funding for the CMI becomes available, it will provide an invaluable mechanism to bring the local expertise available at Florida State University and the Florida Department of Environmental Protection to bear on the priority information needs of MMS and the State of Florida.

In FY 2001, MMS awarded and completed a contract to Research Planning, Inc. (RPI) to develop biological and physical protocols for monitoring the long-term cumulative effects of

sand mining. In FY 2002, the design protocols are going from the drawing board to the field for testing at Sandbridge Shoal, a sand borrow located off of Sandbridge Beach, VA. The MMS will be entering into a cooperative agreement with the Virginia Institute of Marine Science (VIMS) to test the validity and appropriateness of the designed protocols. Sandbridge Shoal was chosen because of the area's numerous planned restoration projects, which will use the shoal for sand borrow material.

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

In FY 2002, MMS entered into an interagency agreement with the United States Fish and Wildlife Service to conduct aerial surveys of wintering waterbirds. This study will assess the distribution and abundance of wintering waterbirds over shoals, which may be potentially used for sand mining from Northern New Jersey to the Virginia/North Carolina. While waterbird populations in coastal bays and along the coast are well known, little information is known about the offshore populations. The MMS also plans to gather information to determine the real extent of buffer zones around shipwrecks, should they be identified, to avoid damage during dredging operations on Federal borrow sites.

Planned Activities for FY 2003

- Convey federal sand to coastal communities in New Jersey and North Carolina, and to the Dam Deck Naval Facility in Virginia.
- Continue to work through the State Cooperatives to identify OCS sand resources for priority shore and wetlands protection projects.

International Activities

While primarily responsible for managing mineral resources located on the Nation's OCS in an environmentally sound and safe manner, MMS finds itself regulating what is clearly a global industry. The offshore oil and gas industry routinely moves equipment, rigs and personnel from one part of the world to another in pursuit of investment opportunities. A company's investment dollars will go where the prospects are and where the regulatory regime is favorable. The MMS takes an active approach to identify and become involved in international initiatives that promote better integration of safety and environmental concerns into offshore development decision-making. In FY 2003, our focus is on:

- Implementing relevant international components of President Bush's National Energy Policy;
- Monitoring, developing, and refining safety and environmental standards;
- Technical and information exchanges with our international regulatory counterparts;
- Providing technical advice to the Department of State.

National Energy Plan - Recognizing that today's offshore oil and gas industry is global in scope, MMS pursues an international strategy to enhance its domestic capability, share in the benefits of worldwide technology innovation, promote safe and environmentally sound operating practices, and enhance the role of our Nation in the global economy. The MMS's international activities are consistent with the President's National Energy Plan. In FY 2003, MMS will continue activities in the following areas:

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

-Russia: With USAID funding, MMS has engaged the Russian Federation in cooperative activities related to the technical aspects of regulating and managing offshore exploration and development of oil and gas resources since the mid-nineties. Agency efforts have focused on information management, resource evaluation and international reporting methods, environmental risk assessment, and methods of transferring mineral rights. Current efforts have focused on encouraging Russia to consider a new regulatory regime consistent with international practices that would promote safe and environmentally sound approaches to offshore oil and gas development while at the same time facilitate foreign investment. For example, in April 2001, MMS organized a seminar addressing offshore development issues. The seminar was sponsored by USAID and the State of Alaska, and hosted by the Sakhalin Administration. The focus was on cooperation and collaboration between regional, federal, and local officials, industry, and non-government organizations.

-China: The MMS will remain committed to working with the Chinese Ministry of Land and Natural Resources as we enter the fifth year of our Memorandum of Understanding. In addition, we are providing technical and programmatic input to DOE's U.S./China Oil and Gas Forum.

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

-India: The MMS is developing contacts with the Indian Directorate General of Hydrocarbons of the Ministry of Petroleum and Natural Gas. Discussions are ongoing between technical experts from both organizations on laws and regulations regarding management of mineral resources, accident data and corrective measures, inspection and enforcement, economic analysis, and safety and environmental issues, as well as organization

and staffing issues. In FY 2002, MMS will participate in an Indo-U.S. workshop on natural gas, sponsored by DOE.

-Caspian States: Funded by USAID, MMS has been highly engaged with the Caspian basin states of Kazakhstan, Turkmenistan, and Georgia since 1998. MMS efforts have been to assist these nations in establishing transparent regulatory regimes that will help foster western oil and gas development while maintaining the health, safety and environment of the region. The MMS has provided guidance and fostered partnerships between regulatory bodies both in the region and the U.S. with oil and gas companies active in exploring and developing the Caspian offshore. The MMS has worked in close cooperation with other contractors in the region, as well as other U.S. government agencies, in developing the technical and regulatory assistance including the Departments of State and Energy, PA Consulting (formerly Hagler-Bailly, Inc.), and the United States Energy Association. Based upon discussions with our Caspian regulatory counterparts, and subject to USAID funding, MMS plans to address the following issues over the next three years:

- Assist in creating a development/production plan for Kashagan exploration in Kazakhstan;
- Application of software (modeling) for petroleum resources evaluation in Kazakhstan and Georgia;
- Information on Tender Procedures in Georgia;
- Economic modeling and additional information and its practical applicability;
- Clear explanation of the MMS model of prospects evaluation;
- Reserves evaluation methods;
- Offshore inspection training;
- Legal documents and information regarding operations procedures;
- Safety and environmental issues during offshore operations;
- Geological/geophysical information collection, systemization and analysis; and
- System of staff training.

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

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

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

Regulators around the world are increasing their participation in the development of international standards that meet established safety criteria. These standards can facilitate the movement of rigs, equipment, services, and personnel among offshore provinces, regardless of the regulatory regime. The MMS is actively enlisting the participation of regulators from other countries and encouraging U.S. companies to contribute their resources and to support the work of the ISO. The MMS and the Norwegian Petroleum Directorate recently discussed the possibility of jointly championing an offshore crane safety project for consideration by all IRF member nations (US, Norway, Britain, Canada, Netherlands, Australia, New Zealand, and Brazil) during the 2002 timeframe. The goal of this project would be to improve crane safety through the development of a common set of international standards. The IRF is currently in the process of evaluating this proposal.

The MMS has, both individually and through the IRF, been developing a close professional relationship with the OGP, an international association of oil companies and petroleum organizations. At a March 2002 Society of Petroleum Engineers' International Conference on Health, Safety and Environment, MMS will present the regulator perspective on international regulation and global harmonization. The OGP is the coordinator for the panel session and will lead the discussion on the benefits and costs associated with international harmonization of regulations and regulatory approaches.

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

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

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

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

Planned Activities for FY 2003

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

Justification of Program Change
Resource Evaluation
Increase in Funding for Gulf of Mexico Workload

	2003 Budget Request	Program Change (+/-)
\$(000)	25,348	+1,620
FTE	226	+4

Relationship to Performance Goals

Ensure environmentally sound OCS mineral development
 Ensure that the public receives fair market value for OCS mineral development

Narrative Justification:

The MMS's Gulf of Mexico OCS Region is confronted with a steep increase in the level and complexity of work associated with offshore oil and gas activity. Many recent events serve as indicators of this workload. Near record numbers of deepwater rigs (44) are now drilling in the Gulf and have been for all of 2001. In FY 2001 a total of 277 deepwater wells were drilled; up 22 percent in one year and up 85 percent in two years. The total number of all wells drilled in the Gulf rose to 1,408 in FY 2001; yet another new record. Sustained levels of new deepwater production facilities are being planned by many companies. A new platform fabrication yard just opened in Ingleside, Texas, because there is not enough capacity to build all the production platforms that industry is proposing. After three years of having only one deepwater port in Louisiana equipped with massive state-of-the-art turnaround capability (C-Port) for deepwater supply boats (i.e., Port Fourchon), there is now a second one under construction in Texas at Galveston. Industry also continues to expand the accessory equipment necessary to do heavier deepwater work with more new large supply boats and more anchor handling tugs. These and new production platforms represent tens of billions of dollars in capital expenditures.

While there has been some fluctuation in the price of oil and some moderation in the pace of oil and gas activity (principally in shallow water), all signs point to a sustained near frenzied pace of offshore development and production activity in the next several years. The total number of wells is at a record; so are deepwater development projects and miles of pipeline installed.

The Gulf of Mexico plays a pivotal role in U.S. energy policy. The areas of the Central and Western Gulf produce about 30 percent of all the natural gas consumed in the Nation, and their contribution to U.S. oil production has grown steadily. The energy resources located in the Gulf of Mexico are key components of the President's National Energy Plan.

Resource Evaluation

The MMS is requesting an additional \$1.620M in the Gulf of Mexico as a base increase in the resource evaluation program. Of the \$1.620M, \$1.080M is for personnel costs, which will

support a level of effort equivalent to nine FTE. In concert with the Administration's goal of increased outsourcing, only four FTE for the Gulf of Mexico workload increase are reflected in the above table. At this time, we are unable to determine exactly which positions will be outsourced. This will not be known until we have completed the FY 03 Competitive Sourcing Plan. The below narrative reflects the level of FTE effort required to support the increased workload demands.

The equivalent of five FTE is requested to deal with field determinations and assure the receipt of proper royalties for the U.S. Government involving hundreds of millions of dollars. The field determination process results in the proper placement of a "new producible lease" (a discovery) into a field. This has rapidly evolved into an important, resource intensive responsibility having a huge economic impact to both the Government and industry. Prior to the DWRRA of 1995, field determinations were primarily an administrative procedure for production accounting purposes.

To illustrate, assume that there are two new discovery wells on separate leases. An MMS field determination combining these leases into a single field would result in the Treasury retaining royalties of \$306 million dollars on the additional 87.5 MMBOE royalty free production that would have resulted from placing the leases into separate fields. The placement by MMS of each new discovery into an existing field (no additional royalty relief) or a new field (more royalty relief) based on careful geologic evaluation has large revenue implications. We believe there could be about 340 new discovery leases in the next 10 years. Thus, the value of potential royalty payments impacted by deepwater field determinations resulting from potential discoveries on existing DWRRA leases could be in the range of \$45 billion.

As deepwater development matures, the amount of new drilling adjacent to existing fields will increase. The level of complexity in each field determination and the potential for challenges by industry of MMS field determinations will likely increase as companies explore these more marginal accumulations.

In addition, litigation in this area also strains existing resources. The MMS is involved in two lawsuits challenging a field determination. To date, one case has required the use of 4.5 FTE. We can expect numerous simultaneous lawsuits related to future field determinations; therefore, we must have appropriate data and electronic tools needed to make and defend field determination decisions.

The MMS has also identified a need for the equivalent of four FTE to collect, process, distribute, and archive technical data and records derived from industry exploration and production activities. To effectively manage OCS resources, MMS must effectively manage the massive set of technical data that exists about the Gulf of Mexico. This includes 225,000 well logs on 40,000 wells; 30,000 directional surveys; 3,000 velocity surveys; and analysis of well cores and production test data. It is critical that this information be accurate.

Accurate and timely data is the engine that drives MMS and the industry in the Gulf of Mexico. The MMS needs the data to evaluate bids to assure the public receives fair market value, and also uses it for safety considerations. Industry uses the data on a large scale on a daily basis to plan

their lease bidding strategy, plan wells, evaluate development projects and form partnerships. The Gulf Region has had no increase in resources in this area over the last four years, yet the number of wells drilled broke a record in FY 2000 and again in FY 2001. More than 1,400 new wells are drilled each year, which generates tens or hundreds of thousands of data to be managed.

The Gulf of Mexico Region does not have the resources it needs to manage this information. Backlogs exist in many areas. The process of drilling a well generates a multitude of documents and data, including applications to drill; completion and sundry notices; velocity surveys; directional surveys; drill stem tests; paleo data and many (seven or more) different types of well logs. In FY 2001, more than 1,400 new wells were drilled in the Gulf of Mexico, an increase of 40% from 1999. Assuming there are 25 or more elements associated with this activity, more than 32,000 elements had to be captured and managed. Consequently, a serious emergency in our ability to keep pace with the technical data is now occurring.

There are insufficient resources available to receive, verify and accurately store all this well data. Yet in a typical lease sale the resource evaluation function has to consult 1,000 well logs to determine fair market value in evaluating the adequacy of bids by oil companies. The work in this area is extremely important and directly impacts the Resource Evaluation subactivity in the areas of Resource Assessment, Resource Estimation, Tract Evaluation, Reserves Inventory, and Field Determinations.

Of the \$1.620M increase, \$0.290M is needed to directly support the Resource Evaluation program to allow for digitizing of well logs under a contract. The MMS first started using a contract to do this in 1997 on the assumption that it could be paid for from normal operating funds. We have found that the work cannot be adequately funded in this manner. The number of well logs being digitized has greatly exceeded our original plan. As an example, the number of wells drilled in FY 2000 was 40 percent higher than FY 1999. In addition, the cost of the digitizing effort is more than was originally conceived.

Of the \$1.620M increase, \$0.250M will be used for regional sand resource identification. The sand and gravel program is moving to an operational phase from what has been a purely research phase. In the seven-year period from 1995 to 2002, MMS worked with coastal states and other Federal agencies to convey 32.3 million cubic yards of OCS sand for shore protection projects. Hundreds of billions of dollars of property have been protected through these shore protection projects. This work was done in a timely manner and was made possible because of funding available through cooperative agreements between MMS and nine coastal states that identified sand resources offshore. The funding for these agreements has remained flat for the last three years, at a time when the amount of OCS sand needed and being requested is increasing dramatically. By 2004, we anticipate that the amount of OCS sand requested and used for shore protection projects will, at a minimum, triple from FY 2001 levels. Much of this will be in the Gulf of Mexico. The relatively flat funding level for the sand and gravel program limits MMS's ability to leverage resources with states and other Federal agencies to identify sand resources and conduct the studies necessary to ensure the sand can be removed in an environmentally sound manner.

Justification of Program Change
 Resource Evaluation
*Reduction in Funding for the Center for Marine Resources
 and Environmental Technology*

	2003 Budget Request	Program Changes (+/-)
\$(000)	25,348	-800
FTE	226	0

Relationship to Performance Goals

Ensure environmentally sound OCS mineral development.

Narrative Justification

The Centers for Marine Resources and Environmental Technology (CMRET) were reauthorized under the Marine Minerals Resources Research Act of 1996, and placed under oversight of the Department of the Interior. The Minerals Management Service manages the program. The mission of the CMRET at the University of Mississippi is to conduct research on the exploration and extraction of minerals from the seabeds of the continental shelves, deep ocean, and arctic regions. The CMRET in Mississippi was funded in the amount of \$0.800 million in FY 2002.

The MMS recognizes the importance of the investigations and technological development that this Center pursues, particularly the longer-term research. However, due to higher research priorities for conventional oil and gas exploration and extraction, MMS is proposing to eliminate CMRET funding in FY 2003.

Justification of Program Change
 Resource Evaluation
*Reduction in Funding for the
 Marine Minerals Technology Center*

	2003 Budget Request	Program Changes (+/-)
\$(000)	25,348	-800
FTE	226	0

Relationship to Performance Goals

Ensure environmentally sound OCS mineral development.

Narrative Justification

The Marine Minerals Technology Centers (MMTC) were reauthorized under the Marine Minerals Resources Research Act of 1996, and placed under oversight of the Department of the Interior. The Minerals Management Service manages the program. The mission of the Marine Minerals Technology Center (MMTC) at the University of Alaska-Fairbanks is to conduct research on the exploration and extraction of minerals from the seabeds of the continental shelves, deep ocean, and arctic regions. The MMTC in Alaska was funded in the amount of \$0.800 million in FY 2002.

The MMS recognizes the importance of the investigations and technological development that this Center pursues, particularly the longer-term research. However, due to higher research priorities for conventional oil and gas exploration and extraction, MMS is proposing to eliminate funding in FY 2003.

Regulatory Programs
 Justification of Program and Performance
 Analysis by Subactivity
dollars in thousands

	2002 Estimate	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2003 Budget Request	Change From 2002 (+/-)
\$(000)	49,572	+549	+391	50,512	+940
FTE	385	0	-39	346	-39

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

Relationship to Performance Goals

The MMS governs offshore operations with the goal of ensuring that mineral development is conducted in a safe and environmentally sound manner. This goal becomes more challenging each year with the increase in operational activity, especially as evidenced in the GOM OCS, which is one of the most exciting exploration and development areas in the world.

Regulation of Operations

	2002 Estimate	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2003 Budget Request	Change From 2002 (+/-)
\$(000)	48,687	+549	+391	49,627	+940
FTE	385	0	-39	346	-39

Regulation of Operations activities include:

- Inspections;
- Safety and Environmental Management Program (SEMP);
- Annual Operator Performance Reviews;
- Approval of Industry Plans, Activities and Requests;
- Civil and Criminal Penalties;
- Industry Training;
- Incident Analysis; and
- Rulemaking.

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

improve its inspection program. This strategy will target high-probability facilities that are more likely to experience an event, such as an accident or spill. With this methodology, MMS is able to visit higher probability facilities more often than facilities that are low probability. In FY 2002, MMS will complete a pilot project that uses incidents of non-compliance, accidents, and other risk factors to determine an inspection frequency and type for every facility on the OCS. The MMS will analyze the pilot project during FY 2003 and use this information to improve the methodology. The inspection program also participates in cooperative reviews with selected companies. These reviews focus on management of safety systems.

In FY 2001, MMS, in coordination with the U.S. Coast Guard, published a proposed rule in the Federal Register authorizing MMS, on behalf of the Coast Guard, to perform inspections on fixed facilities engaged in Outer Continental Shelf activities and to enforce Coast Guard regulations applicable to those facilities. By authorizing MMS to also check for compliance with Coast Guard regulations, we avoid duplicating functions, reduce Federal costs, and increase the frequency of inspections. In FY 2002, following publication of the final rule, MMS and the Coast Guard will hold a public workshop to discuss implementation of the final rule.

Safety & Environmental Management Program – Both a 1990 MMS task force on inspection and enforcement and the Marine Board of the National Academy of Sciences recommended that OCS operators develop and implement a safety and environmental management program (SEMP). The SEM is intended to reduce the risk of injuries and pollution from OCS operations by incorporating safety management practices into all facility activities and by establishing clear safety goals and management tools for achieving them. A SEM describes, among other things, the responsibilities of company officials, employees, and contractors; training programs; audit systems; and the means for assuring regulatory compliance.

The American Petroleum Institute (API), the Independent Petroleum Association of America, and the Offshore Operators Committee (OOC), with MMS participation, developed an industry-wide recommended practice for implementing SEM. The MMS subsequently requested that industry voluntarily adopt the recommended practice, while MMS agreed to monitor industry's performance.

The MMS and offshore industry formed a Performance Measures Work Group to develop an initial set of indicators to measure the success of SEM implementation. Annually, beginning in 1998, MMS has collected industry data, performed analyses, and published reports of the aggregate information. Since SEM is a voluntary program, these performance measures are not used for enforcement actions or to set industry-wide performance targets. Workshops were later held to promote the program and allow pacesetter companies to demonstrate methods that led to their exceptional performance. Also during an FY 2001 workshop, MMS and OOC presented protocols that were jointly prepared for the purpose of auditing compliance with SEM.

From an API survey, MMS has learned that companies representing most of the OCS production reported having a SEM generally in place. Based on this and acceptable industry performance, MMS has stated that the voluntary approach to operator implementation would be continued. The MMS continues to work collaboratively with industry representatives to refine performance

measures for all operators and encourage widespread participation. Additional performance measures data will be collected in FY 2003.

Annual Operator Performance Reviews – The MMS continues to refine its annual performance review process. The MMS uses the Operator Safety Index (OSI) to prioritize communications with operators. The reviews assess how well the industry is performing relative to regulatory compliance measures, and center on an operator’s history of compliance, violations forwarded and assessed for civil penalty review, accident/incident history, and a company’s overall safety management plan. Introductory meetings are held with all new operators. Discussions focus on the company’s familiarity with governing regulations, operating structure, and any previous compliance problems with properties the new operators may be acquiring. In 2002, preparation and implementation of Subpart O on industry training will be an agenda item at the review meetings. The MMS’s goal is to maximize a smooth transition in implementation of the new rule by making this an important topic for all operators.

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

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

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

Civil and Criminal Penalties – By pursuing, assessing, and collecting civil penalties, MMS encourages compliance with OCS statutes and regulations. Over the past five years, MMS has “reinvented” the program by rewriting, in plain English, the civil penalty regulations at 30 CFR 250.1400. This “reinvention” streamlined the civil penalty process by eliminating two layers of middle management. From 1990 through 1995, the program collected \$350,000. Since 1996, following this reinvention effort, the program has collected over \$7 million.

In FY 2001, MMS worked with the Inspector General (IG) and the Office of the Solicitor to develop guidelines for referral of potential criminal violations. In FY 2002, the IG will provide detailed training related to these guidelines. The final guidelines were incorporated into the OCS Civil/Criminal Penalties Guidebook, which will be issued in conjunction with the IG training. In FY 2002, MMS will conduct a statistical review to determine the effectiveness of the program. The information will also be used to help MMS focus on problem operators.

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

Industry Training -- On August 14, 2000, MMS published final regulations in the Federal Register revising 30 CFR 250, Subpart O, Well Control and Production Safety Training. To provide lessees sufficient time to develop and implement their training programs, the new regulations provide a two-year transition period from October 13, 2000, until October 15, 2002. After October 15, 2002, all lessees must be in compliance with this new rule.

At the present time, two lessees have contacted MMS and informed the agency that they are in compliance with the new rule. The MMS expects additional companies to complete the development of their training plans in the near future and make final plans in transitioning to the new rule.

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

In FY 2001, MMS released a report containing FY 1999 data on Incidents Associated with Oil and Gas Operations, Outer Continental Shelf. This report was also published on MMS's website at <http://www.mms.gov/stats/incidents>. In FY 2002, we plan to issue reports containing CY 2000 and 2001 data. Data for the calendar years 1995-1999 is now available on the web. The MMS also publishes a table, which is also located at <http://www.mms.gov/stats>, showing the number and type of incidents that have occurred on the OCS (i.e., fatalities, blowouts, and other incidents that are reported to MMS). This information is updated weekly and posted on the MMS website.

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

The MMS has prepared a proposed rule that should be published during FY 2002. We plan to implement the web-based reporting system, once the new reporting rule has been finalized. The revised regulations will help MMS gather more consistent data, which will improve our ability to analyze incident information. The rule will also help industry minimize the time they spend reporting incidents to the two agencies and will help both MMS and USCG to collect and monitor this information more efficiently.

As part of the ongoing work to improve the safety of crane operations on OCS fixed facilities, MMS urged API to revise their Recommended Practice 2D, Operation and Maintenance of Offshore Cranes. The revised addition (4th edition) was published in August 1999 and now includes training standards for crane riggers. In April 2000, MMS issued a final rule incorporating this practice, by reference, into our regulations. In April 2001, OCS crane operators and riggers working on fixed OCS facilities needed to be in full compliance with the new training requirements in the 2D document. In July 2000, MMS released a proposed rule soliciting comment on incorporating API Specification 2C, Specification for Offshore Cranes, Fifth Edition, and April 3, 1995 into the regulations. This API Specification incorporates minimum crane design standards for fixed platforms and incorporates the use of anti-two block safety devices on all cranes. The comment period on this proposed rule closed in October 2001, and MMS is currently evaluating the comments we have received from the offshore industry on this proposal. We expect that the 2C document will be incorporated into our regulations during FY 2002.

In 2000, a review of incident data shows that several well control incidents over the last several years have involved well cementing operations. In 2000, MMS issued a National Safety Alert on this safety concern and urged API to address this issue by developing a series of Recommended Practices dealing with annular flow best cementing practices. In FY 2002, the first of these standards was released addressing deepwater operations. Work on developing the second standard was also started in FY 2002. The MMS will continue to work with the API on this issue into FY 2003.

Rulemaking -- Rules and regulations implement policies and procedures necessary to improve and ensure safe and environmentally sound offshore operations. The MMS continually strives to improve the rulemaking process. New regulations are written to implement recent statutes, and existing regulations are revised so that those affected (such as new companies and small entities) can easily understand them and know how to comply. Rules are also revised to reflect technological advances and changes in industry practices.

Planned Activities for FY 2003

Alaska

- Maintain significant safety and operational inspection and oversight of the Northstar development project and the Federal Liberty project in the Beaufort Sea.
- Manage the significant increase in regulatory responsibilities associated with exploration or development for the Liberty, McCovey, and Cosmopolitan projects, including reservoir

management, production measurement and verification and coordination with Minerals Revenue Management.

- Participate in field demonstrations and additional research to advance oil spill detection and response cleanup in ice.
- Participate in expanding ISO/API standards for Arctic conditions, particularly for design, operation, and maintenance of subsea Arctic pipelines.
- Increase liaison with other DOI agencies, State, and Joint Pipeline Office to process and administer a right of way for an Alaska Natural Gas Pipeline.
- Complete EISs and pre-sale assessments for oil and gas lease sales in the Beaufort Sea and Cook Inlet and EIS and sale assistance to BLM for the NPRA-west sale. Begin EIS preparation for a Chukchi Sea sale, and assess industry interest for a Norton Sound sale.

Gulf of Mexico

- Process and provide technical and environmental review of approximately 450 oil and gas exploration plans and 400 development plans expected in FY 2002.
- Conduct technical and structural review for the integrity of 90 to 100 new production platforms expected to be installed during the year.
- Conduct meetings and reviews with 130 individual companies concerning their performance for the year and focus on their safety record, violations, accidents, and steps to correct deficiencies.
- Conduct approximately 16,000 inspections of drilling, workover, production, pipeline, and other operations.
- Review and approve the installation of more than 1,500 new miles of oil and gas pipelines.
- Develop appropriate protocols and review techniques to implement the new requirements related to offshore worker training.

Pacific

- Continue cooperative efforts with State agencies, seeking to ensure consistent policies, regulations, and practices through joint inspections and audits of offshore oil and gas facilities, and future decommissioning of offshore structures.
- Continue to ensure pipeline integrity through smart pig and remote operated vehicle inspections, while emphasizing technological advances in leak detection systems. As the infrastructure ages, increased vigilance is essential to prevent accidents and catastrophic

events. These efforts will be coordinated with the Department of Transportation, Office of Pipeline Safety and the State of California.

- Review and act on industry plans such as: revisions to development and production plans; reservoir management programs; and activities on wells.
- Continue implementation of royalty relief, when appropriate, to conserve resources.
- Continue cooperative efforts with the State, initiated in 2001, to develop shared reservoirs from existing Federal platforms.
- Coordinate with the State of California to ensure all OCS operations, including proposed exploration, development, and production activities, satisfy the requirements of the Coastal Zone Management Act.

Technology Assessment and Research

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

The MMS Regulatory Program encompasses a research element, entitled the Technology Assessment and Research (TAR) Program. The TAR Program supports research associated with operational safety and pollution prevention. The TAR Program was established in the 1970's to ensure that industry operations on the OCS incorporated the use of the Best Available and Safest Technologies (BAST) --subsequently required through the 1978 OCSLA amendments. The TAR Program focuses its research activities on Operational Safety and Engineering Research (OSER).

The TAR Program has four primary objectives:

1. Technical Support
Providing engineering support to MMS decision-makers in evaluating industry operational proposals and related technical issues and ensuring that these proposals comply with applicable regulations, rules, and operational guidelines and standards.
2. Technology Assessment
Investigating and assessing industry applications of technological innovations and ensuring that governing MMS regulations, rules and operational guidelines encompass the use of the BAST.
3. Research Catalyst
Promoting leadership in the fields of operational safety and engineering research by acting as a catalyst for industry research initiatives.
4. International Regulatory
Providing international cooperation for research and development initiatives to enhance the safety of offshore oil and natural gas activities and the development of appropriate regulatory program elements worldwide.

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

TAR- Operational Safety and Engineering Research

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

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

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

Planned Activities for FY 2003

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

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

- *Technology Assessment* activities will also continue to focus on deepwater GOM operations, as well as Arctic ice-gouging and pipeline research studies.
- *Research Catalyst* activities will include continued participation in the composite materials engineering and applications work, as well as various activities evolving from the MMS - OTRC partnership established in FY 1999.
- *International Regulatory* activities will continue with several topics and projects of interest to international regulators including human factors studies, offshore mooring alternative materials, platform and pipeline decommissioning and similar activities, and issues confronting MMS and its international regulatory associates.

Justification of Program Change
Regulation of Operations
Increase in Funding for Gulf of Mexico Workload

	2003 Budget Request	Program Change (+/-)
\$(000)	49,627	+1,890
FTE	346	+9

Relationship to Performance Goals:

Ensure safe OCS mineral development
 Ensure environmentally sound OCS mineral development

Narrative Justification:

The MMS's Gulf of Mexico OCS Region is confronted with a steep increase in the level and complexity of work associated with offshore oil and gas activity. Many recent events serve as indicators of this workload. Near record numbers of deepwater rigs (44) are now drilling in the Gulf and have been for all of 2001. In FY 2001 a total of 277 deepwater wells were drilled; up 22 percent in one year and up 85 percent in two years. The total number of all wells drilled in the Gulf rose to 1,408 in FY 2001; yet another new record. Sustained levels of new deepwater production facilities are being planned by many companies. A new platform fabrication yard just opened in Ingleside, Texas, because there is not enough capacity to build all the production platforms that industry is proposing. After three years of having only one deepwater port in Louisiana equipped with massive state-of-the-art turnaround capability (C-Port) for deepwater supply boats (i.e., Port Fourchon), there is now a second one under construction in Texas at Galveston. Industry also continues to expand the accessory equipment necessary to do heavier deepwater work with more new large supply boats and more anchor handling tugs. These and new production platforms represent tens of billions of dollars in capital expenditures.

While there has been some fluctuation in the price of oil and some moderation in the pace of oil and gas activity (principally in shallow water), all signs point to a sustained near frenzied pace of offshore development and production activity in the next several years. The total number of wells is at a record; so are deepwater development projects and miles of pipeline installed.

The Gulf of Mexico plays a pivotal role in U.S. energy policy. The areas of the Central and Western Gulf produce about 30 percent of all the natural gas consumed in the Nation, and their contribution to U.S. oil production has grown steadily. The energy resources located in the Gulf of Mexico are key components of the President's National Energy Plan.

Regulation of Operations

To assure adequate and timely reviews and safety of operations, MMS requests an increase of nine FTE and \$1.890M in its base. The regulation of operations function continues to experience high levels of activity. A record number of wells were drilled in FY 2001 (1,408), and the pace shows no indication of decline. A record 277 wells were drilled in deepwater in 2001 – a 22 percent increase over the prior year. The MMS continues to receive record numbers of Deepwater Operations Plans, which require extremely complex technical reviews.

These FTE would be used in a wide variety of functions. Two positions are requested to promptly process Deepwater Operations Plans (DWOP). Since this requirement was established in 1996, DWOP submittals have remained at a significant level (up to 30 projects per year, each with 2-3 separate detailed submittals). As operations continue to progress into deeper water, it is expected that the number and complexity of DWOPs will increase. There have now been more than 125 oil and gas discoveries in deepwater. The current workload is threatening the timely review of industry's plans that may involve billion dollar projects.

Deepwater projects that have been announced but no filing or work has yet taken place by MMS include:

<u>Project</u>	<u>Company</u>	<u>Project</u>	<u>Company</u>
Red Hawk	Kerr-McGee	Holstein	BP
Boris	BHP	Matterhorn	Total, Fina, Elf
Ozona Deep	Marathon	Mad Dog	BP
Marco Polo	Anadarko	Medusa	Murphy Oil
Magnolia	Conoco	Front Runner	Murphy Oil
Devil's Tower	Dominion	Aspen	BP
Atlantis	BP		

One position is needed for a corrosion engineer. One of the significant problems MMS engineers must address is the aging infrastructure in the Gulf of Mexico, and the corrosion that will have a detrimental effect on the equipment that makes up this development infrastructure. The occurrence of corrosion can result in premature abandonment of a well, pipeline, or even a production platform.

One FTE will be used to prioritize pipelines with the highest risk of failure and consequences. The MMS faces an accelerating workload on pipelines, with 1,285 applications in 1998, 1,351 in 1999, and 1,626 in 2000. The additional manpower will also be used to deal with accident investigations.

Three positions are requested for inspection duties related to Coast Guard responsibilities. The MMS will be taking over the U.S. Coast Guard's responsibilities for conducting inspections on fixed OCS facilities for safety of the workplace and lifesaving in accordance with Coast Guard regulations. This is anticipated to take place in June 2002. (See the Federal Register Notice of May 10, 2001.) The equivalent of one full-time inspection position will be needed in each of three Districts in the Gulf of Mexico in order to conduct these inspections, which will be in

addition to our regular inspections on over 3,800 facilities. Of the 3,800 facilities, approximately 1,900 are classed as major facilities that will require this type of new inspection. No additional helicopter transportation costs are anticipated in support of this effort.

In order for MMS to adequately perform its conservation of resources function as part of its regulation of operations, new resources are needed. Two positions are needed to systematically review production completions to determine when operators are commingling production from two or more reservoirs in the tubing string without prior approval, thereby possibly harming ultimate recovery. Additionally, workload has increased with new violation notices for flaring, maximum production rates, and downhole commingling violations, and monitoring gas cap production by operators. The resultant loss in ultimate hydrocarbon recovery could be substantial when gas is produced prematurely from a sensitive reservoir.

Of the \$1.890M increase, \$0.150M is requested to fund engineering and other technical training. The engineering staff is being challenged every day with changing technologies in areas such as subsea production systems, riserless drilling, new production systems, etc. To maintain an acceptable level of technical skills in these and similar areas, we need to provide currently available skills training. This training is very expensive, and additional funds are needed.

Of the \$1.890M increase, \$0.075M is requested to provide additional accident analysis capability in the Gulf of Mexico. This will be used to obtain the expertise of a contractor when necessary to help analyze the causes of accidents and their prevention. This would augment existing staff in order to bring hard to find expertise to bear in complicated situations.

Finally, \$0.585M of the \$1.890M increase is requested for a helicopter rate increase. The inspection of OCS oil and gas operations is a major activity of the regulatory program. The MMS inspects drilling and production facilities on the OCS using both scheduled and unannounced inspections. An inspection can range from two hours in duration by a single inspector to several days by two or more inspectors, depending upon the operation being inspected and the complexity of the facility. The MMS contracts for helicopters to fly its inspectors to offshore facilities. The contract for these services is negotiated by the Department's Office of Aircraft Services (OAS). The current five-year contract expired at the end of FY 2001. Although an increase of \$3.166M was approved in the FY 2002 budget, negotiations for the new contract had not been completed, and the requested increase was based on historical data. Negotiations for the new contract were completed in June 2001, and the cost is substantially higher than the current contract. The increased funding is required to ensure that MMS retains its ability to conduct these inspections, which are vital to safe and environmentally sound OCS mineral development.

Justification of Program Change
Regulation of Operations
Reduction in Funding for the Offshore Technology Research Center

	2003 Budget Request	Program Changes (+/-)
\$(000)	49,627	-499
FTE	346	0

Relationship to Performance Goals

Ensure safe OCS mineral development.

Narrative Justification

The Offshore Technology Research Center (OTRC) is a research partnership between the Texas A&M University and the University of Texas at Austin. In FY 1999, the Congress increased our base funding by \$900,000 to support research being performed by the OTRC. In FY 2000, FY 2001, and FY 2002, the Congress directed that MMS increase the OTRC funding to \$1,400,000 without increasing the base funding level.

The MMS recognizes the significance of the research being conducted at the center, particularly the longer-term basic research initiatives. However, to meet the increased level of support, it was necessary to divert funds that were directed toward more crucial applied research supporting immediate regulatory requirements. Due to its academic structure and focused expertise, providing funds to OTRC limits the flexibility and timeliness in terms of the nature of the research that we can pursue. Thus, MMS is proposing to eliminate \$499,000 of the available OTRC funding in FY 2003.

Justification of Program Change
 Regulation of Operations
Reduction in Funding for the Pacific OCS Region

	2003 Budget Request	Program Change (+/-)
\$(000)	49,627	-1,000
FTE	346	-48

Relationship to Performance Goals

Ensure safe OCS mineral development
 Ensure environmentally sound OCS mineral development

Narrative Justification

The MMS recognizes the importance of the oversight of development and production operations in the Pacific Region. However, MMS is committed to the spirit of the President's Management Agenda and believes that it can benefit from a review of its operations in the Pacific without jeopardizing current operational needs.

The Pacific OCS Region performs the full range of MMS's responsibilities for offshore oil and gas platforms located in Federal waters off the coast of California. These activities include inspections; safety and environmental management; annual operator performance reviews; approval of industry plans, activities, and requests; civil and criminal penalties; industry training; incident analysis; and rulemaking. The Region was funded in the amount of \$10.8 million in FY 2002. The proposed funding level for FY 2003 is approximately \$9.8 million.

The \$1 million decrease will allow us to meet higher priorities for oil and gas exploration and extraction activities in the Gulf of Mexico. This reduction is also the first step, in a larger management reform initiative, towards a goal of reducing about 48 FTE from current staffing levels. The 48 FTE reduction has been identified here as a placeholder. Over the next 21 months, MMS will work out the exact nature of this reduction and the program areas in which savings will occur while still allowing us to meet expected workload requirements.

Information Management Program
Justification of Program and Performance
Analysis by Subactivity
dollars in thousands

	2002 Estimate	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2003 Budget Request	Change From 2002 (+/-)
\$(000)	14,894	+164	+8,992	24,050	+9,156
FTE	64	0	0	64	0

The Information Management Program (IMP) subactivity funds information technology (IT) personnel support costs, hardware, software, training, security activities, hardware and software maintenance, and IT technical support for the Offshore Program. The IMP provides a central foundation for the management of the large volume of information and data used in Offshore's scientific, engineering, and management activities.

To ensure that IMP provides the infrastructure and services that are required to support IT activities Offshore-wide, an Information Management Committee (IMC) was established with managers from all major program areas in headquarters and the three Offshore Regions. The IMC regularly revisits Offshore IT needs, reprioritizes needs based on new circumstances, and collectively determines the most effective distribution of limited IMP resources. The IMC reports to the Associate Director, Offshore Minerals Management.

Headquarters IT staff (located in Washington and New Orleans) provides a single-point management and coordination/standardization of IT activities, resulting in an efficient centralized operation. Responsibilities include:

- Nationwide policy coordination and standardization for Offshore's IT Program;
- Nationwide management of the OMM IMP budget formulation, tracking distribution of funds and management of acquisitions, and implementation of procurements;
- Leadership in the design, development, implementation, and support of the Offshore corporate database and application systems;
- Coordination of Offshore information security activities and coordination with MMS and Department- wide security functions;
- Leadership in design, development, implementation, and support of OMM and MMS architecture infrastructure;
- Coordination of Offshore-wide area network activities and Bureau-wide technology integration;

- Coordination of major IT activities related to nationwide procurements including hardware and software maintenance agreements;
- Acquisition management of all service contracts in Offshore in support of software development, help desk support, and Information Technology consulting;
- Acquisition and use of Geological Interpretive Tools to assist the geoscientists with the evaluation of Offshore leases and management of operations and environmental concerns on the OCS;
- Leadership in the evaluation and integration of new IT solutions;
- Supporting and providing transition services for the e-Government project; and
- Managing and coordinating A-76 responsibilities relating to the IT program.

The IT units in each of the three MMS OCS Regions (Alaska, Gulf of Mexico, and Pacific), as well as headquarters, provide onsite IT support to program staff in those localities. This includes:

- Maintaining the Information Technology facilities equipment/software in each location;
- Providing technical support for Local Area Networks and installed desktop workstations;
- Managing the Local Area Networks and maintaining information security at the local facility, including security training;
- Managing an increasing number of IT contractors necessary to maintain computer systems and meet the mission of the organization;
- Locally implementing Offshore-wide standards and policy; and
- Providing help desk, training, and computer room operations support for the program offices.

The IT needs have evolved rapidly, increasing many-fold each year from what was envisioned just a few years ago. New developments in Offshore and MMS-wide technology standards and policies are impacting the IMP in the following ways:

- Users are more mobile and need remote access to information and systems;
- More applications requirements must be developed and maintained;
- Broadening of the level and number of users who require greater access to MMS data;
- More data must be maintained, processed and archived;
- Data management methods must be refined to support the additional data;
- Computers and networks must be faster and more powerful;
- Data must be structured according to industry data standards;
- More resources must be applied to coordinating, testing, and implementing administrative systems and reengineering projects;
- Deployment and management of Offshore and MMS-wide systems and standards must be more carefully coordinated;
- Increased security requirements must be addressed;

- Skill levels must keep pace continually with the rapid rate of technology change; and
- Life cycle management requires additional attention and resources to meet the needs of the users and to keep up with the industry.

Planned Activities for FY 2003

- Participate in the enterprise-wide software projects;
- Maintain and expand the Offshore corporate data bases;
- Support, test, install, and maintain new technologies;
- Develop and support Offshore software applications, and upgrade and expand computer network infrastructure;
- Analyze current IT architecture and applications as they relate to mission critical activities in the future;
- Install and maintain life-cycle upgrades for the desktop workstations, upgrade desktop software applications, and upgrade storage and application servers;
- Expand and strengthen the information security infrastructure of MMS and heighten the information security awareness of all MMS employees; and
- Begin the transition to Electronic Government.

E-Government Transformation

Leasing of Federal lands and subsequent development of mineral assets has made the OCS a major source of the Nation's supply of crude oil and natural gas. In the Gulf of Mexico alone, approximately 1.3 million barrels of oil and 13.8 billion cubic feet of gas are produced each day. Since the Outer Continental Shelf Lands Act (OCSLA) of 1953 (67 Stat. 462, as amended (43 U.S.C. 1331 et seq. (1988)) established the Federal OCS leasing program, the market value of oil and gas produced has totaled more than \$385 billion.

Since the oil and gas resources of the OCS, though abundant, are ultimately exhaustible, MMS must manage these resources in a manner consistent with sustainable development. To do this, MMS must impose complex requests and reporting requirements on the oil and gas industry. It must also share information, analysis, and storage with other government and public entities. Together, these management responsibilities create intense pressure for automation of many recurring processes. To fulfill each of its mandated tasks, MMS must facilitate the exchange of OCS-related information within a complex network of stakeholders (industry, other agencies, states, the public). That fact is the basis of OMM's e-Government vision.

OMM's e-Government framework consists of investment in core infrastructure, such as a regulatory data model, redesigned web-enabled corporate database, document management, security, and a data warehouse to support its business functions. A strong OMM infrastructure will support web-based, customer-responsive solutions; facilitate internal analysis; and set a foundation for future integrated systems. Additional investments will support processes such as permitting, inspections, Freedom of Information Act, public commenting, and industry reporting. To ensure that the foundation is flexible, capabilities will be built in a coordinated and modular fashion, using commercial off-the-shelf applications (COTS) and outsourcing when

feasible. The approach is driven by customers and stakeholders, focused on mission and strategy, process-efficient, and technology-enabled.

During the development of the OMM Enterprise Architecture, OMM will collaborate with the Fluid Minerals Branch of the Bureau of Land Management (BLM) to ensure that there is a coherent DOI Fluid Minerals Architecture. The OMM and BLM will work toward development of a common data architecture and business architecture within the constraints of our differing organizational and IT architectures, as well as a rational data exchange standard. We will leverage available solutions in the common touch points between our organizations. The OMM will also work in a community of regulators, including States such as California, Louisiana, Texas, and New Mexico, to develop such standards through existing voluntary standards organizations that would be available for use across the domestic oil and gas industry with all national regulatory groups.

As the steward of the nation's offshore mineral resources, OMM must upgrade its ability to process an increased number of requests from industry in a timely manner, distribute decisions for comment, provide approvals, and monitor activity on the leasehold through analysis of complex information reported. This investment in capital assets supports all those activities through true automation of information exchange and storage. This transformation supports the President's Management and Performance Agenda item "Expanding Electronic Government" by improving connectivity between the government and the public; creating a citizen-centered web presence; and building a cross-agency e-government infrastructure.

Planned Activities for FY 2003

- Perform strategic studies of current security, accessibility, and network capabilities.
- Focus on standardized data models and an eSubmission Framework.
- Develop an eSubmission prototype.

Justification of Program Change
Information Management
Increase in Funding for Gulf of Mexico Workload

	2003 Budget Request	Program Change (+/-)
\$(000)	24,050	+250
FTE	64	0

Relationship to Performance Goals

Ensure safe OCS mineral development
 Ensure environmentally sound OCS mineral development
 Ensure that the public receives fair market value for OCS mineral development

Narrative Justification

The MMS's Gulf of Mexico OCS Region is confronted with a steep increase in the level and complexity of work associated with offshore oil and gas activity. Many recent events serve as indicators of this workload. Near record numbers of deepwater rigs (44) are now drilling in the Gulf and have been for all of 2001. In FY 2001 a total of 277 deepwater wells were drilled; up 22 percent in one year and up 85 percent in two years. The total number of all wells drilled in the Gulf rose to 1,408 in FY 2001; yet another new record. Sustained levels of new deepwater production facilities are being planned by many companies. A new platform fabrication yard just opened in Ingleside, Texas, because there is not enough capacity to build all the production platforms that industry is proposing. After three years of having only one deepwater port in Louisiana equipped with massive state-of-the-art turnaround capability (C-Port) for deepwater supply boats (i.e., Port Fourchon), there is now a second one under construction in Texas at Galveston. Industry also continues to expand the accessory equipment necessary to do heavier deepwater work with more new large supply boats and more anchor handling tugs. These and new production platforms represent tens of billions of dollars in capital expenditures.

While there has been some fluctuation in the price of oil and some moderation in the pace of oil and gas activity (principally in shallow water), all signs point to a sustained near frenzied pace of offshore development and production activity in the next several years. The total number of wells is at a record; so are deepwater development projects and miles of pipeline installed.

The Gulf of Mexico plays a pivotal role in U.S. energy policy. The areas of the Central and Western Gulf produce about 30 percent of all the natural gas consumed in the Nation, and their contribution to U.S. oil production has grown steadily. The energy resources located in the Gulf of Mexico are key components of the President's National Energy Plan.

Information Management

An increase in base funding of \$0.250M is requested to hire two additional contractors to support the increased technical staff and growing IT demands of the Gulf of Mexico user community. The additional staff will work in the Customer Support Section to assist users with the use of OMM computer systems, and in the Operations Section providing technical support in a centralized computer environment. These two contractors are needed to provide support for the additional 34 FTE in FY 2002 and the 25 new positions requested for FY 2003.

Justification of Program Change
Information Management
Increase in Funding for E-Government Transformation

	2003 Budget Request	Program Change (+/-)
\$(000)	24,050	+8,742
FTE	64	0

Relationship to Performance Goals

Ensure safe OCS mineral development
 Ensure environmentally sound OCS mineral development
 Ensure that the public receives fair market value for OCS mineral development

Narrative Justification

The OMM e-Government Transformation Project will dramatically reform and streamline OMM's business operations. At the same time, the project will provide direct benefits to OMM customers and stakeholders, including Federal, State, and local government entities; private industry; the scientific community; and the public. This effort supports the President's Management and Performance Agenda item "Expanding Electronic Government" by improving connectivity between the government and the public; creating a citizen-centered web presence; and building a cross-agency e-government infrastructure. OMM will work actively with the Bureau of Land Management, Fluids Minerals Branch, to develop a consistent DOI Fluid Minerals Architecture and common data exchange standards through existing voluntary standards bodies.

OMM is under increasing pressure to address several important conditions:

Increased Complexity in Business Operations. With increasing pressures on the energy markets, continuing dependence on foreign oil supplies, and recent media coverage of the Nation's energy policy, the oil industry is facing new opportunities as well as challenges to meet the demand for additional domestic oil and gas production. There are limited domestic opportunities for increased production. On the OCS these opportunities are primarily in the frontier deepwater areas or the very mature shallow water portion of the Gulf of Mexico OCS. Either alternative results in increased costs and complexity of operations and activities associated with oil and gas exploration, development, and production.

Problems with Data Management and Information Exchange. Federal and State government agencies and industry continue to struggle with the on-line exchange of data, especially data that are proprietary. Ready access to accurate, consistent, and combinable data is essential to the OMM mission. The problem is typified by numerous physical networks of people; paper-

intensive processes; and the amount, type, and complexity of information that are involved in the oil and gas decision-making process.

Inefficient Business Processes. In spite of the increased complexities associated with its business operations, OMM relies very heavily on paper-based, “stove-piped,” redundant, and antiquated processes and systems. Consequently, the staff spends too much time collecting and distributing data. OMM employees spend approximately 75 percent of their time on information-related tasks. While a large portion of this time is spent on essential analysis, more than half is consumed with non-valued added analysis such as finding, cleaning and distributing data. OMM needs to streamline and integrate existing business processes to better allocate valuable personnel time to reengineered, smooth running, and customer-oriented business operations.

Global Competition for Exploration, Development, and Production Dollars. The global oil and gas industry is keenly interested in wisely spending their limited exploration and development dollars. They often are frustrated by inefficient and costly processes that constrain their "time to market," which unduly delays returns on large up front capital expenditures. The investment to establish more efficient customer oriented business processes will help to make the U.S. offshore program more attractive within the global competitive environment.

The transformation will automate data exchange, improve operating efficiency, and provide the agility and flexibility to adjust to and meet future business conditions and demands. The transformation will directly address several important Federal mandates and business drivers, including: the Government Paperwork Elimination Act; the Government Information Security Reform Act; the Clinger-Cohen Act; the Government Performance and Results Act; the Privacy Act; the Federal Records Act; the Computer Security Act; the Freedom of Information Act; the Disabilities Act; and Section 508 of the Rehabilitation Act. The OMM e-Government transformation effort also will directly respond to the direction and guidance provided by the Administration and the Congress to: improve mission performance and service delivery; better manage and maintain a competent and capable Federal workforce; and to capitalize on opportunities to outsource for support and services necessary to conduct and improve business operations.

Specifically, the transformation effort will help OMM:

- Reform and more fully automate key business processes (such as permit requests, safety and environmental reviews and inspections, public commenting, and lease management) to respond to increased workload, information exchange, and analytical requirements.
- Introduce "Knowledge Management" tools to electronically collect, store, and receive and distribute information from or to internal and external stakeholders, which also is expected to help minimize knowledge loss from retiring employees by capturing tacit knowledge on areas of expertise and specialized business practices.
- Facilitate the exchange of data between industry and the appropriate federal bureaus and the affected states through the development of a consistent DOI Fluid Minerals Architecture and relevant data exchange standards.

- Decrease delivery, data entry, and searching costs, and increase the potential for meaningful analysis.
- Coordinate workflow for the regulatory process to reduce redundant requests and maximize stakeholder reviews, again promoting more efficient analysis and shorter cycle times.
- Support multiple Federal and State requirements surrounding regulation of the offshore oil and gas industry.
- Make OMM more accessible through the Internet to all stakeholders.

Funds received in FY 2003 will be used in three categories:

- Design, Oversight, and Planning: Activities will consist of strategic studies of current security, accessibility, and network capabilities.
- Foundational Elements: Focus will be on standardized data models and eSubmission framework.
- New Capabilities: An e-Submission prototype will be developed.

Oil Spill Research
 Justification of Program and Performance
 Analysis by Subactivity
dollars in thousands

	2002 Estimate	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2003 Budget Request	Change From 2002 (+/-)
\$(000)	6,105	0	0	6,105	0
FTE	23	0	0	23	0

The Oil Spill Research (OSR) Appropriation, funded by the Oil Spill Liability Trust Fund, supports oil spill research, oil spill prevention and response planning activities, financial responsibility, and activities in State waters.

The MMS research supports the bureau goal of safe and environmentally sound operations by improving capabilities to detect, contain and cleanup open ocean oil spills. The research program complies with Title VII of the Oil Pollution Act of 1990 (OPA-90) and is conducted in cooperation with the Interagency Coordinating Committee for Oil Pollution Research, as called for in the OPA-90. Oil spill research is one tool that MMS uses to fulfill its regulatory responsibilities mandated by OPA-90. Information derived from the OSR program is directly integrated into MMS's offshore operations and is used in making regulatory decisions pertaining to permit and plan approvals, safety and pollution inspections, enforcement actions, and training requirements.

The OSR Appropriation funds:

- Research to further oil spill detection, containment, and response capabilities in the event of an oil spill in the marine environment;
- Research aimed at prevention of oil spills through operational and safety enhancements;
- Research to further understanding of the fates and effects of spilled oil on the marine environment;
- Operation and maintenance of Ohmsett - The National Oil Spill Response Test Facility;
- Management of financial responsibility; and
- Activities in State waters.

Research

The MMS is the principal U.S. Government agency funding offshore oil spill response research. Through funding provided by MMS, scientists and engineers from the public and private sectors, worldwide, are working to address outstanding gaps in information and technology concerning the cleanup of oil spills. Credible scientific research and technological innovation are considered key elements for improving oil spill response and protecting our coasts and ocean waters against the damage that could be caused by spills. The OSR program operates through contracts and other agreements with universities, private industry, State governments, government laboratories, and foreign countries with the expertise to perform the necessary research. Funding is leveraged by co-sponsoring research whenever possible.

Research Partnerships - The cooperative nature of the OSR program encourages innovation and creativity in the accomplishment of its mission. Knowledge gained from this research has significantly improved the ability to reduce the impact and damage caused from oil spills. The scope of MMS's oil spill response program was increased in 1986 by aligning the MMS program with those of Environment Canada (EC) and the National Institute of Standards and Technology (NIST).

Working with EC and NIST, MMS has expanded its research efforts to address auxiliary topics, including remote sensing, dispersants, and the in situ burning of spilled oil. EC has also partnered with MMS in efforts to analyze, and make available, the physical properties of crude oils and crude oil products produced from offshore oil fields worldwide. The MMS and EC are also working to develop advanced chemical fingerprinting techniques aimed at identifying sources of mystery oil spills and ascertaining financial responsibilities for cleanup activities. EC and NIST have been important partners in sponsoring international workshops to present research results, as well as identifying research gaps associated with offshore oil spill response.

Current Research Focus

General: The OSR program currently focuses on (1) testing and evaluating the technologies required to respond to oil spills in the ice-infested waters of the Alaskan Beaufort Sea; (2) evaluating the technologies required to respond to open water spills from deepwater operations offshore California and in the Gulf of Mexico; (3) conducting a comprehensive assessment of the operational and environmental factors associated with the use of chemical dispersants to treat oil spills from MMS regulated facilities and pipelines; (4) increasing the knowledge base of the physical and chemical properties of crude oil and how these properties change during a spill; (5) improving the ability to burn oil slicks on the water's surface (in situ burning); and (6) mitigation of oil spills associated with pipelines.

Mitigation of Pollution Associated with Pipelines. Pipelines are the source of about 97 percent of oil-spill volume associated with OCS oil and gas operations. The MMS is actively pursuing research to ascertain the integrity of the 30,000 miles of oil and gas pipelines on the OCS. Another 10,000 miles of pipeline exist in State waters and, with MMS's additional responsibility for pollution control in State waters, these projects will serve a dual purpose. A risk analysis and management database is being devised to provide valid assessments of the conditions of aging

pipeline systems as well as the probabilities and consequences of leaks. The MMS pipeline research is intended to improve leak detection capabilities, improve internal and external inspection practices, improve shutdown systems, and develop a better understanding of the environmental forces active on pipelines. The MMS is also working with the States to map pipelines in State waters and incorporate them into the currently complete Federal database.

Environmental Fates and Effects Projects. The MMS continues efforts to refine understanding of ocean currents in each of the OCS areas where production takes place. In addition to collection of field observations, data analysis and modeling enhancement studies provide important inputs for estimating the transport and fate of any spilled oil. The MMS continues collaborative efforts with the National Oceanic and Atmospheric Administration Hazardous Materials Response Division on various oil spill related initiatives. The results of these efforts have been used to improve oil spill trajectory analysis and modeling for use in spill contingency planning.

Ohmsett - The National Oil Spill Response Test Facility (Ohmsett), is located in Leonardo, New Jersey. It is a vital component of MMS's research program. The Ohmsett facility provides testing and research capabilities to help the government fulfill its regulatory requirements and meet its goal of clean and safe operations. This unique facility is capable of replicating various conditions at sea. Ohmsett features a fully computerized data collection system, above and below waterline video capability, and a complete oil storage and handling system. Ohmsett is the only facility in the U.S. where full-scale equipment can be easily tested, without going out into the ocean. Through testing, valuable performance data on equipment are provided to manufacturers and suppliers to develop new, or to improve existing, equipment. Industry personnel can be trained in the use of their equipment in a safe, controlled environment (as compared to the open sea). More than 95% of all performance data on offshore oil spill response equipment has been gathered at Ohmsett. Performance data can be used by response planners in reviewing and approving facility contingency plans.

With offshore oil and gas operations moving into deeper waters, there are many questions about dealing with an oil spill or blowout in deep water. The best place to test new equipment and ideas on cleaning up oil in deep water is at Ohmsett, where tests can be conducted in a safe environment and can be repeated until product results are achieved. Additionally, testing at Ohmsett is much less expensive than open ocean testing. In many MMS-funded studies, Ohmsett is used to demonstrate successful completion of a current set of tasks before funding is approved for additional tasks.

To increase utilization, especially with the oil and gas industry, the mission of Ohmsett is being broadened to include and possibly emphasize training individuals who work in the marine environment in oil spill response methodology. Ohmsett could possibly become a major training facility for government mariners (e.g., USCG, U.S. Navy), commercial mariners, offshore workers, and others.

To respond to the challenges of testing and evaluating the equipment required to respond to oil spills in ice infested waters, the Ohmsett facility has been upgraded to offer cold water testing (with or without ice) and training. These upgrades will enable the Ohmsett facility to remain

open year round for testing and training. Planned activities in FY 2003 include evaluation of oil spill skimmers for collecting spilled oil in broken ice, cold water dispersant effectiveness tests, evaluations of viscous oil pumping equipment, basic research on the evaporation of oil and formation of emulsions, cold water oil spill response training, and evaluations of fast water oil spill response equipment.

Oil Spill Financial Responsibility

The MMS implements the financial responsibility provisions of OCSLA and OPA, which require companies responsible for certain offshore oil and gas facilities, in both Federal and State waters, to demonstrate their ability to pay the costs of facility oil spill discharge removal and damages. Several methods may be used to demonstrate oil spill financial responsibility (OSFR), including insurance, bonds, self-insurance, and guarantee. The MMS has published a final rule to implement the 1996 amendments to OPA (30 CFR Part 253). Under OCSLA, the amount of OSFR is set at \$35 million. Under the new rule, the amount of OSFR needed is based on facility location and the volume of the potential worst-case oil spill discharge that could occur. The OSFR amount required ranges from \$10 million in State waters to \$150 million for Federal waters. The rule covers facilities located in the OCS and State coastal waters.

Extensive coordination and exchange of lease data with affected States will require a concentrated effort. Procedures still must be addressed with each State concerning such topics as approvals of operator changes, enforcement for non-compliance, and determination of worst-case spill potential by operator.

Activities in State Waters

The OPA expanded MMS responsibility and authority for oil spill prevention and response for both platforms and pipelines in Federal and State coastal waters. The MMS has executed Memoranda of Understanding with the States of Texas, Louisiana, California, and Alaska to allow a single response plan to satisfy State and Federal requirements; to ensure compatible regulations; to conduct joint investigations, drills, and inspections; and to assist in the training of State personnel. Resources are dedicated to:

- 1) reviewing oil spill response plans submitted by more than 160 companies;
- 2) conducting annual unannounced oil spill response drills (30 CFR 254.42(g));
- 3) performing annual inspections of oil spill response equipment (30 CFR 254.43 (a) and (b));
- 4) providing staff assistance to train more than 500 oil spill responders annually for the following stakeholders:
 - Contractors
 - The Texas General Land Office
 - The Louisiana Oil Spill Coordinator's Office

- Other Federal, State, and local agencies; and
- 5) participating on two Regional Response Teams as part of the National Response Team's National Contingency Plan. The National Response Team includes representatives from 16 Federal agencies and is chaired by the EPA and the USCG.

The MMS also serves on Regional Response Teams in the Alaska and Pacific Regions.

Planned Activities for FY 2003

The MMS TAR/OSR Programs routinely participate in 20-40 concurrent research project activities, most of which are multi-year activities and projects, with several organizations and participants. However, unlike the TAR Program responsibilities, the OSR activities address a vast array of topics associated with oil spills – whether or not such spills are associated with offshore oil and gas production. Hence, the balancing of research activities across the TAR Program's four primary objectives (see write-up in Technology Assessment and Research section) results in significantly higher weighting among the *Technology Assessment*, *Research Catalyst*, and *International Regulatory* categories.

- **Technical Support**: Projects and activities will continue to focus on deepwater oil spill issues and detection, tracking, and cleaning up oil in ice-infested areas. These activities are aimed at providing MMS decision makers with data and information necessary to evaluate industry exploration and development proposals for GOM and Alaska operating areas and support MMS directives for requiring mitigating measures.
- **Technology Assessment**: Projects and activities under this category will continue to focus on various aspects of in-situ burning, effectiveness of oil spill chemical treating agents, effectiveness of dispersants, feasibility of satellite oil spill tracking devices, and related and associated technological innovations for detecting, tracking and cleaning up oil spills in the marine environment.
- **Research Catalyst**: Activities will continue to focus on joint project research with traditional MMS research partners – including the U.S. Coast Guard, U.S. Navy, EC and the Canadian Coast Guard.
- **International Regulatory**: OSR Program activities under this category tend to be structured more towards “International Co-operation” rather than “Regulatory”. Following up on contacts and opportunities, resulting from the FY 2000 experimental deep water open sea release of oil and natural gas offshore Norway, MMS is expanding its efforts to jointly sponsor international oil spill research projects, workshops, and conferences with governmental and private research organizations interested in marine oil spill response and cleanup technology. In addition to Canada, Norway and United Kingdom activities, other oil producing nations – such as Mexico and Brazil – are being contacted in hopes of identifying areas of mutual interest for joint oil spill research initiatives.

- ***Alaska Region:*** Continue implementation of the OPA by (1) working on oil spill contingency plans and prevention of oil spills in State waters with the State and other Federal agencies; (2) active participation in implementation of the OPA rules for financial responsibility; and (3) increasing coordination with the State of Alaska to administer provisions of 5(j) of the OSCLA and certificate of financial responsibility responsibilities under the OPA for oil and gas facilities on submerged lands in state waters.
- ***Pacific Region:*** Continue implementation of OPA requirements concerning spill response plan review and approval and oil spill financial responsibility;

Minerals Revenue Management

Analysis by Subactivity

dollars in thousands

Subactivity		2002 Enacted	Uncontrollable And Related Changes	Programmatic Changes	2003 Budget Request	Change From 2002
Compliance and Asset Management	\$	48,106	+618	0	48,724	+618
	FTE	389	0	0	389	0
Revenue and Operations	\$	35,223	+325	-1,003	34,545	-678
	FTE	184	0	0	184	0
Indian/ Allottee Refunds	\$	15	0	0	15	0
	FTE	0	0	0	0	0
Total, MRM	\$	83,344	+943	-1,003	83,284	-60
	FTE	573	0	0	573	0

Does not include a government-wide legislative proposal to transfer to agencies the full costs of the Civil Service Retirement System and the Federal Employees Health Benefits program.

Minerals Revenue Management (MRM), formerly the Royalty Management Program, collects, accounts for, and disburses between \$5 and \$6 billion yearly in revenues from offshore Federal mineral leases and onshore mineral leases on Federal and Indian lands.

The Federal Government has been collecting revenues from mineral production on Federal onshore lands since 1920, from American Indian lands since 1928, and from Federal offshore lands since 1953. However, it was in 1982 that MMS was created, establishing a comprehensive, consolidated system for collecting, accounting for, and disbursing these revenues. Since that time, MRM has provided more than \$120 billion to Federal, State, and Indian accounts, including over \$2.5 billion from compliance activities.

- \$75.4 billion to the U.S. Treasury
- \$2.7 billion to the National Historic Preservation Fund
- \$17.2 billion to the Land and Water Conservation Fund
- \$8.1 billion to the Reclamation Fund
- More than \$13.5 billion to 38 States
- Nearly \$3.4 billion to 41 American Indian tribes and 20,000 individual American Indian mineral owners (allottees)

Mineral leasing revenues are one of the Federal Government's greatest sources of non-tax receipts.

Average annual collections since 1982 total more than \$6 billion with approximately 86 percent going to the U.S. Treasury, 11 percent to States, and 3 percent to the American Indian community.

Revenues directed to the Federal Government are used to fund appropriations for programs Congress approves. Monies that go to the States are used, as the States deem

necessary, oftentimes for schools, roads, libraries, public buildings and general operations. Revenues generated from mineral production on Indian lands go directly to those tribes and allottees, meeting a wide variety of their needs.

Headquartered in Washington, DC, MRM has its primary operations in Lakewood, Colorado, with field offices in Texas, Oklahoma and New Mexico. The MRM processes more than 250,000 transactions each month from more than 26,000 producing Federal and Indian leases. The MRM coordinates its royalty management efforts with MMS Offshore Minerals Management, the Bureau of Indian Affairs (BIA), Bureau of Land Management (BLM), Office of the Special Trustee for American Indians, Department of Energy (DOE), U.S. Forest Service, Army Corps of Engineers and the U.S. military. The MRM also works closely with State governments, Indian tribes and allottees, and industry to improve overall royalty management.

Responsive Royalty Management

The MRM corporate culture is unified behind the objective to provide the best possible management of the Nation's mineral revenue assets. We must continue to develop and maintain our capability to respond to the changes in the Nation's political, social and business environments. The current issues within these environments are (1) the delivery of efficient and effective business practices; (2) Indian Trust responsibilities; and (3) the Nation's energy security.

MRM's Mission:
*Provide timely,
accurate and cost-
effective minerals
revenue collection and
disbursement services.*

Efficient and Effective Business Practices: As good stewards for the American taxpayer and Indian revenue recipients, the MRM continues to pursue more efficient operations through three initiatives: reengineering, RIK and development of the Most Efficient Organization (MEO).

- **Reengineering:** In FY 2002, MRM implemented a reengineered process for operation of its financial and compliance systems. These new methodologies are not just an efficiency improvement but a wholesale reengineering of the entire process for the management of mineral revenues. As MRM transitions from the implementation phase to the fully operational phase, further enhancements will be designed, tested and implemented.
- **RIK:** MRM has conducted a series of RIK pilots and evaluations over the past several years. Based on the completed pilots and evaluations, MRM is now poised to implement proven RIK methodologies into its overall asset management strategy. Use of RIK as an asset management option needs to be used where its application is at least revenue neutral and promotes efficiency and cost effectiveness for both the Government and its industry payors. The President's decision to use RIK oil to fill the SPR will require MRM to develop oil-supporting systems in FY 2003, if not before, and to redistribute staff to support the initiative.

- Development of the Most Efficient Organization (MEO): Under the terms of OMB Circular A-76 and concepts of the FAIR Act, the President’s management reform goal is to compete 5 percent of commercial activities in FY 2002; 10 percent in FY 2003; and 15 percent in FY 2004. MRM will be evaluating portions of our organization to determine the most efficient organizational structure for certain commercial activities. After determination of the MEOs, those activities will be competed with the intent of finding the lowest, most cost-effective provider of those services.

Indian Trust Responsibility: The MMS serves American Indian tribes and individual American Indian mineral owners by collecting and auditing properties with oil, gas, and coal and other hard rock minerals. This effort requires the cooperation of several Federal agencies (i.e., BIA, BLM and the Office of Special Trustee for American Indians), industry, tribes and individual Indian mineral owners. These cooperative efforts require unique communication and outreach strategies. Additionally, responding to the requirements of *Cobell v Babbitt* affects our operations as we provide information to the Secretary for successful resolution of this lawsuit.

Increase Energy Security: To help ensure the stability of the Nation’s energy supply, on November 13, 2001, the President committed substantial volumes of Federal oil royalties from the Gulf of Mexico to fill the Nation’s Strategic Petroleum Reserve (SPR). In a joint multi-year initiative with DOE, MRM’s role is to accept the royalty in kind (RIK) and to make the necessary arrangements and transactions to deliver the crude oil to DOE at onshore market centers. In its role, DOE then exchanges the RIK oil for oil of suitable quality delivered to SPR storage sites in Louisiana and Texas.

Indian Trust Responsibilities

The MMS serves American Indian tribes and individual American Indian mineral owners by ensuring that they receive accurate returns for mineral production on their lands. While working to guard American Indian mineral interests, MMS also emphasizes American Indian empowerment. In FY 2001, by entering into an agreement with the Crow Tribe, MRM expanded to eight tribes the cooperative audit program for those tribes that choose to handle their own royalty audit work. In FY 2001, MMS also entered into an Intergovernmental Personnel Act Agreement with the Shoshone-Arapaho Tribe.

MRM’s Service to the Indian Community

- *A dedicated Indian Compliance and Asset Management office.*
- *Walk-in customer service in Oklahoma and New Mexico.*
- *An emphasis on empowerment: MRM coordinates with eight tribes that choose to handle their own audits of mineral revenues from their lands.*

Our commitment to improve services to Indian mineral owners includes the following efforts:

- Supported the Department's Trust Management Improvement Project (TMIP) with systems and process reengineering initiatives;
- Staffed and then evaluated the Farmington Indian Minerals Office (FIMO) pilot program in which BIA, BLM, and MMS employees are under a single management leader and offer one-stop shopping for walk-in and call-in mineral owners. Based on the success of the pilot program, the FIMO was made a permanent office in September 2001. The Departmental Manual is being revised to reflect moving the pilot to a permanent office and establishing the concept of the Federal Indian Minerals Office. Further, the Department's Indian Minerals Steering Committee will assess the feasibility of expanding the program to other areas with a significant population of Indian mineral leases and lessees.
- Implemented an Indian Gas Valuation Rule in FY 2001.
- Prepared final Indian oil valuation rule for publication in FY 2002.
- Developed training on the new rule which will be delivered to industry, MRM, Indian audit partners, and the Indian community in FY 2003.
- Developed goals, objectives, plans, and strategies to improve Indian communication, customer service, and outreach activities to both tribes and individual Indian mineral owners.

**Indian Oil
Valuation Rule**

In response to feedback from the Indian community, MRM proposed a separate royalty valuation rule for crude oil produced from Indian leases. The new rule will add more certainty to the valuation of oil produced from Indian lands, eliminate reliance on posted oil prices and address terms unique to Indian leases.

The final rule will make specific changes to the initial proposed rule in response to public comments and consultations with the tribes. Specific changes include moving away from NYMEX prices to spot prices and allowing the deduction of transportation costs from the lease as opposed to the reservation boundary.

Key Program Initiatives

Since its inception, MRM has vigorously pursued better methods, new technologies, improved communication, and more efficient processes and practices to refine the service we provide our constituents and to accomplish our mission. The following initiatives are integral steps in reaching our goals in FY 2003:

- Enhance and build on the reengineered system and processes.
- Institute systems to support expanding RIK operations.
- Ensure the most efficient organization.

**Enhance the
Reengineered
Program**

FY 2002 brought the culmination of many fundamental changes that were presented in *Road Map to the Future* originally published in November 1998. In FY 2001, the MRM changed its name from Royalty Management Program to Minerals Revenue Management and realigned its organizational structures and resources to support the

reengineered business processes that will yield the significant and recurring benefits sought from the royalty reengineering initiative.

The new MRM organizational structures were developed based on extensive input from employees and in close consultation with industry, State and tribal partners. In FY 2002, MRM implemented a new systems infrastructure to support our reengineered business processes. These fundamental changes to organizations, infrastructures and processes require significant new skill sets, bringing opportunities to build knowledge of new systems, understand relationships, develop expertise and refine processes. The new MRM systems infrastructure provides:

- A centralized single data warehouse consolidating data from multiple locations;
- An improved capability to access and use data in the MRM data warehouse by States and Tribes;
- A state-of-the-art suite of tools for capture, transmission and analysis of data;
- Enhanced electronic reporting options;
- Accelerated distribution of revenues; and
- A platform upon which IT modules for RIK can be constructed.

Just the Facts

- MRM increased customer visits to its *Instant Information* Internet site by 67%.
- MRM provided 25 additional mineral statistical data sets and developed an automated revenue accumulator identifying total mineral collections since 1920.
- In FY 03 we will add 15 mineral statistical data sets on MRM's *Instant Information* website, to achieve at least 50% of comprehensive searchable mineral data back to 1920 for Federal onshore, to 1953 for Federal offshore, and to 1928 for Indian areas.

When fully realized, the reengineering initiative will dramatically modernize both the financial and the compliance and asset management business processes and supporting systems. The reengineered end-to-end business processes will support the continued emphasis on our Indian trust responsibilities as well as help us achieve our stretch goals.

- The financial management process will greatly enhance MRM's ability to provide recipients access to their mineral revenues within 1 business day of MRM receipt.
- The compliance and asset management process will help MRM reduce the business cycle time by 50 percent, from 6 years to 3 years or less.

The asset management concepts developed through reengineering and demonstrated by the RIK pilots and operational model support MRM's mission to be a consummate asset manager, pursuing fair market value and cost-effective mineral revenue collection and disbursement.

The President's November 13, 2001, decision to fill the SPR greatly expands the role of the RIK pilot program in the Gulf of Mexico (Gulf). MMS will deliver approximately

120 million barrels of crude oil taken in kind from Federal leases in the Gulf to onshore market centers for utilization by DOE in filling the SPR.

Institute Systems to Support Expanding RIK Operations

In FY 2002, MMS began the development of the automated infrastructure to support the gas RIK program. This development effort when complete will provide the needed tools to support gas RIK business processes. With the SPR initiative and the continuation of the Small Refiner Program at some 50,000 barrels/day, much of Gulf oil production royalties currently considered desirable for the in kind option will be taken in kind. In anticipation of this increased workload, MMS has pursued additional FY 2002 funding to speed the development and implementation of the oil RIK automated infrastructure.

In early FY 2003, MMS expects to complete implementation of the RIK gas automated infrastructure. Timing for the implementation of the oil system depends on funding.

Development of the Most Efficient Organization (MEO)

Competitive sourcing is one of five Government-wide initiatives on the President's management agenda. Under this initiative the Federal sector will design the most efficient organization (MEO) capable of supporting its mission goals and objectives. The commercial functions within the MEO are then competed with the private sector to secure the most cost-efficient delivery of those functions.

On November 26, 2001, the Secretary of the Interior issued a memorandum to all employees expressing her support of the President's management agenda. This memorandum stated: "The goal is to improve performance, not to contract out activities mechanically... This is the start of a process to meet a larger goal of examining over the next five years at least half of the commercial functions now being performed by Interior employees."

In support of this initiative, MRM will design the MEO for portions of its operations and will compete 5 percent of the respective commercial functions in FY 2002, and an additional 10 percent will be competed in FY 2003.

MRM's Reengineered Processes

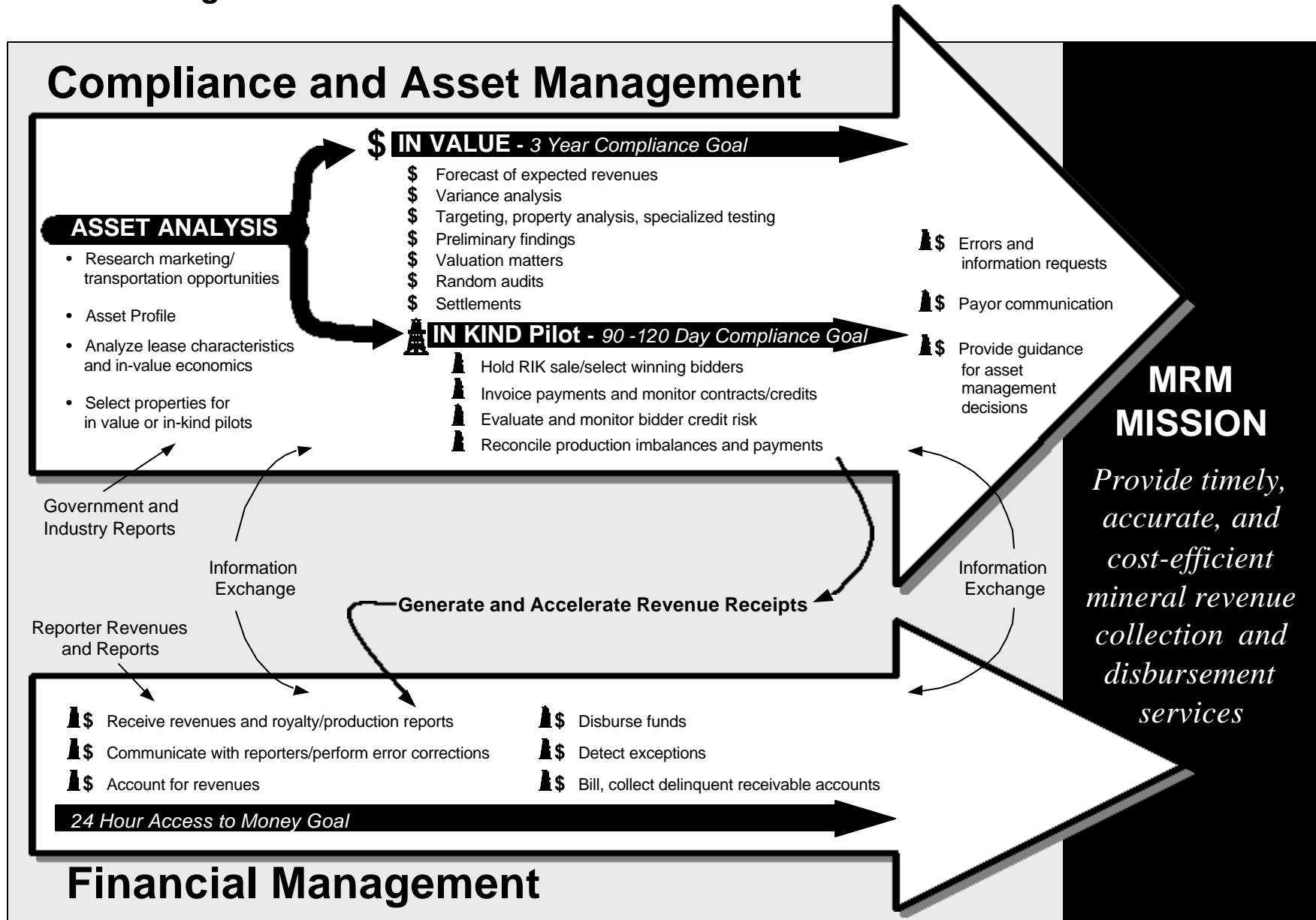
Two end-to-end reengineered processes were implemented in FY 2002. This conversion is a fundamental change in the way MRM manages Federal royalty assets.

Compliance and Asset Management is the data gathering and analyses that go into making the decision to take royalty in-value or in-kind.

- **In-Value**—The goal to complete the in-value compliance process in 3 years or less (the previous goal was 6 years) is shown on the black arrow. The dollar symbols indicate in-value processes.
- **In-Kind Pilots** (other than the initiative to fill the SPR)—If there is an economic advantage to the Government, either because of increased revenues or greater administrative efficiency or security needs of the nation, MRM will take royalties in-kind. The goal is to complete compliance within 90 to 120 days. The derrick symbols indicate in-kind processes.

Financial Management has six processes that will be used to receive, account for, and disburse funds to the appropriate recipient. Royalty and production information received from reporters will be entered into a program-wide data warehouse. This information, combined with industry, government, and market data, will be exchanged extensively within MRM, facilitating error resolution and providing for more informed communication with reporters. The goal of the financial management process is to give recipients access to their revenues within 1 business day of MRM receipt.

MRM's Reengineered Processes



Compliance and Asset Management

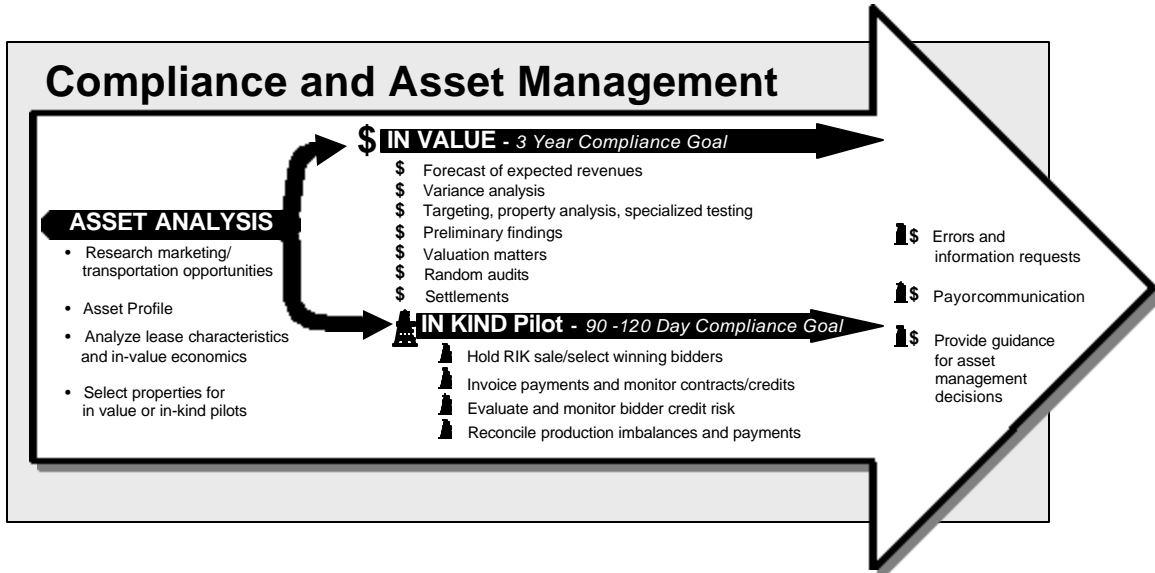
Justification of Program and Performance Analysis by Subactivity

dollars in thousands

	2002 Enacted	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2003 Budget Request	Change From 2002 (+/-)
\$(000)	48,106	+618	0	48,724	+618
FTE	389	0	0	389	0

COMPLIANCE AND ASSET MANAGEMENT

The new Compliance and Asset Management (CAM) process focuses on the same areas of operation as industry--the property and producing areas. Through this approach and the application of the newly reengineered processes, MRM strives to achieve our compliance goals in the shortest possible time but no later than 3 years from the royalty payment due date. This focus also supports the decision-making process for taking royalties in kind (RIK) as part of ongoing pilot projects when it makes good business sense.



Asset Analysis

1. Research marketing/transportation opportunities:

To identify attractive RIK opportunities, MRM studies market accessibility and current pricing in various property areas, including:

- (1) Investigating pricing mechanisms for contract terms,
- (2) Evaluating how to package certain quantities and qualities of oil or gas production,
- (3) Identifying optimal points for delivering RIK production to purchasers, and
- (4) Recognizing specific market needs or demands that would make RIK production desirable in the marketplace.

2. Asset profile:

The asset profile is a database that contains property reference data, royalties and production history, and case history. Additionally, the asset profile contains analyzed data that establish the “expectation parameters” that will be used in the in-value process to forecast expected revenues.

3. Analyze lease characteristics and in-value economics:

One of the primary goals of the RIK pilot program is to ensure that revenues are increased or remain neutral when compared to in-value royalties. A lease’s RIK potential is determined by evaluating its physical and legal characteristics; lease terms; production quality, type and volume; and the infrastructure of the surface facilities.

4. Select properties for in-value or in-kind disposition:

Based on analysis of the marketing, transportation, and lease economics, MMS selects properties to participate in upcoming RIK sales.

Recent Accomplishments

Additional Revenues Collected:

- *\$50 million in additional royalties and interest as a result of 157 closed audits.*
- *\$27.8 million in royalties for the period September 2000 through August 2001 under the 202/205 State and Tribal audit program.*
- *\$39.2 million in royalties from 16,097 resolved volume exceptions in FY 2001.*
- *\$177,706 in royalties from 1,461 resolved standard royalty rate exceptions and unpaid royalties.*
- *\$100 million in royalties through settlements.*

In-Value

1. Forecast of expected revenues:

To ensure a consistent approach for creating forecasts and expectations, MRM will develop forecasting guidelines. Forecasts are prepared in advance of the production month and therefore must make assumptions about future economic conditions and production volumes. The forecasting application uses price, allowance and volume estimates to generate a forecast of expected royalties.

- Price data will often be formula driven from external market sources.
- Allowances are established by MMS rules and regulations.
- Volume estimates will generally be derived from trending production increase/decline calculations.

Preliminary forecasts are reviewed for reasonableness, and analyses are performed to explain the major causes of changes from the previous forecast.

MRM measures throughout the entire process, to ensure continuous improvement in the forecasting process. Lessons learned and best practices are monitored for incorporation in subsequent guidelines and for implementing process improvement initiatives.

2. Variance analysis:

Given the size of the MRM property portfolio, we monitor each property portfolio and its major components in a disciplined, timely, structured process. Variance analysis detects when expected revenues differ from revenue receipts.

3. Targeting property analysis and specialized testing:

The MRM formulates and maintains targeting policies and procedures and issues periodic guidelines to apply to our properties. These policies set the standard for reasonableness, materiality, thresholds and severities within the targeting process. Using these targeting

Recent Accomplishments

Reengineering Successes:

- *Implemented the first consolidated compliance targeting strategy utilizing the new end-to-end process that incorporates all phases of compliance verification from automated risk assessment to production review to audit.*
- *In FY 2001, completed 228 dual accounting audits focusing on payors with significant Indian properties for audit periods 1984-2000. Anticipate completion of this effort in FY 2002.*
- *Incorporated Wyoming properties that included both royalty in value and royalty in kind into the new end-to-end compliance process. Completed most RIK reconciliation work on earlier pilot phases in Wyoming. By applying the end-to-end, property-based compliance approach to the royalty-in-kind properties, we are able to review within the 90-day business cycle goal.*

guidelines, the data generated from the variance analysis process is analyzed.

The units that are most in need of further detailed analysis and compliance testing are identified. Property testing, surveillance activities and specialized testing are performed to determine whether production and royalties have been accurately reported and paid.

4. Preliminary findings:

Comprehensive compliance reviews and audits are conducted by MRM employees and the State and Tribal Cooperative and Delegated Audit Program. These reviews are in accordance with the *MRM Audit Procedures Manual* and other audit regulations and policies.

If it is determined that mineral royalties have been underpaid, the billing and collecting procedures within the Financial Process are used to collect outstanding obligations.

5. Valuation matters:

In-value royalties are based on the value of the commodity produced, the volume of production sold, and the royalty rate applicable to the lease.

To provide requested guidance and resolve disputes over the value of the commodity, product specific information, applicable laws and regulations, legal precedents, transportation and processing costs, lease terms and agency policy are used to prepare a decision document detailing the proper method to be followed in determining royalty value.

MRM further resolves these issues by preparing product valuation regulations and guidelines and by providing valuation interpretations, training, outreach and technical support to government agencies and industry.

6. Random audit:

In addition to the targeted audits, we perform property-based random audits, ensuring that the targeted audit process identifies all variances and provides audit coverage for the majority of all properties.

Recent Accomplishments

Indian Trust:

- *In FY 2001 and FY 2002, completed major portion analyses and collected millions in additional royalties for numerous Indian tribes and allottees periods from 1984 through December 31, 1999.*
- *Held 147 meetings and received and resolved about 2,000 problems with Indian mineral owners. MRM also had a booth at the following Pow Wows: Northern Ute, Blackfeet, Little Shell (Fort Berthold), Crow, and Southern Ute.*

7. Settlements:

After efforts have been made to collect delinquent receivables and collection steps have been performed on unpaid balances from payors, lessees and lessee sureties, royalties may remain unpaid, which results in litigation. MRM provides litigation support to the Office of the Solicitor and Department of Justice. Through the litigation efforts, settlement opportunities arise that resolve the outstanding royalty obligations.

In-Kind (other than the initiative to fill the SPR)

1. Hold RIK pilot project sale/select winning bidders:

Holding an RIK pilot sale requires significant up-front analysis and research, as indicated in the Asset Analysis section. The Invitation for Offer must be developed to incorporate all the terms and conditions of the sale. As required by the lease terms, operators and payors are notified when the MMS exercises its RIK option as part of a pilot project. To ensure the financial standing of prospective bidders, an in-depth analysis must be performed. The sale bids must be evaluated, using criteria developed under the asset analysis process, and winning bidders selected and notified.

2. Invoice payments and monitor contract compliance:

RIK oil and gas payments are either invoiced monthly for payments due or monitored monthly to ensure payments were received. This process involves computation of the expected amount of payment due using pricing sources, production reports, pipeline statements, or electronic bulletin boards to verify the values and volumes of RIK production. Contracts are also monitored for compliance with terms as well as volume imbalances to assure that MMS is receiving the proper royalty volume produced from the RIK property.

3. Manage trading and financial risk:

Taking the royalty portion of production in kind introduces an element of risk for the Government. Risk exists in both the companies that MMS deals with and the marketing

Recent Accomplishments

RIK Successes:

- *Entered the fourth successful year of Wyoming sales with continued refinements and changes in participating properties, pricing mechanisms, and accounting practices.*
- *Redesigned the small refiner oil RIK program to become more commercially viable, after extensive interaction with industry and other stakeholders. This program operated at a volume of approximately 55,000 barrels/day.*
- *Commenced a new pilot program for the competitive sale of Gulf of Mexico RIK crude oil.*
- *Continued refinement of the OCS gas pilot utilizing authorities to purchase transportation and processing services.*
- *Implemented, in coordination with DOE, the President's November 13, 2001, directive to fill the remaining capacity of the Strategic Petroleum Reserve (SPR) with RIK oil.*

decisions that are made. MMS actively manages its risk exposure by developing systems to evaluate and monitor purchasers' financial standing and to guide MMS in making prudent marketing decisions. This requires maintaining up-to-date records and continually reviewing the financial status of RIK purchasers, trends in market prices and volumes of production delivered.

4. Reconcile Production Imbalances and Payments:

Upon termination of an RIK contract, MMS must work with RIK purchasers, pipeline owners, lease operators and lessees to ensure that the proper volume of RIK production was delivered to and paid for by the purchaser. Since production imbalances are prevalent, particularly when the delivery points are remote from the lease, significant attention must be paid to monitor and resolve imbalance issues. The process usually requires extensive communication and examination of industry records and Government reports. MMS is striving to accomplish full reconciliation within 90 to 120 days after the termination of the typical RIK contract.

Elements Used by Both RIV and RIK Pilots

1. Errors and information requests:

Both the RIV and the RIK pilot processes depend on receipt of information from reporters, industry, and governmental agencies. If an apparent error has been made or there is an unexplainable difference between data received from two sources, the correct information must be determined. After researching the discrepancies through all available internal sources, if additional clarification is needed for resolution, MRM contacts the responsible organization.

2. Payor communication:

On an as-needed basis, MRM employees contact payors to proactively resolve reporting errors. On a regular basis MRM provides payor training to explain how to submit information and payments that are error free. The result of these aggressive outreach efforts has been a reporting error of approximately 3 percent.

Planned Activities

- *Issue 95 percent of necessary orders and demands for properties converted to the new compliance process relating to production originating in calendar year 2001.*
- *Increase the interactive functionality of the solid minerals Internet reporting form MMS-4430. Planned changes would decrease reporting time and effort.*
- *Complete random audits for all FY 1999 model properties and begin random audits of FY 2000 properties converted to the 3-year compliance cycle.*
- *Continue activities that have proven effective, such as: resolving problems for individual Indian mineral owners, coordinating field trips and lease inspections with BIA, BLM, and operators, conducting outreach to non-202 tribes, and at Indian communities and Pow-Wows.*

Justification of Program Change
Compliance & Asset Management
Royalty-in-Kind – Gas Management System

	2003 Budget Request	Program Change (+/-)
Compliance & Asset Management		
\$(000)	48,724	-6,015
FTE	389	0

Relationship to Performance Goals:

The Royalty-in-Kind (RIK) pilot program is developing operating systems to enable possible broader application in the future. The requested decrease will have no direct impact on MMS's existing GPRA measures.

Overview:

MRM is adopting an asset management approach for administering Federal oil and gas royalties, and RIK is an important component of that approach. We have made significant advances since 1997 in evaluating the feasibility of RIK and developing and operating RIK pilot projects to explore the viability of the approach. The initial evaluation of the ongoing Wyoming RIK pilot indicates that there are circumstances where RIK can be revenue neutral; lessees can benefit from a reduced administrative burden; and there is greater certainty for both the lessee and the government because valuation disputes can be avoided. However, it also shows RIK does not work in every situation. The goal of MMS is to manage the public mineral interests to the maximum benefit of the American taxpayer.

In FY 2002 MMS proposed \$7.3 million for development of an RIK Gas Management System, providing critical systems support necessary for the MRM to manage natural gas taken as royalty in kind.

Justification of FY 2003 Program Change:

The Gas Management System development will be completed by the end of FY 2002 and will require ongoing operation and support. The MMS is requesting \$1.285 million for these efforts.

Justification of Program Change
 Compliance & Asset Management
Royalty-in-Kind – Liquids Management System

	2003 Budget Request	Program Change (+/-)
Compliance & Asset Management		
\$(000)	48,724	+6,015
FTE	389	0

Relationship to Performance Goals:

The Royalty-in-Kind (RIK) pilot program is developing operating systems to enable possible broader application in the future. The requested increase will provide critical systems support necessary for the MRM to manage crude oil and condensate royalties taken in-kind.

Overview:

MRM is adopting an asset management approach for administering Federal oil and gas royalties, and RIK is an important component of that approach. We have made significant advances since 1997 in evaluating the feasibility of RIK and developing and operating RIK pilot projects to explore the viability of the approach. The initial evaluation of the ongoing Wyoming RIK pilot indicates that there are circumstances where RIK can be revenue neutral; lessees can benefit from a reduced administrative burden; and there is greater certainty for both the lessee and the government because valuation disputes can be avoided. However, it also shows RIK does not work in every situation. The goal of MMS is to manage the public mineral interests to the maximum benefit of the American taxpayer.

In FY 2002 MMS proposed \$7.3 million for development of an RIK Gas Management System, providing critical systems support necessary for the MRM to manage natural gas taken as royalty in kind.

Justification of FY 2003 Program Change:

The RIK systems development is a two phased initiative, a Gas Management System phase; and a Liquids Management System phase. With completion of the Gas phase in FY 2002, MMS proposes to undertake the development of the Liquids Management System. This last phase includes the following components: Liquids Management System; Risk Management System; and Employee Development and Training.

Liquids Management System (\$4.93 million)

The Liquids Management System will provide critical systems support necessary for the MRM to manage crude oil and condensate royalties taken in-kind (RIK). The MRM will utilize an industry standard commercial off the shelf solution that will integrate with the new systems supporting the Financial Management and Compliance and Asset Management (CAM) processes, as well as the RIK Gas Management System to be developed during FY2002. Key functionality to be provided by the Liquids Management Systems includes identification of physical liquid hydrocarbons available for sale by marketers; accounting systems capture of liquids sales transactions for physical scheduling of delivery and financial recognition; accounting systems tracking of sales and physical delivery transactions to financial settlement; and final reconciliation of physical deliveries with MRM's entitled volumes of physical production. The Liquids Management System interface will record the results of RIK transactions in the MRM PeopleSoft financial software used to prepare financial reports and administer accounts receivable and accounts payable, as well as store key RIK results in the CAM data warehouse.

Risk Management System (\$875,000)

Key functionality that would be provided by the Risk Management System includes the identification and recording of oil and gas purchaser and trader risk exposure attributes and limits as defined by MRM management; the daily tracking and reporting of price and financial position versus the established targets and limits set by MRM management across all RIK oil and gas products; and identification of out of limit conditions for follow-up action by MRM management. The Risk Management System would interface with Financial Management, CAM, and RIK systems to enable the contemporaneous evaluation of MRM's risk position with commodity purchasers and traders and the status and direction of the market place.

Employee Development and Training (\$210,000)

The RIK pilots to date have demonstrated that the fundamental shift in the way MMS collects royalties will immediately require the development of a different skill set for the employees performing the work. This training and development will focus on RIK training for marketing, sales/transportation/processing transaction structuring, and related business operations activities.

In addition, MRM has noticed that the implications of RIK extend far beyond the immediate employees. New ways of approaching royalty collection are required of all of MRM employees. The RIK methods and techniques affect either directly or indirectly every facet of the program, such as the collection, accounting and verification of receipts from marketing partnerships.

To infuse these methods, techniques and approaches to all employees, to create career enhancement, and to develop or sharpen skills that have been unutilized while performing their current duties MMS is requesting \$210,000 for transition training, career development training, and both technical and non-technical skill development training.

Revenue & Operations

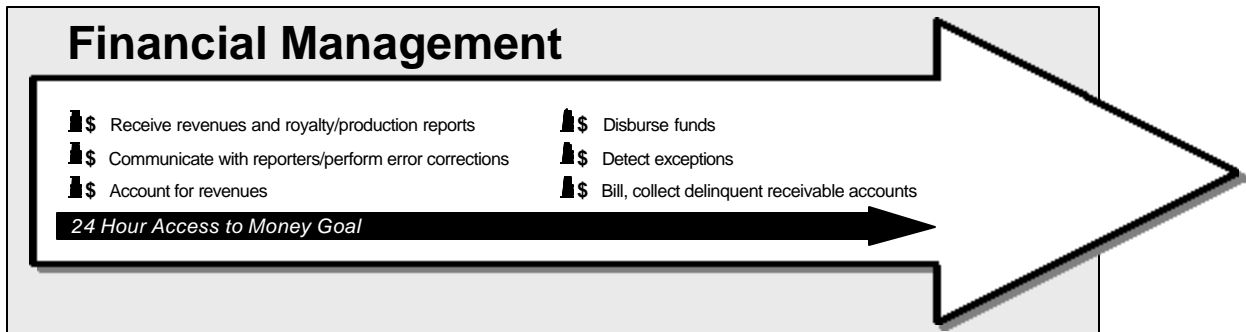
Justification of Program and Performance
 Analysis by Subactivity
dollars in thousands

	2002 Enacted	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2003 Budget Request	Change From 2002 (+/-)
\$(000)	35,223	+325	-1,003	34,545	-678
FTE	184	0	0	184	0

MRM Financial Management Process

The MMS collects and processes reports and payments from bonuses, rents and royalties for more than 78,000 leases each month. We distribute and disburse these revenues—more than \$5.7 billion annually—directly to recipients: States, the Office of the Special Trustee’s Office of Trust Funds Management (OTFM), Federal agencies and U.S. Treasury accounts. The Bureau of Indian Affairs (BIA), working with OTFM, disburses revenues to the appropriate tribes and individual Indian mineral owners (allottees).

The Federal Oil and Gas Royalty Management Act requires monthly distribution and disbursement of payments to States and Indians for their share of mineral leasing revenues. Through the application of the newly reengineered processes, MRM strives to achieve the goal of providing mineral royalty recipient’s access to their funds within 1 business day of receipt.



The following steps help MRM accomplish its goal:

1. Receive revenues and royalty/production reports;
2. Communicate with reporters/performing error corrections;
3. Account for revenues;
4. Disburse funds;

5. Detect exceptions; and
6. Bill and collect delinquent receivable accounts.

1. Receive revenue and royalty/production reports:

Royalty reports are due when lease production begins. Production reports are due once production begins and are required until the lease is closed and relinquished.

The MRM is responsible for processing all incoming royalty and production reports (related to oil, gas, geothermal, and solid minerals on Federal and Indian leases), royalty payments and rentals and bonuses on offshore and onshore Federal leases. (The BIA collects rentals and bonuses on Indian leases.)

About 3,700 reporters submit various reports and payments to the MRM each month on more than 78,000 Federal and Indian leases. More than 80 percent of all production and royalty report lines are submitted to the MRM electronically and are used to update MRM's data warehouse. The remaining reports are received in hard copy, requiring manual data entry by subcontractors.

Reengineering has resulted in the following improvements:

- Elimination of the Monthly Report of Operations (Form MMS-3160);
- Modification of the Oil and Gas Operations Report (OGOR) (Form MMS-4054), for onshore and offshore production reporting;
- Collection of all oil and gas operators production information on the OGOR; and
- Modification of the Report of Sales and Royalty Remittance (Form MMS-2014), for oil and gas royalty reporting;
- Consolidation of eight solid mineral reports.

Recent Accomplishments

- *After final testing, implemented the following core financial software of the new financial system on November 1, 2001:*
 - *Reference (leases and agreements)*
 - *Royalty receipt, processing, and error correction including the P&R reporting for Solid Mineral leases*
 - *Accounts Receivable*
 - *Lease Account Balances*
 - *Distribution and Disbursement/Accounts Payable*
 - *General Ledger*
 - *Appeals*
 - *Debt Collection*
 - *History Database*
- *Upgraded, modified, and enhanced multiple supporting systems to accommodate requirements of the new financial system.*
- *Complied with the requirements of the Federal Financial Management Improvement Act by developing a financial management system module capable of reporting data to the U.S. Government's General Ledger at the transaction level.*

2. Communicate with reporters and perform error corrections:

The MRM receives between 7 and 8 million lines of report data each year. Over the last several years, the error rate has been about 3 percent on all royalty and production lines submitted. Weekly reports summarize the number and source of all rejected lines. The MRM staff researches each of the lines, contacts the reporter, if necessary, and resolves the error.

Error correction is critical because the royalty dollars associated with rejected lines cannot be distributed to the proper recipient until the lines have been corrected.

Our reengineered systems no longer require reporters to routinely provide us with royalty reference data information on a separate Payor Information Form (MMS-4025). We collect this information from the data provided on the monthly royalty reports submitted by our royalty reporters.

3. Account for revenues:

The MRM records financial transactions with an account structure consistent with the U.S. Government Standard General Ledger (USSGL). We use the USSGL accounts to prepare external reports to OMB and the U.S. Treasury and to prepare our financial statements and the Annual Financial Report.

Through the reengineered financial system, we have automated internal controls and accounting processes to reconcile subsidiary and control accounts and to ensure proper recording and reporting of revenues.

4. Disburse funds:

The distribution and disbursements function within MRM ensures that approximately \$5.7 billion collected annually from Federal and Indian mineral leases is properly disbursed to the appropriate recipients including the U.S. Treasury, 5 Federal agencies, 38 States, and 41 Indian tribes. These amounts are disbursed in accordance with distribution formulas required by 20 different legislative acts.

Recent Accomplishments

(continued)

- *Converted to the Internet Payment and Collection system to make intergovernmental transfers.*
- *Tested and implemented the remaining modules of the new financial system in FY 2002.*
- *In September 2001, 79.9% of all production and royalty lines reported to MRM were received electronically (about 480,000 lines). During FY 2002, we increased the total percentage of lines reported electronically to almost 90.*
- *MRM staff continued the aggressive training schedule to inform industry representatives of the many changes incorporated into the new financial system and on basic royalty and production reporting. In FY 2001, over 1,700 industry representatives from approximately 800 companies were trained at sites including Casper, Dallas, Denver, Farmington, Houston, Oklahoma City, Ponca City, Reno, Roswell, Salt Lake City and Tulsa.*

Federal disbursements occur on or about the 20th of every month. MRM has until the month following the receipt of funds to disburse payments before owing interest to the State leaseholders for the undistributed Federal funds. Additionally, MRM disburses to the OTFM into interest-bearing accounts on a daily basis and identifies the funds applicable to tribal and allotted leases. Distribution information for tribal and allotted leases is provided twice monthly. During FY 2001, more than 98 percent of all money collected was disbursed on time and interest free.

5. Detect exceptions:

The MRM automated exception detection processes can be placed in three categories:

- (1) Interest exceptions
- (2) Indian overrecoupment, and
- (3) Financial terms

Interest exceptions occur when payments are received after the due date or estimated payments are insufficient to cover the current month's obligation. An exception is also detected when a payor inadvertently overpays his royalty obligation, in which case MRM pays interest for overpayments and estimates that exceed the current month's obligation.

Indian overrecoupment exceptions occur when a company violates the recoupment limitations in adjusting prior months.

Financial term exceptions occur when financial obligations established in the lease are not met, such as deferred bonuses, rentals, and minimum royalty obligations.

Each month these automated exception detection processes are run against all cleared receivables (i.e., all lines accepted and payments applied—Indian overrecoupment does not require payments to be applied). Pre-bill documents are created for further manual verification. The verified pre-bills are used to create invoices that are issued to the payors.

6. Bill and collect delinquent receivable accounts:

The MRM bills for late and underpaid royalties through its automated exception processing system. Bills not paid are subjected to a comprehensive debt collection process. This collection process includes dunning and collection notices to working interest owners, lessees, the BIA and the BLM. Enforcement actions include collections through the lease surety, Notices of Non-Compliance, and referrals to the U.S. Treasury.

Planned Activities

- *Enhance the new financial system and knowledge of it.*
- *Increase the number of production and royalty reporters using electronic reporting on the newly designed Report of Sales and Royalty Remittance, Oil and Gas Operations Report, and the Production Allocation Schedule Report.*

Justification of Program Change
 Revenue & Operations
Transition of Legacy System to New Reengineered System

	2003 Budget Request	Program Change (+/-)
Revenue & Operations		
\$(000)	34,545	-3,003
FTE	184	0

Relationship to Performance Goals:

This initiative is a systems support function with the purpose of maintaining systems functionality and responding to additional requirements, as needed. As such there is no direct impact on any of MMS's GRPA performance goals for 2003.

Overview:

In FY 2002, MMS requested funding to provide assurance that the transition from MRM's legacy systems to the newly reengineered system would proceed without adversely impacting the collection and distribution of royalties. This effort, dependent upon both the reporters' ability to adapt to the new system and the MRM's ability to bring the new system on line is expected to occur on schedule. The new system will be operational on time at the start of FY 2002.

Justification of FY 2003 Program Change:

The transition of mission-critical legacy systems to entirely new applications, processes, and technologies emanating from the reengineering initiative will be completed in FY 2002.

Justification of Program Change
 Revenue & Operations
System Operation and Support

	2003 Budget Request	Program Change (+/-)
Revenue & Operations		
\$(000)	34,545	+2,000
FTE	184	0

Relationship to Performance Goals:

Implementation of the two end-to-end processes – the Compliance and Asset Management process and the Financial process – will:

- greatly enhance MRM’s ability to provide recipients access to their mineral revenues within 1 business day of MRM receipt.
- help MRM reduce the business cycle time by 50 percent.

Overview:

The design, development and testing of the MRM reengineered systems will be completed for implementation in FY 2002. The integrated royalty management system consists of a PeopleSoft-based financial module, a compliance and asset management module, a robust relational database environment, a data warehouse and a variety of technology tools.

This system provides:

- A centralized single data warehouse by consolidating data from multiple locations;
- An improved capability to access and use data in the MRM data warehouse by States and tribes;
- A state-of-the-art suite of tools to use for capture, transmission, and analysis of data;
- Enhanced electronic reporting options;
- Accelerated distribution of revenues;
- A platform upon which IT modules for RIK can be constructed; and
- A baseline implementation of the compliance/MRM data warehouse system as a solid foundation that will be enhanced in phases over a multiyear timeframe.

Justification of FY 2003 Program Change:

Through its reengineering project, MRM has modernized its automated systems and business processes and added significant functionality and a variety of new tools. For

example, the new data warehouse will provide vast amounts of easily accessible information for MRM employees as well as States, tribes, and industry. New business processes coupled with robust new analytical tools will enable MRM and state and tribal analysts to improve compliance coverage and timeliness.

The new systems, as anticipated, will be easier to operate and support and will improve efficiency. However, several factors contribute to the need for an overall increase in operations and support funds during FY 2003 to support MRM's new information technology environment:

- ◇ Robust new tools and capabilities will improve MRM's ability to accomplish its mission and goals but will require ongoing maintenance and support.
- ◇ The new systems and tools, coupled with growing requirements for remote access, place an increased demand and a growing dependency on MRM's networks and enterprise systems. This requires continuous upgrades to ensure a stable, secure computing and communication backbone for the new systems.
- ◇ Industry is anticipating major cost increases for enterprise software systems (database, operating systems, office automation, etc.) upon which our new systems and networks rely.

Refunds on Behalf of Allottees

Justification of Program and Performance

Analysis by Subactivity

(dollars in thousands)

	2002 Enacted	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2003 Budget Request	Change From 2002 (+/-)
\$(000)	15	0	0	15	0
FTE	0	0	0	0	0

The MMS proposes to continue to pay refunds to companies on behalf of Indian allottees when recoupment of company overpayments from future royalties is not feasible. In these cases, allottees are unable to refund overpayments to the companies because production is too low to generate sufficient royalties or there is no production (in cases where the payment was made to an incorrect lease).

The need for these refunds arises from past policy that required a payor who appealed a bill to pay the bill, pending the outcome of the appeal. Additionally, the policy required MMS to distribute BIA's portion of an appealed bill to BIA regional offices as soon as possible so they could subsequently disburse the revenues to the individual Indian allottees. In cases where the payor's appeal was upheld and the allottee was not able to repay the company, recoupment was made against future royalty payments. To mitigate these situations, the BIA changed its policy in FY 1987 and MMS implemented new procedures. Current procedures allow the companies to post bonds for the disputed amounts; MMS then suspends requirement for payment. Only after the appeal is settled does MMS distribute BIA's portion.

The MRM also uses this authority to make adjustments to BIA accounts for prior unrecoverable erroneous payments. This authority allows MRM to correct minor errors and make refunds to payors on behalf of allottees.

General Administration

Analysis by Subactivity

dollars in thousands

Subactivity		2002 Enacted	Uncontrollable And Related Changes	Programmatic Changes	2003 Budget Request	Change From 2002
Executive Direction	\$	2,003	+27	0	2,030	+27
	FTE	20	0	0	20	0
Policy and Management Improvement	\$	4,036	+59	0	4,095	+59
	FTE	33	0	0	33	0
Administrative Operations	\$	15,970	+368	+300	16,638	+668
	FTE	236	0	+1	237	+1
General Support Services	\$	20,016	+846	0	20,862	+846
	FTE	0	0	0	0	0
Total, General Administration	\$	42,025	+1,300	+300	43,625	+1,600
	FTE	289	0	+1	290	+1

Does not include a government-wide legislative proposal to transfer to agencies the full costs of the Civil Service Retirement System and the Federal Employees Health Benefits program.

The General Administration activity provides leadership, direction, management, coordination, communications strategy, and outreach (Executive Direction); policy, management, and strategic planning (Policy and Management Improvement); budget, financial, personnel, procurement, facilities, and information management services (Administrative Operations); and infrastructure support (General Support Services) to the Offshore Minerals Management and Minerals Revenue Management programs.

Among the key reasons for MMS current programmatic achievements is the ability of its senior managers to develop a sense of the direction of the industry and public it serves. This has been achieved through utilization of communication outreach via advisory councils, discussions with members of Congress, Congressional Committees and their staff, industrial and environmental spokesmen, and community representatives affected by ongoing and proposed MMS activities.

These efforts, recent technological developments, fundamental changes in the auditing and accounting philosophies, and MMS response to enactment of recent legislation have yielded a clear vision of where the MMS of the 21st century needs to be headed. Providing leadership, securing resources, developing organizational capabilities, building infrastructure and assuring appropriate delivery of services are the responsibility of General Administration.

Executive Direction
 Justification of Program and Performance
 Analysis by Subactivity
dollars in thousands

	2002 Enacted	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2003 Budget Request	Change From 2002 (+/-)
\$(000)	2,003	+27	0	2030	+27
FTE	20	0	0	20	0

The Executive Direction subactivity comprises the Office of the Director, the Office of Public Affairs, the Office of Communications, and the Office of Document Management. The Office of the Director, which includes the Director, the Deputy Director and their immediate staff, is responsible for providing general policy guidance and management of the organization.

Office of Public Affairs (OPA) is responsible for broad communications strategy and outreach. Its goal is to ensure a coordinated and consistent message and effective exchange of information with all customers and stakeholders. The OPA manages the coordination and implementation of an effective, efficient, and inclusive outreach program to numerous audiences including state and local governments, industry, related trade associations, the environmental community, Indian Tribes and Allottees, and the general public. The goal is to ensure a coordinated and consistent message and effective exchange of information with these customers and stakeholders.

In addition, the OPA serves as primary point of contact and bridge-builder with our external constituencies by facilitating dialogue and establishing ongoing, two-way communication with constituencies to ensure informed participation from all stakeholders in the decision-making process. The OPA serves as the focal point for print and news media information and education, and provides advice to the Director and other officials on policy and procedures for disseminating information.

Office of Congressional Affairs (OCA) serves as the primary point of contact with Congress. The OCA serves as the primary liaison for all congressional and legislative matters with Congress, state and local governments, and the Department on activities and legislative proposals that affect MMS. This activity includes evaluation of legislative proposals; communications regarding programs and policies and statement of positions on matters under consideration by the Congress; preparation and coordination of testimony for MMS witnesses; and coordination of arrangements for involvement in congressional meetings and committee hearings.

Office of Document Management (ODM) is responsible for managing all of the official documents of the Office of the Director. In addition, it ensures the timely development and coordination of MMS documents requiring review, action, or signature by the Director, Deputy Director or Departmental officials. Office staff ensures that documents,

correspondence, or actions under review are complete, accurate, and timely. To accomplish this, the staff maintains an automated tracking system with electronic capture, archiving, and dissemination of controlled documents and produces status and other management reports as necessary. The ODM is also responsible for managing Freedom of Information and Discovery requests that require a response from the Director's office. The ODM serves as a clearinghouse for the consolidation of several channels of information, all of which require action, review, or follow-up. The ODM works closely with the Departmental Executive Secretariat to ensure conformance with Secretarial and Departmental guidance and policies and is responsible for providing training within MMS on document preparation procedures and policies. The ODM maintains contact with the staff of the Assistant Secretary, Land and Minerals Management, and other Assistant Secretaries to ensure coordination on issues of multi-bureau interest and concern.

Policy and Management Improvement

Justification of Program and Performance

Analysis by Subactivity

dollars in thousands

	2002 Enacted	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2003 Budget Request	Change From 2002 (+/-)
\$(000)	4,036	+59	0	4,095	+59
FTE	33	0	0	33	0

The Office of Policy and Management Improvement (PMI) provides the Director with a small, independent organization capable of providing an impartial review and assessment of organizational policies and procedures. Because of its size and freedom from the daily operational requirements of larger programs, PMI is flexible enough to be responsive to a broad range of crosscutting organizational issues. These include: conducting and coordinating internal reviews; coordinating audits performed by the Office of the Inspector General and GAO; assuring implementation of recommendations derived from internal reviews, Inspector General audits, and GAO reviews or audits; managing MMS' compliance with the Departmental regulatory process; coordinating information collection requirements; and assuring Program compliance with the requirements of the Federal Advisory Committee Act (FACA).

PMI also initiates pilot and laboratory projects for the Director and promotes efforts aimed at improving organizational performance such as those advanced by the Government Performance and Results Act of 1993 (GPRA), the Government Paperwork Elimination Act (GPEA) and other administration or Departmental initiatives such as the President's National Energy Policy.

Finally, PMI is responsible for developing fair and impartial decisions on administrative appeals filed under the regulatory program.

Organizational Structure and Responsibilities

The Associate Director of PMI and immediate staff are located in Washington, D.C. Supporting staffs capable of conducting reviews and analyses are located in Lakewood, Colorado, close to the Minerals Revenue Management Program (MRM), and in Washington, D.C., near the Offshore Minerals Management Program (OMM) and Departmental Headquarters offices. Administrative Appeals are evaluated and processed in both Lakewood and Washington.

Policy Reviews and Program Analyses

Evaluation of MMS' existing and proposed policies and programs is generally conducted through economic and programmatic analyses. PMI provides policy reviews and analyses on a broad range of matters within MMS. Assignments are typically conducted:

- in support of proposed or existing Royalty and Offshore Program issues or
- to evaluate or implement new Bureau initiatives.

These efforts are generally carried out as special studies or technical assistance to the programs. Special studies may involve major analytical efforts, usually long-term in nature, to examine technical issues relevant to the program, analyze policy implications, and provide recommendations to the Director. These efforts may encompass both program specific subjects and developments elsewhere that may have an impact on the programs. Technical assistance to the programs is accomplished by leading or participating on Bureau task forces or by directly supplementing staff of the office responsible for specific projects.

PMI reviews legislation, regulations, and other documents for their policy content and provides analyses of proposals from outside MMS that affect Bureau programs. PMI is responsible for ensuring that programmatic plans and policies are consistent with and integrated into the overall Bureau mission and responsibilities, as well as the Department and Administration policy framework.

PMI will continue to participate in the development of policy options or performing analyses on such items as:

- Departmental participation in the development of National Energy Policy;
- Deepwater incentives and renewable energy issues;
- Implementation of requirements found in the Federal Oil & Gas Royalty Simplification & Fairness Act;
- The sale of royalty oil and gas from federal leases directly to the open market;
- Ongoing evaluation of alternative valuation methods of gas and oil on Federal lands with related cost benefit analyses;
- Use of fees for certain services or sales of minerals;
- Final resolution on complex issues under administrative appeal to the Director;
- Effectiveness of the royalty relief program for leases with declining production;
- Benchmarking of "Best Practices" for regulatory programs; and
- Level of services provided to individual Indian mineral landowners.

Royalty-in-Kind (RIK) Pilots

Under the terms of standard Federal oil and gas leases, the Government is entitled to a share (royalty) of production removed or sold from the lease. Historically, the Government has received this share in value (i.e., as a percentage of the sales proceeds received by the mineral lessee). There are, however, reasons to examine whether the

Government should receive at least some of its royalties not in value, but “in-kind,” that is, by taking and selling volumes of oil or gas equaling the percentage royalty share. A primary reason to examine this issue is that taking RIK may provide opportunities to substantially reduce disputes between lessees and the government over the value of Federal production.

In 1995, MMS conducted a pilot (limited test) to evaluate taking natural gas in-kind. That test produced mixed financial results but provided invaluable experience and knowledge to MMS about the operation and marketing of natural gas. Despite the initial mixed results, interest in Federal RIK programs continued. A September 1997 *RIK Feasibility Study* assessed the potential for the United States to take its oil and natural gas royalties in kind. It concluded that, under the right conditions, RIK programs could be workable, revenue positive, and administratively more efficient for all parties. In certain situations, taking RIK would probably increase royalty revenue. Committee report language accompanying the FY 1997 Interior Appropriations directed MMS to consider additional RIK projects. PMI managed the implementation team to pursue these recommendations by conducting additional RIK pilots in both oil and natural gas since the request by Congress, and has supported the transition of the RIK efforts to MRM.

The pilots were structured to be consistent with existing lease terms and to examine where, when, and under what conditions RIK might be feasible, yet permit collection of at least as much revenue as in-value royalty payments for the U.S. Treasury and for states entitled to a share of those revenues. MMS solicited participation from other federal and state government agencies (General Services Administration, Wyoming and Texas), and PMI has been evaluating the feasibility and efficiency of the pilot projects. MMS anticipates that the lessons learned from these pilot projects will eventually improve organizational efficiency.

Administrative Appeals

Sometimes companies or individuals disagree with compliance actions taken by MMS. These disagreements arise most frequently when the Minerals Revenue Management (MRM) Program finds that the company did not pay sufficient royalties and orders the company to correct the error. Any party disagreeing with a final order or decision issued by an officer of MMS has a right under federal regulation at 30 CFR Part 290 (2001) to appeal to the MMS Director; or, if Indian land is involved, the appeal is filed with the Deputy Commissioner of Indian Affairs. The program office (generally MRM) reviews the appeal, and if it is not resolved at that stage, they forward the appeal to the Appeals Division, PMI, for review. The decisions on these appeals are prepared by PMI’s Appeals Division.

PMI’s staff is insulated from MRM so they can render an independent review of the issue under appeal. The staff is largely professional, trained in legal research, and their workload is dedicated primarily to reviewing appeal information and writing decisions. Increasingly, staff has become more involved in settlement (conflict resolution) activities. Generally, technical expertise associated with complex issues is provided by other personnel in PMI or MMS.

The Appeals Division reviews the facts and arguments presented by both the appellant and the program office, analyzes the case against legal and policy precedents, and recommends a decision for signature by the Director, the Associate Director, PMI, or the Deputy Commissioner of Indian Affairs for cases involving Indian leases. If the appellant disagrees with the decision of MMS or BIA, they can appeal further to the Interior Board of Land Appeals (IBLA).

The Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (RSFA) requires the Department to render final decisions on administrative appeals involving Federal oil and gas leases within 33 months of the filing of the appeal. A rule published in the *Federal Register* on May 13, 1999 implemented the requirements of RSFA for the issuance of decisions on these appeals.

The Secretary of the Interior issued a Memorandum, dated June 1, 2000, announcing that the Department would retain its two level appeals process but acknowledged that improvements in the process are needed to better implement the RSFA requirements. Since that time, MMS, IBLA and the Solicitor's office have continued to analyze the appeals process, including the process for appeals involving Indian oil and gas leases and Federal leases for minerals other than oil and gas.

Implementation of the Government Performance and Results Act (GPRA)

Strategic planning and accountability for results is being woven into the culture of MMS. A team approach has been used to involve employees throughout the organization in the development of the mission, goals and performance indicators that are being used to measure the performance of MMS's critical programs. As part of this process, the organization has examined political, legislative, judicial, administrative, environmental, and economic factors, developed a strategic plan and annual performance plans, and focused the bureau on programmatic outcomes.

PMI has overall responsibility for coordinating and guiding the bureau in developing and implementing the plans, monitoring and reporting performance, and improving the performance planning process. To date, MMS has made great strides with the development and refinement of strategic and annual performance plans and in the development of a methodology to gather and report performance information as required under GPRA. The bureau views implementation of this Act as one of the cornerstones of its management improvement efforts. As more experience and knowledge is gained, MMS continues to refine its strategic thinking, re-evaluate its goals and measures and improve its capacity to gather, analyze and make performance information available to MMS managers, external customers and stakeholders, Congress and OMB. MMS will consider implementation successful when performance measurement and accountability for results are fully integrated into the culture and day-to-day operations of the organization.

Continuing efforts in the current fiscal year and beyond will focus on:

- Participation in the development of a new Departmental Strategic Plan;
- Verification, validation and reporting of performance information in a way that is useful and useable to managers and decision makers;
- Creating stronger linkages between performance and the budget;
- Creating more accountability for program performance; and
- Sharing MMS performance information with customers.

Performance Improvement

PMI is responsible for overseeing the Bureau-wide performance improvement undertakings; coordinating training; providing internal consulting services; and implementing Bureau-wide improvement initiatives. The staff provides technical assistance when possible in the form of training and consulting engagements for MMS offices that are pursuing performance improvement initiatives. The staff serves as the clearinghouse for disseminating improvement information, resources, and expertise throughout MMS and in cooperative departmental and government initiatives. During the current fiscal year, PMI will be involved in new and on-going MMS performance improvement initiatives, including:

- Developing a strategic framework for implementing E-Government in MMS;
- Implementation of a methodology for activity based costing;
- Steps to reduce and improve internal and external regulations;
- Use of “Plain English” regulation writing when regulations are necessary (PMI introduced the plain English style to the Department and Bureau);
- Evaluating the results of RIK oil and gas pilots which test new concepts for collecting the government’s royalty share of Federal resources;
- Improvement of the methods and systems for gathering and reporting performance information to provide more timely and more frequent information to managers.

Regulatory Direction

PMI manages the MMS regulatory program and serves as liaison to the Department’s regulatory office. In this capacity, it plays a major role in the Bureau’s efforts to coordinate MMS policy and implement the requirements of:

- The Paperwork Reduction Act of 1995 and related information collection requirements;
- Executive Orders (e.g., 12866) or legislation (e.g., The Regulatory Flexibility Act) directed towards the reduction and improvement of federal regulations;
- Executive Orders or legislation promoting methods of alternate dispute resolution, a more effective administrative appeal process, and improved regulatory drafting procedures; and
- The Negotiated Rulemaking Act (Neg-Reg Act) PL 101-648.

PMI leads bureau initiatives in regulatory reform and fosters activities utilizing conflict resolution. PMI's Appeals Division is actively engaged in dispute resolution of administrative appeals. Dispute techniques are being used to resolve disagreements without litigation or administrative adjudication.

Management Controls

The PMI is the coordinator and manager for the MMS Management Control Review (MCR) Program. A Management Control Plan (MCP) is developed by the MMS program offices and managed by PMI. This MCP is designed to assess the bureau's systems of management, administrative and financial controls in accordance with the standards and guidelines established by the Federal Managers' Financial Integrity Act and the Office of Management and Budget. The objectives of the assessment are to ensure that:

- programs achieved their intended results;
- resources were used consistent with agency mission;
- resources were protected from waste, fraud, and mismanagement;
- laws and regulations were followed; and
- reliable and timely information was maintained, reported, and used for decision-making.

Several years ago, MMS conducted a test for the Department of an automated computer-based tool to expedite audits and reviews. The test of the Process Management Assessment Tool (PMAT) was later expanded and was subsequently adapted by other bureaus in Interior. The PMAT is now in use throughout the Department. The PMAT was implemented to bring more accuracy and less reliance on staff in the completion of MCR reviews. It is not a substitute for a complete audit or internal review but it has proven to be a useful "targeting" tool, i.e., it identifies areas that require further attention. Typically, six to ten MCR reviews are planned for a fiscal year. Two or three would likely be performed using the automated PMAT. Each fiscal year, PMI leads and assists the MMS program offices in performing its management control reviews. Participation will include ensuring that each review is planned, conducted, documented, and reported in accordance with MMS and departmental regulations and procedures.

Administrative Operations
 Justification of Program and Performance
 Analysis by Subactivity
dollars in thousands

	2002 Enacted	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2003 Budget Request	Change From 2002 (+/-)
\$(000)	15,970	+368	+300	16,638	+668
FTE	236	0	+1	237	+1

The Administrative Operations subactivity consists of the following functions: Administrative Direction and Coordination, Budget and Finance, Equal Employment and Development Opportunity, Personnel Management, Procurement and Support Services, and Information Resources Management. These functions are directed and carried out at Headquarters and nationwide through five Divisions and two Administrative Service Centers (ASC's), the Western Administrative Service Center (WASC) and the Southern Administrative Service Center (SASC).

Administrative Direction and Coordination

This function provides for oversight of all administrative activities within MMS. This oversight ensures compliance with laws relating to administrative activities; provides for the review, interpretation, and implementation of Federal executive branch administrative policies and procedures; and develops appropriate guidance to ensure compliance with Department, Office of Management and Budget, General Services Administration, and other executive branch administrative policies and regulations. This function also includes responsibility for the Bureau's management analysis functions (management studies and reviews, organizational review, delegations of authority and related activities, and special projects, such as benchmarking reviews) and budget formulation and execution for Administration and Budget. In addition this function maintains a liaison with Departmental offices in order to effect a coordinated and unified administrative program consistent with the mission and goals of the Department.

Budget and Finance Division

The Budget and Finance Division (BFD) is responsible for the planning and effective utilization of budgetary and financial system resources in support of the varied operating and support programs of the bureau. The BFD serves as the focal point for the implementation of the provisions of the Chief Financial Officer's Act of 1990 including liaison responsibilities for the annual audit of the combined financial statements contained in the Annual Financial Report for the Bureau.

- The Budget Branch provides analysis and budget guidance, assures proper funding and staffing allocations, and oversees budget execution in accordance with appropriations signed into law. The Budget Branch develops and maintains all budget data to support MMS budgetary requests to the Department, the Office of

Management and Budget (OMB), and the Congress; and provides analysis of financial and other resource utilization reports for use by bureau and program managers. The Branch is responsible for preparing the annual Budget Estimates to the Department and OMB, as well as the annual Congressional Budget Justification in the presentation and explanation of budget submissions to the Department, OMB and the Congress.

- The Financial Management Branch (FMB) is responsible for the administrative accounting operations of the Bureau. The FMB operates the administrative accounting system, audits and schedules bills for payments, collects debts, develops financial data, prepares financial reports, provides advice and assistance on financial matters, and maintains liaison with Departmental offices and other Government agencies.

It is both a Presidential Management Agenda item and a long term goal of MMS to ensure that timely and accurate financial data are readily available to assist MMS Management in making sound and justified management decisions. In support of these priorities, MMS has moved aggressively during the past two years to respond to recommendations made by the Inspector General and to improve our financial performance. Much has been accomplished during this time including: a complete reconciliation of cash accounts to bring us fully in line with Treasury; the hiring of a new financial management chief and additional staff; a reorganization of financial management staff as recommended by an outside accounting firm; improved definition of staff responsibilities and functions; improvements in internal controls, and expanded training for all staff to assure better compliance with rules and regulations.

MMS also supports the Department's efforts to increase the integration of the budget and the Government Performance Results Act requirements. MMS will pilot Activity Based Costing during FY 2002 to automate the tracking and comparison of budget and performance standards. ABC will be piloted by MMS and the Office of Surface Mining in FY 2002, and be implemented in the other DOI bureaus in FY 2003.

Equal Employment and Development Opportunity

The Equal Employment and Development Opportunity Division (EEDOD) develops, directs, monitors, and operates the MMS Equal Employment Opportunity (EEO) program in compliance with the Civil Rights Act of 1964, the Equal Employment Opportunity Act of 1972, Executive Order 11478, departmental directives and other related statutes and orders. Specifically, these duties include:

- Maintenance and operation of the discrimination complaint system;
- Implementation of equal employment opportunity and affirmative action plans;
- Implementation of programs for diversity higher education and related partnerships;
- Administration of the Employee Counseling Program;
- Administration of a program for dispute resolution alternatives;
- Development and tracking of working place equity programs;
- Coordination of employee training programs;

- Responsibility for special initiative programs which are underway to involve more women and minorities and people with disabilities in the program areas and throughout all levels of management; and
- Responsibility for developmental programs such as Student Employment, Upward Mobility, and Management Development.

The division provides policy, coordination, and direction for MMS developmental programs which include managing and monitoring the equity of employee development opportunities associated with formal developmental program, cross training assignments, and mentoring activities. Emphasis is placed on training managers and supervisors in employee development and human resources planning.

To ensure that workforce activities are inclusive, that they promote the full utilization and exchange of skills and talent, the division will develop and coordinate Special Emphasis activities; develop and implement EEO complaints prevention initiatives, and track and analyze applicant flow data and employment trends.

The EEDOD coordinates compliance with the Departmental Office for Equal Opportunity and EEO Commission directives and Solicitor's requests regarding EEO issues and coordinates with the Department and other agencies concerning employee development issues. The division chief serves as the MMS Equal Employment Opportunity Officer.

Personnel Management

The Personnel Division administers the MMS's human resource management program. Major responsibilities of the personnel management function are:

- Develops and implements policies, procedures, guidelines, and standards relating to general personnel management, recruitment and employment, position management and classification; human resource planning; personnel program evaluation; labor management relations; conflict of financial interest and standards of conduct; employee relations and services; personnel security; incentive awards; family friendly programs; the Federal Equal Opportunity Recruitment Program; and Senior Executive Service programs.
- Prepares appropriate reports, performs all operational personnel services for the MMS Headquarters and client organizations, and provides assistance and guidance related to personnel matters for all MMS regional and field installations.
- Reviews, processes, and represents management in employee grievances, appeals, and adverse or performance based actions.
- Provides Bureau wide payroll and personnel systems liaison services. Maintains liaison with the Office of Personnel Management, the Federal Labor Relations Authority, the Merit Systems Protection Board, and the Department on personnel

management and related issues. Coordinates MMS matters involving personnel investigations by maintaining liaison and coordination with the Department's Office of Inspector General concerning such investigations. Conducts and coordinates inquiries and determines appropriate actions related to whistle blower complaints.

- Consults with and refers actions related to allegations based on discrimination to Equal Employment and Development Opportunity Division, advising them of any issues which may impact on the administrative remedy process.
- Carries out reductions-in-force, reorganizations, and executive initiatives related to human resource issues.
- Seeks to ensure regulatory compliance to prevent real or apparent conflicts by providing guidance on standards of conduct and conflict of financial interest to employees Bureau wide through proactive employee awareness training and information bulletins, advice on specific conflict issues, and the initiation of remedial orders when needed.
- Leads the MMS Workforce Planning initiative. This includes serving on Departmental Workforce Planning committees, analyzing work related to the analysis of present workforce competencies (demographics, retirement projections, etc); identification of competencies needed in the future; a comparison of the present workforce to future needs to identify competency gaps and surpluses; the preparation of plans for building the workforce needed in the future.

In addition, the MMS's Personnel Division provides operational personnel services to client organizations on a reimbursable arrangement. The Division currently provides personnel support to the following organizations:

- Office of the Secretary of the Department of the Interior
- Office of the Special Trustee for American Indians
- James Madison Memorial Scholarship Foundation
- Harry S. Truman Scholarship Foundation
- U.S. Office of Special Counsel

Procurement and Support Services

The Procurement and Support Services Division (PASSD) is responsible for the execution and administration of MMS' acquisitions, space and facilities management, property management, safety and health management, transportation, and general office services functions.

The Procurement Operations Branch (POB) solicits awards and administers contracts, simplified acquisitions, assistance awards, and intra- and interagency agreements essential to the mission of the MMS. The PASSD manages the Business and Economic Development Program to maximize opportunities for small, disadvantaged, and women-

owned businesses, as well as Historically Black Colleges and Universities as both prime and subcontractors.

The Division provides policy guidance and advice to procurement and program personnel. It conducts acquisition management and other internal control reviews of procurement activities. The PASSD coordinates the Bureau's charge card program and administers the purchase card program.

The support services functions include facilities management (27 buildings in 26 cities), space management, mail and courier activities, bureau-wide physical and document security, the Safety and Health Management Program, day-to-day voice and data communications, and property management. The property management program maintains accountability records of all controlled property in the possession and control of custodial property officers and contractors within the MMS; manages the Bureau vehicle fleet; manages the Bureau museum property including an Arts and Artifacts program; manages a printing and publication activity; and issues policy guidance on the above.

- *Space Utilization Studies and Space Layout and Reconfiguration.* In FY 2003, as staff realignments continue in the MMS, the Division will continue to conduct MMS-wide space utilization studies and layouts. These studies allow us to proactively manage our space, which has resulted in its more efficient utilization and increased energy conservation.
- *Overall Acquisition Program.* Contract activity for the Offshore Technical Information Management System and the Technology Assessment and Research Program are an important part of the acquisition program within PASSD. In addition to the acquisition of information technology (IT) equipment and services to directly support the missions of MMS, the PASSD continues to establish and administer contracts for Department-wide requirements for network servers, laptop computers, and software licensing agreements with Novell and Microsoft. Additional Department-wide IT requirements are anticipated in FY 2003. Under the Department's franchise pilot program authorization and the Government Performance Reform Act, (GPRA), the MMS is providing acquisition support for the Department of Defense and other federal civilian agencies.
- *Implementation of the Federal Acquisition Streamlining Act Requirements.* Under the provision of this Act: (1) MMS expanded its purchase card program allowing personnel to purchase the majority of their requirements of less than \$2,500. (2) The PASSD will continue the use of oral proposals in FY 2003, a practice that was initiated in FY 1996 and which has proven to be an efficient and effective acquisition method that has been embraced by MMS personnel and the contractor community. (3) The Division will continue to acquire performance-based services to the greatest degree possible. (4) The PASSD will continue to use past performance as an evaluation factor. These, as well as other best practices, will be tools that will enable us to obtain the best value in our procurements.

- *Interior Department Electronic Acquisition System – Procurement Desktop (IDEAS-PD)*. The PASSD continues to use the electronic acquisition system at MMS Headquarters and in the Western and Southern Administrative Centers. IDEAS-PD will continue to require maintenance and hardware and software enhancements to incorporate the latest technology advancements. The MMS actively participates in the IDEAS Departmental User Group meetings and periodic user training. The interface between the financial management system, ABACIS, and PD will be fully operational.
- *Property Management System (PMS-NT)*: The Windows NT Server based Property Management System is referred to as Property Management System – NT (PMS-NT). This system is the official Bureau property management system in use by MMS and contains data on all Government owned and leased personal property assets within the MMS.
- *Safety Management Program*. The PASSD provides policy and guidance for the Bureau Safety and Health program. The policy of the MMS and PASSD is to provide safe and healthful work conditions and to present information on injury- and work-related illness to its employees and to protect MMS property from damage and provide for the safety of the public while using MMS facilities. PASSD also ensures program compliance and integration of safe and healthful practices into the day-to-day activities conducted within MMS as well as performs annual facility inspections, ensuring corrective and abatement plans are established, when needed.

Information Resources Management

Security. The IRM Division will continue to enhance the MMS IT system security in FY03. The Bureau IT Security Manager will work closely with the IT Security Managers from the program areas to review and improve our security policies, and coordinating our efforts with the Department's CIO Office to ensure that the MMS security is in compliance with the DOI IT Security Plan. Other efforts will include updating, reviewing and testing Continuity of Operations Plans (COOPs), risk analyses, and security plans. IRM will also look at implementing new technologies that will improve security.

Enterprise Planning and Coordination. Under the CIMO's direction, strategic planning documents will be produced that are less weighted on the technology side than previous plans, but rather address topics such as the IT workforce challenge, security, and capital asset planning and management of the IT portfolio.

Departmental Initiatives. The IRM Division will play a lead role in contributing to important Departmental IT activities that are sponsored by the agency's CIO through the CIO Team and through a variety of working groups. These include participation in the development of the Department of the Interior Enterprise IT Architecture (ITA) and departmental capital asset management process. The MMS will also develop an MMS

Enterprise Architecture and Strategic Plan that will be based upon the DOI Architecture and Strategic Plan currently in development.

The IRM Division will support the Department and OMB e-Gov initiatives. IRMD will work with the Offshore Minerals Management program as part of an integrated program team (IPT) to provide input and direction to the development and implementation of the e-Transformation project.

FTS2001 Data and Managed Services. In FY2003, MMS will continue to outsource some of its network management and security requirements to utilize the MCI WorldCom managed services including network managed router service, maintenance for routers, firewall and other security management activities, and remote access dial-up service. MMS will engage MCIW/UUNET to perform an annual security scan of its five firewalls.

Intranet Improvements - Part of the Knowledge Management Structure. MMS Knowledge Pipeline intranet technology plays a vital role in maximizing the distribution and sharing of MMS corporate knowledge across the bureau. The Intranet enables MMS to comply with several legislative mandates, including: Section 508 of the Rehabilitation Act; Government Paperwork Elimination Act; Clinger-Cohen Act; Paperwork Reduction Act; and, Executive Orders. The Intranet will continue to improve in design and functionality in 2003, providing both electronic search and retrieval of Administrative and Program-specific information, to include database collaboration and web-enabling many of our business processes. These initiatives support the A&B long-range goal, which is to build an enterprise information knowledge management structure corporately managed for the benefit of MMS as a whole. The Intranet is an integral part of this knowledge management structure, supported by our existing Microsoft Exchange infrastructure. With these tools, MMS will be well positioned to create a knowledge sharing community within a distributed work force, support collaborative work teams, and provide the right piece of information to make successful business decisions throughout the Bureau.

The support and maintenance of the MMS Knowledge Pipeline and its re-design effort not only involves long term planning, but it also provides detailed guidelines using web technology to ensure that the MMS Pipeline continues to provide employees with information as quickly and efficiently as possible.

This fiscal year will usher in the redesign effort of the existing Pipeline and MMS.GOV business processes. This redesign effort will extend intelligent “data capture” capabilities to a wider audience, including remote users, intranet users, inter-bureau users and special needs users.

Infrastructure Support. The IRM Division will continue to support and maintain the Microsoft Exchange architecture taking advantage of new features and capabilities associated with software upgrades including web-based e-mail service. Other initiatives will include the migration to Microsoft Windows 2000. The IRM Division will continue

to maintain and implement Commercial Off-the-Shelf (COTS) and web-based applications to satisfy requirements for administrative information.

Competitive Sourcing. The IRM Division will work with the Bureau and the Department's Competitive Sourcing Center for Excellence to meet the Administration's goals for competitive sourcing. This includes use of contracting staff for its operations and help desk functions and other previously identified non-inherently governmental functions.

Records Management Initiatives. The IRMD will continue to review MMS records management policies, manuals and directives to come into compliance with the Government Paperwork Reduction Act (GPR), Government Paperwork Elimination Act (GPEA), and National Partnership for Reinventing Government (NPR). We will investigate and evaluate records management technology to determine if new technologies and software can be utilized within the Minerals Management Service and Department of Interior.

Field Administrative Service Centers

Direct administrative support is provided to various MMS program managers through two Administrative Service Centers (ASC's).

The Southern Administrative Service Center (SASC), located in New Orleans, Louisiana, provides direct administrative support, direction, and coordination to programs in the Gulf of Mexico OCS Region (GOMR), Headquarters' Information Technology Division, and a resident Minerals Revenue Management (MRM) Metairie Compliance Office. Full support is also provided to 6 outlying District/Subdistrict GOMR offices, and an Eastern Gulf Information Office located in Pensacola, Florida.

The Western Administrative Service Center (WASC), located in Denver, Colorado, supports the Minerals Revenue Management offices in Denver and its field entities; the Office of Policy and Management Improvement; the Equal Employment and Development Opportunity Division; the Offshore Minerals Management Mapping and Survey Staff in Denver; and, the Alaska and Pacific OCS Regions.

Justification of Program Change
 Administrative Operations
Increase in Funding for Gulf of Mexico Workload

	2003 Budget Request	Program Change (+/-)
Administrative Operations		
\$(000)	16,638	+300
FTE	237	+1

Relationship to Performance Goals:

The Administrative Operations program provides budget, financial, personnel, procurement, facilities and information management services to the Offshore Mineral Management and Minerals Revenue Management activities.

Justification of FY 2003 Program Change:

An increase of \$0.3M, 1 FTE and one competitively sourced position are requested for the Administrative Operations program at the Southern Administrative Service Center in New Orleans. This request is necessary to provide administrative support and upgrading of telephone equipment in the District offices for the 34 additional Gulf of Mexico (GOM) FTEs requested in the FY 2002 President’s Budget and the 20 GOM FTEs and 5 competitively sourced positions requested in the FY 2003 request. The current workload is already straining existing staff resources and the increase in FTE for FY 2002 and FY 2003 will only exacerbate this situation. Additional funds are needed to provide the increased administrative services required for the GOM workload.

General Support Services
 Justification of Program and Performance
 Analysis by Subactivity
dollars in thousands

	2002 Enacted	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2003 Budget Request	Change From 2002 (+/-)
\$(000)	20,016	+846	0	20,862	+846
FTE	0	0	0	0	0

The General Support Services subactivity includes funding for fixed costs and related support services for Offshore Minerals Management, Minerals Revenue Management, and Administration and Budget entities. Fixed costs include expenses such as rental of office space, workman's compensation, unemployment compensation, Federal Telecommunications System (FTS) Service/Commercial Communications, the Department's Working Capital Fund (WCF), annual building maintenance contracts, mail services, and necessary printing costs.

Two major program objectives are to provide adequate and safe workspace and facilities that will contribute to the productivity and efficiency of the employees in achieving goals and objectives, and to provide appropriate services in support the operating programs.

Explanation of Authorizing Statutes

Outer Continental Shelf Lands:

43 U.S.C. 1331, et seq. The Outer Continental Shelf (OCS) Lands Act of 1953, as amended, extended the jurisdiction of the United States to the OCS and provided for granting of leases to develop offshore energy and minerals

43 U.S.C. 4321, 4331-4335, 4341-4347 The National Environmental Policy Act of 1969 required that Federal Agencies consider in their decisions the environmental effects of proposed activities and that Agencies prepare environmental impact statements for Federal actions having a significant effect on the environment.

16U.S.C. 1451, et seq. The Coastal Zone Management Act of 1972, as amended, established goals for ensuring that Federal and industry activity in the coastal zone be consistent with coastal zone plans set by the States.

16 U.S.C. 1531-1543 The Endangered Species Act of 1973 established procedures to ensure interagency cooperation and consultations to protect endangered and threatened species.

42 U.S.C. 7401, et seq. The Clean Air Act, as amended, was applied to all areas of the OCS except the central and western Gulf of Mexico. OCS activities in those nonexcepted areas will require pollutant emission permits administered by the EPA or the States.

16 U.S.C. 470-470W6 The National Historic Preservation Act established procedures to ensure protection of significant archaeological resources.

30 U.S.C. 21(a) The Mining and Minerals Policy Act of 1970 and the Materials and Minerals Policy, Research and Development Act of 1970 set forth the continuing policy et seq. of the Federal Government to foster and encourage private enterprise in the orderly and economic development of domestic mineral resources and reserves.

30 U.S.C. 1601 The Policy, Research and Development Act of 1970 set forth the continuing policy et seq. of the Federal Government to foster and encourage private enterprise in the orderly and economic development of domestic mineral resources and reserves

33 U.S.C. 2701, et seq. The Oil Pollution Act of 1990 established a fund for compensation of damages resulting from oil pollution and provided for interagency coordination and for the performance of oil spill prevention and response research. It also expanded coverage of Federal requirements for oil spill response planning to include State waters and the transportation of oil. The Act also addressed other related regulatory issues.

- 43 U.S.C. 1301 The Marine Protection, Research, and Sanctuaries Act of 1972 provided that the Secretary of Commerce must consult with the Secretary of the Interior prior to designating marine sanctuaries. The MMS provides information and comments regarding the mineral resource potential in areas being considered for designation as marine sanctuaries.
- 16 U.S.C. 1361-1362, 1371-1384, 1401-1407 The Marine Mammal Protection Act of 1972 provides for the protection and welfare of marine mammals.
- P.L. 104-58 The Deepwater Royalty Relief Act provides royalty rate relief for offshore drilling in deepwater of the Gulf of Mexico (GOM).

Royalty Management Program:

- 25 U.S.C. 397, et seq. The Indian Mineral Leasing Act of 1891, as amended, authorizes mineral leasing on land bought and paid for by American Indians.
- 25 U.S.C. 396, et seq. The Indian Minerals Leasing Act of 1909 authorizes soil and gas leases on American Indian allotted lands.
- 25 U.S.C. 396-396(g), et seq. The Indian Mineral Leasing Act of 1938 authorizes oil and gas lease on American Indian Tribal lands and provides uniformity with respect to leasing of Tribal lands for mining purposes.
- 30 U.S.C. 181, et seq. The Mineral Leasing Act of 1920 (MLA) provides for classification and leasing of coal, oil, oil shale, natural gas, phosphate, potassium, sulfur, and sodium and the payment of bonuses, rents, and royalties on such leases.
- 43 U.S.C. 1331, et seq. The Outer Continental Shelf Lands Act of 1953 provides for granting of leases to develop offshore energy and minerals; provides for bonuses, rents, and royalties to be paid in connection with such leases; and calls for sharing certain revenues with coastal states.
- 30 U.S.C. 1001, et seq. The Geothermal Stream Act of 1979 authorizes the Secretary to issue leases for the development of geothermal energy and provides for receipt sharing with the States.
- 30 U.S.C. 181, et seq. The Combined Hydrocarbon Leasing Act of 1981 provides for combined hydrocarbon leases and receipt sharing with the States for such leases within their boundaries.
- 25 U.S.C. 2101, et seq. The Indian Minerals Development Act of 1982 provides that any American Indian Tribe may enter into lease agreements for minerals resources within their boundaries with the approval of the Secretary. Allotted landowners may join Tribal mineral agreements.
- 30 U.S.C. 1701, et seq. The Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA) provides for comprehensive fiscal and production accounting and auditing systems to provide the capability of accurately determining oil and gas royalties, interest, fines, penalties, fees, deposits, and other payments owed and to collect for such amounts in a timely manner.

- 106 Stat. 1374 The FY 1993 Department of the Interior and Related Agencies Appropriations Bill requires the deduction of \$68.2 million from mineral receipts before their distribution to States and Treasury to recover a portion of the Government's mineral leasing program costs.
- 110 Stat. 1700 The Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (P.L. 104-185) changes for royalty collection program by establishing a 7-year statute of limitations, limits of appeals, requires the government to pay interest on royalty overpayments, changes in definitions, and allows for delegation of certain functions. Omnibus Act of 1999 (P.L. 105-277) General Provisions Department of the Interior Sec. 130 Oil Valuation Rider Sec. 139 - Small Refiner Ratification of Payments
- PL 106-393 Mineral Revenue Payments Clarification Act of 2000, Title V of the Secure Rural Schools and Community Self-Determination Act of 2000

General Administration:

- 31 U.S.C. 65 Budget and Accounting Procedures Act of 1950
- 31 U.S.C. 3901-3906 Prompt Payment Act of 1982
- 31 U.S.C. 35128 Federal Managers Financial Integrity Act of 1982
- 5 U.S.C. 552 Freedom of Information Act of 1966, as amended
- 31 U.S.C. 7501-7507 Single Audit Act of 1984
- 41 U.S.C. 35045 Walsh Healy Public Contracts Act of 1936
- 41 U.S.C. 351-357 Service Contract Act of 1965
- 41 U.S.C. 601-613 Contract Disputes Act of 1978
- 44 U.S.C. 35 Paperwork Reduction Act of 1980
- 44 U.S.C. 2101 Federal Records Act 1950
- 40 U.S.C.. 4868 Federal Acquisition Regulation of 1984
- 31 U.S.C. 3501 Privacy Act of 1974
- 31 U.S.C. 3501 Accounting and Collection
- 31 U.S.C. 3711, 3716-19 Claims
- 31 U.S.C. 1501-1557 Appropriation Accounting
- 5 U.S.C. 1104 et seq. Delegation of Personnel Management Authority
- 31 U.S.C. 665-665(a) Anti-Deficiency Act of 1905, as amended

Authorizing Statutes

41 U.S.C. 252	<u>Competition in Contracting Act of 1984</u>
18 U.S.C. 1001	<u>False Claims Act of 1982</u>
18 U.S.C. 287	<u>False Statements Act of 1962</u>
41 U.S.C. 501-509	<u>Federal Grant and Cooperative Agreement Act of 1977</u>
41 U.S.C. 253	<u>Federal Property and Administrative Services Act of 1949</u>
41 U.S.C. 401	<u>Office of Federal Procurement Policy Act of 1974, as amended</u>
15 U.S.C. 631	<u>Small Business Act of 1953, as amended</u>
15 U.S.C. 637	<u>Small Business Act Amendments of 1978</u>
10 U.S.C. 137	<u>Small Business and Federal Competition Enhancement Act of 1984</u>
15 U.S.C. 638	<u>Small Business Innovation Research Program of 1983</u>
10 U.S.C. 2306(f)	<u>Truth in Negotiations Act of 1962 Authorization</u>
Secretarial Order No. 3071	The order established the Minerals Management Service in January 1982, under authority provided by Section 2 of Reorganization Plan No. 3 of 1950 (64 Stat. 1262).

Oil Spill Research:

33 U.S.C. 2701, <u>et seq.</u>	Title VII of the Oil Pollution Act of 1990 authorizes the use of the Oil Spill Liability Trust fund, established by Section 9505 of the Internal Revenue Code of 1986, for oil spill research.
33 U.S.C. 2701, <u>et seq.</u>	Title I, Section 1016, of the Oil Pollution Act of 1990 requires a certification process which ensures that each responsible company, with respect to an offshore facility, has established, and maintains, evidence of financial responsibility in the amount of at least \$150,000,000 to meet potential pollution liability.
43 U.S.C. 1331, <u>et seq.</u>	Section 21(b) of the Outer Continental Shelf Land Act, as amended, requires the use of the best available and safety technologies (BAST) and assurance that the use of up-to-date technology is incorporated into the regulatory process.
Executive Order 12777	E.O. 1277, signed October 18, 1991, assigned the responsibility to ensure oil spill financial responsibility for OCS Facilities to the Secretary of the Interior (Minerals Management Service).