



BUDGET The United States
Department of the Interior

JUSTIFICATIONS

and Annual Performance Plan
Fiscal Year 2002

Annual Performance Report
Fiscal Year 2000

**MINERALS MANAGEMENT
SERVICE**

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Minerals Management Service

FY 2002 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, State, and tribal auditors. The business environment in which MMS administers royalty payments is similar in many respects to that in which private and State land minerals owners operate. However, in scale of activity and variety and complexity of lease terms, it is significantly different. Currently, MMS administers the rental, royalty, and other financial terms for approximately 26,250 producing and 54,500 non-producing mineral leases.

MMS provides major fiscal and energy benefits to taxpayers, States, the Indian community and the Nation. In FY 2002, MMS will account for an estimated \$7.9 billion in Federal receipts, including \$5.9 billion from OCS rents, bonuses, and royalties, and \$2 billion from onshore rents, bonuses, and royalties. Another

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 2002.

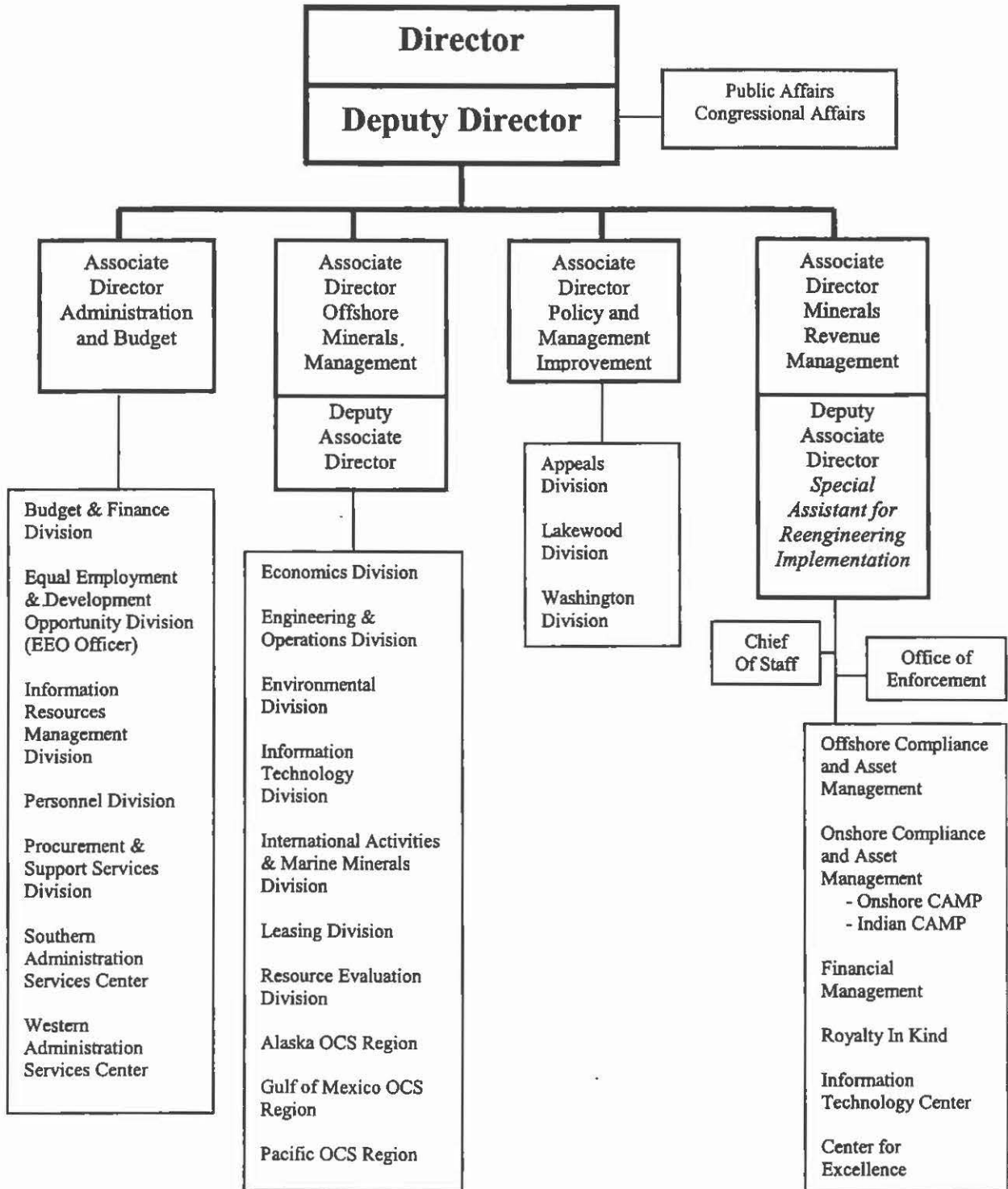
The Federal Treasury

In FY 2002, MMS is projected to collect approximately \$7.9 billion in OCS rents, bonuses, and OCS and onshore Federal and Indian royalties.

State Treasuries

The MMS will disburse just under \$1 billion to States in fiscal year 2002. 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.

Minerals Management Service Organizational Chart



\$0.2 billion will be collected and transferred to the Bureau of Indian Affairs (BIA) for disbursement to American Indian tribes and individual American Indian lessors.

The \$7.9 billion will be distributed as follows: approximately \$5 billion will be deposited to the General Fund of the U.S. Treasury to pay for Federal programs; approximately \$990 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 \$786 million will be credited to the Reclamation Fund. In addition to the \$7.9 billion in Federal Receipts, approximately \$236 million will be transferred to BIA for distribution to Indian tribes and allottees, and coastal States will receive an estimated \$61 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 500,000 transactions each month (involving over \$500 million per month) from over 26,250 producing Federal and Indian leases. General Administrative functions are provided by Administration and Budget, Policy and Management Improvement, Public Affairs, and Congressional. 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 \$258.2 million, a net increase of \$11.6 million or slightly less than 5 percent above the 2001 enacted level of \$246.6 million. The \$11.6 million increase combined with program decreases of \$18.1 million will fund \$9.0 million for uncontrollable cost changes (mostly pay raises and GSA rent increases) and \$20.7 million for programmatic increases. In addition the budget request includes a shift of \$4.7 million in funding from offsetting collections to appropriations. This shift has no impact on MMS's total funds available 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
Minerals Revenue Management Transition	+\$4.003	0

During FY 2002, the MRM will be transitioning its mission critical RMP legacy system to entirely new technologies, applications, and processes created by the royalty reengineering initiative.

Budget Overview

Program Change	Amount (in millions)	FTE
Financial Management	+\$1.963	5
This increase will support MMS's efforts to implement recommendations by the Inspector General and outside consultants regarding internal control deficiencies that prevent MMS from ensuring that administrative financial transactions are properly recorded and processed.		
Gulf of Mexico Workload	+\$7.396	34
Post lease activity level continues to rise in the Gulf of Mexico OCS Region. In FY 2000, the number of drilling permits approved was 60% higher than in FY 1999. The number of development plans filed rose 46% for the same period. This increase will provide resources to approve industry plans, thus preventing delays in oil and gas production and revenues, and to continue to ensure that ongoing production is done in a safe and environmentally sound manner.		
Royalty-in-Kind	+\$7.300	0
Provides funds to purchase gas management systems in support of continuing RIK pilots and longer-term projects.		
Center for Marine Resources and Environmental Technology	-\$.599	0
The MMS recognizes the importance of the investigations and technological development that this center pursues longer-term technical research. However, due to higher research priorities for oil and gas exploration and extraction, MMS is proposing to eliminate CMRET funding in FY 2002.		
Offshore Technology Research Center	-\$.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 2002 to \$0.9 million.		
Royalty Reengineering	-\$14.967	0
Under the Royalty Reengineering Initiative begun in 1999 virtually every aspect of operations has changed, including every interface among MMS, other Federal and State agencies, industry, and contractors, as well as all reports, procedures, systems, and processes. This initiative will be completed in FY 2001.		
Streamlining Reductions	-\$1.987	0
Program reductions taken in various MMS subactivities to reflect reduced redundancy and inefficiency and to incorporate processes for working smarter.		

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 (97.6 percent) of the MMS operating budget is the Royalty and Offshore Minerals Management (ROMM) appropriation. This account is comprised of both direct appropriations and offsetting collections.

FY 2002 Proposed Operating Appropriations/Offsetting Collections

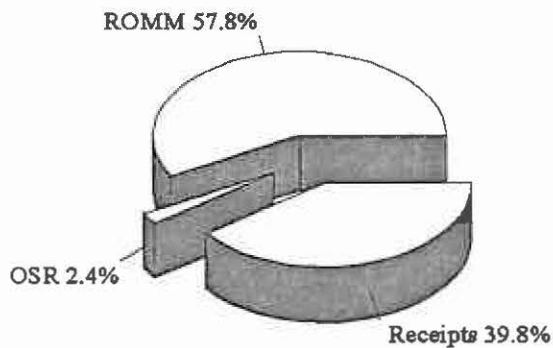
dollars in thousands

Royalty and Offshore Minerals Management	\$149,368
Offsetting Collections	\$102,730
Oil Spill Research	\$6,105
Total	\$258,203

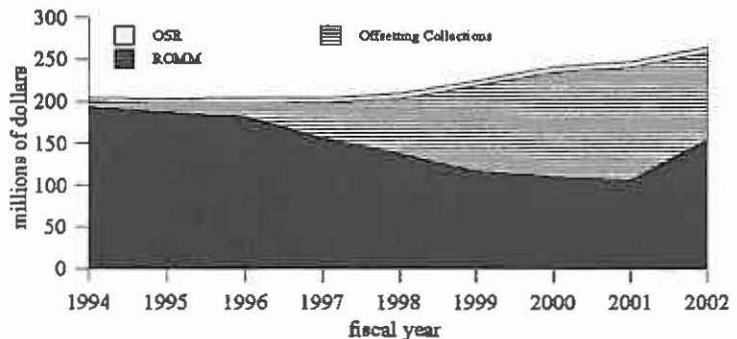
Since 1994 when MMS received authority to retain a portion of OCS rental receipts¹ (offsetting collections) the share of the agency funded with appropriated funds has decreased substantially. The share of MMS's total budget funded from offsetting collections peaked in FY 2000 at 52 percent. In FY 2002, approximately 40 percent of MMS's funding is proposed to come from offsetting collections.

The dramatic increase in leasing activity in the Gulf of Mexico (GOM) has made it possible to switch to a larger portion of MMS funding from direct appropriations to offsetting collections. This increased activity was made possible by new technologies that have allowed exploration and development in very deep water, the rapid expansion in the 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. There was also a dramatic change in perceived economics of operating in deep water. The

**Minerals Management Service
FY 2002 Sources of Funding**



**Minerals Management Service
Sources of Funding**



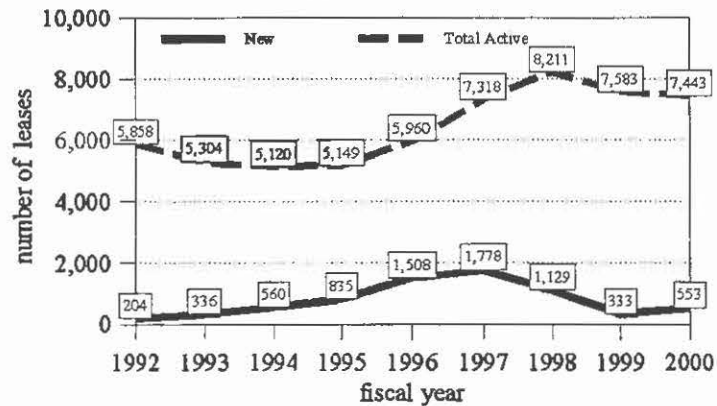
¹ Offsetting collections are receipts scoreable to the ROMM appropriation from an increase in the offshore natural gas and oil lease rental rates. The ability of MMS to collect and retain these receipts has been a significant benefit in that it has enabled MMS costs to be paid from revenues instead of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

new deepwater wells were highly prolific, producing at rates an order of magnitude higher than typical GOM wells. This resulted in not only faster recovery of the resources, but also the necessity to drill fewer wells. 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.

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. While the number of new tracts leased in FY 2000 is almost 70 percent below the peak year 1997, total active leases in FY 2000 are actually higher than FY 1997.

While FY 2000 saw the number of tracts leased increase for the first time in three years, 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 \$102.73 million in FY 2002.

Gulf of Mexico Leasing Activity
Fiscal Years 1992 - 2000



In addition to appropriations for operations, the MMS receives appropriations for distribution of the States' share of onshore mineral receipts. In FY 2002, MMS estimates that the States share of these onshore mineral receipts will be slightly less than \$1 billion. While this amount is approximately 10 percent less than our estimate for FY 2001, it is an increase of 42 percent over FY 2000.

FY 2002 Proposed Permanent Appropriations (dollars in thousands)	
Mineral Leasing Associated Payments (MLAP)	982,502
National Forest Fund Payments to States (Forest Fund)	5,133
Payments to States from Lands Acquired for Flood Control, Navigation, and Allied Purposes (Flood Control)	1,539
Total	\$989,174

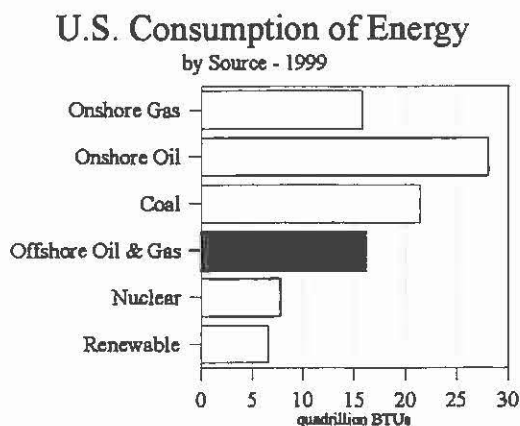
External Influences

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 our 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. In 2000, the Department of Energy 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.

In 2000 the DOE projects consumption of oil will increase by 1.4 percent per

year, while the consumption of natural gas will increase by 2.3 percent per year (the DOE current annual increase for natural gas is 17 percent higher than their estimate just one year ago).

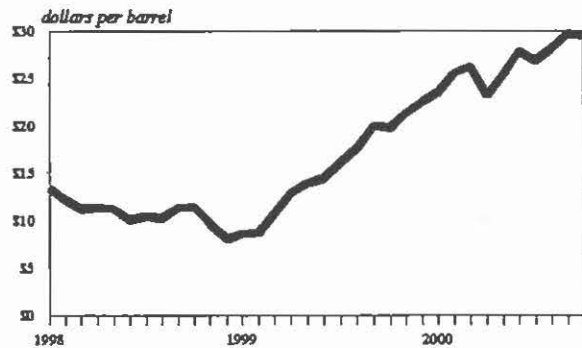
U.S. oil production is projected to decline at an average annual rate of 0.7 percent between 1999 and 2020, to 5.1 million barrels per day. This forecast is 0.2 million barrels per day lower than was estimated last year. The share of U.S. oil demand met by net imports is projected to increase from 56 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 major contributors to the low prices were the slowdown in growth of the developing economies of the Pacific Rim and the increased production by the Organization of Petroleum Exporting Countries (OPEC). These two factors caused oil prices to sink to under \$10 per barrel. Since then the price of oil has increased steadily, hitting \$29 per barrel in August of 2000. Three factors led to this threefold increase in world oil prices. First, OPEC members exhibited uncharacteristic discipline in adhering to their announced oil production cutbacks in 1998 and 1999. Second, the increase in production from non-OPEC countries was modest. Third, the renewed growth in oil demand by the recovering economies of the Pacific was stronger than anticipated.

Crude Oil Prices



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 recent months it spiked to over \$10/mcf. Gas is a commodity, and the price of a commodity is the most critical factor in controlling the reserve and production.

Changes in the Oil and Gas Industry

Mergers, acquisitions, partnerships, and revolving lease ownership are becoming increasingly common in the oil and gas industry and will continue in the near future.

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

Federal Oil Royalty Valuation Rules

MMS published the final version of the new oil valuation rule in the Federal Register on March 15, 2000, which became effective June 1, 2000. The rule provided a 3-month grace period for companies to make interest-free royalty adjustments if delays resulted from system changes needed to comply with the rule. MMS has provided industry with training on the rule in various locations around the country and will provide training for MMS and State compliance personnel through early 2001.

MMS's intention was to assure that royalties on Federal oil production are based on a fair value and to otherwise simplify and improve the rule.

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.

Is There a Downside to Low Oil Prices?

While low oil prices, such as those in 1998, enable energy consumers to reap significant savings, they also threaten the viability of the domestic oil industry. The number of rigs drilling in 1998 was 60 percent lower than in 1997. Upstream employment dropped to its lowest level in 25 years and imports of crude oil reached an all time high.

Low prices make marginally producing wells (especially those producing fewer than 10 barrels per day) susceptible to premature abandonment. In 1997, approximately 436,000 oil wells in the U.S. produced fewer than 10 barrels per day. These wells produced 353 million barrels of oil, which represented 15 percent of total domestic production. In addition, budgets for exploration and development expenditures were dramatically reduced in 1998.

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 proposed 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.

Repeal of Net Receipt Sharing

Since States receive half of most revenues from onshore minerals leases, Congress in FY 1991 decided that States should share in the costs the Federal government incurs in managing the onshore minerals leasing program. In FY 1991 and 1992, Congress included appropriation language that required a specific amount be withheld each fiscal year from payments to States to cover the State share of the cost to administer the program. In FY 1993, Congress passed the Omnibus Budget Reconciliation Act legislation that made Net Receipt Sharing (NRS) permanent. The States' share of NRS cost under the Omnibus Budget Reconciliation Act was computed using the lesser of two methodologies. In FY 1999, the States share of these administrative costs was about \$20 million or 25 percent of the Federal administrative cost. On October 30, 2000, the President signed the Minerals Revenue Payment Clarification Act of 2000, which repealed NRS.

MMS Today

Offshore Minerals Management Program

For over 50 years, the Federal Government has been regulating oil and gas activity on the OCS. Although the Federal Government did not officially gain jurisdiction over the OCS until the enactment of legislation in 1953, oil and gas activity began in 1946 with the drilling of an exploratory well and a year later with the installation of a fixed platform off the coast of Louisiana. Since then, the OCS program has become a significant source of petroleum and associated economic benefits at the national, regional, and local levels. In recent years, the U.S. program has made huge strides into water depths exceeding 7,500 feet in the GOM and into the icy, arctic waters of Alaska. From 1953 to 1999, the Federal OCS has produced approximately 12.5 billion barrels of oil and 135 trillion cubic feet of natural gas. This production has generated approximately \$130 billion in lease bonuses, rents, and royalty payments. The largest recipient of Federal mineral lease revenues has been the U.S. Treasury. Since 1982, over \$63 billion has been deposited to the General Fund of the Treasury. In addition, States have received over \$11 billion, the Land and Water Conservation Fund has received over \$15 billion, and Indian Tribes and Allottees have received almost \$3 billion.

Safety and Environmental Protection

While development of offshore mineral resources has already meant billions of dollars in revenues to the United States, MMS is extremely concerned with safety and environmental concerns -- striving to provide domestic energy while protecting sensitive coastal and marine environments. The move into deeper water and the overall increased activity have increased both the level and complexity of monitoring OCS operations. The number of operators drilling in the GOM has increased over the past several years by about 30 percent. Some of these new operators are not as experienced as those that have been working in the GOM for several years. There is also a much greater reliance on contractors today as compared to the past. In addition, the offshore industry downsized significantly throughout the 1980s and 1990s. All of these events have reduced the skilled labor pool of offshore workers. The presence of workers without much offshore experience is placing an added burden on the inspection and compliance program.

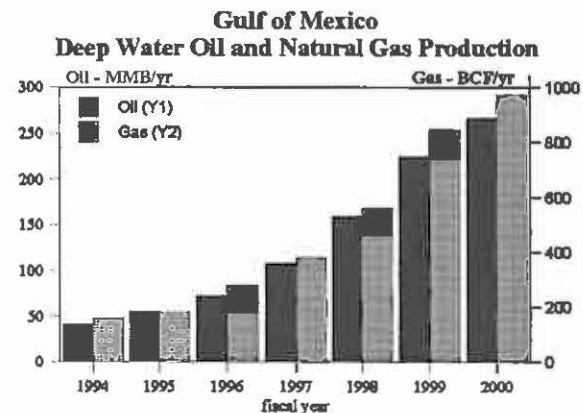
The MMS is committed to ensuring that industry maintains its excellent safety and environmental records as the level of activity increases in both amount and complexity. Unless this record is maintained, industry will not be able to go forward plans for the GOM and the Arctic because the public will lose confidence in the integrity of the program. In addition, the Nation will lose the significant contributions that the Offshore Program makes to the economy in the form of revenues and secure supplies of oil and natural gas.

Deepwater Production

The GOM's deepwater reservoirs have become America's new frontier for oil and gas exploration. Production potential from proved reserves is estimated to be 1.9 billion barrels of oil and 6.1 trillion cubic feet of natural gas. Drilling in the GOM deep water has increased dramatically over the last decade. Today deepwater drilling is at an all time high with over 40 rigs drilling in water depths of over 1,000 feet compared to just nine in 1990. Production from deepwater wells is also increasing. Both oil and natural gas production from deepwater wells in the GOM have increased by over 500 percent since 1994. Deepwater production now accounts for more than half of the oil produced in the GOM and almost 15 percent of all domestically produced oil. Along with this continued increased production will come a continued increasing workload for MMS to review new exploration and development plans, examine pipeline right-of-way applications, conduct environmental assessments, and conduct on-site inspections.

Working with Other Nations

Today's offshore oil and gas industry is global in scope. The MMS continues to expand its collaborative projects with other countries that are technologically advanced in their regulatory programs to promote safe and environmentally sound oil and gas operations,



worldwide. In addition, there is a need for emerging nations to develop regulatory programs that facilitate, or at a minimum, do not discourage, investment from foreign companies. Because of its regulatory expertise and its successful oversight of environmentally safe and sound operations, MMS is increasingly called upon to assist and participate in international conferences and projects that further our Nation's energy and 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.

Sand and Gravel

The OCS Program is also responsible for all minerals on the OCS other than oil, gas, or sulphur. Currently that responsibility is focused on Federal sand and gravel resources. The OCS Program has responsibility for issuing negotiated agreements for OCS sand for shore protection and wetlands restoration projects. A 1999 amendment to the OCS Lands Act eliminated fees for State and local communities' use of OCS sand for hurricane and shore protection projects. The elimination of these fees has led to an increase in interest and requests for access to OCS sand resources, with an attendant increase in the need for MMS to identify OCS sand sources that may be accessed in an environmentally sound manner.

Minerals Revenue Management Program

The MMS's Minerals Revenue Management Program (MRM) is responsible for collecting revenues earned from the leasing and production of mineral rights on all Federal and most Indian lands and for disbursing these revenues to various recipients as authorized by numerous statutes. The MRM collects mineral leasing revenues from Indian lands and transfers these monies to the Office of Trust Funds Management for distribution to either the appropriate Tribe or individual Indian mineral owner.

The MRM is not a land administration organization and does not determine lease contract conditions such as the rental rate, bonuses, royalty rate, or lease compliance requirements. MRM's role is to ensure that the correct amount of royalty value is paid by the lessee – a process that is both complicated and sometimes contentious with States, counties, Indian mineral owners, and industry that share in these revenues. As part of this role, MRM conducts audits of payors' accounting records to determine if the proper amount has been paid. During the last 10 years, over \$1 billion dollars has been collected through these efforts. This amounts to almost twice the total budget of the entire MRM over the same time period.

The MRM collects and disburses revenues collected on lands administered by the Department of the Interior including the MMS Offshore Minerals Management Program, BIA, and BLM, the U.S. Forest Service, the U.S. Army Corps of Engineers, and the U.S. military. MRM works closely with the staffs of these agencies and MMS Offshore Program organizations on a continuing basis to improve overall royalty management.

Royalty-in-Kind

MMS continues to explore the potential of RIK to increase Treasury revenue and increase valuation certainty for oil and gas operators. MMS is in the process of evaluating existing pilot projects to determine specific circumstances that favor RIK and those that may not.

One of the key objectives of data gathering for RIK asset management is to provide a less intrusive regulatory system, utilizing documents and systems employed by industry. To accomplish this objective, the MRM will strive to: (1) eliminate reports that are made solely for the purpose of sending to the government; and (2) utilize standard industry reporting such as allocation statements, pipeline statements, and imbalance reports, rather than establishing new governmental reporting requirements.

Continuing the pilot projects and engaging in longer term projects will be facilitated by the acquisition of software designed to manage product volumes and financial transactions unique to bringing RIK oil and gas to market. The information system needed for the RIK pilots include a gas management system and liquids management system. Commercial off-the-shelf (COTS) solutions used by industry for these purpose are available in each of these areas.

The technology solutions needed to support the RIK pilot program activity within MRM will integrate with the new Financial and CAM systems now being developed by MRM. The RIK support systems will share data with the new CAM system and utilize some of the functionality of the new financial system. In addition, the MRM's new client/server relational database and technical infrastructure will provide the right technical foundation for RIK.

In The Field

Over the last several years several innovative technologies have come on-line that have allowed industry to produce more resources from existing fields, explore and produce in areas previously not available and to improve the marine environment. The following are some examples of these new technologies.

Rigs to Reef

The MMS requires removal of all platforms in OCS waters within one year from production shutdown. The typical 20-story steel jackets that support offshore platforms provide acres of habitat for underwater flora and fish. Many of the GOM's platform removals have been converted to artificial reefs. The use of retired and obsolete oil and gas platforms for reefs has proven highly successful. State governments, the oil and gas industry, and commercial and recreational fishermen have all been beneficiaries of the rigs-to-reef program.

Mobil Exploration and Production U.S. Inc. performed an environmentally outstanding conversion in 1994. Over a 75 day period Mobil dismantled six platforms located in

several South Padre Island blocks, moving four jackets 10 miles to Port Mansfield Liberty Ship Reef and two jackets 27 miles to Port Isabel. Mobil elected to cut away the platform legs rather than blast them. This avoided undue harm and disruption to the rich marine life inhabiting the rigs. The animals that surrounded the barnacle encrusted platform, followed the platform to their new reef home.

Subsalt Imaging

Oil and gas producers are currently investigating the promising newly discovered resources beneath salt formations in the GOM. Large irregular salt sheets may cover as much as 60 percent of the slope beneath the OCS in the GOM.

The GOM subsalt play spans a vast area south of the Louisiana coast totaling approximately 36,000 square miles. Drilling beneath the salt formations of the GOM began in the early 1980s. However, it wasn't until the advent of advanced subsalt seismic imaging technology in the 1990s that led to subsalt discoveries. One of the earliest discoveries was the Mahogany field discovered in 1993. The Mahogany field currently produces 10,000 barrels of oil and 22 million cubic feet of gas per day. The field's total reserves are estimated at 32 million barrels of oil equivalent. Industry announced reserve estimates of over 100 million barrels of oil equivalent on two other recent subsalt discoveries, the Tanzanite field and the Hickory field. It is estimated that these and other subsalt discoveries may hold millions of additional barrels of oil equivalent.

Methane Emissions

Within the natural gas industry, pneumatic devices are the single largest source of methane emissions, venting nearly 50 billion cubic feet annually, enough gas to meet the needs of over 350,000 households. New pneumatic devices can reduce gas emissions substantially, reducing greenhouse gas emissions and saving industry millions of dollars in lost methane.

Chevron installed a low-bleed retrofit valve kit on liquid level and pressure controllers on two platforms in the GOM about 60 miles south of the Louisiana coast. The retrofit devices were found to have reduced emissions of methane by 90 percent. At current prices for natural gas the cost of the retrofit devices would be recovered in less than one year.

Advanced Offshore Platform Technology

Finding economically viable methods to tap vast deepwater resources is driving innovations in offshore technology. An estimated 90 percent of undiscovered global resources are under 3,000 feet or more of water. Between 1996 and 1998, approximately 75 percent of the 66 oil discoveries greater than 100 million barrels were offshore.

Production began in May of 2000, at the \$1.1 billion Hoover/Diana, a 38,000 ton Deep Draft Caisson Vessel (DDCV), in the GOM about 60 miles south of Galveston, Texas. A joint development venture between Exxon and BP. Hoover/Diana employs a permanent crew of 25 and has peak gross production capacity of 100,000 barrels of oil

and 325 million cubic feet of gas per day. Water depth at the site is 4,800 feet. The DDCV is moored to piles in the ocean floor with 12 lines that extend in a radial pattern from the hull. The mooring lines are 7,100 feet long and are connected to piles located approximately 6,900 feet from the DDCV. Each mooring line consists of chain (top and bottom sections) and 6-inch diameter spiral-strand wire rope (middle section). The 275-ton suction-installed anchor piles are 105 feet long and have a diameter of 21 feet. Estimated recovery from this project is approximately 300 million barrels of oil equivalent.

Synthetic Drilling Muds

Drilling fluids are essential to carry cuttings to the surface, maintain pressure balance and stability in the borehole, lubricate, clear the drillstring and bit, and prevent the influx of other fluids. Today's advanced offshore drilling practices include the use of synthetic-based muds (SBM) which combine the higher performance of oil-based muds (OBM) and the lower toxicity of water-based muds (WBM).

Marathon Oil drilled five wells with WBMs and three wells with SBMs, and found that SBM performs with greater overall efficiency. SBM wells averaged 336 feet per day and 53 days per well, compared to 120 feet per day and 195 days per WBM wells. Despite higher per barrel cost, SBM resulted in lower total drilling mud cost and downtime cost. Overall, total drilling and completion cost for the SBM wells were \$3.7 to \$7.9 million per well, compared with \$9.6 to \$18.3 million for WBM wells.

Congressional Reporting

The MMS has completed its tracking of two Congressional Directives (Modification to Deepwater Leases and Report on OCS Drilling Activities of the Coast off North Carolina).

Modification to Deepwater Leases encouraged MMS to maintain its current financial terms for deepwater leases until the OCS Deepwater Royalty Rate Relief Act (DWRRA) expires and to report to the Congress if the current financial terms are changed. The requirement to use the new lease royalty suspension volumes, specified in the DWRRA, expired on November 27, 2000. The MMS did maintain the financial terms of deepwater leases throughout the 5-year period covered by the DWRRA for newly issued leases. Beginning with OCS Sale 178 in the Central Gulf of Mexico, held on March 28, 2001, royalty suspension volumes are being used which were selected based on our authority, as specified in 30 CFR 260.

Report on OCS Drilling Activities of the Coast off North Carolina is related to the concern of Congress that any drilling activities off the coast of North Carolina (Manteo Exploration Unit and adjacent lease blocks) occur only after a thorough assessment and compliance with all State (including State coastal consistency determinations) and Federal permitting requirements have been met. The Congress

expected MMS to closely monitor lease activity in the area and provide periodic reports to Congress should permitting activity occur. The Manteo Exploration Unit originally consisted of 21 leases. On November 17, 2000, the interests in the last remaining eight natural gas and oil leases active in the Federal waters offshore North Carolina were relinquished by Conoco, Shell Offshore, and OYX USA. There are now no leases in existence off the Atlantic coast.

Summary of Requirements
Royalty and Offshore Minerals Management
dollars in thousands

	FY 2000 Actual		FY 2001 Enacted		Uncontrollable and Related Changes		Programmatic Changes		Collections to Appropriation		FY 2002 Request		Inc(+) Dec(-) From 2001	
	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt
OCS Lands														
Leasing/Environment														
Appropriation	124	9,406	206	15,049	0	526	14	1,536	0	1,127	220	18,238	14	3,189
Offsetting Collections	83	26,483	0	21,462	0	0	0	0	0	-1,127	0	20,335	0	-1,127
Total	207	35,889	206	36,511	0	526	14	1,536	0	0	220	38,573	14	2,062
Resource Evaluation														
Appropriation	131	9,268	168	13,460	0	566	0	-753	0	1,213	168	14,486	0	1,026
Offsetting Collections	74	13,633	54	10,116	0	0	0	0	0	-1,213	54	8,903	0	-1,213
Total	205	22,901	222	23,576	0	566	0	-753	0	0	222	23,389	0	-187
Regulatory														
Appropriation	220	17,837	340	26,686	0	988	20	4,963	0	1,993	360	34,630	20	7,944
Offsetting Collections	136	24,377	25	16,436	0	0	0	0	0	-1,993	25	14,443	0	-1,993
Total	356	42,214	365	43,122	0	988	20	4,963	0	0	385	49,073	20	5,951
Information Mngt														
Appropriation	0	0	5	380	0	162	0	-44	0	347	5	845	0	465
Offsetting Collections	108	14,507	59	14,396	0	0	0	0	0	-347	59	14,049	0	-347
Total	108	14,507	64	14,776	0	162	0	-44	0	0	64	14,894	0	118
Total OCS Lands														
Appropriation	475	36,511	719	55,575	0	2,242	34	5,702	0	4,680	753	68,199	34	12,624
Offsetting Collections	401	79,000	138	62,410	0	0	0	0	0	-4,680	138	57,730	0	-4,680
Total	876	115,511	857	117,985	0	2,242	34	5,702	0	0	891	125,929	34	7,944

Summary of Requirements
Royalty and Offshore Minerals Management
dollars in thousands

	FY 2000 Actual		FY 2001 Enacted		Uncontrollable and Related Changes		Programmatic Changes		Collections to Appropriation		FY 2002 Request		Inc(+) Dec(-) From 2001	
	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt
MRM														
Compliance & Asset Mngt														
Appropriation	399	33,758	389	34,842	0	1,186	0	-1,157	0	0	389	34,871	0	29
Offsetting Collections	0	13,235	0	13,235	0	0	0	0	0	0	0	13,235	0	0
Total	399	46,993	389	48,077	0	1,186	0	-1,157	0	0	389	48,106	0	29
Revenue & Operations														
Appropriation	193	24,044	184	24,784	0	670	0	-3,481	0	0	184	21,973	0	-2,811
Offsetting Collections	0	13,250	0	13,250	0	0	0	0	0	0	0	13,250	0	0
Total	193	37,294	184	38,034	0	670	0	-3,481	0	0	184	35,223	0	-2,811
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
Late Interest														
Appropriation	0	60	0	0	0	0	0	0	0	0	0	0	0	0
Offsetting Collections	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	0	60	0	0	0	0	0	0	0	0	0	0	0	0
Total MRM														
Appropriation	592	57,862	573	59,626	0	1,856	0	-4,638	0	0	573	56,844	0	-2,782
Offsetting Collections	0	26,500	0	26,500	0	0	0	0	0	0	0	26,500	0	0
Total	592	84,362	573	86,126	0	1,856	0	-4,638	0	0	573	83,344	0	-2,782

Summary of Requirements Royalty and Offshore Minerals Management

dollars in thousands

	FY 2000 Actual		FY 2001 Enacted		Uncontrollable and Related Changes		Programmatic Changes		Collections to Appropriation		FY 2002 Request		Inc(+) Dec(-) From 2001	
	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt
Administration														
Executive Direction														
Appropriation	22	921	20	982	0	61	0	-40	0	0	20	1,003	0	21
Offsetting Collections	0	1,000	0	1,000	0	0	0	0	0	0	0	1,000	0	0
Total	22	1,921	20	1,982	0	61	0	-40	0	0	20	2,003	0	21
Policy & Mgmt Improv														
Appropriation	34	2,860	33	2,981	0	114	0	-59	0	0	33	3,036	0	55
Offsetting Collections	0	1,000	0	1,000	0	0	0	0	0	0	0	1,000	0	0
Total	34	3,860	33	3,981	0	114	0	-59	0	0	33	4,036	0	55
Admin Operations														
Appropriation	224	12,046	231	12,607	0	963	5	1,645	0	0	236	15,215	5	2,608
Offsetting Collections	0	1,555	0	1,555	0	0	0	0	0	0	0	1,555	0	0
Total	224	13,601	231	14,162	0	963	5	1,645	0	0	236	16,770	5	2,608
Gen Support services														
Appropriation	0	0	0	1,345	0	3,726	0	0	0	0	0	5,071	0	3,726
Offsetting Collections	0	14,945	0	14,945	0	0	0	0	0	0	0	14,945	0	0
Total	0	14,945	0	16,290	0	3,726	0	0	0	0	0	20,016	0	3,726
Total Administration														
Appropriation	280	15,827	284	17,915	0	4,864	5	1,546	0	0	289	24,325	5	6,410
Offsetting Collections	0	18,500	0	18,500	0	0	0	0	0	0	0	18,500	0	0
Total	280	34,327	284	36,415	0	4,864	5	1,546	0	0	289	42,825	5	6,410
Total ROMM														
Appropriation	1,347	110,200	1,576	133,116	0	8,962	39	2,610	0	4,680	1,615	149,368	39	16,252
Offsetting Collections	401	124,000	138	107,410	0	0	0	0	0	-4,680	138	102,730	0	-4,680
Total	1,748	234,200	1,714	240,526	0	8,962	39	2,610	0	0	1,753	252,098	39	11,572

Summary of Requirements
Oil Spill Research
dollars in thousands

	FY 2000 Actual		FY 2001 Enacted		Uncontrollable and Related Changes		Programmatic Changes		Collections to Appropriation		FY 2002 Request		Inc(+) Dec(-) From 2001	
	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt	FTE	Amt
OSR														
OSR														
Appropriation	23	6,118	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	6,118	23	6,105	0	0	0	0	0	0	23	6,105	0	0

**Royalty Management Program/
Minerals Revenue Management
Activity/Subactivity Change Crosswalk – FY 2001**

Format of FY 2001 Congressional Budget		FY 2001 Enacted	Format of FY 2002 Congressional Budget		FY 2001 Enacted
Royalty Management Program			Minerals Revenue Management		
1	Valuation & Operations <i>FTE: 236</i>	40,043	1	Revenue & Operations <i>FTE: 184</i>	38,034
2	Compliance <i>FTE: 313</i>	43,299	2	Compliance & Asset Management <i>FTE: 389</i>	48,077
3	Program Services Office <i>FTE: 24</i>	2,769	3	Indian/Allottee Refunds <i>FTE: 0</i>	15
4	Late Interest	0			
5	Indian/Allottee Refunds	15			
Total RMP		86,126	Total MRM		86,126

**Royalty Management Program/
Minerals Revenue Management
Activity/Subactivity Change Crosswalk – FY 2002**

Format of FY 2001 Congressional Budget		FY 2002 Pres Budget	Format of FY 2002 Congressional Budget		FY 2002 Pres Budget
Royalty Management Program			Minerals Revenue Management		
1	Valuation & Operations <i>FTE: 236</i>	37,214	1	Revenue & Operations <i>FTE: 184</i>	35,223
2	Compliance <i>FTE: 313</i>	43,305	2	Compliance & Asset Management <i>FTE: 389</i>	48,106
3	Program Services Office <i>FTE: 23</i>	2,810	3	Indian/Allottee Refunds	15
4	Late Interest	0			
5	Indian/Allottee Refunds	15			
Total RMP		83,344	Total MRM		83,344

Justification of Crosswalk Changes

On July 25, 2000, Congress approved the Royalty Management Program's (RMP) reorganization plan. This reorganization and the program's name change to Minerals Revenue Management (MRM) became effective on October 8, 2000. The reorganization reflects extensive changes to organizations and functional processes resulting from MRM's program-wide reengineering effort that began in FY 1996.

To better reflect MRM's reengineered organization structure and processes and to better tie our funding to bureau GRPA goals, the FY 2002 MRM budget request has been consolidated into two main subactivities. These subactivities align closely with the program's core business processes as follows:

- The Revenue and Operations subactivity (\$38.034m; FTE 197) funds the financial accounting processes and information technology systems which allow MRM to collect and process reports and payments on over 78,000 leases each month related to bonuses, rents, and royalties.
- The Compliance and Asset Management subactivity (\$48.107m; FTE 413) includes processes that allow MRM to manage Federal and Indian resources to ensure efficient, effective compliance services and maximize receipts whether through receiving the Federal revenue share in-value or in-kind.

Uncontrollable and Related Costs

Additional Cost in 2002 of January Pay Raises

	2001 Estimate	2002 Change
2001 Pay Raise	NA	[+\$1,356]

The additional cost of funding an estimated 3.6 percent January 2001 pay increase for GS-series employees and the associated pay rate changes made in other pay series. This cost is absorbed.

	2001 Estimate	2002 Change
2002 Pay Raise	NA	+3,996

The additional cost of funding an estimated 3.6 percent January 2002 pay increase for GS-series employees and the associated pay rate changes made in other pay series.

Other Uncontrollable Cost Changes

	2001 Estimate	2002 Change
Workers Compensation Payments	526	+180

This adjustment is for actual changes from 2001 in the cost of compensating injured employees and dependents of employees who suffer accidental death while on duty. Costs for 2002 are for the 12-months ending June 2000 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.

	2001 Estimate	2002 Change
Unemployment Compensation Payments	13	-6

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.

	2001 Estimate	2002 Change
Rental Payments to GSA	12,072	+3,552

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

Budget Estimate

	2001 Estimate	2002 Change
CSRS/FERS Retirement Cost	364	+399

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.

	2001 Estimate	2002 Change
Department Working Capital Fund	942	+402

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

	2001 Estimate	2002 Change
One Additional Pay Day	NA	439 ✓

This adjustment reflects the fact that there is one more pay day in FY 2002 than in FY 2001.

	2001 Estimate	2002 Change
Employer Share of Federal Health Benefit Plans	5,609	[+409] ✓

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

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Summary of Programmatic Changes

<u>MRM Transition (MRM)</u>	<u>+\$4,003,000</u>	<u>0 FTE</u>
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During FY 2002, the MRM will be transitioning its mission critical RMP legacy system to entirely new technologies, applications, and processes created by the royalty reengineering initiative..

MRM's essential goal is to maintain mission critical operations while at the same time accomplishing this complex transition. In particular, MRM must ensure:

- uninterrupted operation of the RMP legacy system;
- successful implementation of the new MRM systems;
- migration of two decades of royalty and production data to new applications and a new data warehouse; and
- transition to new reporting formats.

<u>Financial Management (GA)</u>	<u>+\$1,963,000</u>	<u>+5 FTE</u>
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This increase will support MMS's efforts to implement recommendations by the Inspector General and outside consultants regarding internal control deficiencies that prevent MMS from ensuring that administrative financial transactions are properly recorded and processed.

MMS will use the proposed funding to:

- establish an internal control structure that provides assurances that assets are safeguarded;
- process transactions in accordance with applicable laws and regulations and are recorded, reconciled, processed, and summarized to permit the preparation of reliable financial statements;
- maintain accountability for assets; and
- develop a cost accounting system to accumulate separately all expenses and revenues associated with the Interior Franchise Fund.
- establish and Maintain adequate segregation of duties;
- establish a financial reporting function that is responsible for the general ledger integrity and produces financial statements that receive an unqualified audit opinion;
- obtain sufficient human resources;
- establish adequate training requirements; and
- improve workload allocation.

Gulf of Mexico Workload (OCS) +\$7,396,000 +34 FTE

The post lease activity level continues to rise in the Gulf of Mexico OCS Region. In FY 2000, the number of drilling permits approved was 60% higher than FY 1999. The number of development plans filed rose 46% for the same period. More resources are needed to approve industry plans, thus preventing delays in oil and gas production and revenues, and to continue to ensure that ongoing production is done in a safe and environmentally sound manner.

Leasing and Environmental Assessment - \$1.68M is requested for 14 new FTEs. MMS is responsible for ensuring that OCS related activities take place in accordance with the National Environmental Policy Act (NEPA) requirements. Meeting these requirements in the Gulf of Mexico Region has become increasingly complex over the years, requiring the expertise of specialists in a wide variety of scientific disciplines. In addition, workload levels have increased significantly as a result of the oil and gas industry's dramatic move into deep water and the regular use of new technology, which requires entirely new characterization of risks. To address these changes, the environmental functions of the office were completely reorganized in early 1999. While the reorganization provided functional efficiencies that improved the processes, it is now evident that most of the efficiencies that can be gained through improving processes have been achieved, and additional FTE are required to meet growing demands.

Regulation of Operations - \$2.4M is requested for 20 FTE for inspections and operations reviews; \$150,000 is requested to establish an Engineering Intern Program; and \$3.166M is requested for a helicopter rate increase due to expiration of the current contract.

Royalty-in-Kind (MRM) +\$7,300,000 0 FTE

MMS continues to explore the potential of RIK to increase Treasury revenue and increase valuation certainty for oil and gas operators. MMS is in the process of evaluating existing pilot projects to determine specific circumstances that favor RIK and those that may not.

One of the key objectives of data gathering for RIK asset management is to provide a less intrusive regulatory system, utilizing documents and systems employed by industry. To accomplish this objective, the MRM will strive to: (1) eliminate reports that are made solely for the purpose of sending to the government; and (2) utilize standard industry reporting such as allocation statements, pipeline statements, and imbalance reports, rather than establishing new governmental reporting requirements.

Continuing the pilot projects and engaging in longer term projects will be facilitated by the acquisition of computer systems designed to manage product volumes and financial transactions unique to bringing RIK oil and gas to market. The information system needed for the RIK pilots include a gas management system and liquids management system. Commercial off-the-shelf (COTS) solutions used by industry for these purpose are available in each of these areas.

The technology solutions needed to support the RIK pilot program activity within MRM will integrate with the new Financial and CAM systems now being developed by MRM. The RIK support systems will share data with the new CAM system and utilize some of the functionality of the new financial system. In addition, the MRM's new client/server relational database and technical infrastructure will provide the right technical foundation for RIK.

**Center for Marine Resources and
Environmental Technology (OCS) -\$599,000 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 2002.

Offshore Technology Research Center (OCS) -\$499,000 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 2002.

Royalty Reengineering (MRM) -\$14,967,000 0 FTE

Under the Royalty Reengineering Initiative begun in 1999, virtually every aspect of operations has changed including every interface among MMS, sister agencies, industry, and contractors, as well as all reports, procedures, systems, and processes. This initiative will be completed in FY 2001.

Streamlining Reductions (All) -\$1,987,000 0 FTE

Program reductions taken in various MMS subactivities to reflect reduced redundancy and inefficiency and to incorporate processes for working smarter.

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, [\$133,410,000], of which [\$86,257,000] shall be available for royalty management activities; and an amount not to exceed [\$107,410,000], 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 20, 1993, and from additional fees for Outer Continental Shelf administrative activities established after September 30, 1993: [Provided, That to the extent \$107,410,000 in additions to receipts are not realized from the sources of receipts stated above, the amount needed to reach \$107,410,000 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 20, [2002]; *Provided further*, That funds appropriated under this act shall be available for the payment of interest in accordance with 30 U.S.C. 1721(b) and (d): *Provided further*, That not to exceed \$3,000 shall be available for reasonable expenses related to promoting volunteer beach and

\$149,368,000

\$83,344,000

\$102,730,000

2003

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, [\$6,118,000], which shall be derived from the Oil Spill Liability Trust Fund, to remain available until expended.

\$6,105,000

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. The largest in this category (about \$25 thousand/year) is the payment made by BLM to Alaska for its share of National Petroleum Reserve-Alaska (NPRA) receipts.

Included under this heading are the following permanent appropriations:

Permanent Appropriations <i>dollars in thousands</i>					
Appropriation	States Share	FY 2000 Actual	FY 2001 Estimate	FY 2002 Estimate	Change from 2001 Estimate
Mineral Leasing Associated Payments (<i>MLAP</i>)	50%	690,562	1,093,993	982,502	-111,491
National Forest Fund Payments to States (<i>Forest Fund</i>)	25%	2,769	5,399	5,133	-266
Payments to States from Lands Acquired for Flood Control, Navigation, and Allied Purposes (<i>Flood Control</i>)	75%	933	1,715	1,539	-176
Total		694,264	1,101,107	989,174	-111,933
<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.</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 determined by the total revenues collected from mineral leasing and production within its boundaries except for the Forest Fund payments. Law requires a State's payment be based on national forest acreage and where a national forest is situated in several States, an individual State's payment is proportionate to its area within that particular national forest.

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)

State	FY 2000 Actual Payments	FY 2001 Estimated Payments	FY 2002 Estimated Payments
Alabama	661	1,049	942
Alaska	4,636	7,352	6,605
Arizona	91	144	130
Arkansas	1,130	1,793	1,611
California	20,407	32,366	29,076
Colorado	42,308	67,101	60,280
Florida	5	7	7
Idaho	2,388	3,787	3,402
Illinois	112	178	160
Kansas	1,232	1,955	1,756
Kentucky	44	70	63
Louisiana	1,024	1,625	1,459
Michigan	536	850	764
Minnesota	12	20	18
Mississippi	661	1,048	941
Missouri	868	1,377	1,237
Montana	20,009	31,735	28,509
Nebraska	14	22	20
Nevada	2,667	4,230	3,800
New Mexico	229,716	364,330	327,294
N. Dakota	4,233	6,713	6,031
Ohio	141	224	201
Oklahoma	1,746	2,769	2,487
Oregon	48	76	68
Pennsylvania	20	31	28
S. Dakota	546	866	778
Tennessee	7	10	9
Texas	717	1,138	1,022
Utah	36,623	58,084	52,180
Virginia	102	162	145
Washington	1,698	2,693	2,419
West Virginia	289	458	412
Wyoming	319,573	506,845	455,322
	694,264	1,101,107	989,174

* Excludes payments made to coastal States under the Outer Continental Shelf Lands Act, as they are direct, unappropriated transfers. Does not include estimated receipts for sales in the National Petroleum Reserve - Alaska. 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). As these collections are shared between the General Fund and counties (versus States), the policy has been to transfer them to the USDA for disposition. All monies collected on Indian lands are transferred to the Bureau of Indian Affairs for distribution to Tribal and Indian allottee accounts.

Legislation also determines how receipts are classified for budgetary purposes. Mineral leasing receipts are classified as offsetting receipts because they arise from business-type transactions with the public versus governmental receipts 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 2001 and FY 2002 receipt estimates.
- A summary description of current onshore and offshore royalty and rental rates, bonus criteria, and other lease information.

For FY 2001 - FY 2007, 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).

Significant 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 \$2.1M from this account in FY 2001. 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 was as follows:

Principal: \$220,828,258.58 to the Environmental Improvement and Restoration Fund (14X5425); \$220,828,258.58 to OCS Rents and Bonuses, General Fund Account 1820.

Interest: \$675,763,644.34 to the Environmental Improvement and Restoration Fund; \$675,763,644.35 to the General Fund Account 1493 (interest).

Prior to distribution, the state of Alaska received \$5,472,498.66.

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).

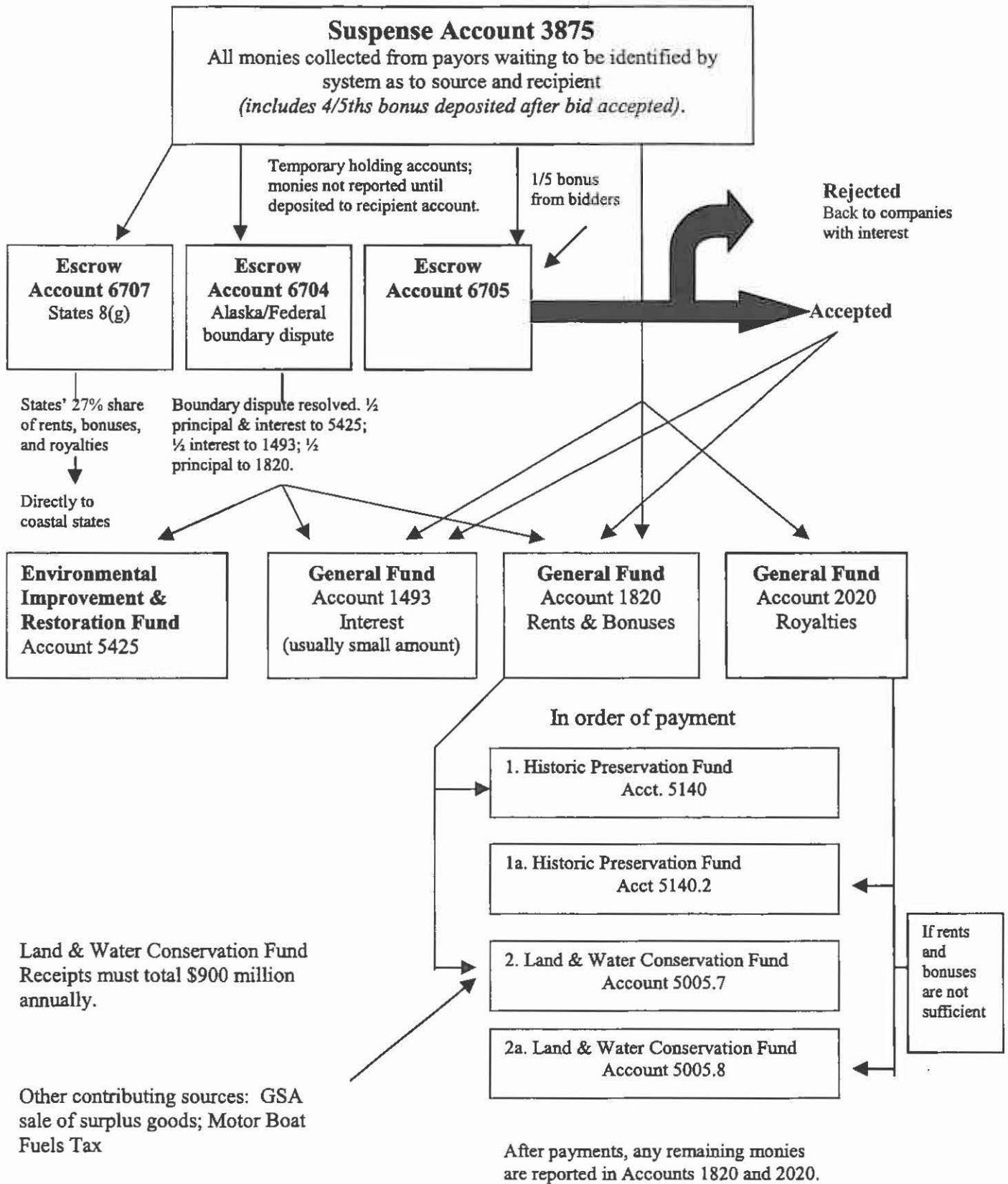
OCS Accounts. OCS receipts are deposited into accounts depending on source: rents, bonuses, or royalties. Also, the interest earned on collections held in escrow is deposited to a separate account. Amounts held in escrow accounts are not included in receipt totals.

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).

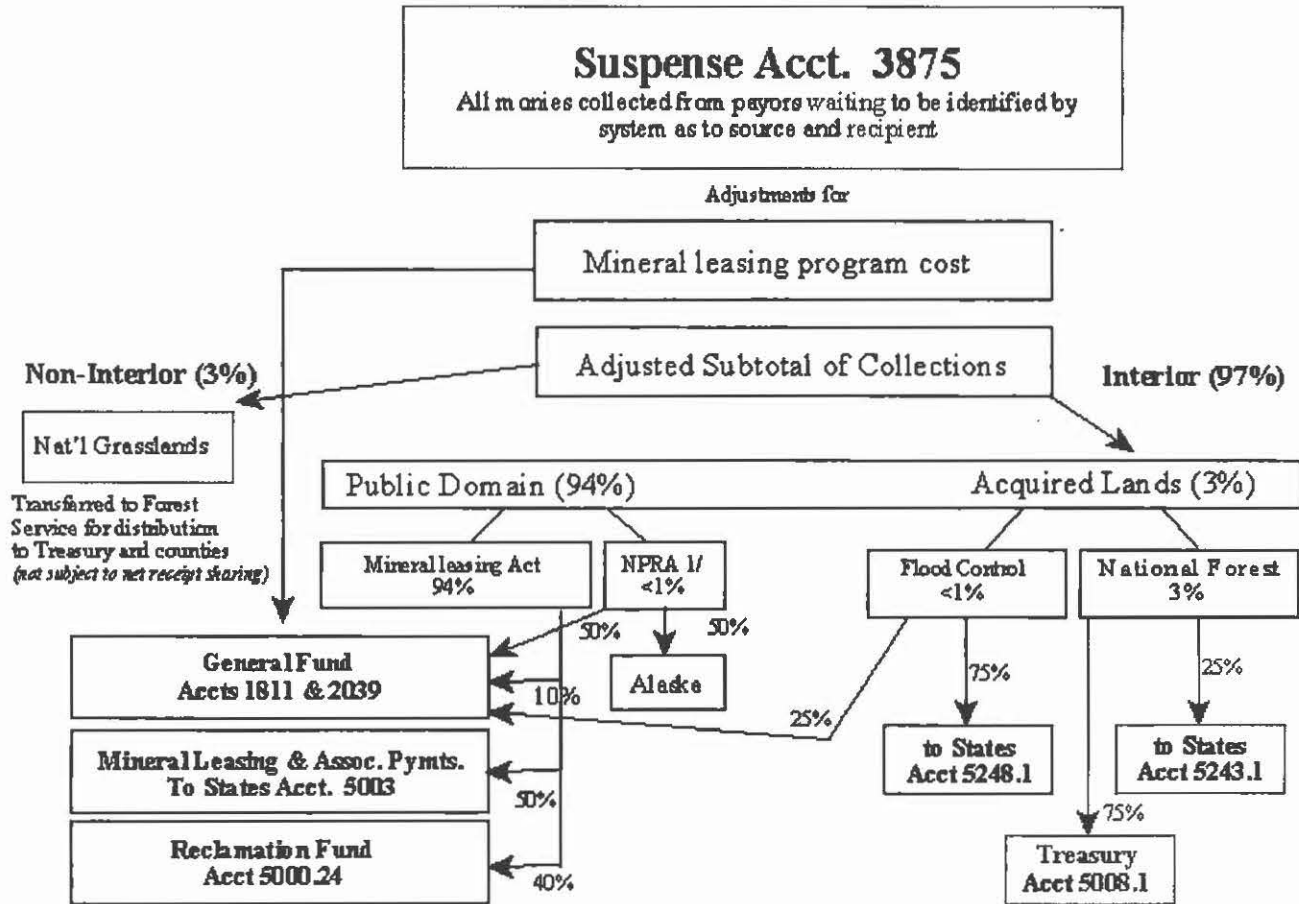
The payments made to coastal States for their 27 percent share of OCS collections within the 8(g) zone, the area approximately 3 miles seaward from the State/Federal boundary, flow through Escrow Account 6707. The last table provides information as to actual and estimated payments for these States.

Most of the OCS 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.

Distribution of Offshore (OCS) Receipt Accounts



Distribution of Onshore Receipts



1/ National petroleum Reserve - Alaska Acct 5045

Onshore Mineral Receipts
FY 2001 Estimates vs. FY 2002 Estimates
(Dollars in thousands)

DOI Proprietary Onshore Mineral Receipts

	<u>Fiscal Year</u>		Change	Explanation
	2001	2002		
Rents & Bonuses				
Oil & Gas	78,472	87,561	+9,088	FY 2002 estimate includes \$11M in National Petroleum Reserve - Alaska (NPR-A) bonuses.
Coal	124,184	116,598	-7,587	Payment on deferred bonus bids on 9 leases sold in FY 1997 will be complete in FY 2001. Only one sale scheduled for FY 2002.
Geothermal	479	459	-20	No competitive lease sales are anticipated; rentals will continue a moderate decline.
Oil Shale	15	15	0	Expected to remain level
All Other	21	21	0	Expected to remain level
Subtotal	203,172	204,653	+1,482	
Royalties				
Oil & Gas	1,661,160	1,443,987	-217,172	Oil production & prices projected to decline in FY 2002; gas production estimated to rise but prices to decline.
Coal	302,472	307,687	+5,216	Coal production projected to increase and price to decrease. Increase in production will compensate for lower prices.
Geothermal	10,371	10,371	0	Expected to remain level.
All Other	33,994	36,488	+2,494	Increased production, primarily in sodium.
Subtotal	2,007,996	1,798,533	-209,463	
Total	2,211,168	2,003,187	-207,981	

Outer Continental Shelf Mineral Receipts
FY 2001 Estimates vs. FY 2002 Estimates
(Dollars in thousands)

DOI Undistributed Proprietary OCS Mineral Receipts

	Fiscal Year		Change	Explanation
	2001	2002		
Rents and Bonuses				
Rents	87,510	89,149	+1,639	Slight increase in net rents.
Bonuses	417,000	548,000	+131,000	Additional sale (Eastern Gulf of Mexico) in FY 2002.
Subtotal	504,510	637,149	+132,639	
Royalties				
Oil	1,986,079	1,734,725	-251,354	Slight increase in production offset by projected lower oil prices.
Gas	4,189,948	3,502,036	-687,912	Slight increase in production offset by projected lower gas prices.
Negotiated Settlements	250,000	10,000	-240,000	Several ongoing negotiations are projected to be finalized in FY 2001.
Subtotal	6,426,027	5,246,761	-1,179,266	
Total	6,930,537	5,883,910	-1,046,627	

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

By Source - President's Policy

	FY 2001 Estimate	FY 2002 Estimate	FY 2003 Estimate	FY 2004 Estimate	FY 2005 Estimate	FY 2006 Estimate	FY 2007 Estimate
Onshore Mineral Leasing							
Rents and Bonuses							
Oil and Gas	78,472	87,561	73,879	102,219	116,292	88,929	85,997
Coal	124,184	116,598	122,687	101,025	87,448	65,486	78,663
Geothermal	479	459	439	419	399	379	359
Oil Shale	15	15	15	15	15	15	15
All Other	21	21	21	21	21	21	21
Subtotal, Rents and Bonuses	203,172	204,654	197,042	203,699	204,175	154,831	165,056
Royalties							
Oil and Gas	1,661,160	1,443,987	1,427,945	1,441,662	1,448,685	1,475,668	1,512,176
Coal	302,472	307,687	309,244	310,642	315,175	319,757	324,383
Geothermal	10,371	10,371	10,371	10,471	10,471	10,471	10,471
All Other	33,994	36,488	36,283	36,063	42,161	41,182	40,898
Subtotal, Royalties	2,007,996	1,798,533	1,783,843	1,798,839	1,816,492	1,847,078	1,887,927
Subtotal, Onshore	2,211,169	2,003,187	1,980,885	2,002,538	2,020,667	2,001,909	2,052,983
Royalty-in-Kind fees	216	216	216	216	216	216	216
Sale of publications	281	281	281	281	281	281	281
Subtotal, Other	497	497	497	497	497	497	497
Total, Onshore and Other	2,211,666	2,003,684	1,981,382	2,003,035	2,021,164	2,002,406	2,053,480
Outer Continental Shelf							
OCS Rents and Bonuses	504,510	637,140	382,560	322,010	269,760	229,420	204,230
OCS Royalties	6,426,028	5,246,762	4,975,468	4,862,809	4,701,253	4,606,305	4,466,325
Total, OCS	6,930,538	5,883,902	5,358,028	5,184,819	4,971,013	4,835,725	4,670,555
TOTAL, Mineral Receipts	9,142,203	7,887,586	7,339,410	7,187,853	6,992,177	6,838,131	6,724,035

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

By Account - President's Policy

		FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
		Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
Onshore Mineral Leasing								
1811.00	Rents and Bonuses	21,250	26,274	21,179	21,707	27,846	17,046	18,082
2039.00	MLR Royalties	198,971	178,541	177,073	178,590	180,289	183,319	187,381
5000.24	Reclamation Fund	871,994	786,001	781,818	789,884	790,380	789,360	809,720
5003.02	Payments to States	1,093,993	982,502	977,273	987,355	987,976	986,700	1,012,150
5045.00	Nat'l Petroleum Reserve-Alaska	1,650	7,800	2,300	2,300	10,000	2,500	2,500
5243.10	Forest Fund, states share	5,399	5,133	4,938	5,282	5,641	5,353	5,388
5008.10	Forest Fund, Govt share	16,197	15,398	14,815	15,847	16,922	16,060	16,164
5248.10	Flood Control (States shares)	1,715	1,539	1,490	1,574	1,616	1,572	1,598
Subtotal, Onshore		2,211,170	2,003,188	1,980,886	2,002,539	2,020,668	2,001,910	2,052,984
2419.1	Royalty-in-kind fees	216	216	216	216	216	216	216
2259.0	Sale of publications	281	281	281	281	281	281	281
Subtotal, Other		497	497	497	497	497	497	497
Total, Onshore and Other		2,211,667	2,003,685	1,981,383	2,003,036	2,021,165	2,002,407	2,053,481
Outer Continental Shelf								
1820.00	OCS Rents and Bonuses	-	-	-	-	-	-	-
2020.00	OCS Royalties	5,883,538	4,836,902	4,311,028	4,137,819	3,924,013	3,938,725	3,773,555
5005.70	LWCF (OCS R & B)	354,510	487,140	232,560	172,010	119,760	229,420	204,230
5005.80	LWCF (OCS royalties)	542,490	409,860	664,440	724,990	777,240	667,580	692,770
5140.00	Hist. Pres. (OCS R & B)	150,000	150,000	150,000	150,000	150,000	-	-
Total, OCS		6,930,538	5,883,902	5,358,028	5,184,819	4,971,013	4,835,725	4,670,555
Total, Mineral Receipts		9,142,204	7,887,587	7,339,411	7,187,854	6,992,178	6,838,132	6,724,036

Onshore Rents and Bonuses
dollars in thousands

	FY 2001 Estimate	FY 2002 Estimate	FY 2003 Estimate	FY 2004 Estimate	FY 2005 Estimate	FY 2006 Estimate	FY 2007 Estimate
Oil and Gas							
Rents							
NPR-A	3,300	4,600	4,600	4,600	5,000	5,000	5,000
Lower 48	32,000	31,000	30,000	32,000	33,000	34,000	35,000
Bonuses							
NPR-A	0	11,000	0	0	15,000	0	0
Lower 48	45,000	43,000	41,000	68,000	66,000	52,000	48,000
Subtotal, Oil and Gas	80,300	89,600	75,600	104,600	119,000	91,000	88,000
Coal							
Rents	1,400	1,400	1,400	1,400	1,400	1,400	1,400
Bonuses	123,000	115,400	121,500	99,800	86,200	64,200	77,400
Subtotal, Coal	124,400	116,800	122,900	101,200	87,600	65,600	78,800
Geothermal							
Rents and Bonuses	479	459	439	419	399	379	359
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	205,215	206,895	198,975	206,255	207,035	157,015	167,195

Amounts are slightly higher than "Mineral Leasing Receipts by Source" table. Estimates in that table do not reflect amounts collected for Grasslands.

OCS Rents and Bonuses
February 2001
Bonus Revenue Estimates
(dollars in millions)

Sale Number	Sale Date(FY)	Sale Area	High Bids	% in FY	Total 8(g)	8(g) to States	Receipt Estimate
177	late 00	Western Gulf of Mexico	149	100%	5	1	148
178	mid 01	Central Gulf of Mexico	270	100%	4	1	269
180	late 01	Western Gulf of Mexico	150	0%	4	1	0
Bonus Total							417
Rents							88
Total - Estimate FY 2001 Receipts							505
180	late 01	Western Gulf of Mexico	150	100%	4	1	149
181	early 02	Eastern Gulf of Mexico	150	100%	0	0	150
182	mid 02	Central Gulf of Mexico	250	100%	3	1	249
	late 02	Western Gulf of Mexico	140	0%	3	1	0
Bonus Total							548
Rents							89
Total - Estimate FY 2002 Receipts							637
	late 02	Western Gulf of Mexico	140	100%	3	1	139
	mid 03	Central Gulf of Mexico	170	100%	2	1	169
	late 03	Western Gulf of Mexico	100	0%	2	1	0
Bonus Total							308
Rents							75
Total - Estimate FY 2003 Receipts							383
	late 03	Western Gulf of Mexico	100	100%	2	1	99
	mid 04	Central Gulf of Mexico	160	100%	1	0	160
	late 04	Western Gulf of Mexico	90	0%	1	0	0
Bonus Total							259
Rents							63
Total - Estimate FY 2004 Receipts							322
	late 04	Western Gulf of Mexico	90	100%	1	0	90
	mid 05	Central Gulf of Mexico	130	100%	1	0	130
	late 05	Western Gulf of Mexico	70	0%	1	0	0
Bonus Total							220
Rents							50
Total - Estimate FY 2005 Receipts							270
	late 05	Western Gulf of Mexico	70	100%	1	0	70
	mid 06	Central Gulf of Mexico	130	100%	1	0	130
	late 06	Western Gulf of Mexico	70	0%	1	0	0
Bonus Total							200
Rents							29
Total - Estimate FY 2006 Receipts							229

**OCS Rents and Bonuses
February 2001
Bonus Revenue Estimates
(dollars in millions)**

Sale Number	Sale Date(FY)	Sale Area	High Bids	% in FY	Total 8(g)	8(g) to States	Receipt Estimate
	late 06	Western Gulf of Mexico	70	100%	1	0	70
	mid 07	Central Gulf of Mexico	130	100%	1	0	130
	late 07	Western Gulf of Mexico	70	0%	0	0	0
		Bonus Total					200
		Rents					4
		Total - Estimate FY 2007 Receipts					204
	late 07	Western Gulf of Mexico	70	100%	0	0	70
	mid 08	Central Gulf of Mexico	130	100%	0	0	130
	late 08	Western Gulf of Mexico	70	0%	0	0	0
		Bonus Total					200
		Rents					0
		Total - Estimate FY 2008 Receipts					200
	late 08	Western Gulf of Mexico	70	100%	0	0	70
	mid 09	Central Gulf of Mexico	130	100%	0	0	130
	late 09	Western Gulf of Mexico	70	0%	0	0	0
		Bonus Total					200
		Rents					0
		Total - Estimate FY 2009 Receipts					200
	late 09	Western Gulf of Mexico	70	100%	0	0	70
	mid 10	Central Gulf of Mexico	130	100%	0	0	130
	late 10	Western Gulf of Mexico	70	0%	0	0	0
		Bonus Total					200
		Rents					0
		Total - Estimate FY 2010 Receipts					200
	late 10	Western Gulf of Mexico	70	100%	0	0	70
	mid 11	Central Gulf of Mexico	130	100%	0	0	130
	late 11	Western Gulf of Mexico	70	0%	0	0	0
		Bonus Total					200
		Rents					0
		Total - Estimate FY 2011 Receipts					200

FEDERAL ONSHORE ROYALTY ESTIMATES
FY 2001-2007
(In millions of dollars)

Federal Onshore	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Oil							
Oil (mil. bbls.)	108	105	99.585	94.491	90.161	86.341	83.284
Actual/OMB Price	25.78	22.64	21.52	21.96	22.40	22.86	23.32
Royalty Rate	0.0976	0.0961	0.0946	0.0946	0.0946	0.0946	0.0946
Oil Royalty	272.4	228.3	202.7	196.3	191.1	186.7	183.7
Oil Min. Royalty	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Subtotal Oil (\$MM)	\$274.4	\$230.3	\$204.7	\$198.3	\$193.1	\$188.7	\$185.7
Gas							
Gas (bill. of cubic feet)	2,154	2,238	2,268	2,256	2,232	2,241	2,261
Actual/OMB Price	5.41	4.64	4.62	4.72	4.82	4.92	5.03
Royalty Rate	0.1155	0.1155	0.1155	0.1155	0.1155	0.1155	0.1155
Gas Royalty	1,345.9	1,199.4	1,210.2	1,229.9	1,242.6	1,273.5	1,313.6
CO2							
CO2 (mil. Mcf)	275	270	270	270	270	270	270
Estimated Price	0.60	0.60	0.60	0.60	0.60	0.60	0.60
Royalty Rate	0.06	0.06	0.06	0.06	0.06	0.06	0.06
CO2 Royalty	9.9	9.7	9.7	9.7	9.7	9.7	9.7
Gas Plant Products	45.5	24.2	24.6	25.4	25.1	26.1	26.4
Gas Min. Royalties	6	6	6	6	6	6	6
Subtotal Gas (\$MM)	\$1,407.39	\$1,239.35	\$1,250.52	\$1,270.98	\$1,283.41	\$1,315.34	\$1,355.66
Total, Oil & Gas (\$MM)	\$1,681.7	\$1,469.7	\$1,455.3	\$1,469.3	\$1,476.5	\$1,504.1	\$1,541.4

FEDERAL ONSHORE ROYALTY ESTIMATES
FY 2001-2007
(In millions of dollars)

Federal Onshore	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Coal							
Coal mil. tons	408.5	418.7	429.2	439.9	450.9	462.2	473.8
Estimated Price	7.32	7.17	7.03	6.89	6.82	6.75	6.68
Royalty Rate	0.1027	0.1027	0.1027	0.1027	0.1027	0.1027	0.1027
Total Coal (\$MM)	\$307.1	\$308.3	\$309.9	\$311.3	\$315.8	\$320.4	\$325.0
Geothermal (\$MM)	\$10.4	\$10.4	\$10.4	\$10.5	\$10.5	\$10.5	\$10.5
All Other (\$MM)	\$34.0	\$36.5	\$36.3	\$36.1	\$42.2	\$41.2	\$40.9
TOTAL (\$MM)	\$2,033.2	\$1,824.9	\$1,811.8	\$1,827.1	\$1,845.0	\$1,876.2	\$1,917.9
Negotiated Settlements (\$MM)	\$15	\$5	\$3	\$3	\$3	\$3	\$3
Other Revenues (\$MM)	\$2	\$2	\$2	\$2	\$2	\$2	\$2

Offshore Royalties
(dollars in millions)

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Oil (Million Barrels)							
Alaska		2	5	5	5	26	24
POCS	30	25	22	19	16	14	12
Total GOM	552	571	556	557	546	535	524
^{1/} GOM Royalty Production	544	553	524	510	485	461	440
Total Royalty Production	574	579	550	534	506	500	477
Royalty Rate	0.1417	0.1396	0.1392	0.1381	0.1375	0.1368	0.1361
OMB Price per Barrel	26.68	22.18	21.06	21.50	21.94	22.40	22.86
Royalty Receipts (\$MM)	2,168.7	1,793.7	1,613.1	1,584.7	1,526.3	1,533.2	1,482.7
Gas (Billion Cubic Feet)							
POCS	37	31	28	25	22	20	18
Total GOM	5,027	5,048	5,008	4,840	4,646	4,461	4,282
^{2/} GOM Royalty Production	5,027	5,048	5,008	4,840	4,646	4,461	4,282
Total Royalty Production	5,064	5,079	5,036	4,865	4,668	4,481	4,300
Royalty Rate	0.1524	0.1486	0.1465	0.1447	0.1430	0.1413	0.1398
OMB Price per Mcf	5.41	4.64	4.62	4.72	4.82	4.92	5.03
Royalty Receipts (\$MM)	4,174.9	3,502.0	3,408.3	3,322.7	3,217.8	3,114.9	3,023.8
Adjustments							
^{3/} Strategic Petroleum Reserve	-47	0	0	0	0	0	0
State's Share (8G)	-136	-59	-56	-55	-53	-52	-50
^{4/} DWRR Payback	15	0	0	0	0	0	0
Negotiated Settlements	250	10	10	10	10	10	10
Total Adjustments	82	-49	-46	-45	-43	-42	-40
Total	6,425.7	5,246.7	4,975.4	4,862.5	4,701.1	4,606.1	4,466.5

^{1/}GOM Royalty Production for oil is GOM production net of that production which is not subject to royalties because of royalty relief measures, primarily in deep water.

^{2/}GOM Royalty Production for gas is equal to Total GOM gas production because the OMB gas price exceeds the projected deep water royalty relief price kick-out threshold each year.

^{3/}Approximately 1.5 million barrels were delivered to the SPR in FY 2001 (Oct-Dec).

^{4/}The price of gas in calendar year 2000 exceeded the threshold amount permitted for royalty suspension under the Deep Water Royalty Relief Act. The estimated payback of this suspended royalty is \$15 million.

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

State	Royalties & Rents	Sale Bonuses	^{1/} Mandated Payment	^{2/} Section 7 Rents	Total
FY 2000 Actual Payments					
Alabama	12,965,549	-	700,000	-	13,665,549
Alaska	212,464	-	13,400,000	56,801	13,669,265
California	2,995,280	-	28,900,000	-	31,895,280
Florida	482	-	-	-	482
Louisiana	13,012,632	1,268,244	8,400,000	-	22,680,876
Mississippi	371,533	-	200,000	-	571,533
Texas	12,542,163	43,553	13,400,000	-	25,985,716
Total	42,100,103	1,311,797	65,000,000	56,801	108,468,701
FY 2001 Estimated Payments					
Alabama	22,020,896	-	700,000	-	22,720,896
Alaska	360,852	-	13,400,000	-	13,760,852
California	5,087,231	-	28,900,000	-	33,987,231
Florida	819	-	-	-	819
Louisiana	22,100,862	1,536,052	8,400,000	-	32,036,915
Mississippi	631,018	-	200,000	-	831,018
Texas	21,301,810	45,882	13,400,000	-	34,747,692
Total	71,503,489	1,581,934	65,000,000	-	138,085,422
FY 2002 Estimated Payments					
Alabama	18,422,409	-	-	-	18,422,409
Alaska	301,885	-	-	-	301,885
California	4,255,915	-	-	-	4,255,915
Florida	685	-	-	-	685
Louisiana	18,489,308	1,475,467	-	-	19,964,775
Mississippi	527,902	-	-	-	527,902
Texas	17,820,831	43,801	-	-	17,864,632
Total	59,818,934	1,519,268	-	-	61,338,202

Notes:

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

^{2/} Disputed leases were resolved in FY 2000.

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
<p>Is set for each sale area in its Final Notice of Sale. It may be:</p> <ol style="list-style-type: none"> 1. Based on water depth-- Leases issued after 1/93 on a sale by sale basis: 12.5% for Gulf water depths > 200m or 16.66% for water depths < 200m. Issued before 1/93: 12.5% for water depths > 400m or 16.66% for water depths < 400m. The 12.5% is also used for Alaska & certain parts of California 2. Sliding-scale (12.5-65%) based on average of all production 3. Step-scale which increases by steps as production increases 4. Flat rate of 33.33% + 5 .Net profit share which require royalty only after certain expenditures are recovered 	<p>Pre-1993: \$3/acre/year with a few \$10/acre/yr for drainage sales. Post-1993: on a-sale-by-sale basis, the Secretary may charge \$5/acre with \$2/acre transferred to OCS or \$7.50/acre with \$4.50/acre transferred to OCS for deepwater tracts. Most post Minimum royalty at above rate after lease deemed capable of commercial production.</p>	<p>5 years (not to exceed 10 yrs). Continued if capable of commercial production.</p>	<p>Based on fair market value. Minimum bid of \$25 to \$150/acre subject to sale by sale review.</p>

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.
- 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 2000	FY 2001	FY 2002
		Actual	Estimate	Estimate
Obligations by program activity				
Direct program				
0001	OCS lands	36	43	57
0002	Minerals Revenue Management	58	70	68
0003	General Administration	16	20	24
Reimbursable program				
0901	OCS Revenue Receipts	119	105	101
1000	Total new direct and reimbursable obligations	229	238	250
Budgetary resources available for obligation				
2140	Unobligated balance, start of year	3	9	12
2200	New budget authority (gross)	234	241	252
2222	Unobligated balance transferred from other accounts [14-0120]	1	0	0
2390	Total budgetary resources available for obligation	238	250	264
2395	Total new obligations	-229	-238	-250
2440	Unobligated balance, end of year	9	12	14
New budget authority (gross), detail				
4000	Appropriation (discretionary)	111	133	149
4076	Reduction pursuant to P.L. 106-113	-1	0	0
4300	Appropriation (total discretionary)	110	133	149
6800	Spending authority from offsetting collections (cash) (discretionary)	124	107	103
7000	Total new budget authority (gross)	234	240	252
Change in unpaid obligations				
7240	Unpaid obligations, start of year	70	72	77
7310	Total new obligations	229	238	250
7320	Total outlays (gross)	-227	-233	-245
7440	Unpaid obligations, end of year	72	77	82
Outlays (gross), detail				
8690	Outlays from new discretionary authority	157	173	184
8693	Outlays from discretionary balances	70	60	61
8700	Total outlays (gross)	227	233	245

Budget Estimate

Offsets against gross budget authority and outlays

8840	Offsetting collections from non-Federal sources	124	107	103
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Net budget authority and outlays

8900	Budget authority	110	133	149
9000	Outlays	103	126	142

Note: Obligations associated with franchise fund activities are excluded.

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

Treasury Account ID: 14-1917		FY 2000 Actual	FY 2001 Estimate	FY 2002 Estimate
Direct Obligations				
1111	Full-time permanent	82	94	102
1121	Civilian personnel benefits	17	21	23
1210	Travel and transportation of persons	2	2	3
1233	Communications utilities & misc.	1	1	1
1252	Other services	5	12	16
1260	Supplies and materials	1	1	1
1310	Equipment	2	2	3
1990	Subtotal, Direct obligations	110	133	149
Reimbursable Obligations				
2111	Full-time permanent	21	21	22
2121	Civilian personnel benefits	6	5	5
2210	Travel and transportation of persons	2	2	2
2233	Communications utilities & misc.	12	12	12
2252	Other services	74	61	56
2260	Supplies and materials	2	2	2
2310	Equipment	2	2	2
2990	Subtotal, Reimbursable obligations	119	105	101
9999	Total new obligations	229	238	250

Note: Obligations associated with franchise fund activities are excluded.

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

Object Class	FY 2001 Estimate Amount		Uncontrollable & Related Changes		Programmatic Changes		FY 2002 Budget Request	
	FTE	AMT	FTE	AMT	FTE	AMT	FTE	AMT
Total Appropriation & Offsetting Collections	1,714	240	0	9	39	3	1,753	252
Total personnel compensation		115		6		3		124
Civilian personnel benefits		26		2		0		28
Travel and transportation of persons		4		1		0		5
Rents, communications, utilities, and misc. charges		13		0		0		13
Other services		75		-1		0		74
Supplies and materials		3		0		0		3
Equipment		4		1		0		5

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

Treasury Account ID: 14-8370		FY 2000	FY 2001	FY 2002
		Actual	Estimate	Estimate
Obligations by program activity				
1000	Total new obligations	6	6	6
Budgetary resources available for obligation				
2200	New budget authority (gross)	6	6	6
2395	Total new obligations	-6	-6	-6
Change in unpaid obligations				
7240	Unpaid obligations, start of year	6	6	6
7310	Total new obligations	6	6	6
7320	Total outlays (gross)	-6	-6	-6
7440	Unpaid obligations, end of year	6	6	6
Outlays (gross), detail				
8690	Outlays from new discretionary authority	6	6	6
8693	Outlays from discretionary balances	0	0	0
8700	Total outlays (gross)	6	6	6
Net budget authority and outlays				
8900	Budget authority	6	6	6
9000	Outlays	6	6	6

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

Treasury Account ID: 14-8370		FY 2000	FY 2001	FY 2002
		Actual	Estimate	Estimate
Direct Obligations				
1111	Personnel compensation: full-time permanent	2	2	2
1252	Other services	4	4	4
1990	Subtotal, direct obligations	6	6	6

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

Object Class	FY 2001 Estimate Amount		Uncontrollable & Related Changes		Programmatic Changes		FY 2002 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 2000 Actual	FY 2001 Estimate	FY 2002 Estimate
Executive Level 5	1	1	1
ES-5	4	4	4
ES-4	4	4	4
ES-3	1	1	1
ES-2	1	1	1
ES-1	0	0	0
Subtotal	11	11	11
GS-15	56	56	56
GS-14	190	190	192
GS-13	445	445	453
GS-12	472	472	478
GS-11	148	148	160
GS-10	5	5	5
GS-9	76	76	83
GS-8	64	64	64
GS-7	109	109	113
GS-6	71	71	71
GS-5	76	76	76
GS-4	24	24	24
GS-3	7	7	7
GS-2	5	5	5
GS-1	3	3	3
Subtotal	1,751	1,751	1,790
Total	1,762	1,762	1,801

Outer Continental Shelf Lands Activity

Analysis by Subactivity (dollars in thousands)

Subactivity		2001 Enacted	Uncontrollable And Related Changes	Programmatic Changes	2002 Budget Request	Change From 2001
Leasing & Environment	\$	36,511	+526	+1,536	38,573	+2,062
	FTE	206	0	+14	220	+14
Resource Evaluation	\$	23,576	+566	-753	23,389	-187
	FTE	222	0	0	222	0
Regulatory	\$	43,122	+988	+4,963	49,073	+5,951
	FTE	365	0	+20	385	+20
Information Management	\$	14,776	+162	-44	14,894	+118
	FTE	64	0	0	64	0
Total, OMM	\$	117,985	+2,242	+5,702	125,929	+7,944
	FTE	857	0	+34	891	+34

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, in part, of experience, technological advances, and response to societal pressure. The MMS program today is characterized by the use of current 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 future 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.

We are receiving more requests for the use of OCS sand due, in part, to the 1999 amendment to the OCS Lands Act eliminating fees for State and local governments' use of OCS sand for public works projects, and to environmental issues that are precluding access to some sand sites in State waters. The sand and gravel program is moving to an operational phase from what was purely a research phase. From 1995 to 2000, MMS conveyed 7.9 million cubic yards of OCS sand for shore protection projects. In FY 2000 alone, the MMS conveyed over 5 million cubic yards of sand—almost 75 percent of what was conveyed over the 5-year timeframe.

As requests for the use of OCS sand resources dramatically increase, so too does MMS's responsibility to ensure that the resource is being accessed in an environmentally sound and safe manner. An effective regional management strategy is key to helping MMS ensure that undue environmental damage will not occur as repeated access to OCS sand resources in the same general areas increases. The MMS, the State of Florida, and Florida State University are working on a Memorandum of Agreement to establish a Coastal Marine Institute to conduct sand source investigations and environmental studies of sites offshore Florida as potential sources of hurricane protection material.

Oil and gas remains the predominant focus of the OCS Lands Activity. Today's offshore oil and gas industry is global in scope. 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. 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.

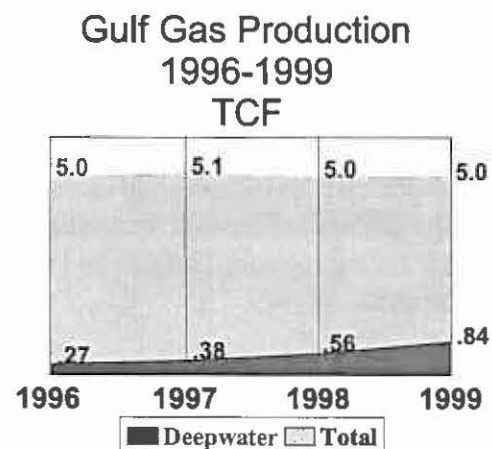
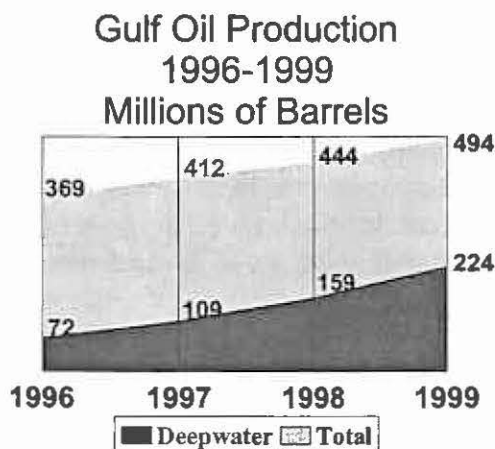
The MMS has a strong commitment to safety and environmental protection. OCS management activities span drastically different physical and sociological environments, in addition to relationships with an exceptionally diverse group of stakeholders. The offshore industry in the U.S. ranges from mega-national 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 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 900 wells drilled and the approval of 600

plans each year. The Nation has much to gain from excellent safety and environmental performance in terms of economic, energy, and environmental benefits.

An issue that increasingly comes up in international and, more recently, domestic fora is that of sustainable development. The President's Council on Sustainable Development maintains that "it is essential to seek economic prosperity, environmental protection, and social equity together." The production and consumption of energy comprises fundamental components of economic development and societal well being. 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 1999, production in the Gulf of Mexico (GOM) reached 494 million barrels (MMbbl) of oil, up 20 percent from the 1997 total of 412 MMbbl. The net increase of 82 MMbbl is providing approximately \$225 million a year in additional royalty payments to the U.S. Treasury (assuming \$22/bbl. of oil and 1/8 royalty). The 20 percent increase in oil production from 1997 to 1999 is driven by the dramatic increase of 105 percent in deepwater oil production. Although gas production has remained steady from 1997 to 1999, at about 5 trillion cubic feet (tcf), it is important to note that deepwater gas production has risen some 120 percent during that same timeframe.



What is important to note is that this significant rise in production in deepwater is **not** attributable to the record breaking lease sales that occurred in the GOM in 1997 and 1998 as a result of the passage of the Deepwater Royalty Relief Act (DWRRA). In fact, due to the long lead times required for pre-production activity only 4 out of the 3,337 leases issued under the provisions of the DWRRA have come on production and only 99 have been drilled. More significantly, only 45 of the 2,835 leases issued in water depths greater than 800 meters have been drilled.

In addition to production increases, high prices for oil and gas led to a significant increase in activity in the GOM. The GOM Region (GOMR) expects this activity to remain high for some time. In December 2000, natural gas prices hit \$10.00 per thousand cubic feet (Mcf) – more than a 300% increase over the \$2.25 per Mcf that gas was selling for at the same time the previous year. The GOM set drilling activity records in deep water in FY 2000. In July 2000, the GOM hit a record high of 34 rigs drilling in water depths 1,000 feet or greater; by the end of December there were 40 rigs drilling in this water depth. Announcements by operators of significant discoveries, and commitments to development in deep water, will continue the growth of activity in this area.

The contribution that the GOM deep water can make to the future supply of U.S. domestic energy is substantial. On December 17, 1999, the Energy Information Agency reported in its “Energy Outlook” that gas production in the GOM is expected to grow from the 5 tcf it produced in 1998 to a peak of 6.7 tcf in 2015 (a growth of 21 percent).

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 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 oil and gas leases in both deep water and on the shelf (the most prolific gas producing area in the U.S.) will continue to experience activity levels at historical highs.

As evidence of the expected high activity levels in deep water, in FY 2000, the GOMR received an all time high of 87 deepwater operations plans. This is an increase of over 260% from the 24 that were received in FY 1996 and a 47% increase from the average of 59 that were received from FY 1997 through FY 1999. Each of these deepwater plans continue to require more focused environmental analysis and complex technical review, platform approval, visits to construction yards for onsite inspections, and safety inspections of development operations. Increased emphasis on deepwater development and the associated innovative technology for drilling and production, as well as the need to address engineering, safety, and unique supplemental bonding issues, all present new challenges.

Record Setting Gulf of Mexico Activity

In FY 2000, there was an all time high of 1,342 wells spudded in the GOM. This is approximately a 45% increase over the 928 wells spudded in FY 1995. Also reaching an

all time high in FY 2000, were the 191 permit applications for platform installations. This is more than a 30% increase from the 145 platform permit applications for FY 1999.

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. Two drillships are currently being used to delineate the field, which is probably the largest discovery ever made in the GOM.

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.

Another planned deepwater pipeline system named the Canyon Express was also announced recently. 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.

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. It is currently producing at a rate of 21,000 BOPD and 200 MMcfd with oil production expected to peak at 100,000 BOPD.

Texaco's Petronius compliant tower facility, in 1,754 feet of water, commenced production in July 2000 after having a major setback in December 1998 when one of the modules for the facility was dropped during installation. It is currently producing at a rate of 34,000 BOPD and 26 MMcfd with oil production expected to peak at 50,000 BOPD. Also, in December 2000, BP Amoco's Marlin tension leg platform in 3,238 feet of water commenced production after having a major setback with collapsed tubing problems.

A new record for deepwater drilling in American waters was set by BHP Petroleum when they started drilling an exploratory well in 8,835 feet of water in October 2000 on Walker Ridge Block 425. This depth surpassed the earlier record set by Marathon Oil Company

in 7,997 feet of water in February 1999 on Walker Ridge Block 165. The BHP well is the second deepest in the world, surpassed only by a well drilled off Brazil in waters 9,111 feet deep.

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 2002 annual performance goal, and a performance measure, as follows:

Mission	Ensure safe OCS mineral development.
Long-Term	Maintain or show a decrease in the average accident index of 0.594.
FY 2002	During FY 2002, we hope to complete the development and begin evaluation of a new accident index that takes into account operator performance. In the meantime, we will strive to improve our safety record by showing a decrease in the average accident index from the FY 2000 baseline.
Measure	Ratio of the sum of accident severity values to an activity/complexity/risk factor.
Mission	Ensure environmentally sound OCS mineral development.
Long-Term	By 2005, show a decrease in the environmental impact index from the 2001 baseline.
FY 2002	Show a decrease in the number of adverse environmental impacts per OCS mineral development activity from 1998 baseline. <i>This is a change from our original annual goal. MMS will strive to show improvement in the current environmental impact index (to no more than 9.45) while developing the new index.</i>
Measure	Ratio of the number of incidents to 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 received 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 2002	By the end of FY 2002, we will maintain the current high bids received for OCS leases to MMS estimated value ratio of 1.8 (+/-0.4) to 1.
Measure	Ratio of the value of high bids received 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)

	2001 Estimate	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2002 Budget Request	Change From 2001 (+/-)
\$(000)	36,511	+526	+1,536*	38,573	+2,062
FTE	206	0	14	220	14
* Includes \$144 in streamlining savings achieved by a bureau-wide review of administrative cost and staffing levels to reduce redundancy and inefficiency and to incorporate processes for working smarter.					

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

	2001 Estimate	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2002 Budget Request	Change From 2001 (+/-)
\$(000)	18,140	+526	+1,536*	20,202	+2,062
FTE	206	0	14	220	14
* Includes \$144 in streamlining savings achieved by a bureau-wide review of administrative cost and staffing levels to reduce redundancy and inefficiency and to incorporate processes for working smarter.					

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 covers the period from July 1997 to July 2002. The MMS has

Proposed Lease Sales Scheduled		
Sale Number, Area	FY 2001	FY 2002
176-Beaufort Sea		Deferred
178-Central GOM		
180-Western GOM		
181-Eastern GOM		
182-Central GOM		

started the process of preparing a new program to succeed the current one in a timely and orderly manner. We plan to complete the process and have the new 5-Year Program for 2002-2007 approved by the Secretary in spring 2002 so that it can go into effect on July 1, 2002.

Pre-lease Planning and Decision Process -- The Minerals Management Service (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) and Alaska. Prior to sales held in 1998, 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. The pre-lease process for Sale 181 in the Eastern GOM, initiated in FY 1999, continued during FY 2000-2001. The sale is tentatively scheduled to be held in early FY 2002.

In the Alaska OCS, for Sale 176, a proposed Beaufort Sea sale, the Call for Information and Nominations was issued in September 1999. The decision on the area identification was postponed until companies reworked their leasing and exploration strategies after major industry mergers were accomplished and information from the State of Alaska's combined North Slope and Beaufort Sea lease sales, held in November 2000, could be incorporated into a decision. The pre-lease process for Alaska sales generally takes about three years to complete. Sale 176 was originally scheduled to be held in early FY 2002, but this delay in the pre-lease process causes the proposed sale to slip into the new 5-Year Program.

Following are the steps in the pre-lease planning and decision process (for some 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 based on information gathered from the Call.

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- 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 satisfies the requirements of the Coastal Zone Management Act.
 - 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

Mapping and Surveying OCS Boundaries - In October 1997, the Senate ratified the 1978 Bilateral Agreement establishing the U.S.-Mexico OCS boundary out to 200 miles in the GOM and Pacific. In the past several years, there have been various rounds of formal negotiations with a delegation from Mexico. The two governments agreed on a treaty that was signed on June 9, 2000, by representatives of the two countries and was submitted for advice and consent by the U.S. Senate. The Senate ratified the treaty on October 18, 2000. On November 28, 2000, the Senate of Mexico also approved the established treaty boundary.

Other Major Mapping and Surveying Activities

- Work 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;
- Provide technical assistance to the Assistant Secretary for Fish, Wildlife and Parks and the National Park Service in support of the expansion of the Virgin Islands National Park and Buck Island National Monument. A Presidential Proclamation

setting aside certain territorial submerged lands is being prepared for the President's signature;

- Work with the Commonwealth of Puerto Rico on jurisdictional and boundary issues;
- Provide technical assistance to the Department of Justice for the lawsuit filed with the United States Supreme Court, No. 128, Original, by the State of Alaska in southeast Alaska, the Alexander Archipelago, and in Glacier Bay National Park and Preserve;
- Work 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; and
- The Mapping and Boundary Branch is converting all Leasing Maps and Official Protraction Diagrams to the new digital format and developing a website to make these products available to our stakeholders. In addition, a project has been established with the Information Technology Division to produce and maintain Planning Area coverage along with supporting metadata files.

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 2002

- Complete development of the 5-Year OCS Oil and Gas Leasing Program for 2002-2007.
- Implement pre-lease steps for the remaining sales scheduled in the current 5-Year Program and conduct Sale 182, Central GOM and the first Western GOM sale in the new 5-Year Program.
- 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.
- Implement or resume pre-lease steps for the Beaufort Sea Sale 176, if a decision is made to proceed with the sale.

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 potential availability of royalty relief has added to the financial attractiveness of both deepwater and shallow water prospects.

Arctic activities are increasing. The MMS has approved the development and production plan for the Northstar project in Alaska's Beaufort Sea. This joint State-Federal project promises the first oil from the Federal OCS off Alaska, with the operator anticipating first production in 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.

Meanwhile, active development of shallow-water tracts in the GOM, production activities in the Pacific Region, and decommissioning of offshore facilities continue at previous or higher rates. This means that deepwater and arctic activities are adding greater responsibility to an already heavy workload.

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 size and complexity of the 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 the EA on geological and geophysical surveys in the GOM, tax the resources MMS can dedicate to any one assignment.

Some EA's may find the potential for significant impact. Such a finding would trigger the need for an EIS. For example, the 1999 Deepwater EA identified the need for an EIS to evaluate the potential environmental impacts associated with the proposed use of floating production, storage, and offloading systems in the GOM. MMS is completing preparation of that EIS. In addition, oil spill analyses will still be necessary for all lease sales and exploration and development plans. In the Pacific Region, MMS is preparing an EIS and two EA's to cover activity on 36 undeveloped leases in that region.

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
- coordinates CZMA consistency reviews for proposed exploration, development, and production activities with operators and Federal and State agencies.

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.
- ***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.
- ***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. In June 1988, MMS and the National Marine Fisheries

Service (NMFS) completed a formal Section 7 consultation under the ESA to ensure the safety of sea turtles and dolphins. An observer program to monitor explosive removals was one result of 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. The NMFS recommends continuing the observer program for platforms removed with explosives. The MMS reinitiated the consultation, which is ongoing. The MMS will analyze data to support the analysis required for the consultation.

- ***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. A report on the collection, cataloging, and organizing of Alaska North Slope traditional knowledge for incorporation into EIS's will be available in 2001.
- ***Essential Fish Habitat*** — The 1996 amendment to the Fishery Conservation and Management Act, 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. 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.
- ***Arctic Near-Shore Impact Monitoring in Development Areas*** — This multi-year effort will monitor impacts associated with the development and production of oil from the Northstar and Liberty projects. These projects will provide the first oil produced from the federally controlled portion of the Beaufort Sea. Phase I, completed in 2000, included an environmental literature review, 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.
- ***Pacific OCS Decommissioning*** - There are no industry plans to remove any California OCS platforms at this time. However, MMS continues to work cooperatively with Federal, State, and local agencies and other interested parties to address issues associated with decommissioning California OCS structures. These structures include some of the deepest and largest structures in the world's oceans, as well as onshore processing facilities. Rigs-to-reefs solutions in the Pacific are among those being examined by State and local officials. The MMS, the California State Lands Commission, and other State, Federal and local agencies are working closely together through the Interagency Decommissioning Work Group to share information and meet information needs. Several offshore facilities are nearing the end of their economic life and may be decommissioned within the next five years. This is an issue that has captured the attention of the international community because of interest in international platform removal guidelines and the technological complexity of the undertaking.
- ***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 2002

- MMS will complete the EIS for the 2002-2007 5-Year Program.
- Work will continue on the Arctic Near-Shore Impact Monitoring in Development Areas.
- 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.
- An EIS will be completed for proposed exploration activities on four units in Southern California.
- EA's will continue to be prepared on proposed exploration and development activities on existing leases in Southern California.

Environmental Studies

	2001 Estimate	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2002 Budget Request	Change From 2001 (+/-)
\$(000)	18,371	0	0	18,371	0
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 with the 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.

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

Planned Activities for FY 2002

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 conducting research in deep water is significantly higher than conducting 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.

In addition to Gulf-wide deepwater activities, a major study, *Northeastern Gulf Integrated Study of Physical and Biological Processes*, will be underway completing the many years of research conducted under the *Northeastern Gulf of Mexico Coastal and Marine Ecosystem Program* and the *Northeastern Gulf of Mexico Physical Oceanography Programs*.

Several major studies underway in FY 2002 characterize the program direction for the GOM. These include:

- *Upper Boundary Layer Studies in the Western and Central Gulf of Mexico*. This suite of studies will improve the accuracy of impact assessment on air quality through field collection of data and data analyses and interpretation.
- *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.
- *Effects of Oil and Gas Exploration and Development at Three Continental Slope Sites in the Gulf of Mexico*. This site-specific study will assess the physical and chemical impacts of oil and gas development on biological resources at continental slope sites. Concurrently, the *Northern Gulf of Mexico Continental Slope Habitats and Benthic Study* will be refining 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. Decommissioning activities will be an increasingly important part of the Pacific Region's focus relative to offshore platforms, associated pipelines, and onshore facilities. Studies will also 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. Also, a major effort will be undertaken to develop an extensive set of geographically oriented environmental and socioeconomic data using existing data. Additionally, research will be undertaken on sediment transport processes in and around OCS oil and gas pipelines to increase information for safety and environmental protections. Several large field oceanographic studies will be ongoing in FY 2002 including:

- *Santa Barbara Channel - Santa Maria Basin Oceanographic Data Support for Biological Studies.* This project will provide real-time oceanographic data to support at-sea biological oceanographers and airborne bird and marine mammal surveyors in particular.
- *Environmental Mitigation Monitoring.* This ongoing study will continue previous work to observe, sample, and/or monitor post-lease OCS oil and gas operations to determine environmental compliance.

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. As production comes on line at Northstar and 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 2002 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.

- *Testing Bowhead Whale Responses to Offshore Oil-and-Gas-Development Noise.* This study will confirm actual received sound levels and measure distances at which individual bowheads respond to seismic and other oil-industry noise.
- *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 and gravel resources from the OCS will require environmental studies. In addition, there is also interest by commercial firms and local jurisdictions for the use of sand and gravel for construction projects. Studies will include general environmental surveys in potential borrow areas as well as development and implementation of environmental monitoring to assess impacts from dredging and mining 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 will employ a region-wide management approach to help identify cost effective and environmentally sound goals and for designing guidelines and procedures for managing the resources and for identifying needed environmental studies.

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

		2002 Budget Request	Program Change (+/-)
Leasing & Environmental Assessment			
	\$ (000)	18,140	+1,680
	FTE	220	+14
Regulation of Operations			
	\$ (000)	48,188	+5,716
	FTE	385	+20

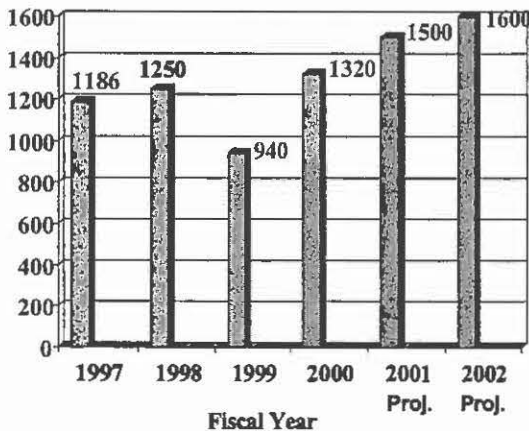
Relationship to Performance Goals

- Ensure safe OCS mineral development.
- Ensure environmentally sound OCS mineral development.

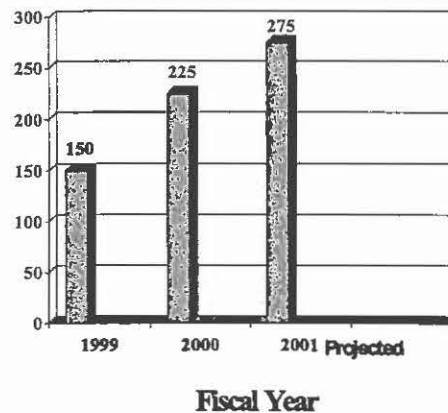
Narrative Justification

In late 1999 and early 2000, during formulation of the FY 2001 budget request, activity in the oil and gas industry was just beginning to recover from a large decrease in prices in 1998-99. There was almost no indication that MMS's workload levels in the GOMR would again explode. However, extremely robust and record breaking activity has continued to unfold. The number of total wells drilled rose 40 percent in 2000.

**Well Drilling Activity in
Gulf of Mexico**



**Deepwater Wells
Drilled in the Gulf of Mexico**



The number of deepwater wells drilled rose 50 percent in 2000 and the number of ultra-deepwater wells (>5,000 feet) rose 95 percent. The number of development plans filed rose by 46 percent in FY 2000. Existing resources are not adequate to meet the increased

demands that these activity levels require. Without additional resources, the possibility of backlogs will increase, and a subsequent delay in energy production and revenue receipt to the Treasury grows increasingly likely.

The proposed increase for the GOM is divided between the Leasing and Environment Subactivity and the Regulatory Subactivity. The portion of the proposed increase associated with the Leasing and Environmental Subactivity is discussed below. The Regulatory portion of the proposed increase is discussed at the end of the Regulatory Subactivity section.

Leasing and Environmental Assessment

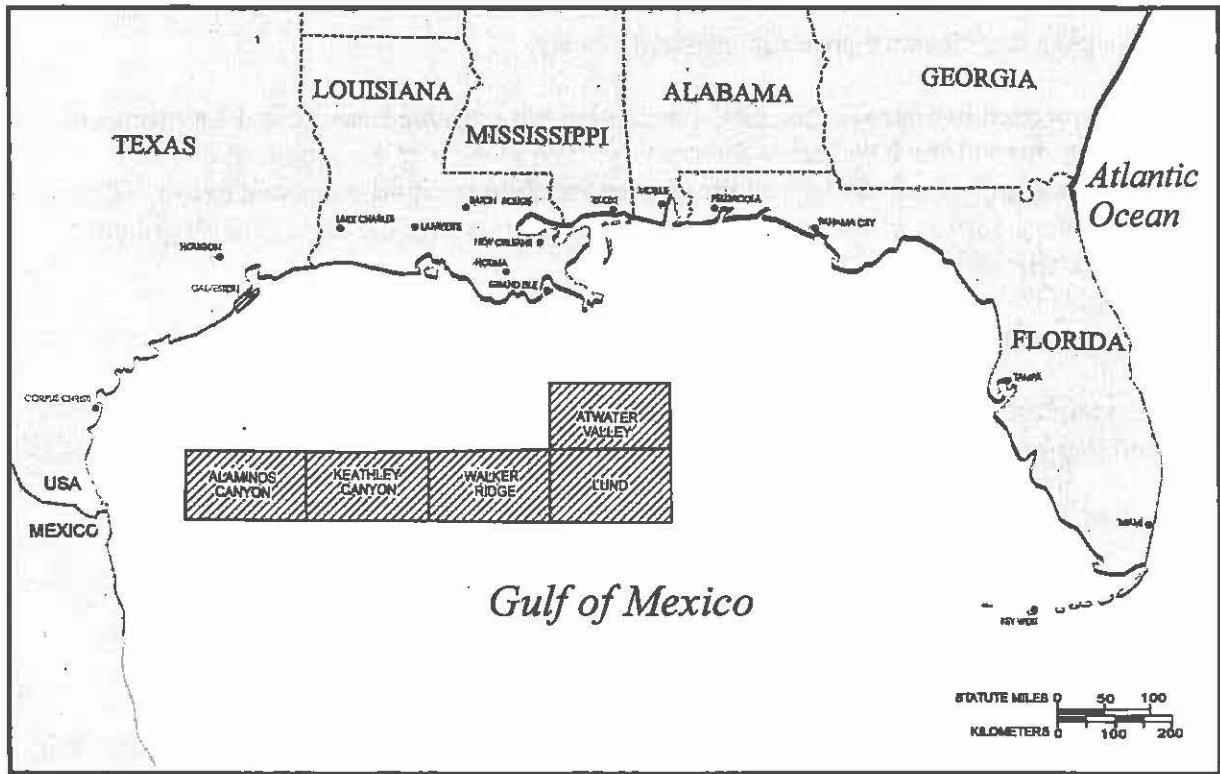
The request for 14 FTE encompasses two areas: environmental review of proposed oil and gas operations and administration of all the legal requirements of the 7,355 leases.

(a) Environmental Review

The increases discussed above have required ever-expanding efforts of environmental review by MMS. MMS conducts an environmental review of every well and every development plan.

Many new deepwater wells and development plans are being proposed in the deepwater areas of the Gulf of Mexico. Some of this development is the first ever in five major new map areas, each involving 8,500 square miles, roughly the size of New Jersey. (See map.) These areas have never had an environmental assessment prepared by MMS. The MMS must conduct these environmental reviews with great clarity and completeness because vulnerable environmental resources are not thoroughly documented. In late 2000, MMS began the process to prepare 17 grid-area Environmental Assessments (EAs) over the next five years to cover the five new map areas. Each EA is a comprehensive document and will require input from several different groups of environmental scientists. Without additional resources, the time frame for conducting an environmental assessment could more than double from the target goal of six months to an estimated 12 to 16 months. This would introduce substantial delays in oil and gas production, as well as Treasury receipts to the U.S. Government. Without additional resources, time delays will be introduced in processing the 800 plans per year.

Indications are that many companies are on the verge of submitting new plans and that the NEPA-related workload will increase considerably in the near future, especially in deep water. While the number of deepwater wells drilled grew by 50 percent in FY 2000 we expect a continued increase as companies have announced their exploration budgets are rising 15-30 percent in 2001 and construction of about 10 new drilling vessels will be completed in 2001. As industry continues the use of new and unique technologies, MMS's EAs will begin to encompass new areas, such as Floating Production Storage and Offloading (FPSOs) facilities and major pipeline expansions. To accommodate this workload increase and avoid delays, MMS estimates that eleven additional staff representing a wide variety of scientific disciplines are needed.

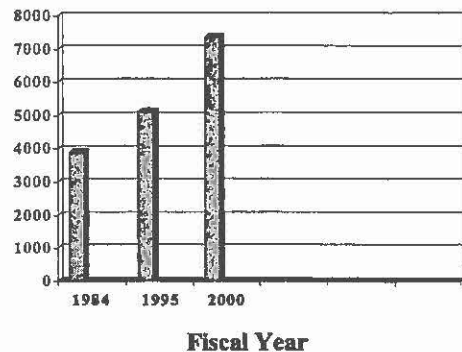


(b) Lease Administration

The MMS’s ability to manage all of the legal actions required to properly administer the 7,355 oil and gas leases that exist in the Gulf of Mexico has become strained. The total number of leases monitored by the Gulf Regional Office has grown 44 percent over five years from 5,119 at the end of Fiscal Year 1995 to 7,355 at the end of Fiscal Year 2000.

MMS’s lease title assignment workload has risen 40 percent in the last three years versus the previous three years. MMS review and acceptance of an operator’s supplemental bond to cover potential liabilities has grown 81 percent in three years, growing 55 percent in FY 2000 alone. More than \$350 million in supplemental bonds are executed and monitored by MMS. MMS review and approval of bond cancellations in the Gulf of Mexico grew 45 percent in the last year.

Lease Administration Load in the Gulf of Mexico



As required under the Oil Pollution Act of 1990 as amended in 1996, the GOMR has major responsibilities in ensuring that each company maintains the required oil spill financial (OSF) coverage in force on each facility operated on the OCS. The GOMR not only administers the OSF coverage requirements for the Gulf Region, but also for the

nationwide OCS and, as required by law, for State waters as well. A major increase in the number of OSF records maintained began in April 1999. This was due to a regulation change to more clearly implement the statute. The GOMR administers detailed records associated with approximately \$10 billion in coverage on 8,100 Federal facilities and 1,200 State facilities. In 2000, the workload associated with this responsibility rose by 30 percent over 1999. Hundreds of changes in this coverage are processed each year, with a 10 to 15 percent increase per year expected. MMS estimates that three reviewers are needed to keep pace with this growing workload.

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

	2001 Estimate	Uncontrollable & Related Changes (+/-)	Program Changes (+/-)	2002 Budget Request	Change From 2001 (+/-)
\$(000)	23,576	+566	-753*	23,389	-187
FTE	222	0	0	222	0

** Includes \$154 in streamlining savings achieved by a bureau-wide review of administrative cost and staffing levels to reduce redundancy and inefficiency and to incorporate processes for working smarter.*

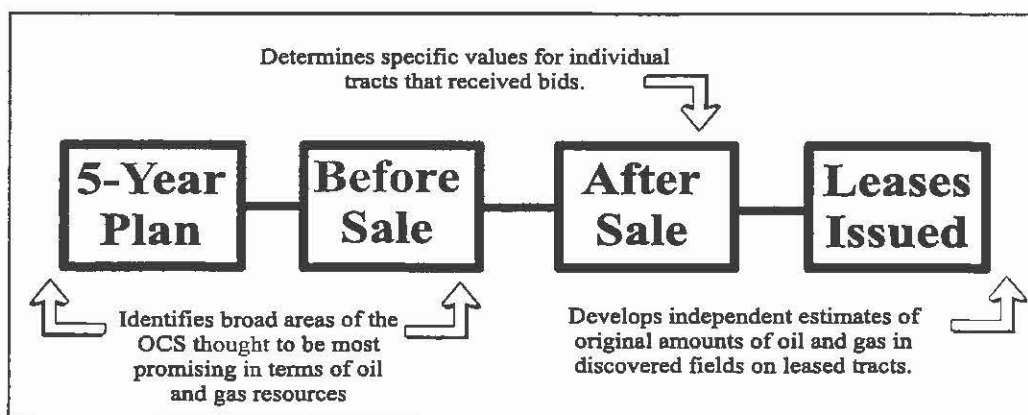
Resource Evaluation Program

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 will convert 100,000+ 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

A Comment on the Performance Goals Contained in This Document

The goals that appear in the Fiscal Year 2002 Annual Performance Plan are based on the Department's most recent revision of its Government Performance and Results Act strategic plan. This strategic plan, which covers the period from Fiscal Year 2000 to Fiscal Year 2005, was completed under the guidance and direction of the previous Administration and, therefore, does not necessarily reflect the policies and management priorities of the current Administration.

During 2001, the Department will review and, where appropriate, revise the current strategic plan. This review process will incorporate the views and concerns of the Department's partners and constituencies and will, in some cases, be the basis for new or restated annual performance goals and measures to provide overall direction to Interior's programs and deliver program results.

DEPARTMENT OF THE INTERIOR
MINERALS MANAGEMENT SERVICE
CONSOLIDATED GPRA REPORT

FY 2002 ANNUAL PERFORMANCE PLAN
FY 2000 ANNUAL PERFORMANCE REPORT

April 26, 2001

I am pleased to present the Minerals Management Service (MMS) Consolidated Report. Its threefold purpose is to establish a performance plan for Fiscal Year (FY) 2002, revise the annual performance plan for FY 2001, and present performance results for FY 2000. This report meets the requirements of the Government Performance and Results Act (GPRA).

This is MMS's second opportunity to report our performance in accordance with GPRA requirements, and it demonstrates the progress we have made in our performance management efforts. In particular, we have refined some of our outcome goals and are moving toward results-based measures for others. We also are making progress in our data validation and verification efforts in order to provide meaningful and useful data.

For almost 20 years, MMS has been a leader in revenue management, environmental responsibility, and operational safety, and our long term and annual performance goals reflect our responsibilities in these areas. This report embodies our commitment to continue our leadership and to fulfill our vision to be the best minerals resource manager, enhancing the viability of our Nation's energy program.

Energy production plays an increasingly important role in our Nation's economic future and security. Today, oil and gas production from Federal waters in the Gulf of Mexico contributes just over 25 percent of the total U.S. domestic oil and natural gas production. Demand for energy is expected to increase substantially in the future, particularly with respect to natural gas. As the stewards of our Nation's limited energy resources, MMS's Offshore Minerals Management is committed to successful partnerships between the Federal Government and the minerals industry. The MMS is committed to maintaining a balance between providing energy and protecting the Nation's unique and sensitive environments and other natural resources.

Spurred by changing energy markets and the need to implement business processes that are better aligned with industry and financial institutions, the MMS's Minerals Revenue Management (formerly the Royalty Management Program) is developing and implementing the most comprehensive reorganization and review since its inception in 1982. This will result in operational improvements, increased revenues, and cost savings for both MMS and the energy industry. The newly reengineered automated system will be functional in October 2001 and we expect all reengineering concepts to be fully implemented by 2003.

The MMS is adopting an asset management approach for administering Federal oil and gas royalties. The MMS has two options for collecting royalties – in value (cash) or in kind (oil and gas). Since late 1998, MMS has been conducting a series of royalty-in-kind (RIK) pilots to determine the circumstances under which taking oil and gas royalties in kind makes good business sense. Our goal is to optimize our management of the public's mineral assets, and we will continue to study RIK through pilots to determine when it will provide the maximum benefit to the American taxpayer.

My vision is for the MMS to be the best minerals resource manager; to continue our global leadership on safe offshore operations and environmental responsibility; to continue improving revenue collection and increase the net benefit to taxpayers; to continue to fulfill our American Indian trust responsibilities; and to continue working with our stakeholders to build consensus and balance national, regional, and local interests. The goals, measures, and strategies contained within this report position us to build upon our successes and achieve that vision.


Thomas R. Kitsos
Acting Director

Minerals Management Service Quality Council
FY 2001 Annual Performance Plan
FY 2000 Annual Performance Report


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Minerals Revenue Management

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EXECUTIVE SUMMARY

At the Minerals Management Service (MMS), our vision is to be recognized as the best minerals manager in the world. MMS provides high quality, timely services to all our customers and outstanding value to the American people. This report, prepared to meet the requirements of the Government Performance and Results Act (GPRA), demonstrates this by presenting the results of our efforts in FY 2000 towards meeting our goals. The report also describes our plans for FY 2002, and provides our FY 2001 revised final annual performance goals.

This is MMS's second opportunity to report our performance under the auspices of GPRA and, when compared with last year's report, demonstrates the progress we have made in our performance management efforts. In particular, we have refined some of our goals and are transitioning from output measures to outcome goals in others. We also are making progress in our data validation and verification efforts so our data are meaningful and useful. Most importantly, our managers are using performance measures to run their programs and achieve our overall goals. However, while we have made significant progress, we recognize and are responding to the need for continued performance management improvement.

MMS's mission is an important one. Our mandate is to manage the oil, natural gas, and other mineral resources on the Outer Continental Shelf (OCS) in an environmentally sound and safe manner and, in a timely fashion, collect, verify, and disburse mineral revenues generated from Federal and American Indian lands. Our long term and annual performance goals reflect these responsibilities and, although we did not achieve all of our FY 2000 goals, we are proud of the significant contribution our efforts have made to the nation's energy base and economy.

As manager of the nation's offshore mineral resources, Offshore Minerals Management's (OMM) long-term strategy is to assess those resources to determine--in consultation with affected parties--if they can be developed in an environmentally sound manner. If OCS lands are leased, OMM goes on to regulate activities offshore to ensure worker safety and environmental protection. This long-term strategy shapes how OMM manages OCS resources and faces the challenge of maintaining a balance between providing energy and protecting the nation's unique and sensitive environments and other natural resources.

The MMS's other major operating program, Minerals Revenue Management (MRM), has goals to measure its effectiveness in providing fast access to recipient's funds, industry's compliance with lease terms and regulations (and how well MRM succeeds in ensuring compliance), and MMS's fulfillment of our American Indian trust responsibilities. The MRM goals are based to a large extent on "stretch" goals established by the senior managers in 1997.

Summary of our Performance:

The MMS had ten FY 2000 annual performance goals. We exceeded three of these goals—the on-time disbursement of mineral revenues goal and two of the goals that relate to our Indian trust responsibilities. We met the targets for our other Indian trust responsibility goal and the OCS fair market value goal.

We did not achieve targets for the offshore safety index and our two royalty compliance goals. While the safety index and the first royalty compliance goal (the compliance index) were close to the targets, we missed our second royalty compliance goal by a wide margin due to a delay in the development of an automated prototype system. As a result of this delay, MRM managers have adjusted the FY 2001 and FY 2002 targets for the second royalty compliance goal. Although MRM has many Compliance and Asset Management (CAM) resources committed to new system implementation on October 1, 2001, MRM managers also have directed ample CAM resources dedicated to achieving these new targets.

The environmental goals are calculated by calendar year because the data for the variables (a portion of which are obtained from other agencies) are generated on a calendar year basis. Analysis should be complete by May 2001, however, preliminary data indicate that we should not deviate significantly from the target performance.

We believe the targets for the safety index and the first royalty compliance goal are still valid and have retained them for FY 2002. We are also refining the environmental index for future years. Our aim is to include in the index components for which good data are available and over which we have some degree of influence.

Our Priorities in the Coming Years

- Ensuring a reliable source of natural gas and oil resources for the nation. We continue to develop 5-year oil and gas leasing programs, with input from our stakeholders, that indicate the size, timing and location of leasing activity determined to best meet national energy needs.
- Evaluating the contributions that OCS natural gas can make to meet the nation's energy demands in the short and long term. With nearly all announced new power plants (94 percent) based on natural gas, this fuel has become increasingly important to the economic health of our country.
- Balancing the search for energy and minerals with environmental protection, specifically the human, coastal, and marine environments.
- Minimizing minerals exploration and development incidents on Federal offshore leases and ensuring that oil and gas production is consistent with resource conservation.
- Implementing the provisions of the OCS Lands Act by requiring compliance with a set of operating regulations that are based in large part on 85 industry standards or "best practices" and that provide penalties for non-compliance.
- Enhancing collaborative efforts between government, industry, and the scientific community in the areas of research and operational requirements and continuing to

benchmark ourselves against the private sector and foreign and State governments to stay close to a rapidly changing industry.

- Expanding collaborative projects with other countries that are technologically advanced in their regulatory programs to promote safe and environmentally sound oil and gas operations worldwide. The MMS is a world leader in this arena and we are increasingly called upon to assist other countries and participate in international conferences and projects.
- Implementing new systems to improve collection and disbursement of monthly payments on the thousands of leases in our care.
- Expanding the universe of properties converted into the new 3-year CAM process until we are fully transitioned by the end of 2003.
- Continuing to explore the possibilities of taking mineral royalties in kind (oil and gas) rather than in value (cash). The results of these efforts will guide development of an operational royalty-in-kind activity within MRM, when it makes good business sense, which is fully integrated with the new compliance and asset management process.
- Sustaining our emphasis on American Indian empowerment as part of our ongoing commitment to fulfill our trust responsibilities.
- Implementing OMM's E-Gov initiative to improve information management within OMM. This initiative institutes comprehensive stakeholder support, fosters better integration and sharing of information, and promotes development of performance measures that support our primary business activities.

In addition to our other performance management initiatives, we are joining with Departmental staff and employees from other bureaus to improve data validation and verification. The basic strategy underlying the Department's data validation and verification approach is to establish clear expectations and requirements for achieving data credibility. This will enable organizations to position themselves to succeed in delivering accurate information to guide decision-making. In line with this approach, MRM is working with its reengineering systems contractor to develop data procedures that are compliant with Joint Financial Management Implementation Program requirements. OMM, also cognizant of the importance of valid measures and verifiable data, is working to strengthen its procedures as well. For example, in FY 2000, OMM determined that it could not obtain accurate water quality data for use in the environmental index. Accordingly, OMM dropped that data from the index calculations until reliable data can be obtained from the appropriate regulatory agency.

As we look back on our last year's performance, we believe we are on track to fulfill our vision of being recognized as the best minerals manager in the world.

ABOUT THIS DOCUMENT

The Government Performance and Results Act (GPRA) requires agencies to submit annual performance plans to Congress with their fiscal year budget requests and to prepare annual performance reports at the end of each fiscal year (FY) to report on how well they met their goals. Rather than submit separate documents, the Minerals Management Service (MMS) has combined the FY 2000 Annual Performance Report and the FY 2002 Annual Performance Plan into this Consolidated Report.

The MMS followed Departmental guidance while preparing this consolidated report. In it, MMS presents an overview of FY 2000 accomplishments; planned performance for the current fiscal year, FY 2001; and FY 2002 proposed performance goals, based on requested budget resources.

The FY 2000 performance goals were established in the FY 2000 Annual Performance Plan, published in March 1999 and revised in March 2000. The goals were revised to bring them in line with the long-term goals established in MMS's Strategic Plan for 2000 to 2005, also published in March 2000. The FY 2001 revised final annual goals and the proposed FY 2002 annual goals presented in this report also are in line with the long-term goals in MMS's Strategic Plan.

The MMS Consolidated GPRA Report is divided into three sections and two appendices:

Section I — *Introduction and Overview*--Introduces MMS and states its mission and vision. It also addresses the linkages to Departmental goals, MMS's strategic plan, and the budget; provides minor adjustments to the strategic plan; and closes with an At-a-Glance view of the FY 2002 Annual Performance Plan.

Section II — *GPRA Program Activities and Goals*--Includes discussions about MMS's FY 2002 Annual Performance Plan, with trend data about prior years' performance, and contains the FY 2000 Annual Performance Report. This section also includes budget information and discussions of MMS's methods to validate and verify data used to measure performance.

Section III — *Additional GPRA Information*--Contains discussions about several issues related to MMS's planning efforts.

Appendix 1 — Contains the *FY 2000 Annual Performance Report At-a-Glance Table*, which is a summary of FY 2000 performance information.

Appendix 2 — Contains the *FY 2001 Annual Performance Plan At-a-Glance Table*, which presents MMS's revised final FY 2001 annual performance goals and the revised final FY 2001 budget table.

SECTION I - INTRODUCTION AND OVERVIEW

1.1 INTRODUCTION

The MMS manages the Nation's oil, natural gas, and other mineral resources on the Outer Continental Shelf (OCS), and collects, accounts for, and disburses revenues from offshore Federal mineral leases and from onshore mineral leases on Federal and Indian lands.

The Federal Oil and Gas Royalty Management Act of 1982, as amended (FOGRMA) created a framework to improve management of Federal and Indian mineral royalties. The Secretary of the Interior established MMS in 1982 following the Independent Commission on Fiscal Accountability's recommendation that proper fiscal accountability and management of the public's mineral resources would best be served by a bureau devoted solely to minerals management. The MMS also was designated the responsible administrative bureau to attend to the Secretary's obligations under the Outer Continental Shelf Lands Act of 1953, as amended (OCSLA).

The MMS comprises two specialized operating programs: Minerals Revenue Management¹ (MRM) and Offshore Minerals Management (OMM). The Directorate of Policy and Management Improvement, the Directorate of Administration and Budget, and the Offices of Congressional and Public Affairs support both programs.

The MMS's activities provide major economic and energy benefits to taxpayers, states, and the American Indian community--benefits that have both national and local importance. The OCS significantly contributes to our national energy supply, currently providing more than 26 percent of the natural gas (143 trillion cubic feet since 1953) and 25 percent of the oil (13 billion barrels since 1953) produced in the United States.

The OMM administers more than 7,500 active leases on 40 million acres of the OCS. While development of offshore mineral resources has contributed to the Nation's energy security and has meant billions of dollars in revenues to the United States, MMS is especially mindful of safety and environmental concerns--striving to achieve the proper balance between providing a domestic energy source and protecting sensitive coastal and marine environments.

Since 1982, MRM has disbursed nearly \$110 billion to Federal, State, and Indian accounts. This includes approximately \$69 billion to the U.S. Treasury and \$26 billion to the Land and Water Conservation Fund, the National Historic Preservation Fund, and the Reclamation Fund. MRM also has disbursed approximately \$12 billion to 38 states and

¹ The MRM formerly was known as the Royalty Management Program (RMP). The RMP implemented a congressionally approved reorganization effective October 8, 2000, becoming Minerals Revenue Management. Transition to the new organization was an important milestone in the reengineering initiative, beginning implementation of the end-to-end processes that are at the heart of MRM's reengineering.

3.1 billion to the Department's Office of Trust Funds Management (OTFM) on behalf of 41 Indian tribes and 20,000 individual Indian mineral owners (allottees)².

The revenues generated and disbursed by MMS provide many benefits to the American people. For example, the Land and Water Conservation Fund provides revenues to Federal, State, and local governments to purchase parks and recreation areas, and to acquire and develop land and water resources for recreational use, habitat protection, scenic beauty, and biological diversity. The Reclamation Fund provides revenues to build, maintain, and operate water and associated power projects on arid and semi-arid Western lands. The National Historic Preservation Fund uses revenues to expand and accelerate historic preservation plans and activities.

Monies that go to the States are used as the States deem necessary, typically for schools, roads, libraries, public buildings, and general operations. Revenues generated from mineral production on Indian lands go directly to the tribes and allottees, meeting a wide variety of tribal and allottee needs.

For more information about MMS, please visit the MMS website at www.mms.gov. The MMS's Strategic Plan for FY 2000 to FY 2005 and its FY 2000 and 2001 Annual Performance Plans can be accessed from the website as well.

1.2 MISSION AND VISION STATEMENT

MISSION

**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.**

VISION

**TO BE RECOGNIZED AS THE BEST MINERALS RESOURCE
MANAGER**

² The MRM collects revenues from activities on Federal onshore and offshore mineral leases, and disburses portions of the revenues to States with Federal mineral leases that are within their respective boundaries or within 3 miles of the seaward boundary of their coasts. Indian tribes and allottees receive 100 percent of the mineral revenues derived from leases on their lands.

1.3 LINKAGE TO MMS STRATEGIC PLAN AND DEPARTMENTAL GOALS

The Department of the Interior has five broad goals that provide a framework for the numerous and diverse responsibilities of its bureaus. They are:

- 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 Indian tribes and our commitments to island communities

The breadth of MMS activities needed to effectively fulfill the MMS mission generally support all Departmental goals. For example, our "Rigs to Reefs" program provides recreational opportunities for sport-fishing enthusiasts, and OMM provides up-to-date scientific information for resource management decisionmaking through environmental and technology research programs. This research is made widely available and is used by coastal states and other agencies.

Our mandated mission and long-term goals contribute most directly to the Department's third and fifth goals, which are to "manage natural resources for a healthy environment and a strong economy" and to "meet our trust responsibilities to Indian tribes and our commitment to island communities." This relationship is depicted in the following table.

Departmental Goal	MMS Activity	Linkage
Protect the environment and preserve our Nation's natural and cultural resources	Environmental research and monitoring	Supports goal by providing data for resource management decisions
Provide recreation for America	Rigs to Reefs program	Creates recreational opportunities for sport-fishing enthusiasts
Manage natural resources for a healthy environment and a strong economy	Oil and gas operations	Contributes to economic growth and energy security
Provide science for a changing world	Oil and gas research and development	Supports goal by providing scientific information for resource management decisions
Meet our trust responsibilities to Indian tribes and our commitments to island communities	Trust resource management	Supports goal by ensuring that trust resources are managed in accordance with tribal and island community needs

Table: Relationship Between Departmental Goals and MMS Goals

Departmental Goals	MMS Mission Goals	MMS Long Term Goals
<p>3. <i>Manage Natural Resources for a Healthy Environment and a Strong Economy</i></p>	<p>Ensure safe OCS mineral development.</p>	<p><u>Safety</u> - see page — 16</p>
	<p>Ensure environmentally sound OCS mineral development.</p>	<p><u>Environment</u> - see page — 23</p>
	<p>Ensure that the public receives fair market value for OCS mineral development.</p>	<p><u>Fair Market Value</u> - see page — 33</p>
	<p>Provide revenue recipients with access to their money within 24 hours of the due date.</p>	<p><u>Access to Money</u> - see page — 40</p>
	<p>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.</p>	<p><u>Royalty Compliance</u> - see page — 45</p>
<p>5. <i>Meet Our Trust Responsibilities to Indian Tribes and our Commitments to Island Communities</i></p>	<p>Interact with our customers in an open and constructive manner to ensure that we provide quality services that satisfy our customers' needs.</p>	<p><u>Customer Service</u> - see page — 58</p>
	<p>Fulfill our mineral revenue Indian trust responsibilities.</p>	<p><u>Mineral Revenue Indian Trust Responsibilities</u> - see page — 54</p>
	<p>Interact with our customers in an open and constructive manner to ensure that we provide quality services that satisfy our customers' needs.</p>	<p><u>Customer Service</u> - see page — 58</p>

This FY 2002 Annual Performance Plan links directly to the MMS FY 2000 to 2005 Strategic Plan through mission and long-term performance goals, and by delineating the annual performance targets MMS managers have set in order to attain the long-term goals. The MMS Strategic Plan presents our mission and vision statements and guiding principles, and sets out our mission goals and their related long-term performance goals, which focus on outcomes. It also contains discussions about the strategies we intend to follow to achieve our long-term goals.

The target levels of performance in the annual goals were developed by experts at various levels throughout the organization. Senior officials identified and prioritized the results that need to be attained during FY 2002 in order to achieve the longer-term strategic goals. Technical and program experts identified the resources and specific actions needed to achieve those results. Resource allocations and work plans for each organizational unit will be tied to this plan.

1.4 LINKAGE TO THE BUDGET

In accordance with the Office of Management and Budget's (OMB) Circular A-11, section 220.8, the budget figures presented in this document are at the mission goal level.³ The budget figures for the mission goals were determined by evaluating the contributions of the various parts of the organization toward each of the goals. The entire costs for the organization, including general and administrative costs, were allocated in this manner and then were totaled. The total for all the mission goals accounts for and matches MMS's total FY 2002 budget request, including amounts from appropriations and offsetting collections.

1.5 ADJUSTMENTS TO THE STRATEGIC PLAN

The FY 2002 Annual Performance Plan, which is part of this Consolidated Report, is based on MMS's revised Strategic Plan for FY 2000-2005, published in March 2000. The FY 2000 Annual Performance Report, which also is part of this report, is based on the current Strategic Plan and on the revised final FY 2000 annual performance goals, presented in the FY 2001 Annual Performance Plan in March 2000. Both are available on the Internet at <http://www.mms.gov/StrategicPlan/stratpln.htm>.

³ OMB Circular A-11 requires that each program activity in an agency's Program and Financing Schedule (P&F) be covered by a performance goal or indicator. An agency may choose to substitute a "GPRA program activities structure," which is developed by "consolidating, aggregating, or disaggregating the program activities included in the P&F schedules." For MMS, our mission goals equate to the GPRA program activities.

As provided in Circular A-11, Part 210.2(d), MMS is making minor adjustments to its current Strategic Plan as part of this annual plan. The adjustments are presented in the table below and are discussed in more detail in the applicable sections of this report and in the footnotes in Appendix 2.

Long Term Goal Number	Original Goal in FY 2000-2005 Strategic Plan	Revised Goal	Comments
OMM-1A	Maintain or show a decrease in the average accident index of .594.	Maintain or show a decrease in the average safety index of .594.	Changed index name from "accident" to "safety" to make the long-term goal terminology consistent with the mission goal and OMM's overarching goal. This change may not be reflected in the performance section of the FY 2002 President's Budget.
MRM-3A	By the end of FY 2005, ensure 100 percent of Indian gas producing properties are in compliance with major portion and 100 percent of Indian gas producing properties are in compliance with dual accounting for the time period 1984-2005.	By the end of FY 2005, ensure 100 percent of Indian gas producing properties are in compliance with index zone/major portion and dual accounting for the time period 1984-2004.	The changes in the goal are twofold: 1) adding "index zone/" and 2) changing the time period to 1984-2004. (See footnote 22, Appendix 2).
MRM-3B	By the end of FY 2005, ensure 100 percent of Indian oil producing properties are in compliance with major portion for the time period 1984-2005.	By the end of FY 2005, ensure 100 percent of Indian oil producing properties are in compliance with major portion for the time period 1984-2004.	See footnote 24, in Appendix 2.

1.6 MINERALS MANAGEMENT SERVICE FY 2002 GOALS AT-A-GLANCE

The MMS's FY 2002 goals are presented below.

GPRA Mission Goal	Long Term Goal	FY 2002 Annual Goal
Ensure safe OCS mineral development.	Maintain or show a decrease in the average safety index of .594.	Achieve a safety index not greater than .594.
Ensure environmentally sound OCS mineral development.	By 2005, show a decrease in the environmental impact index from the 2000 baseline.	In FY 2002, show a decrease in the number of adverse environmental impacts per OCS mineral development activity 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.
Ensure that the public receives fair market value for OCS mineral development.	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 1989-1995 average level of 1.8 (+/- 0.4) to 1.	In FY 2002 we will maintain the current high bids accepted for OCS leases to MMS estimated value ratio of 1.8 (+/- 0.4) to 1.
Provide revenue recipients with access to their money within 24 hours of the due date. ⁴	By the end of FY 2005, provide recipients access to 90 percent of revenues within one business day of MMS receipt and disburse 98 percent of revenues to recipients by the end of the month following month received.	By the end of FY 2002, provide access for ultimate recipients of 10 percent of revenues within one business day of MMS receipt and disburse 98 percent of revenues to recipients by the end of the month following month received.
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.	By the end of FY 2005, ensure payments are within the expected payment range at the due date for 95 percent of properties.	In FY 2002, achieve a compliance index ⁵ of .9775 (for calendar year 2000).
	By the end of FY 2005, issue 95 percent of necessary orders and demands within 3 years of the due date.	By the end of FY 2002, complete 100 percent of random audits for 1999 converted properties. ⁶

⁴ Due date, as used throughout this document, is defined as the date royalty and production reports and payments are due as defined by laws, lease terms, and regulations.

⁵ The compliance index is a ratio of actual voluntary royalty payments divided by expected royalty payments.

⁶ "1999 converted properties" are defined as 1999 production related to properties that have been converted into the 3-year end-to-end Compliance and Asset Management process.

GPRA Mission Goal	Long Term Goal	FY 2002 Annual Goal
Fulfill our mineral revenue Indian trust responsibilities.	By the end of FY 2005, ensure 100 percent of Indian gas producing properties are in compliance with index zone/major portion and dual accounting requirements for the time period 1984-2004. ⁷	By the end of FY 2002, ensure for the time period January 1, 2000, through March 31, 2002, that 71 percent of Indian gas producing properties are in compliance with index zone/major portion requirements. By the end of FY 2002, ensure for the time period 1984-1999 that 57 percent of Indian gas producing properties are in compliance with dual accounting requirements. ⁸
	By the end of FY 2005, ensure 100 percent of Indian oil producing properties are in compliance with major portion for the time period 1984-2004.	By the end of FY 2002, ensure for the time period 1984-2001 that 34 percent of Indian oil producing properties are in compliance with major portion requirements. ⁹
Interact with our customers in an open and constructive manner to ensure that we provide quality services to satisfy our customers' needs.	By 2005, show an increase in customer satisfaction with our data and information services.	In FY 2002, we will increase the customer satisfaction index over the FY 2001 result.

⁷ On August 10, 1999, MMS published a final rule changing gas valuation regulations for Indian leases. One of the changes involved the use of published index prices for valuing gas produced from many American Indian leases. For leases in these areas, MRM will ensure companies pay royalties based upon the proper index prices.

⁸ For gas major portion calculations, data reported for FY 2000 and prior years captured data related to 1984-1999. However, we are not calculating major portion for 34.5 percent of the gas properties for that time period due to Interior Board of Land Appeals (IBLA) decisions related to our previous gas valuation regulations. We have completed calculations for 60 percent of these properties, and we will complete the remaining 5.5 percent. For FY 2001 forward, we will report progress in ensuring gas-related major portion compliance from January 1, 2000, forward (the date the new Indian gas regulations were effective).

⁹ Progress with oil major portion has been made through settlements with companies. We do not yet have a new Indian oil valuation rule published. For most of the remaining oil-related properties, we are not calculating oil major portion for the period March 1988 through December 1999 due to the IBLA decisions that also impacted the current Indian oil regulations.

SECTION II - GPRA PROGRAM ACTIVITIES AND GOALS

2.1 OFFSHORE MINERALS MANAGEMENT

The OMM's overall mission is to provide for safe and environmentally sound mineral development on the OCS and ensure that the public receives fair market value.

This mission is the direct result of the OCSLA, which provides for the expeditious and orderly development of minerals on the OCS in an environmentally sound manner. The OCSLA established a mandate for managing natural resources on the OCS. The primary facets of this mandate are to: 1) make OCS lands available for mineral development to meet national needs; 2) ensure that any mineral development occurs in a safe and environmentally sound manner; and 3) ensure that the public receives fair market value for making these mineral resources available.

Offshore production from the OCS is a critical component of the domestic energy supply currently providing more than 26 percent of the natural gas and 25 percent of the oil produced in the United States. The demand for natural gas is expected to continue to increase significantly during the next ten to twenty years. According to the Energy Information Administration, the demand for natural gas may reach as much as 35 Tcf by 2020, compared with 21 Tcf in 1998.

If the OCS 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 by seven to eight trillion cubic feet (Tcf). Assuming status quo in the leasing program, the primary source of OCS natural gas, the Gulf of Mexico, is projected to have a leveling off in production at approximately five Tcf in the year 2005.

Finding economically viable methods to tap vast deepwater resources is driving innovations in offshore technology. It is an MMS priority to maintain a comprehensive technology assessment and environmental research program that recognizes the environmental implications of our decisions. We see MMS's research programs as essential in helping ensure that management decisions enable us to be proactive in assessing the need for regulation of the offshore industry and maintaining our high standards for safe and environmentally sound exploration and production. The Nation has much to gain from excellent safety and environmental performance because the production and consumption of energy comprise fundamental components of economic development, national security, and societal well being. The United States now depends on oil and natural gas for nearly two-thirds of its energy needs, virtually 100 percent of its transportation needs, and an ever-increasing proportion of our electricity. Environmental benefits are obtained by providing access to clean-burning natural gas, which is increasingly being used nationwide to power electric generating stations.

For the future, we continue to evaluate the resources in the Alaska OCS. It is estimated that this area contains 25 billion barrels of oil and 123 trillion cubic feet of gas. Alaska potential is constrained by the high costs associated with exploration and development. However,

even with conservative economic assumptions, the undiscovered, economically recoverable resources for the Alaska OCS are estimated to be 3.3 billion barrels of oil and 5.1 trillion cubic feet of gas.

In pursuit of meeting or exceeding all three of our goals, OMM has procured a contractor to conduct a Foundational Study of how it should transition to an E-Government (E-Gov) environment. This study will consist of a business process review and recommendations for moving to a web-based, paperless operation with our customers. Developing an overarching vision and strategy will set the course for moving towards E-Gov in a coordinated fashion. The OMM continues to brief stakeholders on this initiative to ask for feedback on how MMS can more efficiently transact business.

Some of the guiding principles and objectives of OMM's E-Gov initiative are:

- Capture, manage and share information across the enterprise
- Align performance measures with vision and key services
- Identify measures to support the business case (safety, environmental index, evaluation of leases, cycle time)
- Be a customer-oriented service motivated by marketplace needs
- Develop comprehensive support or services for key stakeholder groups (the public, business, State and local governments, the oil and gas industry, regulators)
- Transform culture to one that is market oriented
- Provide the most efficient transaction
- Fulfill entire mission: balance total revenue return (the entire value of the resource) with regulatory requirements (e.g., safety and environmental); incorporate the notion of maximizing the ultimate recovery of the resource, e.g. conservation of resources
- Create an identity that positions OMM in the marketplace and is readily recognizable to stakeholders.

The MMS has developed the following goals to accomplish its mission to carry out the OCSLA mandate.

2.1.1 MISSION GOAL OMM-1: ENSURE SAFE OCS MINERAL DEVELOPMENT.

Description: The MMS safety program today has several components that emphasize performance over process and using our resources where the risk is greatest. These components include:

- Promotion of company-wide safety and environmental management programs;
- Greater reliance on industry wide standards and guidelines;
- Comprehensive approach to inspection of offshore facilities focused on those components or processes that present the most risk of failure;
- Improvement in our understanding of the causes and possible preventive measures for accidents;
- Use of Annual Performance reviews of companies to maintain an ongoing dialogue with an emphasis on improving performance;

- Ongoing research into safety technologies; and
- Alternative regulatory compliance.

The most symbolic shift to performance-based management is the collective work to develop and promote the importance of the Safety and Environmental Management Program (SEMP). The SEMP is a nontraditional, performance-focused tool for integrating and managing offshore operations. The purpose of SEMP is to enhance the safety and cleanliness of operations by reducing the frequency and severity of accidents. The MMS has asked industry to voluntarily adopt SEMP. The MMS has four principal SEMP objectives:

- (1) focus attention on the influences that human error and poor organization have on accidents;
- (2) achieve continuous improvement in the offshore industry's safety and environmental records;
- (3) encourage the use of performance-based operating practices; and
- (4) collaborate with industry in efforts that promote the public interests of offshore worker safety and environmental protection.

The MMS believes that the best regulatory program includes performance-based components founded on a prescriptive set of regulations. Our inspection program will not go away. In fact we are continually looking for ways to more wisely use our resources and focus our attention.

In the safety program, we have over 70 inspectors that go offshore every day, weather permitting. In 1999, these inspectors conducted over 18,000 inspections covering a diverse set of operations and facilities and pipelines systems of varying complexity. The MMS future will include both audits of safety management systems and a comprehensive and rigorous inspection program.

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.

FY 2002 Annual Goal:

Achieve a safety index not greater than .594. (Note—The index previously was termed the “accident index.” See Section 1.5 and footnote 17 in Appendix 2.)

BUDGET TABLE:

Offshore Minerals Management - Mission Goal OMM-1

Budget Activity/Subactivity	FY 2000 Enacted		FY 2001 Enacted		FY 2002 President's Budget	
	Total OMM (\$000)	Mission Goal OMM-1 (\$000)	Total OMM (\$000)	Mission Goal OMM-1 (\$000)	Total OMM (\$000)	Mission Goal OMM-1 (\$000)
Leasing & Environmental	41,870	174	42,836	175	46,243	179
Resource Evaluation	26,717	1,255	27,660	1,262	28,040	931
Regulatory	49,249	41,762	50,592	43,063	58,830	50,688
Information Management	16,925	6,260	17,336	6,413	17,855	6,619
Oil Spill Research	7,138	4,612	7,163	4,627	7,319	4,728
Totals	141,899	54,063	145,587	55,540	158,287	63,145

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

GOAL: SAFETY

Mission Goal OMM-1: <i>Ensure safe OCS mineral development</i>					
Long Term Goal OMM-1A: <i>Maintain or show a decrease in the average safety index of .594</i>					
FY 2002 Annual Performance Goal: <i>Achieve a safety index not greater than .594.</i>					
Performance Measure: <i>Ratio of the number of incidents (times the severity factor) to the number of activities (times the complexity/risk factor).</i>					
FY 98 Actual	FY 99 Actual	FY 00 Plan	FY 00 Actual	FY 01 Plan	FY 02 Proposed
.583	.578	.594	.867	.594	.594

Goal Description: This index considers the number and severity of incidents and the relative risks of those activities. It can be compared only with results from other years. This measure will indicate whether offshore operations are improving upon an already excellent safety record. The index is derived as follows:

- 1) Each incident is multiplied by a factor representing the severity of that incident and the results are totaled. (Incidents include fatality, injury, explosion, blowout, fire, and collision.)

Pollution events are excluded because they are captured in the environmental index.) For example, a fire that causes \$1,000 damage receives a severity value of 1, and a fire that causes \$2 million damage receives a severity value of 500. The number generated is the numerator for the index.

2) Each activity that occurred during OCS oil, gas, and sulfur operations is multiplied by a factor representing the complexity and safety risk of that activity and the results are totaled. (Activities include numbers of platforms, wells drilled/completed, and wells plugged and abandoned.) For example, the number of platforms in water less than 200 meters deep with zero to five wells is multiplied by one, and the number of platforms in water 200 to 400 meters deep with zero to eleven wells is multiplied by three. The number generated is the denominator for the index.

3) The safety index value equals the totals from step 1 divided by the totals from step 2. **In the extreme, if each activity had resulted in the most severe type of accident (i.e., multiple fatalities), the 1996 index would have been 298, rather than 0.612.**

The safety index is normalized in that it takes into consideration the activity level when totaling accidents. The safety index should **not** be construed as the percentage of accidents that occur from gas, oil, and sulphur operations on the OCS. It is an indexed number that uses arbitrary multipliers for accidents and activities to calculate an indexed rate. As long as the multipliers for both accidents and activities are used consistently from year to year, the index will measure whether or not safety is improving for gas, oil, and sulphur operations on the OCS.

A document prepared by OMM, "Performance Measures Primer," contains additional detail on the safety index.

Strategies and resources:

Our long-term goal is to maintain or decrease the average safety index. Recent budget increases, including the initiative proposed for FY 2002, are required to maintain the index near its very low level given the increase in activity, particularly in the Gulf of Mexico (GOM). This increased activity was made possible by new technologies that allowed exploration and development in very deep water and allowed geoscientists to "look" below the previously impenetrable layers of salt into deeper sediments that could hold additional oil or gas. Deepwater production now accounts for more than half of the oil produced in the GOM and almost 15 percent of all domestically produced oil.

In terms of workload, the number of total wells drilled rose 40 percent in 2000; the number of deepwater wells drilled rose 50 percent; the number of ultra-deepwater wells (>5,000 feet) rose 95 percent; and the number of development plans filed rose by 46 percent in. Also reaching an all time high in FY 2000 were the 191 permit applications for platform installations, representing a 30 percent increase from FY 1999. The technical review of increasingly complex development plans requires the use of more technical expertise. The additional resources would keep plan approval on pace, preventing delays in oil and gas

production and revenues, and would continue to ensure that ongoing production is done in a safe and environmentally sound manner.

The number of inspections of platforms has increased to ensure that new operators are observing proper safety procedures and that aging equipment is maintained properly to prevent environmental damage or harm to workers. As the number of new operating companies continues to rise, MMS has increased the overall time spent on inspecting facilities, investigating incidents, and issuing civil penalties. These efforts contribute to a safe working environment.

Other efforts underway to enhance the safety program include:

- Publishing a Notice of Proposed Rulemaking on deepwater facilities, web-based incident reporting, and third party certification of well control and production safety training. These rules are necessary to provide a framework for deepwater production, transfer responsibility for training school certification to industry associations, and provide for more efficient electronic incident reporting.
- Fully implementing the provisions of an MOU between MMS and the US Coast Guard, which delineates each agency's respective responsibilities for offshore facilities. To simplify compliance and monitoring, MMS is working with the Coast Guard on common safety standards for fixed and floating facilities. Coordinating important differences on firefighting requirements are the first, and most important, task.
- Working with the Department of Transportation on a single set of safety standards and pipeline regulations for offshore production and transportation activities. This will facilitate industry compliance and MMS enforcement.
- Continuing to participate in the development of industry safety standards for offshore facilities, including participation in the International Standards Organization efforts to develop regional guidelines and standards that are beneficial to improving safe domestic operations. International standards facilitate the global transfer of personnel and equipment.
- Continuing to work towards implementation of a risk-based inspection program, assigning the highest priority to the facilities with the highest risk of accidents or pollution events.
- Using objective and comprehensive performance data, recognize and award outstanding operators and contractors, while quickly and heavily penalizing actions that put the offshore program and our energy future at risk.

Demand for energy, particularly natural gas, is expected to increase substantially in the future. Unless the program's excellent safety and environmental records are maintained, the public will lose confidence in the integrity of the program. The MMS is committed to its role of contributing to the economy in the form of revenues and secure supplies of oil and natural

gas by balancing the production of offshore energy with the protection of human, marine, and coastal environments.

FY 2000 ANNUAL PERFORMANCE REPORT:

- **Goal:** Achieve an accident index not greater than 0.594.
- **Report:** The FY 2000 accident index was .867; therefore, this goal was not met. Although any increase above the target is cause for concern, to put this increase in perspective it bears repeating that the safety index, at its worst case scenario, can be as high as 298.

The U.S. is observing the same trend (increase in incidents) that Norway, the United Kingdom, and other leading offshore regulators are observing. While the number of fatalities in U.S. operations *decreased* from seven in FY 1999 to four in FY 2000, there was an increase in reported severe injuries. Like the United Kingdom and Norway, we may be observing a plateau in overall safety performance and a slight increase in the frequency of injuries. We will continue to consult with them and other members of the international regulatory community regarding practices that might further reduce the occurrence of falls and other chronic behavioral incidents. Also, as we gain experience with the index, we may have a better understanding of what an increase of 0.273 (from 0.594 to 0.867) signifies. What is certain is that MMS ensures that incidents are reported in a timely fashion, analyzes the factors involved, and takes action immediately when a trend is noted.

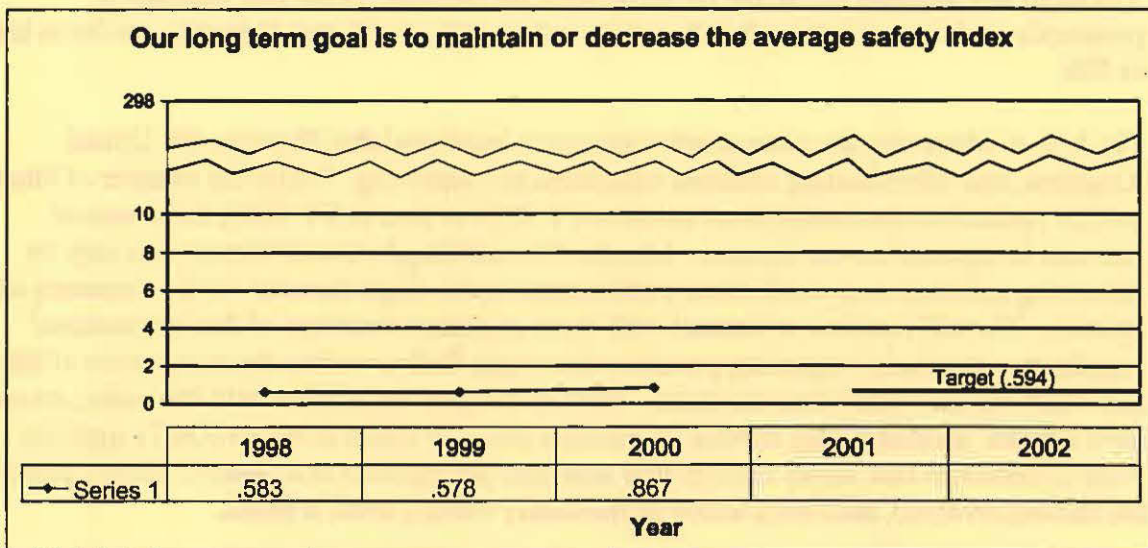
A significant part of the increase in this index, however, is due to refining and improving the data collection. One element that has increased is the amount of property damage (in dollars) reported. Operators are getting better at reporting property damage amounts and are now including incidents that result in only property damage, rather than limiting reports to incidents that result in injury, fatality, fire, and the like. Because there is no requirement to report the damage amounts, these have been estimated in the past. If the property damage is underestimated, the severity index is underestimated and the index likely was underestimated in the past. Therefore more accurate reporting of property damage values has resulted in a slight increase in the index.

There were more blowouts in FY 2000, which can have a high severity value depending on the damage. The MMS and the industry work together to determine the contributing factors. For example, early in FY 2000 after the first two blowouts, MMS issued a National Safety Alert raising the issue of cementing operations. The MMS met with several companies and the industry immediately held workshops on the topic. As a note, safety devices at the wellhead make oil spills from a blowout a rare occurrence. Blowouts result primarily in property damage for the operator.

In 1999 there was less activity overall in the Gulf of Mexico (however more deepwater activity) due to a large decrease in prices in 1998-1999. During 2000, the activity picked up noticeably; however, the lower initial level of activity reduced the denominator of the FY

2000 index, accentuating the increases in the numerator (the severity components discussed above).

The MMS continues to monitor all of the components of the safety index and takes immediate action when trends are identified. The U.S. wants to be a pacesetter in the area of safety and environmental performance. The MMS measures industry performance, continues to study how human factors and mechanical systems interface, and emphasizes operator responsibility and the concept that poor performance carries a price.



Note: The goal for 1998 through 2000 was to maintain the index at .594 or less.

DATA VALIDATION AND VERIFICATION:

Data Validation	This goal was reviewed by regulatory operations managers at headquarters and in the regions for consistency with future plans and capabilities. It was concluded that this goal was logical, based on the consistent results over the past few years. The goal is also attainable; however, several more years of results may be needed to compute a valid baseline. The goal is measurable, understandable, and directly related to the goal activity.
Data Source	Data for the safety index is obtained directly from OMM's Technical Information Management System (TIMS). The system contains reports on all accidents and information on all wells, structures, and other activities on the OCS. There are no external sources.

Data Verification	All data and information used in this measure are entered into the database by MMS personnel. Prior to entry, the data are reviewed for completeness and accuracy. The well and structure data are taken from permit requests and approvals and subsequent "as built" reports. The accident information is taken from operator reports and MMS investigation reports.
Data Limitations	The only limitations are the completeness of operator submitted reports of accidents. MMS investigators fill in information that is lacking in operator reports.
Planned Improvements	The MMS is revising the regulations covering accident reporting. The revisions will make it easier (electronic reporting via the web) and more timely. There is no international standard governing safety data, but we are sharing information with other nations on reporting and gathering accident data through the International Regulators Forum.

2.1.2 MISSION GOAL OMM-2: ENSURE ENVIRONMENTALLY SOUND OCS MINERAL DEVELOPMENT.

Description: Activities associated with the extraction of OCS minerals potentially can impact environmental resources, habitats, and the human environment. These effects can be low level and chronic in nature, accumulating over time, or can be sudden high-impact events with localized outcomes. The MMS ensures environmentally sound development of OCS minerals through a combination of plan and project reviews for compliance with numerous environmental laws, monitoring and follow-up, mitigation, regulations, and research.

The OCS management activities span drastically different physical and sociological environments, in addition to relationships with an exceptionally diverse group of stakeholders. 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 900 wells drilled and the approval of 600 plans each year.

FY 2002 Annual Goal:

In FY 2002, show a decrease in the number of adverse environmental impacts per OCS mineral development activity 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.

BUDGET TABLE:

Offshore Minerals Management - Mission Goal OMM-2

Budget Activity/Subactivity	FY 2000 Enacted		FY 2001 Enacted		FY 2002 President's Budget	
	Total OMM (\$000)	Mission Goal OMM-2 (\$000)	Total OMM (\$000)	Mission Goal OMM-2 (\$000)	Total OMM (\$000)	Mission Goal OMM-2 (\$000)
Leasing & Environmental	41,870	41,696	42,836	42,657	46,243	46,064
Resource Evaluation	26,717	2,085	27,660	2,097	28,040	1,783
Regulatory	49,249	5,778	50,592	5,810	58,830	5,818
Information Management	16,925	3,650	17,336	3,738	17,855	3,855
Oil Spill Research	7,138	2,526	7,163	2,540	7,319	2,591
Totals	141,899	55,735	145,587	56,842	158,287	60,111

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

GOAL: ENVIRONMENT

Mission Goal OMM-2: <i>Ensure environmentally sound OCS mineral development</i>					
Long Term Goal OMM-2A: <i>By 2005, show a decrease in the environmental impact index from the 2000 baseline.</i>					
FY 2002 Annual Performance Goal: <i>In FY 2002, show a decrease in the number of adverse environmental impacts per OCS mineral development activity 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.</i>					
Performance Measure: <i>Ratio of the number of adverse environmental impact incidents observed during the review of a specified number of mineral development activities.</i>					
FY 98 Actual	FY 99 Actual	FY 00 Plan	FY 00 Actual	FY 01 Plan	FY 02 Proposed
10.25	8.10	9.45	N/A ¹⁰	8.10	8.10
Performance Measure: <i>Barrels of oil spilled per million barrels produced.</i>					
FY 98 Actual	FY 99 Actual	FY 00 Plan	FY 00 Actual	FY 01 Plan	FY 02 Proposed
22.7	6.9	5.06	N/A	10	10

Goal Description:

Environmental Index

Over the last several years, MMS has evaluated how best to determine program performance by way of an environmental index, or environmental impact rate. The MMS environmental program is funded to assess and monitor biological and environmental resources for predicting impacts of activities for decisionmaking purposes. Funds may be directed for specific monitoring programs to support future decisions, such as studying Bowhead whales in the Beaufort Sea. However, the program contains no base funding for a specific measurement program.

The challenge is to develop an environmental index that is entirely satisfactory for the three disparate areas—the shallow, semitropical Gulf of Mexico, the waters off southern California, with its very narrow continental shelf, and the semiarctic and arctic Alaska waters. An indicator such as air quality is very important in California, but is of only

¹⁰ The environmental index and the oil spill number are calculated by calendar year because the data for the variables (a portion of which are obtained from other agencies) are generated on a calendar year bases. Analysis should be completed by May 2001. For FY 2000, there is no reason to believe that we will not achieve our annual target.

marginal importance in one small portion of the Gulf of Mexico. The measurement of environmental quality parameters in California, with slightly more than 20 platforms, all fairly close to shore, is in itself relatively difficult and expensive. However, measuring water quality in the Gulf of Mexico, with over 2,000 platforms, many of which are over 100 miles from shore, is a daunting task. Similarly, coastal community impacts in the form of economic benefits and employment are sought after in the coastal areas of Louisiana and Texas, but the opposite is true in Florida. Resource measurements that are meaningful in one region can be of little value in another, and issues that are deemed nationwide in scope exceed financial capabilities when the task of collecting the data in the Gulf of Mexico is considered.

In collecting data for predictive studies there are some occasions when we measure impacts on resources from past activities. However, measurements or monitoring needs change based on the 5-year leasing plan decision points, and the needs for the three regions vary considerably. Once a study is complete, funds are typically redirected based on the requirements for environmental information. Some of the difficulty in developing a nationwide index, therefore, has been determining common factors for all three regions and determining what data are available nationwide.

For the components of the current index, each OCS Region collects data on the number of actions in the planning area, including the number of post-construction reports submitted for projects in protected biological areas; air quality inspections carried out; platforms removed using explosive devices; and incidents of adverse environmental impacts observed during inspections of a specified sample of activities. The incidents are recorded by resource (see chart below). The number of incidents is divided by the number of OCS mineral development activities, to determine an environmental impact rate for OCS activities. Since it is not possible to measure all potential impacts in the marine environment, this rate is an indicator of environmental impacts, and should not be construed as the number of impacts per activity or a measurement of all impacts that could occur.

In FY 1999, it was determined that the information for water quality could not be obtained because the Environmental Protection Agency (EPA) Region responsible for the bulk of the GOM could not provide the data in a way that it could be assigned to offshore platforms. Therefore, the FY 1999 and FY 2000 index results incorporate less data than FY 1998. At present, the indicators shown on the table below are used in the environmental index.

Resource	Indicator of Adverse Environmental Impact
Seafloor Resources	Contact with a sensitive seafloor resource the operator has been told to avoid (e.g., direct [anchor scarring] or indirect [muds and cuttings, oil] contact with hard/live bottom, archaeological resources, pinnacles, topographic features, or chemosynthetic communities).
Protected Biological Resources (Endangered Species, Threatened Species, and Protected Marine Mammals)	Non-compliance with Fish & Wildlife/National Marine Fisheries Service permit requirements.
Air Quality	Non-compliance with MMS/local air quality emission levels.

Further Evaluation of the Environmental Index

Adverse environmental impacts can occur as a result of one of two primary pathways: (1) planned activities, and (2) accidents. The primary accidents of environmental and societal concern are large oil spills, either from production or transportation of oil. The MMS has a measure that monitors oil spillage from OCS activities (see below). The environmental index *currently* focuses on cumulative environmental impacts from both permitted activities (by both MMS and other Federal regulatory agencies) and accidental events. The MMS is in the process of developing and evaluating an index that will focus on MMS-permitted operations only (while maintaining the oil spill rate measure). Focusing on MMS-permitted activities should alleviate some of the data collection problems experienced in the past.

The MMS-permitted OCS activities can affect the environment or resources of concern via:

- Emissions (of air pollutants)
- Seafloor disturbances (of biological communities or historic shipwrecks or cultural sites)
- Explosive shock waves

Environmental impacts (both adverse and beneficial) that might occur from an industrial activity at sea range from trivial to extreme. A key concept is that acceptance or rejection of any given environmental alteration is a value-based decision. In different social settings, with different values, the reaction to a proposed environmental alteration may not be the same.

Oil Spill Rate

The MMS maintains a database of all oil spills greater than 1.0 barrel in size resulting from OCS mineral development activities. Oil spills include crude, condensate, diesel, and other products such as drilling muds. Since the amount of oil produced can vary from year to year, and will have an influence on the amount of oil spilled, this measure takes into account the amount of oil produced. This measure is calculated by dividing the total number of barrels spilled (for spills > 1.0 bbl) by millions of barrels produced for each year. Because oil spills are accidents, this measure will fluctuate widely from year to year.

One factor to consider when analyzing this performance measure is that pipelines are often the source of oil spills. Vessels, which have historically been the source of anchor or trawler drag of pipelines, are generally not under MMS authority to regulate. The primary way at present for MMS to preclude large spills ($\geq 1,000$ bbl) from occurring is to ensure that the pipeline is shut down immediately following an incident.

For FY 2001, OMM is changing the target to 10 barrels spilled per million barrels produced. Given that offshore production is 500 million barrels or more per year, this would equate to spillage of about 5,000 barrels. Oil is a naturally occurring substance in the ocean—an estimated 2,000 barrels of oil seep naturally each day from the seabed or coastal areas into U.S. marine waters. Natural seeps introduce 150-175 times more oil into U.S. marine waters than do OCS oil and gas activities.

Our original goal of 5.06 barrels spilled per million barrels produced was based on the average of FY 1992 through FY 1996. In retrospect, it appears that two of these five years were record lows in terms of barrels spilled over the last 15 years. As a test we calculated an oil spill rate for each year FY 1985 – FY 1999. During this 15-year period, the rate of 5.06 has been exceeded in 6 years (rates ranging from 6.65 to 63.15). In each year the rate was exceeded, at least one large (greater than 1,000 barrels) pipeline spill occurred. These spills were primarily caused by anchor drag, trawl drag, or hurricanes, circumstances over which MMS has little or no control. During the 15-year test timeframe the rate was less than 5.06 for 9 years (rates ranging from 0.53 to 4.13). Each year with one or more large pipeline spills exceeded the goal, while each year without a large pipeline spill bettered the goal. There have been no large platform spills since 1980. From FY 1985 to FY 1999, OCS operators have produced over 6.3 billion barrels of oil. The amount of oil spilled totaled about 68,000 barrels (0.001% of produced) or about 1 barrel spilled for every 94,000 barrels produced. The higher goal number of 10 acknowledges the fluctuation created by pipeline spills, caused primarily by vessel traffic not under MMS jurisdiction. Four of the last 15 years exceeded the 10-barrel rate, so this goal number is not set exceptionally high.

To put the goal rate of 10 into perspective, there were no documented serious environmental impacts from spills related to OCS operations during the 15 year test timeframe, including FY 1990 when the rate was 63.15 due to a 14,423 barrel pipeline spill (anchor drag) and a 4,569 barrel pipeline spill (trawl drag). In 1992, Hurricane Andrew was the cause of a 2,000-barrel pipeline spill, which occurred 6 miles from shore. This has been the only spill to contact shore between 1985 and 2000. Shore cleanup was performed, and no lasting impacts have been identified. Spills that stay offshore typically evaporate quickly or are diluted by the large volume of water in the ocean. This observation is specific to offshore production (platforms, pipelines) over which MMS has partial jurisdiction. The notable spill created by the Exxon Valdez in 1989 was a result of tankering Alaska State oil from Prudhoe Bay (onshore production).

The OMM program strives to ensure environmentally sound OCS activity by fostering compliance through inspections and enforcement; protecting seafloor resources and air and water quality; and protecting threatened and endangered species. We recognize the limitations in the data that we have been using for environmental performance measurement

and are working to adjust the index and determine what information can reasonably be provided in a timely manner. Regulation of activities in the ocean arena is very complex, and responsibilities fall under several Federal agencies. The MMS is committed to its role of contributing to the national energy supply by balancing the production of offshore energy with the protection of human, marine, and coastal environments.

Strategies and resources:

As stated in the "strategies" section of the safety index, the increase in the activity of the Gulf of Mexico Region has translated to additional workload for MMS staff. To manage the workload, which in turn supports our goals for 2002 and beyond, MMS is requesting additional resources in FY 2002 for OMM's environmental review efforts. The MMS scientists conduct an environmental review of every well and development plan, and as shown earlier, the activity is very robust in these areas. Some plans are for areas new to development that have never had an environmental assessment prepared by MMS. These assessments must be conducted with great clarity and completeness to ensure we understand all of the vulnerable environmental resources. Additional resources for these environmental reviews are necessary in order to maintain a reasonable time frame for assessing permits and plans for energy production. More importantly, these reviews give our scientists greater insights to the leased areas so that mitigation factors can be implemented when necessary to protect resources and the environment.

Other efforts underway to enhance the environmental program include:

- The MMS initiated a five-year study in 1996 designed to evaluate mitigation measures and project conditions of post-lease offshore oil and gas operations in the Pacific OCS Region. Demonstrated compliance by industry with mitigation measures and project conditions was recognized as an important consideration for allowing offshore oil and gas operations to proceed in a timely manner. It also became apparent that results of this project would be useful to MMS in establishing measures for GPRA requirements. The Pacific Region has proposed a continuation of the Environmental Mitigation Monitoring study as a high priority for Fiscal Year 2002.
- The MMS is completing an effort to make the products of the Environmental Studies Program (ESP) and the Oil Spill Modeling Program (OSMP) easily available to its diverse customer base. Information concerning MMS's modeling efforts and prospective study plans, plus ongoing and completed research efforts, will be accessible via an intuition-based new web page connected to the MMS website. The new design is discipline based (e.g., biology, socioeconomic, physical oceanography, modeling, etc.), allowing users to concentrate on a single discipline or move between disciplines with a minimum of links. The new system also includes a revision of the MMS's Environmental Studies Program Information System (ESP), which provides immediate access to all completed MMS ESP studies. Descriptions of all ongoing (yet to be completed) ESP studies also will be available, providing for a complete information package.

- The ESP provides the environmental, social, and economic research needed to support development of offshore oil and gas resources in a safe and environmentally sound manner. The MMS will maintain a strong environmental research and monitoring program assessing the potential effects of OCS activities in all areas with active offshore programs, and will plan for information collection in OCS areas that offer prospects for future leasing that are not currently on the 5-year schedule, should funds become available.
- A Programmatic Environmental Assessment for Geological & Geophysical (G&G) Survey permits in the Gulf of Mexico has been undertaken to assess the impacts of marine G&G surveys on the environment, especially the impacts to marine mammals.
- The MMS will be working with the State of Alaska on cleanup or prevention strategies should an oil spill occur during the broken ice season (periods of spring and fall in certain Alaskan waters). In tests during 1999 and 2000, industry could not demonstrate that they could successfully clean up oil by mechanical methods during this season. In addition, MMS will be reviewing oil spill contingency plans this summer for Beaufort Sea facilities.
- The Federal OCS is expected to serve as a long-term source of sand borrow material for coastal erosion management, particularly when material is needed for the emergency repair of beach and coastal damage from severe coastal storms. In particularly bad storm years, this need must be filled in a very timely manner in order to provide immediate coastal damage protection and to ensure that local beaches are in good shape prior to the coming tourist season. The MMS is working towards having procedures in place and having the proper environmental information available so as to expedite negotiated agreements with other Federal agencies, and State and local governments when necessary.
- The MMS plays a major role in a Joint Industry Project to study and model the behavior of oil and gas that could be released in deep water environments. This is a large effort with 23 members that includes numerical modeling, laboratory work, and field programs.
- The MMS supports oil spill research, oil spill prevention and response planning, financial responsibility, and activities in State waters. In fact, the MMS is the principal Federal entity funding offshore oil spill response research. This research supports our goal of safe and environmentally sound operations by enhancing capabilities to detect and respond to an open ocean oil spill. Credible scientific investigations and technological innovation are considered key elements in improving the future capabilities of minimizing damage from spills.
- The MMS also manages the National Oil Spill Response Test Facility (Ohmsett). The facility is capable of replicating various conditions at sea and testing full-scale equipment without going out into the ocean. 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).

The MMS is extremely concerned with environmental protection, striving to provide domestic energy while protecting sensitive coastal and marine environments. The move into deeper water and the overall increased activity have increased both the level and complexity of monitoring OCS operations.

FY 2000 ANNUAL PERFORMANCE REPORT:

Environmental Index

- **Goal:** Show a decrease in the number of adverse environmental impacts per OCS mineral development activity below the 1998 baseline.
- **Report:** This index is calculated by calendar year because the measures that were initially picked from which to calculate the index are gathered on an annual basis. The OMM is continuing to gather the data for FY 2000. We hope to have the results by the middle of May 2001, and will post the results on our website. We also will publish an update in our initial FY 2003 Annual Performance Plan. We have no reason to believe we will not achieve this goal.

FY 1999 Goal Addendum

The MMS did not report the environmental index result in last year's report because it was not available. The goal was: **In FY 1999, show a decrease of .5-1.0 in the number of environmental impacts per OCS mineral development activity below the 1998 baseline level of 10.25.**

The index for 1999 was 8.10, a result that exceeded the goal. This was not due to any demonstrable increase in the quality of MMS's performance concerning protecting the environment from impacts. The index was lower because some of the information used to calculate the 1998 index was based on estimates. It turned out that the estimated information that we hoped would become available on an annual basis could not be calculated in the area of primary activity, the Gulf of Mexico. The index therefore went down from 10.25 to 8.10, because of the lack of data. The data (water quality measurements) are still not available and may not be available at any time in the near future. Therefore the 2001 index will be based on the 1999 rather than the 1998 base. When the environmental measure for water quality was settled upon, it was assumed that the data would be obtained from EPA. The EPA region responsible for the bulk of the Gulf of Mexico could not provide the data in a way that it could be assigned to offshore platforms. The MMS is working with EPA to reconcile data collection procedures in the hopes that this component eventually can be added back to the index.

Oil Spill

- **Goal:** In FY 2000, show a decrease in the amount of oil spilled to a level of 5.06 barrels spilled per million barrels produced.

- **Report:** This index is calculated by calendar year. As of March 2001, the estimate puts the rate very close to target; however, all FY 2000 production has not yet been tabulated. Higher production would cause the rate to be lower. At the other end of the equation, we are still awaiting the results of an investigation of a large spill (pipeline, caused by anchor drag). If the spill volume increases, the rate may go higher. The OMM is continuing to gather the data for FY 2000. We should have the results tabulated by the middle of June 2000, and will post the results on our website. We also will publish an update in our initial FY 2003 Annual Performance Plan.

FY 1999 Goal Addendum

The MMS's FY 1999 oil spill goal was: **In FY 1999, show a decrease in the amount of oil spilled to a level of 5.07 barrels spilled per million barrels produced.**

The MMS reported an oil spill rate of 17.5 barrels per million barrels produced for FY 1999 in its FY 1999 Annual Performance Report. However, the actual spill rate, which reflects the final, versus preliminary, oil spill report data, was 6.9, as reported in the table above. The MMS reported this adjustment in the October 2000 Current Services Consolidated Report.

DATA VALIDATION AND VERIFICATION:

Data Validation	<p>Environmentally safe development of oil and gas resources is a primary MMS goal. It was determined that the resources measured in the environmental index are good indicators for the health of the environment; however these resources had not been quantifiably measured before (determinations of impact are often judgmental). Therefore it will require several years of data compilation to determine if the measures are meaningful as true indicators of the environmental performance of the agency.</p> <p>Oil spill data are quantifiable and measure one possible impact to the environment. All oil and chemical spills are required, by law, to be reported to the National Response Center (NRC) of the Coast Guard. The NRC forwards the information to the responsible Federal agency. The amount of oil spilled is compared to the amount of production to put the measure into perspective and make it more understandable.</p>
Data Source	<p>For the environmental index, the data for two resources, bottom disturbance and air, are collected by MMS scientists through examination of post construction reports ("as built" reports) and examination of equipment emissions plaques on structures during routine safety inspections. Data on endangered species are collected from reports on platform removals.</p> <p>Oil spill data are obtained from TIMS. Spills of one barrel or greater are required to be reported by the operator to MMS. For minor spills, the MMS regional office prepares a pollution report. For major spills, a MMS 2010 Accident Investigation Report is prepared. For spills less than a barrel the data are obtained directly from the NRC.</p>

<p>Data Verification</p>	<p>The environmental index is still under development. For example, beginning with the FY 1999 results it was determined that EPA water quality data could not be obtained from the EPA in a way that it could be assigned to offshore platforms, so that data had to be dropped from the index. The OMM is still testing to find out which resources are meaningful and what data exist that can be collected. Once it is determined which environmental measures are reflective of MMS's performance, procedures will be put into place to ensure that the data are reliable and complete.</p> <p>The MMS cross references internal spill reports with reports submitted to the NRC. For major pipeline spills, an investigation panel is convened to study the spill and produce a report of the incident. A panel generally takes on the order of 1 year to complete its work. As the OMM corporate database, all TIMS data are subject to collection standards, quality reviews, and certification.</p>
<p>Data Limitations</p>	<p>Measuring environmental performance in a body of water such as the ocean is a new concept. There is little or no information on techniques for collecting the data. The Environmental Studies Program provides MMS with the environmental and social research needed to support development of offshore oil and gas resources, however this measurement workload is new. The ocean is a multi-use area; many Federal agencies have jurisdiction on varying activities. The MMS will continue to work towards developing tested and reliable measures for activities under our jurisdiction.</p> <p>For oil spill data, MMS must rely not only on the operators to report that a spill resulted from their operation, data also must be provided by the NRC when a spill results from activities unrelated to oil and gas production (e.g. anchor drag or trawling). Therefore, much of the data are dependent on outside sources and how diligent those sources are in reporting the spills (and estimated volumes) to the NRC. Spill volumes can be difficult to estimate. Some operators report very small spills on the order of teaspoons or drops. Small spills can dissipate quickly, and if it occurs at night it is difficult to provide the visual estimate. Panels studying larger spills may estimate spill volume using multiple methods and the results often conflict.</p>
<p>Planned Improvements</p>	<p>The MMS does not have the equipment and measurement techniques that fit a long term, more or less permanent monitoring program of environmental performance. Improvements in the environmental index will rely on our ability to identify resources for which reliable data can found within established reporting requirements. For seafloor resources, an MMS team investigating the efficacy of seismic sensing on detecting shallow seabed hazards and biological communities will publish a report this spring. For water quality data, we are contacting EPA to reconcile data collection procedures. For air quality, MMS is currently funding an emissions inventory study that will assess the offshore industry contribution to pollutants in the Breton Island Class I area.</p> <p>For more efficient oil spill reporting, MMS is testing electronic reporting via the web. The MMS continually coordinates with the Department of Transportation (for pipelines) and Coast Guard in all aspects of our work, including reporting data.</p>

2.1.3 MISSION GOAL OMM-3: ENSURE THAT THE PUBLIC RECEIVES FAIR MARKET VALUE FOR OCS MINERAL DEVELOPMENT.

Description: The OCS mineral leasing program generates revenue from bonus bids paid on tracts at lease offerings; annual payments on leases not in production; minimum royalties on producible leases that are not actively producing; shut-in gas payments on producible gas wells temporarily closed for mechanical, safety, or other problems; and royalties paid on sales of oil, condensate, natural gas, sulphur, and salt. Given the uncertainties of how much (if any) oil and gas exist under a lease, future oil and gas prices, and production costs, the estimate of a tract's value will vary considerably. To create better, more efficient estimates of monetary values, MMS acquires state-of-the-art seismic information, and reviews and revises bid adequacy procedures, the tract evaluation process, the lease sale format, and tract evaluation and economic models.

FY 2002 Annual Goal:

In FY 2002 we will maintain the current high bids accepted for OCS leases to MMS estimated value ratio of 1.8 (+/- 0.4) to 1.

BUDGET TABLE:

Offshore Minerals Management - Mission Goal OMM-3

Budget Activity/Subactivity	FY 2000 Enacted		FY 2001 Enacted		FY 2002 President's Budget	
	Total OMM (\$000)	Mission Goal OMM-3 (\$000)	Total OMM (\$000)	Mission Goal OMM-3 (\$000)	Total OMM (\$000)	Mission Goal OMM-3 (\$000)
Leasing & Environmental	41,870	0	42,836	0	46,243	0
Resource Evaluation	26,717	23,377	27,660	24,301	28,040	25,325
Regulatory	49,249	1,708	50,592	1,718	58,830	2,325
Information Management	16,925	7,014	17,336	7,186	17,855	7,381
Oil Spill Research	7,138	0	7,163	0	7,319	0
Totals	141,899	32,099	145,587	33,205	158,287	35,031

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

GOAL: FAIR MARKET VALUE

Mission Goal OMM-3: <i>Ensure that the public receives fair market value for OCS mineral development</i>					
Long Term Goal OMM-3A: <i>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 1989-1995 average level of 1.8 (+/- 0.4) to 1.</i>					
FY 2002 Annual Performance Goal: <i>In FY 2002 we will maintain the current high bids accepted for OCS leases to MMS estimated value ratio of 1.8 (+/- 0.4) to 1.</i>					
Performance Measure: <i>Ratio of the value of high bids accepted to the greater of MMS estimate of value or the minimum bid.</i>					
FY 98 Actual	FY 99 Actual	FY 00 Plan	FY 00 Actual	FY 01 Plan	FY 02 Proposed
2.73 to 1	1.8 to 1	1.8 (+/- 0.4) to 1	2.02 to 1	1.8 (+/- 0.4) to 1	1.8 (+/- 0.4) to 1

Goal Description: The MMS's current tract evaluation procedures are designed to ensure that the Federal Government receives fair market value (FMV) for leased tracts. We designed this measure as an indicator of our performance prior to 1995 and tested it during the period 1989 to 1995. The ratio varied over the years, but, with one exception on the high side, always fell within the range stated in the FY 2000, 2001, and 2002 goals. Internal and external reviews of our lease sale and evaluation procedures have concluded that the procedures effectively ensure that we receive fair market value. Based on these reviews, we have concluded that our procedures are effective and the range established during the test period gives us reasonable assurance we are receiving fair market value for leased tracts.

Synopsis of FMV Process

Immediately after a lease sale, MMS begins the two-phased process of determining whether a bid can be accepted and a lease issued. The first phase, designed to accept those high bids where the competitive market can be relied upon to ensure FMV, is conducted on a tract-by-tract basis and is normally completed shortly after the bid opening. Those high bids not accepted in Phase 1 receive further evaluation in Phase 2, where MMS geoscientists prepare detailed maps and estimates on the economic value of oil and gas resources on each tract. A computer model called MONTCAR uses a range-of-values technique for handling calculations with uncertain input data. It provides a means of handling a series of results for each variable, whether it be net pay, potential reservoir fill-up, porosity, or permeability. The net result of the MONTCAR runs is a resource economic value that is the mean of the range of values from more than 1,000 trials. The high bid on each tract is then compared to the government's value for that tract, and the ratio is developed based on the results.

The OMM maintains a continuing effort to update all of our assessment and evaluation models in order to meet the long-term goal of accurate evaluations, be it in frontier or maturely developed areas. In addition, we are refining our information technology capability and continue to acquire updated and more refined geological and geophysical data for input into our assessment and evaluation programs. The OMM evaluates acreage under Federal

jurisdiction. Therefore, as stewards of Federal lands, our goal is to ensure that the American public receives fair market value for its resources.

Strategies and Resources:

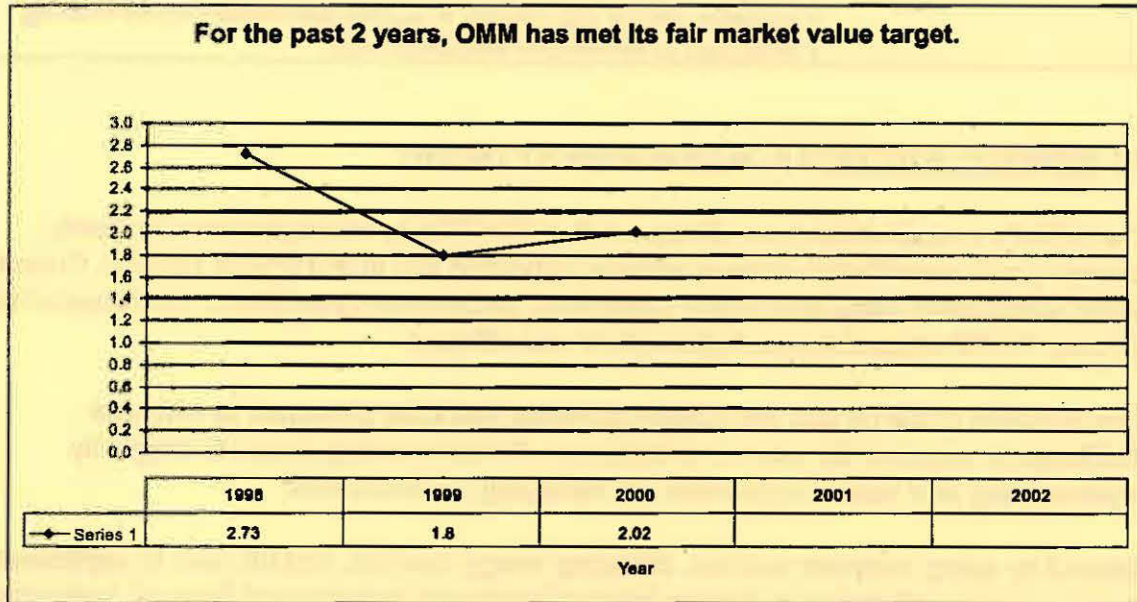
- The OMM uses Geologic Interpretive Tools (GIT) to evaluate accepted high bids on tracts for fair market value. The GIT objectives are to keep pace with the technology being used by industry to acquire and analyze geologic and geophysical data and to enable MMS to make better, more accurate estimates of monetary values. The GIT tools have proven to be very valuable for OMM. The OMM program is constantly seeking efficiencies in its Information Technology Program in order to help deal with a mounting workload that is occurring from shallow water activity, deepwater activity, rising production, and increased consultation with States and Federal agencies.
- The OMM's E-Gov initiative will catalog applications that support OMM/MMS's business operations. The storage and analysis of geological and geophysical data for use in FMV determination is a significant user of the information technology base of OMM. The analysis tools needed for determination of the value of a tract (potential reserves balanced against the projected development costs) are complex and expensive to build. Efficiencies derived from the E-Gov initiative will enhance FMV determination.
- The MMS has converted its modern seismic database into a digital form usable by its computer workstations. The MMS currently is converting its older seismic data into digital form, 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 us to achieve the seismic interpretation capabilities now common within the oil and gas industry, so that we see what industry sees when evaluating bids to determine FMV.
- The MMS is modifying 30 CFR 251 to address the start date for seismic data's proprietary term and allow the use of proprietary data at selected meetings with industry when reviewing field determinations. The second goal of allowing the use of proprietary data at field determination appeal meetings will facilitate MMS's defense of its field determination decisions (supporting FMV).

FY 2000 ANNUAL PERFORMANCE REPORT:

- **Goal:** By the end of FY 2000 we will maintain the current high bids received for OCS leases to MMS estimated value ratio of 1.8 (+/- 0.4) to 1.
- **Report:** The FY 2000 goal was met by achieving a ratio of ratio 2.02 to 1.

The MMS plans to keep the same goal and performance target in the out years. History and the testing done on this measure over the last 15-16 years have shown that this is the right level for the performance target, especially since the range established in the goal takes into account new discoveries and exploration strategies by industry. However, we continue to

study available data to see if additional variables may produce a more inclusive performance measure for fair market value in the future. As methodologies and technology change, MMS continues to re-evaluate its various performance measures and also to update its methodologies and models.



DATA VALIDATION AND VERIFICATION:

Data Validation	The OMM resource evaluation program managers reviewed this goal for consistency with future plans and capabilities. The managers concluded that this goal was logical and attainable, but perhaps not all encompassing as it focuses on one aspect of resource evaluation (see Data Limitations). The goal is measurable, understandable, and directly related to the goal activity. The goal also is widely recognized and accepted by our constituents, employees, and those who review our budgets and strategic plan.
Data Source	Data for the FY 2002 goal will be obtained directly from MMS's Mean Range of Values (MROV) compiled for lease sales conducted during the year. In addition, data from MMS's geological and geophysical data inventory are used in the derivation of the MROV's. This data inventory is updated continually and added to each fiscal year through prelease exploration permits issued to companies and the associated requirement of the permit allowing for acquisition of copies of the data by MMS.
Data Verification	As stated, data for this performance measure come from the calculated MROV's for each lease sale conducted. The data and information utilized are reviewed for accuracy by regional management and by program personnel responsible for consolidating the data and reporting MMS management. These data and procedures have been verified and validated through an Alternative Management Control Review.

Data Limitations	The data are highly accurate and extremely reliable because they are retrieved directly from MMS resource evaluation databases.
Planned Improvements	During each fiscal year, MMS, through its RE Program, reviews and revises bid adequacy procedures and the tract evaluation process by constantly analyzing and updating, where necessary, our tract evaluation and economic models. For example, we have made improvements in the MONTCAR model used for tract evaluation and we will continue to analyze and evaluate rapidly evolving technology in the resource assessment field.

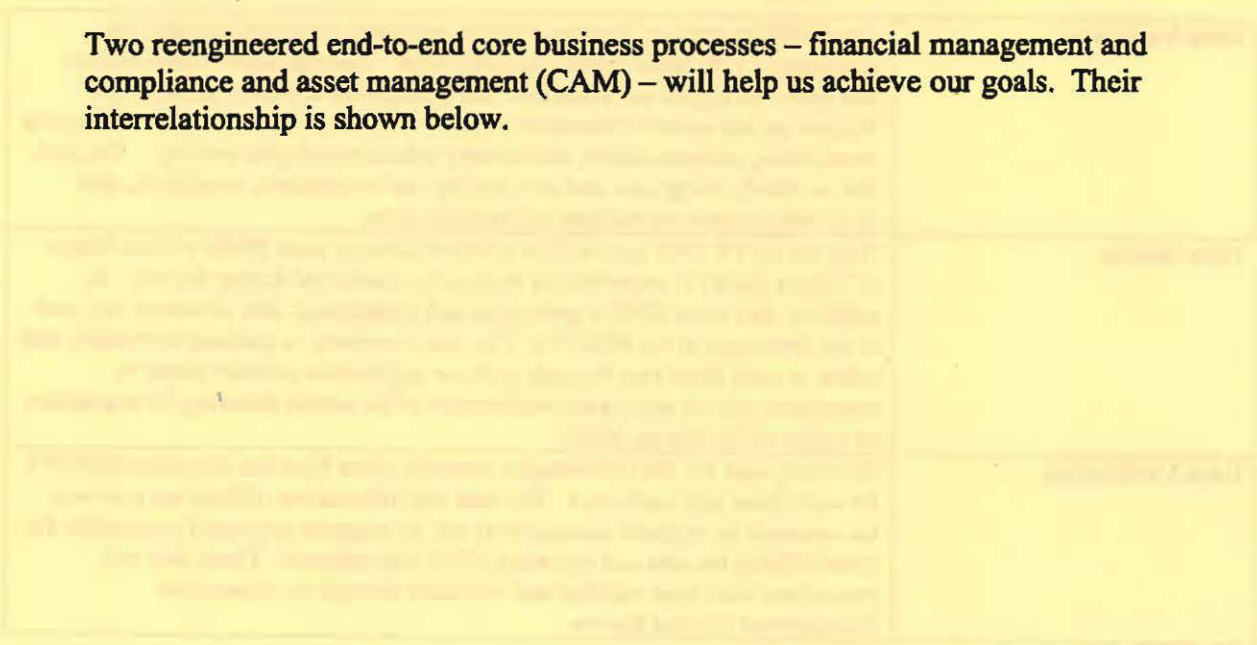
2.2 MINERALS REVENUE MANAGEMENT (MRM)

The MRM's overall mission is a direct result of FOGRMA, which provides for timely, accurate, and cost-effective mineral revenue collection and disbursement services. Currently, MRM administers rental and royalty collections, and ensures compliance with financial terms for over 78,000 mineral leases, both onshore and offshore.

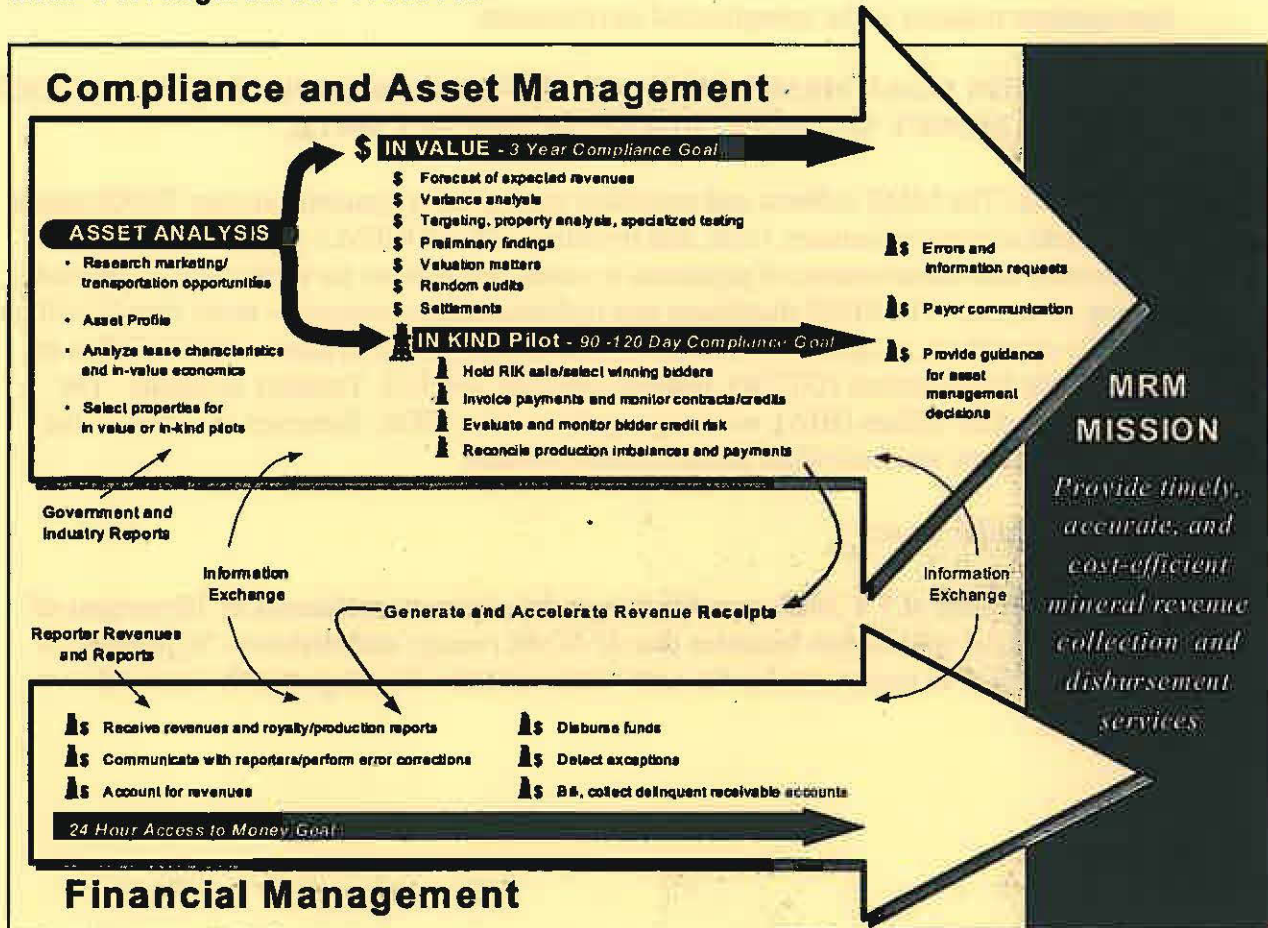
The evolution of the oil and gas industry in recent years has presented us with new challenges to improve the way we do business. We are meeting those challenges by implementing new business processes for managing mineral assets.

Spurred by aging computer systems, changing energy markets, and the need to implement business cycles and processes that are better aligned with industry and financial institutions, MMS is implementing an in-depth reengineering of all core business processes, the most comprehensive review and reorganization since its inception in 1982.

Two reengineered end-to-end core business processes – financial management and compliance and asset management (CAM) – will help us achieve our goals. Their interrelationship is shown below.



MRM's Reengineered Processes



In addition to these two core business processes, MRM also provides special focus on its Indian trust responsibilities.

The MMS is implementing a new systems infrastructure to support our reengineered business processes. Accenture (formerly Andersen Consulting) has been engaged to develop a new integrated royalty management system consisting of a PeopleSoft-based financial module, a CAM module, a robust relational database environment, a data warehouse, and a variety of technology tools. These new systems are scheduled for implementation in October 2001.

In a number of respects the new Financial and CAM systems will deliver common functionality or capabilities that can be utilized to further support royalty-in-kind (RIK) pilot projects. However, specialized technology investments will be needed to support continued RIK activity. These additional business applications include a gas management system and an oil/liquids management system.

The MMS has developed the following goals to accomplish its FOGRMA-mandated royalty management mission in the reengineered environment.

2.2.1 MISSION GOAL MRM-1: PROVIDE REVENUE RECIPIENTS WITH ACCESS TO THEIR MONEY WITHIN 24 HOURS OF THE DUE DATE.

Description: The MMS collects and processes reports and payments on over 78,000 leases each month related to bonuses, rents, and royalties. The FOGRMA requires monthly distribution and disbursement of payments to states and Indians for their share of mineral leasing revenues. The MMS distributes and disburses these revenues – more than \$7 billion in 2000 - directly to recipients: states, the Office of the Special Trustee's (OST) Office of Trust Funds Management (OTFM), Federal agencies, and U.S. Treasury accounts. The Bureau of Indian Affairs (BIA), working together with OTFM, disburses revenues to the appropriate tribes and individual Indian mineral owners.

FY 2002 Annual Goal:

By the end of FY 2002, provide access for ultimate recipients of 10 percent of revenues within one business day of MMS receipt and disburse 98 percent of revenues to recipients by the end of the month following month received.

BUDGET TABLE:

Minerals Revenue Management - Mission Goal MRM-1

Budget Activity/Subactivity	FY 2000 Enacted		FY 2001 Enacted (Original)	
	Total MRM (\$000)	Mission Goal MRM-1 (\$000)	Total MRM (\$000)	Mission Goal MRM-1 (\$000)
Valuation and Operations	45,853	24,073	54,057	28,361
Compliance	49,390	0	43,787	17
Program Support Office	3,159	938	3,183	947
Indian Allottee Refunds	17	0	17	0
Totals	98,419	25,011	101,044	29,325

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

Under the reengineered and reorganized MRM structure, a realignment of functionality and budget resources was required. That realignment has resulted in MRM having two major Subactivities: Revenue and Operations, and Compliance and Asset Management. These subactivities will be used throughout the budget formulation and execution of MRM's budget. The FY 2002 budget table for this mission goal is as follows:

Minerals Revenue Management - Mission Goal MRM-1

Budget Activity/Subactivity	FY 2001 Enacted (After realignment)		FY 2002 President's Budget	
	Total (\$000)	Mission Goal MRM-1 (\$000)	Total (\$000)	Mission Goal MRM-1 (\$000)
Revenue and Operations	44,639	12,954	42,245	12,260
Compliance and Asset Management	56,405	16,370	57,671	16,737
Totals	101,044	29,324	99,916	28,997

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

GOAL: ACCESS TO MONEY

Mission Goal MRM-1: <i>Provide revenue recipients with access to their money within 24 hours of the due date.</i>					
Long Term Goal MRM-1A: <i>By the end of FY 2005, provide recipients access to 90 percent of revenues within one business day of MMS receipt and disburse 98 percent of revenues to recipients by the end of the month following month received.</i>					
FY 2002 Annual Performance Goal: <i>By the end of FY 2002, provide access for ultimate recipients of 10 percent of revenues within one business day and disburse 98 percent of revenues to recipients by the end of the month following month received.</i>¹¹					
Performance Measure: <i>The measure for the access to funds goal is the percent of funds available to be disbursed within one business day following receipt. The measure for the disbursement goal is the percentage of funds disbursed by the end of the month following the month of receipt.</i>					
FY 98 Actual	FY 99 Actual	FY 00 Plan	FY 00 Actual	FY 01 Plan	FY 02 Proposed
98.7%	98.15%	98%	98.49%	98%	10% access 98% disbursed

Goal Description: The objective of this goal is to improve disbursement timeliness by providing revenue recipients access to mineral revenues by the end of the business day following the day of MMS receipt. One business day was set as the target, rather than our stretch goal of 24 hours, to allow for holidays and weekends.

Goal MRM-1 has two components: 1) earlier recipient access (one business day from MMS revenue receipt), and 2) completing all required disbursements no later than the end of the month following the month in which MMS receives the revenue, as specified by law.

Once our new systems become operational in FY 2002, MRM will have the capability to provide fund access within one business day of receipt. The 2002 targets are not overly aggressive because we will be in a learning mode with the new systems, as will companies. The 2003 and 2004 targets, however, will move us incrementally closer to achieving 90 percent of funds accessible to recipients within one business day of MMS receipt. We anticipate that the greatest benefit will be to States that elect to take their distribution earlier so they can deposit funds into interest bearing accounts.

In addition to providing earlier access, we also will continue to monitor and ensure that we disburse funds timely as required by law, by the end of the month following receipt. Over the last year, we consistently have disbursed at a higher rate than 98 percent; however, due to resource requirements needed to develop new systems, we are continuing with 98 percent as our target for FY 2002.

While our long term and annual goals are built around the "receipt date" of payments, the mission goal is built around the "due date." Measuring our performance against the "receipt

¹¹ The FY 2002 annual goal pertaining to recipients' access to funds was not a goal in FY 2000 or FY 2001. The first year we will measure the goal will be FY 2002, following the new system implementation.

date” will bring focus to optimizing our disbursement process. Our ultimate objective, however, is not only to speed our disbursements but also to improve the timeliness of company payments and reporting to MMS, and we focus on improving this performance in our goal MRM-2A. Only by comparing against the “due date” will we marry the effectiveness of the disbursement process with the effectiveness of the compliance efforts discussed elsewhere in this plan. The overall mission goal will be achieved when every company pays on time and every payment is processed timely.

Strategies and Resources:

Implement New Systems and Improve Processes: Our targets are based on October 2001 implementation of reengineered financial systems. The General Design and Detailed Design of the new MRM financial system were completed in FY 2000. The project is currently in the build phase with development, testing, training, and conversion activities underway. We are on target to meet our scheduled implementation in October 2001. These new systems and processes will expedite efficient management and timing of MMS disbursements and recipients’ access to funds.

Streamline Reporting: We have revised reporting formats to align future industry reporting with the new reengineered processes and systems. These revised forms will be implemented October 1, 2001, when MRM implements the reengineered financial system. Many of the changes were based upon extensive outreach with industry groups. The goals were to decrease reporting burden, avoid data duplication, decrease error rates, and increase processing efficiency, which in turn will improve our ability to provide earlier revenue access to recipients.

Use Incentive Tools: Our targets also are based on contractor capability to ensure increased electronic payments and reporting by companies. The MMS is coordinating with Perigrine Corporation in converting companies to electronic reporting using the newly designed and approved royalty and production report forms. Electronic reporting will allow MMS to more quickly process and verify reports and to expedite fund access and disbursement.

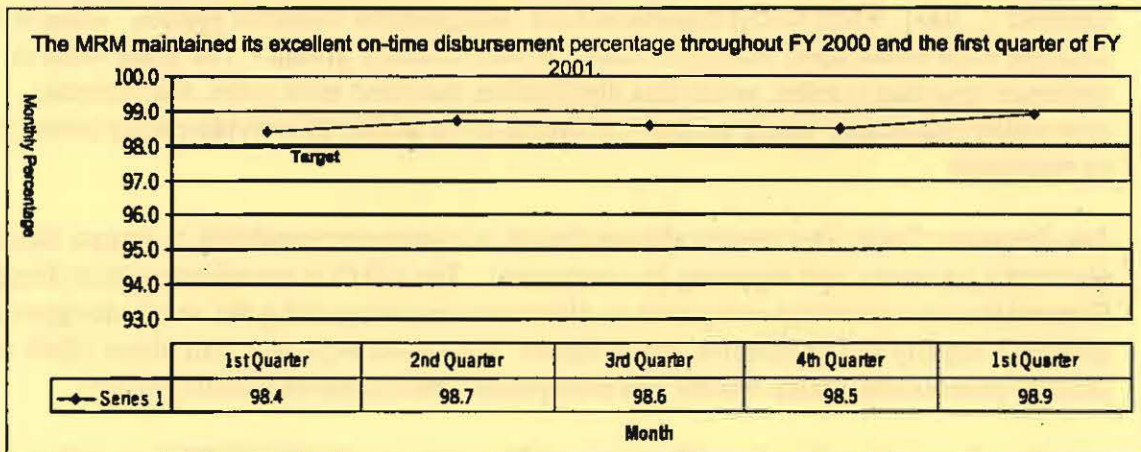
Additionally, the Royalty Simplification and Fairness Act of 1996 (RSFA) provided for assessments for chronic erroneous reporting. During FY 2002, after new systems are implemented, MMS will monitor company reporting history and consider reporting and procedural changes that will impact the definitions and thresholds in a chronic erroneous reporting regulation. Based on those findings, we plan to publish a proposed rule in the Federal Register by September 2003. Once implemented, the regulation will be designed to encourage companies to report accurately, enhancing our ability to provide funds earlier to recipients.

FY 2000 ANNUAL PERFORMANCE REPORT:

- **Goal:** In 2000, the percentage of the collected dollars and accompanying information that is provided timely to states and Indians is 98 percent.

- Report:** The FY 2000 actual percentage was 98.49 percent. The dollars and information provided timely to states and Indians is based on the average of monthly Federal disbursements and monthly Indian distributions of information. The Federal disbursements to states achieved 98.7 percent, while Indian distributions reached 98.2 percent. (Note-The FY 2002 annual goal pertaining to recipients' access to funds was not a goal in FY 2000. FY 2002, following new system implementation, is the first year we will measure that goal.)

We currently are developing new systems, to be implemented in October 2001, to enhance our ability to achieve the one business day goal. Currently, MMS achieves disbursement within one business day of MMS receipt for Indian revenues. However, this requires companies to report additional information to MMS. If companies fail to do so, MMS must manually research and process the payments so funds can be directed to OTFM within one business day. A similar manual process for Federal revenues is not possible using current systems and processes. It would require companies to make significant changes in the way they report and pay. Due to the significant volume of monthly reports for Federal leases, the MRM workload required to provide fund access within one business day would be unmanageable without the reengineered MRM business processes and systems.



DATA VALIDATION AND VERIFICATION:

Data Validation	Providing recipients access to funds within one business day of MRM receipt is a goal that aligns with our financial reengineering. When MRM managers reviewed this goal in relation to future system capability, they determined it was attainable, even though it contained some inherent risks. It is important to continue to ensure that we disburse funds as required by law – by the end of the month following the month of receipt.
Data Source	Data for this goal will be obtained directly from MRM's new Financial Management System scheduled to begin operation on October 1, 2001. The reengineered financial system will utilize automated internal controls and accounting processes to ensure funds are disbursed to the correct recipients.
Data Verification	Data will be accurate and reliable because it will be retrieved directly from the new MRM financial system. The MRM management verifies system data for accuracy prior to reporting data externally. New systems software will be compliant with the Joint Financial Management Improvement Program (JFMIP) recommendations for core financial system management, general ledger management, receipt management, and financial reporting.
Data Limitations	A potential risk of this measure is that it may result in insufficient funds available to pay the recipient on a daily basis. Due to company reporting adjustments, a recipient may be paid amounts that are later found to be due another recipient.
Planned Improvements	The MRM Senior Managers discussed the inherent risk related to the one business day goal and developed business rules for the new system to mitigate the risk. As we develop new systems we will develop written procedures for collection and consolidation of performance data. The MRM also will perform periodic internal reviews to ensure data integrity.

2.2.2 MISSION GOAL MRM-2: ASSURE COMPLIANCE WITH APPLICABLE LAWS, LEASE TERMS, AND REGULATIONS FOR ALL LEASES IN THE SHORTEST POSSIBLE TIME, BUT NO LATER THAN THREE YEARS FROM THE DUE DATE.

Description: The MRM compliance activity has yielded significant additional revenues to states, tribes, Indian individual mineral owners, and the Federal Treasury. Between 1982 and 2000, additional collections of royalties and interest, attributable to our compliance activity, amounted to over \$2.5 billion. In FY 2000, total compliance collections were over \$296 million. The newly reengineered CAM process will ensure that revenues are accurately reported and paid in an integrated and contemporaneous manner. The newly reorganized 3-year end-to-end CAM process will focus analytical capability at the same level on which the industry operates--the property and producing area. This new CAM process, a departure from our previous 6-year compliance process focusing on companies, will provide more efficient and effective compliance services and support managing the royalty resource through the use of the in-kind royalty option when it makes good business sense, as demonstrated through pilot projects.

The MMS is adopting an asset management approach for administering Federal oil and gas royalties, and RIK may become an important component of that approach. Significant advances have been achieved by MMS 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 that 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.

FY 2002 Annual Goals:

In FY 2002, achieve a compliance index¹² of .9775 (for calendar year 2000).

By the end of FY 2002, complete 100 percent of random audits for 1999 converted properties.

BUDGET TABLE:

Minerals Revenue Management – Mission Goal MRM-2

Budget Activity/Subactivity	FY 2000 Enacted		FY 2001 Enacted (Original)	
	Total MRM (\$000)	Mission Goal MRM-2 (\$000)	Total MRM (\$000)	Mission Goal MRM-2 (\$000)
Valuation and Operations	45,853	12,243	54,057	14,478
Compliance	49,390	37,734	43,787	33,501
Program Support Office	3,159	1,558	3,183	1,568
Indian Allottee Refunds	17	0	17	0
Totals	98,419	51,535	101,044	49,547

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

¹² The compliance index is a ratio of actual voluntary royalty payments divided by expected royalty payments.

The FY 2002 budget table for this mission goal is as follows:

Minerals Revenue Management – Mission Goal MRM-2

Budget Activity/Subactivity	FY 2001 Enacted (After realignment)		FY 2002 President's Budget	
	Total (\$000)	Mission Goal MRM-2 (\$000)	Total (\$000)	Mission Goal MRM-2 (\$000)
Revenue and Operations	44,639	21,889	42,245	20,715
Compliance and Asset Management	56,405	27,659	57,671	28,280
Totals	101,044	49,548	99,916	48,995

*All figures include amounts from annual appropriations and offsetting
Collections and include a pro rata share of General Administration support costs.*

GOAL: ROYALTY COMPLIANCE (2A)

Mission Goal MRM-2: 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.					
Long Term Goal MRM-2A: By the end of FY 2005, ensure payments are within the expected payment range at the due date for 95 percent of properties.					
FY 2002 Annual Performance Goal: In FY 2002, achieve a compliance index of .9775 (for calendar year 2000).					
Performance Measure: Actual voluntary royalty payments/expected royalty payments					
FY 98 Actual (for CY 96)	FY 99 Actual (for CY 97)	FY 00 Plan (for CY 98)	FY 00 Actual (for CY 98)	FY 01 Plan (for CY 99)	FY 02 Proposed (for CY 00)
.9610	.9809	.9775	.9730	.9775	.9775

In FY 2002, we are using our compliance index as the measure that most closely relates to this goal. The compliance index is program-wide, based on total dollars. Before MMS calculates this index, we must wait 1 year for industry to make adjustments to their royalty and production reports and payments. For example, in FY 2000 we calculated the CY 1998 index.

Goal Description: The objective of this goal is to improve the accuracy and timeliness of each company's initial royalty payment submissions by the due date. Working with companies to achieve this goal not only will enhance MMS's ability to provide funds earlier to recipients, but it also will increase our capability to ensure compliance within 3 years. Our newly reengineered CAM process will utilize an asset profile, which will contain analyzed data that establish the "expectation parameters" that will be used in the in-value process to forecast expected revenues. Once new systems are implemented, we will revisit the methodology in the current compliance index and incorporate the asset profile information in a revised calculation methodology. However, in FY 2002, we will continue to use our program-wide compliance index, based on total dollars, as the measurement most closely aligning with this goal.

Strategies and Resources:

Implement New Systems and Processes: To refine and advance the new reengineering concepts, MMS established Operational Model teams. These teams have used prototype systems and procedures for customized reports, correspondence, property assignments, property characteristics, and have tested and incorporated numerous third-party data sources that will be utilized in the new system. The new systems infrastructure will build on our experiences with the prototype system. Accenture has been engaged to develop the new CAM systems, to include a relational database, data warehouse, and a variety of technology tools. Delivery date for the current development work is October 2001. The new systems will enhance our ability to focus on expected value by properties, and to coordinate with companies to resolve issues and improve timeliness and accuracy of future reporting.

Streamline Reporting Requirements: In preparation for new systems and processes, MMS has simplified reporting requirements. In FY 2000, we developed and incorporated revised reporting requirements which will reduce the volume of lines reported and processed, minimize errors and related error correction workloads, simplify reporting, and lower costs for both industry and MMS. The new reporting forms will be implemented in October 2001, and will improve our ability to ensure accurate and timely company reporting and payments.

Publish Valuation Regulations: We are successfully implementing the new Indian gas valuation rule, which was effective January 1, 2000. The MMS also has implemented a Federal oil valuation rule, published in final on March 15, effective June 1, 2000. Additionally, MMS published a supplementary proposed Indian oil rule on January 5, 2000. In FY 2001, our intent is to publish a final Indian oil valuation rule and develop training for the new rule for industry, MRM, and the Indian community. The MMS believes that the new rules strike a responsible balance between the interests of the oil and gas industry and the Government's absolute obligation to ensure a fair return for the public's mineral resources. The MMS held several no-cost training sessions designed to assist companies in understanding the new valuation regulations. These new valuation regulations will enhance our ability to ensure accurate reporting at the due date.

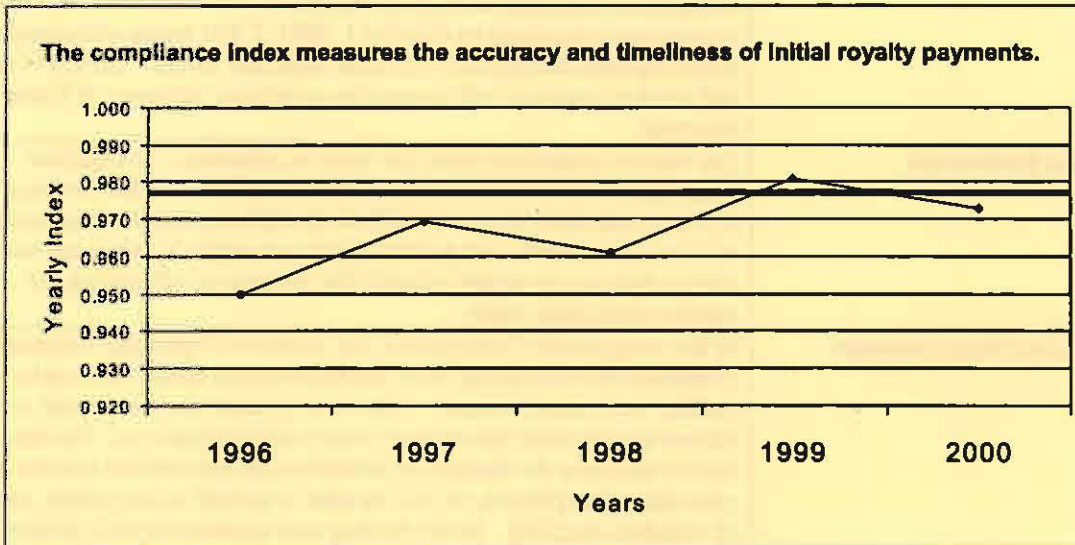
Royalty-in-Kind (RIK) Pilot Projects: Holding an RIK sale requires significant up front asset analysis and research. For properties that are included in RIK pilots, the price will be set up front in the contract, providing greater certainty of expected value for these properties.

FY 2000 ANNUAL PERFORMANCE REPORT:

- **Goal:** In Calendar Year 2000, achieve a compliance index (calculated on the year 1998) of .9775.
- **Report:** In CY 2000, we calculated the index for CY 1998 as .9730. Preliminary analysis of the results indicates that mid-size company compliance declined significantly. We will analyze this further to determine appropriate follow-up actions. In comparison,

the 1997 index was estimated to be .9809, the 1996 index was estimated to be .9610, the 1995 index was estimated to be .9695, and the 1994 index was estimated to be .9500.

Throughout FY 2002, we will continue to use the compliance index, drawing on expected value information gathered from the new Operational Model teams, as the measurement most closely aligning with this goal. Once new systems are implemented, we will determine new compliance measurement methodology to best reflect this goal. As with the current compliance index, the new measure most likely will continue to compare expected value with actual reports and payments.



DATA VALIDATION AND VERIFICATION:

<p>Data Validation</p>	<p>This MRM goal, focused on improving the accuracy and timeliness of company payments, is closely aligned to both financial and compliance reengineering. Working with companies to achieve this goal will not only enhance MMS's ability to provide funds earlier to recipients, but it also will increase our capability to ensure compliance within 3 years. Once new systems are implemented, we will revisit the methodology in the current compliance index and incorporate the asset profile information in a revised calculation methodology to measure the results of how well companies are achieving timely and accurate compliance.</p>
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Data Source	For the current compliance index, data are retrieved from MRM automated systems (AFS/PAAS) and from publishers of index prices, such as Platt's Oilgram. In future years, data for this goal will be obtained directly from asset profile databases interacting with data from the reengineered CAM and financial systems. The information in the asset management profile database will be obtained from analysts and auditor research, mineral management units, and areas of interest. Sources of company information will include company web sites, Securities and Exchange Commission filings, and interviews with company officials.
Data Verification	Employees with specialized understanding of the calculation methodology review the results of the current compliance index. Compliance managers then review the results for accuracy. Once new systems are operational on October 1, 2001, CAM teams will compare actual reported data against forecasted expected values. The CAM teams will resolve variances with companies to enhance accuracy of future reporting.
Data Limitations	The current compliance index can only be calculated for a random sampling of leases. Also, for the current compliance index, we must wait 2 years to calculate the index to allow for adjustments. Index prices are widely used in the oil and gas industry to set contract prices, and we believe they are adequately reliable for purposes of calculating the current compliance index.
Planned Improvements	In the reengineered CAM process, the system will generate variances by properties after comparing the expected revenues contained in asset profiles with actual revenues. Once new systems are operational, we believe we can make this measure more contemporaneous. We also believe that once the majority of properties are transitioned into the 3-year end-to-end process, we will be able to include all properties, instead of a random sampling. As we develop new systems we will develop written procedures for collection and consolidation of performance data. The MRM also will perform periodic internal reviews to ensure data integrity.

GOAL: ROYALTY COMPLIANCE (2B)

Long Term Goal MRM-2B: <i>By the end of FY 2005, issue 95 percent of necessary orders and demands within 3 years of the due date.</i>					
FY 2002 Annual Performance Goal: <i>By the end of FY 2002, complete 100 percent of random audits for 1999 converted properties.</i>					
Performance Measure: <i>Percent of 1999 converted properties targeted for random audit, for which random audit has been completed.</i>					
FY 98 Actual	FY 99 Actual	FY 00 Plan	FY 00 Actual	FY 01 Plan	FY 02 Proposed
N/A*	N/A*	N/A*	N/A*	N/A*	100%

There are no data available for these years because this is a new goal and we do not have enough information to determine actual performance for prior years. During these years we measured specific process outputs to ensure that we are on track within the 3-year compliance process (see discussion below).

Goal Description: The objective of this goal is to measure and ensure the effectiveness of MMS's new reengineered 3-year end-to-end compliance and asset management (CAM) processes. We also will ensure that all "necessary orders" (defined as all orders and demands

that should have been issued) have been issued. The new CAM process will leverage knowledge of the producing areas including the physical infrastructure of gathering and transportation systems and processing plants, markets served and prices realized, buyer-seller relationships, and numerous other factors.

The end-to-end process involves several phases, including: analyzing expected value by property; targeting specific properties or producing areas, companies, or issues and performing targeted audits; and performing random audits of a statistically valid sample to ensure that our new CAM processes have found all compliance exceptions. We will not be able to measure the effectiveness of a full 3-year compliance cycle until FY 2003. Therefore, during FY 2000, 2001, and 2002, we are measuring completion of various phases of the compliance process, rather than the strategic outcome in the long-term goal. In 2002, we will ensure that we complete random audits for all 1999 converted properties selected as the statistically valid sample set. In 2003, we will have completed the entire 3-year CAM process for 1999 converted properties and will be able to measure the outcomes of that process.

Strategies and Resources:

Implement New Systems: With the knowledge gained from our system being used in the test environment, MMS has contracted for a permanent compliance system to be integrated with the new financial system. The recommended information technology investments respond to Inspector General recommendations and reengineering conclusions that a relational database and program-wide workflow/case management tools were necessary but were not currently available. Our reengineering analysis determined that the then current operations were time-consuming, frequently repetitive, somewhat arbitrary, and took entirely too long. New systems, to be implemented in October 2001, will automate the targeting and resolution process for compliance, focusing on properties and analyzing all compliance components concurrently, and making the 3-year goal more realistic.

Royalty-in-Kind Pilots: The MMS has established performance objectives in the RIK pilots to confirm and reconcile within 90-120 days all production royalties taken in kind. Because production imbalances are prevalent in the oil and gas industry, particularly when the delivery points are remote from the lease, significant attention must be paid to monitor and resolve imbalance issues. However, initial assessments of the pilot programs have demonstrated that completing the entire RIK process from asset analysis to final reconciliation requires less time than the in-value process requires and results in more certainty that proper payment was made. Therefore, any additional RIK pilot projects would enhance our ability to achieve our goal of ensuring compliance within 3 years.

Transition Properties into the 3-year end-to-end CAM process: The MMS has begun to implement a transition compliance strategy to move from 6-year company-focused audits to the 3-year property-focused end-to-end CAM processes. We will soon begin transition of the properties comprising 50 percent of the Gulf of Mexico (GOM) production and will expand to include properties comprising 80 percent of GOM production. Although we will convert most production by FY 2002, residual audits for past periods will remain on some properties.

Our goal is to have all properties fully transitioned into the 3-year CAM process by the end of 2003.

FY 2000 ANNUAL PERFORMANCE REPORT:

- **Goal:** In FY 2000, issue 95 percent of all orders for issues found during end-to-end processing for properties converted in 1999.
- **Report:** In FY 2000, we completed compliance work (which includes sending necessary orders) for 20.4 percent of properties, which accounted for 7.1 percent of expected royalty dollars. The results are below target because implementation of the automated prototype system was delayed, putting us 9 months behind in our projected targets.

In FY 2001, we will carry this forward as a goal. However, we also will begin analysis of 2000 converted properties, and devote significant resources to developing and testing new compliance systems. We have already improved our completion percentage during the first quarter of 2001, and believe we can significantly improve during the rest of FY 2001.

Our FY 2001 target is to issue 90 percent of all orders for 1999 converted properties, ensuring that issued orders cover 90 percent of the expected royalty dollars for 1999 converted properties. This is lower than the FY 2000 goal due to balancing resource needs as a result of new system development and testing.

DATA VALIDATION AND VERIFICATION:

Data Validation	Reducing cycle time from 6 years to 3 years is a goal that aligns with our compliance reengineering. As we reduce cycle time, we also want to ensure that we uphold our high level of effectiveness in ensuring company compliance. Monitoring our interim progress and completion of various phases throughout the 3-year CAM process is also important, and our measure of completed random audits represents such a metric. Once we have completed the full 3-year compliance cycle for 1999 properties, we will measure the overall effectiveness of the CAM process.
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Data Source	We identify properties for random audit, using a program that draws a statistically valid sample based on the size of the universe and resources available to do work.
Data Verification	We will use a database to track completed random audits. Program personnel responsible for consolidating and reporting the data can easily verify its accuracy because limited amounts of data are involved. The data collected for this performance measure should be highly accurate and reliable, because program personnel will carefully review it before it is externally released.
Data Limitations	Although the data collected for this performance measure should be highly accurate and reliable, it does contain sampling risk. Program personnel carefully review the data before it is externally released, but their review does not eliminate the risk that a non-selected property would have changed the result, if included in the sample.
Planned Improvements	The MRM is working with Accenture to ensure that the new compliance modules capture the required data for this measure. Automated capture of data will enhance the integrity of this measure. We are developing the capability to monitor our incremental progress within the 3-year process, and to measure the overall effectiveness of the new 3-year compliance process.

2.2.3 MISSION GOAL MRM-3: FULFILL OUR MINERAL REVENUE INDIAN TRUST RESPONSIBILITIES.

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

In an effort to provide the highest possible Indian trust protection, and to enforce the unique terms contained in Indian leases, MMS has expanded its major portion¹³ and dual accounting¹⁴ coverage to Indian tribes and individuals that previously were not being serviced. The MMS policy requires calculations dating as far back as 1984. To date, this initiative has resulted in additional royalty collections of \$8 million. Indian lease terms require lessees to compute royalties using specific calculation processes to determine both major portion and dual accounting amounts for gas leases and major portion amounts for oil leases. The information lessees need for past periods to calculate these liabilities is not readily available to them. The MMS collects the necessary information, calculates the major portion prices, verifies dual accounting, and bills companies for any additional royalties due.

The new Indian gas rule, published in August 1999, with an effective date of January 1, 2000, made several significant changes to valuation methods. One of these changes enhanced our ability to calculate major portion prices for Indian properties. A major portion price is a price that represents the 25th percentile of the total royalty volume reported to MMS for an area that is not associated with an index zone (see footnote 22). Index zones were established in the rule, and the rule provides a formula to calculate index zone prices each month. The index zone price is the basis for royalty value for Indian properties associated with the zone. These changes made valuation of Indian gas more efficient for companies and MMS and at the same time fulfills our trust responsibility to the Indian community by ensuring an above average price for the gas.

¹³ "Major portion" means the highest price paid or offered at the time of production for the major portion of oil or gas production from the same field.

¹⁴ "Dual accounting" is the comparison of two values of gas: 1) prior to processing and 2) after processing at a gas plant. The higher of the two values is the basis for royalty payments.

FY 2002 Annual Goals:

By the end of FY 2002, ensure for the time period January 1, 2000, through March 31, 2002 that 71 percent of Indian gas producing properties are in compliance with index zone/major portion requirements. By the end of FY 2002, ensure for the time period 1984-1999 that 57 percent of Indian gas producing properties are in compliance with dual accounting requirements.

By the end of FY 2002, ensure for the time period 1984-2001 that 34 percent of Indian oil producing properties are in compliance with major portion requirements.

BUDGET TABLE:

Minerals Revenue Management - Mission Goal MRM-3

Budget Activity/Subactivity	FY 2000 Enacted		FY 2001 Enacted (Original)	
	Total MRM (\$000)	Mission Goal MRM-3 (\$000)	Total MRM (\$000)	Mission Goal MRM-3 (\$000)
Valuation and Operations	45,853	9,537	54,057	11,218
Compliance	49,390	11,656	43,787	10,269
Program Support Office	3,159	663	3,183	668
Indian Allottee Refunds	17	17	17	17
Totals	98,419	21,873	101,044	22,172

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

The FY 2002 budget table for this mission goal is as follows:

Minerals Revenue Management - Mission Goal MRM-3

Budget Activity/Subactivity	FY 2001 Enacted (After realignment)		FY 2002 President's Budget	
	Total (\$000)	Mission Goal MRM-3 (\$000)	Total (\$000)	Mission Goal MRM-3 (\$000)
Revenue and Operations	44,639	9,795	42,245	9,270
Compliance and Asset Management	56,405	12,377	57,671	12,654
Totals	101,044	22,172	99,916	21,924

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

GOAL: INDIAN TRUST RESPONSIBILITIES

Mission Goal MRM-3: Fulfill our mineral revenue Indian trust responsibilities.					
Long Term Goal MRM-3A: By the end of FY 2005, ensure 100 percent of Indian gas producing properties are in compliance with major portion and with dual accounting requirements for the time period 1984-2004.¹⁵					
FY 2002 Annual Performance Goal: By the end of FY 2002, ensure for the time period January 1, 2000, through March 31, 2002 that 71 percent of Indian gas producing properties are in compliance with index zone/major portion requirements. By the end of FY 2002, ensure for the time period 1984-1999 that 57 percent of Indian gas producing properties are in compliance with dual accounting requirements.					
Performance Measure: Percentages of Indian gas producing properties that are in compliance with index zone/major portion and dual accounting requirements.					
FY 98 Actual	FY 99 Actual	FY 00 Plan	FY 00 Actual	FY 01 Plan	FY 02 Proposed
N/A*	MP-45% DA-9%	MP-60% DA-30%	MP-60% DA-31.2%	MP-63% DA-45%	MP-71 DA-57%
Long Term Goal MRM-3B: By the end of FY 2005, ensure 100 percent of Indian oil producing properties are in compliance with major portion requirements for the time period 1984-2004.					
FY 2002 Annual Performance Goal: By the end of FY 2002, ensure for the time period 1984-2001 that 34 percent of Indian oil producing properties are in compliance with major portion requirements.					
Performance Measure: Percentage of Indian oil producing properties that are in compliance with major portion requirements.					
FY 98 Actual	FY 99 Actual	FY 00 Plan	FY 00 Actual	FY 01 Plan	FY 02 Proposed
N/A*	8%	15%	25%	30%	34%

*There are no data available for FY 1998 because these are new goals, and we do not have enough information to determine actual performance for prior years. We reported FY 1999 actual performance in the FY 2000 Annual Performance Plan to establish the baselines, but these were not goals in the FY 1999 plan.

Goal Description: The objective of these goals is to eliminate the backlog of major portion and dual accounting calculations and enforcement for the time period 1984-1999 and to perform these calculations more contemporaneously for FY 2000 forward. Separate long-term goals were established for properties producing gas and properties producing oil because annual targets will move at different paces due to different valuation complexities, varied lease term requirements, and the specialized resource expertise needed for each

¹⁵ For gas major portion (MP) calculations, data reported for FY 2000 and prior captured data related to 1984-1999. However, we are not calculating MP for 34.5 percent of the gas properties for that time period due to IBLA decisions related to our previous gas valuation regulations. We have completed calculations for 60 percent of these properties, and we will complete the remaining 5.5 percent. Progress with oil major portion has been made through settlements with companies. We do not yet have a new Indian oil valuation rule published. For most of the remaining oil-related properties, we are not calculating oil major portion for the period March 1988 through December 1999 due to IBLA decisions that also impacted the current Indian oil regulations.

product. Because much of the related information is the same, the descriptions of both goals have been combined below.

In setting the targets, we gave priority to the leases for the tribes with the highest revenues. We determined these specific tribes by analyzing the total Indian revenues reported to MMS. Recent decisions by the Interior Board of Land Appeals (IBLA), related to previous gas valuation regulations and current oil valuation regulations, have impacted our progress toward this goal.

Strategies and Resources:

Maximize our Staff's Expertise: As part of our commitment to improve services to Indian mineral owners, we have established our Indian CAM Office. This office is specifically dedicated to serving mineral-producing tribes and individual Indian mineral owners. This will allow us to maximize efficiencies by utilizing staff with specialized expertise related to both previous and new Indian valuation regulations, and with an understanding of the differences between Indian oil and gas lease term requirements.

Publish the Final Indian Oil Valuation Rule: Targets are based on publication of the Indian Oil Valuation Rule. We published a supplementary proposed Indian oil rule on January 5, 2000, changing the comparative value to the average of the daily high spot prices for deliveries in the production month. In FY 2001, our intent is to publish a final Indian Oil Valuation rule and develop training for the new rule for industry, MRM, and the Indian community.

Implement the Final Gas Valuation Rule: Changes provided in the new Indian Gas valuation regulation, effective January 1, 2000, have simplified the burden of complying with these major portion and dual accounting lease term requirements. Following implementation of this rule, we have provided training and guidance to industry, MRM, and the Indian community. We also have established a web site for companies to obtain the major portion prices, index zone prices, and due dates to report this data. This has increased our efficiency in ensuring major portion and dual accounting compliance for gas related properties after January 1, 2000.

FY 2000 ANNUAL PERFORMANCE REPORT:

- **Goal:** By the end of FY 2000, ensure 60 percent of Indian gas producing properties are in compliance with major portion and 30 percent are in compliance with dual accounting for the time period 1984-2000.
- **Report:** The FY 2000 results were 60 percent for major portion and 31.2 percent for dual accounting, meeting our major portion target and exceeding our target for dual accounting. However, IBLA decisions related to gas valuation regulations prior to January 1, 2000, have impacted our progress toward this goal. Based on those decisions, we are not calculating major portion for the remaining properties for the period March 1988 through December

1999 (34.5 percent of properties). Our FY 2001 and 2002 targets focus on the timeframe January 1, 2000, forward.

- **Goal:** By the end of FY 2000, ensure 15 percent of Indian oil producing properties are in compliance with major portion for the time period 1984-2000.
- **Report:** The FY 2000 result was 25 percent, which exceeded the target. Settlements with several companies have resolved numerous major compliance issues. However, IBLA decisions related to current oil valuation regulations have impacted our progress toward this goal. Based on those decisions, we are not calculating major portion for the remaining properties for the period March 1988 through December 1999. Once a new Indian oil valuation rule is published, this will enhance our ability to ensure compliance with major portion requirements on oil-related properties.

DATA VALIDATION AND VERIFICATION:

Data Validation	The MRM managers concluded this goal should be retained, but the performance measures must be modified to reflect changes in the reporting rules for gas major portion. Prior to 1/1/2000, MRM used audits, settlements, and compliance actions (issue and demand letters) to measure compliance with major portion goals. Starting 1/1/2000, compliance was measured monthly by an index zone price for the majority of Indian leases, and by major portion for the remaining leases. This allows the level of compliance with index zone/major portion valuation rules to be determined within 9 months of the original reporting cycle.
Data Source	Performance measurement data for this goal is collected from three sources. The index zone prices for gas are calculated using the average of published gas prices in <i>Inside FERC</i> and <i>Natural Gas Intelligence</i> (NGI). The major portion prices are determined from prices and volumes reported to MMS by companies. Dual accounting compliance is determined by payor audits and the percentage of completion.
Data Verification	The three types of data calculated for this performance measure are highly reliable. The gas price indices published by <i>Inside FERC</i> and <i>Natural Gas Intelligence</i> are widely used in the oil and gas industry and as a basis for contract pricing. The major portion prices are generated from MRM company data reported to MRM. The dual accounting data is the result of audits performed by the Indian CAM teams and has undergone a thorough MRM review.
Data Limitations	The data collected for this performance measure are highly accurate and reliable. The only limitation is the use of offline computers (PC's) to calculate the major portion prices. This creates some risk of mishandling of the data during downloads and data manipulation and could compromise its integrity. However, we believe the dedication and high competence level of the employees performing these tasks make the risk very low.
Planned Improvements	With the implementation of the new computer system on October 1, 2001, we will be able to perform automated computations. In addition, MRM will document the process of creating these performance measures in writing.

2.3 CUSTOMER SERVICE GOAL

2.3.1 MISSION GOAL MMS-1: INTERACT WITH OUR CUSTOMERS IN AN OPEN AND CONSTRUCTIVE MANNER TO ENSURE THAT WE PROVIDE QUALITY SERVICES THAT SATISFY OUR CUSTOMERS' NEEDS.

Description: Both OMM and MRM always have focused on customer service and each program has a tradition of measuring customer satisfaction. However, MMS has not had an overall strategy to measure how well we are fulfilling our customers' needs. To address this need, we began to develop a survey instrument to measure our performance in this area in FY 2000, and included a customer service goal in our FY 2001 Annual Performance Plan.

Our intent was to complete the survey instrument and conduct a survey in late FY 2000 to establish a baseline customer satisfaction index. Our FY 2001 goal was to conduct another survey and show improvement over the baseline. However, we did not complete the survey instrument in FY 2000, and therefore could not conduct the baseline survey necessary for us to meet our original FY 2001 goal. Accordingly, we have revised our goal and have established a target of conducting the baseline survey in FY 2001 and following it with a survey in FY 2002 (see discussion below).

As discussed above, MRM currently is involved in an extensive reengineering initiative, and is collaborating with its stakeholders to develop and test new processes. Therefore, OMM will pilot MMS's customer service performance measurement initiative. The MRM will have the full benefit of OMM's experience when it begins to measure its performance after implementing its reengineered processes.

FY 2002 Annual Goal:

In FY 2002, we will increase the customer satisfaction index over the FY 2001 baseline.

GOAL: CUSTOMER SERVICE

Mission Goal MMS-1: <i>Interact with our customers in an open and constructive manner to ensure that we provide quality services that satisfy our customers' needs.</i>					
Long Term Goal MMS-1: <i>By 2005, show an increase in customer satisfaction with our data and information services.</i>¹⁶					
FY 2002 Annual Performance Goal: <i>In FY 2002, we will increase the customer satisfaction index over the FY 2001 baseline.</i>					
Performance Measure: <i>Percentage of customers indicating satisfaction with OMM's data and information services.</i>					
FY 98 Actual	FY 99 Actual	FY 00 Plan	FY 00 Actual	FY 01 Plan	FY 02 Proposed
N/A*	N/A*	N/A*	N/A*	Increase over FY 2000 baseline**	Increase over FY 2001 baseline

* There are no data available for these years because this is a new goal. The MMS did not have an overall customer service goal prior to FY 2001. ** The MMS established a customer service goal in its FY 2001 Annual Performance Plan, but will not achieve that goal (see discussion in "Description" above).

Goal Description: In our FY 2001 APP, we stated that we planned to gather baseline data for OMM's customer service performance in FY 2000 using a survey instrument approved by OMB. However, during development of the survey we realized that we needed additional time to develop the robust statistical approach that will be needed to make the survey useful and useable. We have finished our draft of the instrument and expect to submit it to OMB in the very near future, in time to conduct the survey and establish a baseline in FY 2001.

We plan to survey a sample of OMM's customers, asking them about their satisfaction with our FY 2001 performance. We will use the results as the baseline for our FY 2002 survey, which we will conduct toward the end of FY 2002. Our FY 2002 goal will be to improve on the FY 2001 baseline.

The MRM anticipates an intense learning mode for its new systems in FY 2002. In FY 2003, after new systems are implemented and stabilized, MRM will gather baseline data regarding its stakeholders' satisfaction with the new reengineered processes and systems. For both MRM and OMM, subsequent performance goals will show incremental increases above prior results.

FY 2000 ANNUAL PERFORMANCE REPORT: The MMS did not have a FY 2000 Customer Service goal.

¹⁶ We define "data and information services" to include industry training and outreach sessions and assistance provided to walk-in/call-in/website customers.

DATA VALIDATION AND VERIFICATION:

Data Validation	The MMS has submitted the survey instrument to internal and Departmental experts for review to ensure that it has statistical validity. Following Departmental approval, it will be sent to OMB for review and determination on whether it is appropriate for the intended purpose.
Data Source	The data will be obtained from OMM's customers through the use of an OMB-approved survey instrument. The data will be manually plotted and analyzed.
Data Verification	The MMS will ensure that the data used to tabulate the results are gathered following statistically valid protocol and can be verified.
Data Limitations	The MMS will study the survey procedures, including collection, data handling, and analysis to identify problems and limitations.
Planned Improvements	Not applicable.

SECTION III - ADDITIONAL GPRA INFORMATION

3.1 CUSTOMER SERVICE

The MMS's many stakeholders are all our customers. The stakeholders we serve include the public, states, the oil and gas industry, marine minerals industries, environmental constituencies, Congress, and the Executive Branch. In addition, MRM's stakeholders include Indian tribes and allottees and the solid minerals industry. Despite the differing interests of these stakeholders, MMS seeks and considers their input on all major initiatives.

Although reaching consensus is difficult when stakeholders often have competing interests, MMS realizes the value in seeking consensus whenever possible. Even absent consensus, decisions reached by MMS managers are strengthened by considering the input from all constituencies. The goals MMS has set are important to the Nation as a whole, and their achievement is made more realistic when MMS forges partnerships.

The MMS keeps stakeholders informed and seeks their input and cooperation by:

- Providing outreach, public information, and training, in part through a vigorous communications program that includes public affairs, congressional affairs, and external affairs components. The public reviews all our proposed actions, and we hold frequent congressional briefings and public meetings and outreach sessions. This proactive approach fosters better understanding and acceptance of MMS's policies and regulations, which in turn helps MMS achieve its goals of safe and environmentally sound OCS mineral exploration and development and timely, accurate, and cost-effective mineral revenue collection and disbursement.
- Establishing partnerships with Indian, State and industry representatives in an ongoing attempt to involve them in our initiatives. Stakeholders have been engaged as full members on the MRM Operational Model teams and in developing compliance strategies. MMS also involves stakeholders through advisory committees and other forums. The Minerals Management Advisory Board comprises the OCS Policy Committee, the Royalty Policy Committee, the Alaska OCS Committee, and the Scientific Committee. Other venues include the Pacific Region's MMS/Tri-County Forum (the counties include Ventura, Santa Barbara, and San Luis Obispo, California), the State and Tribal Royalty Audit Committee, and the Environmental Forum.
- Actively collaborating with the American Petroleum Institute and other industry groups in developing regulatory standards, product specifications, and recommended practices for offshore development. The MMS also has become increasingly active in the International Organization for Standardization, or ISO, working towards raising worldwide safety and environmental performance.
- Initiating an Annual Operator Performance Review for operators. The MMS has used feedback received from the operators during these discussions to make changes to some of our internal processes to make them more efficient. We also include a discussion about a company's training plans in these reviews, as part of our evaluation of training programs. These reviews provide a forum for MMS and the operators to maintain a

dialogue about performance in a non-threatening manner, with the goal of preempting problems and avoiding serious accidents.

- Offering a number of opportunities to tribes, including access to automated systems and the opportunity to handle royalty audit work through cooperative agreements. These efforts will assist the tribes in assuming royalty functions and further improve our Government-to-Government relationship.
- Encouraging cooperation and enhancing the spirit of partnership by honoring the best in the oil and gas industry at the Annual MMS Awards Program and Luncheon. The awards include the National Safety Award for Excellence, Corporate Leadership and Corporate Citizen Awards, and the Secretary of the Interior's Mineral Revenue Stewardship Award.
- Maintaining our popular web site, www.mms.gov. It has information about MMS programs, ongoing activities, and initiatives, and contains extensive reference material.
- Pursuing various opportunities for electronic business. For example, most of MRM's large royalty payors report electronically. By October 1, 2001, MRM expects to have converted all previous e-mail, diskette, and tape reporters, and most paper reporters, to an electronic format. Electronic submissions increase reporting accuracy, which increases disbursement timeliness thereby helping MMS achieve its disbursement goal.

In OMM, electronic receipt and disbursement of data, applications (such as approvals for permit to drill), and information reduces the amount of paper being sent and provides cost avoidance and quicker response times for all parties. As an example of its desire to continuously improve its data and information services, OMM has provided its customers 50 years of Gulf of Mexico oil and gas information in a four CD-ROM set.

The OMM formed an Electronic Business Steering Committee (EBSC) and developed an E-business strategic plan. The plan was submitted to OMM's Information Management Committee (IMC). The IMC issued a contract to examine our business processes and our existing IT environment. This analysis will examine best practices in industry and government to provide a foundation and framework for aligning related FY2002 initiatives (such as E-Gov, and knowledge, document, and data management).

In accordance with the Department's American Indian trust responsibilities, MMS has a special dedication to the tribes and individual American Indian mineral owners. MMS serves American Indian tribes and individual American Indian mineral owners by ensuring that they receive accurate returns for mineral production on their land. Many of our Indian stakeholders live in remote areas. As part of our commitment to improve services to Indian mineral owners where they live, we have established an Indian Compliance and Asset Management (CAM) office. This CAM office is specifically dedicated to serving mineral producing tribes and individual Indian mineral owners and will perform all compliance and outreach activities. Based in Lakewood, CO, and also located in Oklahoma and New Mexico, these offices are advocates for the American Indian community and communication channels to DOI and other Federal agencies.

3.2 CROSSCUTTING ISSUES

The MMS coordinates OMM activities with the Fish and Wildlife Service, the U.S. Geological Survey, the National Oceanic and Atmospheric Administration, the Department of Energy (DOE), the Defense Department, Environmental Protection Agency, the Army Corps of Engineers, the U.S. military, the Coast Guard, State and local governments, environmental groups, and industry, and provides information that sometimes would not be available otherwise. For example, the MMS supplied information to the National Marine Fisheries Service from MMS-funded research to aid them in identifying essential fish habitat.

The MMS also coordinates MRM activities with the Bureau of Indian Affairs (BIA), the Bureau of Land Management (BLM), the Office of the Special Trustee, State Governments, Indian tribes and allottees, and industry.

Specific examples of MMS's crosscutting efforts

- In recent years, MMS has worked closely with DOE on a highly visible cross cutting initiative, the refilling of the Strategic Petroleum Reserve (SPR). On February 11, 1999, the Department of Energy and the Department of the Interior announced the SPR initiative. The initiative took advantage of low oil prices at the time to rebuild the SPR, thereby enhancing national energy security. The strategy was for MMS to take oil royalties in kind from selected Federal leases in the Gulf of Mexico and give the oil to DOE to exchange for oil to be delivered to the SPR. The MMS delivered 28 million barrels of oil to DOE, which exchanged it for oil that was delivered to four SPR sites located at Bayou Choctaw and West Hackberry in Louisiana and Big Hill and Bryan Mound in Texas. The MMS completed deliveries to DOE in December 2000.
- In 2001, in response to formal requests, MMS began negotiating with the Corps of Engineers, the Defense Department, and State and local governments for access to OCS sand resources. The MMS has conveyed 5.1 million cubic yards of sand to Brevard County and Patrick Air Force Base in Florida for shoreline protection. For the remainder of FY 2001 and into FY 2002, MMS anticipates that the amount of sand conveyed will triple. Requests for OCS sand have been received from Brevard County, Florida; Corsons Inlet, NJ; Sandbridge, VA; Assateague, MD; and offshore Louisiana for use of up to 17.7 million cubic yards of OCS sand.
- The MMS is partnering with DOE to help further the development of technology for ultra-deepwater oil and gas production in the Gulf of Mexico. The partnership, formalized with a memorandum of understanding on December 5, 2000, could help reduce the Nation's dependence on imported sources of oil and better meet the increasing demands of domestic gas consumption. The MMS will work closely with DOE's office of Natural Gas and Petroleum Technology to research initiatives regarding safety of operations, conservation of oil and gas resources, oil spill research, and protection of the marine environment.
- The MMS recently signed a Memorandum of Agreement with Florida State University

and the Florida Department of Environmental Protection proposing the creation of a Florida Coastal Marine Institute - the first such institute to support geologic and environmental studies offshore Florida for use in making OCS sand resource access decisions. The institute would use the interdisciplinary environments of the Florida Department of Environmental Protection and the Florida State University and improve existing local capabilities for innovative scientific research relevant to OCS sand and gravel resource management issues.

- In Farmington, New Mexico, MMS is participating in a Department pilot, implementing a new concept in serving our Navajo constituents. The Farmington Indian Minerals 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 stakeholders.
- MRM has been coordinating system development and interface testing with BIA to ensure compatibility between MMS and BIA automated systems. In addition, MMS has been working with BLM to ensure the integration of MMS's new financial system with BLM's Automated Fluid Minerals Support System.

Also, by working with its constituents, MMS has been able to find program efficiencies while continuing to improve the effectiveness of its safety and environmental program.

Examples include:

- A Memorandum of Understanding (MOU) with the U.S. Coast Guard concerning shared responsibilities under the Outer Continental Shelf Lands Act. The two agencies based the MOU on input from affected groups.
- An MOU in conjunction with the Special Programs Office of the Department of Transportation governing the regulation of offshore pipelines. With help from the regulated groups, the two agencies arrived at an agreement that gives pipeline owners a role in determining which agency will regulate a given pipeline.
- A series of agreements with other Federal agencies and coastal State Governments to cooperatively develop Federal/State boundaries, describing data relevant to leasing as well as State regulatory and enforcement actions. Many of the agreements with coastal states will lead to fixing of the Federal/State boundary by Joint Motions filed with the United States Supreme Court. The latest effort has led to a Supplemental Decree fixing the Offshore Boundary with the State of Texas.
- A joint industry project with members of the oil industry that provided joint funding of research to monitor the environmental impacts of drilling activities in the Gulf of Mexico. The result leverages MMS's funds eight to one and provides information needed by the Federal Government and industry to ensure environmentally sound activities. In addition, MMS has undertaken several projects jointly funded with industry focusing on deepwater environmental issues in the Gulf of Mexico.

- The Coastal Marine Institute program was instituted by MMS through cooperative agreements with State universities in Louisiana, Alaska, and California to reach consensus on needed environmental and socioeconomic research. In recognition of the mutual benefits derived from this program, MMS research funds are matched one to one by the states.
- Cooperative efforts with the U.S. Coast Guard and U.S. Navy have been expanded on several fronts to provide support for those agencies' needs for training and equipment testing to address accidental spills in harbors as well as open seas. The MMS-maintained Ohmsett facility in Leonardo, New Jersey – the only facility of its type in North America - plays a crucial role in support of the U.S. Coast Guard and U.S. Navy's testing needs.

3.3 MANAGEMENT ISSUES

The MMS currently is working on issues raised in audit reports by DOI's Office of the Inspector General (OIG). These reports addressed: the adequacy of internal controls in the Financial Management Branch; general and application controls over MMS's Technical Information Management System; and inaccuracies in the supporting documentation for operators participating in the Stripper Oil Well Property Royalty Rate Reduction Program. The status of MMS's efforts is discussed below.

Financial Management Branch

In March 2000, following an audit of FY 1998 financial data, the Department's Office of the Inspector General issued a report on the adequacy of internal controls in the bureau's Financial Management Branch. The OIG identified three primary findings indicating that MMS's internal controls for financial data management were not sufficient to prepare FY 1998 financial statements for its bureau operations in accordance with Federal accounting standards.

The MMS accepted the OIG audit finding and initiated an aggressive program to address the deficiencies and design cost-effective and timely corrective action. MMS recruited a multi-Bureau task force of financial management professionals to work closely with MMS staff and with OIG staff in preparing information required for the FY 1999 Department of the Interior Consolidated Statements. Financial statements of MMS bureau operations could not be issued for FY 1999, but an unqualified opinion was issued on separate financial statements for Royalty Collection Activities.

In addition, the team was asked to identify and report on any corrective actions or further internal control issues they might uncover in their work. Following this effort, MMS engaged a national public accounting firm to conduct a comprehensive review of its accounting system, operational policies and processes. The OIG, the multi-bureau task force, and the national accounting firm recommended a number of corrective actions including changes in internal control procedures, adjustments to the organizational structure of the Financial Management Branch, and increases in resources.

In response to various third party findings and recommendations, MMS instituted organizational changes, realigned staff, clarified work assignments, and developed and implemented desk procedures. In addition, MMS added or improved internal control responsibilities. Cash, identified as one of the primary areas of concern, was fully reconciled by the end of FY 2000. Monthly reconciliation procedures were revised and implemented. New staff resources are being added to the organization and recruitment actions are underway to implement the recommendations in FY 2002. Consolidated financial statements on MMS bureau operations were issued for FY 2000, but not audited. However, an unqualified opinion was issued on the Statement of Custodial Activity for Royalty Collections.

Technical Information Management System

The report stated that overall MMS's OMM had established adequate general and application controls over TIMS. However, it was noted that the general controls of OMM needed improvements in four areas: security program; continuity of operations in the event of a disaster or a system failure; controls over access to TIMS; and software development and change management. The lack of adequate controls may increase the risk of: (1) unauthorized access and modifications to and disclosure of sensitive TIMS data; (2) theft or destruction of OMM software and sensitive information; (3) loss of TIMS systems and functions in the event of a disaster or a system failure; and (4) TIMS not performing as intended. The report made 15 recommendations.

The MMS has completed its responses to all of the audit's recommendations except for one. That recommendation was that OMM periodically test the Continuity of Operations Plan (COOP) and update it based on the test results. The OMM has revised the COOP to incorporate new operations activities and plans to complete testing by the end of May 2001.

Stripper Oil Well Property

The OIG found that MMS needed to develop and implement a plan to eliminate the Stripper Oil Well Property Royalty Rate Reduction Program notification processing and data entry backlog, and to approve future notifications for the program in a timely manner. In addition, MMS needed to develop and implement a plan to review program exceptions generated by the automated matching process and collect underpaid royalties from operators.

The MRM has developed an automated methodology to perform royalty rate exception analysis on Stripper Oil Well Properties. The testing of preliminary runs has identified problems, which MRM is mitigating. We will perform our first official run -- using this new automated methodology -- in late April 2001, at which time we will begin full implementation.

3.4 DATA VALIDATION AND VERIFICATION

The MMS is working to strengthen its data validation and verification procedures. During

MRM's reengineering effort, for example, MRM is working with Accenture to develop data procedures that are compliant with Joint Financial Management Implementation Program. Currently, however, the performance measurement process is in a transitional period, with some measurement data being captured and calculated automatically and other data being captured and manipulated manually, as discussed in Section 2.

The MRM is working with Accenture to develop a performance measurement system that uses a top-down process that will capture and calculate performance measurement data automatically. This process will allow MRM to verify the integrity of performance measurement data in two ways: first, by developing policies and procedures for defining calculation and reporting procedures; and, second, by developing company profiles that will highlight problems with the data.

During this development process, MRM will develop policies that define calculation methods and the timing of reporting on performance measures. It also will establish procedures to assess their effectiveness, incorporate GPRA requirements, review and analyze performance with respect to the goals, and develop plans for improving performance measurement.

The OMM also is cognizant of the importance of valid measures and verifiable data, and is working to strengthen its procedures. For example, in FY 1999, OMM determined that it could not obtain accurate water quality data for use in the environmental index. Accordingly, OMM dropped that data from the index calculations (see discussion in Section 2). The OMM is now in the process of determining what meaningful and accurate data are available to use as reflections of MMS's performance, and will use that data in the environmental index calculations.

The OMM believes that the safety and fair market goals are valid and logical reflections of their progress toward the accomplishment of the respective targets, especially given the stable history of the measures and validation of the procedures by internal and outside reviewers. The data for both goals are highly accurate and reliable because they come from MMS databases, except for safety data that are gleaned from operator reports. The MMS verifies the accuracy and completeness of operator data through investigations.

In addition, during the past several years, the Department of the Interior has addressed data reliability issues through internal reporting and tracking systems and other internal control mechanisms. A variety of approaches have been developed to accommodate the particular needs of offices with widely varying missions.

Last year, the Department began development of a more unified approach - a data validation and verification "matrix" that is being tested at various organizational levels. The matrix employs basic principles that are typically applied to technical data collection and auditing situations. The Department developed the matrix by reviewing recent literature, including the GAO report on data validation and verification, participated in local data validation and verification conferences, reviewed agency plans, and conferred with Federal organizations that have demonstrated leadership in the GPRA arena. The advice and perspectives of the DOI OIG and a number of field-level personnel also were solicited. The result is a draft core

set of criteria for data validation and a draft five-part set of criteria for data verification applicable to GPRA goals.

The Department-wide implementation strategy involves several aspects or phases, several of which are concurrent. Because data validation and verification has the potential for being a very labor intensive undertaking, implementation will be staged over the next 18-24 months. After that, DOI believes the basic tenets and benefits of data validation and verification will be reinforced or fully integrated in the culture and practices of each Interior organization.

Phase I has been completed. It involved the development of the draft data validation and verification criteria as described above. The OIG not only participated in the development and review of the criteria but intends to use the data validation and verification guidelines as a check-listing tool for auditing Departmental and bureau goals as it turns greater attention to program evaluations in FY 2002. By internally distributing these guidelines in FY 2001 after they are adopted (Phase II), organizations will have the opportunity to review their data validation and verification practices and address weaknesses that have been detected (Phase III).

The basic strategy underlying the Department's data validation and verification approach is to establish clear expectations and requirements for achieving data credibility, ground tested for their practicality and reasonableness, that will enable organizations to position themselves to succeed in delivering accurate information to guide decision making. The strategy also has focused on the pivotal concern that data validation and verification could be viewed as another GPRA reporting burden instead of as an integral component of any business plan.

3.5 PROGRAM EVALUATIONS

A number of internal and external efforts comprise MMS's program evaluations. The MMS is a major source of revenue to the Federal Government, and therefore is continuously under review by oversight agencies such as the Office of Inspector General and the U.S. General Accounting Office. The OMM also is periodically reviewed by the OIG because of its importance in monitoring safety and environmental impacts on the OCS. The OIG performed two program audits in FY 2000. In the first, OIG reviewed the criminal referral process for OMM'S offshore criminal penalties program. The OIG issued a report with three recommendations. In the second, OIG reviewed whether OMM had effective general and application controls over TIMS, and whether TIMS was operated in compliance with applicable Federal laws and regulations. The OIG concluded that OMM had established adequate general and application controls over TIMS, but improvement was warranted in four areas. The report had 15 recommendations (see Section 3.3 for a discussion of the status of the recommendations).

The OIG also performs annual financial management reviews. The OIG plans to conduct at least one MMS review in FY 2001 in addition to the annual financial management review.

In addition to external reviews, MMS routinely conducts scheduled in-depth appraisals and ongoing self analyses with various internal evaluations, including Alternative Management

Control Reviews (AMCR), Performance Management Assessment Tool Reviews (PMAT), Departmental Function Reviews (DFR), Automated Information System Reviews (AISR), and Quality in Contract Program Reviews (QUIC). We conduct the reviews on a rotating basis among the various programs and functional areas. These reviews examine whether adequate controls are in place to ensure that intended results are achieved, resources are protected from waste, fraud, and mismanagement, and management information is reliable. We have scheduled six internal reviews in FY 2001, including four in Administration and Budget, one in MRM, and one in OMM (see the table below).

We also use quantitative measures to assess our progress toward meeting our goals, use program evaluations to identify ways to improve our performance, and rely on internal and external feedback from our customers to gauge our success in meeting their needs.

Our scheduled FY 2001 reviews are shown in the following table.

MMS FY 2001 Management Control Plan

Review	Review Type/Rating	Scope
Southern Administration Service Center (SASC) Computer Center/Telephone Switch (A&B)	AISR High	Evaluate the effectiveness of the facility's telephone switch operation, support, and management.
Advanced Budget Accounting/Control and Information System (ABACIS) (A&B)	AISR High	Review the effectiveness of the financial management system's internal controls and the security posture of the system to ensure that it meets current Federal IT security requirements.
Property Management System – NT. Comprehensive assessment of capitalized property items. (A&B)	DFR High	The report will provide (1) a comprehensive bureau-wide assessment of capitalized property items, (2) a summary updating findings and corrective actions in response to any OIG, GAO, or other reviews, and (3) any property-related "best practices" that can be shared with other DOI bureaus.
Quality in Contracting (QUiC) Phase I – Management Control Phase II – Performance Measurement and Assessment (A&B)	DFR (using QUIC tool) Medium	Phase I—Assess compliance with the Contracting Officer's Technical Representative Certification. The Phase I QUiC Acquisition Review Report will provide (1) the results of our bureau-wide targeted compliance reviews of the bureau's status on administering the Contracting Officer's Technical Representative (COTR) Certification Program and use of convenience checks, (2) a summary of the "best practices" review of our Denver Procurement Branch, and (3) any business related "best practices" that could help the other DOI bureaus improve productivity, effectiveness, and efficiency.

Review	Review Type/Rating	Scope
		The Phase II QUiC Acquisition Review Report will include the MMS QUiC Acquisition Process Data and Acquisition Survey Module results, which is predicated on timely data gathering and reporting guidance being established by the Office of Acquisition and Property Management and the Acquisition Managers Partnership.
ADP Systems Initiation and Development (MRM)	AISR High	Evaluate selected system initiation-related and system development-related controls. The initiation phase of the review will determine if there is adequate project management, cost/benefit analysis, and a life cycle strategy. The development phase of the review will determine if there are adequate methodology, documentation, and program and acceptance testing controls.
Technical Information Management System (TIMS) Security Activity (OMM)	AISR High	Assess TIMS general and application controls, including general controls over software development and change development, risk assessment, security plans, service continuity, system software, and access controls, and application controls over input, processing, authorization, and output.

3.6 CAPITAL ASSETS/CAPITAL PROGRAMMING

The MMS has three on-going capital projects: Minerals Revenue Management Reengineering, Technical Information Management System, and Royalty-in-Kind System.

The MMS completed Capital Asset Plans and associated justifications in support of these capital projects. The documents were prepared in conformance with Office of Management and Budget Circular A-11, Part 3, 300b--guidelines for planning, budgeting, and acquisition of capital assets. Pursuant to this guidance, they contain discussions of the background and status of the projects, system life cycle cost projections, and cost/benefit analyses with related assumptions. In addition, performance goals and objectives are presented along with the MMS project management structure and contracting strategy.

A brief discussion of each capital project follows.

Minerals Revenue Management Reengineering

As discussed throughout this report, MRM is reengineering its business processes. The principal objective of this initiative is to design, develop and implement new royalty management business processes and supporting information technology (IT) systems for the

21st century. The MMS is in the process of modernizing its systems infrastructure to support the reengineered business processes.

The MMS has engaged Accenture to develop a new integrated royalty management system consisting 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. These new systems are scheduled for implementation in October 2001.

The IT plays a key enabling role in business process reengineering. The proposed IT investments will support related process improvements and will contribute directly to the accomplishment of all of MRM's mission goals, as discussed in Section 2.

Technical Information Management System (TIMS)

Objectives for the TIMS, which is a completed system that currently is in the maintenance mode, include transformation of the applications and hardware and software to an electronic government environment. The MMS has engaged Booz, Hamilton and Allen to develop a foundational study that documents the current OMM business processes and information technology support environment, develops a strategy for moving to the electronic government environment, and provides a modular implementation plan to get there.

In addition to transforming the hardware and software systems, OMM has acquired a larger, more comprehensive database for TIMS to meet the mission needs related to fair market value, leasing, environmental, and safety data. Capabilities also were added to provide analysis of trends and risk data.

Initial application development work for the TIMS began with creating modular, manageable applications components using data transferred from existing systems. This process concentrated on data for Geological Interpretation Tools (GIT) and provided a foundation for the corporate database. The GIT contains management, reporting, integration and analysis functions, as well as map generation. The completed maps are used for resource evaluation and decision management purposes. The successful process provided a template for future application development.

Achieving and sustaining goals in support of OMM's day-to-day business operations depends fully on the continued availability of sophisticated IT technology. In particular, TIMS supports data gathering and integrity in support of all of OMM's goals, and maintaining GIT contributes directly to the achievement of the fair market value goal. By continuing to modernize the OMM IT infrastructure and architecture, MMS keeps pace with the offshore mineral industry it regulates.

The MMS is also a global mineral resource leader. In this capacity, MMS must continually improve its IT efficiency while lowering regulatory costs for industry. Thus, an ongoing requirement is the timely and adequate life cycle replacement of TIMS and GIT hardware and software and the ongoing upgrade or transformation of the system and its architecture.

Royalty-in-Kind

As discussed above, MRM is continuing to pursue RIK pilots to further explore where RIK makes good business sense. At the Secretary's discretion, mineral royalties derived from Federal oil and gas leases may be paid to the MMS either in cash as a percentage of revenues realized by the lessee (royalty in value) or in kind as a percentage of the actual production from the lease.

Since 1995, MMS has been conducting feasibility studies and pilot projects to determine if, and under what circumstances, royalty-in-kind is in the Nation's best interests. The initial evaluation of the first 18 months of the ongoing Wyoming RIK pilot shows that, in some circumstances, RIK may be a viable alternative for collecting royalties.

The RIK pilots are separate from, and yet distinctly related to, the ongoing MRM reengineering initiative. The reengineering initiative is focused primarily on the royalty in value component of the MRM asset management responsibility - the collection, distribution, and verification of revenues. The RIK pilots reflect another asset management approach - the generation, collection, distribution, and verification of revenue. Both methodologies have the need to access certain common data sets and record transactions in a common financial system. These commonalities, as vital as they may be, do not encompass the full breadth of functionality needed to manage the actual Federal ownership, management and sales of oil and gas production.

Information technology plays a key enabling role in establishing and operating the RIK Program. The proposed IT investments in a gas management system in 2002 and oil management in later years will be needed to support continued RIK pilots and will contribute to future MRM mission accomplishments, especially the disbursement and compliance goals in the near and long term.

3.7 USE OF NON-FEDERAL PARTIES IN PREPARING THIS PLAN

This document was prepared by MMS employees and formatted for printing by a contractor under a Department of the Interior contract.

3.8 WAIVERS FOR MANAGERIAL ACCOUNTABILITY AND FLEXIBILITY

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

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Appendix 1

At-a-Glance View of Minerals Management Service's FY 2000 Performance

GPRA Mission Goal	Long Term Goal	FY 2000 Annual Performance Goal
Ensure safe OCS mineral development	Maintain or show a decrease in the average accident index of .594	Achieve an accident index not greater than .594.
Ensure environmentally sound OCS mineral development	By 2005, show a decrease in the environmental impact index from the 2000 baseline.	Show a decrease in the number of adverse environmental impacts per OCS mineral development activity below the 1998 baseline.
	By 2002, show a decrease in the amount of oil spilled below the 1992-1996 average level of 5.09 barrels spilled per million barrels produced.	In FY 2000, show a decrease in the amount of oil spilled to a level of 5.06 barrels spilled per million barrels produced.
Ensure that the public receives fair market value for OCS mineral development	From 2000-2005, the ratio of high bids received for OCS leases to the greater of MMS's estimate of value or the minimum bid is maintained at the 1989-1995 average level of 1.8 (+/- 0.4) to 1.	By the end of FY 2000, we will maintain the current high bids received for OCS leases to MMS estimated value ratio of 1.8 (+/- 0.4) to 1.
Provide revenue recipients with access to their money within 24 hours of the due date.	By the end of FY 2005, provide recipients access to 90 percent of revenues within 1 business day of MMS receipt and disburse 98 percent of revenues to recipients by the end of the month following month received.	In 2000, the percentage of the collected dollars and accompanying information that is provided timely to states and Indians is 98 percent.
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.	By the end of FY 2005, ensure payments are within the expected payment range at the due date for 95 percent of properties.	In Calendar Year 2000, achieve a compliance index (calculated on the year 1998) of .9775
	By the end of FY 2005, issue 95 percent of necessary orders and demands within 3 years of the due date.	In FY 2000, issue 95 percent of all orders for issues found during end-to-end processing properties converted in 1999.
Fulfill our mineral revenue Indian trust responsibilities.	By the end of FY 2005, ensure 100 percent of Indian gas producing properties are in compliance with major portion and with dual accounting for the time period 1984-2005.	By the end of FY 2000, ensure 60 percent of Indian gas producing properties are in compliance with major portion and 30 percent are in compliance with dual accounting for the time period 1984-2000.
	By the end of FY 2005, ensure 100 percent of Indian oil producing properties are in compliance with major portion for the time period 1984-2005.	By the end of FY 2000, ensure 15 percent of Indian oil producing properties are in compliance with major portion for the time period 1984-2000.

Target Performance	Actual Results	Comments
.594	.867	Property damage is increasingly based on actual data versus estimates. Underestimating property damage in the past understated the index. While fatalities decreased, the number of reported severe injuries increased. A lower level of activity accentuated the increase(s).
9.45	N/A	This index is calculated by calendar year, and was not available at the time of publication. At this time, we have no reason to believe that we will not achieve this goal.
5.06	N/A	The data collection and analysis for this goal were incomplete at the time of publication.
1.8 (+/- 0.4) to 1	2.02 to 1	This result is within the target range.
98%	98.49%	Exceeds target.
.9775	.9730	Preliminary analysis of the results indicates that one industry segment's compliance declined significantly. The MMS will attempt to identify the causes and will determine appropriate follow up action.
95%	20.4%	We are behind target due to automated prototype system delays that delayed us 8-9 months.
60%/30%	60%/31.2%	The MMS met the major portion target and exceeded the dual accounting target. However, we are not calculating major portion for properties in the 1988-1999 time period due to IBLA decisions based on previous gas valuation regulations. This will affect MMS's ability to achieve its long-term goals.
15%	25%	Exceeds target. However, we are not calculating major portion for the time period 1988 to the present due to IBLA decisions based on current Indian oil valuation rules. This will affect MMS's ability to achieve this long-term goal.

Appendix 2

The table below presents MMS's revised final FY 2001 annual performance goals. The changes from the FY 2001 Annual Performance Plan, published as part of the March 2000 Consolidated Report, are noted and explained in the footnotes.

Minerals Management Service's FY 2001 Revised Final Goals

GPRA Mission Goal	Long Term Goal	FY 2001 Annual Goal
Ensure safe OCS mineral development	Maintain or show a decrease in the average safety index of .594 ¹⁷	Achieve a safety index of not greater than .594. ¹⁸
Ensure environmentally sound OCS mineral development	By 2005, show a decrease in the environmental impact index from the 2000 baseline.	Show a decrease in the number of adverse environmental impacts per OCS mineral development activity below the 1999 baseline of 8.10.
		In FY 2001, show a decrease in the amount of oil spilled to a level of 10 barrels spilled per million barrels produced. ¹⁹
Ensure that the public receives fair market value for OCS mineral development	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 1989-1995 average level of 1.8 (+/- 0.4) to 1.	In FY 2001, we will maintain the current high bids accepted for OCS leases to MMS estimated value ratio of 1.8 (+/- 0.4) to 1.
Provide revenue recipients with access to their money within 24 hours of the due date.	By the end of FY 2005, provide recipients access to 90 percent of revenues within 1 business day of MMS receipt and disburse 98 percent of revenues to recipients by the end of the month following month received.	By the end of FY 2001, disburse 98 percent of revenues to recipients by the end of the month following month received.

¹⁷ This is a wording change from the long term goal established in our current strategic plan, which was "Maintain or show a decrease in the average accident index of .594." The change from "accident" to "safety" was made to make the goal consistent with the mission goal. This change may not be reflected in the performance section of the FY 2002 President's Budget.

¹⁸ This is a change from our original FY 2001 goal, which was "In FY 2001, we will evaluate our new accident index and strive to improve our safety record by showing a decrease in the average accident index from the FY 2000 baseline." The reason for this change is the change is that MMS decided not to change the components of the index, but rather to refine and improve data collection.

¹⁹ This is a change from our original FY 2001 goal, which was "By the end of FY 2001, we will evaluate our new environmental impact index, refine the index for use in FY 2002, and demonstrate program performance by reporting on preliminary compilation of the index and showing a decrease in the amount of oil spilled to no more than 5.05 barrels spilled per million barrels produced." The proposal to integrate the oil spill measure into the environmental impact index has been dropped. We will retain the oil spill rate as a separate measure. We are increasing the FY 2001 oil spill target to 10 barrels of oil spilled per million barrels produced, which is more reflective of actual data on average. The environmental index has been revised to eliminate a component for which we cannot collect data. Please see "Goal Description" for the environmental goal for further detailed discussion.

GPRA Mission Goal	Long Term Goal	FY 2001 Annual Goal
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.	By the end of FY 2005, ensure payments are within the expected payment range at the due date for 95 percent of properties.	In 2001, achieve a Compliance Index of .9775 (for calendar year 1999.) ²⁰
	By the end of FY 2005, issue 95 percent of necessary orders and demands within 3 years of the due date.	By the end of FY 2001, issue 90 percent of all orders for 1999 converted properties, ensuring that issued orders cover 90 percent of the expected royalty dollars for 1999 converted properties. ²¹
Fulfill our mineral revenue Indian trust responsibilities.	By the end of FY 2005, ensure 100 percent of Indian gas producing properties are in compliance with index zone/major portion and dual accounting requirements for the time period 1984-2004. ²²	By the end of FY 2001, ensure 63 percent of Indian gas producing properties are in compliance with index zone/major portion requirements for the time period January 1, 2000, through March 31, 2001, and complete the analysis for dual accounting compliance for 45 percent of Indian properties for the time period 1984-1999. ²³

²⁰ This is a change from the original FY 2001 goal, which was "By the end of FY 2001, ensure payments are at least 90 percent of expected value at the due date for 35 percent of properties." The reason for this change is that MMS prefers to wait until the new compliance verification system is implemented before making this calculation to ensure that statistically valid data by property are available. Until then, MMS will continue to use the compliance index as the measure that most closely relates to the long-term goal.

²¹ This is a change from our original FY 2001 goal, which was "By the end of FY 2001, complete 95 percent of random audits for 1999 converted properties." The original goal will be the goal for FY 2002. However, we will begin the random audits in FY 2001.

²² This is a change from the long term goal established in our current strategic plan, which was "By the end of FY 2005, ensure 100 percent of Indian gas producing properties are in compliance with major portion and dual accounting for the time period 1984-2005." The changes in the goal are twofold: 1) adding "index zone" and 2) changing the time period to 1984-2004. This is a measure of properties for which we have completed major portion compliance analysis and issued necessary orders, or properties that reported using the correct index price as specified in MMS's recent Indian gas valuation rule. These latter properties will be deemed to be in compliance with major portion requirements, thus the "index zone" addition. The time period change is a technical change to correct an error in the original goal. It would be impossible to complete all actions on FY 2005 properties in FY 2005.

²³ This is a change from our original FY 2001 goal, which was "By the end of FY 2001, ensure 70 percent of Indian gas producing properties are in compliance with major portion and 47 percent are in compliance with dual accounting for the time period 1984-2001." See footnote 22 for a discussion of the "index zone" change. In addition, we changed the 70 percent target to 63 percent because the original target was based on FY 2000 trends and did not take into consideration the fact that we cannot complete work on 34.5 percent of the 1984 to 1999 properties because of the IBLA decisions discussed in Section 2.2.3. We also changed the time period we will be reviewing because we want to focus our efforts on FY 2000 forward. The easier calculation method, based on the new Indian gas valuation rule, enables us to measure outcomes of leases in compliance, rather than outputs of compliance workload completed. Finally, we changed the dual accounting compliance target because the 47 percent target was for the end of December 2001, rather than the end of Fiscal Year 2001, for which the target is 45 percent.

	By the end of FY 2005, ensure 100 percent of Indian oil producing properties are in compliance with major portion requirements for the time period 1984-2004. ²⁴	By the end of FY 2001, ensure 30 percent of Indian oil producing properties are in compliance with major portion requirements for the time period 1984-2000. ²⁵
Interact with our customers in an open and constructive manner to ensure that we provide quality services that satisfy our customers' needs.	By 2005, show an increase in customer satisfaction with our data and information services.	In FY 2001, we will establish a baseline customer satisfaction index. ²⁶

Minerals Management Service Revised Final FY 2001 Budget Table

Mission Goal	FY 2001 Enacted (\$000)
Ensure safe OCS mineral development.	55,540
Ensure environmentally sound OCS mineral development.	56,842
Ensure that the public receives fair market value for OCS mineral development.	33,205
Provide revenue recipients with access to their money within 24 hours of the due date.	29,324
Assure compliance with applicable laws, lease terms, and regulations for all leases in the shortest possible time, but no later than three years from the due date.	49,548
Fulfill our mineral revenue Indian trust responsibilities.	22,172
Total MMS	246,631

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

²⁴ This is a change from the long term goal established in our current strategic plan, which was "By the end of FY 2005, ensure 100 percent of Indian oil producing properties are in compliance with major portion for the time period 1984-2005." This is a technical change to the time period (see footnote 22).

²⁵ This is a change from the original FY 2001 goal, which was "By the end of FY 2001, ensure 25 percent of Indian oil producing properties are in compliance with major portion for the time period 1984-2001." See footnote 23 for the reason for the time period change.

²⁶ This is a change from the original FY 2001 goal, which was "In FY 2001, we will increase the customer satisfaction index over the FY 2000 baseline." The reason for this change is that MMS needs additional time to develop the robust statistical approach that will be needed to make the survey useful and usable.

